

DAIRY INDUSTRY IN KENYA
2005



KENYA

EXPORT PROCESSING ZONES AUTHORITY



Copyright 2005

Export Processing Zones Authority
Administration Building
Athi River EPZ, Viwanda Road
Off Nairobi - Namanga Highway
P.O Box 50563, 00200 Nairobi
Kenya
Tel: 254 45 26421-6
Fax: 254 45 26427
Web: www.epzakenya.com
Email: info@epzakenya.com

For more information contact:

Evelyn Noah
Promotion Executive
Export Processing Zones Authority
Administration Building
Athi River EPZ, Viwanda Road
Off Nairobi - Namanga Highway
P.O Box 50563, 00200 Nairobi
Kenya
Tel: 254 45 26421-6
Fax: 254 45 26427
Email: enoah@epzakenya.com

Margaret Waitthaka
Manager, New Investment Department
Export Processing Zones Authority
Administration Building
Athi River EPZ, Viwanda Road
Off Nairobi - Namanga Highway
P.O Box 50563, 00200 Nairobi
Kenya
Tel: 254 45 26421-6
Fax: 254 45 26427
Email: mwaitthaka@epzakenya.com

Information provided in this report is intended to provide general information to investors. While every care has been taken to ensure the accuracy of this publication, no liability is accepted for any errors or omissions.

All the information on this report is the property of Export Processing Zones Authority – Kenya. Any part from the report may be reprinted or copied in their entirety without permission provided the source is acknowledged.

This report was prepared by:

PKF Consulting Ltd
Kalamu House, Waiyaki Way
Westlands
P.O.Box 47323 00100, Nairobi
Kenya
Tel: (254-20) 4446616-9
Website: www.klsa.net

International Research Network
4th Floor, Corner Plaza,
P.O.Box 11445 00400, Nairobi
Kenya
Tel: (254-20) 3741342
Website: www.irn.co.ke



TABLE OF CONTENTS

1. INDUSTRY OVERVIEW.....	1
2. INDUSTRY STRUCTURE.....	1
3. PRODUCTION.....	2
3.1. MILK PRODUCTION & PROCESSING.....	2
3.2. LIVESTOCK PRODUCTION SYSTEMS	3
3.3. DAIRY PRODUCTS.....	4
4. MARKET CONDITIONS.....	4
5. LEGAL & REGULATORY FRAMEWORK	6
5.1. KENYA DAIRY BOARD.....	6
5.2. KENYA BUREAU OF STANDARDS	6
6. REASONS TO INVEST IN KENYA'S DAIRY INDUSTRY.....	6
7. INVESTMENT OPPORTUNITIES.....	7
8. MAIN PLAYERS IN THE INDUSTRY.....	9
9. USEFUL CONTACTS.....	10
10. SOURCES OF INFORMATION AND GLOSSARY.....	10

LIST OF CHARTS PAGE

Chart 1	Milk production, 1999 – 2003	3
Chart 2	Dairy cattle distribution	3

LIST OF TABLES

Table 1	Types and number of licensed traders	2
Table 2	Volume and value of dairy products exports and imports	5
Table 3	Industry players	9

DIAGRAMS

Diagram 1:	Milk marketing structure in Kenya, 2004	5
------------	---	---



ABBREVIATION

KDB	Kenya Dairy Board
GDP	Gross Domestic Product
KCC	Kenya Co-operative Creameries
A.I	Artificial Insemination
WIPO	World Intellectual Property Organization
MT	Metric Tonne

Annual Average Exchange Rates (KShs to US\$)

Year	Rate
1998	60.4
1999	70.3
2000	76.2
2001	78.6
2002	78.4
2003	75.9
2004	80.0 (As at 31 st August 2004)

For latest rates click on <http://www.centralbank.go.ke/cbk/FXrates/archives.html>



1. Industry overview

Kenya's economy is heavily dependent on agriculture. Generally 75% of Kenyans earn their living from farming either directly or indirectly. Kenya is among few African countries whose food production has kept pace with its population growth. Only in 1984, a year of drought, was there a registered deficit in food production. Agriculture usually brings in over 6% of foreign exchange earnings and provides raw materials for Kenya's agro-industries, which account for about 70% of all its industrial production.

