

## CASE STUDY

VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE (VEGA)

# Kenya Dairy Sector Competitiveness Program

By: Elizabeth Dunn



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## BACKGROUND AND INTRODUCTION

The Kenya Dairy Sector Competitiveness Program (KDSCP) was a \$9 million United States Agency for International Development (USAID) funded program implemented by Land O'Lakes International Development between May 2008 and April 2013. KDSCP made significant and lasting contributions to local capacity development (LCD) in the dairy sector of Kenya's Central and Rift Valley areas. According to the final project report (April 2013), the aim of KDSCP was "...to improve Kenya's dairy industry competitiveness and increase incomes of small holder farmers through the sale of quality milk."

The three most significant accomplishments of this five-year project were the following:

1. KDSCP exceeded outreach and income targets. The project benefited 338,210 smallholder dairy farmers who experienced a 208% increase in household income.
2. KDSCP facilitated sustainable, market-based solutions to support smallholder upgrading. It provides an excellent example of market systems facilitation for inclusive growth.
3. KDSCP focused on LCD for farmer associations and supporting markets, which was critical to the success of the project.

The project improved competitiveness in the dairy

value chain and increased smallholder productivity, milk quality, and incomes. As a way to improve the sustainability of results after project exit, KDSCP followed a "light touch" market facilitation approach:

KDSCP's core value was to make markets work for the poor to reach large numbers of people by building on commercial dynamics to induce systemic change. KDSCP facilitated this transformation through the BDS [Business Development Services] method, but it was the industry stakeholders who lead it. Importantly, the program was consistent with good practice in private sector development. It focused on increased collaboration and on service delivery. It maximized the potential of the BDS market by enhancing the flow of inputs and services to, from, and within the private



Photo: Kenya Dairy Sector Competitiveness Program

sector in a sustainable manner for the benefit of small scale dairy businesses. The success of the model is a testament to both the programs understanding of the overall market context and the players and their functions plus the existing conditions in the Kenya dairy industry. (LOL April 2013, p.18)

Local capacity development was a major component of KDSCP activities and critical to project success. Drawing on Land O'Lakes' deep experience with dairy and farmer cooperatives, plus international experience with member-owned organizations in Africa, Asia, the Middle East, Eastern Europe, Latin America, and the Caribbean, Land O'Lakes has developed an effective approach to facilitating LCD. This approach to LCD is scalable and replicable. Much of the Land O'Lakes approach is documented in the Agricultural Producer Organization Manual (AgPro), which is used internally and will be released to the public in later 2014.

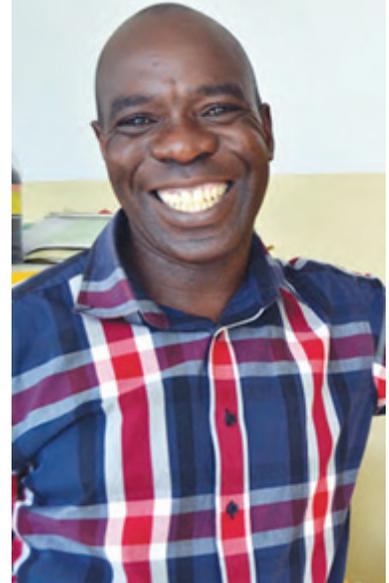


Photo: Kenya Dairy Sector Competitiveness Program

## IMPACT

In general, KDSCP was a very effective program that met or exceeded targets for 14 of its 16 key indicators. The project exceeded targets related to its overarching goal of increasing smallholder household incomes. Smallholders were able to increase the quantity and quality of milk produced by their cows while also reducing production costs:

- 338,210 smallholder dairy farmers were reached through the project (44% women)
- 208% increase in smallholder household income, due to increased milk production per cow, improved sales prices to processors and reduced production costs
- \$208 million increase in value of milk sold by smallholders
- 140% increase in the volume of milk meeting quality standards

Local capacity development for farmer associations was an essential component of the KDSCP strategy. By forming associations, farmers were able to reduce the costs of obtaining the business development services they needed to upgrade their dairy operation. In this case, an important LCD success indicator is the number of farmer cooperatives strengthened by the program to the point of being able to operate independently. Another LCD indicator is the value addition that associations offer to their members, such as maintaining local milk cooling units:

- 135 smallholder producer associations strengthened that are operating profitably
- 90 milk cooling units were installed or rehabilitated by the producer associations

In markets for business supporting services, KDSCP helped to develop local capacity for these businesses to provide new services to smallholder farmers, which provided substantial new employment:

- 1,045 supporting market firms provided new business services to producers

- 36,450 jobs created within supporting services provided to dairy farmers

In addition to promoting smallholder upgrading through productivity enhancing technologies and business development services, KDSCP was also successful in improving the business enabling environment for smallholder dairy through the passage of national policies and standards:

- 22 dairy industry policies and standards were improved or enacted

One indicator of advanced capacity in farmer associations is the ability to negotiate contracts. A second indicator of advanced capacity is the extent to which the administrative functions of the association are professionally managed. If an association can negotiate a number of contracts and has a paid manager, those are indicators that the facilitator is no longer needed.

