Debt for progress

Does it pay off for poor livestock keepers?

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LEAGUE FOR PASTORAL PEOPLES AND ENDOGENOUS LIVESTOCK DEVELOPMENT

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?

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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

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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

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Why do farmers invest?

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

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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

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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

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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

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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

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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

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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 ↑, actors drop out => monopolization
- **Treadmill** (see next slide)

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Treadmill

When production ↑ and product prices ↓

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

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Pressures on farmers (2)

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

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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

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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

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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

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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.

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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

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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

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Choices for farmers with debts

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

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What can governments do to help farmers? (1)

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

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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**!

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Thanks for listening ☺

"Livestock out of Balance":

www.pastoralpeoples.org/publications/booksbrochures/

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