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USAID KENYA DAIRY SECTOR COMPETITIVENESS PROGRAM

QUARTERLY PROGRESS REPORT

APRIL 2009 - JUNE 2009

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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.

CONTENTS

Executive Summary.....	2
1.0 Introduction.....	4
2.0 Program Implementation.....	6
2.1 Component One: Enhanced Capacity for Milk and Production Input Quality Certification and Market Promotion	6
2.2 Component Two: Dairy Smallholder Business Organization Development.....	15
2.3 Component Three: Increase Availability of Dairy Business Development Services....	21
2.4 Challenges	24
3.0 Performance Data Table.....	25

List of Acronyms

ABSTCM Ltd	African Breeders Services Total Cattle Management Limited
BDS	Business Development Services
CAIS	Center for Artificial Insemination Services
DTF	Dairy Task Force
ESADA	Eastern and Southern Africa Dairy Association
GMP	Good Management Practices
HPI	Heifer Project International
KCC	Kenya Cooperative Creameries
KDB	Kenya Dairy Board
KDSCP	Kenya Dairy Sector Competitiveness Program
KENDAPO	Kenya National Dairy Producers Organization
KLBO	Kenya Livestock Breeders Organization
LOL	Land O'Lakes, Inc.
MOLFD	Ministry of Livestock Development
MOLD (DVS)	Ministry of Livestock, Department of Veterinary Services
NGO	Non Governmental Organization
PERSUAP	Pesticide Evaluation Report Safer Use Action Plan
PEV	Post Election Violence
PIS	Performance Improvement Services
PMO	Pasteurized Milk Ordinance
PMP	Performance Management Plan
RMC	Resource Mobilization Centre
SBO	Smallholder Business Organizations
SoW	Scope of Work
SITE	Strengthening Informal Sector Training and Enterprise
SNV	Netherlands Development Organization
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 USAID Kenya Dairy Sector Competitiveness Program (KDSCP) in the third quarter of the 2008/09 Fiscal Year. 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 capacity building of over **11,328 farmers, including 3964** females in the reporting period. Program interventions focused on training dairy farmers in various milk sheds to equip them with necessary technical skills to increase herd productivity and incomes. The training forums, organized in collaboration with key stakeholders such as Ministry of Livestock extension personnel, private players in the industry – mainly service providers, covered diverse topics such as feed/fodder production, appropriate feeding regimes, feed conservation and formulation, modern breeding techniques and milk handling hygiene.
- Program facilitated farmer training initiatives have started bearing fruits. In Lessos milk shed for example, Cheptiret milk cooling plant that has perennially been operating under capacity has registered immense growth in volumes of milk delivered. The plant currently operates over capacity and registers an **excess of 600-700 liters per day** that they transport by cans, due to program intervention.
- Held a **workshop for the Chief Executive Officers (CEOs) of key livestock sector public institutions** – participants included from Ministry of Livestock Development officials, livestock parastatal heads, research organizations, and university departments, among others. The workshop objective was to refocus the thinking of the top leadership of the public sector institutions in the dairy sector towards a competitive mental framework. **A total of 21 participants attended.**
- Facilitated the provision of capacity building interventions to **three (3)** dairy organizations - Kenya Dairy Producers Organization (KENDAPO), Kenya Livestock Breeders Organization (KLBO), and the Kenya Livestock Producers Association (KLPA). Key areas addressed included financial management, strategic planning, institutional transparency and accountability, publicity, among others. This is expected to transform them into viable, professional and transparently run organizations to enhance sector performance.
- The Good Manufacturing Practices (GMP) guideline was reviewed, edited and approved by the KEBS dairy technical committee. The document now has official KEBS recognition and has started the process of public review. When this process is completed the document will be issued as an official KEBS Standard.

