

## PERFORMANCE OF DAIRY COOPERATIVES IN RWANDA: OUTCOMES OF SELECTED CAPACITY DEVELOPMENT INTERVENTIONS

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### Background

Of the over 500 million liters of milk produced in Rwanda annually, about 63% is consumed through the informal marketing channel that may or may not include milk collection centers (MCCs)<sup>1</sup>. The remaining 37% is marketed through the formal channels that include milk processing. However, a ministerial order issued in 2016 by the Ministry of Agriculture and Animal Resources (MINAGRI) stipulates that all milk leaving the farm gate will be collected at MCCs where it will be tested for quality prior to being sold. This implies substantial reorganization of milk marketing in Rwanda. Majority of existing MCCs are owned by dairy cooperatives. However, most MCCs are poorly managed, lack continued training for maintenance of MCCs, lack pest control plans, and lack adequate refrigeration (especially during transport of milk from farms, as this depends on the distance from farm to MCC). These challenges are a threat to the sustainability of the MCC business model, but one that can be overcome with better management of the cooperatives. In order to design an upgrading strategy, it is imperative to undertake a deeper assessment of the capacities and performance of the cooperatives.

### Methodology

This study applies a quasi-experimental before-after design to assess the impact of selected business and governance capacity development interventions on the performance of dairy cooperatives. Baseline capacity and performance assessments were conducted by TechnoServe on 30 dairy cooperatives using the AgPOSA tool - a harmonized tool from two separate tools; a) the Producer Organization Sustainability Assessment (POSA) tool developed by

### Highlights

- **AgPOSA baseline results reveal that most of the dairy cooperatives had low scores in the dimensions of financial health, access to dairy inputs and services, engagement with output markets, and member loyalty. This affected their value proposition to current and potential members.**
- **47% of the dairy cooperatives were in the systems development sustainability stage at baseline, focusing on having the business running and finalizing foundation activities.**
- **40% of the dairy cooperatives were in the systems improvement sustainability stage at baseline, just starting to stabilize growth.**
- **In 2019, the dairy cooperatives undergoing the intensive capacity development interventions progressed to the stabilization and growth sustainability stage, that focuses on holistic business improvement.**

<sup>1</sup> Rwanda Dairy Development Program, 2016

the International Livestock Research Institute (ILRI) and TechnoServe and b) the AgroPro (Cooperative performance assessment tool) tool developed by Land O'Lakes Venture 37. The tool covers various dimension of sustainability of the cooperatives including financial health, engagement with output market, effective and transparent leadership and management, access to dairy inputs and services, relationship with external environment and member loyalty. The various dimensions are further categorized into sub-dimensions that are used for scoring the cooperatives that enables their categorization into various stages of sustainability of the businesses as indicated in the table below:

Table 1: Five stages of sustainability and its characteristic features

STAGE	STAGE 1	STAGE 2	STAGE 3	STAGE 4	STAGE 5
<b>SCORE RANGE</b>	0-20	21-40	41-60	61-80	81-100
<b>FEATURES</b>	<p style="text-align: center;"><b>Set-up</b></p> <p>Focus on business start-up.</p> <p>Focus on getting governance procedures in place.</p>	<p style="text-align: center;"><b>System Development</b></p> <p>Focus on getting business running.</p> <p>Focus on completion of foundation activities and implementing initiatives.</p>	<p style="text-align: center;"><b>Systems Improvement</b></p> <p>Focus on adding value to farmers and markets.</p> <p>Begin stabilizing growth across all dimensions and focus on financials.</p>	<p style="text-align: center;"><b>Stabilization and growth</b></p>	
				<p>Focus on holistic business improvement.</p> <p>Financials become key and strength in all dimensions for sustainability.</p> <p>More farmers mobilized to increase scale</p>	<p>Focus on long-term sustainability and differentiation.</p>

Four dairy farmer cooperatives that have a score of 21 – 40% were thereafter selected for an in-depth capacity development and mentorship intervention. Sixteen cooperatives (with a score of 41 – 80%) were selected for a lighter-touch intervention that focuses on market systems facilitation. Figure 1 shows the location of the cooperatives undergoing the interventions.