Kenya has one of the largest dairy industries in sub-Saharan Africa. Developments in the industry span over a period of 90 years and have undergone various evolutionary stages. In the first 60 years it was dominated by the large-scale farmers, while in the last 30 years smallholder farmers have increasingly dominated the sector, contributing over 80% of the total milk production. Secondly, it has evolved through three market periods:

- for the period up to 1969 it operated as an open market with various independent dairies being active market players
- between 1969 and 1992 and primarily due to the rationalization of the dairy industry by the Government, a monopolistic market situation was created
- from 1992 the Government liberalized the industry.

Up to 1992, the dairy industry in Kenya was under government control, which gave the policy guidelines, set prices, determined the players in the industry and set the market rules among other things. Kenya Co-operative Creameries (KCC) enjoyed a protected monopoly in the marketing of the milk and dairy products.

Presently, the dairy industry is regulated by the Kenya Dairy Board, established under Section 4 of the Dairy Industry Act Cap. 336 enacted by Parliament in 1958. It is from this Act that the Board derives its mandate.

Kenya is largely self-sufficient in milk production. Currently, the production stands at 3.1 billion litres per annum, though this is sufficient for domestic consumption, a lot more is required for the export market. Milk production in Kenya is based mainly on cattle, more so the dairy herd. Milk is also obtained from camels and goats. Kenya has an estimated cattle population of 13 million heads with dairy, mainly grade cows, amounting to 3.3 million and beef amounting to approximately 9.7 million.

The Kenyan dairy industry is based mostly on smallholder milk production. About 600 000 smallholders produce some 70% of the country's marketed milk. Approximately 56% of this milk is sold raw in the unregulated informal market; leading to public concerns about hygiene and safety.

The Government of Kenya, in recognition of the role of private sector in spearheading industrialization, has put in place a policy framework to foster the creation of a conducive environment for private sector participation in economic development. The Kenyan dairy industry has potential for spurring substantial growth in the economy. Some of the investment opportunities available include artificial insemination services, dipping services, clinical services, rearing of livestock for dairy products and milk processing for local and regional markets. Attractive incentives are available to investors.

2. Industry structure

By the end of 2000 there were around 1,500 licensed informal milk traders in the country as shown in Table 1. Four main categories of traders are recognised by the KDB. These are producers, milk bars, mini-dairies and cottages. These traders pay an annual licence fee ranging from KShs 1,000 to KShs 5,000. According to the Kenya Dairy Board, only 34 processors are operation in 2004, processing 1,000,000 litres of milk per day.



Table 1: Types and number of licensed traders (2000)

Area	Producers	Processors	Milk - Bars	Milk – dairies	Cottage	Total
Nairobi	499	11	170	6	8	694
Mombasa	65	3	2	-	24	94
Naivasha	73	3	52	2	3	133
Nakuru	65	7	61	2	9	144
Kericho	20	3	-	-	-	23
Kisii	11	-	-	-	-	11
Kisumu	29	3	-	-	-	32
Kakamega	16	-	6	1	1	24
Eldoret	32	2	22	4	-	60
Kitale	31	3	5	-	-	39
Nyeri	115	4	22	4	4	149
Embu	51	1	24	2	1	79
Meru	6	1	18	1	-	26
Narok	15	-	10	-	-	25
Voi	15	1	1	-	-	17
Total	1043	42	393	23	51	1550

Source: KDB, 2002

The total inbuilt capacity of Kenyan processors is estimated at 2.5 million litres per day. These processors produce a wide range of products namely Fresh milk, Yoghurt, Mala (Sour milk), Ice Cream, Cheese, UHT (Ultra High Temperature) milk, Powder milk, Butter and ghee.

