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# Formalizing the Warm Milk Industry in Kenya



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# Agenda

- Facilitating value chain development: How?
- Analyzing the dairy sector in Kenya
- Leveraging – reform the regulatory environment
- Building the capacity of the private sector to engage with the regulator
- Achieving systemic results

# Facilitating Strategic Value Chain Development

- Value chain approach as an analytic tool
- Developing a vision for sustainable growth
- Guiding the strategic implementation to achieve that growth through market facilitation rather than market intervention

# Facilitation - What is a Market Facilitator?

- Non-market actors w/o vested commercial interest
- A facilitator recognizes that his role is temporary
- Starts with a clear understanding of why the market is not working
- Identifies actors which should be performing the missing functions
- Brings together the missing elements to make the market work on its own, not replace it

# Types of Facilitation

- **Externally driven**      **vs.**      **Internally driven**
- **Light touch**                      **vs.**      **Heavier hand**

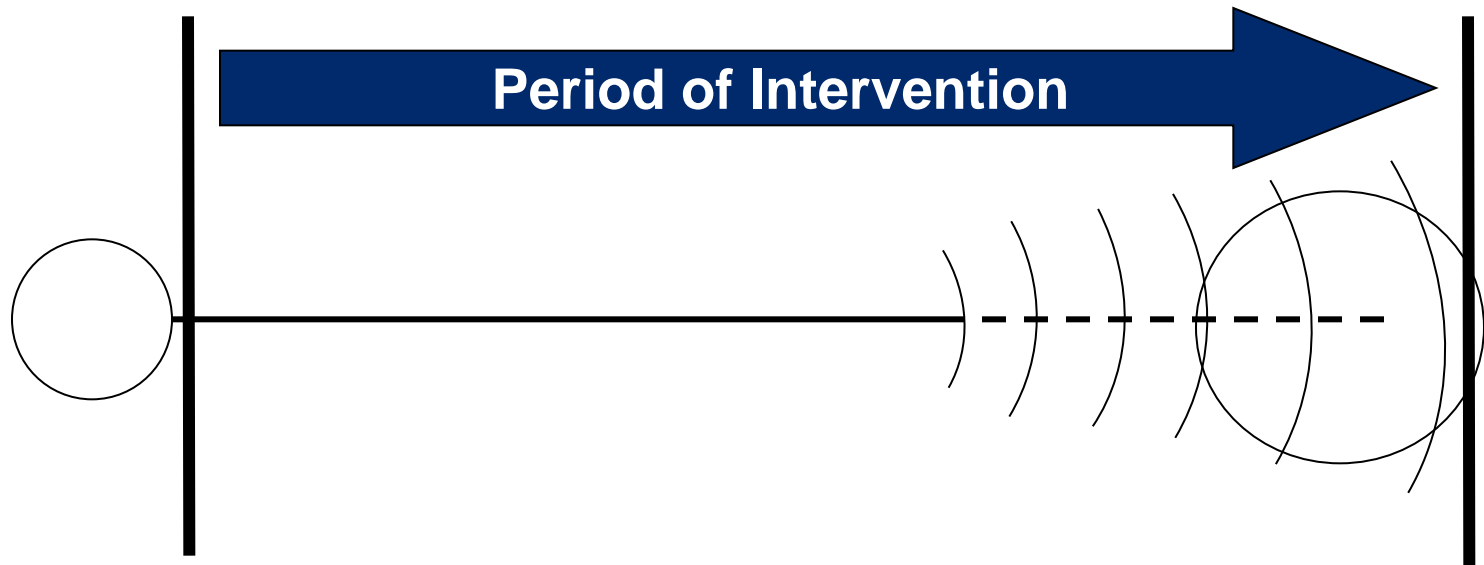
<b>Light Touch</b>	Directed Facilitation – facilitator drives the process	Effective Facilitation – market actor drives the process
<b>Heavier Hand</b>	Create and introduce the market solution	Facilitate capacity building/product development
	<b>Externally Driven</b>	<b>Internally Driven</b>

