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### **Current status of dairy farming by small holders: A case study from the Coconut Triangle**

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Dairy products have become an increasingly important component of the diet of Sri Lankans over the recent past. As a large share of dairy products consumed in the country is imported, concerns are often raised on the escalating expenditure on imports and on the dependency on foreign sources. Programs on promoting small scale dairy production to replace imports and to boost farm household incomes are becoming a central focus in the policy making arena. Yet, detailed studies on the economics of production of this vital sector are lacking. It is therefore important to understand how resources are allocated by smallholders on dairy production and their economic implications to the larger economy.

The objectives of this research were to a) to understand the resource utilization pattern of smallholder dairy producers, b) to use farm budgets to calculate profitability indicators of the industry, and c) to draw insights into the future potential of the industry in promoting food security and household incomes.

This study was conducted in Polgahawela veterinary service area, a representative location of Coconut Triangle dairy producers. Details on input use pattern and output disposal of 60 smallholder dairy producers were collected during August-October 2012 using a structured survey schedule. Respondents were selected randomly using lists obtained from milk collection centers. Data were analyzed to understand the patterns of input use. Farm budgets were computed.

The average herd size is four animals but only about a third of the total animal population in the study area is in the lactating stage. Families on average use about three hours per day in activities related to dairy farming. Free-range grazing is practiced by 87% of farmers. Farm budgets indicate that net revenue from production of one liter of milk is SLR 34.72. Although net profit is recorded as negative, farm families on average receive SLR 11,000 per month as net revenue from dairy farming. Based on the results, it can be concluded that smallholder dairy farming is principally an activity using family and community resources that are otherwise unemployed in other productive activities. Productivity of the sector can be increased through understanding the social and economic characteristics of the communities and by providing appropriate solutions.