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Micro-Finance – a Tool for Sustainable Livestock Production

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ABSTRACT *Micro-finance is a novel approach to banking with the poor. It attempts to combine lower transaction cost and high degree of repayments, essentially because of the involvement of potential beneficiaries in the credit delivery system. The importance of finance in rural poverty reduction in developing countries is evident from the fact that two thirds of International Fund for Agricultural Development (IFAD) current projects has a rural finance component. Along with other components such as technology and inputs, access to financial services has been considered one of the major means through which increased animal husbandry / agricultural production and poverty reduction can be attained. In spite of this, farmers frequently do not have access to appropriate financial services. The micro finance movement has been playing a crucial role in the financial inclusion efforts in the Indian context also.*

Introduction
Micro-finance is provision of thrift, credit and other financial services to the poor in rural, semi-urban and urban areas to help raise their income levels and improve their living standards (NABARD, 1999). Microfinance has become one of the most promising ways to use scarce financial resources for achieving the objective of inclusive growth including poverty alleviation and socio-economic empowerment of the poor (Virander and Goel, 2015). Livestock is an important source of livelihood for the rural poor. Improved financial services in rural areas can enhance sustainable livestock production and play a significant role in poverty reduction, with a long term impact on rural household food and income security (Khandker, 2005). Because of the diverse characteristics of rural household economics and production systems, government should has developed a flexible approach to financial services that takes account of beneficiaries socio-economic environments, production systems, needs, constraints and priorities. Financial services aiming to increase smallholder livestock productivity in developing countries have been utilized for:

Livestock distribution to provide animal draught power, purchase of improved livestock breeds or restocking

Purchase of inputs such as feed, housing , veterinary drugs and animal health care; and

Establishment of livestock related micro enterprises, including processing and marketing facilities.

Lack of credit availability still poses a major threat to the development of the sector, even though credit facilities are acknowledged to be essential to increasing livestock production in rural economics.

Types of credit
The financial requirements of the Indian farmers can be classified into 3 types, depending upon the period and purpose,

Productive : Directly affecting productivity of livestock and agricultural productivity

Consumption : Credit to meet their basic needs

Unproductive : Unproductive purposes like celebration of marriages, birth, death , litigation, religious functions, festivals etc.

Sources of credit
Institutional

- **Co-operatives:** Primary milk producers credit society, work on the grassroots level for the short term cooperative credit structure, dealing directly with farmer borrowers, granting short and medium term loans.
- **Commercial banks**: Provide indirect finance for the distribution of various inputs. They finance the operations of the Food Corporation of India, the State government and others in the procurement, storage and distribution of agricultural/livestock products.
- **Lead bank scheme**: one of the commercial banks performs as a lead bank in a district for coordinating credit development in the district. The lead banks act as leaders to bring about a coordination of co-operative banks and other financial institutions in their respective districts to bring about rapid economic development.
- **Regional rural banks:** Provide credit and other facilities, particularly to the small and marginal farmers, agricultural labourers and small entrepreneurs.
- **ment (NABARD):** It is an apex financial institution constituted to coordinate the activities of all the institutions involved in financing rural and agricultural activities. It is constituted for providing credit for promotion of agriculture and small scale industries, handicrafts and other allied economic activities in rural areas with a view to promote integrated rural development and prosperity.
- **Non-institutional:** They include money lenders, traders, commission agents, relatives and landlords.

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Some microfinance schemes:

Dairy Entrepreneurship Development Scheme*:* The scheme was launched in 2010-11 to encourage modern dairy farms to produce clean milk and heifer rearing farms to conserve good breeding stock. The scheme also aims at upgrading traditional technology to handle milk on a commercial scale and bringing about structural changes in the unorganised sector so as to facilitate initial processing of milk at the village level itself. During 2012-13, subsidy worth `135.83 crore was released for establishment of 34,744 dairy units, taking cumulative release to `259.89 crore for 64,041 units.

Poultry Venture Capital Fund Scheme: The Poultry Venture Capital Fund (Interest Free Loan) Scheme was modified as Poultry Venture Capital Fund (Subsidy) with effect from 1 April 2011. The scheme was launched for encouraging poultry farming activity, especially in non-traditional States, with emphasis on production, processing and marketing outlets. Subsidy amounting to `18.72 crore was released during 2012-13 for establishment of 777 units. Cumulatively, subsidy of `23.08 crore was released for 967 units.

Integrated Development of Small Ruminants and Rabbits Scheme: The Scheme originally introduced in December 2009 was modified as capital subsidy scheme during 2010-11. The main objective of the scheme is to encourage commercial rearing of sheep, goats and rabbits by farmers. Subsidy amounting to `8.05 crore was released for 1,759 sheep/goat rearing units during 2012-13. Cumulatively, an amount of `15.78 crore was released as subsidy for 3,129 units. Besides, an amount of `0.90 crore was incurred as promotion expenses under the scheme till 31 March 2013.

Scheme on Establishment of Poultry Estates and Mother Units for Rural Backyard Poultry: The Scheme aims at establishment of poultry estates having up to 100 broiler/layer units on the lines of industrial estates, where common infrastructure facilities, inputs supply and marketing arrangements would be provided. Two projects for establishment of Poultry Estates (Odisha and Sikkim) have been sanctioned as on 31 March 2013. The Rural Backyard Poultry component of the Scheme intends to promote rearing of low input breeds that can survive in rural areas and is intended for BPL beneficiaries. Cumulatively, 899 Mother Units have been sanctioned under the Scheme by GoI.

Pig Development Scheme: The Scheme was launched in 2010-11 for encouraging commercial pig rearing by farmers so as to improve the performance of native breeds through cross-breeding. During 2012-13, subsidy amounting to `8.94 crore was released for establishment of 1,712 pig rearing units. Cumulatively, an amount of `16.34 crore was released as subsidy for establishment of 3,586 units besides an amount of `0.32 crore was incurred as promotional expenses under the scheme till 31 March 2013.

