



Path Towards Self-sufficient Nation in Milk

A case study on Dairy Value Chain Strengthening & Development Partnership by National Agribusiness Development Program (NADeP) and CIC Dairies Pvt. Ltd in Sri Lanka.

By Nilushana Sooriyaarachchi (Consultant – Business Development)

The annual demand for fresh milk in Sri Lanka has increased by 16 percent during the year 2015 while the supply is growing at a snail's pace resulting in more imports of milk powder at a staggering cost in each year. Sri Lanka's annual milk requirement is around 750 million liters while the local production is around 325 million liters and government spends around US\$ 400 million a year on imports of milk products mainly in the form of milk powder. There are plenty of initiatives taken by both government as well as the private sector on their own but seldom to see any partnerships to bolster the industry, and with such circumstances, CIC dairies Pvt. Ltd., one of the leading dairy processors in Sri Lanka has joined hand with National Agribusiness Development Program (NADeP) which is implemented by Development and Special Projects Division of Presidential Secretariat to launch one of the unique partnership project targeting 1118 rural dairy farmers in Central, North Central and Eastern Provinces in Sri Lanka. Project was co-financed by International Fund for Agricultural Development (IFAD) and implemented in January 2016 after successful negotiations during the latter part of year 2015. Company (Promotor) expressed their interest to work with NADeP to develop public-private-producer partnership (P4) by submitting a concept note during the window provided by NADeP inviting expression of interest (EOI) through print and digital media as a formality. Project design stage started back in November 2015 based on the survey conducted by the promotor with the consultation of NADeP expertise in dairy field and preliminary evaluation was conducted by the internal appraiser of NADeP with the guidance of feasibility studies and subsequently forwarded to Business Proposal Committee (BPEC) for external evaluation. BPEC comprised of experts in Agriculture field in Sri Lanka including subject specialists and the project was scrutinized for concept, technical, financial, economic, marketing and management feasibility respectively with optimum ratings per each criteria accordingly. Eventually, the proposed project was presented to National Steering Committee (NSC) which was headed by the Secretary to His Excellency the President of Sri Lanka and with the national scale approval, IFAD has granted no objection certificate (NOC) for implementation in December 2015 where the parties inked the memorandum of understanding (MOU) on 29th December 2015.

Project was designed to address the issues of low productivity of rural household dairy operation with the intention of increasing the profitability and income of such small holder dairy farmers by forming them to milking societies with the linkage of promotor to guaranteed market for their produce. Majority of the beneficiaries were selling their milk to village level collectors for less price (50-55 LKR per Liter) but with the project intervention, they have signed forward sales agreements with the promotor and benefited by additional 7-10 LKR per Liter with a clear transparency of payment according to solid nonfat (SNF) and fat percentage of the milk. Moreover, 36 mini chilling facilities with collection centers were given to newly formed societies with proper training and operating guidance by the promotor which facilitated the evening milking as there were no collection during evening hence had not been practiced prior to the project intervention. Although, certain farmers are practicing evening milking with subsequent freezing until morning collection, physical properties are compromised and rejected during the purchase. It was observed that the beneficiaries (1118) have increased their production by 2102 Liter per day after intervention compared to 6008 Liters during



the initial survey conducted by the promotor and benefited with 6000 LKR Incremental income (Average) per month which was quite significant with national per capita income is hovering around 11,900 LKR Per month (46,200 LKR Per household). In addition, project emphasized on woman participation for the industry as a secondary income for rural households by providing 42 milking machines and cattle sheds for selected woman entrepreneurs in project locations. Moreover, special consideration was given to milk quality by provision of 14 milk testers placed in collection points which have significantly improved the quality of received milk with minimal incidents of adulteration (Water and sugar sources etc.). Mini collection center operation is fully handled by the formed societies with the training and guidance provided by the promotor and documented by the society secretary at the center itself, and being incentivized by 2 LKR. Per each Liter collected by the promotor for his or her role. In addition to above, extension service is provided by the promotor with the structured training and development program to educate farmers with cattle nutrition, breeding, disease and financial management etc.

Although the partnership was a success, there were loopholes and several challenges arise during the design as well as the implementation stage of the project. Firstly, the initial design included with a cattle breeding support program by training 36 young dairy farmers (one per each society) for artificial insemination (A.I) procedure with the provision of A.I tools and seaman but unfortunately component was dropped due to government policies in relation to cattle breeding as only the Livestock Development Instructors (LDI) and skilled A.I instructors are allowed to carry out the operation. It is found and analyzed that lack of timely A.I administration support has caused many farmers missing opportunities of getting their cows fertile hence resulted in less productivity and lower income. Moreover, NADeP has faced difficulties in negotiating arrangement of insurance for the chilling tanks as the promotor was not willing to contribute initially (ownership) but with several negotiation discussions, final piece for the puzzle solved and promotor has agreed to finance the cost incurred in insurance for the first year of the partnership with the suggestion of continuity of the premium through the sustainability fund to be accumulated after completion of the first year of the partnership. The above mentioned fund is being accumulated through contribution from promotor (50 cents from each Liter of milk purchase) as well as from farmers in a common bank account with the intention of supporting beneficiaries in unforeseen scenarios such as disease spread, preventive maintenance activities of chilling tanks other than the insurance premium as stated above. In addition, although the milk payments are received to farmer society bank account in every fortnight, beneficiaries are being paid in cash and promotor has unable to set up a mechanism to make them bankable which is a high priority objective of NADeP as well as IFAD context.

At brighter side, promotor is willing to upscale the partnership to other geographical areas of the island with special consideration to cattle nutrition, with fodder management & preparation, corn silage production with continuous water availability to address the productivity issue further and hopefully with an answer to the growing concern of cattle breeding by introducing stud bulls to society level at least. Sri Lanka is still quite new to P4 projects, but such pilots have initiated great interest among other giants in dairy sector (Cargills, Fonterra etc.) and already partnered with NADeP for several other projects which are operational at different stages of implementation at the moment which will be milestones towards the path of government goal of making self-sufficient nation in milk by year 2020.