

INCLUSIVE DAIRY BUSINESS PRACTICES

Case Studies from Kenya and Uganda

The dairy sector in East Africa can reach sustainable growth through the adoption of inclusive business models (Makoni et al., 2014)

These case studies present examples of the best inclusive business practices of dairy Producer Organisations (POs) that result in the inclusion of smallholders, women and youth. The POs engage in milk collection, chilling, bulking, marketing and in some cases processing activities. The quality of inclusiveness for smallholders, women and youth is assessed along various dimensions of the business model from selected POs in Kenya and Uganda. The best inclusive practices, often supported by Dutch dairy development programmes, are identified for the following principles that guide inclusive business model (IBM) development (CIAT, 2012):

- Chain wide collaboration
- Fair and transparent governance
- Effective market linkages
- Equitable access to services
- Inclusive innovation



Women and youth inclusion and inclusive services are driving forces of Mumberes' business development



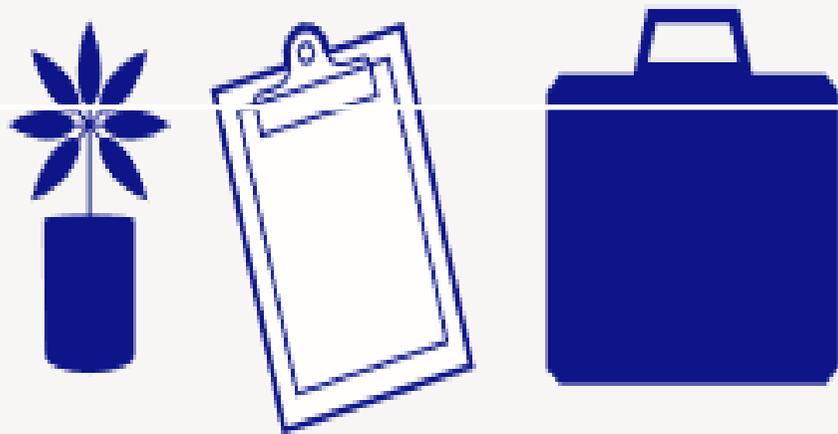
Key organizational data

Name	Mumberes Farmers' Cooperative Society Ltd
Location	Kenya, Baringo county, Koibatek district
Year established	1982
No of members	4,000
Smallholders	90%
Women	50%, 2 board members, manager
Youth	60%, youth council, youth extension officer
No of daily suppliers	2,800
Daily milk collection (litres)	15,000L
Business model	Producer organization with small scale value addition



Women and youth inclusion

Mumberes promotes member equality with specific attention for the inclusion of women and youth. This is reflected in the cooperation through the gender mixed board, female manager and three youths in the board that are part of the youth council. The women and youth initiatives attracted new members of these groups. For instance, the cooperative recently introduced the concept of allocating afternoon milk supplies to the wife, which allows them to receive payments and manage the income. Women and youth lead farmers act as role models and youth are employed as extension officers or service providers in silage making.



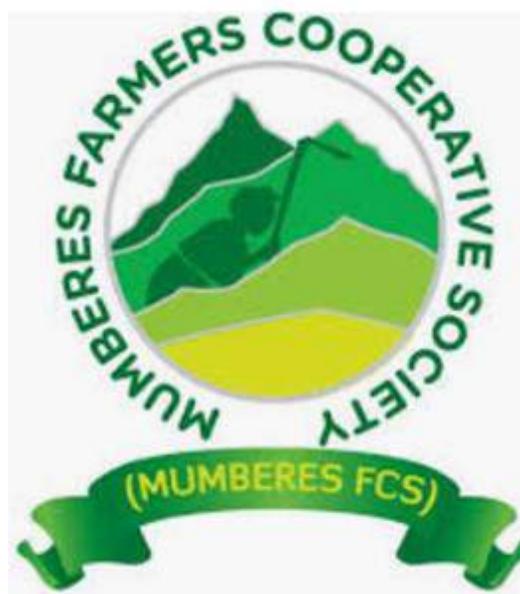
Inclusive services

Mumberes focuses on providing a wide range of services on check-off to members through two input shops. The offered services are decided based on farmer demand and research developments. Milk collection services enabled the PO to establish a strong local network and presence to attract more milk supplies and reduce side selling. Through the improved accessibility of services, mainly inputs and extension services, members introduced new practices increasing income. Despite the fact that sufficient stock and on-time delivery are the main challenges, farmers in general perceive the services as good, accessible and affordable.

