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Executive Summary

Introduction

While it is difficult to pinpoint a particular consistent agricultural policy in Kenya since both objectives and strategies have been changing over time, a survey of National Development Plans and Sessional Papers (GOK 1965, 1974, 1986, 1994a, 1994b, 1996, 1997a, 1997b, 1997c) shows that the broad objectives have been growth, equity and participation. Other common themes in Kenyan agricultural policy have included increased food supply, security and self-sufficiency, growth in agricultural employment, expansion in exports, resource conservation and poverty alleviation. Given the importance of dairy in Kenya to farmers, consumers and the economy, policies towards the dairy industry will have important implications for these overall objectives of growth, equity, and security.

This report presents a review of the policy environment for the dairy industry in Kenya. The overall objective of the study was to identify and document components of the policy environment concerning dairy input and output markets, relevant stakeholders and their roles, the regulatory environment and factors constraining the implementation of those polices. Besides the review of relevant written policies, information was gathered in discussions during visits to key stakeholders, government officials, regulatory authorities, donors, non-governmental organisations, other knowledgeable key informants in dairy matters, and at a stakeholder workshop held to present and discuss preliminary findings.

This review is divided into an executive summary and four sections. Section one traces the evolution of the dairy policy environment in Kenya from independence and gives a general overview of the present situation. Section two focuses on the regulatory frameworks that affect dairy production: cattle feeds, animal health, breeding and agricultural credit services are some of the areas reviewed. Section three looks at milk collection, processing and marketing. The regulatory frameworks for milk markets are reviewed and an assessment of the impacts of external milk trade and the informal milk market made. The section also discusses the potential effects of international trade rules and standards and a brief on the various stakeholders involved in milk collection, processing and marketing. Section four summarises the outcomes of the review, and discusses the policy implications.

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Milk production

Some of the main constraints to increased milk production have been identified as inadequate quantity and quality of feed, including limited use of manufactured cattle feeds, and poor access to breeding, health and credit services. In some areas, poor access to output markets reduces the incentives to increase milk production.

Farmers typically regard manufactured feed as being too highly priced, which contributes to its limited use. However, the major policy issue in feeds is the highly variable and often low quality of cattle feeds found on the market. The Kenya Bureau of Standards (KEBS), which is responsible for developing and enforcing quality standards, lacks the capacity to do so. The Ministry of Livestock and Fisheries Development (MoLFD) is currently addressing the need for a specific regulator for the animal feeds sub-sector.

After 1986, the government moved gradually from subsidised services to eventual privatisation of several veterinary services. Privatised or commercialised services in animal health include: clinical services, artificial insemination, management of cattle dips as well as production and distribution of drugs and vaccines. A major step taken to implement the veterinary privatisation policy is the loan guarantee fund, the Kenya Veterinary Association Privatisation Scheme (KVAPS), established in 1995 to assist veterinarians to get start up capital. However, little progress has been made towards the provision of more efficient private veterinary services. Between 1995 and 2001, only 55 loans had been processed. The apparent slow progress has been attributed to the poor state of the economy, competition from vets still working in the public sector, and regulatory bottlenecks that affect the viability of private practice. These bottlenecks include restrictions that require one to obtain a university degree before qualifying for a licence, restrictions that require only qualified pharmacists to sell veterinary drugs, and weak supervision of health service providers by the Kenya Veterinary Board. However, some 6000 community based animal health workers have also been trained in Kenya, and whilst working predominantly in arid and semi-arid areas, this cadre of community workers could potentially also play a role in service provision to smallholder dairy producers.

There are continuing concerns regarding the existence of several uncoordinated breed improvement organisations including the Kenya Stud Book, Livestock Recording Centre, Dairy Recording Services of Kenya (formerly known as the Kenya Milk Records), Central Artificial Insemination Station and the Kenya National Artificial Insemination Service. A proposal to bring these organisations under one umbrella over a decade ago has not been implemented. Further, although the government has intensified the training of private inseminators there is still a large gap in availability of artificial insemination (AI) services in many areas. At the same time, privately trained AI service providers are often not recognised by the government. Breed improvements have also been hampered by high charges levied by the government on imported semen and embryos, despite the waiver of import duty on agricultural inputs.