# Crowding-in Leads to Market Efficiency & Growth

- Crowding-in:
  - The opposite of crowding-out, often caused by market interventions
  - Good facilitation will crowd-in other private actors, leading to better functioning markets

Market not working

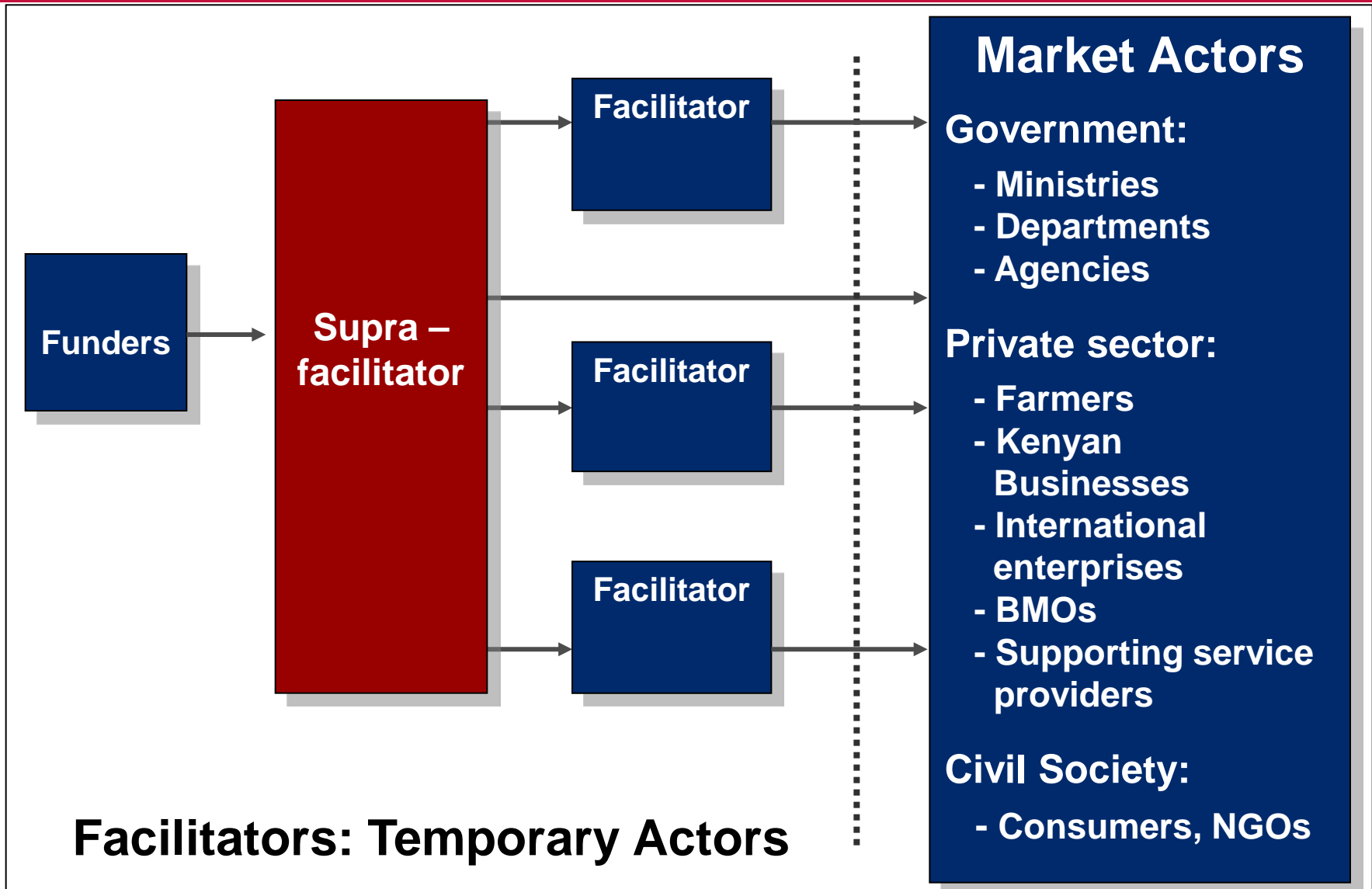
Market working better



# Kenya Business Services Market Development Programme - BSMDP

- DFID funded program, 2003 – 2008
  - ~\$10 million, \$7 million for facilitation grants
  - Focused on 3 sectors: Dairy, export horticulture, & media
- Very light implementation team (2 professional staff)
- Gave grants to facilitators to address market failures either in service markets, or within regulatory framework
- 2008 evaluation identified the greatest impact coming from changes in the enabling regulatory environment

