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Position Paper
from the Rain-fed
Livestock Network
on critical issues
affecting India's
traditional livestock
rearing systems

Better Access to Markets

Strengthening Economic Incentives that Benefit Poor Livestock Keepers

Summary

Strengthening economic incentives for poor livestock keepers through institutional and technical development is crucial to strengthening rural livelihoods based on livestock keeping. With growing demand for livestock products the livestock sector has immense, but untapped potential, to contribute to poverty alleviation in rural India's rain-fed regions. For example, the dairy and poultry segments have made remarkable growth in India in the last forty-odd years, yet this growth has eluded small holder producers and they are not significant players in these segments. The commercial supply of animals and animal products is based on a narrow range of breeds directly affecting the livelihood security of smallholder producers and the future of diverse animal genetic resources reared by these households. The increasing complexities of the markets and the value chains benefits bigger players while marginalising the small-holder.

The Rain-fed Livestock Network believes that effective and coherent pro-poor public policies alleviating both institutional and technical constraints are crucial to capitalise on the pro-poor opportunities offered by the livestock sector. Policy makers make the mistake of taking into account only the economic aspects of livestock when they base decisions only on the market value and ignore the multiple roles of livestock that make them extremely valuable assets for the poor. In addition, creating an enabling environment through timely interventions which remove distortions caused by macro-economic policies that threaten India's livestock sector and the rural poor is important. A focus on improving livestock productivity and developing promising opportunities for niche products will not only serve the interests of small scale livestock keepers but also help conserve the



wide pool of indigenous animal genetic resources with its distinctive traits. Raising awareness of the communities and their associations, building up capacities and strengthening flow of information are also vital to their success.

Indigenous Livestock Herders— Losing Market Access

Waning Livelihood Support

Livestock rearing is crucial to livelihoods in India's rain-fed regions. It is critical to ensure

sustainability of agriculture in arid and semi-arid regions and contributes significantly to food and nutrition security, particularly for women and children. In India, livestock rearing constitutes up to 40percent of agricultural GDP in semi-arid areas and 70percent in arid areas. In a year of drought it can account for 80percent of household incomes in these regions. Livestock rearing systems have demonstrated resilience and adaptability to climate change and weather variations, offering stability to the livelihoods of people of these regions. These traditional systems have also bred

and sustained India's genetically diverse livestock and poultry populations. In spite of the critical contribution of livestock rearing to the livelihoods of these communities, national policies on livestock development are primarily focused on intensive and high-value milk and commercial poultry systems. These policies are often developed with a bias that considers extensively managed livestock rearing systems as a threat to the ecology and the environment.

Approximately 177 districts, out of a total of 626 districts in India, are located in arid and semi-arid regions. The arid and semi-arid regions are ecologically very fragile. The highly degraded soils and acute water scarcity make the land uncultivable in these regions. These regions are also drought prone and on an average face droughts once every three years. Ironically, a majority of the rural poor from developing countries live in such regions. As agriculture is unviable, livestock becomes a key source of livelihood for the poor.

Flawed Markets and Non-Existent Support

Most smallholder livestock keepers or pastoralists depend on and raise different indigenous breeds of large ruminants for agriculture related activities. In addition, small ruminants and back yard poultry are mainly reared to generate income. A large percentage of their livestock is sold through a network of players in the value chain who collect, regroup and distribute the livestock and livestock products to terminal markets (ILRI 2003). They receive only a small fraction of the ultimate value of their output in the end market, which is relatively quite less than what the other players in the market chain get. In addition to the effects of the long distribution chain, other factors,

such as fluctuating market prices, inadequate infrastructure, financial constraints, inadequate and un-coordinated market information systems and inadequate knowledge of quality standards and other end consumer requirements ensure that these smallholder livestock keepers or pastoralists gain limited profits.

The demand for livestock products is predicted to double in the next twenty years due to increase in world population, urbanisation and economic growth (Delgado, C., 2003). The rapid growth in this sector is expected to have a huge impact on world markets, especially in developing countries. Even though there are significant threats, the demand for livestock products has significant potential and provides promising opportunities for the rural poor to increase returns from their livestock resources. However, there are some concerns still:

1. The total value of livestock products in India increased from Rs. 20.6 thousand crores in the period 1951-52 to 88.3 thousand crores during 2001-02. Within the livestock sector, the dairy and poultry sectors witnessed high growth. (Singh2009). However, the downside is that small holder producers are generally not significant players in these segments, so the growth actually eluded them.
2. The absence of effective and coherent pro-poor public policies that alleviate both institutional and technical constraints raises the probability of resource rich farmers or commercial production meeting this demand for livestock products, rather than the resource-poor, rural communities who must be involved in contributing to the market.