## INNOVATION AND LOCAL CAPACITY DEVELOPMENT



Photo: Kenya Dairy Sector Competitiveness Program

Local capacity development (LCD) within producer cooperatives and service provider associations was a major component of KDSCP activities and critical to the program's success. Building on Land O'Lakes' 90+ years of experience as a member-owned cooperative, plus lessons learned from previous smallholder projects and codified in Land O'Lakes AgPro System, KDSCP facilitators worked with 135 producer cooperatives to help them increase their milk intake and sales, contract new sales linkages, access an array of business supporting services, improve their management capability and adopt sustainable financing mechanisms. KDSCP also facilitated the formation of and LCD within business associations providing horizontal linkages between firms in supporting markets.

The KDSCP approach of working with associations resulted in local ownership of the inclusive growth process. The producer associations have joined together to create a national group, the Small Scale Dairy Farmer Association, which maintains an online directory of business development services for smallholder dairy farmers: [www.livestockportal.co.ke](http://www.livestockportal.co.ke).

## LESSONS LEARNED

The KDSCP approach for LCD in farmer associations was replicated more than 100 times over the life of the project. The approach, which has been informed by years of field experience all over the world, is partially codified and circulated internally as the AgPro System. There are plans to publish this Agricultural Producer Organization Manual in 2014 with these modules:

- Module 1 – Selecting Producer Groups
- Modules 2-3 – Partnership Agreements and the CLARITY Principles
- Modules 4-5 – Business Structure, Formation and Governance
- Modules 6-10 – Financial Management and Technical Operations
- Module 11 – Performance Measurement
- Module 12-13 – Cross-Cutting Issues and Exit Strategy

Some additional lessons learned from the KDSCP approach for LCD include:

### *Listen attentively and carefully map the system.*

Initial mapping of the milk shed serves to identify key groups, including farmers who have a sincere desire to work together to achieve some shared goals. Once the farmer groups in an area have described their challenges and identified the kinds of support that they need, then a second mapping of the system serves to identify all of the existing and possible sources for these services should be conducted.

### *Free services do not translate into development.*

If the services will improve farmers' profitability, then farmers will be willing to pay for them. KDSCP challenged the notion of free service provision, which met with some resistance in places where donor handouts were expected.

### *Build trust through broad participation, formal rules and transparency.*

KDSCP encouraged widespread participation in association meetings and decision making as a way to build trust. Every association has a printed set of rules and regulations. In addition, the agreements between KDSCP and associations are always formalized as written memoranda of understanding. Devices that help to enforce standards, such as digital weigh scales, can help to build trust by increasing transparency.

## The VEGA Alliance

Land O'Lakes International Development, a member of the VEGA Alliance, draws on a foundation of 93 years of experience with member-owned dairy cooperatives. That depth of experience has been broadened from the application of their approach around the world. As specialists in the development of local capacity in smallholder dairy, the depth and breadth of Land O'Lakes experience is unmatched by other project implementers.

## Volunteers

KDSCP did not use volunteers from outside of Kenya. However, the program did receive a limited amount of volunteer support from a local university.

## Contributions to American Diplomacy

The KDSCP contribution to American diplomacy comes from the market facilitators and farmers in the dairy value chain who were aware that the LCD assistance they received was supported by USAID and the American people. In the following comments posted on USAID's Impact Blog (2012), Kenyans express their appreciation for the results accomplished under KDSCP and American sponsorship of the program:

### *Diana says:*

Knowledge on dairy farming as a business has helped me to improve my life. I have four dairy cows, I practice horticulture and pay school fees comfortably. With this activity I have created employment for two people working full time at the farm. Thank you USAID, the American people and Land O'Lakes. (September 2012)

