THE STATE AND FUTURE OF DAIRY SECTOR IN THE EAC

Interview with the Executive Director of ESADA

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Prepared by

For

Mr. Peter Ngaruiya – Executive Director- Eastern and Southern African Dairy Association (ESADA).

Background

The interview on the current state and future of the dairy sector in the East African Community (EAC) region was conducted by Dr. Birungi Korutaro – project team leader with Kilimo Trust, East Africa and the respondent was Mr. Peter Ngaruiya – Executive Director of Eastern and Southern African Dairy Association (ESADA). ESADA is a non-political membership organization that was established in 2004. Its overall mandate is to increase trade in dairy products made in Africa.

Birungi: How would you describe the state of the dairy sector in the region?

Peter: The dairy sector in the region is undergoing significant transformation and growth in both production and market access. Various stakeholders including governments, development partners as well as local and foreign investors in the five EAC countries have increased interest in the sector. For instance in the last five years in Kenya, there have at least ten processors and three foreign entities investing directly in the dairy industry through the acquisition of existing operations (partially) and in some instances development of new outfits. Some of these include Friesland Campina, a Dutch company and Arla foods that is already in Nigeria and Tunisia.

Within the same period, Uganda has seen the entry of two big processors – both based in Mbarara (Western Uganda) - Nice Processing Plant and Pearl Dairy. Pearl Dairy is producing milk powder and supplying 50% of its products to Kenya. To sum it all, the dairy sector in the EAC is experiencing one of its best growth periods: investment is growing, production is also growing and the entire industry is experiencing growth.

If we look at Sub-Saharan Africa (SSA), production is growing at approximately 3.2% per annum and this growth has been consistent in absolute terms. In terms of value of the products, the growth is even higher, estimated to be over 6% because of value addition e.g. In Uganda, Pearl Dairy is processing milk into powder which is a very stable product that is tradable across borders.

A study by ASARECA and others six years ago estimated that locally produced milk products meets about 10% of the demand in East and Southern Africa (ESA) and the deficit is covered by imported products. One of the characteristics of imported products is that they are highly specialized and very expensive e.g. a Kilo of fresh milk is around KShs 30 where as a Kilo of baby formula can go to as high as Kshs 900. It is an absurd comparison but it is the reality. This is the thrust upon which ESADA was established.

However, it is important to note that demand in the region is estimated to be growing at between 3.9% and 4% per annum. This is according to the annual Tetra Pack index.

This increase in demand is driven by population growth, changing consumer preferences because of rural-urban migration as well as changing demographics, and growth in the middle income group arising from economic growth. Milk has a high price elasticity and therefore an increase in price will lead to a reduction in consumption and vice versa.

The other aspect that is increasing interest in the local dairy industry is the policy shift in other regions of the world for instance, the European Union (EU) that abolished their milk production quota system. This is exacerbated further by the fact that EU supermarkets remain the major off takers of milk products and they are currently pushing the processors - who are mainly farmer based - to lower their prices in order to remain competitive. This has pushed down European prices of milk products. Africa therefore remains a viable alternative market for European milk products or investments. To ensure that they integrate seamlessly into the local industry, international companies are opting to acquire existing local processors. By being based in Africa, they purchase a few litres of available fresh milk from farmers and process it, but they import the bulk of their processed milk products especially milk powder from their native countries. For example, Danone Dairy recently bought 40% of Brookside which is the largest processor in the Eastern and Central Africa (ECA) region.

Lastly, EAC governments and development partners have tried to boost the industry. The World Bank has invested heavily through the East Africa Productivity Programme (EAPP), and the National Agricultural Research Organization (NARO) of Uganda has spearheaded the commercial production of fodder. The Government of Uganda has also invested heavily in the sector through the National Agricultural Advisory Services (NAADS). Other governments are working in different areas within the industry.

Birungi: What is the role of ESADA in building the dairy value chain in the region?

Peter: ESADA was established to enable the local dairy industry increase its participation in the local market from the current 10% supply. ESADA delivers this mandate in two ways: first, by removing all impediments to trade in milk and milk products and secondly, by building the capacity of the players to meet requirements to trade like dairy standards.

ESADA has been involved in the harmonization of dairy standards in the ESA region specifically the Sanitary and Phyto-Sanitary (SPS) regimes between East Africa and Southern Africa. It is expected from the work ESADA is doing that by end of 2016, the harmonized standards will be adopted and observed by all the countries and operators. This should be after the conclusion of an ongoing SPS program.

ESADA through its permanent seat in COMESA also articulates the views of the private dairy sector operators in different fora especially on matters of policy development and in other public-private dialogues.