3. Production

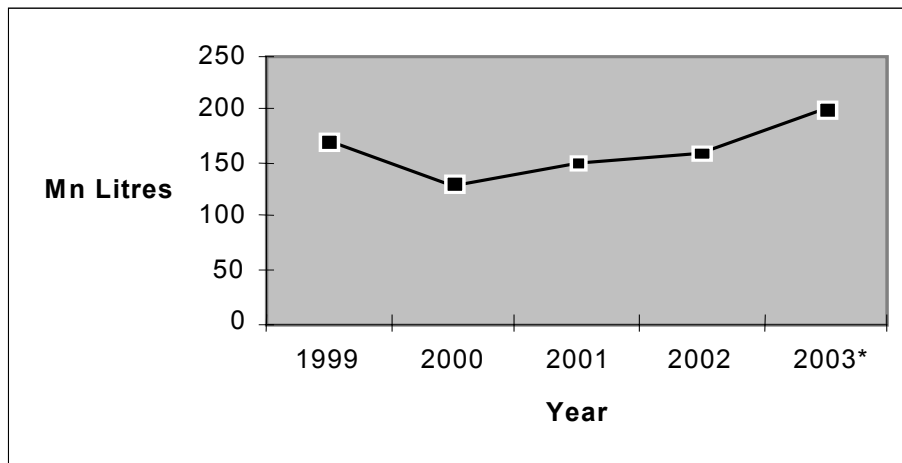
3.1. Milk production & processing

The country has about 3.3 million livestock of milk producing ability and 70% of total milk production comes from grade and zebu cattle. Milk production is in excess of 3.1 billion litres per year and the country is self reliant in milk and milk products except in years of drought.

The installed processing capacity in the country is estimated at 900 million litres per year. The total recorded milk production rose by 14% from 178 million litres in 2002 to 203 million litres in 2003.



Chart 1: Milk production, 1999 – 2003

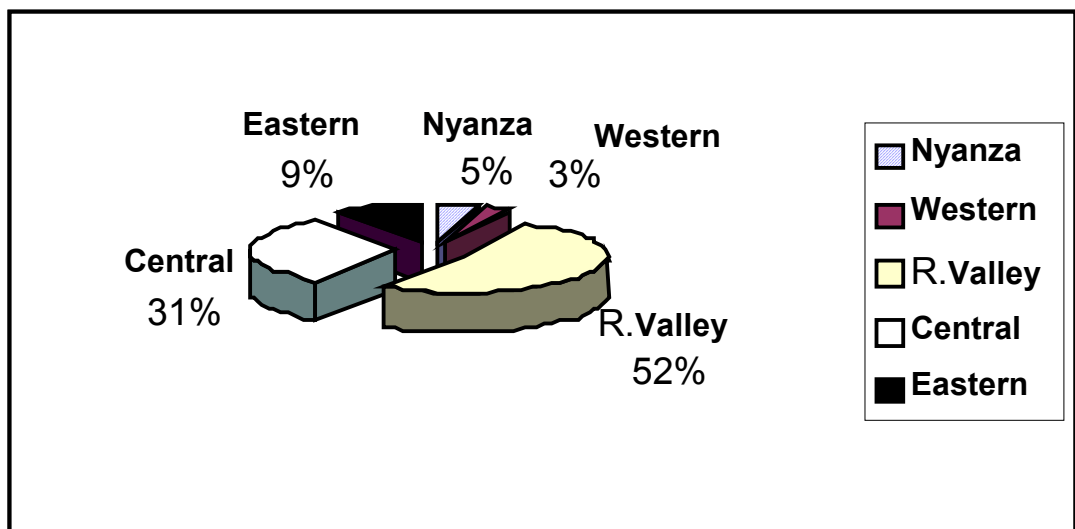


Source: Economic Survey 2004, Central Bureau of Statistics, Ministry of Planning & National Development

* Provisional

Milk production has increased over the years with most of the dairy cattle concentrated in Central and Rift Valley Provinces. Rift Valley province with about 52% of the total population is leading followed by Central province 31.3%, Eastern Province 9.4%, Nyanza province 4.7% and Western province 2.6%.

Chart 2: Dairy Cattle Distribution



Source: Animal Production Annual report, 2002

Since milk market liberalisation in May 1992, competition in milk processing and marketing has increased significantly in the industry. Since then, the Board has licensed over 40 private and dairy co-operative processors to process and market milk and milk products. The industry has a processing capacity of 2.5 million litres per day. The Kenya Co-operative Creameries (KCC) is estimated to have a processing capacity of 1.2 million litres of milk per day and the other processors combined have a processing capacity of about 1.3 million litres of milk per day.

3.2. Livestock production systems

Kenya has different livestock production systems, which include:



Small-scale dairy-meat production

Small-scale dairy-meat production from the Small East African (SEA) zebus mostly takes place in high rainfall areas that are also suitable for smallholder exotic dairy cow production. These animals are normally raised for beef and milk.

