



**USAID**  
FROM THE AMERICAN PEOPLE

**KENYA DAIRY SECTOR  
COMPETITIVENESS**

# USAID KENYA DAIRY SECTOR COMPETITIVENESS PROGRAM

QUARTERLY PROGRESS REPORT

APRIL 2012 - JUNE 2012

623-C-00-08-00020-00

Contractor Information:

Mulinge Mukumbu/Geophrey Sikei  
Land O'Lakes, Inc.  
P.O. Box 45006, 00100,  
Nairobi, Kenya  
Phone: 254-20-3748526 or 3748685  
Fax: 254-20-3745056

This publication was produced for review by the United States Agency for International Development.  
It was prepared by Land O'Lakes, Inc.

USAID KENYA DAIRY SECTOR COMPETITIVENESS PROGRAM  
QUARTERLY PROGRESS REPORT  
APRIL 2012 - JUNE 2012  
623-C-00-08-00020-00

**DISCLAIMER**

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>1.0 INTRODUCTION .....</b>	<b>3</b>
<b>2.0 PROGRAM IMPLEMENTATION.....</b>	<b>5</b>
2.1 COMPONENT ONE: ENHANCE CAPACITY FOR MILK AND PRODUCTION INPUT QUALITY CERTIFICATION AND MARKET PROMOTION.....	5
2.1.1 GENERIC DAIRY CONSUMPTION CAMPAIGNS.....	6
2.1.2 EASTERN AND SOUTHERN AFRICAN DAIRY ASSOCIATION (ESADA) CONFERENCE .....	8
2.1.3 THE DAIRY MASTER PLAN LAUNCH .....	8
2.1.4 MILK SHED ACTIVITIES.....	9
2.2 COMPONENT TWO: DEVELOP DAIRY SMALLHOLDER BUSINESS ORGANIZATIONS (SBO) .....	10
2.2.1 FACILITATED CAPACITY BUILDING OF SBOs WORKING WITH THE KDSCP PROGRAM.....	10
2.2.2 FACILITATED CAPACITY BUILDING OF OVER 16,000 DAIRY FARMERS IN THE QUARTER .....	11
2.3 COMPONENT THREE: INCREASE AVAILABILITY OF DAIRY BUSINESS DEVELOPMENT SERVICES.....	14
2.4 ENVIRONMENTAL DEGRADATION MITIGATION MEASURES .....	16
2.5 GENDER AND YOUTH INTERVENTION.....	17
<b>PERFORMANCE DATA TABLE.....</b>	<b>18</b>
<b>APPENDIX I: FINANCIAL REPORT .....</b>	<b>21</b>
<b>APPENDIX II: EXHIBITORS SUPPORTED BY KDSCP AND THEIR REMARKS.....</b>	<b>22</b>

## List of Acronyms

BDS	Business Development Services
DTF	Dairy Task Force
ESADA	Eastern and Southern Africa Dairy Association
IPM	Integrated Pest Management
NKCC	New Kenya Cooperative Creameries
KDB	Kenya Dairy Board
KDSC	Kenya Dairy Sector Competitiveness Program
KENDAPO	Kenya National Dairy Producers Organization
KENFAP	Kenya National Federation of Agricultural Producers
KLBO	Kenya Livestock Breeders Organization
LOL	Land O'Lakes, Inc.
MOLFD	Ministry of Livestock Development
MOLD (DVS)	Ministry of Livestock, Department of Veterinary Services
MSWG	Milkshed Working Group
NGO	Non-Governmental Organization
PMP	Performance Management Plan
RMC	Resource Mobilization Centre
SBO	Smallholder Business Organizations
SPs	Service Providers
USAID	United States Agency for International Development
WWS	World Wide Sires Consortium

## Executive Summary

The report summarizes the key activities implemented and the associated accomplishments for the Kenya Dairy Sector Competitiveness Program (KDSCP) in the period April – June 2012. The KDSCP activities contribute to the achievement of intermediate results under USAID/Kenya Mission’s SO7 on “Increasing Rural Households Income.”

### Key Highlights

The key highlights for the reporting period include:

- ✓ Facilitated milk consumption awareness campaigns in the country. This included the contractual arrangements with Mo Sound Ltd to include milk consumption messages in their Groove Awards events in Eldoret, Thika, Meru, Mombasa and Nairobi where the gospel artists who presented sensitized communities on the importance of milk consumption. Besides, the programme facilitated the launch of the Generic Milk Consumption Campaign organized by KDPA.
- ✓ Facilitated 20 service providers, 24 SBO representatives and the 4 milk shed facilitators to attend the 8<sup>th</sup> Eastern and Southern African Dairy Association (ESADA) conference in Nairobi at the Kenyatta International Conference Centre. The sponsored participants contributed by facilitating their transport, accommodation and meals. After successfully facilitating the production of the Dairy Master Plan, the program facilitated its official launch. In total, 4 launches were realized; the National launch in Nairobi and regional launches in Nyeri, Nakuru and Eldoret.
- ✓ Through its outreach efforts, facilitated capacity building of 16,049 dairy farmers in the quarter. Program interventions focused on training dairy farmers to equip them with the necessary technical skills to increase herd productivity and incomes. The training forums, organized in collaboration with key stakeholders such as private service providers, Ministry of Livestock extension personnel, Kenya Dairy Board, covered diverse topics such as feed/fodder production, appropriate feeding regimes, feed conservation and formulation, modern breeding techniques and milk handling hygiene. The cumulative number of farmers trained to date stands at 129,275.
- ✓ Farmers working with the program have recorded impressive yield figures as observed in the last farm level survey done in February. Program cumulative average now stands at 9.97 litres/cow/day, indicating a 56% increase relative to the baseline value. Some milk sheds such as Kabete, Kericho, Lessos and Kinangop, where farmers have aggressively taken up KDSCP’s feeding and husbandry practices have all achieved yields above the sample average.
- ✓ The program recruited and trained 25 new business service providers in the quarter. This now takes the total number of service providers working with the program to 997, surpassing the 500 target set by the end of the program. These experts work with and deliver productivity enhancing technologies to specific farmer groups.
- ✓ The KDSC program continued implementing action plans developed by stakeholders to build capacity of the Smallholder Business Organizations (SBO) and to increase farm level productivity. Cumulatively, 124 farmer organizations have had their capacities built compared to the program target of 120 groups. An additional 35,447 rural households

