LIVESTOCK POLICY BRIEF 04

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A Peul Bororo boy is dwarfed by the bull he is leading to a well near Zongo Algabit, about 120 miles northwest of Zinder, in eastern Niger.

Livestock Policy and Poverty Reduction

The livestock sector has great but untapped potential to contribute to poverty alleviation and the achievement of the Millennium Development Goals.

- Agricultural growth can be highly effective in reducing poverty as the largest share of the world's poor live in rural areas.
- Livestock provide food and income to the majority of the 1.2 billion people living on less than $1 per day.
- Demand for livestock products is growing fast in developing countries, faster than demand for staple crops, and will continue to do so in the foreseeable future.
- This demand growth can provide significant opportunities for many rural and peri-urban poor to increase returns from their livestock resources.

However, 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.

Livestock Information,
Sector Analysis and Policy Branch
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Livestock as a stimulus to agricultural growth and poverty reduction

About 1.2 billion people survive on less than $1 a day. Extensive research has demonstrated that while economic growth is important for poverty reduction, on its own such growth is not enough. To reduce poverty, growth must occur in a sector in which the poor are already actively participating, to enable them to benefit directly from it.

Agriculture can make a major contribution to poverty reduction as about 50-75 percent of the world's poor depend on it as part of their livelihood. Apart from having a direct impact on farm incomes and rural employment, agricultural growth also stimulates other forms of growth through demand for nontradeables and consumption linkages. Research has in fact shown that agricultural growth has a much greater impact on poverty reduction than the equivalent level of urban, industrial growth.

Since in most developing countries agricultural populations continue to grow while agricultural land cannot expand at the same rate, agricultural production cannot easily be expanded horizontally.

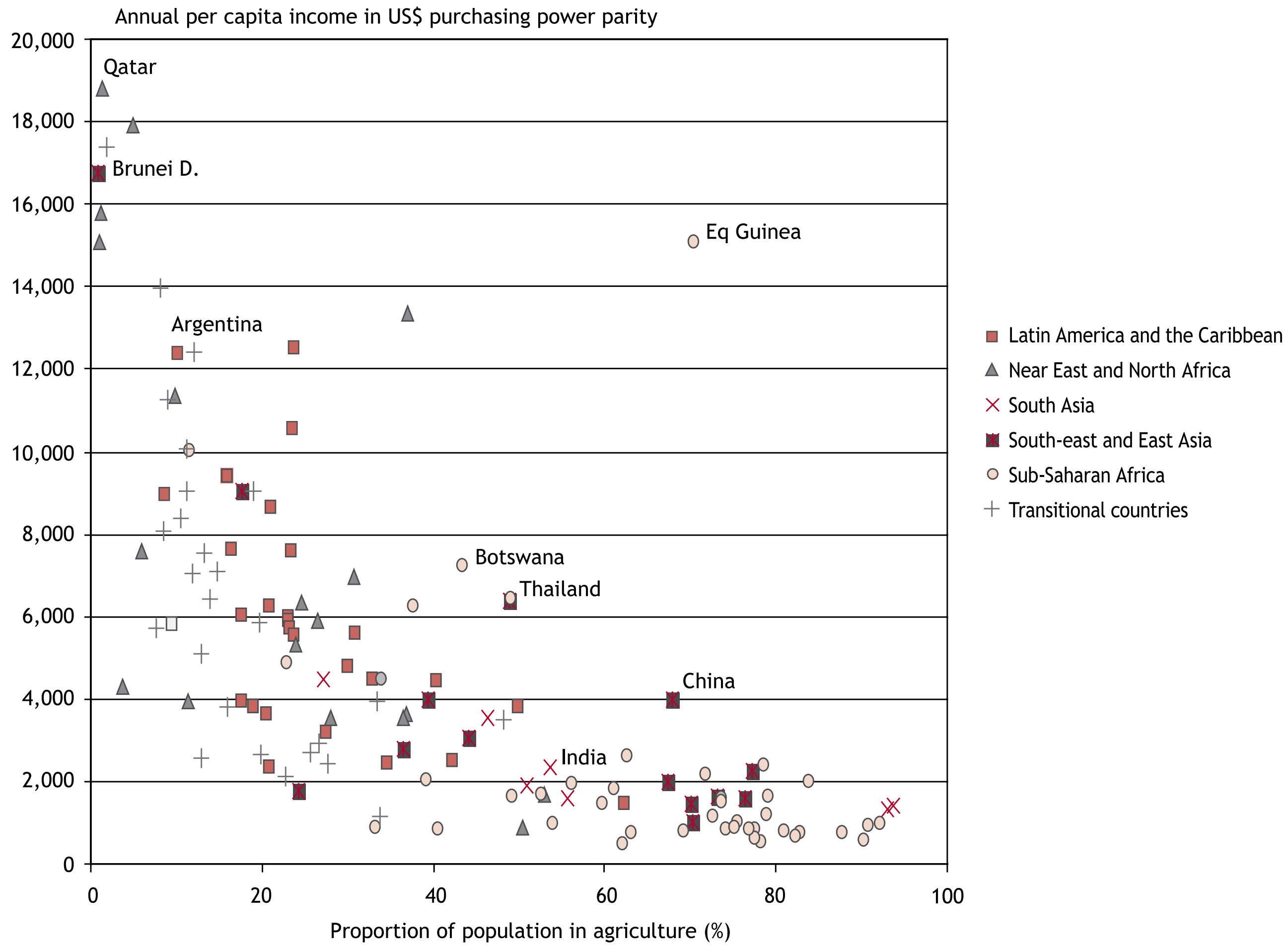
Rather, productivity gains, measured in terms of value of output per area of land, are essential to increase agricultural production and thereby raise rural incomes and feed growing urban and rural populations. Livestock products provide an example of high-value agricultural produce, with roughly three out of four agricultural households already keeping livestock.