Despite the recognition of the important role of credit input in farming, little has been done to promote appropriate lending institutions for smallholders for several decades. There is evidence to support the contention that commercial banks are not well suited for credit provision and savings mobilisation in the agricultural sector in Kenya. The collapse of institutions such as the Agricultural Finance Corporation has left a gap in credit supply to farmers. The proposed Agricultural Development Bank that was intended to fill part of this gap has never materialised. Most formal credit currently available to smallholder farmers is provided through their own organisations (co-operatives and self-help groups), and increasingly through micro-finance institutions. However, requirements of collateral and high interest rates remain prohibitive to many who wish to access credit. Recent trends towards macro-economic and fiscal policies that promote lower interest rates, if sustained, will help smallholders access more affordable credit.

Milk collection, processing and marketing

Poor infrastructure and unfavourable regulations are the main constraints in milk collection, processing and marketing. 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. Overcoming these constraints is therefore critical. The high impact of poor roads alone on milk price is reflected in studies that estimate a price reduction of 47 cents per litre per kilometre of bad road.

Though many marketing channels have evolved following liberalisation, the Kenya Dairy Board (KDB) has not developed consistent criteria for the licensing of some market intermediaries such as raw milk traders. Despite the entry of many processors into the market since market liberalisation, fewer remain in operation, and hardly any operates at full capacity. KDB records show that in 1997 there were some 45 registered private milk processors handling over 400 thousand litres of milk daily. However, the number of operational processors has been fluctuating and by February 2003 there were less than 30 operational dairy processing outfits. The processing market has assumed a potentially oligopolistic structure with four processors controlling more than 60% of the market.

It is noted that despite efforts to promote this channel of milk marketing, the quantity of processed milk has remained about the same for nearly a decade at approximately 500 thousand litres per day leaving over 80% of the volume of milk sales going directly to consumers or through raw milk market intermediaries (Omore et al. 2002)[1]. The main participants in the raw milk markets are dairy co-operatives, milk bars, middlemen/traders, and farmers.

The main policy issue in milk marketing relates to the licensing and regulation of the many players in the raw milk trade. The dairy industry is still, by and large, dominated by the pre-liberalisation mindset. For instance, trade in raw milk is still deemed illegal even when nothing in the law (Dairy Industry Act (DIA) Cap 336) explicitly outlaws it. Indeed the draft dairy policy (2000) has recognised the critical role played by raw milk vendors as stakeholders in the industry. Another major policy issue relates to the inconsistency between policy statements and the supporting legal framework. The dairy industry is still regulated by the Dairy Industry Act (Cap 336) (MoALD 2000a), first enacted in 1958 and which has not been amended to take into account the changed socio-economic environment. The reluctance to proactively bring all cadres of raw milk traders into the licensed and regulated milk trade in Kenya (unless they form groups and have fixed premises that can be inspected) sharply contrasts with efforts to do so in neighbouring countries, e.g. Uganda and Tanzania.

Regulations in the dairy industry are mainly driven by perceptions of public health threats.

[1] Processed milk sales by KCC alone reached a peak of approx. 1,000,000 litres per day in 1988/89, partly due to the school milk programme that was in existence then.

However, the fact that regulations to reduce public health risks could have negative social consequences in terms of reducing employment opportunities for small-scale traders, or increasing the price of milk to poor consumers, is rarely recognised. Households in Kenya almost universally practice boiling of marketed milk before consumption. Since boiled raw milk is safe for human consumption, (because all bacterial pathogens that may be present in milk are killed by boiling (Omore et al. 2002)), dairy policy should recognise this fact. Recognising that some balance of the public health and social or economic tradeoffs may be necessary, and so some accommodation of regulated raw milk markets is not necessarily a threat the formal dairy industry, which is important for milk supply in major urban centres and for export trade expansion.