benefited from the program in the quarter. This now takes the total number of rural households benefiting to 319,298, surpassing the program target of 300,000 households.

- ✓ Farmers also continued to enjoy financial services from financial service providers with a total of 7,685 new loan beneficiaries being recorded in this quarter. This brings the total beneficiaries to 58,008 surpassing the program's target of 45,000.

## **I.0 Introduction**

Land O'Lakes is implementing the Kenya Dairy Sector Competitiveness Program (KDSC) with the financial and technical support of the United States Agency for International Development (USAID). KDSC is a five-year program that aims to improve Kenya's dairy industry competitiveness. Under this program, Land O'Lakes, Inc. employs a market-driven value chain approach, utilizing a Business Development Services (BDS) methodology. KDSC will help transform the Kenyan dairy industry into a globally competitive, regional market leader, with the overall goal of increasing smallholder household income from the sale of quality milk. Land O'Lakes is facilitating this transformation, while the industry stakeholders are leading it.

The Program objectives are three-fold:

- Increase competitiveness of the Kenyan dairy sector through collaboration among sector stakeholders and increased capacity of public sector agencies to serve the needs of the sector;
- Increase marketing of milk meeting quality standards by producer-owned milk bulking/cooling businesses; and
- Enhance access to market-linked business development services and technologies by male and female dairy farmers and processors producing dairy-related inputs.

In its implementation, the program pays particular attention to environmental and gender concerns and effects corrective action as appropriate. KDSCP takes into account the varying roles, assets, knowledge and skills that men, women and youth bring to dairy farming. The program therefore facilitates the implementation of opportunities for integrating youth and family members into dairy value-chain economic activities.

### **Contribution to Strategic Objective 7.0**

KDSCP contributes to the USAID Strategic Objective 7.0 on "Increased Rural Household Incomes." The Program is implemented through a range of activities grouped into three broad components. The components and the associated outcomes are:

Component 1: Enhanced Capacity for Milk and Production Input Quality Certification and Market Promotion

Outcomes comprise:

- Increased smallholder household income
- Increased use of technology
- Improve and enact industry policies and acts that enhance competitiveness
- Develop and implement/enforce quality certification frameworks and work towards a graded payment system

- Dairy enterprises achieve national/international certifications and enforcing quality regulations on suppliers
- Increase feed marketed under new quality standards

### Component 2: Dairy Smallholder Business Organization (SBO) Development

The key outcomes are:

- Producer organizations strengthened
- Increased number of MBCs with HACCP and /or SBOs with national certifications.
- Increased raw milk sales by SBOs under agreements that pay premium for quality.
- Increased gross revenue of milk bulking/cooling businesses from sale of inputs and services other than milk
- Increased number of SBOs transformed into sustainable businesses entities
- Increased number of cooling units installed/rehabilitated by SBOs

### Component 3: Availability of dairy Business Development Services

Key outcomes will include:

- Enhanced range of business services to producers
- Increased value of services/inputs provided by business service providers
- Increased number of smallholders purchasing private sector services at full commercial rates
- New technologies or management practices made available for transfer
- Increased number of dairy farmers receiving loans from financial service providers
- Increased number of smallholders engaged in new, diversified dairy-related enterprises
- Increased number of dairy farmers receiving short-term training

## **Implementation Strategy and Key Activities**

The KDSC Program is implemented using innovative, international best practice approaches and methodologies that ensure achievement of expected results and sustainability of impacts long after the end of the program. Using this methodology, Land O'Lakes, Inc., the implementing agency, using local service providers and facilitators, supports market-based services/solutions, and action-oriented policy research to overcome both industry-level and enterprise-level constraints to competitiveness at key points along the dairy value chain. Industry stakeholders have since been engaged to identify competitiveness constraints, and propose solutions to these constraints.

