

# *The Effect of Microfinance on Dairy Sector for Poverty Alleviation in Kerala*

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**Abstract**—Poverty in India is widespread with the nation estimated to have one third of world's poor. Micro finance as a powerful tool and a novel concept emerged for eradication poverty at the grass roots through financial inclusion, economic and social development and attaining self –sufficiency. Micro Finance is an important factor which can lead to the rise in the standard of living of poor families if it is utilized in an effective manner. . Micro finance enters in all areas as and sectors including the dairy sector in Kerala. Dairy development gained acceleration in the state of Kerala with the inclusion of the State under the 2<sup>nd</sup> phase of the Operation Flood programme in 1983 and the North Kerala Dairy Project (NKDP) in 1990. Most of the farmers in the dairy sector are poor and difficulty to find capital of their own. Micro finance is one of the sources of capital for the farmers. This paper attempts to examine the effect of microfinance on dairy sector for overcoming poverty by analysing the primary data obtained through an interview with 150 members of different districts of Kerala, India as well as secondary data.

**Keywords**-component Dairy Sector, Micro Finance, Poverty alleviation

## I. INTRODUCTION

Micro finance is one of the ways of building the capacities of the poor who are largely ignored by commercial banks and other lending institution and graduating them to sustainable self employment activities by providing them financial services like credit, savings and insurances. To provide micro finance and other support services, Micro Finance Institutions should be able to sustain themselves for a long period. These credits can be sufficient to promote autonomous and profitable economic projects, expand the opportunity set faced by poor individuals and thereby alleviate poverty.

A self-help group is usually a village-based financial intermediary committee usually composed of 10–20 local women or men. A mixed group is generally not preferred. Members of SHGs make small regular savings contributions over a few months until there is enough capital in the group to begin lending, then funds may be lent back to the members or to others in the village for any purpose. In India, many SHGs are 'linked' to banks for the delivery of micro-Finance. Many self-help groups, especially in India, under NABARD's 'SHG Bank Linkage' program, borrow from banks once they have attained a base of their own capital and have established a track record of regular repayments. SHGs help the poor population who have difficulty to reach banks or financial institutions directly.

In India more than 70% of the population lives in villages and most of these villages are underdeveloped. Research and development sector in our country brings number strategies in favour of these people every year. Implementation of these technologies in the rural sector can alleviate poverty, create employment opportunities and generate good growth. About 57 per cent of India's more than a billion populations make a living from agriculture and allied activities. Prime problem of the rural micro enterprises including agriculture and allied activities is non availability of timely and adequate credit at reasonable and affordable rates of interest. The expansion of bank branches and the overall higher order credit growth in the banking system have not supported the desired expansion of agricultural credit and credit to small scale industries sector .On all India basis, 41 per cent of the population does not go to banks at all and the bank coverage in rural areas is 39 per cent against 60 per cent in urban areas.

## A. Dairy Farming

India remains the world's largest producer and consumer of milk. The wilful efforts of people and the government reflected through successful implementation of programmes like Operation Flood, transformed India from its defect state in milk production to the world's milk producing country. India has the largest cattle and buffalo population in the world. Cows and buffaloes are the mail match animals, contribution 96 per cent of the total mil production of the country. The average milk yield of buffaloes and cows put together is much less than the global average. There are significant regional variations in the structure of dairying in the country. There are different issues faced by dairy industry in India.

In the agriculture and allied sectors of the economy Dairying play a very significant role? Dairying is treated as an important occupation especially women in rural areas in almost all countries across the world. Nearly one billion people live on dairying as important job and are operated through dairy farms and family type. Milk is treated as an important nutrient and is a vital part of the global food system for the sustainability of people in rural areas.

Loan from banks with refinance facility from NABARD is available for starting dairy farming. For obtaining bank loan, the farmers should apply to the nearest branch of a commercial or co-operative Bank in their area in the prescribed application form which is available in the branches of financing banks. The Technical Officer attached to or the Manager of the bank can help/give guidance to the farmers in preparing the project report to obtain bank loan.