It is perceived that there are current and potential threats to the local market from the World Trade Organization (WTO) agreements of which Kenya is a signatory. However, given the strong domestic market and limited external dairy trade, it is not clear whether this perception is based on solid evidence, and some effort is needed to analyse the implications of each WTO regulation and the best implementation mechanisms so as to minimise negative effects. Officially, recorded quantities of imported milk products (mainly milk powder) are relatively insignificant and should not affect the local market.

Institutional capacity and stakeholder representation in the dairy industry

A running theme in this report is that of weak organisations and inadequate resources that limit effective implementation of stated policy and regulations. It has been noted that the major institutions involved in the industry such as: Central Artificial Insemination Station (CAIS), Kenya Veterinary Board (KVB), KDB, Ministry of Health (MOH), KEBS and MoLFD) often lack adequate resources to fulfil their roles effectively. Additionally there is often inadequate human and technical know-how. The KDB is attempting to address this issue through a restructuring process that also aims to transform the body from what has been a policing organisation to an effective regulator and development catalyst.

Related to this is the issue of effective stakeholder representation. Given the realities of dairy production and marketing outlined above, a very significant number of stakeholders have little or no effective voice in decision-making on the industry. Key amongst these are the consumers, most of whom are consumers of milk from the informal/raw milk market, and the market agents that supply most of that milk. This lack of representation is not surprising, given the lack of organisation both of consumers and of informal market players. 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.

Lastly, poor co-ordination and information sharing between the various institutions and stakeholder groups in the dairy industry has been a matter of concern over the years. Though some steps have been taken to harmonise the operations of some institutions, for example the initiative to bring together the Kenya Stud-Book (KSB) and the Dairy Recording Services of Kenya (DRSK) under the Kenya Livestock Breeders Organisation (KLBO) to deliver efficient breeding services, the process has been slow.

Summary of conclusions

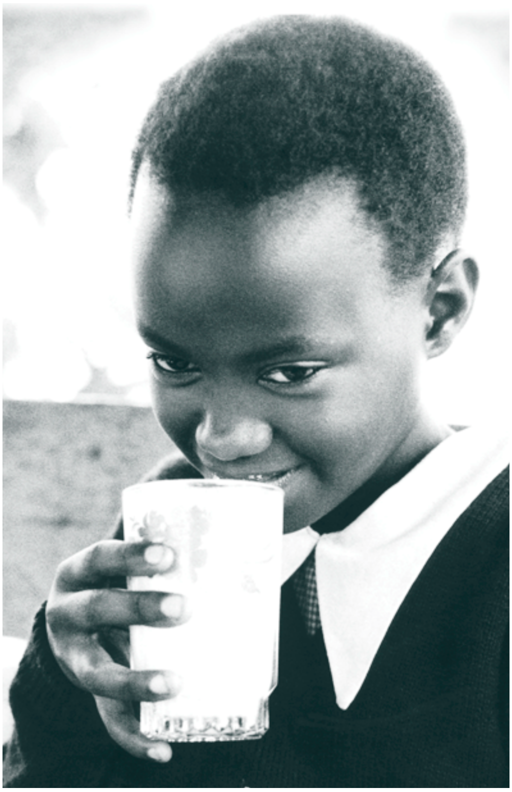
The key points emerging from this review are the following:

- 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

These points lead to the following recommendations:

- 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. Accomplishing this may require revisiting licensing regulations for private 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. It is noted that the Kenya Dairy Board has embarked on a restructuring process aimed towards becoming a potentially more effective facilitating and regulatory organisation.
- Full representation of all stakeholders on key bodies which influence policy would help ensure that the process of policy reform fully reflects the economic realities currently operating in the dairy sector.

Overview and evolution of the dairy policy environment



Dairy policy setting at independence

While indigenous Kenyans have kept cattle and had milk as an important part of their diet traditionally, commercial dairy farming in Kenya started at the beginning of the twentieth century when colonial settlers introduced dairy cattle breeds from Europe.