With steadily increasing consumer demand for meat, milk and other livestock products, arising from population increases, greater urbanisation and income growth, the majority of the rural poor have a significant stake in this sub-sector of agriculture that can contribute to poverty reduction both through enhanced crop yields and increased production of high value livestock products and by-products. This is particularly so in arid and semi-arid areas where crop production is not a viable alternative.

On the one hand, many livestock holders can benefit directly from the increasing market demand for livestock products. Demand growth rates of 3 percent for cereals are less than half the demand growth for high value livestock commodities, demand for which is increasing by 6-8 percent annually. On the other hand, the poor can also benefit from the fact that livestock development creates demand for labour – both within and outside the sector - supports backward and forward linkages such as the feed and processing industries, sustains trade balances, encourages food security through stronger supply and can lead to lower prices for livestock products.

The potential contribution of livestock development to the livelihood of the poor thus appears significant: home-consumption of livestock products, manure, draught and hauling power, as well as the sale of meat, milk, eggs, blood, fibre, hides and skins can significantly sustain the livelihood of poor livestock keepers and generate labour demand in rural areas.

1. Population % working in agriculture vs. average annual per capita income, 2004



Source: FAOStat and World Bank Development Indicators

Livestock and poverty pathways: western Kenya

A PPLPI-ILRI study examined the role of livestock in the movements out of and into poverty in 20 villages in the Vihiga and Siaya districts of western Kenya. In the upward stages out of poverty, villagers ranked access to livestock higher than access to land and households marked livestock ownership as the threshold between being poor and non-poor, and between being non-poor and relatively well-off.