## **2.0 Program Implementation**

In the current reporting period, April-June 2012, the program continued to focus attention on activities geared towards enhancing productivity and competitiveness of the dairy sector. It continued to address sector challenges, constraints and stakeholder concerns with significant achievements being realized. Sustainability efforts initiated in the previous reporting period were stepped up in this reporting period, being that this is the final year of program implementation. The program's efforts of linking service providers to farmers and farmer groups were stepped up in a bid to ensure sustained demand for services long after the program exit. Besides sustainability, efforts were also directed in putting in place strong policy and regulatory frameworks for the dairy sector, laying strong institutional foundations especially for the institutions that were created during the tenure of the program, stimulating demand for dairy products through promotional campaigns and promoting efficiency and effectiveness of the dairy value chain. The latter done through market promotion activities. To ensure the sector remains competitive in the long run, the program continued to address initiatives that improve industry standards and consumer safety. The program further continued to promote environmental consciousness activities where farmers and service providers were encouraged to undertake sustainable management practices in their respective enterprises. Detailed activities and achievements in the reporting period are summarized below and are organized by program component. As mentioned earlier, the interventions under KDSCP are grouped into three broad areas/components, namely initiatives to for enhancing quality of inputs and products, including policy and standards review and advocacy activities; Dairy smallholder business organization development and farm-level productivity activities; and activities that aim to increase dairy business development services.

### **2.1 Component One: Enhance Capacity for Milk and Production Input Quality Certification and Market Promotion**

In this reporting period, the program continued to build producers' capacity to improve on milk production and access market opportunities. With regard to production, the program supported training opportunities where farmers received information best dairy production practices. On marketing, the program continued to create market linkages between producers and the processors and DTA. Farmers in all the milk sheds continued to market their produce through major processors and DTA. However, it was observed that members of the DTA provided an important alternative market, offering better prices at times when most processors had reduced producer prices. Price differentials were observed in all milk sheds, but average producer prices ranged between KES 30-50 (USD 0.36-0.60) per litre. This was also dependant on the quantity a SBO could bulk with those bulking larger quantities enjoying higher prices. In Kericho milk shed, the association has finalized plans to set up two milk bars in Kericho town in a bid to increase its efforts to exploit the informal market.

The program also continued to improve the value of dairy cows for its members through animal registration with KLBO in the Kenya Stud book. In addition, the program stepped up its marketing activities by the launches of the generic milk consumption campaigns in the country. Details of Component one activities and outputs realized in the reporting period include:

### 2.1.1 Generic Dairy Consumption campaigns

The program collaborated with the Kenya Dairy Processors Association (KDPA), Kenya Dairy Board (KDB), dairy cooperatives and the Dairy Traders Association to conduct dairy awareness campaigns on the benefits of consuming quality milk with an aim of increasing consumption now and in the future among the various segments of society and schools/institutions of learning. The following activities were successfully undertaken:

#### National Launch of the Generic Milk Consumption Campaign

In late June, KDPA through funding from the program organized a national launch dubbed the Generic Milk Consumption Campaign in Nairobi. The theme of the campaign launch was 'Do Milk Stay Young'. The objective is to popularize consumption of milk and generic dairy products in the country. The campaign is aimed at promoting a milk drinking culture which will help to develop dairy farming in the country. The event was attended by relevant government ministries, KDB, KDPA, Processors, the Media, USAID Representatives and USAID implementing partners.



**L:** Participants at the launch watching the graphics for the generic consumption campaign.

**R:** The Livestock Secretary who was representing the Minister of Livestock giving the official speech during the launch.

#### Campaigns in the Groove Award Shows

Mo Sound undertook promotional activities through its organized Groove Awards shows in the country. Milk consumption promotional activities were embedded in their events. Groove Awards concerts organized by Mo Sound in Eldoret, Thika, Meru, Mombasa and Nairobi had messages that touch on the benefits of milk consumption. Different Gospel Artists who performed in these events talked about the importance of milk consumption and its nutritional values.



**L: Dairy products being distributed to part of the crowd that attended the Groove Awards show.  
R: One of the leading gospel artists in Kenya, Emmy Kosgei, feeding the Grooves Awards MC on milk.**

### Outdoor events and street activation campaigns

Inter Management Group Ltd held outdoor events and street activation campaigns for the generic dairy consumption campaigns in Nairobi. The company undertook a unique promotional event dubbed 'Cow in the City'. This activation activity involved an erection of a temporary COW SHED, complete with two (2) lactating high grade cows along Agah Khan Walk Avenue in Nairobi. Hundreds of members of the public turned up to view the cows. The animals were milked and groomed throughout the day, with members of the public getting an opportunity to ask questions on milk production, feeds among others.



**L: Street activation events  
R: People gather around the cow shed with two dairy cows along Aga Khan Walk Street, Nairobi**

### 2.1.2 Eastern and Southern African Dairy Association (ESADA) Conference

The African Dairy Conference and Exhibition is an annual event held in different ESADA chapters. The event is the largest convergence of dairy sector practitioners and stakeholders across the value chain in Africa. This year's event (the 8<sup>th</sup> African Dairy Conference and Exhibition) was held at the Kenyatta International Conference Centre, Nairobi on 24<sup>th</sup> - 27<sup>th</sup> April 2012 and was officially opened by H.E. Mwai Kibaki, the President of the Republic of Kenya. The program partially supported the participation of 20 firms (service provider) working with KDSCP, 24 cooperative representatives working with the program and 4 facilitators/coordinators. All participants supported by KDSCP contributed by facilitating their transport, accommodation and meals. This is a sign of sustainability as service providers have accepted to participate in dairy activities through a cost-sharing basis. A list of KDSCP-sponsored participants is provided in the appendix.