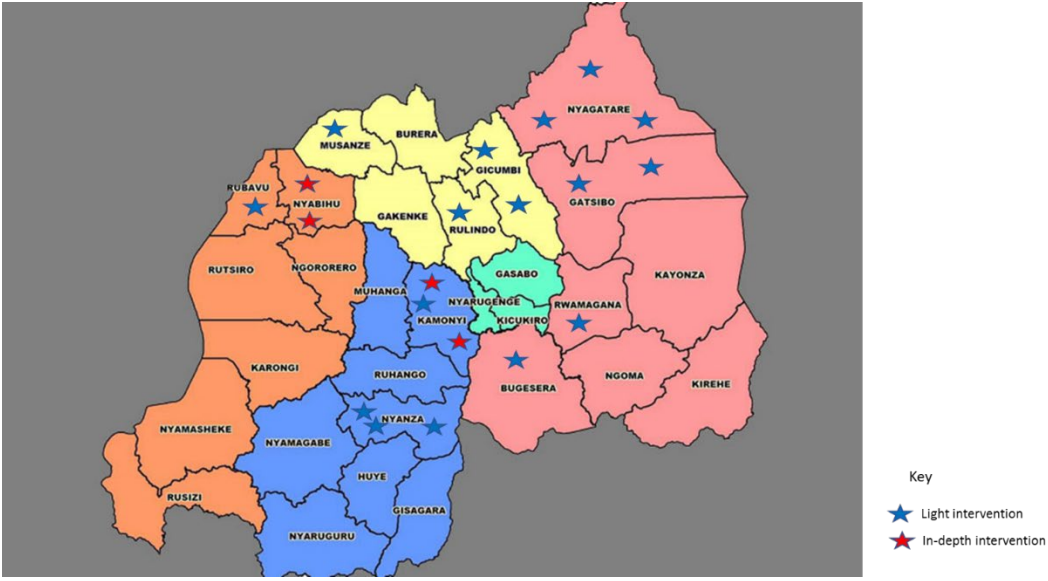


Figure 1: Location of the dairy cooperatives undergoing capacity development interventions

**Baseline assessment results**

Forty seven percent of the cooperatives were in stage 2, the systems development phase meaning that they are mainly focusing on getting the business running and finalizing on foundation activities (Figure 2). The cooperatives in this stage had low scores in the dimensions of financial health (FH), access to dairy inputs and services (ADIS), and member loyalty (ML). This affects the value proposition that the cooperative can offer its members.

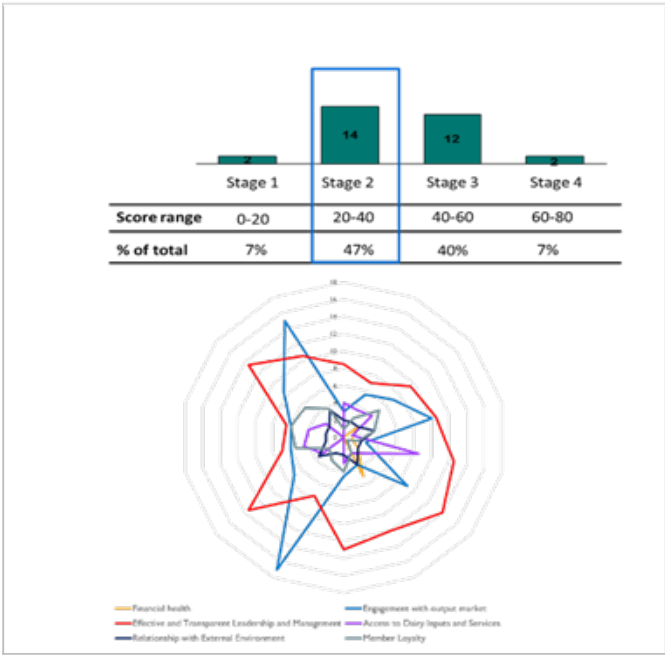


Figure 2: Cooperatives in sustainability stage 2

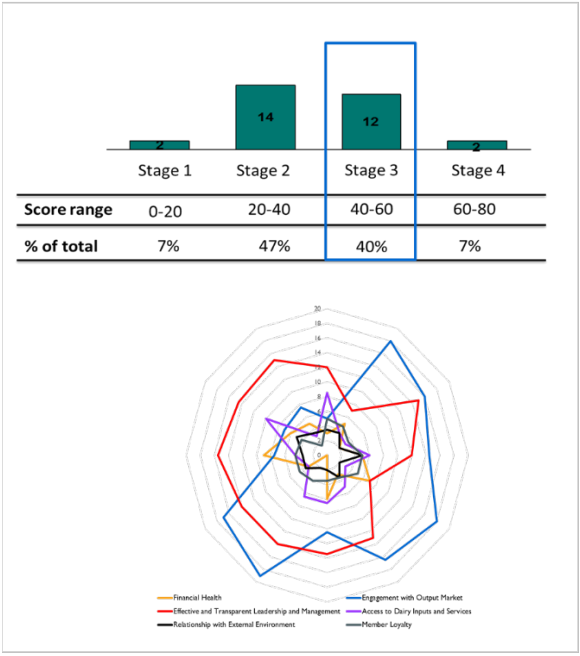


Figure 3: Cooperatives in sustainability stage 3

Forty percent of the cooperatives were in sustainability stage 3 (Figure 3) implying that they are improving their systems and stabilizing growth across dimensions but focusing more on their financial performance. The cooperatives in this stage have a higher score in engagement with output markets (EOM), and access to dairy inputs and services (ADIS) dimensions than their counterparts in stage 2. The scores on financial health (FH) and membership loyalty are still low. Few cooperatives (7%) are in stages 1 and 4. The identified capacity gaps from the assessment informed the capacity development focus of the intervention.