The development of Kenya's formal dairy industry therefore spans about 100 years. For the first 60 years, milk production was an activity dominated by large-scale colonial settlers who occupied most of the medium to high potential areas in Central, Rift Valley and Eastern provinces. During that period, indigenous Kenyans were not permitted to engage in commercial agriculture. The status quo remained until 1954 when a significant policy change occurred following the release of a colonial policy document, the Swynnerton Plan, which introduced changes that allowed indigenous Kenyans to practice commercial farming.

The attainment of independence in 1963 ushered in a new regime with a radical development agenda. At the core of the new policies was welfare and equity in distribution of the nation's resources. This aspiration has consistently been reflected in various government policy statements in presidential and ministerial speeches, sessional papers, development plans, budget speeches and cabinet memoranda. The Sessional Paper No. 10 of 1965 on African socialism and its application to development planning in Kenya (GOK 1965), one of the earliest policy documents, for example, set out as one of the major developmental objectives, the need to achieve high and growing per capita incomes equitably distributed among the citizens.

Agriculture was often fingered for policy intervention because of its dominance in the economy and the desire to 'Africanise' the large settler farms in the highlands.

The immediate post-independence period saw one of the major land ownership transformations in Kenya. Land reforms involving acquisition, subdivision and redistribution of the hitherto large-scale agricultural farms were initiated and thereafter, large numbers of smallholder farmers started engaging in dairy production. By 1965, the cattle population on large farms had declined to 250 thousand from 400 thousand in 1961. The smallholders started to take the lead in development of market-oriented dairy production. Past estimates put their number at approximately 625 thousand (MOA 1996; Peeler and Omore 1997) producing and marketing about 56 and 70% of national milk output, respectively (Omore et al. 1999). However, strong evidence is emerging that in the absence of a livestock census since 1969 these estimates may significantly understate actual numbers of cattle and milk production, and even of smallholder producers (Waithaka et al. 2003 (Western Kenya)); Staal et al, 1998 (Central Kenya)). Later studies (SDP 2003b) have lent further credence to this argument by showing that livestock numbers and figures are understated in some districts by up to four times. This suggests that the government could be making policy statements on the basis of inaccurate figures.

Contributing to the growth in smallholder participation was a deliberate effort by the government to help build a strong dairy sector after 1963, by intervening with highly subsidised input services for animal health, production and breeding. Many veterinary clinical centres were set up and highly subsidised artificial insemination services and bull schemes established. Dipping programmes were organised and where there was a shortage of veterinary staff, expatriates were hired, while training for local staff was intensified at Animal Health and Industries Training Institutes (AHITI), colleges and universities. Thus, many animal health and production officers were trained and deployed mainly in the medium and high potential areas to provide services to farmers. The active government support for these services soon resulted in a rapid increase in the amounts of milk produced nationally.

Evolution of milk marketing policy

Until the advent of the Kenya Dairy Industry Act (DIA) Cap 336 in 1958, traditional marketing of milk existed without any control. Africans started engaging in commercial agriculture and keeping grade cattle in 1954 after the adoption of the Swynnerton Plan. This colonial policy plan was preceded, in 1950, by a development plan for Central Province that allowed private land ownership and the onset of the current freehold system of land tenure.

The Swynnerton Plan allowed smallholders to engage in cash crop production and keep improved livestock. Along with it also came deliberate efforts to strengthen the marketing of farm produce by small-scale farmers. This saw the emergence of co-operatives and other agencies for marketing of agricultural produce. The DIA was enacted mainly to protect the market interests of the then expanding large-scale commercial dairy enterprises, and to fulfil a need for statutory control to enable continued orderly dairy marketing of improved quality products.

