

# DAIRY COMMERCIALISATION IN LESSOS: A BUSINESS HUB APPROACH

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**Country: Kenya**

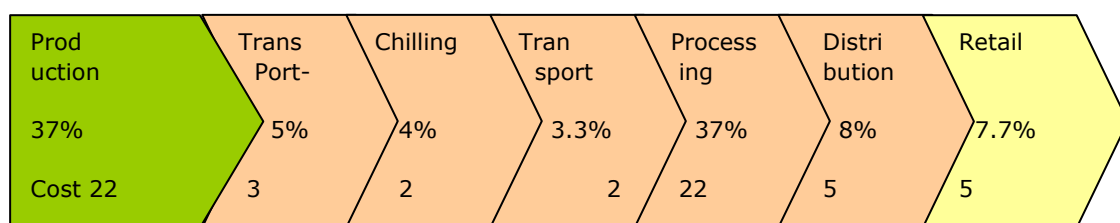
**Sector: Agriculture (Livestock)**

## CHALLENGE

### Small Holder Dairy Farmers in the Milk Value Chain

Dairy value chain in Kenya has potential to provide income and employment opportunities for over one million smallholder households. This tremendous opportunity has however remained untapped due to a number of dairy value chain constraints. Production segment is characterised by low productivity, level due to lack of knowledge on appropriate dairy husbandry and feeding practices, farming is rain dependent making the production susceptible to severe seasonal weather fluctuations. This creates severe fluctuation in milk volumes and prices and instability across the value chain. In marketing, most small holder farmers depend on two processors that are the main marketing channel for milk in formal market chain. This makes them vulnerable to the whims and inefficiencies of the two processors. Dairy farmers have little influence in the governance of the milk chain. Their roles are mostly limited to production.

### Typical Revenue distribution and earnings pattern along the milk value chain



Producers

Processors

Retailers

At the institutional level the dairy sector is s yet to recover from a long history of poor governance despite reforms in the last seven years. Other constraints facing farmers include poor access to inputs and credit, poor breeds of animals and poor animal heath management services.

## CLIENTS

### Smallholder Dairy Farming in the Lessos Milk Shed

Between 1960 and 1990, the Lessos area of Nandi and Wareng districts of the North Rift Kenya was at the centre of the then very successful smallholder dairy production in Kenya. The collapse of the dairy sector in the early 1990s, however, led to the ruin of many small holder dairy organisations including the then prosperous Lessos Dairy Farmers Society. This resulted in increased levels of poverty in the Lessos Community. In 2003, the new Government of Kenya (GOK), recognising the central role of the dairy sector in strengthening the economy and alleviating poverty, decided to revive the dairy sector. This to a large extent has contributed to the revival of the sector. In August 2008, a group of visionary farmer leaders from the Lessos, These leaders invited SNV to support them through capacity development.

“Our parents educated us with milk incomes. Today our children have to sell land to send their children to school. We have decided to do something about it... we came to SNV because what we require is capacity support to exploit our potential” P. Metto, 2008