Achievements, challenges and support interventions:

Mumberes performs well on women and youth inclusion and delivering accessible services. The internal organization and inclusive values at the PO level are relatively strong, resulting in promising initiatives that lead to inclusiveness. The establishment of stable relationships with input providers and formalization of agreements through contracts for three months contributed to better service delivery. The check-off system is an important payment facility to solve cash liquidity problems of members. Management skills, working capital, internal controls, IT innovations and customer care are the key ingredients to further improve the inclusive service delivery of the PO.

Mumberes received support from both SNV and Agriterra. The SNV trainings on milk production and farm management for smallholders contributed to improved practices and use of inputs to increase production, milk quality and animal health. The results with respect to women and youth involvement are supported by awareness creation activities and trainings on inclusiveness of Agriterra. The establishment of the youth council was a result of an exchange visit to the Netherlands for the board of Mumberes.

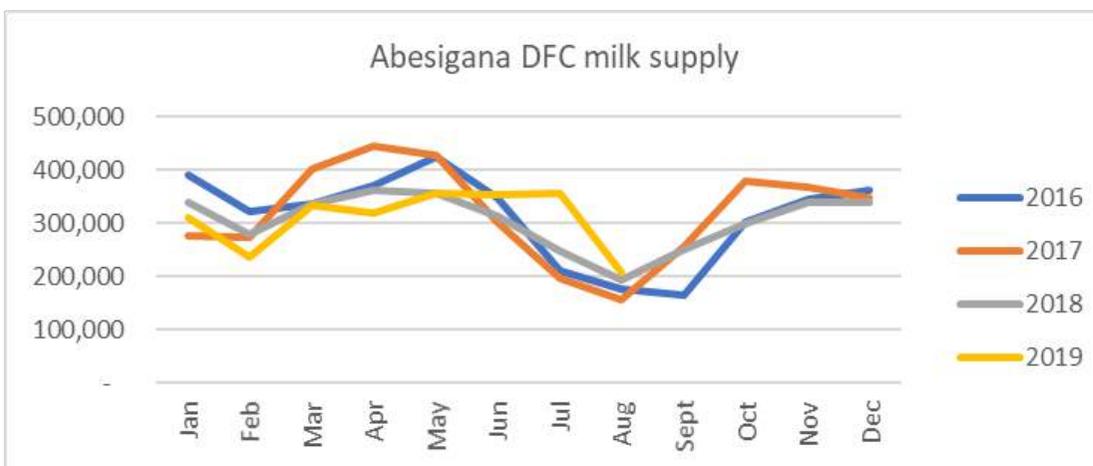


Scaling potential:

As the services attract new members, future sustainability and expansion of service delivery demands timely intervention and support on business development. Financial viable input shops, strong collaboration with input providers and effective service delivery processes are practices that can be scaled if well-designed.

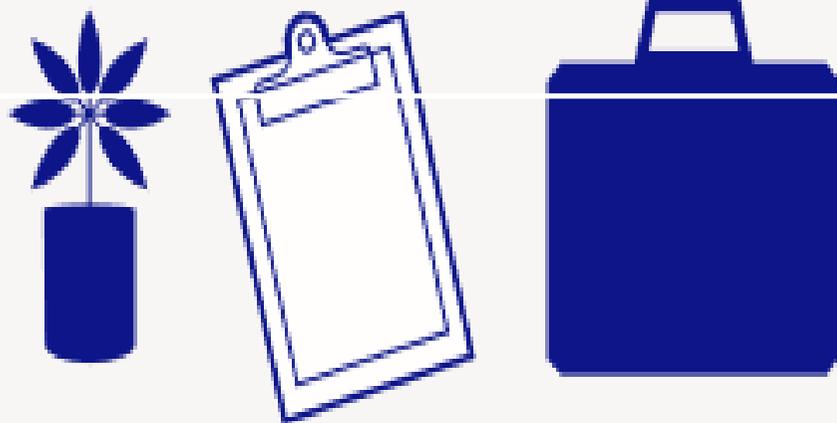
The support interventions targeting women and youth inclusion are very effective in promoting membership, leadership and economic independence of these groups and should be scaled. Also, the promotion of role models among women and youth is a good practice that can be replicated.