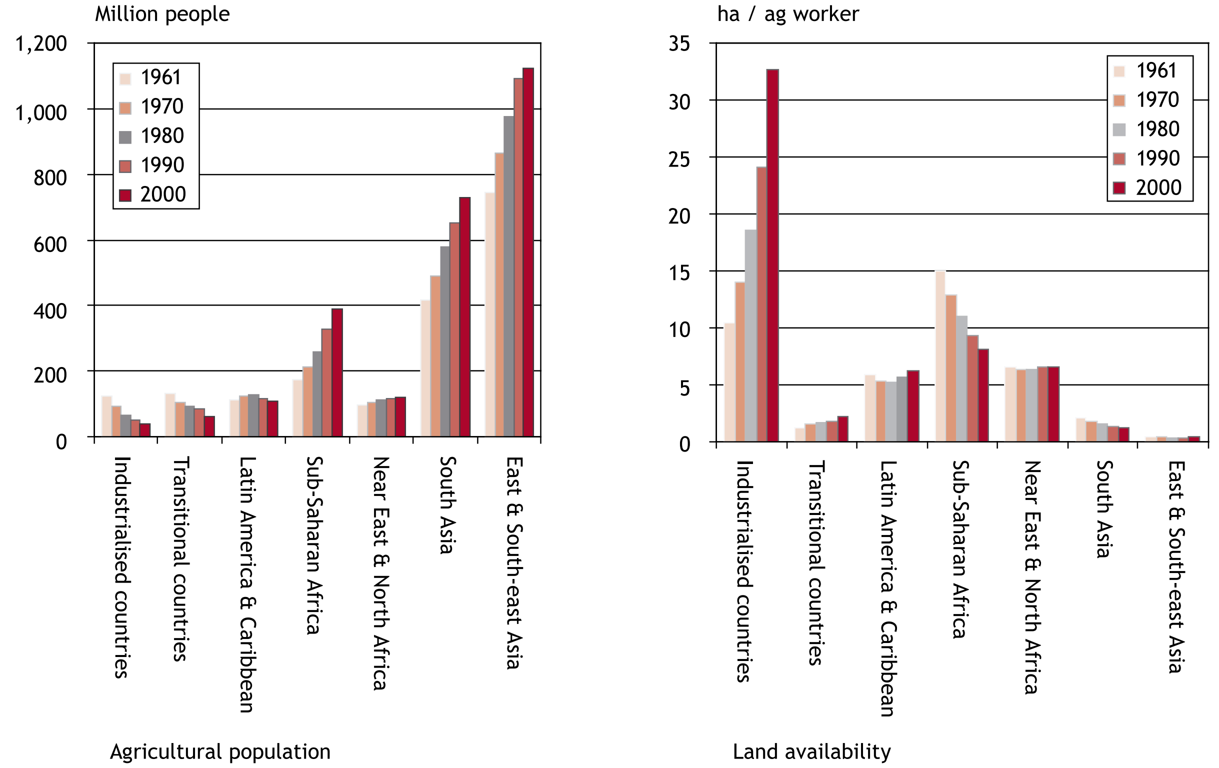
It is hardly surprising, therefore, that in about 42 percent of all households that moved out of poverty in the last 25 years, diversification into livestock contributed to their changed circumstances. They ranked livestock as the third most common pathway out of poverty, after off-farm employment and increased cash income from crop farming. They also considered loss of livestock, often through distress sales, as one of the most important secondary reasons for falling into poverty. The study reveals that about 75 percent of all households that fell into poverty did so because of health expenditure, partly met by the sale of livestock, and from heavy funeral related expenses, involving livestock slaughter.

The study findings thus show that in western Kenya livestock can help poor households to escape poverty and that livestock keepers are vulnerable to fall into poverty if forced to abandon livestock keeping.

The policy corollary is that decision makers should focus both on strategies improving the livestock assets of the poor and mitigating the vulnerability of rural households, as distress sales of livestock is associated with increased poverty.

Source: Kristjanson P., Krishna A., Radeny M., Nindo W. 2004. *Pathways Out of Poverty in Western Kenya and the Role of Livestock.* PPLPI Working Paper No.14. Pro-Poor Livestock Policy Initiative (PPLPI), FAO, Rome.

2. Agricultural population and land availability



Source: FAOStat

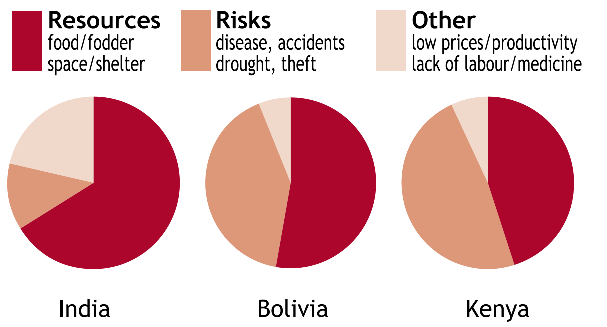
Public policies for pro-poor livestock sector development

The livestock sector is rapidly evolving. In developing countries the demand for meat and dairy products is rising steadily, and better-off consumers increasingly demand safe and healthy food. Food safety and quality concerns are often addressed by simply tightening zoo-sanitary measures which restrict the movement of livestock and livestock products. The development of the sector, therefore, might both benefit and bypass the poor, this very much depending on the prevailing and future policy and institutional framework (see Livestock Policy Brief 05).