Small –scale dairy production

Small-scale dairy farming activity is mostly found in agro-climatic zone (ACZ) 1-4 IN THE Central and Rift Valley provinces and the Coastal lowlands. There is a higher concentration of smallholder dairy farms in peri-urban areas with easy access to milk marketing channels. Small-scale dairy farmers typically keep 2 or 3 dairy cows, with their followers, on approximately 1 hectare of land with other livestock, whilst also engaging in arable agriculture.

Large-scale dairy production

Large-scale dairy farms are owned by both private firms and public institutions, such as the Agricultural Development Corporation (ADC). An estimated 500,000 dairy cattle are kept in this system. Friesian cattle are the dominated breed but Ayrshire and Channel Island breeds are also found. Some farms in the drier areas cross Sahiwal with Bos Taurus breeds.

Large-scale dairy-meat production

The vast majority of cattle kept in ACZ 5-7 ARE SEA zebus kept by pastoralists in mixed herds with indigenous breeds of sheep, goats and camels in the northern rangelands.

3.3. Dairy products

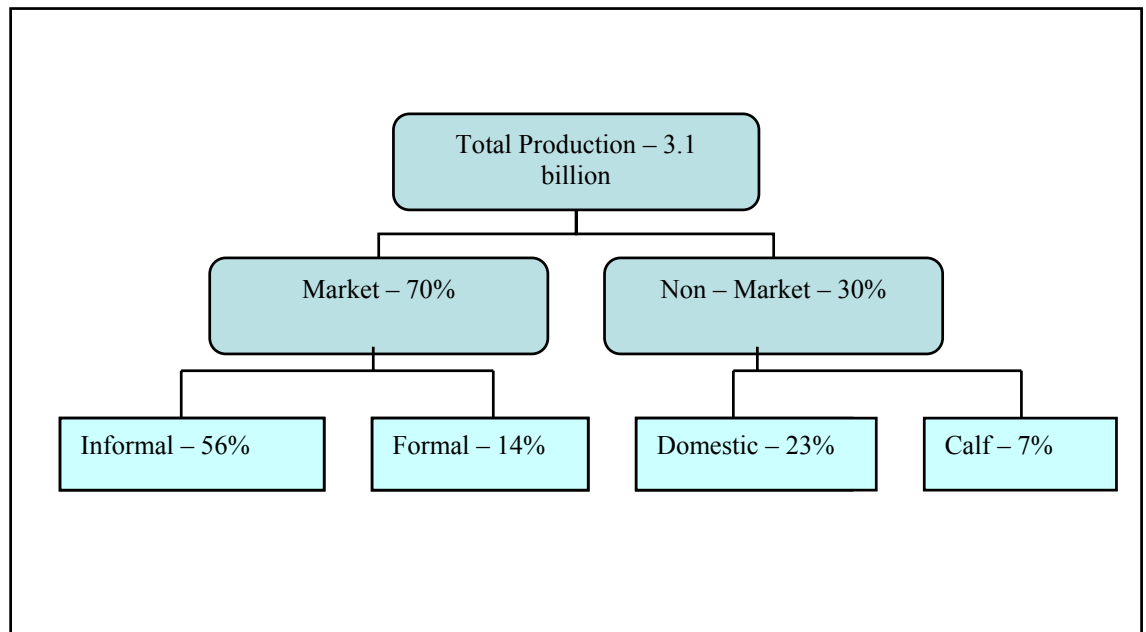
Kenyan dairy companies process, package, and/ or market dairy products, including fluid, cultured, and solid milk products such as yoghurt, cheese, butter, ghee, condensed and evaporated milk, ice cream and frozen desserts. These products are either produced by partially skimming the whole milk, or by completely skimming it and then adding an appropriate amount of cream back to achieve the desired final fat content.

4. Market conditions

Milk market liberalisation policies announced in 1992 opened up the processed milk market, which hitherto was monopolised by KCC. The objective of the reform was to encourage private investments (including co-operatives) in milk processing and marketing and deregulation of both producer and consumer prices.



