

## Policy pointers

**Government players** need to better understand food systems: food sold in the informal sector is not necessarily risky and food in the formal sector is not necessarily safe.

**The tendency to ratchet** up regulations and solve problems by increasing bureaucracy places a burden on industry and is often ineffective. A light-touch approach can be more effective than heavy-handed inspect-and-punish interventions.

**Working with actors from** the informal sector towards inclusive formalisation will deliver multiple wins for everyone involved. But to ensure sustainability of new approaches, a government must buy-in and make a long-term commitment to invest the necessary resources and manpower.

**Policymakers need to** withstand pressure from vested interests, such as strong corporate power, which can work against more progressive, effective and inclusive policies.

## Legitimising informal markets: a case study of the dairy sector in Kenya

When five per cent of milk fails to meet standards, you have a problem with milk. When 50 per cent does not meet standards, you have a problem with standards. In developing countries, perishable food is mostly sold in informal markets and often does not meet national food safety standards. Government regulation in informal markets has not improved food safety in the past and formalisation does not guarantee safe food. New approaches, based on gradual improvements and an inclusive path to formalisation, show greater promise. A scheme to train and legitimise dairy traders in Kenya has revealed benefits for public health, farmers, vendors and consumers. But governments must withstand pressure from vested interests and show genuine commitment to supporting progressive, effective and inclusive policies if these are to be successful.

In Kenya, milk offers significant nutritional value to poor consumers at prices they can afford, and the country's per capita consumption of milk is among the highest in Africa.<sup>1</sup> Despite campaigns to promote the consumption of packaged, pasteurised milk from the formal sector, raw milk remains most popular; it is cheaper, has a higher fat content, is widely accessible and comes in variable quantities to suit every consumer's purchasing power.<sup>2</sup> Such high demand makes dairy an attractive business.

As in most developing economies, Kenya's informal markets are significant in size and essential for food security. The informal dairy sector makes a huge contribution to Kenya's national economy and generates 70 per cent of the 40,000 jobs in dairy marketing and processing.<sup>3</sup> In spite of the government's efforts

to develop formal dairy processing and packaging, small-scale informal dairy markets continue to dominate.<sup>4,5</sup>

Less than 14 per cent of Kenya's milk reaches the formal (meaning, pasteurised milk) sector: the rest is sold by unorganised, small-scale businesses in informal markets or consumed directly at home.<sup>4,5</sup> For example our research finds that, in one of Nairobi's seven districts, around 100,000 households (and 1,000 dairy farms) are linked to 350 informal sector vendors, who estimate that they supply 20 per cent of the market for raw milk. Door-to-door vendors sell the remaining 80 per cent. This is neither unusual nor surprising: due to high operating costs, formal actors offer a lower price to farmers and a higher price to consumers and find it difficult to capture large shares of the market.<sup>6</sup>

The picture is similar elsewhere: informal dairy markets dominate in Rwanda, Tanzania, Uganda and many other developing countries such as India, the world's largest dairy producer.<sup>7</sup>

## *Light-touch approaches such as voluntary training schemes can improve food safety*

### **Understanding and improving food safety**

There is a misperception that milk sold in the informal sector is more of a health hazard than pasteurised milk in the

formal sector. But food in the informal sector is not necessarily unsafe, just as food in the formal sector is not necessarily safe.<sup>8</sup> In Kenya, packaged milk in supermarkets was found to be no better at meeting food safety standards than raw milk sold from kiosks or door-to-door.<sup>9</sup>

It is also important to consider the difference between hazard and risk when thinking about food safety. The milk in Kenya's informal and formal sectors often does not meet microbial standards, posing a hazard. But because it is boiled or consumed quickly, the risk of disease for consumers is low.<sup>10</sup>

Previous attempts to improve food safety through regulation and inspection have been unsuccessful.<sup>11</sup> Although most milk in Kenya does not meet food safety standards, destroying informal milk and banning or criminalising vendors on the basis on poor food safety could have negative implications for health and nutrition, particularly in children.

With the sheer number of informal small operators in the Kenyan dairy market, it is almost impossible to monitor and regulate the industry using existing approaches and mechanisms. Large operators and interest groups who have a vested interest in formalising markets will also try to influence regulation in their own favour. Policymakers need to withstand pressure from these vested interests, which can work against more progressive, effective and inclusive policies.