Inclusive services and effective market linkages stabilize and increase Abesigana's milk supply



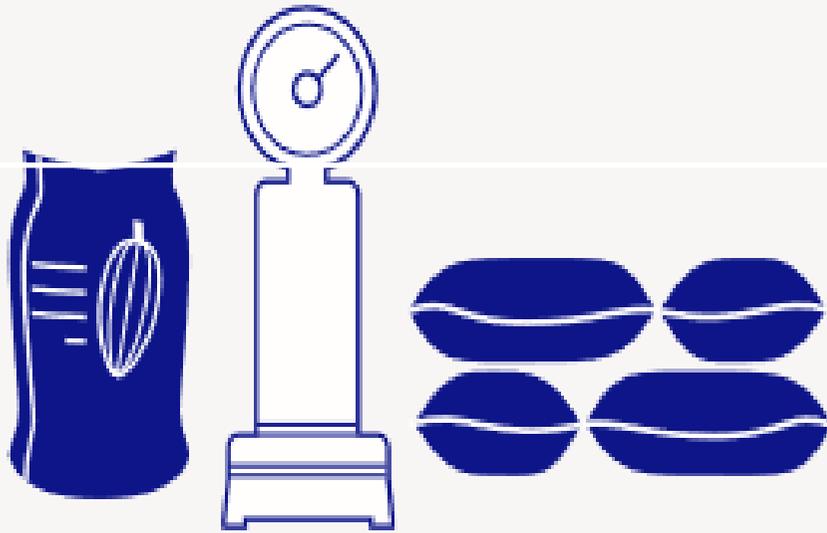
Key organizational data

Name	Abesigana Kashari Dairy Farmers Cooperative Society
Location	Uganda, Mbarara
Year established	1992
No of members	164
Smallholders	66%
Women	13%, 2 board members, manager
Youth	25%, youth council, youth extension officer
No of daily suppliers	131
Daily milk collection (litres)	9,000-13,500L
Business model	Producer organization with small scale value addition



Inclusive services

Abesigana provides a diverse range of services with equal access for actively supplying members. This has resulted in a 'one stop services shop' offering extension services (skills and knowledge transfer); supply of inputs; credit and loan facilities; access to affordable energy; and machinery rental services. Social services are offered free of cost. In addition, there are 'services' including specific target groups such as hiring youth as extension officers, engaging women in yoghurt making and involving youth in collection services. Abesigana established a SACCO to ease the access to finance for members by providing credit and saving services.



Effective market linkages

Abesigana succeeded in stabilizing and gradually increasing milk supplies. This remarkable achievement is the result of better member productivity through improved services, including knowledge, and payment of a relatively high milk price. The PO creates a reliable market linkage for members that is more easily accessible through an extensive milk transportation and collection network. The cooperative sells the milk to various buyers such as processors, schools and the local market being composed of window sales at the PO and the PO's selling point in Mbarara town. The local market is attractive as a source of direct access to cash.

Achievements, challenges and support interventions:

Members appreciate the services provided by Abesigana, because they are cheaper and readily available compared to other service providers. Especially, advance payments, drugs and loans are considered most important but Abesigana is unable to meet the full demand due to the limited financial capital. There is a need for growth of the financial portfolio to further expand the service delivery and marketing activities of the PO which is supported by the trainings of Agriterria on financial management and internal capitalisation. With the support of TIDE, Abesigana has been able to access a wider network of industry players which support their operations. The PO has a strong linkage with agro-input providers. Typically, Abesigana negotiates better conditions for members in terms of prices and credit facilities. The total services package is probably the secret behind the strong member loyalty and stable milk supplies. Though the market linkages are relatively stable, the milk quantities demanded by especially processors are subject to price and quality and could be more formalized. TIDE supported on milk quality improvement initiatives and employment of an extension officer to address the quality challenges.