**L & R: Conference delegates tour some of the KDSCP sponsored exhibition stands for Nakuru Simba Machinery (a service provider) and Brown Cheese (a processor).**

### 2.1.3 The Dairy Master Plan Launch

The program continued efforts to promote policy dialogue and advocacy efforts. In this period, a key achievement was the finalization and launch of the Dairy Master Plan, developed by the Ministry of Livestock through the program's support. The Master Plan will act as an action plan guide to dairy sector stakeholders including dairy farmers, milk processors, input and service providers, retailers, planners and policy makers. The Master Plan proposes action plans necessary for the transformation, policy changes and development strategies needed to further steer dairy development in line with the other national development aspirations. The National launch of the master plan took place in April 2012, followed by regional launches in Nakuru, Nyeri and Eldoret towns. The colourful launches were graced by top Ministry of Livestock officials including the Minister, Assistant Minister and Senior Directors in the Ministry, among other sub-sector stakeholders. The program will facilitate the production of copies of the Master Plan to be distributed to all the 47 Counties in the country. This presents a key milestone on the program's contribution towards ensuring a competitive dairy sector.



**Assistant Minister for Livestock Production, Hon. Dhadho Gaddae Godhana receives a copy of the Dairy Master Plan from KDSCP Coordinator, Mrs. Mary Munene after launching the master plan in Eldoret**

#### 2.1.4 Milk shed activities

Numerous activities were undertaken by the milk sheds that were meant to strengthen productivity and enhance quality standards in the sub-sector. We highlight the key activities below;

##### *Launch and hand-over of a cooling plant to Karona Dairy Cooperative Society, Lessos milk shed;*

The program participated in this event where Progressive Dairy Cooperative Society at Karona area of Eldoret East, was launching a new 3,000 Litres cooling plant-. The plant was donated to the group by the United Nations Development Programme (UNDP). Karona is one of the areas that was worst hit by the post-election violence of 2008. Working with other stakeholders, including the Kenya Dairy Board (KDB), KDSCP had facilitated peace and reconciliation forums in this region. The program further facilitated forums for other development partners to network and come up with synergies and programs that would support the affected communities culminating into UNDP's intervention of donating a cooling plant. The program in addition assisted farmers to revive their cooperative society. The cooperative is one of the many that has benefited from KDSCP interventions. Working closely with the Ministry of Cooperatives, KDSCP mobilized farmers in Karona to form a cooperative society. The outcome was the transformation of Karona self-help group into a full cooperative society, which was now launching its milk cooling plant. The launch was attended by the Minister for Higher Education Science and Technology, Assistant Ministers for Special Programmes and Livestock development, UNDP representatives, KDSCP, GoK representatives and farmers.



**KDSCP Coordinator chats with some members of the group during the launch**

## **2.2 Component Two: Develop Dairy Smallholder Business Organizations (SBO)**

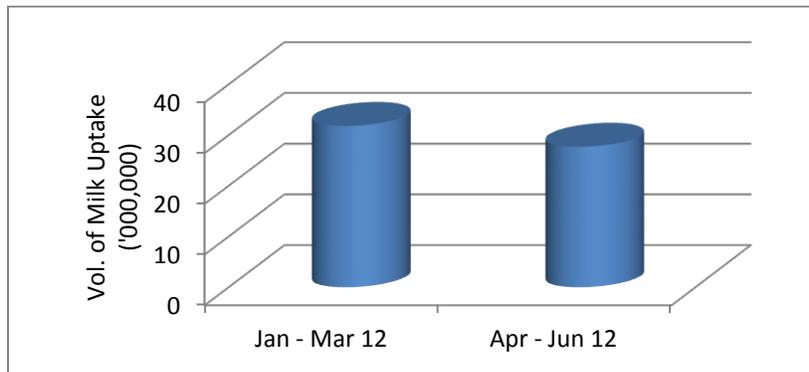
The program continued to support activities meant to enhance the capacity of Smallholder business organizations (SBOs) and to increase farm level productivity. It continued to facilitate partnerships and linkages in all the milk sheds. SBOs working with the program were linked to inputs and services to enable them grow their businesses. To this end, the program is working with a total of 124 SBOs. An additional 35,477 rural households benefited from program activities in the quarter. This now takes the total number of rural households benefiting to 319,298, surpassing the program target of 300,000 households.

Some of the activities implemented and accomplishments in the quarter include:

### 2.2.1 Facilitated capacity building of SBOs working with the KDSCP program

The federation methodology has brought significant and positive results within each of the milk sheds working with the program. For instance, most producers in all the milk sheds are marketing their milk through the respective Dairy Cooperative groups either to processors or DTA. Averagely, there was a decline in milk uptake in this reporting period relative to the previous period (Figure 1). Due to the onset of long rains, most farmers especially in the North Rift focussed more on crop production and less on dairy activities. This mainly affected farmers who were not practicing zero grazing. In Gatanga, it was reported that most groups were experiencing an increase in membership due to the good prices that were being offered to them by processors. This occurrence was replicated in the other milk sheds as well. Contrastingly for Gatanga milk shed, there was a sharp rise in milk rejected mostly in groups that were not allowing the program to train their farmers though efforts were being made to penetrate into these groups as well. The avenues continuously used by the program to reach out to SBOs included LFFS sessions, exchange visits, demonstrations, capacity building of management committees, sensitization during group mobilizations, leaders meetings, members education day, field days, through several office visits and telephone communications, farm visits, seminars, exhibition among others.