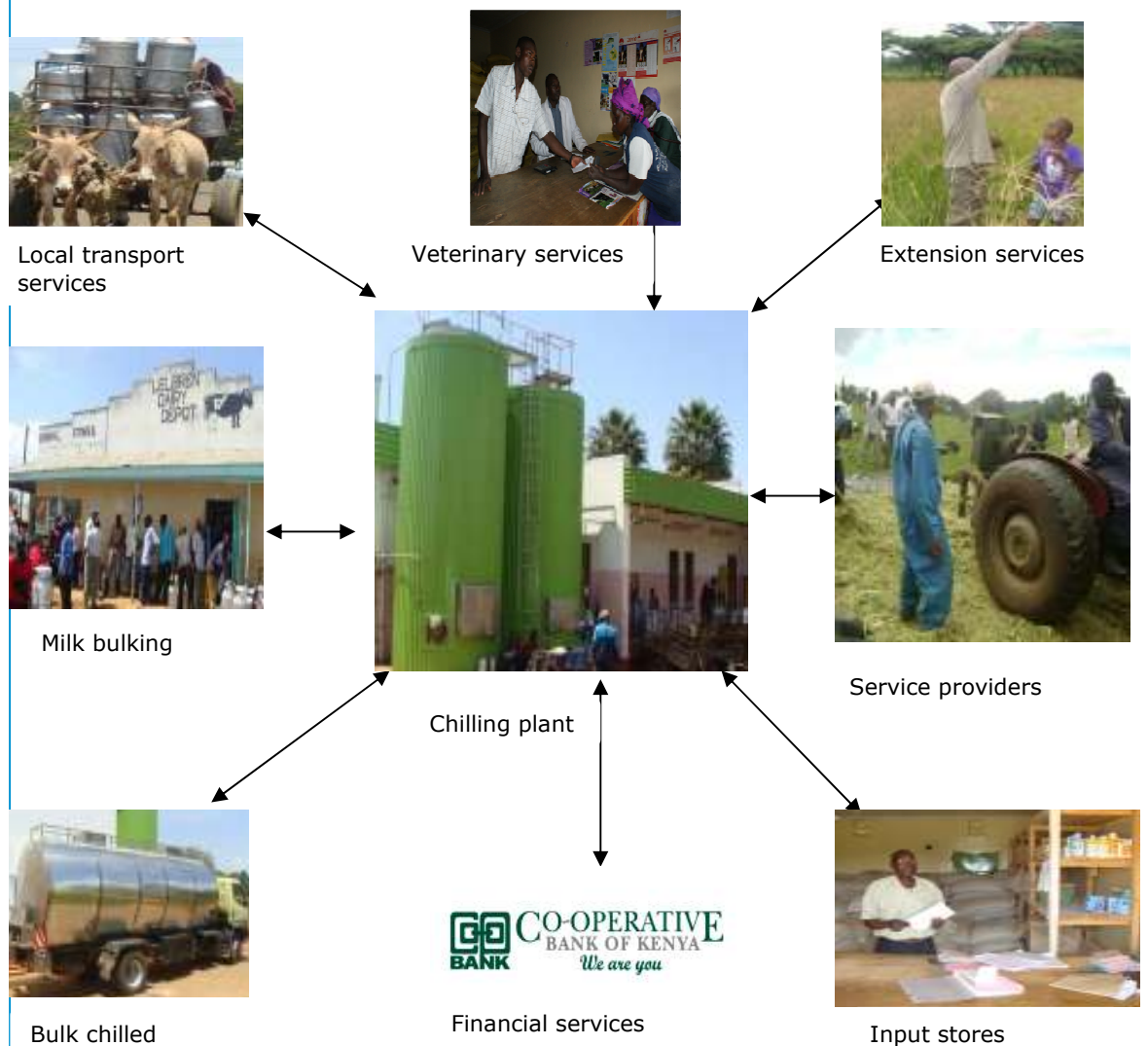
SNV accepted this invitation and has provided capacity development service in the since November 2008. The target is to reach 5000 dairy farming households in the Lessos milk shed.

**The Lessos Dairy Business Hub**

To address the value chain constraints facing the Lessos dairy farmers, SNV supported the farmers to adopt the dairy business hub approach to dairy commercialization. Dairy business hub is cluster of dairy services around a milk chilling plants. Dairy hubs provide a bulking and chilling service, secure markets and bring service close to dairy farmer members. The immediate benefits are in form of financial gains to farmers resulting from economies of scale and better negotiation power. There are also other major and longer term benefits that result from joint actions for investments and market penetration.

The process of developing the Lessos dairy business hub started with negotiation of an agreement between the processor, New KCC Ltd, where, the New KCC Ltd committed to pay producer groups, Lessos Farmers Cooperative and Leleben a specified bonus price for every litre of milk, if the producers met agreed daily targets consistently for the given month. The bonus price of upto five shillings (7% bonus) per litre proved to be a major incentive for farmers to bulk their milk eventually bringing 2700 farmers together. This in turn led to setting of collection centres, services provision points and stores by the producer groups. Attracted by emerging business opportunities, other services providers banks, IT companies, dairy equipment services, veterinary and artificial insemination, and other services followed by setting up service points or establishing business relationships with the hubs players. The farmers, through education by stakeholders and leadership, in time realized that they needed to remain together not just for immediate gains but also to pursue and change their common destiny.

