

— Eco-Innovation success story from Sri Lanka —

## ‘Production to partnership’ – why grassroots success means better business for Sri Lankan dairy

**When Sri Lanka’s Rasoda Dairies took on eco-innovation, it focused on the quality, sustainability and productivity of its dairy business. In a short space of time, the results in grassroots farming, the supply chain and on the factory floor were startling. This is how the company made eco-innovation a success.**



Nestled in Sri Lanka’s north-western district near the town of Kurunegala, Rasoda Dairies Ltd. is a company with a story to tell. The business itself has humble beginnings, starting back in 1998 as a small-scale family enterprise specialising in manufacturing and distributing dairy products – albeit with very few small suppliers. It wasn’t until 2011 that the enterprise formed a well-equipped limited liability company with the means to make products such as ice cream, yoghurt and jelly yoghurt.

As it happens, the dairy business in Sri Lanka is as challenging as it is promising for producers, all eager to meet growing demand. According to the country’s Chamber of Commerce, Sri Lanka imports around 70 per cent of its dairy needs – something of a strain on the country’s foreign exchange reserves. But the big potential for growth for local

producers is hampered by a lack of technology, low productivity by the dairy farmers themselves, and insufficient knowledge about how the dairy industry works.

Since it upgraded its facilities, Rasoda Dairies has seen first-hand how on-the-ground conditions and a very conventional business model were stifling the company's growth.

Rasoda was sourcing farmers' milk through milk collectors, producing its products at the factory and selling through distributors. But in Kurunegala District, the average daily yield from a single cow is typically two litres of milk. In Europe, in 2015, it was 19 litres. Moreover, Rasoda's suppliers were scattered and located at great distances from the factory, adding to fuel and transport costs. Add to that the waste which the company was generating because of inefficient use of water, energy and materials, and economic conditions were taking their toll on the business and its sustainability.

This is where the Eco-innovation Project came in – and the company's use of “hotspot analysis”. As the key approach used by eco-innovative companies looking to reduce their economic and environmental burdens, this targeted business evaluation would turn things around for Rasoda Dairies – by looking at problematic “hotspots” which were blocking progress.

“The project analysed the whole value chain of the company to identify key issues which act as a bottleneck for company growth,” says Daminda Perera, the company's managing director. “We identified farmer development as the most critical aspect.”

Rasoda found that big changes were needed to switch the company's focus from a “production orientation to partnership orientation”. The company says that this was all about expanding its focus from the factory to the whole of the value chain.

This especially meant improving the quality and quantity of raw milk sourced from farmers, as well as reducing waste before and during transportation. According to the company, some 60 per cent of raw milk was wasted between the milking of cows and its delivery to the Rasoda Dairies factory. But with improvements to dairy farm practices, waste has decreased to 20 per cent.



The company's eco-innovative approach also means a focus on grassroots initiatives such as education. In improving farmers' knowledge of dairy processes through educational programmes and partnerships, both the quality and quantity of milk has increased.

"Farmers are benefitting from increased income and milk yield," says Perera. "But the company too, especially as we increased our profitability through sourcing high quality milk."

The company says that although it enjoyed milk yields above the national average from its suppliers, educational programmes were still able to increase average daily yields from eight litres to 11 litres per cow.

On the ground, farming communities have seen the difference – in both economic and social terms.

"We were engaged in dairy farming since the 1980s, but in a conventional way," says Ms Dias, a Kurunegala dairy farmer. "But recently we joined the educational programmes conducted by Rasoda. We gained huge experience through those programmes, and as a result we are doing our dairy farming with maximum knowledge on the subject – which has helped us increase our milk yield."

"We never did accounting for our dairy sales," adds Ms Dias, "but with this training we now keep accounts and we understand our performance now"

And the partnerships haven't stopped there for Rasoda Dairies. The business has also entered into agreements with stakeholders along the value chain. Now research students from a local university conduct R&D activities to improve productivity at the factory level, and the company is also entering partnerships with cooperative societies, enabling Rasoda to access a wider range of supplier farmers.

Back in the factory, Rasoda Dairies is reporting reduced daily water consumption because of its resource efficiency efforts; from three litres of water used for one litre of milk, down to half that. As for energy use, the company has installed a more efficient biomass boiler which has replaced an older, inefficient model.

But even in the face of wholesale improvements, Rasoda is finding challenges. Plans for a new solar panel installation to give the factory the energy it needs are only in the first phase of implementation. The company says that the USD 135,000 price tag has put off lenders. In Sri Lanka, low interest bank loans for sustainable investment initiatives are still rarely available.

However, Rasoda maintains the results of its eco-innovation drive have been hugely positive for the company, and for the surrounding communities of dairy farmers.

“Dairy farming, being a dying industry, is now energised through such projects,” argues Rasoda’s Perera. And with the company’s educational programmes capturing the imaginations of younger people, interest in the dairy farming industry has received a boost.

At grassroots level, the emphasis on partnership above production has opened the door to better practices by farmers, better productivity for Rasoda, and better, more sustainable business for all.

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