

Learning & Policy Series

In Profit and Out of Poverty: The Business Case for Engaging with Poor Farmers in Bangladesh's Dairy Sector



Key points

Evidence from the Bangladesh dairy sector demonstrates that strategically sourcing from and selling to low-income farmers helped businesses sustain reliable supply chains, enhance market opportunity, and ultimately increase profits.

Do Companies Derive Benefits from Working with the Poor?

CARE's experience of working with the dairy sector in Bangladesh shows the answer is yes. The programme has brought substantial benefits to major milk-producing companies as well as smallholder farmers. In some cases farmers saw a 78 per cent increase in production and a 31 per cent increase in profit while companies PRAN and Tetrapak built farmer loyalty and increased their supply of high-quality milk. Selected processing plants also increased their capacity by 43 per cent.

This paper describes how CARE facilitated the interaction of multiple actors across the dairy value chain to achieve these results. It outlines

the benefits for private sector actors considering taking a proactive approach to investing in and working with the poor.

The Issue:

The dairy value chain in Bangladesh is weak, informal and fragmented. Small-scale farmers produce 90 per cent of the country's milk supply, but, due to lack of quality feed and veterinary care, quality and quantity of milk production per cow remains low. In addition, opaque and inefficient milk collection and sales systems prevent farmers from benefiting from formal markets. Together, these factors contribute to farmers' continuing poverty and an average national

Improving dairy intake is crucial to fighting malnutrition in Bangladesh.



dairy consumption of only 20 per cent of World Health Organisation recommended levels. At the same time, most milk remains in the informal sector. **Formal dairy processors and brands have access to less than 10 per cent of milk produced** in Bangladesh, reducing their opportunity to capitalise on growing urban demand for milk and yogurt and leaving them with substantial unutilised processing capacity. However, CARE found that by improving access to key inputs for small-scale farmers and consolidating their links with medium and large-scale processors and retailers, the value chain as a whole could be strengthened.

Through CARE's Strengthening the Dairy Value Chain (SDVC) programme, different actors across the value chain, from milk collectors to milk processors and brands, realised a number of notable business opportunities. These business benefits corresponded with equal gains for small, often landless dairy farmers, some 80 per cent of whom are women.

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Gains for Business:

Increased revenues from increased milk deliveries of up to 500 per cent in pilot areas with overall increase in milk availability of 43 per cent.

Reduced distribution costs.

Increased trust, transparency, and capacity in supply and distribution chains.

Competitive advantage in accessing high-quality supplies.

Reduced risk and uncertainty.

Gains for Farmers and the Community:

Nutritional gains resulting from increased dairy consumption.

Income growth of up to 100 per cent.

Increased participation of women in traditionally male-dominated employment.

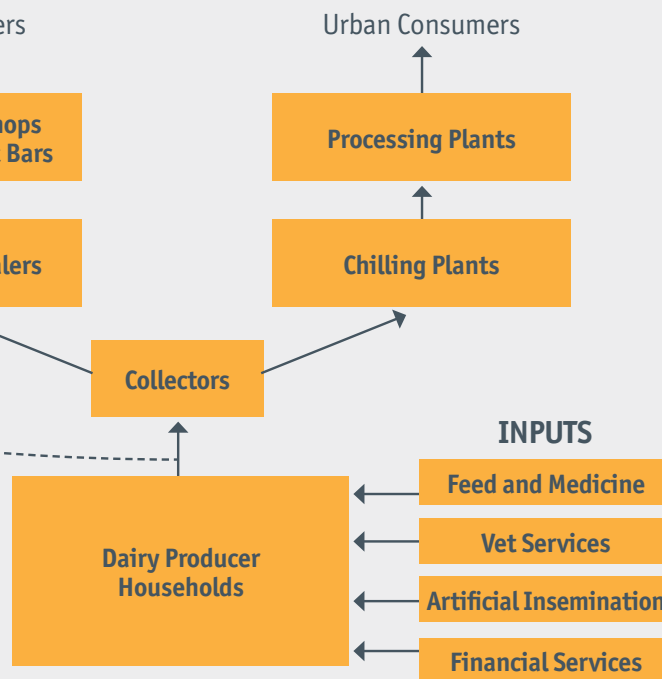
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INFORMAL/LOCAL MARKET



FORMAL VALUE CHAIN



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Strengthening the Dairy Value Chain

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In the Bangladeshi dairy value chain, milk collectors combine milk from multiple households, after which they either sell it to chilling and processing companies in the formal sector or to a variety of informal enterprises such as local consumers or sweet and tea shops.