### **Kenya's training and certification scheme**

After a minor revision of Kenya's dairy policy in 2004, the Kenya Dairy Board (KDB), which regulates the sector, was able to offer small-scale milk vendors a facilitated route to licensing through their training and certification (T&C) scheme. KDB worked with SITE, a local non-governmental organisation, to launch the scheme

at a number of pilot sites in 2006 with support from an international donor (DFID).

The T&C approach aims for progressive registration and formalisation of informal businesses, while upgrading traders' milk handling practices to address safety concerns. Under the scheme, accredited business development service providers (BDS) offer training on hygienic milk handling, quality control and entrepreneurship. With low fees that the traders can pay themselves, the T&C scheme was designed to be affordable and sustainable, and not reliant on donor funding. The training is short to avoid loss of earnings, and tailored to vendors' realities, providing guidance on milk safety practices that they have the power to change.

There are clear financial incentives for both training providers and traders to engage. Trainees gain a certificate that facilitates access to a KDB licence, which is needed to legally sell raw milk. The training stresses how improvements in handling and hygiene will increase business while also reducing milk loss and transaction costs. It also emphasises the link between safer and higher quality milk and higher returns. Trainers are paid for the guidance they provide and are accredited by KDB, offering them a competitive advantage relative to other service providers in the country.

### **The impact of the scheme**

A forthcoming ILRI and IIED study found satisfaction among traders who engaged in the T&C scheme and demand for a similar scheme among untrained traders. Respondents said that the benefits of participating in the scheme included reduced loss, improved incomes, better business, lower transaction costs and higher quality milk.

Through conversations with the traders, the research found that the training had improved their milk handling and preservation skills, and they were better able to judge the quality of milk from suppliers, leading to less wastage and spoilage. Traders reported improved incomes from commercialising value-added products, such as quality yoghurt and fermented milk, and lower transaction costs as a result of being conformant with the law. Their businesses had improved, as they had more satisfied and loyal customers, ensuring a more regular income. The study also found that quality demands are being pushed down the supply chain, with consumers and milk sellers in a position to choose and demand higher-quality milk from producers.

## The scheme's challenges and shortcomings

Although the scheme has had some positive impacts, it has also faced a number of challenges. Despite a clear demand for training, preliminary results from ILRI and IIED's forthcoming research suggest that the reach and uptake of the T&C scheme has been less than optimal. There are many reasons for this: a lack of resources and manpower within the KDB, pressure from the formal sector to not support the informal sector, the failure to change policy at national level, awareness levels, sub-optimal promotion of the scheme, and limited availability and accessibility of training.

**The traders' view.** Although acquiring useful business skills is an attractive incentive, having a KDB licence also brings regular KDB inspections, which can act as a disincentive. It is also possible to get a licence without any training, so access to a licence is not always a good incentive to attend the training. Although service providers keep the costs of training low, they may still be unaffordable to many traders. This is a major challenge in terms of the scheme's future sustainability.

**The service providers' view.** The main incentive for BDS to engage in the scheme and provide the training — payment for their training services — is challenged when other bodies offer similar services free of charge. Policymakers should encourage donors to engage with KDB to support the existing T&C scheme rather than duplicating efforts or implementing schemes that may not be sustainable in the long term.

**Regulator engagement.** Both traders and trainers report that the KDB's participation and engagement in the scheme has been lower than originally designed. The KDB has lacked buy-in or commitment to the scheme at both national and local levels, although engagement has varied in different offices. The KDB is taking too long (up to four years) to issue licences to traders and give accreditation to BDS providers. This slows down the ability of BDS to provide training and weakens one of the possible incentives for both traders and BDS to engage in the scheme. The low number of traders being trained and therefore new licences meant the KDB did not see the economic returns they had anticipated, which perpetuated their lack of commitment and buy-in. Traders, having paid for and undertaken training, did not get the licence they were expecting and so there is no incentive to train. The scheme can only be a success with buy-in and commitment from government at all levels.

### Pressure from vested interests.

The authorities are under increasing pressure from large processors in the formal dairy sector, who want to reduce competition and gain greater market access/coverage. As a result, policymakers are reluctant to support more inclusive, legitimising approaches to working with the informal sector. This could represent one of the greatest threats to the scheme's sustainability and long-term success.

**Bureaucracy.** A KDB licence is only one of many requirements traders need to fulfil before they can freely commercialise milk. Traders are confused by which licenses they need and when they need to renew them and often fail to see any positive return from having so many licenses. The amount of red tape involved presents a significant burden for small-scale businesses to formalise and the need for multiple authorisations dilutes the importance of the KDB licence.