### *Julian A. Chepchoye says:*

I am now an accredited Business Development Service Consultant. I was privileged to work with a funded program by the American people through KDSCP as a project coordinator in Lessos milk shed where I worked with 18 cooperatives, 78 service providers, and reached 31,518 households who have improved their lives through the sale of quality milk and 3,051 farmers have accessed loans through financial institutions. I was facilitating all activities from the farm to the consumer. The program employed the BDS approach where I identified local service providers, built their capacity and linked them to farmers to provide services that increased incomes of small scale farmers and therefore they are more resilient to drought and are no longer beneficiaries of food aid. The program has helped me as individual from Project coordinator to MD of Star Consultant Enterprise based in Kenya in North Rift Region (Eldoret) now a person with her own company and right now I have created employment of five people working with me. I will continue to provide services as a consultant to all the farmers in this milk shed. We thank the American people. Be blessed. (December 2012)

### *David W. Gitonga says:*

KDSCP has been a masterpiece and a good initiative sponsored by the American people through Land O'Lakes. In Nyeri milk shed where I was privileged to serve as a coordinator for over 3 years, I witnessed growth and development especially in the cooperative movement and self-help groups enlisted in the program. A case in point is one group by name MIK which was bulking less than 1000 liters of milk per day when the program started and had a membership of 530 farmers. After a period of 3 years, the dairy group had transformed itself to a well-organized limited company with elected directors and membership of over 1800 farmers collecting and marketing over 11000 liters of milk daily. In addition the group has constructed a milk cooling/processing plant within Karatina Town and is doing value addition. Payments to farmers have increased over 160% from Ksh 18 to Ksh 29 per liter. The development of demonstration farms across the milk shed has also been a positive indicator of good things

born out of the partnership of the two people. In short, KDSCP will leave behind a noble legacy worthy to be replicated in other regions in this country and other developing economies of third world. (December 2012)

***Isaac Kamau says:***

I am one of the facilitators who has been working with the USAID sponsored KDSCP implemented by Land O'Lakes and has witnessed farmers, service providers, processors, government agencies changing their approach in doing dairy business. As a coordinator in one of the milk sheds (TransNzoia) I was instrumental in forming dairy cooperatives in the area where there were none...Service providers in the region have improved their services to the farmers hence earning more income as well as those of the farmers. Those who used to provide only one technology diversified their services. Over 10 inseminators some of whom were using bicycles and foot bought new motorcycles to serve the farmers courtesy of training by KDSCP in understanding the benefits of acquiring loans. Some of the SP [service providers] are consulting for NGOs through the training they acquired from the program. THANKS USAID THANKS THE AMERICAN PEOPLE. (January 2013)

## CONCLUSION

The KDSCP case offers a replicable, field-tested approach to LCD for smallholder producer associations. Effective horizontal linkages among smallholder farmers can be an essential success factor for inclusive market programs. Drawing on more than 90 years of experience supporting U.S. dairy production and member owned dairy cooperatives, Land O'Lakes International Development expanded that experience to dairy value chains in Africa, Asia, the Middle East, Eastern Europe, Latin America, and the Caribbean. The result is a field-tested, successful approach to LCD in smallholder associations.

For more information about KDSCP, please read the [final report here](#).

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Dr. Elizabeth Dunn is a research economist focused on expanding market-based solutions to poverty. For 25 years, she has worked at the intersection of market systems, smallholder agriculture, micro- and small enterprise, low-income households, value chains and interventions for inclusive growth. With field experience in 20 countries, she has worked with bilateral and multilateral donors, NGOs, governments and the private sector. Through Impact LLC, a firm founded in 2000, Dr. Dunn has provided technical leadership for a variety of research and evaluation projects based on mixed-method designs that are tailored to meet clients' needs. She is a skilled presenter and trainer in both English and Spanish. In collaboration with USAID's Office of Microenterprise and Private Enterprise Promotion (MPEP), she played major technical roles in the AIMS Project and in the influential value chain work of AMAP BDS. She is currently on the Technical Committee for USAID's LEO project. Dr. Dunn earned her Ph.D. in Agricultural Economics at the University of Wisconsin in Madison and, prior to founding Impact LLC, she was a graduate faculty member in the Department of Agricultural Economics at the University of Missouri in Columbia.

## ABOUT THE VEGA ALLIANCE

The Volunteers for Economic Growth Alliance (VEGA) is the world's largest member-directed consortium of nonprofit economic growth organizations that designs and delivers high impact programs, incorporating skilled volunteer professionals into its work with donors, philanthropic institutions, private enterprise, and developing country organizations.

VEGA was established as a 501(c)3 organization in 2004 through a United States Agency for International Development's Leader with Associate Award. When it began a decade ago, VEGA was established as a rapid and efficient mechanism that utilized a competitive process to award USAID funding to its member organizations. Now, VEGA continues to champion its model and its alliance members' breadth of expertise to other partners.

VEGA supported the research and publication of this case study as part of its commitment to knowledge management and sharing lessons learned among its member organizations and the international development community.



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