# A Program Facilitation Approach





# Kenya Dairy Value Chain - 2001

Markets

Retailing

Wholesaling

Transporting

Processing

Pasteurizing

Cooling

Collection/  
Bulking

Production

Rural  
Consumers

Poor

Urban consumers

Rich

27 - 30 Ksh/l

50 - 52 Ksh/l

Hawker/  
Milkbar  
(10,000)

Caterer/  
Hotel  
(145,000)

Small  
Retailer  
(90,000)

Large  
Retailer  
(10)

Traders  
(5,000)

Large/  
Medium  
Dairies  
(10)

Small  
Dairy  
(20)

35 % of the  
marketed  
milk  
480 million l

50 % of the  
marketed milk  
700 million l

15 % of the  
marketed milk  
200 million l

Cooperatives/Self-  
help Groups (1,000)

Smallholder farmers  
(625,000)

Medium/Large Dairy farmers  
(2,000)

Channel 1:

Rural Raw Milk

Channel 2:

Informal Trade

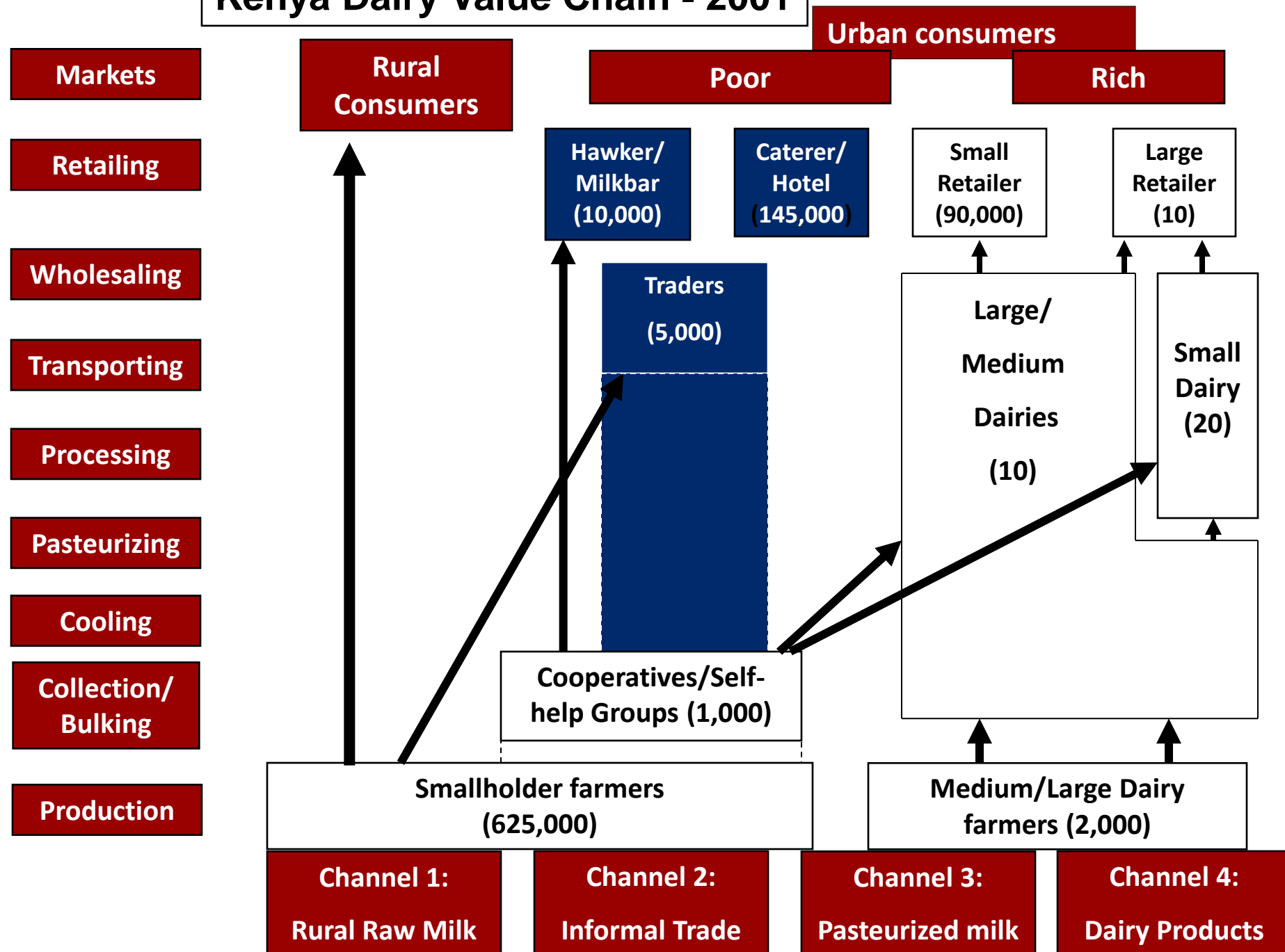
Channel 3:

Pasteurized milk

Channel 4:

Dairy Products

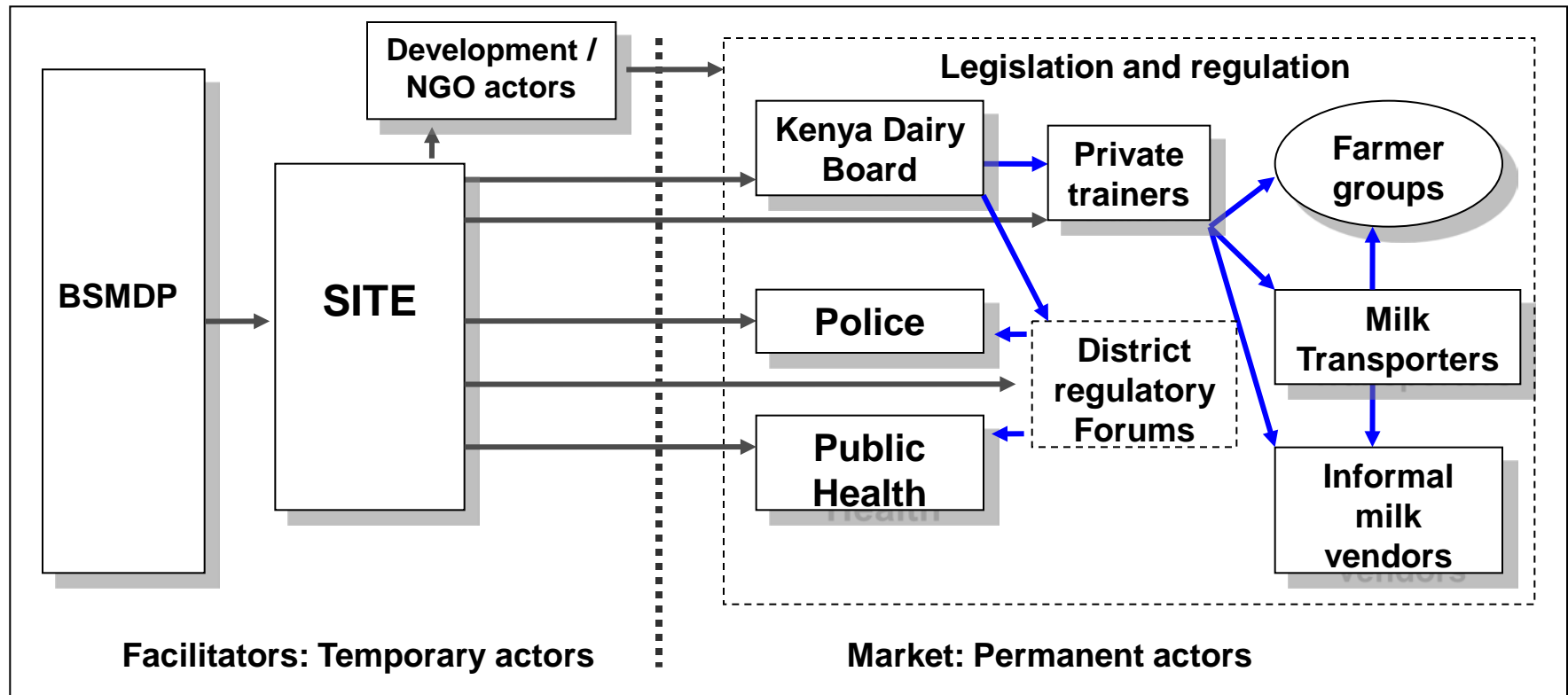
# Kenya Dairy Value Chain - 2001



# BSMDP – Facilitation Starts with Food Safety

- Safe handling of milk - the key blockage to regulatory approval
- SITE facilitates training of local service providers for a “safe milk handling” program
- Dialogue with the Kenya Dairy Board & official recognition of the trade of warm (raw) milk in 2007
- Facilitation process: externally driven and heavy initial investment to create new service supply

# Fixing the Enabling Environment: An Iterative Process



# Facilitating the Kenya Dairy Board Involvement

- Certification of trainers (**light touch, internal**)
- Increased consultation (**light touch, internal**)
- Branding of KDB Quality (**external, medium touch**)
- Improved systems (**internal, medium touch**)

# Kenya Dairy Value Chain - 2008

Markets

Retailing

Wholesaling

Transporting

Processing

Pasteurizing

Cooling

Collection/  
Bulking

Production

Rural  
Consumers

Poor

30 - 40 Ksh/l

Hawker/  
Milkbar  
(10,000)

Caterer/  
Hotel  
(145,000)

Traders  
(30,000)

Urban consumers

Rich

50 - 65 Ksh/l

Small  
Retailer  
(90,000)

Large  
Retailer  
(10)

Large/  
Medium  
Dairies  
(10)

Small  
Dairy  
(20)

30 % of the  
marketed milk  
600 million

50 % of the  
marketed milk  
1.04 billion

20 % of the  
marketed milk  
406 mn

Cooperatives/Self-  
help Groups (1,000)

Smallholder farmers  
(750,000)

Medium/Large Dairy  
farmers (2,000)

Channel 1:

Rural Raw Milk

Channel 2:

Informal Trade

Channel 3:

Pasteurized milk

Channel 4:

Dairy Products



# Results of Formalization

- Local service providers played a core role
- Formalization brings traders significant benefits:
  - Security allows for increased investment, increased trade
  - Increased services to members: training, finance, insurance
  - Registered members up 40% in last year – 60% of all marketed milk
- Efficiency of milk marketing continues to increase
- Producers benefit: better prices to raw milk traders, improved milk production and handling
- Regulator able to regulate the sector & earn more revenue



# Conclusions

- Clear diagnosis, starting from end market
- Facilitation needs to identify incentives for market actors and drive the actors together
- Facilitation - an iterative process
- Effective facilitation leaves the ownership in the hands of the market actors
- It is possible to organize the informal sector to drive deeper systemic changes in the value chain



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