

Final Completion Report for COMPETE Grant

Submitted by: Insta Products (EPZ) Ltd.

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INTRODUCTION

Insta Products is the largest East Africa manufacturer that is exclusively involved in the fortified and enriched blended foods business. The business's products feed people who suffer from chronic lack of adequate nutrition. As such, it is skilled in procuring large volumes of quality food commodities, converting these into Ready to Use Therapeutic Food (RUTF) and pre-cooked enriched fortified blended foods (FBF), then distributing them through their broad NGO and Donor customer base to high need populations throughout East Africa. It centralizes the production of quality processed nutrition foods in needed volumes thereby fulfilling customer demand (and the human need) for these forms of food: UNICEF, MSF, and World Food Program to name a few of the largest. Insta's business thus supports the international Millennium Development Goals: "The international community has recognized halving the proportion of people who suffer from hunger by 2015 as one of its most important goals. And: ...to eradicate extreme poverty and hunger—by improving the productivity, profitability, and

sustainability of smallholder farms, creating pathways out of poverty for the rural poor.”¹ In addition, policies to attack hunger and malnutrition have been identified as one of the best ways to advance global welfare, particularly in developing countries.”²

Peanut based-Ready-to-Use Therapeutic Food (RUTF) is integral to the rehabilitation of severely malnourished people, the highest percentage of who reside in Africa. The demand for RUTF by humanitarian organizations such as UNICEF and Medecins Sans Frontiere (MSF) continues to exceed the regional supply. In business, high demand is a good problem to have, yet there are few businesses willing to tackle the challenges that RUTF manufacturing presents: stringent regulations, difficult transport, expensive inputs, ad hoc government regulations and customs, and a patented peanut formula. With the substantial assistance provided from the COMPETE project, Insta Products has established its RUTF business as a highly successful exception to these obstacles.

Insta Products began manufacturing RUTF in November of 2009 under a license agreement with Valid Nutrition. Their 92 gram sachets of shelf-stable RUTF are not unique to Insta. What is unique is having their manufacturing facility located in Kenya – a developing country that neighbors some of the most famine-prone regions on earth.

The USAID Competitiveness and Trade Expansion Program (COMPETE) learned of Insta Products in July of 2009. Interested in therapeutic foods as part of global food security, COMPETE invited Insta to submit an application for grant funding. At the time, Insta was struggling with a variety of factors that hindered business performance. They had just one RUTF packaging / filling machine that stopped the entire production process if it broke down, and a host of challenges with working capital, sourcing of inputs, logistics and transport.

Insta correctly recognized that if they were to be successful, they needed to scale up the business, identify external sources of working capital, and source more inputs from within the region. With USAID COMPETE support, Insta purchased two more packaging / filling machines to increase production capacity and add a back up for when breakdowns occur. This additional capacity created the scale that is essential to a sustained competitive position as a supplier of RUTF.

At present, Insta’s installed manufacturing capacity has tripled with product going into 4 surrounding countries. This increased production capacity is generating additional revenues of

¹ United Nations Millennium Development Goals

² www.copenhagenconsensus.com

US\$ 369,000 in January, 2012, and US\$ 398,000 so far in February with a conservative forecast of well over US\$ 500,000 in March. The Insta factory has 28 Kenyan employees working around the clock to fulfil orders. These orders are immediately shipped to children in the region suffering from severe malnutrition.

Insta Products is an ideal business model for increasing food security in East Africa – a sustainable market driven company that incentivises the agricultural products value chain, encourages local production, enhances industry capacity, and is located in a region that needs economic stimulus and quick access to the nutrition products Insta provides.

GRANT GOALS, OBJECTIVES AND OUTCOMES

A. Verifiable Result: Installed capacity of the RUTF plant increases from 1,500 MT per year to 4,500 MT per year within three months of grant disbursement.

Outcome

Obstacle: Installation of the two new packaging machines was delayed substantially due to the supplier making late delivery to Insta. This took over 6 months rather than the 3 they had warranted. The supplier delayed considerably beyond the timescales given to Insta and continually put back the delivery date due to circumstances not under their direct control.

Result: Once installation began, the factory capacity increased to 4,500 MT per year as targeted. COMPETE staff visited Insta in 2010 to observe the newly installed machines in operation.

B. Verifiable Result: Employment will increase by three people with the expansion. The expansion will safeguard the employment of 20 people, as running the factory at a capacity of 1500 MT is inefficient, and without expansion, it would be necessary to multi task and re-deploy some of the existing staff.

Outcome

Demand now requires that the factory work triple shifts. Factory employment has increased to 28 Kenyans with full time skilled and semi-skilled jobs.

Obstacle: Especially during the first year of the grant period, the factory experienced many down times due to a lack of working capital to purchase ingredients. This issue has been overcome and factory operating periods are more predictable and sustained. See C.

C. Verifiable Result: For competitively priced RUTF, lead times for the supply of RUTF reduces from 12 weeks, from Europe, to four weeks from Insta, thus facilitating the efforts of the Humanitarian relief organizations.

Outcome

Obstacle: Pricing is highly competitive and further complicated by local agents buying and re-selling RUTF. Lead times from Insta were at first longer than desired owing to the delays with the machinery and lack of working capital.

Results: Despite the above, after installation and full commissioning of the two new machines, order production times were reduced. The limiting factor for lead times then became access to sufficient working capital (to purchase the expensive ingredients). Working capital issues have been worked on with success. In 2010, Insta drew down on a Root Capital revolving loan facility of US \$300,000 and then Acumen Fund approved a further facility of US \$350,000. These two revolving loan facilities assisted greatly in increasing production and reducing lead times. New investors joined Insta (as of November 2011) and are also putting in hundreds of thousands of dollars of working capital to purchase buffer stocks of long lead time ingredients, further reducing lead-times. Combined, these infusions of short-term working capital permit Insta to quote 2-4 weeks lead times. As a recent example, the current order of 4,000 cartons of RUTF for UNICEF Southern Sudan will be ready within 2 weeks of order (including the 5 day holding period for QC analysis).