**The Lessos Dairy Business Hub**



### **SNV Capacity Development Support to the Lessos Hub**

SNV provides capacity development service through two producer groups Lelbren Dairies and Lessos farmers Cooperative with a total membership of 2700. Our capacity development aims at supporting the main actors improve their capacities necessary to achieve dairy commercialization. Capacity development services have focused on commercialization at the farm level to improve quality and quantity of milk, supporting the stimulation and development of the dairy development services advisory services on business planning and investment, linkages, strengthening governance and management systems, investment and financing and inclusiveness of women and youth.

#### **OUTCOME**

In a period of eighteen months the following milestones were passed in the Lessos dairy hub;

1. Growth in membership to producer groups, rising from 280, to 2700 in eighteen months to march 2010
2. in 2009 The producers groups bulked and sold to New KCC Ltd 7.2m litres of milk valued at 194 million shillings
3. Partnership and chain cooperation between New KCC Ltd - processing and marketing; producer groups focusing on production and bulking, each focusing on increasing efficiency at their parts of the value chain.
4. The farmers through the now much stronger producer groups, acquired strong voice and bargaining power in negotiations with buyers, supplier and government agencies
5. Input stores and other services AI set up around the chilling plant with farmers accessing inputs and through milk check off credit
6. Service providers including De Laval in dairy equipment, Norbrook and Coopers in animal health, Equity and Cooperative Banks in financial services, Kenya Dairy Board, IT companies, set up or established business relations with the hubs key players
7. Many of the farmer's s accessed bank accounts and other services for the first time
8. Demand and supply of extension services increased as dairy business become more profitable and the farmers got organized in groups and extension zones
9. Mobilizing savings from dairy hubs farmer members has enabled the producer groups to invest in dairy equipments and coolers
10. Opportunities for youth employment created especially in service provision sectors such as artificial insemination, transport, feeds conservation services

#### **IMPACT**

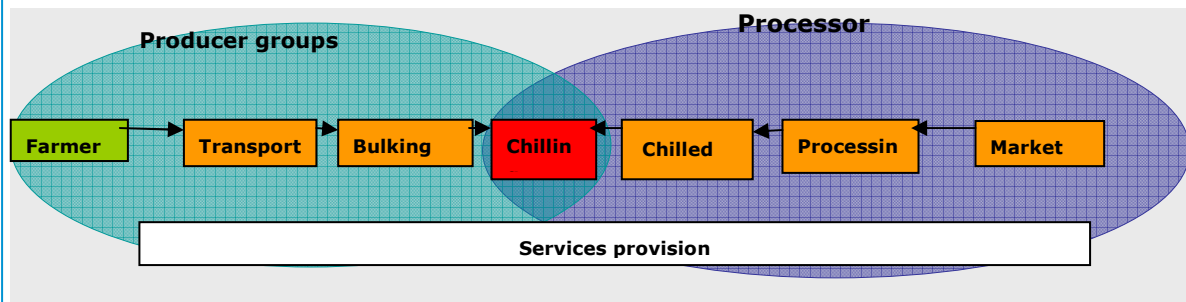
In the last two years the following results have been were achieved

1. 1700 farmers had access training on management of dairy farming enterprises e 15%husbandry and feeding. This helped to improve milk production per households by average 15%.
2. Average annual milk marketed per household has increased from 1880 litres to 2880. This is a 53% percent increase
3. in 2009 the farmers increased their earnings per litre of milk by 18%
4. The producer groups have provided direct employment for 25 people, 75 people were newly employed in transportation. It is estimated that for every 2000 litres of milk sold an extra job is created at the farm level
5. Improved governance as evidenced in improved transparency in management and leadership, participation of membership in decision making and meaningful participation by women

#### **LESSONS LEARNED**

The lessons that can be drawn from the capacity development experience in the Lessos milk shed include the following;

1. Partnership between milk producers and processors enables the processor to focus on efficiency downstream with the producer group focusing on efficiency upstream wth overall effect of improvement of performance of the chain.



Source – SNV NRP

2. In well functioning value chains, dairy farmers are happy to focus on what they are best at – farming -to maximize their earnings. Instability in markets compels farmers to engage in more downstream activities to achieve better control of the chain. For the farmers this often comes with complexities that are often beyond their financial and technical capacities.
3. The youth prefer to participate in the value chains or chain segment, that have higher financial returns
4. Having a shared common vision towards better future and common destiny is the most tenable bond that bids members of producer groups together.