**Figure 1: Milk uptake in all the milk sheds for the two periods**



By the end of June 2012 Lessos milk shed recorded the highest number of SBOs benefiting from credit facilities from financial service providers. Of the 21 SBOs in the milk shed, 9 had acquired this service mainly from equity bank. Other notable achievements include;

- Facilitated the revival of Mugumoiini LFFS in Gatanga. The LFFS is progressing on well and is serving as an avenue through which the government ministries will disseminate information to farmers in the region.
- Assisted Kikuyu, Nderi and Gikambura Dairies to form an Association/Federation for the purposes of purchasing animal feeds. The program partnered with the National Chamber of Commerce and Industry in Kiambu to organize a two day exhibition cum education forum where 16 exhibitors participated.

KDSCP continued to emphasise on SBOs adopting a commercial approach in their operations. This is meant to ensure they operate like business entities that are profitable<sup>1</sup> so that they attract more membership to enable them achieve economies of scale. These efforts are so far bearing fruits with most SBOs getting concerned about viability of their enterprises.

### 2.2.2 Facilitated capacity building of over 16,000 dairy farmers in the quarter

Program interventions focused on training dairy farmers in the operational zones to equip them with necessary technical skills to increase herd productivity and incomes. The training forums, organized in collaboration with key stakeholders such as private service providers, Ministry of Livestock extension personnel, and the Kenya Dairy Board covered diverse topics such as feed/fodder production, appropriate feeding regimes, feed conservation and formulation, modern breeding techniques and milk handling hygiene. A key emphasis area is on-farm demonstration on feed conservation techniques to enable smallholders conserve feed in this season - the wet season (when feed is abundant) for use in the drier parts of the year. The program facilitated the training of about 16,049 farmers in the quarter. This now takes the total number of farmers trained to date to 129,275. This shows that the program has achieved

<sup>1</sup> The KDSC measures of profitability are: fair prices paid to farmers; and the range of services offered by these groups, among others.

85% of its target. The program expects to hit the target before the end of the current year of program implementation. The trainings were carried out through established LFFS, field demonstrations, and SBOs Farmers meetings. The topics covered included dairy management, animal breeding, cooling facility and financial management. In Kinangop milkshed, the programme assisted the Kinangop MSWG to organize a dairy farmers show at Engineer in April which had over 500 farmers and 21 Exhibitors attending. In Trans Nzoia milk shed, the program assisted the MSWG organize an exhibition in Kitale which was attended by over 10,000 farmers drawn from all over the milk shed and 50 exhibitors. This event was very successful and farmers requested the MSWG committee to be holding the exhibition annually and to consider including cattle parade in the event.

**Success story: Ngarua Farmers' Cooperative Society transformed into a vibrant organization with members enjoying enormous benefits.**

Ngarua Farmers' Co-operative Society was started in May 2011 with its offices and cooling plant at a rented premise in Kinamba centre. Its aim is to bulk and market milk from the farmers to the processors, institutions and local consumers. The membership has grown from the original 150 members at the time of registration to over 900. Through share contribution, members were able to renovate the rented premises to meet the standards required to install a cooler which they secured from Brookside dairy for a period of 6 years. Through KDSCP's support, the co-operative was able to successfully secure an agreement with Brookside Dairies. Brookside agreed to install a milk cooler for the cooperative. The milk cooler will be under the management of the society for 6 years. This has made it easy for the farmers to negotiate the farm gate price for their milk which is now paid at KES 40 per litre. Within a span of less than one year the membership grew from 150 to over 900, mainly attributed to good leadership and KDSCP's support. Milk Bulking remains the major activity contributing over 90% of the SBO's business income. Milk is delivered mainly by donkey carts, bicycles and motor cycle (contributing further to youth employment and empowerment within the region). The future growth and success of Ngarua Farmers' Co-operative Society lies in its ability to set strategic priorities. The need to embrace ICT as a tool in business operation to capture key performances is also critical. The need to develop a firm distribution strategy would assist in getting a competitive edge over their competitors especially the hawkers. The contractual arrangement with Brookside has drastically reduced transaction costs especially since they collect milk directly from the farmers. The Cooperative is focused on increasing its membership pool and changing members' perceptions from cultural livestock keeping to commercialized venture. Due to the sensitive environmental factors in the region, the cooperative continues to encourage its members to embrace zero grazing to increase milk production. The cooling facility also operates as a business hub - offering farmers a wide variety of services, including access to finance (from commercial banks), agricultural inputs and health information. For example, farmers can get advances on milk purchases to pay their children's school fees. The opening of the plant has created a host of new jobs and pumped millions of shillings into the local economy. By end of May 2012 when they marked their first anniversary, the cooperative had employed about 24 people and bought milk from 900 local small-scale farmers, with total sales of over \$370,000. Moreover, Ngarua's impact indirectly benefits more than 8,000 local residents.



**L&R: The cooling plant installed by Brookside. Farmers delivering milk to the cooling plant**

### **2.3 Component Three: Increase Availability of Dairy Business Development Services**

The KDSCP implementation method focuses on capacity building of providers i.e. switching from assisting micro enterprises directly to ensuring sustainable access to services, through functioning markets. To achieve this objective, and for effectiveness, outreach and impact, the program uses a portfolio approach in provision of BDS. It works with multiple partners as BDS providers. This approach is deemed viable especially considering the fact that the program is coming to an end soon. The BDS providers are expected to continue engaging farmers and other service demanders to ensure they stay in business long after program closure.