It is clear that there are multiple policy issues to be addressed when dealing with livestock and that many are the entry points for policy makers. Policies might target producers, traders, processors or consumers; among the producers, policies might target small, medium or large industrial producers; among consumers, they might focus on the demand from low, middle or high income households, etc.

This brief focuses on policies that impact on poor livestock keepers - who constitute the majority of the sector - and outlines a set of public actions aimed at creating an enabling environment for smallholder livestock production. The goal of the proposed policies is not to promote a smallholder-dominated livestock sector but to establish a level playing field which allows smallholders to make choices with respect to expanding their holdings, linking-up with other producers or

3. Main problems of livestock producers



Source: Heffernan *et al.*

Milk procurement in Tamil Nadu, India

Tamil Nadu, with a population of about 62 million, has been traditionally among the largest milk producing states in India. It has about 2 million smallholder dairy producers, more than 10,000 primary milk producers' cooperative societies, and 17 milk producers' unions. In 1995-96 the Co-operative Milk Producers' Federation recorded a sharp decline in milk procurement, falling from about 1.55 to 1.42 million litres per day. One of the factors identified was the higher price paid to producers in the neighbouring states of Andhra Pradesh and Karnataka, resulting in diversion of milk from Tamil Nadu.

In October 1996 the government increased the producer price for milk by 1 rupee per litre but procurement declined further to 1.07 million litres per day by the end of 1997. Investigations revealed some flaws in the dairy marketing chain: the price increase took six months to reach farmers as staff in the cooperative unions and in the co-operative societies had taken advantage of the higher price to increase their own wages.

In April 1998 the government raised the producer price by another 1.49 rupee per litre and requested the Milk Producers' Federation to ensure the new price reached smallholders in full and to freeze wage rises in the milk unions and societies for six months. Regular inspections took place and payment delays were dealt with severely. Six months after the price increase and the new marketing arrangements came into force, procurement reached 2.32 million litres per day and membership of milk co-operative societies rose from 470,000 in June to 514,000 in September.

The lesson from this is that good policy intentions can fail to lead to the desired outcomes when the 'street level bureaucracy', i.e. those government officials who implement policy changes, lack the right incentives. Policy makers should therefore be concerned not only about policy objectives and instruments, but also about implementation mechanisms.

Source: Gurumurthi S. 1999. Tamil Nadu: Miracle in Milk Procurement. *Economic and Political Weekly*. May 1-7.

withdrawing from the livestock sector altogether. In other words, smallholder producers must be enabled to make the best possible use of their assets, considering possible alternatives and making rational decisions about what is in their best interests.

When asked to identify their most serious problems, livestock keepers rank inadequate access to land and water first, followed by the risks of animal disease, drought and theft (see graph 3).

These constraints lead to highly variable returns, and many livestock keepers thus adopt a risk minimizing rather than a profit maximizing approach to farming, limiting the productive use of scarce resources and leading to a weak response to market signals. Smallholders, in fact, often tend to use their livestock as a form of insurance rather than as a productive asset. 'Securing the basics' and 'reducing vulnerability' are therefore the first policy steps to ensure livestock keepers become livestock producers.