Scaling potential:

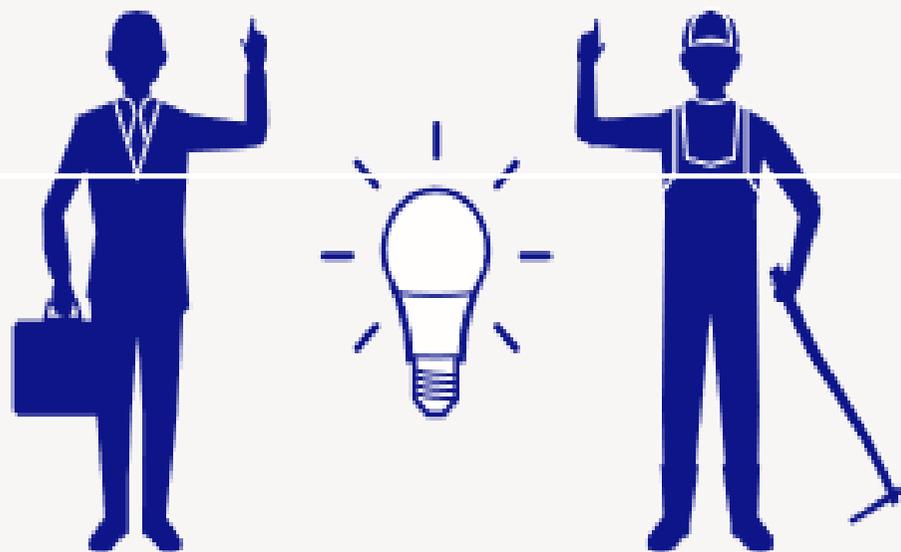
Abesigana is a good example of an PO integrating inclusive practices within the business model. The clear business focus, while involving specific target groups and providing a wide range of affordable services is a successful approach. Best practices for scaling are investments in: women and youth inclusion; 'one stop services shop' for members to access inputs, extension and credit services; a guaranteed market channel for members and negotiation of better milk prices from buyers; quality improvements for higher profitability. The holistic TIDE approach, improving the relation between farmer, PO and the market is very successful.

Inclusive processing innovation results in better milk prices for member cooperatives of Meru union



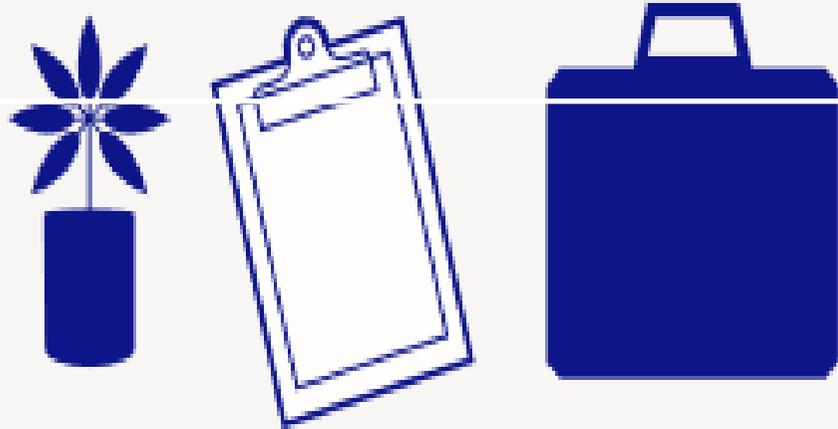
Key organizational data

Name	Meru Central Dairy Farmers Cooperative Union Ltd
Location	Kenya, Meru county
Year established	1979
No of members	80,000 through 53 registered POs
Smallholders	
Women	43%
Youth	
No of daily suppliers	5,400
Daily milk collection (litres)	220,000L
Business model	Producer organization led processor