During this quarter, the program continued to recruit and train new service providers, though much focus was given to increasing linkages of existing SPs to farmers for sustained business after the program exit. These SPs work with specific farmer groups/cooperatives to provide productivity enhancing technologies. The program has so far linked 997 service providers to farmers, surpassing the target of 500 service providers providing additional services to farmers, with 25 new SPs realized in this quarter. This implies a success level of about 199% against the program target.

During the quarter, KDSC introduced a total of 7,685 dairy farmers to credit facilities, resulting in a cumulative total of 58,008 dairy farmers translating to 129% success against the program target. Farmers continued to cite access to credit as one of the major constraints in commercializing dairy and indicated willingness to apply for loans in the SBOs that have been selected. The KDSC program continued seeking interested financial service providers with products that are suitable to small holder dairy farmers. A number of financial service providers – both banks and Savings and Credit Cooperatives (SACCOs) have been identified and introduced to farmers in all the eight milk sheds. The notable financial service providers that have been exposed to farmers in all the milk sheds include; Cooperative bank, Family bank, Equity bank, Faulu Kenya, K-Rep bank and respective SACCOs in different milk sheds like Muki SACCO, Trans Nzoia Teachers SACCO among others. Others like Fina bank have approached the program and are willing to provide financial literacy to groups working with the program around Thika Town. This is meant to complement the effort by other FSPs

In this quarter, the program continued to facilitate the expansion of embedded service and input delivery through SBOs and processors as well as the development of innovative and appropriate technologies, management practices and financial service availed through commercial business service providers. In this regard, the program was able to introduce one of the proprietors of a milk dispensing technology to SBOs working with the program, for milk supply purposes. The success of a milk dispensing business depends on a reliable supply of good quality milk. Farmers sell their milk at different prices depending on distance and also the season with prices ranging from Kes30-50 (USD 0.36-0.60). The milk sheds targeted for the supply of milk were mainly Kabete and Kinangop. Milk dispensers provide ample and favorable conditions required for milk distribution; they allow for sale of milk in varying quantities as needed, provide cooling facilities, have an easy to clean system and can hold reasonably large amounts of milk to meet needs of consumers. Milk dispensers are strategic for distributing milk

to urban residential neighborhoods, institutions such as schools and hospitals as well as other retail outlets including supermarkets. To this end, the proprietor has sold 25 milk dispensers.

## 2.4 Environmental degradation Mitigation Measures

Activities to mitigate against harmful management practices, at farm, service providers and bulking centre level, that may result in environmental degradation were also emphasized in the quarter. The KDSC program continued to encourage program beneficiaries to work towards sustainable management practices that reduce soil erosion, soil and water pollution, and emissions among others to safeguard the sub-sectors' future contribution to national economic growth. Activities focused on three key areas that could result in environmental degradation:

*Storage, use and disposal of pesticides;* they were sensitized on Integrated Pest Management (IPM) to minimize the use of pesticides on tick control. Farmers continued to receive training on the need to shift from roadside grazing to stall feeding or paddock grazing. This limits physical contacts of different cattle and therefore spread of parasites leading to reduced frequency of spraying/dipping with acaricides. Besides, the trainings also incorporated sessions for safe storage, use and disposal of chemicals and containers at the farm level.

*Use of biogas as a source of energy;* KDSC continued to work closely with KENFAP to popularize the Bio Gas technology, resulting into an increased construction of Bio gas plants by the farmers. Farmers have shown and appreciated the importance of biogas and more are taking up the new technology. The use of biogas has contributed into making the cooking very efficient and less tiresome as those who have the digesters attest to it. At the same time, the biogas has been used in other instances to power the chaff cutters making it cheaper to operate unlike before when electricity or fuel were being used.

Other practices reported which are meant to ensure protection of the environment include;

- Establishment of tree nurseries on farms and in bulking centres in Nyeri milkshed.
- Soil and water conservation practices like planting of fruit trees, fodder trees and cutting of bench terraces.
- Trainings on organic farming and soil conservation best practices by MoA officials especially in Gatanga milk shed.
- Promotion of energy saving jikos by some SPs.

## 2.5 Gender and Youth intervention

The program has continued to promote the youth and women involvement in the dairy sector. In all the milk sheds, women and youth are greatly being involved in the running of cooperatives and dairy enterprises at the farm level.

Some notable achievements are highlighted below;

- In Trans Nzoia milk shed, out of the twelve (12) cooperatives working with the program four (4) are headed by women namely Tongaren, Tarakwa Sacco, Koitogos and Chesoi cooperative in Marakwet.
- Establishment of a youth revolving fund at Kitiri Dairy Cooperative Society in Kinangop. Kitiri DCS developed a proposal to International Labour Organization (ILO). ILO awarded the group a grant of KShs. 1.5 million (USD 17,857). The group then raised KShs. 0.75 million (USD 8,928). In total, the Youth Fund was set up with KShs. 2.25 million (USD 26,785). The scheme was set up to encourage the youths to get more involved in dairy production. For one to benefit from the fund, s/he must demonstrate an interest in dairy and must get recommendation from the DCS management committee. In addition the beneficiary must also make a commitment to sell milk through the cooperative. This enables the group to recover the loan amount advanced through a check-off system when paying farmers for the deliveries. By the end of June, 90 youths had benefited from the fund with the management committee reporting that a similar number had been put on the waiting list. The initiative has resulted in a rapid increase in membership in the cooperative.

