

Credit Facilities for Dairy Development — IDA loan Scheme

A specific scheme of credit for dairy farmers had not been formulated until the second half of 1970's, although the credit component had been emphasised as an integral part of the dairy development programme in some of the earlier proposals. The first systematic credit scheme for dairy development was initiated with the IDA/Sri Lanka Dairy Development Project in which assistance to the tune of US\$ 3,875,000 provided by the IDA to meet institutional credit requirements of farmers participating in this project.

These funds had been allocated among the two state banks, namely the People's Bank and the Bank of Ceylon on an equitable basis, with an on lending margin of 4 per cent to meet the cost of administration. The rate of interest payable by the recipient farmers was 10 per cent.

The eligibility criteria for this scheme was that the recipients should possess at least two acres of suitable land for pasture development, the credibility of the applicant reflected in terms of his past history of banking operations (non defaulting), and the economic viability and the bankability of the proposition at hand. Credit was provided for the purchase of animals, forage developments and improvement to building and plants the upper limits of the loans were determined by the regional variations of prices of cattle (Rs. 2,500 to Rs. 3,500 per cow) and the number of animals financed.

The performance of the banks in implementation of this scheme, as measured in terms of its coverage, acceptance and the recovery status had not been encouraging. The two leading banks involved had stressed a variety of reasons for this state of affairs, among which were the absence of basic infrastructure, the high cost of production, and the non availability of concentrate feed and milch animals.

The Nuwara Eliya Dairy Development scheme which was launched, independent of the IDA assisted project, had stressed the importance of a livestock marketing system and expanding the extension, training, and health services. Institutional credit inter alia had been identified as a vital element in this integrated programme and the two state banks were expected to share the credit component, equivalent to the value of US \$ 2.282 million.

Six districts, namely, Colombo, Galle, Gampaha, Jaffna, Kalutara and Kegalle were identified to be suitable for this program. The role of the state banks had been to provide the potential dairy farmers (small holders and agricultural labourers) with medium and long

term credit for the purchase of cattle/dairy, capital assets, to meet other establishment costs and working capital requirements. The banks were expected to liaise closely with the DAPH, in the activities related to organization of milk producing organizations, collection of loan repayments, carrying out pre and post supervision, and finally recovery of funds disbursed. A regionalized programme was initiated by the State banks to incorporate the estate workers and other Upcountry peasants interested in cattle farming in an organized dairy development scheme. This scheme was phased out over three stages, with the later two stages being abandoned due to operational problems like the non availability of milch cows.

ADB ASSISTANCE

The Department of Animal production and Health (DAPH) within the Ministry of Rural Industrial Development in liaison with the two state banks had designed a credit scheme for on-farm development of small scale livestock farmers, with a view to assisting the small farmers to be actively involved in the upliftment of quality and productivity of cattle, buffaloes, pigs and poultry.

This overall programme, designed with the assistance of the ADB, is aimed at improving the quality and quantity of the cattle stock, nutrition and husbandry, strengthening the livestock marketing system, and expanding the extension, training and health services. Institutional credit has been identified as a vital element in this programme, and the two state banks are expected to share the credit components amounting to US\$ 2.282 million.

Of the 10 districts selected for development in the livestock plan, six had been allocated for dairy related development. These six districts include Colombo, Galle, Gampaha, Jaffna, Kalutara and Kegalle. The participating banks have been asked to provide the potential dairy farmers and the producer associations with medium and long term credit for the purchase of cattle, and other capital assets to meet establish-

PLANNING DAIRY DEVELOPMENT

The question of self sufficiency in dairying and dairy product development had been approached basically as dependent on increasing the number of milch cows available in the country, and raising the productivity of cows milked. In a broader sense these activities may constitute only 70 percent of the production process, which is related to the physical production aspect of dairy development. The remaining 30 percent deals with the effectiveness and efficiency of the basic infrastructure conducive for such a process, and the components highlighted under this includes, product design, processing, packeting, marketing and distribution. A few major attempts have been made during the post-independent era, to consolidate these factors into a favourable mix so that the country could reach self sufficiency in milk. Even before these plans were

ment costs and their working capital requirements. The banks were expected to liaise closely with the DAPH, in the activities related to organization of milk producing associations, selection of loan recipients, post and pre-supervision of credit disbursed, and recoveries.

The credit assistance would be extended either to expand existing enterprises or to start new ones, and the project anticipates coverage of approximately 3,000 farmers. The size of such a dairy unit is expected to be in the range of two cows or buffaloes. The maximum ceiling for these loans would be Rs. 49,500, and the bulk of the loans granted have been around Rs. 15,000/- due to the easy accessibility arising out of relaxed terms and conditions.

The credit extended under this scheme may be utilized either to meet establishment costs (investment capital) such as construction of sheds, purchasing of cross-breed animals or to meet working capital expenses like purchasing of feed or paying of other operational expenses.

The project-oriented nature of this facility has enabled the banks to streamline the eligibility criteria

mooted a few efforts adhoc in nature, had been taken in this direction in which the stress had been to import high-breed animals from major dairy producing countries.