Inclusive innovation

The processing activity of Meru union is a good example of an inclusive innovation. The value addition creates the opportunity to target a wider market segment of higher value products. The higher profit margin and price stability of these products enables the union to offer a better milk price to member cooperatives and their farmers. In principle, the profits from the processing facility are also shared with the member POs and their farmers through dividends. Therefore, Meru union offers an alternative and more profitable market linkage to POs com-



Inclusive services

Meru union supports member POs by organizing services. These include: artificial insemination (AI), vet doctor, employment of extension officers assigned to selected member POs, organization of field days, milk collection and transportation services and bookkeeping, auditing and management support. This contributed to realizing more stable milk supplies, that on average equal around 90% of the milk volume from POs. As Meru union became one of the biggest dairy processors in Kenya, with currently 53 member POs, the key challenge is to expand the service delivery to make them accessible to all while further improving the quality.

Achievements, challenges and support interventions:

Member POs experience three main benefits from delivering milk to Meru union: i) better price offer compared to other processors, ii) confidence and certainty about payments and iii) profit share through dividends. SNV has worked with Meru union for a long time. SNV tried to strengthen the connection between Meru and the members. The involvement and service provision of the union improved for instance by promoting the employment of extension workers that were assigned to the POs. Through the technical trainings of SNV, including the support to extension officers, farmers received access to knowledge on improved dairy practices. Extension officers are expected to report monthly to the union. However, monitoring and evaluation is limited and complicated due to the fact that Meru union employs them while they are stationed at a cooperative. Also, there are challenges due to high staff turnover and the absence of ongoing capacity building of the extension officers. Agriterra has helped Meru union with business development and the marketing of their products, through this Meru union has been able to sell more products for a better price.



Scaling potential:

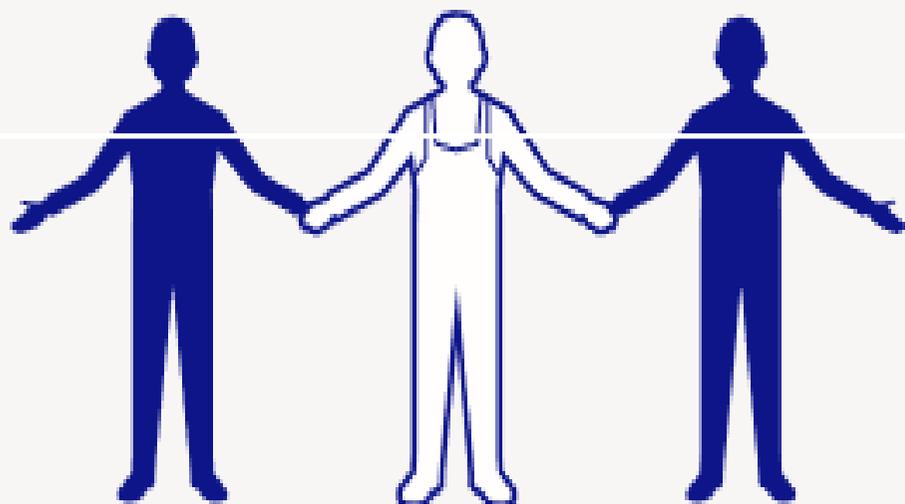
Meru union is a good example of starting a processing facility as inclusive innovation to create better prices and market alternatives for farmers and their POs. However, investments in processing are risky and demand careful development of a business plan and feasibility studies. Moreover, PO inclusion should be safeguarded by decision making processes when the processor becomes more powerful. Also, the investment of processors in extension officers and other services to improve the milk quality and quantity of producers is a promising inclusive practice that can be replicated if supported by strong management and evaluation.