But smallholder livestock keepers need to produce beyond survival requirements to benefit from expanding market opportunities. In many cases, malfunctioning or non-existent markets can entrap livestock holders: lack of collaterals, high transaction costs, imperfect information as well as government inefficiencies can prevent them from accessing production inputs such as credit, feed, veterinary drugs, improved genetic base material etc. Rural areas also need better communication, transport and marketing infrastructure to connect with towns and cities, the main source of increased demand for their produce. Policymakers thus need to create an environment which supports the development of efficient markets for these production-enhancing goods and services, which in some cases might be provided by the private sector. For instance, community animal health workers may be allowed to provide basic veterinary services in remote rural areas. In the medium to long-run smallholder producers should also be able to satisfy the increased demand for safe and high-quality livestock products. There is a need for publicly regulated and / or funded research into safe and environmentally sustainable forms of production of livestock species relevant to poor livestock producers, with provision of services that facilitate their continued participation in higher quality and more lucrative livestock markets. For instance, the government may facilitate contract farming between smallholder producers and agro-processing firms or traders. Finally, given the fast changes occurring in the livestock sector, suitable social and institutional arrangements are needed to mobilise different types of knowledge to create pro-poor initiatives, which, given further job shrinkage likely in the agro-food sector, include

Milk procurement in Bangladesh

appropriate exit strategies for those smallholders who decide to leave the sub-sector (see Livestock Policy Brief 05).

The policy agenda in support of pro-poor livestock sector development thus requires action in three main areas, with consideration of both production inputs and the context in which these are used, as lack of assets and access to inputs in an otherwise favourable context or good asset endowments in an unfavourable context both prevent poor livestock keepers from escaping poverty.

1. *Policies securing the basics and reducing vulnerability*
   - Access to land, feed and water
   - Access to protective measures such as insurance and other risk-reducing mechanisms to minimise the negative effects of natural disasters, animal diseases and price volatility

2. *Policies creating the conditions for growth*
   - Access to animal health services
   - Access to credit, high-quality inputs and other trade expansion facilities
   - Access to market information

3. *Policies sustaining sector's growth*
   - Regulating the livestock sector through disease management, quarantine, quality control and food safety regulations
   - Environmentally sustainable livestock production

Current public policy practice

It is it easy to theoretically identify a coherent set of policies that guides the livestock sector on a pro-poor development path. In practice things are typically more complex.

First, despite the potential contribution of livestock to poverty reduction, the sector seems to be largely neglected by policy makers. In 2003, the Pro-Poor Livestock Policy Initiative (PPLPI) of FAO conducted a review of the Poverty Reduction Strategy Papers (PRSPs) of 18 low-income countries in Africa, Asia and Latin America, in which a large proportion of the rural poor keep livestock. Few of the PRSPs reviewed considered the livestock sector at all, and those which did emphasise increasing meat and milk output as the prime objective of livestock sector development rather than using livestock as a means to tackle poverty.

Second, a mix of macroeconomic and agricultural sector policies shapes livestock sector development with livestock sector specific interventions playing a subordinate role. In most countries, macroeconomic and institutional policies are increasingly sound and appropriate. However, the agricultural sector continues to fall behind this general policy trend, with the public sector often implementing invasive and/or distorting market policies, not limiting itself to supplying public goods, but supplying private goods while neglecting institutional policies. Today, the latter, however, are fundamental given the greater interconnectedness of rural and urban areas and the increasing necessity of innovative institutional arrangements to respond to the changing production and trading environment.

Third, policymakers often design livestock policies in isolation, holding minimal consultation with other government offices or representatives from the sub-sector and with almost no consideration for small-scale producers. This way of proceeding often leads to the

Poverty, livestock and the New Rural Economy

A New Rural Economy (NRE) is emerging from the growing diversification of rural livelihoods into non-farm activities and the greater interconnectedness of rural areas and activities with the global environment. This NRE is pressuring farmers, companies and governments to respond to rapidly changing competition patterns, market preferences and trade standards. Because the various stakeholders in the NRE often have competing agendas, governance issues are essential if the policy process is to yield pro-poor outcomes.

The character of the NRE raises questions about rural innovation capacity and the challenges this brings to policy design and implementation. These challenges concern the need to create:

i) collective capacity combining scientific, technological and entrepreneurial expertise such as agriculture, health, communications, banking;
ii) dynamic, evolutionary capacity capable of responding to rapidly changing technical, market, policy, political and social contexts; and
iii) the capacity to recognise and address the challenges and opportunities arising from the linkages and knowledge convergence among different spheres of rural activity.