## Performance Data Table

Impacts					
Performance Indicator	Baseline Value			Cumulative Actual	Comments
		Cumulative Project Target	Actual – Q3 (FY 2012)		
Household level impacts					
Number of rural households benefiting	0	300,000	35,477	319,298	The program recruited more members especially in Kericho and Kikuyu milksheds due to its focus in reaching out to more members. Program has surpassed the target set. Achieved through increased collaboration with SPs and BDS in capturing their data.
Sub-Sector Level Impacts					
Number of producers accessing/ receiving/ utilizing BDS services, inputs, technologies, and management practices	0	220,000	15,470	239,778	The program has continued to link service providers with dairy farmers in all milk sheds. The target has been achieved by over 100%
Increase in productivity of milk per cow/day (Lt)	6.4	15	9.97		The program has been able to achieve 67.3% of the target of 15litres/cow/day. This information was captured during the last farm level survey in February.
Increase in gross margin per Lt of milk (Percent)	Kshs. 5.8 (USD 0.07)	40%	171.7%	88.6%	The average gross margin since the intervention of the program is KShs 10.56 (US\$ 0.132). This shows an increase of 88.6% compared to baseline value.
Reduction in cost of production - farm gate (%)	Kshs. 14.2	25%	29.2%	29.2%	The cost of production reduced cumulatively by 29.2% against the project target of 25%. The cost of milk production reduced to Kshs. 10.08 (US\$ 0.126). This data was available from the farm level survey done in February.
Component I - Enhance Capacity for Milk and Production Input Quality Certification and Market Promotion					
Number of industry	0	3	21	21	Program has been recognized

Impacts					
Performance Indicator	Baseline Value			Cumulative Actual	Comments
		Cumulative Project Target	Actual – Q3 (FY 2012)		
policies improved/enacted					by the MOLD in its facilitation that led to the development of the Dairy Master Plan which was launched in June
Number of Quality certification frameworks (Milk product, Animal feeds) developed, implemented/enforced	0	2	1	1	Dairy draft regulations developed by the project is undergoing review by legal professional so as to make it acceptable by the government.  Kenya livestock policy has been published for consideration by the government
Component 2 - Dairy Smallholder Business Organization (SBO) Development					
Number of producer organizations strengthened	0	120	0	124	The program is currently working with 124 SBOs in the eight milk sheds and three sector wide organizations and 10 milk marketing federations. All the SBOs were capacity built in the reporting period. We have therefore surpassed the program targets.
Number of SBOs/MBCs with HACCP and/or national certification	0	45	0	69	These include SBOs trained by DTI, and bulking centers installed by Brookside, NKCC and the private partners
Number of SBO/MBCs transformed into sustainable business entities	0	60	0	124	SBOs that have business plans implemented together with those whose management attended training on quality issues have acquired national certification. Processors have also achieved this certification in their milk chilling plants.
Number of cooling units installed/rehabilitated in SBO/MBCs (Number)	0	35	6	84	The program has been able to track all the MBCs that are being utilized by project beneficiaries especially those that have been set-up or installed for the benefit of those producing milk.

Impacts					
Performance Indicator	Baseline Value			Cumulative Actual	Comments
		Cumulative Project Target	Actual – Q3 (FY 2012)		
Component 3 - Availability of Dairy Business Development Services					
Number of firms providing new business services to producers (Number)	0	500	25	997	Program activities have focused on embedded service provision to increase the sales volume and revenues for the providers. All providers are trained on feeds & feeding and feed conservation.
Dairy farmers receiving loans from financial service providers	0	45,000	7,685	58,008	Private AI service providers and SBOs working with the program have benefitted from program linkages with financial service providers.
Number of producers receiving short-term training	0	153,000	15,286	128,512	The program has achieved 85% of the target. SPs are being capacity built on the benefit of carrying out trainings on their own to generate demand for their services. The program expects to hit the target before the end of the current year.