Diagram 1: Milk marketing structure in Kenya, 2004



Source: Kenya Dairy Board, 2004

Most of the milk sale before liberalization and immediately after liberalization was through the KCC. The trend however has changed with decline of KCC and influx of many small-scale processors. Generally informal milk outlets are shown to absorb most of the milk from smallholder farmers accounting for over 56% of the total milk sold, while formal market accounted for 14% of all the total milk produced. Brokers, traders/hawkers, transporters, co-operatives and farmer groups are identified as the most important participants at the rural markets. Cooperatives remain the main channel for collecting milk destined to the formal market.

International market

Kenya is shown to have the potential to export dairy products having the largest and well-developed dairy herd in Sub-Saharan Africa. Indeed, Kenya and Sudan are the largest Sub Saharan Africa dairy producers accounting for 47% of the total cow milk produced, with Kenya having a market share of 24%.

Table 2: Volume and value of dairy product exports and imports

Year	Export			Import	
	Milk and cream (MT)	Butter and ghee (MT)	Value (KShs m)	Dry milk (MT)	Value (KShs Million)
1998	128	161	117.5	2,500	353.84
1999	676	72	67.74	2,694	326.18
2000	82	29	12.25	1,749	282.21
2001	521	88	117.8	1,572	603.57
2002	1,803	44	140.6	861	135.34

Source: Statistical abstract 2003, Central Bureau of Statistics, Ministry of Planning and National Development



As shown in table 2 above, Kenyan exports of milk, cream, butter and ghee increased from KShs 117.5 million to KShs 140.6 million in 1998 to 2002 respectively, while total value of import decreased from KShs 353 million to KShs 135 million in 1998 to 2002 respectively.

Kenyan dairy products are currently being exported to Zambia, Tanzania, Uganda, Democratic Republic of Congo, Rwanda, Burundi and Saudi Arabia among other countries, while the imports are mainly from the European Union and East African Region.

5. Legal and regulatory framework

5.1. Kenya Dairy Board

The main regulatory body in the dairy industry is the Kenya Dairy Board (KDB), established under the Dairy Industry Act, Cap 336 of the Laws of Kenya. As stipulated in part II Section 5 of the Act, the Board is managed by a Board of Directors with a Chairman appointed by the Ministry of Agriculture. Nominees to the Board are appointed from selections from District Agricultural Committees (DACs), Provincial Agricultural Boards (PABS) and the Central Agricultural Board (CAB). The Managing Director is responsible for the day to day running of the Board. Other Board members include large-scale dairy producers and processors.

KDB has the responsibility of developing, promoting and regulating the dairy industry. The main functions of KDB are the enforcement of national standards for the dairy industry, training for the industry; facilitation of stakeholders' activities; maintenance of a databank for the dairy industry and regulation of imports. In practice, KDB has largely been a reactive institution that has concentrated its efforts in policing the activities of milk hawkers and other unlicensed operators in the industry. This is to safeguard the cess, which provides nearly 80% of its revenue rather than acting in the interests of all consumers.

Other functions of the Board include:

- Organise, regulate and develop efficient production, marketing, distribution and supply of dairy produce required by different classes of consumers;
- Promote quality assurance to attain the high quality products with emphasis on hygiene of milk production;
- Encourage proper use of milk containers for transportation and storage facilities for milk and milk products;
- Regulate the sales of raw milk and importation of dairy produce;
- Promote the consumption of quality milk and milk products;
- Develop, promote and advise on proper packaging equipment and materials;
- Licensing of milk producers and processors to permit a high degree of private enterprise in production and processing of dairy products;
- Enforcement of the Dairy Industry Act through anti-hawking operations and prosecutions;
- Training farmers on clean milk production and modern techniques of animal management through short courses and seminars.

5.2. Kenya Bureau of Standards

Kenya Bureau of Standards is the statutory body charged with enforcement of standards and certification of quality standards of all products and services in the country. Its role is largely confined to the large processors and importers of dairy products since most of the smaller dairy enterprises do not even have labels against which they can be traced.

6. Reasons to invest in Kenya's dairy industry

Kenya's competitive advantage for dairy sector investment is supported by various investor friendly factors that include:



Availability of raw milk

The dairy cattle population has risen from about 600,000 heads at independence (1963) to about 3.3 million, hence sustained availability of raw milk

Trademark and patent protection

Kenya is a member of most major international and regional intellectual property conventions – the World Intellectual Property Organization (WIPO), the African Regional Industrial Property Organization, the Paris Convention on the Protection of Industrial Property, and the Berne Convention on the Protection of Literary and Artistic Works.