**B. Dairy Co-operatives in Kerala**

The first dairy industrial co-operative was registered in 1932 as a mutual help co-operative at Thirumala in Trivandrum under the Department of Co-operation of erstwhile Travancore-Cochin State. It is evident from documentary evidences that organised dairy industry in Kerala has a tradition of above eighty years. The Dairy co-operatives were operational in Malabar Region which was a part of the Madras Presidency with the registration of the Calicut Milk Supply Union in the year 1939.

Milk is a commodity which could be easily adulterated there existed a customer friendly practice among the dairy farmers where the cow was milked at the doorsteps of the customers to ensure the quality of the milk. Later when co-operatives were organised the cows were brought to the premises of the society and milking was done in the common milking yard to ensure the quality of milk supplied both to the society and the customers and popularly known as “Kettikaravu”.

**C. Total Milk Production in India**

Table 1: Total Milk Production in India

Serial No	Year	Milk Production in lakh tonnes
1	2010-2011	1009
2	2011-2012	1045
3	2012-2013	1623
4	2014-2015	2020
5	2015-2016	2430

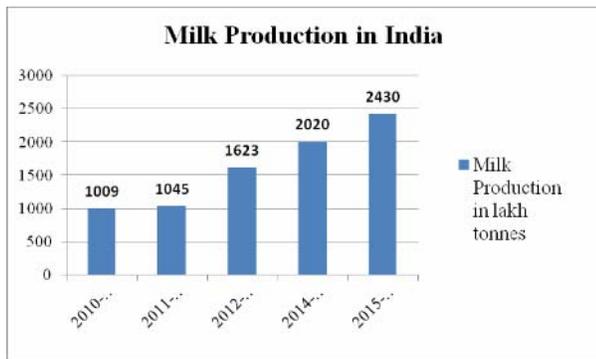


Figure 1: Total Milk Production in India

Due to the increased market for the product, they decided to start milk products factory. They were inspired by the experience in the field of production. Their major products are ice cream, halva and chocolates. The main raw material for the production of these products is milk. Therefore, they took a portion of collected milk remaining to Milma.

**D. Review of Literature**

Srivastava.B.P and Serry.A.M (2016) in a study on Demystifying micro Finance in Inclusive Growth attempted to portray the concept of Micro finance, its outreach and Provenance among the target groups , roles played by ;banks, MFIs and

some of the well performing NGOs/SHGs while touching upon some focused areas for justifying its relevance in inclusive growth. The premises of micro finance have assumed phenomenal importance in accelerating the pace of financial reach of the targeted beneficiaries. Inclusive growth has always received special emphasis in the Indian Policy Making<sup>[1]</sup>.

Bommali (2017) conducted a study on the impact of Micro Finance in Empowerment of Self- Help Groups’ of women. The objective of the study is to evaluate the role of micro finance in the empowerment of women and to analysis the problems faced by them in availing financial support. The study concluded that microfinance has a profound influence on the economic status, decision making power, knowledge and self worthiness of women participants of self help group linkage program in Visakhapatnam<sup>[2]</sup>.

Bharathy and Selvakumar (2013) in the study on the problems faced by the milk producers of Salem district found that majority of the milk producers feel that low income, increasing operational expenses and, lack of medical facilities are the major hurdles in carrying out dairy business<sup>[3]</sup>.

Carla (2014) in a study concluded that the most important benefits perceived by co-operative members are the supply of concentrated feed, provision of free or low-priced veterinary service and, a higher price for their product through government subsidy or the bonus paid in the end of each year. Eighty per cent of the members perceive that their economic situation has improved since they joined the co-operative<sup>[4]</sup>.

Bhasin (2014) in an article pointed out that India has 210.82 million cows and 112.42 million buffaloes as per FAO Statistics 2012. India’s cow milk contribution to the worldwide milk production is 9 per cent while that of buffalo milk is 67 per cent according to the Bulletin of World Dairy Situation 2013 and about 70 per cent of milk production in India is used in its raw form whereas the rest is processed into curd, ghee, milk powder and other dairy products<sup>[5]</sup>.