### Lessons learnt

Food safety is of significant concern to governments and consumers alike. But people, including policymakers, are not necessarily good judges of food safety, and may think the informal sector is riskier than it is. Informal markets are essential for food security and will be a feature of economies in many developing countries for a long time yet. Most poor people buy from them and most poor farmers sell through them.

A heavy handed approach to formalisation will not work. Light-touch approaches that require minimal policy changes — such as voluntary training and certification schemes — can improve food safety and help the informal sector move along a pathway towards formalisation. Such approaches are more affordable and acceptable than trying to make radical, structural changes to the food sector.

Training and certifying informal market traders in Kenya has had sustained benefits: helping the government to protect public health, supporting the livelihoods of producers and traders and increasing the availability of milk to nutritionally insecure households. But for the scheme to be sustainable, there needs to be long-term, genuine government commitment, stronger incentives for traders and BDS to participate and greater efforts to promote the scheme among traders and consumers. Policymakers should look holistically at the need for business licences and authorisations, simplifying the number and types of licenses vendors require to operate legally. Greater co-ordination between the relevant government authorities demanding the licences would also be beneficial.

Uptake of the T&C scheme has not been as great as was expected. To encourage service providers to get on board, policymakers should encourage donors to collaborate and create synergies with existing schemes rather than set up new ones that compete with existing service providers. Rather than support other providers to offer additional training free of charge, donors should engage with KDB to support and subsidise the T&C scheme. It is important to ensure the regulator is fully engaged in the process. Without buy-in from them, there cannot be buy-in from trainers and traders.

Vested interests, such as strong corporate power, can work against more progressive, effective and inclusive policies. Government players need to withstand such pressure and show genuine commitment to better understand the informal economy if it is to work with informal actors towards inclusive formalisation.

Research played a key role in establishing the T&C scheme and evidence should be generated continuously on the risks and benefits of the informal sector and options for regulating it. The informal sector lacks a strong voice in policy discussions over the future of the milk sector. Strengthening milk traders associations could help bring their perspectives to the policy arena and help counter vested interests. NGOs also have an important role to play in advocating for disempowered stakeholders in the milk value chain, such as traders.

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RESEARCH PROGRAM ON  
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## Notes

<sup>1</sup> FAOSTAT (2010) Per capita milk consumption. <http://faostat3.fao.org/download/FB/CL/E> / <sup>2</sup> Smallholder Dairy Project (SDP) (2004) The demand for dairy products in Kenya. SDP Policy Brief No 1. Smallholder Dairy (R&D) Project / <sup>3</sup> Smallholder Dairy Project (SDP) (2004) Employment generation in the Kenya dairy industry. SDP Policy Brief No 2. Smallholder Dairy (R&D) Project / <sup>4</sup> FAOSTAT (2013) Volume of milk produced. <http://faostat3.fao.org> / <sup>5</sup> Kenya Dairy Board (2015) Milk intake in the formal sector. <http://www.kdb.co.ke/contact/milk-intake> / <sup>6</sup> Sirohi, S. Kumar, A. and Staal S.J (2009) Formal milk processing sector in Assam: Lessons to be learnt from institutional failure. *Agricultural Economic Research Review* 22 (2): 245–254 / <sup>7</sup> Kaitibie S, Omere A, Rich K, Salasya B, Hooton N, Mwero D and Kristjanson P (2009) Influence pathways and economic impacts of policy change in the Kenyan dairy sector. Research Report 15. ILRI (International Livestock Research Institute), Nairobi, Kenya. 58 pp / <sup>8</sup> Roesel, K. and Grace, D (2014) Food safety and informal markets: Animal products in sub-Saharan Africa. London, UK: Routledge / <sup>9</sup> Omere, A.O. MacDermott, J.J. Arimi, S.M. and Kang'ethe, E.K (2004) Analysis of public health risks from consumption of informally marketed milk in Kenya. *The Kenya Veterinarian* 27: 15-17 / <sup>10</sup> Grace, D., Omere, A., Randolph, T., Kang'ethe, E., Nasinyama, G.W. and Mohammed, T (2008) Risk assessment for *E. coli* O157:H7 in marketed raw and fermented milk in selected African countries. *Journal of Food Protection* 27(2):257-263 / <sup>11</sup> Grace D., Randolph T., Omere A., Schelling E., and Bonfoh B (2007) Place of Food Safety in Evolving Pro-Poor Dairy Policy in East and West Africa. *Revue d'élevage et de médecine vétérinaire des pays tropicaux*. 60 (1-4): 153-162