Through the DIA (Cap 336) Subsidiary Legislation, the dairy market was segregated into scheduled (urban or formal) and unscheduled (rural or informal) areas and the Kenya Co-operative Creameries (KCC) was appointed the sole agent of KDB in marketing of dairy products in the scheduled centres. Until the early 1970s access to KCC by smallholder farmers, though, was limited through contracts and milk quota systems that imposed entry restrictions particularly to those who could not meet the minimum quantities acceptable to KCC.

In 1964, the Government appointed a Commission of Inquiry on dairy development (the Kibaki Commission) whose recommendations included abolition of the contracted milk quotas and opening up of KCC to all farmers so long as milk was of acceptable quality. Consequently, KCC became a guaranteed market to all for raw milk and buyer of last resort. In order to raise its capacity to accommodate increasing volumes of milk, KCC embarked, with government guaranteed loans, on a rapid expansion programme during the 1970s and early 1980s when most of its 11 milk cooling and 11 processing plants were built. Meanwhile KCC enjoyed official monopoly access to an urban market so effectively protected that raw milk sales were relatively insignificant in the main Nairobi market.

Up to 1992 (1987 for ultra-high temperature treated (UHT) milk, milk prices for producers as well as consumers were officially set and the minister in charge of livestock development, in consultation with other relevant Government offices, would announce pan-territorial prices that applied across seasons of the year. In 1985, a price bonus was introduced to assist with feeding during the dry season that usually occurs between January and April.

Through this mixture of policies, Kenya was able to create one of the most developed smallholder dairy systems in any developing country, that currently accounts for over 70% of all improved dairy breed cattle in eastern and southern Africa. The country was to be broadly self sufficient in dairy requirements, except during extreme drought, and was occasionally able to export small quantities of dairy products to surrounding African countries and elsewhere (GOK 1993). At the sectoral levels, one of the first major policy statements was the National Livestock Development Policy of 1980, which identified measures aimed at achieving self-sufficiency. This included service provision in credit and marketing as well as research on breeding and production. That paper also addressed technical staff training and extension services.

By early 1980s, the interventionist policies that centred on subsidised production services were rapidly becoming unsustainable, as budgetary constraints became more severe. For example, there was significant budgetary under-provision in the allocation for various expenditure items of the then Ministry of Livestock Development in key areas such as transport operating expenses that were critical for delivery of field services. Budgetary allocations for transport declined from 32% to 8% of the projected norm between fiscal year 1983/84 and 1990/91 (Peterson 1991).

Highlights of current dairy policy environment

In 1986, Sessional Paper No. 1 on Economic Management for Renewed Growth, was released (GOK 1986). Like the sessional paper of 1965 it marked a major turning point in the policy environment as issues such as sustainability of service delivery took centre stage in policy making and greater emphasis was placed on the principle of beneficiary (cost sharing) support for services. Specific policy actions included: price decontrols and liberalisation of marketing; financial sector policy reforms; international trade regulation reforms; government budget rationalisation; divestiture and privatisation; parastatals reform; and civil service reforms. This sessional paper was to set the framework for significant changes in the policy environment surrounding the Kenya dairy sub-sector in the 1990s.

Current dairy development policy (1993)

In May 1992, the dairy industry was liberalised and prices decontrolled. The KCC's monopoly on urban milk sales was revoked, and those markets were opened to other private processors. A year later, the Kenya Dairy Development Policy (GOK 1993) was published to guide the dairy industry through the liberalised economy. This was the first comprehensive policy document on the dairy sector and its main objectives included:

- maintaining self-sufficiency and meeting increasing demand due to population increases and changing consumption patterns by improving efficiency in production, processing and marketing
- bringing about a smooth transition from the era of subsidised inputs and services to the new policies of cost sharing, full cost recovery and privatisation of services
- addressing the changes in production including increased intensification and use of grade and improved Zebu animals
- increasing production in Eastern, Nyanza, Western and Coast provinces by introducing grade animals and improving management and husbandry and

