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# **EXPANDING OPPORTUNITIES FOR POOR DAIRY FARMERS The Business Hub Approach**

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**BUSINESS SERVICES MARKET DEVELOPMENT PROJECT  
(BSMDP) – DFID / Danida Kenya**

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# Presentation Format

- Introduction
- Dairy Sub-Sector Background and Outlook
- The Business Hub Approach
  - Implementation
  - Highlight achievements
- Lessons Learnt and Challenges
- Replication and roll out

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# BSMDP Introduction

- Business Services Market Development Project, (BSMDP) DfID funded and more recently Danida funded Project based in Kenya, with a 5 year mandate to April 2008.
  
- BSMDP Goal
  - “to improve pro-poor economic growth opportunities in key sub sectors where the poor are economically active”
  - to stimulate development and delivery of sustainable services which support economic growth
  
- Sub-Sectors Selected
  - Dairy
  - Export Horticulture
  
- Implementation of projects is through partners (facilitators) selected through competitive tender / challenge fund approach

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# Kenyan Dairy Sub-Sector Outlook

- The Dairy Sector is Key in the Kenyan Economy especially important for poverty reduction strategies
  - Over 70% of milk production is from small holder farmers with an average of 1-4 dairy animals.
  - Major contributor to employment creation especially for the rural poor
- Current production estimated at 3.2 billion liters with only 1/3 entering the market
  - 20% formal market (cold milk chain) – through about 36 dairy processors (mainly 3 big PS processor, some co-operatives and medium to small processors)
  - 80% informal milk market (warm milk chain) – Characterised by door to door loose milk sales, and milk bars
- Main constraints being
  - Supply is typically bimodal dependant on two rainy season which cause significant price variation
  - Pricing of milk from the different value chains significant
  - Regulations – various regulatory institutions

# Kenyan Dairy Sub-Sector Snapshot



**Farmers-** 70% small-holder producers as Individual or groups



**Warm milk – Informal Milk chain 80%**

**Informal Sector** – Direct sales to consumers directly or via informal traders

**Cold Milk- Formal Milk Chain 20%**



**Bulking & Cooling Enterprise-** formal groups or co-ops



**Market** – Main processing companies selling to urban consumers

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# BSMDP Intervention Strategy

- Starting point – Dairy SSS (ECI 2001)
- Validation and prioritisation workshop with key industry stakeholders
  - “Efficient milk marketing and service provision”
- Implementation / Monitoring and evaluation
- Roll out / Scale up / Replication

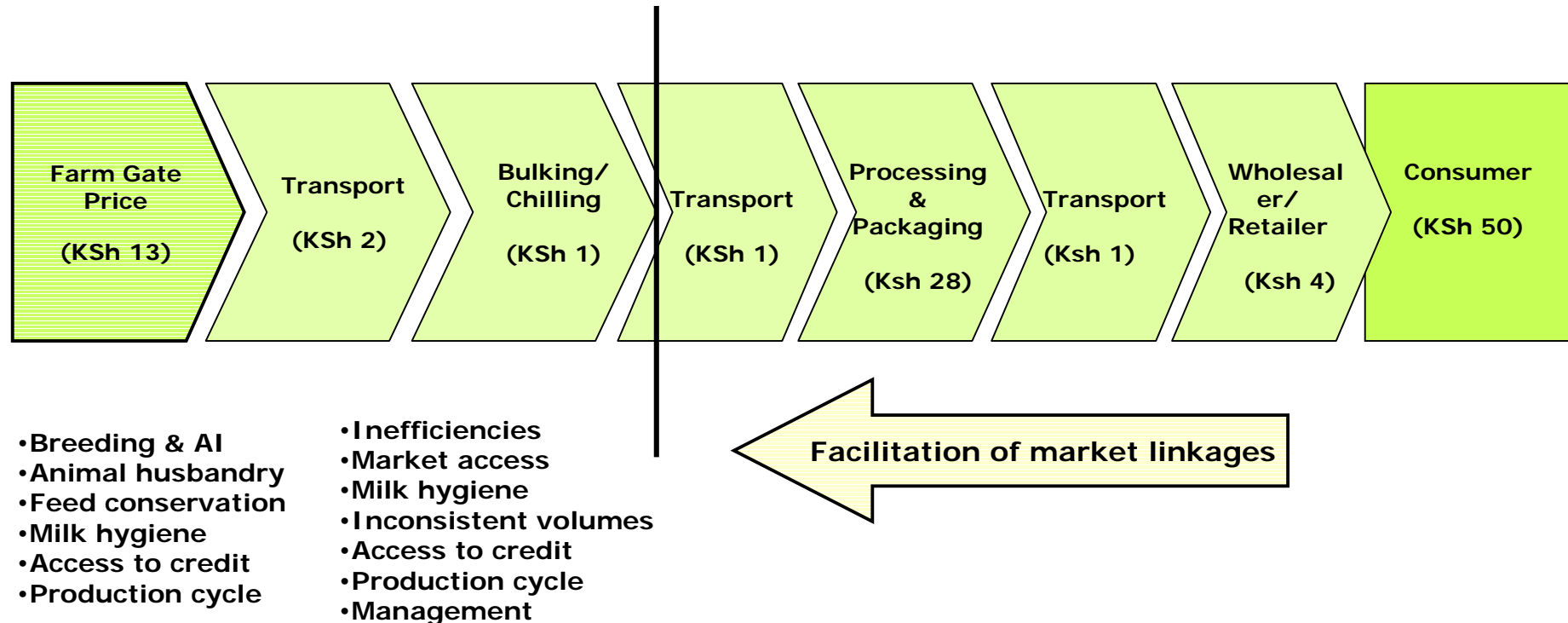
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# The Business Hub Approach