Chain wide collaboration and milk quality improvements for higher member productivity in Kyakabunga



Key organizational data

Name	Kyakabunga Dairy Farmers' Cooperative Society Limited
Location	Uganda, Kiruhura district
Year established	2014
No of members	261
Smallholders	59%
Women	15%
Youth	29%
No of daily suppliers	251
Daily milk collection (litres)	7,000-8,000L
Business model	Producer organization



Chain wide collaboration

Kyakabunga collaborates with diverse input and service providers, processors as well as partners since 2014. The established linkages with various input and service providers helped the PO to access needed products and services for their members. This has enabled members to access long term loans from SACCOS at low interest rates, fuel from Don Petrol and solar power from Solar Now. Furthermore, strong collaboration with Pearl Dairy Limited, SNV and other partners enabled piloting a quality based milk payment system (QBMPs). The chain wide collaboration with input and service providers and buyers resulted in win-win business relationships.



Fair and transparent governance

Fair and transparent governance is mainly about clear quality standards and the commitment to buy and sell quality milk volumes. Kyakabunga has piloted and implemented a QBMPS. This was successful in terms of improving milk quality and volume: farmers adopted improved dairy production and management systems to supply milk that meets approved quality standards. Kyakabunga sells part of the quality milk to a local buyer who pays a premium for the quality and offers a direct payment. This shows QBMPS has potential to increase profitability if stable markets that reward quality milk and are able to absorb the supply volumes can be found.

Achievements, challenges and support interventions:

Through TIDE, Kyakabunga received cooperative development trainings and technical trainings including a range of subsidised services and links to inputs for innovation. Also, the introduction of a QBMPS was an important intervention for milk productivity and quality improvement.

However, a major problem of the QBMPS that remains is that farmers are yet to reap the full benefits that come with delivering quality milk to the PO. The major buyer currently pays for volume but not for quality. If the PO receives a premium for quality milk, and also ensures that part of the premium goes to the producers, this will enhance the cooperative business and stimulate farmers to continue delivering quality milk to the cooperative.

The strong linkage with key actors is creating an enabling environment to serve members with important services which strengthens member loyalty.

Kyakabunga acknowledges the positive return on investment of these efforts, including the facilitation of extension support, as the production improvements result in higher profits at PO level. Since 2018 an extension officer is employed, subsidised by TIDE which the PO aims to continue to employ afterwards.



Scaling potential:

Best inclusive practices for scaling, are that the PO facilitates linkages between service providers and members; negotiates a contract or MoU with favourable conditions; and manages the payment processes including credit facilities. The chain wide approach, as used by TIDE, supports this through discussions and interventions at multiple levels. Round tables and B2B platforms between chain actors help to identify shared goals and opportunities for collaboration. Specific support interventions focused on partnerships to work on milk quality and production improvement that has the potential to increase farmer and PO profitability.

Targeted interventions for women and smallholders, including services, lead to cooperative growth of Naari



Key organizational data

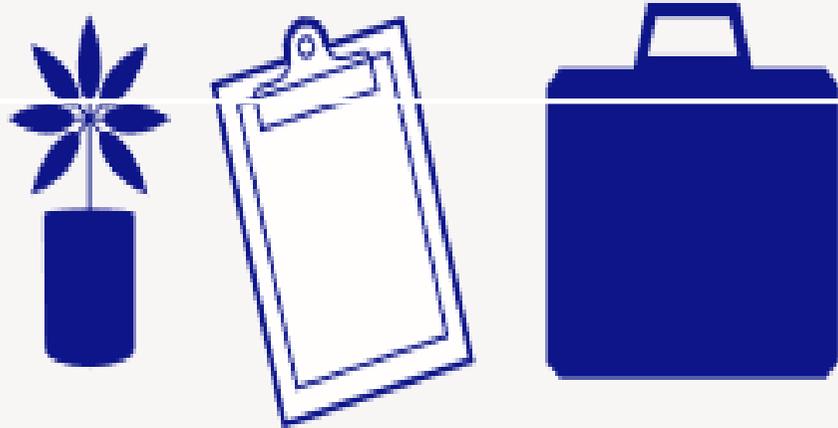
Name	Naari Dairy Farmers Co-operative Society Ltd
Location	Kenya, Meru county
Year established	2010
No of members	4,000
Smallholders	95%
Women	40%
Youth	60%
No of daily suppliers	1,800
Daily milk collection (litres)	6,800L
Business model	Producer organization