## Appendix I: Financial Report

<b>Kenya Dairy Sector Competitiveness Program</b>				
<b>Contract No. 623-C-00-08-00020-00</b>				
<b>Quarterly Financial Report June 2012</b>				
		<b>Budget</b>	<b>Actual Expenditures thru June 2012</b>	<b>Remaining Funds as of June 2012</b>
<b>CLIN One (Year 1)</b>				
Total Estimated Costs		\$ 1,902,995	\$ 1,902,995	
Fixed Fee		\$ 20,324	\$ 20,324	
<b>Total Estimate Cost Plus Fixed fee</b>		<b>\$ 1,923,319</b>	<b>\$ 1,923,319</b>	
<b>CLIN Two (Year 2)</b>				
Total Estimated Costs		\$ 2,183,292	\$ 2,183,292	\$ -
Fixed Fee		\$ 20,607	\$ 20,607	\$ -
<b>Total Estimate Cost Plus Fixed fee</b>		<b>\$ 2,203,899</b>	<b>\$ 2,203,899</b>	<b>\$ -</b>
<b>CLIN Three (Year 3)*</b>				
Total Estimated Costs		\$ 2,229,663	\$ 2,229,251	\$ 412
Fixed Fee		\$ 24,372	\$ 24,368	\$ 4
<b>Total Estimate Cost Plus Fixed fee</b>		<b>\$ 2,254,035</b>	<b>\$ 2,253,619</b>	<b>\$ 416</b>
<b>CLIN Four (Year 4)**</b>				
Total Estimated Costs		\$ 1,555,543	\$ 1,555,543	
Fixed Fee		\$ 16,261	\$ 16,261	
<b>Total Estimate Cost Plus Fixed fee</b>		<b>\$ 1,571,804</b>	<b>\$ 1,571,804</b>	
<b>CLIN Five (Year 5)***</b>				
Total Estimated Costs		\$ 1,032,815	\$ 149,020.46	\$ 883,794
Fixed Fee		\$ 14,128	\$ 1,490.22	\$ 12,638
<b>Total Estimate Cost Plus Fixed fee</b>		<b>\$ 1,046,943</b>	<b>\$ 150,510</b>	<b>\$ 896,432</b>
<b>Total Reimbursable Costs</b>		<b>\$ 8,904,308</b>	<b>\$ 8,036,039</b>	<b>\$ 868,269</b>
<b>Total Reimbursable Fixed Fee</b>		<b>\$ 95,692</b>	<b>\$ 67,508</b>	<b>\$ 28,184</b>
<b>Total Reimbursable Estimated Cost Plus Fixed Fee</b>		<b>\$ 9,000,000</b>	<b>\$ 8,103,547</b>	<b>\$ 896,432</b>
* MOD # 8 Transferred \$ 64,865.11 from CLIN 1 to CLIN 3				
** CLIN 4 Expenditures began May 1, 2011 through April 2012				
***CLIN 5 Expenditures began May 1, 2012 through April 2013				

## Appendix II: Exhibitors supported by KDSCP and their remarks

	Company	Remarks
1	Happy Cow	The event was very well organized and we managed to offer sampling experience to over 150 customers. We were able to meet potential distributors from Uganda, Rwanda and Tanzania
2	Eldoville Farm	Eldoville farm managed to meet possible distributors from Rwanda, Tanzania and Uganda. We also met possible distributors from other towns in Kenya We meet possible suppliers of milk (small scale farmers)
3	Meru Central Farmers Coop	We were able to showcase our products to over 300 visitors to our stand and make a good amount of sales for the three days. We hope that the next event will be in the Kenya and invite more consumers
4	Limuru Milk Processors	A great opportunity where we met possible distributors of some of our products especially ghee. We also had an opportunity to meet customers outside of Nairobi. We made quite good sales of our products at the venue
5	Nakuru Simba Machinery	It was a great opportunity to showcase our machinery to the region. We sold out all the machinery we had brought by the second day. We also had order to supply Rwanda and Uganda In total we sold 5 machines and got order of 7 more machines from Rwanda and 9 machines to Uganda. We also had opportunity to meet possible local farmers who met us for the first time and they were impressed by our machinery We hope that next year the event will be in any East African Country.
6	Sunever Agroitech Ltd	We met a lot of potential customers. We got a potential order to supply one complete system worth Kshs. 350,000 (USD 4,167) in Tanzania for the use by processors. We sold two electronic weighing machines but more importantly we met a lot of potential customers from the region
7	World Bicycle Relief	An opportunity to showcase our high quality bicycles to players in the dairy industry. We got enquiries and we shall be following up with some of the cooperatives who indicated that they can support their farmers to procure them
8	Raka Cheese	A great opportunity to sample our cheese to consumers. We got very impressive feedback from consumers. We also got interests from consumers across the region

9	Maccern Refrigeration	We met possible collaborators from the region. We were also able to meet potential clients who we can offer our services. We shall be following up with two processors who indicated that they need our services
10	Sigma Feeds	Sigma foods had an opportunity to meet possible distributors from Tanzania, Rwanda and Burundi. We were also able to meet local farmers and cooperative leaders for possible collaboration
11	Zimmerand Dairy Products Ltd	It was an ideal opportunity for Zimmerand to showcase our products from goat milk Local as well as international potential consumers were able to sample our products. We also made sales at the event
12	Takamoto Biogas	We were able to meet possible collaborators from the region
13	Browns Cheese Ltd	We made exemplary showcase of our international standard cheese for possible distribution partnership particularly in the East Africa market We managed to start off discussion for possible distribution partnership with stockists in Tanzania.
15	GMP Services Ltd	A very good platform to promote our services to the dairy industry. The event was a huge success for us to meet most dairy players who are current and potential consumers of our services
15	Peak Feeds Ltd	We met and made sales to local dairy farmers and met cooperatives leaders for possible partnership
16	Lari Dairy	A very good opportunity to promote our products in the regional market.
17	Shawa Stores	Met the local farmers and made goods sales

**U.S. Agency for International Development**

USAID/Kenya Mission  
C/O American Embassy  
UN Avenue, Gigiri  
Nairobi, Kenya  
Tel: +254-20-862 2000  
Fax: +254-20-862 2680 / 2681 / 2682  
[www.usaid.gov/ke](http://www.usaid.gov/ke)