- Implemented by consortium of Technoserve & African Breeders Services Total Cattle Management (ABS TCM)
- The project aimed at improving efficiency in milk **production** and **marketing** within the cold milk chain
- This approach is centered around an organised group of milk producers with a central milk collection / delivery point.
- Implemented in a high milk production area, in close proximity to urban milk markets and easily accessible by the main processors
- Service Delivery from the central hub with check off payment system.
- The collection centre charges KSh 1 – 1.50 / litre of milk for services

# Typical Cold Milk Value Chain

A case from the formal bulking and chilling model



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# Implementation of the Hub Approach

## A. At Production Level

- Identify competent private sector service providers
- Provide technical support on service provision, marketing and business services
- Farmer field days on milk hygiene, feed conservation, improved animal husbandry and herd improvement
- Linkage to bulking centre



# Implementation of the Hub Approach

## B. At Bulking and Cooling Centre



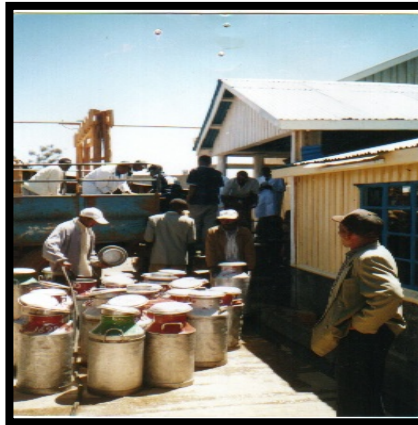
- Develop viable business model
- Develop management and financial systems
  - Train management
  - Acquire necessary software
- Quality Assurance Systems
- Market linkages
  - Bulk input purchases
  - Long term milk delivery contracts
- Incorporation of private service providers

# THE Business Hub – Check off system

## Non-Cash Transactions



Village banks / Sacco



Farmer Deliveries at  
collection centre/  
**Business Hub**



Information through  
farmer field days



AI / Vet Services



Feed and input supplies



Hardware supplies

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# The Business Hub - Achievements

**Working at 4 main sites the achievements were as follows:**

- 2 long term contracts with main processor who collect chilled milk in bulk
- Fixed price per litre at an average of KSh18 as against variable price between KSh 12- KSh20 depending on the season.
- Increase in overall revenues of chilling plants by between 60% - 80%
- 10,300 small holder producers participated

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# The Business Hub – Achievements Cont..

- Reduction in milk rejects by over 90%
- Increase in purchase of business services such as AI, on farm advice on feed conservation and animal husbandry
- Worked with 80 private service providers majority experiencing business growth
- Increase in saving and borrowing from SACCO's & Co-op Societies between US\$25,000 to 100,000 for various sites

# A Private Service Provider - Mr Mambo



*"I am a step ahead, I do not have to wait for information from Nairobi"*

	Start	End
Sales / month	\$ 375	\$1,395
Type of products	20	40+
Type of services offered	1	2
Value of stock	\$305	\$833
No of AI services / month	0	45
Value of Assets	\$338	\$2,805

- Undertook improved dairy production course which included marketing skills
- Organised farmer field days, advertised his services at churches, milk collection centers
- Able to access information from the internet
- Initial credibility through recognition by the hub
- Has been instrumental in encouraging youth participation in dairy farming

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# Lessons Learnt & Challenges

- Seasonal production pattern making contract compliance difficult
- Intense competition in sub-sector and reluctance of processors to develop the value chain
- Milk sales are purely on volumes with no premium paid for quality and increased butter fat
- Inconsistency in service provision by small service providers

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# Lessons Learnt & Challenges

- Check off system for services via chilling hub represents good business model
- Same commodity value chains can be significantly different in different areas – Western Kenya replication.
- For service providers to be sustainable, they need to operate more than one service line

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# Scale Up / Roll Out

- Western Kenya – High poverty level
- Milk deficit area - with high potential - with sugar as the main economic activity
- Main Challenges:
  - Acquisition of equipment
  - Poor animal breeds
  - Poor milk quality
  - Accessibility to milk markets
  - Culture Dairying not a priority
  - There are Champions

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# Thank You

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Business Services Market Development  
Project, Kenya (BSMDP - DfID / Danida)