The Policy Environment of Kenya’s Dairy Sector

Key points

- A supportive policy environment is needed to aid the development of Kenya’s dairy industry, which contributes significantly to employment, public health, and the overall economy of the nation.

- However, certain policy issues need to be urgently addressed, including the pace of review of policy and legislation, the appropriate enforcement of regulation, the development of institutional capacity, and widened stakeholder representation.

- Specific policy priorities relate to provision of veterinary services (particularly health and breeding services for cattle), access to credit, and road infrastructure improvement.

- Current policy and legislation initiatives need to take full account of broader national goals (such as the creation of employment and poverty reduction) and the reality of systems presently operating in the dairy sector.

Introduction

Kenya’s dairy industry is one of the most impressive in the developing world, and can boast a century of progress (box 1). The country contains 70 percent of the dairy cattle in eastern and southern Africa. The importance of milk production, marketing, and processing to the wealth, and health, of the Kenyan people cannot be overstated.

However, it is also true that a number of constraints have hampered the development of the sector, limiting the ability of many agents to operate to their full potential. Current attempts to formulate constructive and supportive policies are crucial to the future of Kenya’s dairy industry.

This brief looks at the current impact of policy and associated legislation upon the various agents operating in the dairy industry, and considers what progress might be made in policy development.

The policy and legislative environment

Current important policy-related issues include:

- **Pace of policy revision.** The Dairy Development Policy was first formulated in 1993 to guide the industry through the liberalization process initiated the previous year. The policy was updated in 1997 and revised, after wide stakeholder consultation, in 2000, when it was accompanied by a draft Dairy Bill, which is yet to be enacted. The process has been slowed by frequent structural changes at ministry level. While this change process drags on, conflicts in regulation and implementation of dairy policies continue to dog the sector.
Regulatory consistency. Since market liberalization in 1992 informal milk sales have grown in prominence, but most informal traders are not licensed. Licensing is pegged on possessing fixed trading premises, thus excluding most itinerant traders. Although this requirement is not based on the Dairy Industry Act, it is enforced by the Kenya Dairy Board (KDB) under the Public Health Act (Cap. 242). This situation exists despite research showing little difference in the quality of milk samples collected from unlicensed itinerant traders and licensed fixed vendors. Many traders have indicated their willingness to pay cess in return for licensing and the security of legal status.

Institutional capacity to enforce regulations. The general lack of capacity to enforce dairy industry regulations, and the implications for the dairy enterprise, is exemplified by current concern over the variable and often poor quality of livestock foods. Liberalization of the feed market has allowed many processors to penetrate the market, supplying the concentrate cattle feeds which, in intensive dairy production systems, account for over 40 percent of costs. However, the Kenya Bureau of Standards lacks the resources and capacity to adequately monitor feed quality, creating loopholes for some feed manufacturers to reduce quality standards, especially when certain feed ingredients (such as oilseed cakes) are scarce.

Stakeholder representation. A significant number of stakeholders in the dairy industry have little or no effective voice in decision making, particularly smallholder producers, and raw milk traders in the informal market and their customers. However, if the interests of all stakeholders are to be addressed, effective representation, whether on the Kenya Dairy Board, or in other stakeholder associations, is crucial. In this respect, the increasing role played by cooperatives in milk production and marketing may provide a pathway by which the voice of small enterprises might be heard.

The infrastructure and services environment

Operators at each stage of the production, distribution, processing, and marketing chain are affected by policy issues related to infrastructure and services:

Provision of health services. Health provision has been hampered by slow privatization of veterinary services. Eight years after the setting up of the Kenya Veterinary Association Privatization Scheme (KVAPS) in 1995 to assist this process, only 13 percent of registered veterinarians are engaged in private practice. Current legislation is not encouraging: the Veterinary Surgeons Act (Cap. 366) prohibits animal health certificate or diploma holders from practising veterinary medicine—a degree is the minimum requirement. In addition,
the Pharmacy and Poisons Act (Cap. 244) prohibits veterinarians from engaging in drug sales, reducing the viability of private veterinary practice. The market gap has been filled by a large increase in the number of agro-vet shops (often manned by unqualified staff) supplying animal health products, introducing potential danger of drug misuse and abuse.

**Provision of breeding services.** Breeding services, including artificial insemination (AI), have also not developed as hoped since privatization. There are only 300 private AI service providers to date (entry restrictions include non-recognition by the government of inseminators trained by the private sector), and the cost of imported semen is high. The alternatives for smallholders are not attractive—bull service, with the associated risks of inbreeding and disease, or the local semen provided by the Kenya National Artificial Insemination Services (KNAIS), which is perceived to have a high failure rate. Since there are many institutions playing different roles in dairy genetic improvement it was proposed in 1993 to group them together under a Kenya Livestock Breeders Organization charged with the responsibility of developing a self-sustaining breeding programme.

**Access to credit.** Lack of access to credit is one of the major constraints facing small-scale farmers.
Formal institutions often require collateral that many borrowers may not have, and charge high interest rates. Microfinance institutions that can meet the needs of small-scale entrepreneurs at relatively favourable terms are still thin on the ground. Policy reforms were proposed in 1997 to establish an Agricultural Development Bank (ADB) as a subsidiary of the Agricultural Finance Corporation (AFC), and to get commercial banks to increase their minimum lending to agriculture from 17 to 20 percent of their deposit liabilities. Although these are yet to be achieved, AFC is on the rebound with new funding and management this year after near collapse from mismanagement and political interference.

**Market accessibility.** Given the high perishability of fresh milk, an efficient collection, processing, and marketing system is crucial to the overall viability and profitability of commercial dairying. Feeder roads play a key role in the efficiency of milk collection. However, many roads have been inadequately maintained and are in poor condition. The cess collected from milk sales is not used for maintenance of feeder roads, whereas the cess charged on cash crops such as tea and coffee is used for this purpose. The Kenya Roads Board (KRB) has been established to oversee the development of the road infrastructure, acting through various agencies.

**Conclusions**
This review of current policy issues and their implications highlights certain priorities:

- There is an urgent need for a quick review of the policies and regulations that are not in tandem with broader national goals (e.g., creation of employment) and the economic reality of the day.
- Harmonization of the different acts that affect the dairy sector is required to reduce existing conflicts.
- Private service provision should be encouraged with appropriate policies to fill gaps created by the liberalization process. Where that is not possible, sustainable alternatives should be sought, such as the introduction of cost sharing, or the training and equipping of community-based service providers.
- Institutions charged with the implementation of stated policies and regulations should be made effective by provision of adequate resources and capacity. Where appropriate, institutions should explore alternative systems, such as self-regulation and partnership with the private sector.
- Full representation of all stakeholders on key bodies which influence policy would ensure that the process of policy reform fully reflects the economic realities currently operating in the dairy sector.

---

1 Ethiopia has 1 percent, Uganda 3 percent, Tanzania 7 percent, Zimbabwe and South Africa 19 percent.
3 A Ministry of Livestock Development was created from the Ministry of Agriculture in 1979. The two were merged in 1983, split again in 1986, merged in 1992, and split again in 2003.
4 See brief 1, ‘The Demand for Dairy Products in Kenya’.