3. Increasingly, the commercial supply of animals and animal products is based on a narrow range of breeds. This not only directly impacts the livelihood security of smallholder producers, but also affects the future of diverse animal genetic resources reared by these households.
4. The growing complexity in value chain benefits other players could be marginalising smallholder producers.

Institutional and Technical Development Support

Strengthening economic incentives for poor livestock keepers through both institutional and technical development is crucial to strengthening rural livelihoods. However, it must be recognised that the benefits of livestock keeping should not be narrowly viewed through glasses tinted by economic thinking of ‘scale.’ At the household level livestock perform many important functions—providing power for transportation, draught power for crop production and manure that is used as fertiliser and fuel. They contribute significantly to social networking and cultural activities in rural areas and play an important role as a means of savings and insurance against bad times. These multiple roles of livestock make them extremely valuable assets for the poor. Thus, by only considering market value of livestock, planners and policy makers significantly underestimate the value of small-scale livestock production and the use of local breeds. When assessing the economic contribution of livestock and developing strategies for strengthening economic incentives the actual role played by livestock in the lives of the rural poor must be taken into account.

Another critical factor that contributes to poor livestock keepers losing out in the growth story of the livestock sector is their inability to meet food safety standards. This directly affects their ability to access global markets and now increasingly, the local markets.

Multiple issues stemming from the result of poor policies need to be addressed at different levels, which include not just the producers, traders, processors or consumers, but also the poor livestock keepers. It must strengthen access to markets for these people and improve economic returns from livestock keeping.

Strengthening Market Access and Economic Incentives

After considering the consequences of decades of ill-applied practices stemming from flawed policies affecting development of markets for indigenous Indian livestock, the Rain-fed Livestock Network believes the following areas require urgent attention.

i.] Improving Livestock Productivity

Even though it is acknowledged that livestock productivity is one of the key factors limiting economic gains in livestock keeping, measures to improve livestock productivity have mainly focused on replacing local breeds or cross-breeding strategies. There are many reasons for low production. These reasons cover all aspects of livestock management, which have been overlooked: housing, breeding, nutrition, health and marketing. There is need to develop policies that promote viable incremental changes benefiting the poor, which are ‘politically viable’ and consistent with longer term processes



that encourage ‘pro-poor,’ institutional, ecological and economic development.

ii.] Overcoming Institutional, Infrastructural and Technological Constraints

Meat Production: Except for a few large private abattoirs, in many states meat production systems are by and large unhygienic. To improve hygiene and quality, to ensure less cruelty to animals and better returns from by products such as skin, casings, rumen and so on, it is essential that modern abattoirs are developed. These may have capacities suitable for the level of consumption as suggested below:

- Village level slaughter houses handling 5 – 12 animals per day

- Mid-level slaughter houses supplying to small towns handling 25 – 150 animals
- Modern, multi-line abattoirs catering to export markets and large cities

Modern and mid-level abattoirs need to be complete with rendering plants, pollution control apparatus and waste converters. This needs to be supported by proper policy advocacy to ensure that these mechanisms are in place. For this the government may have to provide 100 percent grant to abattoirs, involve traders and provide positive measures such as providing livestock insurance even to poor herders – resulting in reduce sale of sick animals etc.

Wool Production: In India, most native sheep breeds produce coarse wool. Increased emphasis on meat

production and lack of support mechanisms for wool production have had a negative impact on the livelihoods of shepherds. In order to improve the economic incentives for wool production a number of actions may have to be taken—promotion of wool and wool-based products as ‘ecological products’ backed by policy support in terms of minimum support price, diversification in wool exports, technological improvements for processing and so on. Government support to weaving companies or organisations, formation of producer organisations (SHGs, CBOs) and support in terms of subsidies, credits and insurance can help in processing wool locally and in promoting local breeds.