The Challenge:

Nutritious feed, veterinary services, and access to markets are all prerequisites for sustaining the dairy value chain. However, currently farmers have insufficient access to inputs such as quality feed, cannot afford veterinary services, suffer from a lack of transparency in how middlemen determine the quality and value of their milk, and have little access to the formal sector. This results in an **unreliable supply chain for processors and retailers and limited opportunity for business growth** – despite growing demand for dairy products from urban consumers, processors often operate under-capacity due to milk shortages.

CARE's Response:

With the support of the Bill and Melinda Gates Foundation, CARE facilitated interactions between suppliers, service providers, and farmers, as well as small and large-scale dairy companies, in order to increase milk production and address

weaknesses in the value chain. Through the programme, companies were able to better meet growing demand for dairy products while also helping to double the dairy-related incomes for 36,400 resource-poor smallholder and landless farming households.

Key CARE Interventions:

Increasing production capacity by determining the optimum balance of feed and services:

PRAN and **TetraPak** are two of the leading dairy processors and packagers in Bangladesh. CARE worked with PRAN and TetraPak to determine the optimal feed balance for farmers. Farmers benefited from a 78 per cent increase in production and a 31 per cent increase in profit while PRAN and TetraPak built farmer loyalty and increased their supply of high-quality milk. In the pilot region, **deliveries to processing plants previously working under full capacity increased by 43 per cent.**

An unreliable supply chain means limited opportunity for growth.

CARE's dairy input shops serve over 70,000 producers and enable local service and farm goods companies such as Acme, Square, Renata and Fatima Feed to expand their reach to an untapped rural market.

Establishing "dairy hubs" to facilitate access to high-quality inputs:

After establishing the goods and services that are best tailored to the needs of small-scale farmers, CARE established a series of "dairy hubs", a micro-franchise specifically for dairy farmers where they can purchase high-quality inputs. There are now **150 new dairy input shops** that serve well over 70,000 producers and enable local service and farm goods companies such as **ACME, Square, Renata and Fatima Feed** to expand their reach to an untapped rural market of 500,000 potential clients.

Companies which benefited from improvement to the dairy value chain:

PRAN	TetraPak
BRAC Dairy	ACME
Square	Renata
Fatima Feed	Feed shops
Milk collectors	Local milk bars

Making markets more transparent and efficient:

Working with **BRAC Dairy**, the second largest milk processor in Bangladesh, CARE's programme has piloted digital fat testing initiatives at community milk collection points and chilling plants. The percentage of fat in milk is a sign of quality and determines the price farmers receive, but without any independent means of verifying the fat content farmers have no incentive to invest in improvements. Introducing digital fat testing at scale for the first time in Bangladesh ensured fair remuneration for dairy producers and a consistent supply of high-quality milk to chilling plants. Initial results have **improved milk quality by more than 30 per cent** while individual farmer incomes have seen improvements of up to 60 per cent.

How has Engagement in Pro-poor Value Chains Benefited Businesses?

Companies sourcing from poor producers, companies selling to poor consumers, and companies demonstrating impact on poverty reduction all benefited from their roles in strengthening the dairy value chain.



Business Benefits for Companies Sourcing from Poor Producers

Growth	By linking the smallholder farmers to dairy processing companies, CARE increased milk delivered to private sector partners by up to 500 per cent in the pilot areas of the PRAN and TetraPak partnership.
Improved Quality	The milk value chain is vulnerable to contamination as a result of middlemen adding water or chemicals to milk to increase apparent volume. CARE trained farmers and milk collectors in hygienic milk-handling practices and assisted farmer groups in selecting their own collector, removing any incentives to contaminate the milk. Since CARE's intervention, spoilage of milk by trained collectors has been reduced to zero. Companies that source their milk through a value chain enhanced by CARE benefited from receiving higher quality inputs and reduced exposure to food safety liabilities.
Reduced Costs	CARE helped farmers organise themselves into dairy producer groups and aggregate their milk before selling it to processing companies. Fewer, high-volume transactions for companies reduce the costs and complexities of procurement. CARE supported the establishment of 1,100 such producer groups representing over 36,400 producers, 83 per cent of whom are women.
Reduced Risk and Uncertainty	Milk-processing companies that have been receiving milk from CARE farmers have reported greater stability in delivery of milk throughout the year. This reliability is especially important during the lean milk-producing seasons, when companies often work under-capacity.
Transparency	The transparency of transactions and associated opportunities for corruption is a problem across the dairy value chain. CARE worked with a major dairy processing company to pilot the use of digital fat testing meters in the value chain. The resulting increase in transparency led to a rise in the price of milk paid to farmers, increasing farmer loyalty and incentives to sell high-quality milk. The innovation also improved the quality of milk flowing into the processing company by 20 per cent.