Capacity building is another important component mandated to ESADA to enable players meet required market standards. ESADA builds capacity through training and exposing operators especially the processors to new technologies. ESADA is currently collaborating with Egerton University to offer a short course on dairy management and feedback so far is encouraging. ESADA is also working with other private companies and institutions of higher learning to establish a series of dynamic short courses for processors on product development and marketing. The need for such training is necessitated by the observation that milk products in the ESA region have not evolved over time compared to other parts of the world. For example Europe, America and Asia have completely inverted their product trees over time. As a result, the region is losing to competitors in terms of value added differentiated products. Other partners in addition to Egerton University include Jomo Kenyatta University of Agriculture and Technology (JKUAT) and Bunda University of Malawi.

Meeting standards goes hand in hand with access to technologies and knowledge sharing. ESADA publishes on several technologies quarterly and shares widely with its members.

Knowledge Management is central to capacity building. The association runs a knowledge management portal called IDEA which is a repository of various pieces of information. The association also runs a yearly conference – the East Africa Dairy Conference and Exhibition, whose 11th edition took place in Nairobi during the week of 21st September, 2015. Over 100 companies from more than 35 countries participated in the exhibition. The companies showcased technologies they have developed and also interacted with potential clients. Past exhibitions have recorded remarkable success. For instance in 2011, a technology called 'Extended Shelf Life (ESL)' was launched during the exhibition in Kigali and the innovator of the technology sold the first equipment in Kenya the same year. Four years later, almost every processor in the region is using the ESL technology. The technology costs are as much as other existing technologies but ESL cuts milk losses by over 80% without increasing production costs. In addition, as a result of the technology, the milk product does not require refrigeration for up to 30 days.

New technologies have also played a big role in product development and market expansion. For instance, about 5 years ago, very few processing companies were producing fruit yoghurts. Today, 8 companies in Kenya alone are producing fruit yoghurts in a cheap way. Also, three years ago, a milk dispensing technology was presented in the conference and currently almost all supermarkets have adopted the technology and you can serve yourself milk from the dispensers. This has improved the hygiene of milk without increasing prices significantly.

ESADA is also facilitating exchange learning missions. In early 2015, the association facilitated a visit of 40 dairy players to the Netherlands and Brussels. In addition to learning, they also developed business networks. The exchange is an initiative the association plans on undertaking twice a year as a way of exposing the players to their global counterparts.

The other role of ESADA is strengthening national dairy associations. Development of the industry requires that we have strong associations. For instance, ESADA has revived and strengthened Kenya Dairy Processors Association which had collapsed in early 2000. Other associations ESADA has strengthened include Tanzania Milk Processors Association and Rwanda National Dairy Platform.

ESADA was involved in the development of the school milk program in order to increase consumption. Mombasa County is already implementing the program.

Birungi: Where do you see the dairy sector in the region in the next decade?
We expect consolidation going forward leading to fewer players in number (producers, processors) but larger companies as a strategy to cutting operation costs.

Consolidation will take the form of mergers or buy-outs or foreign direct investment. More farmers will be actively playing in the market. This is as a result of market oriented interventions characterized by commercialization of smallholder milk production.

Commercialization also calls for strong cooperatives to push for farmers' agenda. Farmers will have strong cooperative movements because there are more farmers who are well informed.

I also see more regional products being produced and an increase in cross border trade driven by the current common market protocols in COMESA and EAC as well as the huge infrastructure drive going on in the EAC.

Birungi: What are the five challenges facing the sector?

Peter: Milk production is low and erratic because farmers rely on rainfall for fodder production. This affects planning and prices e.g. In the last 40 years, Kenya has not recorded an investment in milk driers despite the large volumes of milk produced in the region.

Unreliable support services to the dairy industry is another challenge. For instance extension services are almost nonexistent in the region. These include production, record keeping, and commercialization services.

The other challenge is poor milk quality. The trade system in Kenya and the region does not compensate for quality. Payment to producers is based on quantity not quality. This calls for a system that incentivizes production of quality by rewarding it and penalizing the reverse.

Also market access is not fully optimized yet the growth potential of the market is huge. Small holder farmers in the region are still price takers.

Lastly, issues to do with a unfavorable business environment and policy framework. The private sector is not consulted to inform policy. For instance, sometime ago the Kenyan government imposed VAT on milk. Although this decision was reversed, there was a negative impact on processors, producers and consumers given the price elasticity of milk.

Birungi: Can an electronic platform be an option in addressing any of the sector's challenges?

Peter: The appetite for reliable information in Sub Saharan Africa is very high. An ICT platform would be timely. For instance, ESADA2015 is a 'whatsapp' group with 100 members and the exchange of information is already overwhelming. The demand for information is high and there is no organization that is meeting that demand.

If there is an opportunity to create a Dairy information platform or "knowledge portal" that provides relevant information it would bridge the information gap the sector is experiencing. If the platform can be made compatible with mobile phones and other hand gadgets it would be even better.

A good starting point would be to engage current stakeholders on what information they require on such a platform and how they require it.