

# SECTOR BRIEF

Issue #15, November 2016



**Sector:** Dairy

**Interventions:** Improve Production and Marketing of Dairy Products

**Districts:** Dadeldhura, Dhankuta, Illam, Kavre, Terathum

## Dairy Intervention – Improve Production and Marketing of Dairy Products

Among the total farm household in the country, 95% of them keep dairy animals. Despite the overwhelming number of farmers involved in livestock farming, only 500,000 households engage in the dairy market as producers and sellers of milk indicating a huge untapped potential in the sector. To tap this potential, Samarth-NMDP is engaged in the sector from the grassroots to the policy level, to bring about a change in the dairy market system so that increasing numbers of smallholder farmers can engage in the sector.

One of the major problems in the dairy sector that inhibits farmers from engaging in the market is the lack of access to market, due to the remoteness of the local producers. Other major issues affecting the performance of the sector are lack of technological awareness, quality control, higher transportation cost to deliver raw milk and effective business relation between the parties involved.

To address these constraints, the project is working with strategically influential dairy companies with national reach; to outsource their production facilities to rural areas and diversify their products. This will not only bring the markets closer to the poor but also expand their market.

### **Samarth partners with Nepal Dairy, Milko Dairy to bring the milk market closer to the smallholders**

Smallholder dairy farmers in remotely located milk production pockets generally do not have secured access to market and seasonality of milk production makes it worse for both processors and farmers to invest on productivity enhancing services. Rugged terrain, lack of transportation facilities and seasonal



roads contribute further to lack of secured milk collection in the rural areas. The farmers are paid lower prices due to the high cost of transportation involved in transporting raw milk to the processors. On the other hand, local processors in these regions are already producing traditional dairy products like yoghurt, ghee, khuwa, etcetera. The market for these products is limited to the local level only. The demand of dairy products is increasing in Nepal and larger dairy processors are willing to expand their product portfolio. It is much more efficient for larger dairy processors to establish linkage with local dairy processors in the remote areas to undertake decentralized production and marketing of dairy products. It is easier and cost effective for larger dairy processors to process and transport dairy products closer to the source of raw milk. Based on this premise, Samarth partnered with Nepal Dairy (ND's) – a national level dairy processor in August 2015 and Milko Dairy – a national level dairy trader in May 2015 to outsource their production to rural level processors.

### **Partners engage advisory services to deliver services to local processors**

Despite the link between rural and national level processors, small scale rural dairy enterprises could not maintain quality standard due to lack of proper technology and knowledge on how to produce quality dairy products. These dairy processors lacked consistency in their products and failed to reach the quality standards set by ND's and Milko.

This led to the supply of poor quality dairy products that further widened the already existing rift between the two. To address this issue, ND's and Milko Dairy partnered with Nepal Dairy Institute of Technology Management (NDITM) to provide technical inputs to the rural level dairy processors. In doing so, NDITM chiefly focused on two things:

- a) Physical Infrastructure
- b) Knowledge Dissemination

Lack of proper technology and physical infrastructure were the basic requisites that were missing in the small scale dairy farms. These rural dairy processors did not have adequate storage facilities, processing units or milk vats to produce dairy products that would meet the appropriate quality standards.

#### **Milko Dairy**

Milko Dairy is a national level trader of dairy products that has its reach all across the country namely, Kathmandu, Patan, Pokhara, Bhairahawa, Narayan Ghat, Butwal, and Itari. The dairy mainly supplies cheese, paneer, churpi, butter and ghee.

#### **Partners:**

- Mahalaxmi Dairy, Dhankuta
- Siduwa Shiva Shakti dairy, Dhankuta
- BNP Chilling Center, Panauti

#### **Purchased:**

- 4,984kgs of cheese from Mahalaxmi Dairy
- 2,680kgs of churpi from Shiva Shakti Dairy
- 691kgs of paneer from BNP Chilling Center

Milko Dairy is in the process of entering in the industrial level to supply cheese for large scale factories and hotels. It is already supplying cheese to The Bakery Café, one of the largest restaurant and bakery chains in Nepal.