Access to the regional market

Exports from Kenya enjoy preferential access to world markets under a number of special access and duty reduction programmes. These include regional markets (EAC, COMESA), EU-African-Caribbean-Pacific/Lome Convention and the African Growth & Opportunity Act (AGOA).

Stable political climate

Kenya has been one of the very stable countries in Africa since independence. The country has had three presidents with smooth transition taking place from one government to the next and peaceful elections held regularly. This is also manifested in the number of international and regional organizations headquartered in Nairobi including the UN, IGAD etc.

Investment insurance

The Constitution of Kenya provides guarantees against expropriation of private property. In addition, capital repatriation, remittance of dividends and interest are guaranteed to foreign investors under the Foreign Investment Protection Act (FIPA) (Cap 518).

Kenya as a member of MIGA (Multilateral Investment Guarantee Agency) provides investors with an opportunity to insure their investment in Kenya against a wide range of non-commercial risks. Kenya is also a member of the African Trade Insurance Agency (ATI), a multilateral export credit and political risk agency for COMESA member states as well as the International Council for Settlement of Investment Disputes (ICSID).

Strategic location

Located on the East African coast and having the port of Mombasa, Kenya is strategically located for investors wanting to access the East and Central African market. Kenya is also a regional hub for airlines allowing for easy access from and to any part of the world.

Investor friendly arrangements

The Kenya government can guarantee investor friendly arrangements such as:

- the Export Processing Zones (EPZ) program which offers attractive incentives to export-oriented investors and EPZ Authority to provide one-stop-shop service for facilitation and aftercare
- the Investment Promotion Centre (IPC) to promote all other investment in Kenya including in Manufacturing under Bond (MUB) program
- the Tax Remission for Export Office (TREO), a program for intermittent imports for export production
- Generous investment and capital allowances
- Double taxation, bilateral investment and trade agreements



7. Investment opportunities

The following are some of the investment opportunities available in the Kenyan dairy industry:

- ***Establishment of dairy processing companies***

The dairy industry has been liberalized, providing new investment opportunities in milk processing for local and regional markets. Production of high value milk products such as milk powder, fermented milk and butter for export is encouraged.

- ***Artificial Insemination (A.I) Services:***

Artificial Insemination plays an important role in development of the dairy sub-sector. The Government is in the process of privatising these services thus providing an opportunity for investment by the private sector.

- ***Dipping Services***

Dipping services are important in control of tick-borne diseases that hinder the development of high quality beef and dairy products. In the past the Government has been providing the services, which are now being privatised. This area offers another opportunity for private investment.

- ***Clinical Services***

Like dipping services, the Government is also privatising clinical services. This area requires large capital investment and is thus encouraged for private sector participation.

- ***Other Opportunities***

- Investment opportunities also exist in the rearing of livestock for dairy products;
- Provision of low cost / affordable technologies and equipment for small-scale processing.
- Opportunities for improvement in technology infrastructure such as packing, storage, and transportation, intensified irrigation and additional value added processing are marketable areas for investment; and
- Financial support to the sub-sector.