- Finalized the Scope of Work (SoW) for recruitment of a contractor to conduct the GMP training for between **1200-2000** dairy industry operators. The program aims to have KDB make adoption and implementation of GMP a business license requirement.
- Finalized the scope of work for the development of a reader friendly version of the Kenya Standard Code of Hygiene for the Dairy Industry. The exercise will produce a 'user-friendly' version of the document, which as is, is very technical and not reader friendly, especially to the people working in the processing plants and the milk collection/bulking centers
- Carried out a laboratory inspection (laboratories identified as the leading contenders for support from KDSCP) in order to finalize our opinions and recommendations. A draft recommendation was then prepared and shared with the Kenya Dairy Board (KDB) for review and agreement.
- Continued working on the Kenya Dairy Ordinance
- Wrote and delivered a handbook describing the mechanical and physical inspection of milk heat exchangers, pasteurizers and sterilizers and their associated safety equipment manual. This will compliment the KDP Inspectors training carried out in the previous quarters.
- Leveraged an estimated **US\$ 3.2Million**¹ in non project resources in the reporting period. An estimated **US\$ 10,000**² has been pledged by the Netherlands Development Organization (SNV) to be used for preparing manuals on good husbandry practices/farm toolkits. Private milk processors have installed 4 milk coolers valued at **US\$ 143,750** in Milk Collection Centers of farmer groups working with the KDSCP program. The government also secured funds for vaccinations against anthrax, foot and mouth and lumpy skin disease through the Dairy Task Force in the reporting period.
- Finalized SBO capacity & performance assessment and action planning for all the **77 selected SBOs in the quarter**. The detailed assessment was carried out after selecting the SBOs that the program is working with in the eight milk sheds. The review revealed a number of constraints/weaknesses that currently impact their performance and designed action plans for all groups assessed that if implemented, will greatly improve their operations. This also forms the baseline information on which the impacts of program capacity building activities will be gauged.
- Facilitated capacity building of **17 SBOs** in the reporting period. Specific activities included facilitating the development of strategic plans and business plans for **7 SBOs** in Kabete milk shed, and training of **46 management committee members** from **10 SBOs** in Kericho milk shed on effective leadership and governance. The

¹ 1US\$=Kshs. 80

² 1US\$=Kshs. 80

training highlighted the attributes of good leaders and effective governing/steering committees.

- Facilitated training of **104** service providers on a number of topics, including business and enterprise management skills in the reporting period. The service providers have also been provided with manuals and training modules, and exposed to additional services. These are the services they could provide as embedded services and may include silage making for Artificial Insemination providers, among others.

1.0 Introduction

Land O'Lakes is implementing the Kenya Dairy Sector Competitiveness Program (KDSCP) with the financial and technical support of the United States Agency for International Development (USAID). The KDSCP 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. The KDSCP 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 threefold:

- 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. The 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.

Towards Strategic Objective 7

The 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 deliverables are:

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

Deliverables 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 deliverables 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/ impacts 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

This section expounds the key activities undertaken during the period under review, and the associated accomplishments/progress realized. As previously mentioned, the interventions under KDSCP are grouped into three broad areas/components, namely; activities for enhancing dairy productivity including policy review and advocacy activities; dairy smallholder business organization development activities; and dairy business development services availability activities. Achievements in the reporting period include:

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

Program interventions in this component continued to focus on strengthening dairy sector institutions and associations to equip them with the necessary skills and technical capacity to enhance industry competitiveness. This is informed by the fact that building institutional competence is key to facilitating development and fostering longer term sustainability through the empowerment of local actors. A sample of the activities and outputs realized include:

- Held a workshop for sector public institutions Chief Executive Officers (CEOs)
- Facilitated capacity building of three dairy associations
- Continued reviewing/developing industry standards and documents:
 - ✓ Continued working on the Kenya Dairy Ordinance
 - ✓ Finalized the scope of work for the development of a user-friendly edition of the Kenya Standard Code of Hygiene for the Dairy Industry;
 - ✓ Wrote and delivered a handbook describing the mechanical and physical inspection of milk heat exchangers, pasteurizers and sterilizers and their associated safety equipment;
 - ✓ The Good Manufacturing Practices (GMP) Guideline has been reviewed, edited and approved by the KEBS dairy technical committee. The document now has official KEBS recognition and has started the process of public review and when this process is completed the document will be issued as an official KEBS Standard.