NDITM in coordination with Milko and ND's, supported by Samarth-NMDP, provided support to the rural dairy processors to set up milk vats, chilling storages and proper infrastructure required to operate a dairy enterprise. These dairy centers, previously, were operating without the adequate infrastructure required for a dairy processing unit. This upgrade in the processors would help them in quality production and to provide quality products with consistency.



**Mahalaxmi Dairy has now increased its cheese production and meets the quality standard as approved by the FDA.**

With adequate physical infrastructure, the processors also required adequate knowledge on the know-hows of producing quality dairy products. This included the entire process from the initial phase of collecting milk to processing and packaging till the end. The dairy processors were provided training on maintaining standard, hygiene, collecting quality hygienic milk and also on the correct practice and procedures to make quality dairy products. This largely increased the consistency and quality of the rural dairy processors which not only bridged the gap with the national level dairy processors, but also helped strengthen it.

ND's and Milko Dairy, in addition to the technical inputs, provided market assurance to the partnered dairy processors further strengthening the ties with the local processors. Now the local processors did not have to worry about their products not selling in the market or being rejected by traders. This led to increase in production while benefiting rural smallholder farmers who provided milk to the local processors.

Similarly, both the partners used business advisory services to support them in developing marketing strategy. The marketing strategy is focused on branding and packaging of dairy products and market segments to target.

### **Rural Level Processors Increase Production**

After receiving support to upgrade infrastructure, training on correct practices to produce quality dairy products and market assurance, rural level processors have started increasing production as well as gaining benefits from the upgrade. Sherpa Dairy – one of the partners of ND's – has started increasing production after receiving trainings on producing quality products and market assurance. This has benefitted the farmers as they can sell milk to Sherpa Dairy all year round at better rates. Furthermore, Sherpa Dairy has already invested to expand its business and increase production which will consequently benefit the remote farmers of the area.

“After NDITM provided technical inputs with market assurance from ND’s and Milko, the local dairies have increased their production. Before, most of their products would be rejected. Now after receiving trainings, the local dairies have started to produce quality dairy products such as cheese and paneer. This has encouraged the processors to invest more. Previously, most of the dairies operated from rented places with minimum input in physical infrastructure. Now, local dairies have started investing on new technology, infrastructure and practices that will boost their production.”

**Sasendra Gautam**  
**Food Technologist, NDITM**

Similarly, BNP chilling center in Panauti has invested in a new packaging line and increase the production of paneer after receiving market assurance and trainings from NDITM. The chilling center now provides paneer through Milko to major urban centers of the nation. This in turn has hugely benefitted the local farmers of the area as they have increased their income through the steady supply of milk to the chilling center.

Both the partners have created linkages with five local processors in different areas. Milko has signed three partnership agreement with local processor in Kavre, Dadeldhura, and Terathum to market paneer, ghee, three churpi, and cheese. Nepal Dairy has signed two partnership agreement with local processor in Illam and Dadeldhura to market cheese and khuwa.

## Way Forward

After the positive impact on smallholder farmers initially through product diversification and outsourcing, Samarth-NMDP aims to increase partnerships with rural level local processors through ND’s and Milko Dairy. Milko Dairy has recently developed linkages with a processor in Hetauda to market paneer in major markets of Pokhara and Kathmandu.

In addition, Samarth-NMDP recently signed a partnership with Kamdhenu Dairy Cooperative of Tarahara, Sunsari. Kamdhenu Dairy is one of the large-scale dairy processors of the Eastern province of Nepal. The program aims at reaching out to more dairy farmers of the hilly areas of the eastern province through the dairy company.

## About Samarth-NMDP

Samarth-NMDP is a five year UK aid-funded program that aims to reduce poverty in Nepal. The programme follows a market systems development approach, addressing underlying causes in the performance of the market systems, to bring about more competitive and sustainable markets that work better for the poor.

*Samarth-NMDP is a UK aid-funded programme managed in partnership with the Government of Nepal by a consortium comprising Adam Smith International, The Springfield Centre and Swisscontact. For more information on the programme, please visit [www.samarth-nepal.com](http://www.samarth-nepal.com).*