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Strengthening the dairy value chain increased demand for feed and other inputs.

Benefits for Companies Selling to Poor Consumers

Aggregation of Demand	CARE trained farmers in animal husbandry practices, including the benefits of proper animal health care and feeding. With greater knowledge and incomes, demand for quality feed and medicines increased, allowing rural distribution networks to reach the tipping point of financial profitability .
Reduced Distribution Costs	No single company could afford a distribution network that would reach the entire rural countryside. However, by bringing several companies together to share a single “dairy hub” distribution network, costs for individual companies were reduced and isolated smallholder farmers received greater access to inputs at affordable prices.
Product and Service Innovation	Very poor farmers often represent a new customer demographic for lead firms. Through CARE’s brokering efforts, companies were able to gather direct feedback on product and service design to meet the particular needs and constraints of low-income consumers. For example, feed companies now sell higher volumes of feed packaged in 2kg bags rather than in the more traditional 40kg size.

Due to value chain work with CARE, companies were able to leverage \$7 million in capital.

Business Benefits for Companies Demonstrating Poverty Reduction Impact

Access to Resources	The International Finance Corporation and regional multilateral development banks provide over \$100 billion in loans to companies that demonstrate how they alleviate poverty and promote sustainable development. After working with CARE and partner company TetraPak, PRAN Dairy was able to secure a \$7 million loan from the International Finance Corporation to expand its operations, reaching further into rural areas.
Social Legitimacy	CARE’s value chain approach helps companies contribute to the livelihoods of the poor in ways that are consistent with commercial growth, improving consumers’ perception of the companies .



Companies need to analyse and build on their shared interests with small-scale producers.

Conclusions and Recommendations:

Companies can profit significantly from a pro-poor approach to business. From higher revenues and lower costs to product innovation to more reliable supply chains, there are tangible benefits for companies that look to source from and sell to low-income people. **This is not a matter of philanthropy, it is simply good business.** To accomplish this, businesses should:

- analyse and build on their shared interests (for example, efficient and transparent sourcing) with small-scale producers and micro-enterprises through inclusive product development, procurement and sales practices;
- seize on opportunities to link with value chain facilitators such as CARE or other atypical private sector actors such as social enterprises to multiply impact; and
- articulate, adopt and share leading practices on value chains, recognising that systematic change requires long-term commitment and vision.

About CARE International

CARE International is one of the world's leading aid agencies. In the last year, we worked in 84 countries, supporting 1,015 poverty-fighting projects that reached more than 122 million people. CARE believes business has a critical role to play in the fight against poverty. To learn more about CARE's partnerships with business visit <http://www.careinternational.org.uk/what-we-do/working-with-business>

Value chain development is not a matter of philanthropy, it is simply a matter of good business.

Credits:

Strengthening Dairy Value Chains was carried out by CARE in Bangladesh with funding from the Bill and Melinda Gates Foundation. This briefing is a summary of *Private Sector Engagement and Inclusive Value Chain Development: A Study of Strengthening the Dairy Value Chain Development in Bangladesh* by Kevin McKague of York University's Schulich School of Business.

CARE International works in 84 countries in Africa, Asia, Latin America, the Middle East and Eastern Europe.

We are a multi-mandate organisation operating across the spectrum of humanitarian and development contexts in association with a range of partners from civil society, the private sector and governmental agencies.

CARE International UK operates as one of the members of the CARE International confederation to promote quality programming through country offices as well as influencing policy and raising awareness about our work in the South and the North.

The Learning and Policy Series is intended as a complementary means to fulfilling our lasting commitment to finding durable ways of tackling the underlying causes of poverty, vulnerability and injustice.

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