Rahman (2015) in an article on Project for Ensuring year Round Fodder Grass Supply to Milk Producers stated that the Malabar Union is going to implement a project to supply silage to dairy farmers with a view to curb the cost of production and to ensure quality fodder to the cattle. The Union also proposes to supply specially designed silage bags to the farmers to equip them to preserve fodder grass<sup>[6]</sup>.

Bhagyashree .S Kunte and Sanjay Patankar(2015) in a study on A Literature Review of Indian Dairy Industry concluded from the review of studies that the major issues revealed were related to lack of fodder and concentrates, scarcity of veterinary and diagnostic services, lack of information and technological awareness . These were common issues faced by dairy farmers in most of the regions of India<sup>[7]</sup>.

RamphulOhlan in an article on Dairy Economy of India: Structural Changes in Consumption and Production(2016) evaluated the transformations in demand and supply of dairy products in India, identifying that the share of dairy products in the food basket has significantly increased among both rural and urban consumers. While demand for dairy products is

highly elastic and related to income and regional disparities in production and per capital availability of milk in India<sup>[8]</sup>.

#### E. Research Gap

From the review it can be seen that most of the studies are too aggressive or wherever disaggregation has been done. Most of the studies have been done covering the impact of micro finance for the micro financial institutions and SHGs, so there is enough scope of research in this area. Keeping this in view this study has been undertaken to cover the effect of micro finance on dairy sector, for poverty alleviation and whether micro finance has made any change for their life.

Has it improved their standard of living? This study tries to be covered in state of Kerala.

#### F. Significance of the Study

Poverty is one of the widespread hurdle in achieving higher escalation and attractive standard of living of the people in the majority of the low income countries. The peculiar characteristics of milk calls for an integrated structure to incorporate the dynamics involved in the production and marketing, viz., homestead farming, scattered production units, low production, low productivity, low marketable surplus, higher perishability, wide spread buyers, small purchases, sensitiveness to price differentiation, seasonal fluctuation in quantity of production etc. Dairy development gained acceleration in the state of Kerala with the inclusion of the State under the 2<sup>nd</sup> phase of the Operation Flood programme in 1983 and the North Kerala Dairy Project (NKDP) in 1990.

#### G. Need for the Study

One of the major sources of livelihood for the world's poor is the livestock. It is an integral part of India's agricultural economy and plays a multifaceted role in providing livelihood support to the rural population. Livestock or dairy sector apart from contributing to national economy in general and to agricultural economy in particular, provides employment opportunities, asset creation, coping mechanism against crop failure and social and financial security. Dairying is the main source of animal protein for the population. Small and marginal farmers and landless labourers own majority of the livestock resources. The sustainable development of the dairy sector would lead to more inclusive development and empowerment of women. Dairy sector contributes 3.03 per cent of the Gross State Value Added (GSVA) and 29.18 per cent of the GSVA in agriculture and allied sectors during 2015-16.

India ranks first among the world's milk producing nations and the milk production during 2014-15 and 2015-16 was 1,463.10 lakh MT and 1,554.9 lakh MT respectively registering an annual growth rate of 6.27 per cent. Among the major milk producing states in India, Kerala ranks 14<sup>th</sup> position with a production of 26.50 lakh MT in 2015-16 with an annual growth rate of 2.11 per cent, the first being Uttar Pradesh followed by Rajasthan, Gujarat and Madhya Pradesh. During 2015-16 a total of 5929 lakh litres of milk was procured by the dairy co-operative societies in the State

#### H. Objectives

- To study the micro finance practices of dairy farmers.
- To study the effect of micro finance on dairy sector in Kerala.
- To identify the constraints of the producer farmers in production and marketing.
- To analyse the effect of micro finance for satisfying their basic needs of dairy sector beneficiaries.

#### I. Limitations of the Study

The present study examined the various dynamics of production and marketing of milk in Kerala from the perspective of the ultimate stakeholders, the producer farmers, as such the role and dynamics of the organisational network of cooperatives were not included in the purview of the study. The scope of the study was limited to the pre-production and production activities undertaken by the farmers at household level till the disposal of milk to the primary dairy cooperative society.