The Economic Development Plan of 1953 - 1959 proposed to pursue the work already being followed by the Division of Animal Husbandry and Veterinary Services in the state owned dairy farms. During this period the emphasis had mainly been (1) Supply of good cross breed cattle for urban dairies. (2) Development of the milking properties of water buffaloes to encourage the use of buffalo curd in rural areas. (3) Introduce large scale milk sheds in the urban areas to carry-out intensive forms of dairying. (4) Production and distribution of sires likely to produce progeny of specific food survival rate and economic response in particular regions.

to a much simpler form. Some of the more important criteria laid down in the project includes the honesty of the borrowers, reflected in their past credit discipline, presence of acquired skills of dairying, and availability of minimum resource level in which land, and other forms of equity contribution which are not less than 15 percent of the total cost of the project. Furthermore, membership of a registered dairy producers association would be essential.

The Central Bank's re-finance facility has enabled the two participating banks to extend this facility at a substantially lower lending rate of 12.5 percent per annum. The total assistance package covers such auxiliary elements as extension, education, marketing, veterinary services, and setting up of producer associations, all of which need to be integrated and provided in a proportionate mix for a successful implementation of this scheme. Therefore the overall performance of this scheme will be determined to a greater extent by the relative importance assigned to these integrated components, and the level of their individual as well as collective contributions in making the expectations of this scheme a reality.

The Ten Year Plan 1959 - 1968

The Ten Year Plan identified animal husbandry to be an area with immense potential in agricultural development. The increasing strain on the exchange budget that was equivalent to around Rs 60 million in 1958, was projected to reach Rs 100 million and this alarmed the planners and those concerned about economic performance. A strain of this magnitude had been interpreted to be quite unreasonable against the very conducive agro-climatic conditions of the country for breeding and caring of cattle. Thus the Ten Year Plan set an ambitious livestock development target with a strong bias on dairy development.

"Special emphasis is placed on animal husbandry and the country's needs of milk and meat products. This is a field of production which has not flourished in the past, but for which the potential for development is great. The target of the plan is to raise the value of the country's output of milk, meat, and other dairy products from Rs 87 million in 1957 to Rs. 211 million by 1968, an increase of 14.3 percent." (Ten-Year Plan, 1957).

In terms of the volume of milk produced, the local production that stood at 153 million pints in 1958 was expected to reach the level of 495 million pints by 1968, which is more than a two-fold increase. For this to be achieved, a substantial change in the quality and quantity of the country's dairy stock of 338,000 cows had to be introduced. The Plan emphasized that to make a change in the present net yield of 1.2 pints per cow per day the cattle population should be improved, the standards of pasture and the concentrate feed should be raised, and the management techniques and technology used in dairy farming should be substantially upgraded so as to reach a reasonable yield of 3.2 pints per cow per day.

Thus the Ten Year Plan quite logically postulated that self sufficiency in milk depends on achie-

ving firstly, an improvement of the average yield of 3.2 pints per day. As an incentive to increase local milk production, the pricing and marketing system was proposed to be streamlined, for which the Milk Board was set up. The Milk Board initially concentrated on the supply of fresh milk, which ventured into various forms of processed products only in the recent years. **Agricultural Development Proposals 1970-1975**

This Plan set an important landmark in the dairy development of the country, by offering a series of concrete proposals to develop the national livestock strength, in order to increase milk production. The Plan identified the regional variations in agro-climatic conditions, and the plan of action suggested had attempted to incorporate these variations. Thus, the hill country, with its temperate climatic conditions had been suggested to use imported exotic breeds like Jersey, Derby and Ayreshire from Europe. The environmental and other resource base of this zone was found to be ideal for intensive dairy farming. Even before the completion of the ten year plan another interim programme was introduced between 1962 - 1964, which was called the Short Term Implementation Programme. The highlights of this programme, had again been the emphasis made on

(i) raising the average yield of local cows

(ii) increasing the number of cows milked from the existing stock.

The potential for raising the average yield was found to be immense as the present yield had been drastically low. However, the remedial action possible appears to have been rather long term as changes have to be introduced into animal genetics and institutional infrastructure influencing such improvements. The second proposal dealt with a rather quick yielding area of activity, and the methodology applied was to improve the marketing facilities to induce the peasants to milk and market their produce. The rationale behind this proposal had been that the farmers

are not encouraged to increase the yield as in domestic farming. It also identified the professionalism available in the dry zone both for cattle breeding and rearing. The establishment of the Condensed Milk Plant under the auspices of the National Milk Board, the introduction of improved varieties of grass suitable for local conditions, and the demarcation of certain areas of the coconut triangle for intensive dairy development had been a few other important outcomes of this proposal.

The Five Year Plan 1966-1970

The Five Year Plan identified the strategic role of dairy as an option being qualified both under the import substitution and agricultural diversification programme. The main emphasis of this plan was to (i) improve the quality and extent of pasture, in which a two-fold increase of the existing land extent of 30,000 acres had been targeted; (ii) to import improved breeds of cattle for cross-breeding so as to expand the milk herd; (iii) the expansion of the network of milk collecting centres already established under the NMB; (iv) the recognition of credit component and the importance of extension services to develop a domesticated dairy development scheme.

Accordingly it was targeted to reach self-sufficiency in full cream milk powder, butter fat and skimmed milk.

However the performance of the project had not been far away from its original expectation and thus it had to be re-formulated to give "a new dimension to it". At this reformulation stage, the emphasis was shifted from providing credit to commercial dairy farms to the formation of Dairy Producers Associations, based upon the Anand Pattern of dairy corporation. (See box)

The government, based on the suggestions of the mission, increased the price of milk by 38 per cent which was accompanied by a heavy subsidy offered for dairy producers for growing fodder and purchasing of quality cows.