Traditional Milk Markets: Traditional milk markets, which handle unpasteurised or ‘raw’ milk and traditionally processed milk products, constitute a bulk of the milk marketed in most rural areas and even in urban areas of India. By providing milk at cheaper rates, based on consumer preferences, they address both poor and affluent consumers. In areas where intensive milk production is limited and where the formal mechanisms of dairy cooperatives are not viable, mechanisms that strengthen traditional milk markets would be crucial for small scale producers. There is need for more in-depth research to guide suitable strategies that can benefit milk producers in these locations. The strategies should consider the marketing chain, institutional requirements, partnerships, technological issues and so on. In overall terms, there is a need to examine options that promote value addition at the lowest level and provide better remuneration to livestock keepers.

Livestock Waste: Livestock waste is an important by-product and its value addition must be explored. Capacity building on production, trading

and marketing would help generate additional income for farmers and herders. Creating stronger links between consumers and producers while raising awareness of such products, establishing standard norms for price, quality, packaging and for production processes, is vital for its success.

iii.] Enabling Macro-Economic Policies

GATT and the government’s new EXIM policy (2001), which removed restrictions and allowed free import and export of most livestock products with no tariffs and anti-dumping laws have reshaped local and world markets. These macro-economic policies and agreements are both an opportunity and a threat to the Indian livestock sector. World trade in livestock products is heavily distorted and the continuance of this distortion negatively affects domestic producers unless they are given protection from cheap imports.

In many developed countries or major livestock producing countries there is a considerable support from governments to producers. On the other hand, in India, support to small-holder livestock production is almost negligible. India has a strong case to argue in WTO for reducing such distortions. Further, India is under no commitment to reduce domestic support, as the current level of domestic support to livestock sector is less than 2 percent, much below the WTO limit of 10 percent. India should also take advantage of the green box clause that exempts general services and poverty-oriented developmental programs from reduction commitments, and support livestock production for the benefit of the poor¹.

¹ Smallholder livestock production in India: Opportunities and challenges; Proceedings of an ICAR–ILRI international workshop held at National Agricultural Science Complex, DPS Marg, Pusa, New Delhi 110012, India, 31 January–1 February 2006.

iv.] Focus on Niche Products

Consumer trends indicate a growing demand for local livestock products. Consumers are increasingly interested to know the source of products, how are they grown and prepared for the market. There are some promising opportunities for livestock products in niche marketing and relationship marketing. Labelling products as organic, or as of a specific breed grown in natural conditions (pastures) having specific characteristics that aid the well-being of the consumer, can substantially raise gains for small livestock producers. This is still an unexplored area in India. Such initiatives not only benefit small scale livestock keepers, but also help conserve the wide pool of animal genetic resources having different traits.

v.] Capacity Building and Strengthening Information Flow

There is considerable scope to improve the capacities and awareness of livestock keepers, which can help in substantially increasing the gains from livestock keeping. Livestock meat markets, for example, continue to trade in livestock numbers and ignore live weight. Raising the awareness of the communities and forming associations can help remove such unfair trade practices. In addition, ensuring the small holders have a better understanding of safe and healthy production practices would increase the participation of poor livestock keepers in the livestock markets.

RLN- Piloting Action Research

It is predicted that the demand for livestock products will double in the next twenty years due to population growth, urbanisation and economic growth. The rapid growth in this sector will have a huge impact on world markets especially in developing countries. Even though there are significant threats, this demand has significant potential and presents opportunities for the rural poor to increase returns from their livestock resources.

- Most Indian rural communities depend on and breed different indigenous breeds of large ruminants for agriculture-related activities, but rear small ruminants and back yard poultry mainly for income.
- Smallholder livestock keepers and pastoralists produce a large percentage of the livestock. However, the livestock is marketed by different players in the value chain who collect, regroup and distribute livestock and livestock products to terminal markets.
- Smallholder livestock keepers and pastoralists receive only a small fraction of the ultimate value of their output that is relatively much less than what others in the market chain obtain.

- Other factors such as fluctuating market prices, inadequate infrastructure, quality standards, financial constraints, inadequate and uncoordinated market information systems and lack of knowledge also prevent these smallholder livestock keepers or pastoralists from gaining further profits.

In view of the above, RLN is carrying out micro-level studies with special emphasis on wool and animal products (meat, milk, eggs, traditional milk-based products etc) to understand the dynamics of animal markets. The focus of all studies is mainly on aspects affecting the livestock keeper, but it also includes value chain analysis beyond this level for understanding market intricacies better.

The objective is to identify clear programmatic and policy interventions required to improve access and increase income of small holder livestock producers and create a proper balance among all stakeholders in the value chain. RLN seeks to develop the best mechanisms possible to implement the programmatic and policy interventions, so identified.

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