2.1.1 Held a workshop for the Chief Executive Officers (CEOs) of dairy sector public institutions

In the reporting period, the KDSCP facilitated a workshop for the Chief Executive Officers (CEOs) to refocus the thinking of the top leadership of the public sector institutions in the dairy sector towards a competitive mental framework. The meeting was attended by 21 leaders of dairy organizations ranging from ministry officials, livestock parastatal heads, research organizations, and university departments, among others.

One of the major activities of the KDSCP is to facilitate institutional capacity building at the industry level. In order to lay a firm foundation for these capacity building initiatives,

it is essential that the top leadership in all the sector organizations engage with the program at the same level with a mindset geared towards global competitiveness.

In pursuit of this objective, the KDSCP, in collaboration with the Institute for Strategy and Competitiveness of the Strathmore Business School, facilitated a workshop for the senior executive leadership of institutions and associations in the dairy sector. This was aimed at sensitizing the senior leadership in the dairy public sector on the competitive landscape in which they work and its demand on them in terms of strategic thinking and leadership.

The workshop's overall objective was to engage the top leadership of the various public institutions and associations in the dairy sector in order to build a mental framework that would be focused on:

- Integrating organizational strategic resources for competitiveness
- Understanding the key role each organization plays in supporting Kenya's dairy sector competitiveness
- To focus on results through synergistic strategic relationships with other players in the dairy sector.

The session, attended by the key industry leaders (including the Permanent Secretary, Ministry of Livestock) was a great success as indicated by the participants' feedback table below. Those attending requested a longer session to discuss the industry issues in greater detail.

Participants' Feedback

Experiences enjoyed or valued	<ul style="list-style-type: none"> - Meeting other industry players - Free discussion of ideas - Introduction to new ideas - Understanding the power of thinking - The choice of the facilitator was excellent
New ideas developed	<ul style="list-style-type: none"> - Thinking about innovation - Change of personal attitude - Farming as a business - Private-public linkages - Cluster idea - Big picture and regional thinking - Competitiveness as an idea
Expected personal action points	<ul style="list-style-type: none"> - Critical look into the cluster and linking with other members of the cluster - Structure collaboration with others - Managing organizational and personal knowledge better

Issues to be explored further	<ul style="list-style-type: none"> - How to make my department more competitive - Building constructive networks - Reading on competitiveness
Interesting points	- signature syndrome



CEO seminar Participants listening keenly to the facilitator at Strathmore College, Nairobi



Mr. Kirwa MD, Agricultural Development Corporation, Dr. Abdul Faraj Chairman, dairy technology department, Egerton University and Dr. Murekefu Central Artificial Insemination Station at the CEO workshop.

2.1.2 Built capacity of three dairy organizations

The program facilitated the provision of capacity building interventions to three organizations - Kenya Dairy Producers Organization (KENDAPO), Kenya Livestock Breeders Organization (KLBO), and the Kenya Livestock Producers Association (KLPA). The capacity building fora, organized in collaboration with key stakeholders, including the National Dairy Task Force (DTF) and local business training firms, covered diverse areas. These included training in financial management, strategic planning, institutional transparency and accountability, publicity, among others. This is expected to transform them into viable, professional and transparently run organizations to enhance sector performance. Specific activities and the associated outputs are elaborated below.

Facilitated capacity building interventions for Kenya Dairy Producers Organization (KENDAPO)

KENDAPO is a national association of dairy producers who have an interest in the development and promotion of the dairy sector, and was formally registered in 2007. The assessment conducted by the KDSCP on its capacity (reported in the last quarter), however, revealed a number of weaknesses that impact negatively on its performance, the key being a weak management structure, lack of a secretariat, lack of a strategic plan, interim officials who have served since its registration and a very small membership base due to lack of visibility. Program activities focused on addressing these weaknesses in the reporting period. Key activities included assisting KENDAPO to develop an implementation plan for the strategic plan³, and ensuring that the organization develops a resource mobilization strategy for long term self sustainability.

Progress realized in the quarter includes:

- The strategic plan has been finalized
- An implementation map for the Strategic Plan has been developed
- Funds have been leveraged: the East African Dairy Development Program agreed to support the setting up an office and to hire a secretariat.

In the next quarter, activities will focus on setting up offices and the secretariat, a membership drive to increase the membership base, and training of the board so that they understand their mandate.