Growing demand for livestock products, greater competition from developing and developed countries, and an increasingly sophisticated and changing set of domestic and international trade norms and standards are thus putting greater pressure on developing country producers. To cope, compete and prosper under these market conditions, livestock producers need to be able to innovate constantly. Moreover, to exploit fully the poverty reduction potential of such livestock sector trends, the capacity to respond and adapt to these changes needs to be enhanced, allowing producers to innovate and at the same time safeguarding the livelihoods of poor people linked with the sector.

This is not simply a question of ensuring that production and processing technology are available through adequate livestock research, extension and other support services but also includes innovative social and institutional arrangements to mobilise different kinds of knowledge and support services.

Source: LINK (Learning Innovation Knowledge, Policy-relevant Resources on Innovation for a New Rural Economy). www.innovationstudies.org dominance of policies focussing on technical issues, which are essential but not sufficient to promote the development of the livestock sector unless they are consistent with the complex environment in which poor livestock keepers operate. For example, providing small-scale producers with access to animal vaccines would not improve their cash income unless they also have access to output markets as well as bargaining power vis-à-vis traders and wholesalers / retailers.

Fourth, smallholder livestock keepers typically have no or only a limited voice in the political arena. Being poor, risk-averse, poorly educated and often separated by large physical distances from the centres of policymaking, they cannot afford and are reticent to invest resources in political lobbying. Since the balance of power between sectoral interest groups however significantly determines the extent to which policies are legislated for and implemented, policy makers will most likely 'lack incentives' to design and carry forward pro-poor livestock policies

Fifth, and on the positive side, national governments, regional economic communities, international organizations and development practitioners are increasingly becoming aware of the so far unexploited contribution potential of the livestock sector to poverty reduction. The presence of a livestock chapter in the Comprehensive Africa Agriculture Development Programme (CAADP) of the New Partnership for African Development (NEPAD), the recent establishment of the PPLPI of FAO and of the World Bank-supported Africa Livestock Platform (ALive) stand to show this point.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Chickens on a moto in Hanoi market, Viet Nam

Conclusion

To a great extent development groups and national governments have not recognised or exploited the potential contribution the livestock sector can make to poverty reduction, despite the large share of the poor depending on livestock as part of their livelihood and the increasing demand for meat and dairy products in developing countries.

For governments to tap into the poverty-reducing opportunities provided by the livestock sector, they need to consider the livestock producing household rather than the livestock 'enterprise' as the starting point in policy design. Such an approach will require a coherent set of public actions, including provision of access to basic resources, reducing vulnerability, reducing input and output market imperfections as well as allowing small-scale producers to comply with increasingly stringent quality and environmental standards.

Because of their limited political influence, determined by one-sided client-patron relationships, smallholder producers have little input into national policies. They in fact tend to trade their collective interests for minimal individual benefits in return. For this to change, national and international policymakers and development practitioners should attempt to transform the current institutional environment so as to enable the poor to effectively participate in political processes to further their interests as livestock producers.

It is the goal of FAO, and in particular of the Animal Production and Health Division (AGA), its policy branch (AGAL) and the PPLPI to contribute to poverty alleviation by raising awareness of livestock policy issues, promoting research into the links between livestock production and poverty reduction and expanding the capacity of poor livestock producers to participate in the design of national and international policies affecting their interests.

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FAO Livestock Policy Briefs

Facing the opportunities and challenges of the livestock sector

Rapid growth of livestock production in recent years has fuelled hopes for accelerated economic development, fears of increased social inequity and environmental degradation, and recognition that comprehensive and effective policies are required to ensure that continued expansion of the livestock sector contributes to poverty alleviation, environmental sustainability and public health.

Papers in this series of Livestock Policy Briefs explore issues related to livestock production, identify policy options that can be considered and highlight examples of approaches that have proven successful.

The Livestock Policy Briefs series has been prepared by the Livestock Information, Sector Analysis and Policy Branch (AGAL) of the Animal Production and Health Division of the Food and Agriculture Organization of the United Nations.

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