

# SECTOR BRIEF

Issue #8, March 2015



**Sector: Dairy**

**Interventions: Improved Product Diversification**

**Districts: Dhankuta, Illam, Jhapa, Morang, Sunsari**

## Making Milk Markets Work in Nepal

There are about 500,000 households engaged in the dairy market as producers and sellers of milk. The dairy sector offers promising returns to smallholder dairy farmers because income is regular and – potentially – all year round. However, the major irony of milk production in Nepal is that demand for milk is high when supply is low (lean season), and supply is high when demand is low (flush season). Seasonality of supply is mainly due to the availability of feed resources, with farmers optimizing supply when feed is abundant. Oversupply in the flush season often forces milk collectors and processors to stop buying milk from farmers resulting in “milk holidays”<sup>1</sup>. This uncertainty leads to a situation where supply is fickle, as it is hard to build solid, trusting relationships between farmers and milk collection centers/processors.



Moreover, farmers are reluctant to invest in improving productivity of their dairy animals.

At the same time, the Nepali dairy market is dominated by traditional products like liquid milk, ghee and yogurt whilst demand for new products (such as ice-cream, sweets and paneer) is increasing, with the shortfall being made up by imports. Some of the larger Kathmandu-based dairy processing units are attempting to respond to this demand and diversify their products but the lack of consistent supply of milk of the desired quality is hampering their efforts.

The following paper outlines Samarth-NMDP’s approach to work in the dairy system to help the players break the low input, low output trap. It illustrates how Samarth signaled some changes to a processor in the Eastern region of Nepal that had been struggling to market its products, especially during the flush

<sup>1</sup> Days when dairies stop purchasing milk from farmers as there is abundant supply with low demand.

season. Samarth realized an opportunity to market business advisory services to the dairy processing units in the region with a special focus on product diversification and outsourced production facility development to tap the opportunity of milk availability in the region. This would potentially have a huge impact on smallholder dairy farmers as the processor will be required to expand its collection network in order to produce an increased range of products.

### Samarth's Intervention

This particular intervention which was initiated in March 2014 focused on providing expanded and more secure market access for smallholders in the Eastern region of Nepal, which is generally referred to as milk surplus area. It partnered with Kamadhenu Dairy Development Cooperative (KDDC), a regional cooperative-based dairy processor. During the time of the partnership, it was handling about 10,000 l/d, although they had the potential to double this, reaching twice the number of their supply cooperatives. KDDC had a strong presence with suppliers and was growing.

KDDC had been thinking about diversifying its products and setting up processing plants in the hilly region of Nepal, especially for chhurpi (dried hard cheese). This fitted well with Samarth's strategy. However, their limited processing and marketing capacity constrained them. The project team realized that it could support the processors to work with consultants on expanding its business performance.

Samarth supported KDDC to use business advisory services to analyze and make positive changes in their business practice, including improved management, marketing and promotion, and product diversification. A study looked at the demand and supply situation of major dairy products in Nepal and helped KDDC to have a better knowledge about the dairy market in Nepal and realize its potential to venture into profitable dairy products. Dairy Development Consultancy (DDC), a recently formed dairy consulting firm, carried out a technical and feasibility study of KDDC in terms of product diversification of value added dairy products. It assessed the feasibility of a higher capacity modern dairy plant and a new factory, and made recommendations for improved operations and management of the company.

KDDC responded as follows:

- Invested/planning to invest NPR 300m in processing and collection facilities
- Installation of milk management software for collection, production and sales of milk
- Installed packing line for paneer and constructed separate yogurt cold storage
- Hired a marketing officer
- Installed new plants for processing Paneer, Curd and Khoa and replaced an old curd plant
- Produced high value products like Khuwa and Paneer, and introduced different size of packaged yogurt with different has been introduced



It was the first time KDDC had used consulting services to improve their business performance and they realized the benefits that an expert could bring. Moreover, it hired a marketing expert with little support from Samarth to develop a marketing strategy for the proposed expansion of the company. The marketing expert helped KDDC to develop a marketing and sales plan and supported it to implement the plans. KDDC has also expanded its processing facilities to the hilly region of eastern Nepal in Dhankuta to tap the product diversification of high value products like cheese and chhurpy suited for the climatic condition. As a result, it has expanded milk collection activities in the remote eastern hills in Bhojpur, Terathum and rural areas of Udaypur where farmers never had access to sell milk in to the formal markets.