Swabhimaan: It was launched in February, 2011 by the Governement, which is focused on bringing the deprived sections of the society in banking network to ensure that the benefits of economic growth reach everyone at all levels. "Swabhimaan" is a path-breaking initiative by the Government and the Indian Banks Association to cover economic distance between rural and urban India. This campaign promises to bring basic banking services to 73,000 unbanked villages with a population of 2000 and above by March, 2012 and at least 5 crore new accounts will be opened. The programme will increase the demand for credit among the millions of small and marginal farmers and rural artisans who will benefit by having access to banking facilities. The Government hopes to reach the benefits of micro insurance and micro pension products to the masses through this banking linkage.

Kisan Credit Card Scheme (KCCS): The purpose of the scheme is to facilitate short term credit to farmers. The credit card holders are also provided personal accident insurance cover of Rs.5000 for death and Rs. 25,000 for disability. Around 9.4 crore KCC's and Rs. 4,27,748 crores were issued in 2010 for this purpose. With regard to KCCS, there is need to upscale its outreach to cover all the eligible farmers by creating greater awareness and giving greater publicity to the scheme. Up gradation of land records and sensitization of bank staff through training programmes will further add to the spread of the scheme. The success of KCC scheme depends on less stipulated norms.

Problems faced by farmers for getting finance:

Financial institutional impediments

High interest rates charged by financial institutions and lengthy, cumbersome procedures for obtaining credit are significant constraints. Credit from formal financial institutions has therefore mainly benefited medium and large scale farmers, who are more likely to have the capacity to meet the requirements.

Resource limitations of rural households

Lack of physical collateral, a prerequisite for loans by financial institutions, low savings and high transaction and administrative costs make lending to the target group financially unsound and costly. The cost and risk of providing financial services to the rural poor have been strong disincentives to financial institutions.

Over emphasis on the provision of credit lines to the rural poor

Access to credit is only one link in the chain of development, although it is essential for sustainable development. Experience has shown that feed, animal markets and improved technology must also be ensured in the Tamilnadu Women's Development Project in India, more than half of the loans provided for income generating activities were used to purchase goats and cows. But beneficiaries received little support in the form of animal health services, training in animal husbandry and fodder requirements for improved breeds. Lack of such inputs and limited access to land reduced the success.

Unfavourable financial policy environment

Credit has been channeled through government owned financial institutions; it has often been inadequate, with unfavourable repayment terms and inadequate follow-up.

Insufficient consideration of the socio-economic environment of beneficiaries

Many organization experience shows that features of the natural, socio-economic and cultural environments of livestock farmers can limit project implementation. Eg. Samoan Livestock Development Project is an example of the importance of cultural practices in the design of any financial model. This project provided credit to farmers to establish goat breeding units, but the scheme was terminated because of the social stigma attached to goat rearing and the lack of a market for goat products.

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Inadequate extension and follow up on loan repayment
The failure of financial institutions to supervise credit has been a common reason for low repayment rates. In some cases loans have not been invested in livestock production but utilized for other purposes.

Inadequate beneficiary participation in the decision making process
Failure to understand and incorporate the views of credit recipients has often affected the sustainable impact of micro finance facility. The fact that the wishes of beneficiaries were not reflected in the selection process was cited as a reason for the increasing number of dropouts.

Strategies for improving finance in livestock sector in India:

- Encouraging greater role of private microfinance institutions in the provision of financial services
- Relaxing credit guidelines and restrictions
- There should be a clear, contextualized credit delivery model, taking into consideration the geographic nature of the country and the existing low population density
- Adopting regulatory changes to facilitate greater autonomy for Regional Financial Institutions
- Provision of an enabling policy environment that will facilitate the increased participation of the NGOs and private sector in microfinance
- Improving local and other arrangements for loan recovery
- Involving the poor as stakeholders helps to ensure that programmes meet their needs, builds trust and responsibility and may make the provision of services more efficient
- Appropriate legal, institutional and policy foundations to promote market based finance
- Promoting competitive, integrated and efficient banking system in rural India
- A viable, pro poor and effective microfinance system that enables the poor to enhance income and reduces poverty
- **Use of credit-in-kind system:** Credit-in-kind is a non-monetized credit system where credit is granted through inputs such as livestock and livestock feed; repayment often in the form of outputs such as offspring and seeds. This is a possible solution to the problems among the rural poor of lack of collateral and sporadic cash flows
- **Savings mobilization:** Farmers can derive numerous benefits from savings, including capital accumulation, security and self reliance, increased capacity to repay loans and opportunities to access financial services
- **Livestock insurance:** To use livestock insurance as a safeguard against risks such as disease, drought and conflict
- **Training:** Farmers require training in the achievement of financial self reliance through maximizing the income generating potential of livestock and accumulating wealth and assets
- **Establishment of livestock related microenterprise:** Household incomes of livestock breeders can be increased and diversified by additional income generating activities such as livestock/poultry production or product processing
- **Development of appropriate rural financial institutions:** strengthening of formal and informal financial institutions, including commercial banks, agricultural developments banks, credit NGOs and cooperatives. Institutions formed to deliver rural financial services should be tailored to suit local environments and production systems

Conclusion
Financial support in animal husbandry sector is of great importance due to its capital intensity. Effective, sustainable and accessible rural financial services are critical to the long term development of livestock production. Financial services enable livestock keepers to expand and diversify household food and income security. Rural financial institutions can therefore have a significant effect on rural poverty reduction. IFAD must face the challenge of increasing the sustainability of such institutions, without which they can have no long-term impact on livestock development.

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