## II. DATA ANALYSIS AND METHODOLOGY

The study is exploratory and analytical in nature as very few studies have been conducted in the present context. Primary data for the study was collected from the members of the various SHGs in the study area. 150 SHGs were identified covering all the villages in of Kerala, and one member from each group was selected as the respondent on a simple random sampling basis. A structured interview schedule was administered personally for each member. Secondary data was collected from articles published in journals, financial institutions, reports, newspapers, websites, research abstracts, books, e-books, and theses submitted to various universities. The gathered data was analysed using Statistical Package for Social Sciences (SPSS) package.

#### A. Data Collection Tool

A questionnaire was designed to collect data from the sample with regard to the following: income, assets, debts, savings and expenditure patterns (before and after they ventured into Micro Finance).

## III. RESULTS AND DISCUSSION

The results of the study demonstrated that the role of microfinance has a strong relationship with income, education, and business progress on dairy sector. However, the role of microfinance shows no significant effect on health care. The result suggested that the microfinance plays an important role on reducing poverty, improving income of household, improves access to children's education and also supports improving business for poor people. They found that interest free loans could be used as a powerful tool against poverty. We make the following recommendations to sustain microfinance and make it effective and fulfilling.

Education and training should be provided for microfinance beneficiaries on how to efficiently utilize the funds. Interest charged on microfinance products should be reduced. Further,

management and staff of microfinance institutions must be given the needed training and education to help build and strengthen the skill, competencies and abilities for effective service delivery. Efforts should also be made to reach the poor who are the target of microfinance policies and programs. Furthermore, since the poor do not have collateral, management and staff should make available to them tailor-made unsecured products. Loan products should be of a longer duration to give beneficiaries opportunities to generate future income out of the borrowed money. Loans should not be callable by the financial institution prior to maturity. Lastly, the Government should create sound political and economic environments for smooth operations and performance. Without such an environment, no business will thrive. Borrowers need sound economic environments to make a return on their borrowed funds.

A. Monthly Income

Income measures the financial stability of a family. It measures the purchasing power of the respondents to take care of basic household expenses, education of children and the like. It was found that starting a business had an impact on the monthly income of the respondents.

3.1.1 Change in Monthly Income

Table 2: Change in Monthly Income

Change in Monthly Income	Number of Respondents	Percentage
INCREASE	84	56%
DECREASE	45	30%
NO CHANGE	21	14%
TOTAL	150	100%

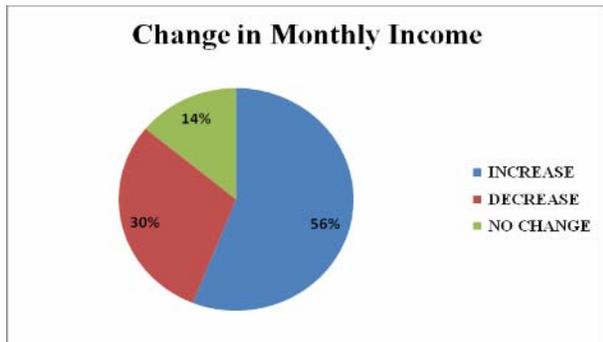


Figure 2: Change in Monthly Income

Above diagram, shows that about 82% of the respondents reported an increase in the monthly income, while around 13% reported decrease and 6% reported no change in income.

IV. CONCLUSION

As the microfinance industry is developing very rapidly, institutions are increasingly concerned with developing new products and services. The microfinance industry has experienced dramatic growth during the last two decades, in general and the last decade, in particular. This study indicates that micro finance has made rapid changes for the beneficiaries of dairy sector and it has improved their standard of living. Although the dynamics underlying the micro finance industry have shifted to a new phenomenon that many decision makers still do not fully understand, the risks need to be managed efficiently in the industry of micro finance. The members working under micro finance are able to lead a better life compared to when they were before. They are able to provide better facilities for their family and also provide better education to their children. The next decade will most probably see a continuation of this growth. Such growth is not only sought by many MFIs but also needed in most countries because the unnerved and underserved markets continue to remain large. There should be also good support from government side. Further schemes should be introduced to support the dairy farmers, proper market and training programmes should be given for them. Proper awareness also should be given for dairy farmers to increase production and improve the productivity of milk.

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