There has been a dramatic improvement in KDDC's performance after partnering with Samarth. KDDC has increased its raw milk collection from 10,300 l/d in January 2014 to 19,000 l/d in January 2015 - an increase of about 85%. They have also added 18 collection centers in their network of which three are brand new and the rest were already supplying to others.

### **JHAPA DAIRY COOPERATIVE IMPROVES AFTER PARTNERING WITH KDDC**



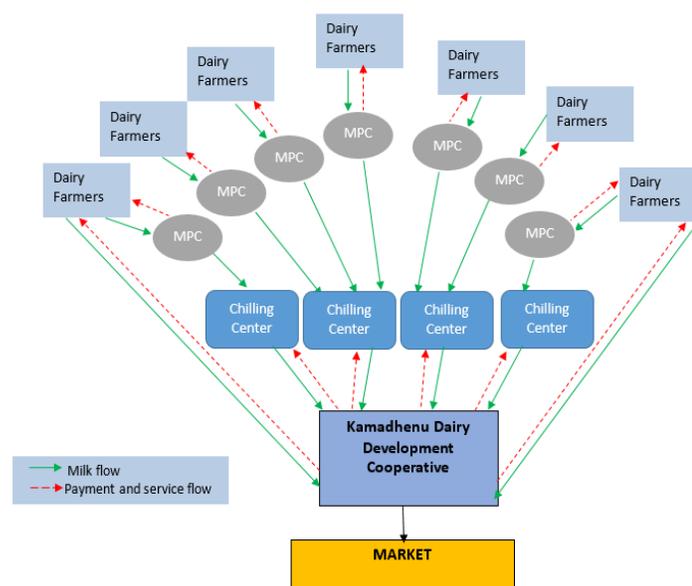
Jhapa dairy cooperative is one of these new collection centers in Jhapa district. In August 2014, Kamadhenu partnered with this cooperative for the collection of additional milk. There are around 150 smallholders owning 3 or fewer productive cattle or/and buffalo.

After partnering with Kamadhenu, milk collection in this cooperative has been more systematic. Kamadhenu provided a loan to the cooperative to buy a milk analyzer worth NPR 142,000 at 6% interest - which is much below the rate a farmers cooperative can access from any formal financial institution - to be deducted from the monthly sales of milk for up to three years. This analyzer enables the cooperative to monitor the quality of milk; make payment based on the quality; and provide advice on quality improvement. to provide advice to farmers as to how to improve it.

## Impact on smallholder incomes

To enhance productivity and build loyalty, KDDC also brings manufactured feed to the farmers from Damak while coming to collect milk. This has not only reduced the farmer's travel cost to Damak - a market 10 km away from the village - but also reduced the price they have to pay for feed by NPR 50 per sack. To strengthen better relationships with its farmers, it is also providing services like free vaccination programs, free training programs, loan programs with low interest rates, and funds for shed improvements to its regular suppliers.

Due to the increased demand for its diversified products, KDDC has expanded its supplier network and has reached about 5,400 farmers. After becoming suppliers to KDDC, farmers have significantly increased their income: NPR 8,500 each through increased quality-based prices of NPR 4/l. With increasing demand of milk for production of diversified dairy products, KDDC is in a position to consistently collect milk in both seasons. The KDDC model is well represented in the figure on the right, where services are mainly channeled through milk producers' cooperatives (MPC).



## What Next?

KDDC has been implementing strategies suggested by the consulting firms. Samarth is now stepping back and monitoring their progress. Meanwhile, Samarth is perusing opportunities to work with other large dairy processor of national scale with the marketing capacity to undertake outsourced product diversification and marketing of diversified dairy products. The programme will link the local level processors with national level processors to undertake outsourced product diversification. As a scale up strategy, Samarth is supporting a number of business advisory service providers to take the lead on developing, trialing and learning from provision of consulting services to these companies.

## About Samarth-NMDP

Samarth-NMDP is a five year UK aid-funded program that aims to reduce poverty in Nepal by increasing the income of smallholder farmers and small-scale entrepreneurs. 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 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).*