D. Verifiable Result: Insta sells RUTF to Humanitarian relief organisations at US\$ 4,300, or less, per metric tonne, thus providing the product at a lower price in Kenya than is currently available. Some relief organizations have reported incurring a landed cost in Kenya of over US\$ 6,000 per MT, as it is air freighted owing to the urgency of need.

Outcome

In 2010 Insta's RUTF was sold to UNICEF at US\$ 3,634 per MT. Other organizations were paying between US\$ 4,000 and US\$ 4,300 depending on terms. In the present 2012 market, with significant increases in most ingredients, Insta continues to offer RUTF at a competitively low regional price: US\$ 4,202 to UNICEF, US\$ 4,347 to other NGO's. These prices are significantly lower than the price of product imported by sea (and sometimes even air) from Europe, and the lead time is less than half.

E. Verifiable Result: Insta becomes a regional supplier of RUTF, through Humanitarian relief organisations that are based in Nairobi, but provide famine relief to a wider East Africa,

and through marketing into Insta's designated territories (Eritrea, Somalia, Southern Sudan, Kenya, Tanzania, Uganda, Rwanda, Burundi, eastern DRC, and Madagascar).

Outcome

Insta is now a well-known and established supplier of RUTF in East Africa. It has won two tenders, two years running from UNICEF and is in the process of signing a "Preferred Supplier Contract" with MSF.

These long term supply contracts with the two major purchasers of RUTF globally are proof of the COMPETE grant premise that lower cost and locally available RUTF provides value to users and develops a sustainable business for a supplier. Insta's RUTF is at present distributed to Somalia, Southern Sudan, Burundi, and Kenya.

Obstacle: Insta's RUTF manufacturing and sales agreement with Valid Nutrition came with a excessive royalty payment that took a substantial amount of margin out of sales revenue. Insta could not earn enough in profits to grow out of its borrowed working capital dependency. In 2011 the business came to a standstill over this for several months. Finally, the new investors in Insta paid off the Valid Nutrition obligation and that agreement was cancelled. Immediately after this event Insta obtained a direct patent usage agreement from Nutriset with far more favourable royalty terms. This has propelled RUTF business performance in 2012. Importantly, the agreement with Nutriset has greatly increased the number of countries Insta may have their product distributed in.

F. Verifiable Result: Insta will reinvest cash flow from RUTF to expand production up to 12,000 MT per annum, subject to attracting sufficient demand for the product.

Outcome

Obstacle: Cash flows remain constrained. All resources are being retained in the business as it stands. Existing capacity of 4,500 MT per year has the potential for attractive earnings, that when attained, will justify the expansion. Demand is there for the 12,000 MT but the working capital to support such scale will be a challenge at approximately three million USD per month.

Result: New investors in Insta have purchased machinery to upgrade and expand the factory third quarter 2012.

G. Verifiable Result: There will be an increased demand for peanuts in East Africa, with benefits to the smallholder sector and manufacturing. At 4,500 MT annual capacity, Insta will

require 1,170 MT of peanut paste, an increase of 780 MT. If 12,000 MT production is achieved, then demand for peanut paste will be 3,120 MT per annum. Because peanuts are typically grown by smallholders, this demand will lead to enhanced income for smallholders.

Outcome

Insta's recent peanut paste use is between 36 and 40 MT per month. This is forecast to more than double by mid 2012. Peanut paste is at present being sourced from South Africa. Zambia, Uganda, Malawi are being explored as alternative sources with Kenya as a longer term option.

Obstacle: Quality and safety remain a chronic issue. Even with the peanut paste from South Africa there have been several major failures to conform to Insta's specifications. Mombasa port has become temporarily unusable due to the slow clearance and off-loading, so air transport is used. This use of air transport seriously drains margins.

H. Verifiable Result: There will be an increased demand for vegetable oil from local suppliers. The increase in capacity from 1,500 MT to 4,500 MT of RUTF will increase the requirement for vegetable oil by 600 MT, to 900MT.

Outcome

Insta purchases its vegetable oils locally. Purchase orders or invoices can be summarized and provided upon request. Recent use is between 28 and 35 MT per month. This is forecast to more than double by mid 2012.

DEFINITION OF SUCCESSFUL GRANT OBJECTIVE ACHIEVEMENT:

“The success of the grant can be defined by:

1. the achievement of installed capacity at 4,500 MT - **Successfully completed.**
2. with subsequent demand for the product – **Successfully completed:** two UNICEF and one MSF long term supply contracts
3. resulting in the further expansion of the facility – **Planned for third quarter 2012;** machinery has been purchased by new investors
4. Benefits will accrue to other local manufacturers and to smallholders who supply those factories - **Successful outcome:** Insta purchases sugar and refined vegetable oil from Kenya, milk powder has been purchased from Kenya and will now also be supplied from Uganda. Peanut paste sources (currently supplied from South Africa) are being explored in Zambia, Malawi.

5. Humanitarian relief organizations will be able to buy RUTF at lower cost and available at shorter lead times, reduced transport costs, smaller economic order quantities – **Successful Results**, demonstrated by RUTF sales to local and international NGO's in amounts from a few cartons to 9,000.
6. leading to a more effective utilization of the budgets (helping more people who are severely and acutely malnourished.” – **Successful Result** demonstrated by local sales and growing local demand for Insta's affordable and readily available RUTF.