8. Main players in the industry

Table 3: Industry Players

	Processor	Location	Installed Capacity (lt/day)	Actual Production (lt/day)
1	KCC	Nationwide	1,200,000	20,000
2	Brookside	Thika/Ruiru	200,000	150,000
3	Premier Dairy	Kericho	150,000	100,000
4	Spin Knit Dairy Div	Nakuru/Nairobi	150,000	100,000
5	Meru Central Dairy	Meru	100,000	40,000
6	Limuru Milk Processors	Kiambu	60,000	35,000
7	Kilifi Plantation	Kilifi	40,000	30,000
8	Lelkina Dairy	Molo/Nakuru	30,000	20,000
9	Aberdare Creameries	North Kinangop	30,000	15,000
10	Donyo Lessos	Eldoret	20,000	10,000
11	Delamere	Naivasha	15,000	10,000
12	Nyota Dairy	Kitale/Trans-Nzoia	15,000	10,000
13	Kenya Milk Products	Nakuru	15,000	6,000
14	Ilara Dairy	Rongai/Nakuru	40,000	5,000
15	Sotik Dairy	Kericho	15,000	5,000
16	Guilford Institute	Njoro	10,000	4,000
17	Eldoville Farm	Nairobi	8,000	4,000
18	Chesumot	Kericho	6,000	4,000
19	Happy Cow	Nairobi	5,000	3,000
20	Palm House Dairy	Kiambu	5,000	3,000
21	Unigate Dairy	Nairobi	5,200	2,000
22	Echuka Farm	Kiambu	5,000	2,000
23	Eldairy Products Ltd	Eldoret	5,000	2,000
24	Teita Estate	Mwatate	5,000	2,000
25	Solai Mawa Factory	Solai/Nakuru	3,000	2,000
26	Aberdare Cheese	Naivasha	8,000	1,500
27	Sunpower Products	Kiambu	3,000	1,500
28	Bio – Foods	Nairobi	4,000	1,000
29	Stanley & Sons Ltd	Machakos	3,000	1,000
30	Kiambaa Dairy	Kiambu	2,000	1,000
31	Farmfresh	Nairobi	2,000	1,000
32	Danoma Ltd	Mombasa	1,500	1,000
33	Supa Duka	Nakuru	1,500	1,000
34	Crystal Dairy	Kikuyu	1,000	500

Source: Kenya Dairy Board



9. Useful contacts

Ministry of Agriculture & Rural Development
Kilimo House, Cathedral Road
P.O Box 30028
Nairobi Kenya
Tel: 254-20-718870
Fax: 254-20-720586
Web: www.agriculture.go.ke

Kenya Dairy Board
P.O Box 30406 GPO Nairobi
NSSF Building, 10th Floor,
Bishops Road, Nairobi
Tel: 254-20-310559/ 335057
Fax 254-20-244064

Ministry of Livestock & Fisheries Development
Department of Livestock Production
Hill Plaza Building, Ngong Road
P.O Box 30028 Nairobi
Tel: 254-20-2722601
Fax: 254-20-2720586

Export Processing Zone Authority (EPZA)
Administration Building
Athi River EPZ, Viwanda Road
Off Nairobi - Namanga Highway
P.O Box 50563, 00200 Nairobi Kenya
Tel: 254 45 26421-6
Fax: 254 45 26427
Email: info@epzakenya.com
Web: www.epzakenya.com

Ministry of Trade and Industry
Telposta Towers,
Kenyatta Avenue
P.O. Box 43137 Nairobi, Kenya
Tel: 254-20-315001-4
Fax: 254-20-315011
Web: www.tradeandindustry.go.ke

Kenya Bureau of Standards
Bellevue Area, Off Mombasa Rd
P.O Box 54974 City Square
Fax: 254-20-503293
Tel: 254-20-502210/502211
Email: info@kebs.org
Web : www.kebs.org

Investment Promotion Center (IPC)
National Bank Building, 8th Floor,
Harambee Avenue
P.O. Box 55704-00200 Nairobi,
Tel: 254-20-221401-4
Fax: 254-20-336663
Email: info@investmentkenya.com
Web: www.investmentkenya.com

Export Promotion Council
Anniversary Towers, 16th Floor
University Way
P.O. Box 42047 Nairobi, Kenya
Tel: 254-20-228534
Fax: 254-20-218013/228539
Email: chiefexe@epc.or.ke
Web: www.cbik.or.ke

Kenya Revenue Authority (KRA)
Times Towers Bldg., Harambee Ave.
P.O. Box 48240, 00100 GPO Nairobi, Kenya.
Tel: +254-20-310900/315553
Email: info@kra.go.ke
Web: www.kra.go.ke

10. Sources of information and glossary

- i. Statistical Abstract, 2003 by the Central Bureau of Statistics, Ministry of Planning and National Development
- ii. Economic Survey, 2004 by the Central Bureau of Statistics, Ministry of Planning and National Development
- iii. The dairy industry in Kenya: the post-liberalization agenda, 2003 by Andrew M. Karanja
- iv. Investment Opportunities In Kenya, 2002, Ministry of Trade and Industry
- v. Agriculture in Kenya, Kenyaweb.com Ltd. 2003
- vi. Country Pasture/Forage Resource Profiles, FAO by Apollo Bwonya Orodho