- tackling the following issues as they related to dairy:
  - optimal and intensified use of land to maximise dairy and food crops production
  - improved feed production
  - optimal use of farm residues
  - harmonised breeding programme to release improved breeding stock and upgrade Zebus
  - self sustaining AI services
  - self sustaining animal health and dipping services
  - improved research and extension services
  - develop proper pricing mechanisms
  - feeder roads improvement
  - distribution and processing issues
  - decentralisation of school milk programme
  - manage the deregulation of consumer prices
  - maintenance of strategic reserves
  - encourage the introduction of more processors to invest into the industry to deal with the then projected increase in milk production which KCC could not handle
  - decentralise and open the industry to competition as envisaged in the DIA cap 336 as revised in 1984, Sessional Paper No. 1 of 1986, National Livestock Development Policy of 1980 and Sessional Paper No. 4 of 1991 on employment.
  - address the future role of KCC
  - address issues of quality control.

At this stage, it should be noted that certain less obvious policy shifts were occurring in the general agricultural and therefore dairy policy. The stress on equity as a policy objective seemed to have been dropped. This was perhaps due to earlier perceptions that equity meant Africanisation in the immediate post-colonial Kenya. Equity policy, say between small-scale and large-scale producers or between poor vs. rich consumers seems to have suffered as a result.

The following year, Sessional Paper No. 1 of 1994 on Economic Recovery and Sustainable Development to the Year 2010 (GOK 1994a) was released to complement and build on the sessional paper of 1986. Coming after the 1992 UN Rio Conference on Environment and Development, this paper highlighted environmental and sustainability concerns which were to be considered in all activities including dairy farming. Also published in the same year was the revised National Food Policy (GOK 1994b), which underscored the critical role of dairy in food security and self-sufficiency.

In 1996, a sessional paper on Industrial Transformation to the Year 2020 was published (GOK 1996); accordingly, the informal sector would be encouraged to grow while industrialisation would be seen as simply a means of increasing the value of primary production. This paper made it easier for processors and manufacturers of dairy products to import equipment and expand. In 2001, an interim poverty reduction strategy paper (IPRSP) that outlines government strategies for combating poverty was published (GOK 2001b).

All these papers have significantly addressed the needs of the dairy industry.

Because of the reduction in direct public interventions described above, prices were decontrolled and most services in the dairy sub-sector were essentially left to private sector provision. In 1992, the dairy industry was liberalised through decontrol of dairy prices as a first step, and removal of the KCC monopoly in urban sales. The government had already decontrolled prices of meat (1987), animal feeds (1989), fertilisers, minor crops, domestically marketed tea, rice and wheat (1991), and cotton, sugar and maize (1992). However, the role of the government remained to create an enabling environment, control quality of products and services and enforce adherence to minimum standards.

Draft Dairy Development Policy (2000)

Four years after the first DDP (1993) a draft Dairy Development Policy (the current one is 2000 edition) was developed to update the existing policy and harmonise it with other existing policies in sessional papers and development plans and the economic environment in Kenya. Although the first draft was ready in 1997, it has not yet been finalised. The broad objective of the dairy policy is to ensure an orderly development of the dairy sub-sector and to promote an efficient and self-sustaining dairy industry that will effectively contribute towards the achievement of national development goals of poverty alleviation, industrialisation and employment creation. This is captured through the policy's theme 'Towards the Development of a Sustainable Dairy Industry'. The main thrust of the policy is to develop the dairy industry through collaboration and participatory effort by all stakeholders. The policy looks at short-, medium- and long-term goals and is cognisant of the country's competitive edge and advantage in milk production over others in the region. To achieve the overall objective of the dairy policy, the government will institute actions to enhance:

- access to appropriate dairy production technologies and inputs
- competition and efficiency in the dairy processing and marketing
- entrance of new milk processors in the rural areas to tap the potential in these areas
- delivery of region-specific and demand-driven extension messages that are tailored to suit the farmers
- overall productivity in dairying. This will include recognition of the need to improve the zebu cattle in the milk deficit areas
- collaboration with non-governmental organisation and stakeholders in the dairy industry in search for solutions to the problems which continue to constrain dairy development in Kenya
- conducive and enabling environment to allow investment by all stakeholders in the industry
- consumption and trade in wholesome milk and set standards for product quality, premises and mode of transport
- rationalisation and harmonisation of the co-operative sector to ensure continued developmental role in the dairy industry and

- management of surplus quantities of milk and management of strategic milk reserves. Possibilities to incorporate milk production in arid and semi-arid (ASAL) areas under irrigated agriculture will be explored and supported.

