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DAIRY PROJECT

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# SDP POLICY BRIEF 6

## 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.<sup>1</sup> The importance of milk production, marketing, and processing to the wealth, and health, of the Kenyan people cannot be overstated.<sup>2</sup>

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.<sup>3</sup> While this change process drags on, conflicts in regulation and implementation of dairy policies continue to dog the sector.



**Box 1.****Important dates in the history of Kenya's dairy sector**

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|------|---|
| 1903 | Establishment of Department of Veterinary Services to provide disease control and research services, particularly for the dairy cattle breeds being introduced from Europe.   |
| 1925 | Establishment of Kenya Cooperative Creameries (KCC) to process and market dairy products.   |
| 1954 | The Swynnerton Plan opens up commercial farming to indigenous Kenyans.  |
| 1958 | First enactment of the Dairy Industry Act (Cap. 336), setting up the Kenya Dairy Board (KDB).   |
| 1963 | Independence of Kenya is followed by the subdivision of European-owned farms, introducing many smallholders into a highly subsidized dairy industry.  |
| 1969 | Last livestock census in Kenya.   |
| 1971 | Abolition of the quota system, following the report of the Kibaki Commission of Enquiry on Dairy Development, ends the domination of KCC by large-scale producers.  |
| 1984 | Revision of Dairy Industry Act.   |
| 1991 | Privatization of artificial insemination (AI).  |
| 1992 | Liberalization of milk prices and marketing ends KCC's monopoly in urban areas and leads to the rapid multiplication of private sector dairying enterprises.  |
| 1993 | Dairy Development Policy introduced to help guide the industry from the old ethos of subsidization into a new era of privatization. The government's role is reduced to regulation and creation of an enabling environment.                               |
| 1995 | Kenya Veterinary Association Privatization Scheme formulated to assist the privatization of veterinary services.  |
| 2000 | Draft Dairy Development Policy explicitly provides institutional guidelines that are supportive of small-scale milk production and informal marketing. It also redefines the role of KDB to go beyond regulation and be a catalyst for dairy development. |
| 2000 | Draft Dairy Bill introduced.  |

**Regulatory consistency.** Since market liberalization in 1992 informal milk sales have grown in prominence,<sup>4</sup> 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.<sup>5</sup> 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.<sup>6</sup> 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,