# Debt for progress Does it pay off for poor livestock keepers?

Evelyn Mathias
LPP and TradiNova Livestock





Presentation at the international conference "Livestock Futures" in Bonn, 6-7 September 2012

#### **Content**

- \* Method and focus of presentation
- \* Context
- \* Support behind livestock intensification
- \* Pressures on farmers
- \* Outcomes
- \* Indebtedness and choices for farmers
- \* What can governments do to protect small-scale and poor livestock keepers?





#### **Context**

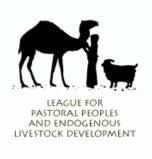
- \* Population ↑
- **★** Economic growth => income ↑
  - => demand for livestock products ↑
  - => farmers can sell more
  - => many opt to invest to raise production
  - => investments often financed through making debts
- => **Indebtedness:** until now little studied





#### Method and focus

- \* Draws on *Livestock out of balance* paper
- \* Literature review covering:
  - Contract farming
  - Livestock revolution
  - Livestock value chains
- \* Focus on livestock keepers
  - "Farmers" who have linkages with buyers or other players in the value chain
- \* Investigates principles and trends over time and across continents





#### Why do farmers invest?

- **\*** Because they want to
  - E.g. attracted by new technologies
- \* Because they can do so
  - Availability of new technologies, highyielding animals and credit
- \* Because they are advised to do so
  - By (livestock) professionals and governments





### Government support to intensification (1)

- \* Started in the **North** in 1930s (earlier?)
- \* Support through e.g.,
  - research
  - advisory services
  - credit
  - subsidies
  - legislation
- Goal: raise production to enhance food security





### Government support to intensification (2)

- \* In the **South** since early 1950s
- Brazil and Thailand pioneers
- \* Support to companies through e.g.,
  - Tax breaks
  - Public credits
- \* More governments now promote intensification





### Development support to intensification

- \* Recent development approaches enable poor farmers to invest and intensify:
  - Foster linkages between producers and buyer
  - Provide access to training, credit and improved inputs
- \* => Poor farmers can benefit from livestock boom





### Example: Smallholder dairy project Reliance company, India

- \* Franchise milk collection system in villages
- \* Pricing transparent for producer
- \* Access to improved livestock, inputs, training, credit and livestock insurance
- \* Pays more than local vendor
- \* Collects small amounts of milk
- \* Collects from farmers without new animals





### Pitfalls of Reliance project

- \* Calves do not get enough milk
- \* Producers may sell milk rather than feed it to their **children**
- \* Local milk **traders** pushed out of market
  - => danger of monopolization and ability to control of milk price
- \* Local breeds replaced by exotics
  - Local breed not even recognized





#### **Bigger farms = fewer farms**

- \* The advice "you need to grow to survive" has proven **detrimental** for many livestock keepers
- Number of farmers in North has dropped
- \* Some countries now <2%
- \* Exodus continues in North and now also in South





#### Pressures on farmers (1)

- \* Economies of scale
  - Large producers produce more and can reduce their unit costs
- \* Consolidation of the livestock sector
  - As production and intensification \(\bar{\chi}\), actors drop out => monopolization
- \* Treadmill (see next slide)





#### **Treadmill**

When production \( \) and product prices \( \)

- Early adopters of new technologies can capture windfall profits
- \* But: their profits \( \preceq \) as more adopters enter because
  - => production ↑
  - => product prices and margins
- \* => Farmers need to adopt new technologies to stay in the game





#### Pressures on farmers (2)

- \* Dependency on outside inputs
  - Makes farmers vulnerable to input price rises
- \* Changing laws and regulations
  - Compliance may require investments





#### Pressures on farmers (3)

- \* Unfavourable contracts
  - Require large investments
  - Short duration
  - Tie payments to unrealistic mortality rates, fattening periods and feed conversion rates
  - Make the producer to carry the whole production risk





### Outcomes of pressures on farmers

- \* Small margins
- \* Financial squeeze on farmers
- \* Incentives for unethical behaviour:
  - Overuse of antibiotics and other growth stimulants
  - Improper waste and carcass disposal
- \* Debts
- \* Reduced flexibility to react to unforeseen changes





#### Indebtedness of farmers (1)

Trends from literature (based on scarce data!):

- \* Farmers are more likely to have debts if:
  - They live in industrialised country
- \* Farmers tend to have more debts if:
  - They produce mostly for the market
  - Are a contract farmer or coop member





#### **Indebtedness of farmers (2)**

- \* Indebtedness in North and South on the rise
- \* The advice "you have to grow in order to survive" now propelled around the globe.





## When do debts become a problem? (1)

- \* If liabilities are too big a share of a farm's total assets
- \* If conditions change and assumptions behind calculations no longer hold
  - E.g., rising input prices
- \* If contracts are too short to allow repayment





## When do debts become a problem?(2)

- \* If a farm becomes too specialised
  - Buildings cannot be used for other things
- \* If many producers go **bankrupt** at the same time
  - Farms and equipment difficult to sell





### **Choices for farmers with debts**

- \* Get outside work
- \* Optimise labour and resources rather than maximise production
- \* Diversify
- \* Target alternative markets
- \* Protest
- \* Drop out





## What can governments do to help farmers? (1)

- \* Prevent consolidation of market
- \* Ensure free access to price and market information
- \* Give impartial rather than productionoriented **advice** to farmers
- \* Provide legal advice to farmers on **fair contracts**, develop model contracts





## What can governments do to help farmers? (2)

- \* Support small-scale farming through favourable legislation
- \* Facilitate the participation of small-scale producers in **decision-making**
- \* Cut bureaucracy!





### Thanks for listening ©

"Livestock out of Balance":

www.pastoralpeoples.org/publications/booksbrochures/

#### Thanks also to

- Ilse Köhler-Rollefson for initiating this study and valuable comments
- Paul Mundy for editorial comments and enriching discussions
- Katrien van't Hooft, Oliver Mundy, Julia Wagemann, Tim Höger for documents and other inputs
- Misereor for financial support to the study through LPP Project 048. The opinions expressed in the study and here do not necessarily reflect those of Misereor.