Significantly, both the new Dairy Development Policy (2000) and the revised Dairy Bill explicitly recognise the predominance of the domestic raw milk trade and the need to strengthen regulatory frameworks for informal trade in raw milk.

Legislative environment for the dairy sub-sector

The liberalisation of the dairy industry is an on-going process, which began in 1986 with the Sessional Paper No. 1 of 1986 (GOK 1986), peaked with the decontrol of milk prices in 1992 and continues today with review of dairy and related legislation and policy.

The development of Kenya's agricultural sector has been steered by a number of legislation, complete with implementing agencies and regulatory bodies, which together constitute the regulatory framework. Implementation of these policies involves provision of legal instruments such as Acts of Parliament, publication in the official Kenya Gazette and issuance of Legal Notices. Acts of parliament that directly effect the dairy industry include:

- The Dairy Industry Act (Cap 336) (GOK 1958, revised 1984; MoALD 2000a)
- The Public Health Act (Cap 242)
- The Food, Drugs and Chemical Substances Act (Cap 254) (GOK 1978b)
- The Veterinary Surgeons Act (Cap 366)
- The Pharmacy and Poisons Act (Cap 244) (GOK 1989b)
- The Agriculture Act (Cap 318)
- The Co-operative Societies Act (Cap 490)
- The Standards Act (Cap 496)
- The Animal Diseases Act (Cap 364) (GOK 1989a)
- The Land Act (Cap 280) (GOK 1982)
- The Factories Act (Cap 514)
- The Companies Act (Cap 486) (GOK 1978a).

To oversee implementation or enforcement of these laws, each Act has provided for the creation of a statutory agency, usually a Board of Directors, with specific functions and sufficient authority to execute prescribed functions. Very few of these laws have been revised to address changes that have occurred over the last ten years and some are even perceived to impose unfair restrictions on some stakeholders in the dairy sub-sector.

However, a review and rationalisation of Livestock Sector Policy and Legislation, which began in 1999, had not yet been presented to the Cabinet of the Kenya Government by 2003. This consultative process, co-ordinated by the Department of Veterinary Services (DVS) and KVB resulted in a rationalisation of the confused and multiple laws into five pinnacle statutes. The draft statutes are currently awaiting approval by cabinet. These pinnacle statutes are:

1. The Veterinary Medicines Bill, 2002
2. The Veterinary Practitioners Bill, 2002
3. The Meat Control Act

4. The Animal Disease Act

5. The Animal Welfare Act

The consultation process has been quite long and raised concerns among stakeholders about the slow pace of policy reforms within the sector.

In short, while the dairy policy environment has evolved in the last ten years, particularly towards less public sector control of and participation in markets, aspects of the regulations that impact the dairy sub-sector have not kept up with changes in policy. Partly as a consequence, some of the regulations contradictory to the new policy direction are not enforced. Others are not enforced due to lack of resources.

While less direct government participation in the dairy industry has reduced public sector influence, existing legislature and regulations still impact on industrial development and structure. This is also true for other developing countries where regulations and taxes rank first among the top four items identified as imposing the most serious constraints to enterprise development (Pfeffermann 2001). Broad macro-economic factors such as gross domestic product growth and foreign direct investment flows have been found to be positively associated with predictability of changes in laws and legislation and negatively associated with constraints imposed by taxes and regulations. The regulatory environment in the overall economy or sector development is thus crucial, and applies equally to the dairy industry, one of the most important sub-sectors of Kenya's rural economy.

The following sections will address these policies and regulations, attempt to clarify where and how contradictory policies occur, and describe their implementation.