## Capacity development interventions and emerging outcomes

- **Training of dairy cooperative accountants:** Accountants were trained in record keeping, development of business reports and use of computers. TechnoServe developed a template that is used by the cooperatives to track and monitor all their data to understand its business health and performance. The accountants have been trained further on how to analyze the data and present it in a user-friendly manner to the Board of Directors (BOD), members and other relevant stakeholders. As a result of these trainings, there is improvement in the quality of reports by the accountants. In addition, financial decisions are now taken by the cooperatives based on data and not intuition.
- **Training of Board of Directors (BODs) of the dairy cooperatives:** TechnoServe trained the BODs of the cooperatives on leadership roles, board responsibilities and gender equity. The training exposed BODs to what makes a good leader, the key roles and responsibilities of both women and men in the business, and how to achieve accountability. The BODs were supported to develop strategies on how to reduce costs and increase milk supply to the MCCs. As part of monitoring and learning efforts, quarterly business performance reviews are conducted for the 4 cooperatives undergoing intensive training, and drivers for profitability discussed and strategies laid on how to attain them. With these trainings, it is anticipated that the BODs will be able to lead more effectively and ensure greater transparency, growth and accountability in the dairy cooperative businesses.
- **Learning Trips:** TechnoServe facilitated an exposure trip for 32 BOD members, managers and role model farmers from the four dairy cooperatives to Koperative Zamuka Mworozu Gicumbi (KOZAMGI) to learn best practices in managing a profitable dairy cooperative. In 2013, KOZAMGI was chilling 800 Litres of milk a day but are now chilling 8,000 Litres of milk a day. The chairman attributes this to good governance, efficient operations, good service delivery to the farmers and timely payments of farmers and staff. KOZAMGI has a market information system software with an integrated short messaging system notification to farmers. Information regarding price per liter, milk volumes supplied to the cooperative and payments to farmers is sent to their respective mobile phones. This creates transparency between the cooperative, transporters and farmers.

After the exchange, the visiting BODs, managers and role model farmers developed an action plan to streamline and formalize working relations with milk transporters to improve milk intake, and improve cooperative operations by having better governance procedures. For the cooperatives in Nyabihu district, a key constraint is high cost of transporting milk from the MCCs to the processor and other buyers, which is done by a private transporter who has a chilling truck. The BOD members decided to conduct meetings with both the milk buyers and transporters to negotiate better prices.

- **Establishment of Village Saving and Lending Associations (VSLAs):** VSLAs are accumulating saving and credit associations that mobilize and manage their own savings, provide interest-bearing loans to members and offer a limited form of insurance. TechnoServe introduced the concept of

VSLAs to the cooperative members to increase ownership and participation. The VSLAs provide members opportunities to save and borrow money in a self-managed manner. TechnoServe developed and produced VSLA materials, which are being used by the dairy cooperative saving groups. These materials are for recordkeeping of shares, fines, social fund, loans disbursed and for tracking the progress of VSLAs. As a result of these efforts, a total of 12 VSLA groups were formed comprising 3 VSLA groups per cooperative and made up of 25-30 members.

- **Linkages with business development service (BDS) providers:** Technoserve has facilitated the formalization of relationships between the 4 cooperatives and business development service providers, particularly for agroveter products and services. As a result of the strengthened linkages with BDS providers, there is increase in value proposition by the cooperatives and the number of members as well as non-members who seek the BDS services at the cooperatives has increased. In addition, farmers using the BDS have started reporting increases in milk production.
- **Producer dairy cooperative performance support system:** TechnoServe developed a performance support system linked to the output of the AgPOSA tool implemented at baseline. The purpose of establishing the system is to offer targeted in-kind support to the 4 cooperatives (undergoing intensive intervention) that effectively closes out identified capacity and capability gaps thus establishing an award process that balances performance, capital allocation and cooperative goals. The project conducted AgPOSA assessment for the 4 cooperatives and data generated was used to identify a set of interventions based on the identified capacity gaps. The next step is to discuss the interventions with the BODs and to make sure they are aligned to cooperative goals.

The 2019 AgPOSA assessment of the 4 cooperatives undergoing interventions, show that they have grown to the next sustainability stages (Table 2). The interventions are still ongoing and will end at the end of 2019. An endline AgPOSA survey will be implemented for all the 30 cooperatives surveyed at baseline to assess changes in various sustainability dimensions.

Table 2: AgPOSA survey for the 4 cooperatives undergoing intensive capacity development

Dairy cooperative (names with-held)	Stage at baseline(2017)	Baseline score (2017)	Stage at 2019	2019 score
1	III	55.8%	IV	62.9%
2	III	49.4%	IV	68.82%
3	II	35.8%	III	53.23%
4	III	52.53%	IV	67.74%

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