Women and youth inclusion

Naari has an equal representation and participation of smallholders, women and youth at membership, management and governance level. In 2016 the PO received the second-best gender equality price in the region. In general, women and youth feel included and respected and more women joined the PO. Some good examples that increased the involvement and inclusions of the target groups include:

- i) specific women and youth trainings;
- ii) loan priority for women and youth through revolving NGO fund;
- iii) technical and financial support for members supplying <5L per day;
- iv) access to machinery for youth groups to provide silage making services.



Inclusive services

Since the start, Naari invested in expanding their operations by acquiring equipment and improving the service provision to members. A wide range of services is available which active members can access on check-off. There is a vet shop with agro-inputs such as feed, supplements and consumer products. Naari is one of the few POs that employs a vet doctor and extension officer. The PO considers capacity building and knowledge improvements crucial interventions for production and income improvement. The PO has three youth groups that were trained on silage making to provide services to members. Also, Naari supports access to credit via advance payments and through the recently established SACCO.

Achievements, challenges and support interventions:

Naari is showing strong progress and vision to improve and expand the business. The needs of the farmers are the driving force to expand activities and improve services. Also, the attitude towards women and youth inclusion is progressive. Access to credit is one of the main challenges of members. The available capital of the PO is limited and difficult to attract externally without collateral. In order to ensure sufficient stock of inputs, the PO created strong relationships with suppliers that are in some cases willing to deliver on credit.

Naari established a SACCO in an attempt to address the finance challenge of members by offering loans. Currently, they are allowed to engage in loans but not in savings. In order to raise capital for the loans, the SACCO is selling shares. Without a license to offer saving services or access to external funding the amount for loan provision remains limited.

SNV provided technical trainings to Naari, including to the extension officer, to support smallholders. The impact of SNV's interventions were especially visible with respect to awareness creation on women inclusion and leadership and the provision of silage making training and equipment to establish youth groups.



Scaling potential:

The inclusion of smallholders, women and youth through the provision of tailored trainings; technical and financial support to increase milk volume production and reliable service provision are best practices that can be scaled.

The support interventions creating access to knowledge through technical trainings and subsidizing the access to equipment were successful to improve productivity and expand the range of services.

The challenge of access to finance for both producers and the PO deserves more attention, especially in supporting POs initiatives of providing loans and establishing a SACCO.

Inclusive business development: recommendations for dairy sector transformation

To meet the growing demand for milk and have a healthy and inclusive dairy sector, commercial smallholder farmers, including women and youth, should be sustainably embedded in the dairy sector as full-fledged actors.

1. Define explicit target groups and develop tailored approaches

Inclusive business development starts with awareness of the diversity among producers, that calls for specific practices and approaches to address the various needs and challenges for inclusion. Therefore, farmer segmentation should be applied in the development of support interventions for a tailored approach. Explicit definitions and strategies need to be formulated to more effectively include different farmer segments within the target groups of smallholders, women and youth. A one size fits all approach does not work.

2. Facilitate chain wide collaboration and engage other dairy food system partners

Chain wide support interventions are more effective to stimulate the development of inclusive dairy businesses which require collaboration among several actors. Dairy Cooperatives and unions are well placed to play a central networking role linking members with for instance service providers, at affordable prices Innovative pilots, experience sharing and formal partnerships should be stimulated to accelerate the transition of the sector.

3. Support the development of financially viable inclusive business models

The biggest challenge in developing sustainable inclusive business models is to ensure the financial viability. The costs and benefits of inclusive practices for both parties in the trading relationship (suppliers and buyers) should be properly assessed and shared. While external support interventions can financially contribute to kickstart initiatives the exit strategy should be considered from the start.

4. Stimulate impact measurement of IBMs in terms of income and livelihood improvement

The main objective of inclusiveness is to improve the income and livelihood of the identified target groups which should be properly measured to evaluate and further strengthen best inclusive business models.



References

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