

DUTCH - East African Regional Dairy Brief

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Inclusive Dairy Business Models in East Africa

Lessons learned and best practices from Kenya, Uganda and Ethiopia

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

This paper addresses the best inclusive business practices of dairy Producer Organisations (POs) and processors that result in the inclusion of smallholders, women and youth. Who play an important role but are often overlooked and underrepresented in dairy innovations. The contribution of support interventions, implemented by a selection of Dutch dairy development organizations, in Kenya, Uganda and Ethiopia, is reviewed to recommend pathways for further strengthening, replication and scaling of inclusive business development.

Inclusive business model principles

The business model of POs, and of processors working with POs, is often perceived as inclusive by nature, due to the fact that smallholders generally compose the majority of the dairy producers. The quality of inclusiveness should be assessed along various dimensions of the business model and for multiple target groups. Examples of best inclusive practices, targeting smallholders, women and youth, are identified for the following principles that guide inclusive business model development (CIAT, 2012):

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

These principles focus on trading relationships between suppliers and buyers. In addition, the inclusiveness of the position of commercial smallholders, women and youth, within POs and processors is assessed.



Position of smallholders, women and youth

The efforts of KMDP, TIDE, EDGET and Agriterra on gender awareness creation, encouraging female leadership and promoting women and youth employment and entrepreneurship contributed to improving the position of women and youth in POs. Best inclusive business practices, to a large extent promoted by support interventions are:

- Promote women and youth membership (e.g. ease membership conditions, dual membership)
- Encourage participation in decision-making and leadership (e.g. gender sensitisation, leadership training, youth councils)
- Stimulate economic independence through additional value chain roles in services and value addition (e.g. personal payment accounts, women group yogurt production, milk transportation and silage making by youth, employment as extension officer)
- Assign women and youth as lead farmer to act as role model
- Tailor knowledge and technological support packages

Limited practices focus on the position of smallholders. One PO provided specific technical and financial support for the smallest producers. Processors employ women and youth in several positions.

Chain wide collaboration

Chain wide collaboration refers to acknowledging the interdependency between chain actors and formulating shared goals. Inclusive communication channels, decision-making processes and partnerships between producers, POs and processors are key elements to achieve this. Best inclusive business practices are:

- Diversity in communication channels: meetings (board and AGM), notice boards, phone, letters and informal contact moments.
- Establishment of mutual benefits: income and productivity improvement through membership benefits, access to dividends and better milk prices and delivery conditions through loyal milk supply (also from processors).
- Networking and development of partnerships: informal and formal strategic collaborations with input and service providers and sector enablers by facilitating linkages, negotiate favourable conditions and manage payment processes.

The contribution of support interventions are governance, financial and business management trainings for better adherence to PO principles, improving transparency and distribution of financial gains. Especially, the organisation of round tables, B2B sessions and bilateral talks and coordination of lobby and advocacy efforts within chain wide support programmes, contribute to establishing and strengthening long-term collaboration among value chain actors and other partners in the dairy food system.

Fair and transparent governance

Within the principle of 'fair and transparent governance' the focus is on establishing clear and consistent milk quality criteria. To set and reach realistic milk quality standards among dairy producers, POs and processors, access to knowledge and equipment and effective reward systems are needed. This topic is extensively addressed in the white paper of the [Milk quality theme](#). Some examples of quality improvement initiatives from the support interventions and considerations related to the sustainability of the business model for quality-based milk payments are:

- Development of milk quality policies and operational procedures at PO and processor level
- Awareness creation and capacity building of hygienic milk handling for farmers, milk collectors and graders
- Investment in improved (aluminium) milk cans and quality tests
- Piloting of QBMPS with more advanced infrastructure for milk testing, premium payment for better milk quality, follow up and support for farmers with rejected milk volumes

The QBMPS pilots showed that it is difficult to design a sustainable business model but there are some encouraging results. The main challenge is to ensure that the market rewards milk quality by paying a higher price and that this premium reaches the actor(s) that make(s) the investments. This requires a careful analysis of the premium payment system: what goes to the farmer or to the collector (PO, middle men) and clear agreements about this can help to keep the motivation high to deliver quality milk. The reward for better quality must also cover the investments of all involved.



Effective market linkages

Effective trading relationships contribute to livelihood improvement by providing a stable market linkage. Inclusive markets are accessible and are transparent in the demand for quality standards, volume and prices. For buyers an effective market linkage results in a stable supply at competitive prices. Best inclusive business practices supported by dairy interventions are:

- Sufficient working capital to guarantee the milk purchase capacity of POs
- Effective collection and transportation network to link smallholders to marketing channels (e.g. coolers and motorbikes)
- Consistent payment processes and advance payments
- Supply agreements and contracts with favorable conditions for loyal suppliers
- POs affiliate to unions to improve the bargaining position and access new or higher value markets

Equitable access to services

Services are key for the existence and success of any inclusive business model. Service provision offers a lot of opportunities to ensure inclusiveness. Equitable access refers to making services accessible to all, including smallholders, women and youth. It includes successful solutions enabling **the access to inputs, technology, knowledge and credit, as well as developing incentives that encourage producers to invest in their own production** based on market needs. All Dutch dairy support programmes target the improvement of services, most dominantly on increased access to knowledge through training, extension and farm advisory services. Best inclusive practices are:

Access to inputs and technology

- POs that offer a wide range of services through a 'one stop services shop' and work together with affordable input suppliers
- Processors offering services to suppliers
- Expand the innovative service model of engaging youth groups
- Introduce new technologies that are suitable for smallholders, women and youth

Access to knowledge

- Establish training and extension units at PO and processor level, and seek active cooperation and networking with actors involved in extension services
- Processors contribute to the salary payments of extension officers placed at PO
- Co-financing of trainings and field days by processors and input suppliers
- Lead farmer ToT approach for effective reach and spillover effects
- Tailored (practical) trainings to the needs of smallholders, women and youth

Access to credit

- Provision of finance facilities such as: check-off system, advance payments and establishment of SACCOS
- Collaboration with financial institutions to develop affordable dairy loan products
- Processors and input suppliers providing credit facilities

Inclusive innovation

Innovations should be developed with smallholder farmers rather than for them. Inclusive innovation development provides the means to remain competitive in the market: to improve the commercial value for goods and services; and for innovation gains to be shared among partners, all of which build business durability. POs innovate by introducing value addition activities such as quality checks, packaging and processing. POs, Processors and service providers can also bring innovative services to their members or clients (see equitable services).

A potential best practice is to invest in a processing facility through an union of PO to offer better milk prices to supplying members. Support interventions include technical assistance in preparing feasibility studies and business plans and facilitate the access to resources through for example innovation funds or links with banks. Technical support from (Dutch) dairy experts in design, installation and

Inclusive business development for dairy sector transformation

Inclusive business models can be a powerful vehicle to transform the dairy sector in East Africa in a sustainable way. **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.** The interdependency of producers, POs and processors demands the development of inclusive business models. The business model will become a long-term sustainable cooperation because of the inclusiveness aspects that guarantees win-win trading relationships. The complementarity of the inclusive business models of different value chain actors determines the optimum inclusive approach that can be achieved within the sector.



Recommendations

- **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 inclusiveness. 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.

- **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. Innovative pilots, experience sharing and formal partnerships should be stimulated to accelerate the transition of the sector.

- **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 support interventions can financially contribute to kickstart initiatives the exit strategy should be considered from the start.

- **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 best inclusive business models.

- **Assess and advice on the complementarity of IBMs from various dairy stakeholders**

The dairy sector can become more inclusive if the IBMs from various actors complement each other in terms of target groups and/or benefits

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