Facilitated capacity building interventions for Kenya Livestock Breeders Organization (KLBO)

The KLBO is an independent organization formed under the auspices of the Agricultural Society of Kenya (ASK). It is responsible for the collection, analysis and maintenance of livestock pedigree and performance data and its subsequent certification. The organization provides two services: livestock registration with accurate and authentic

³ The strategic plan was finalized in the quarter and was funded by Heifer International following KDSCP's capacity assessment.

ancestral and identification information of animals (including date of births and pedigree details); and dairy recording services, which details dairy milk yields and milk quality analysis. These services are essential if sector competitiveness is to be achieved. The KLBO has benefited from support from a number of development partners, which has led to the development of a strategic plan and modernization of its data systems. However, use of these services is still very low, with a program survey showing that majority of dairy farmers (over 50%) do not know what KLBO does.

In the reporting period, the KDSCP activities focused on two critical areas for capacity building, with the main activity being publicizing the KLBO mandate and its benefits to dairy farmers in the country. The program actively participated in the East African Breeders Show held in Kenya from 10th to 12th of June 2007. The program, in collaboration with sector stakeholders through the Dairy Task Force, sponsored **1300** farmers to the show. This was meant to expand the reach of these services to the wider milk producing fraternity⁴.

The second activity focused on building the organization's capacity to respond to the demand for breed inspection and recording of yield data after the marketing effort. These efforts will continue in the next quarter.

⁴ This process is hindered by the organizational culture of exclusivity of breeders associations.

Facilitated capacity building interventions for Kenya Livestock Producers Association (KLPA)

The KLPA is an apex organization that provides a voice for small-scale livestock producers at the policy making level. The organization's mission is to ensure improved livelihood of livestock producers through formulation of appropriate policy, stimulating reforms, promotion of good livestock husbandry practices, collecting and disseminating information, and promotion of general interest of its members. KLPA is currently in a very good position to move on to the next level of becoming a truly apex association representing various producer associations at the policy level. The fact that it is currently representing livestock interests at the Kenya private sector alliance and through that forum to the Prime Ministers' round table, gives the organization an important leverage that can be used to propel it to greater heights. However, its leadership both at the CEO and the board level lacks the drive to push the organization forward with vigour and vision.

The KDSCP facilitated capacity and performance assessment and revealed a number of weaknesses that need to be addressed if the organization is to realize its mandate. The assessment indicated that the Board lacks the necessary skills on organizational development, governance as well as advocacy. In addition, they do not have a clear understanding on the implementation of their strategic plan. It was therefore found necessary to train the board on the technical aspects of lobbying and advocacy as well as guide them in clarifying their vision, mandate and implementation strategy.

Specifically, a training program was designed and provided in the quarter to: help the members of the board classify their personal motivation in serving on the board of the organization; facilitate the members of the board in clarifying the organizations' vision, mission and strategy; build a knowledge base on what lobbying and advocacy entails and thereby give the board a clear perspective on what it would take for them to fulfill their mandate.

Progress realized includes:

- Training of the board on strategic focus, understanding organizational development processes and lobbying and advocacy has been carried out. The result was that the board agreed to refocus its membership and embarked on a consensus building process to get other livestock producer associations to join into the vision of the apex organization with sufficient muscle to push its agenda forward at the policy making level
- A lobbying and advocacy plan is expected to be produced by the CEO and presented to the next board meeting.
- Planning to bring together other livestock producer associations in a meeting.

A key outcome from the training was the consensus to shift the focus of KLPA membership from individual farmers to associations representing various farmer interests.

The chairman of the board embarked on a process of talking to various livestock producer associations in order to build consensus on KLPA membership. The board expressed its desire to be reconstituted in order to allow for representation of the various associations that will form the bulk of its membership.

It was also evident from the discussions that the board was clearer in its perspective of the scope of work they need to do in order to get the organization on the right track. It was agreed that the next board meeting would discuss the way forward with a view of putting the organization back on track.



KLPA board on an experiential learning exercise during the training In Nairobi

2.1.3 Continued reviewing/updating/developing industry standards and documents

As mentioned in previous progress reports, improving milk quality by establishing quality certification frameworks is one of the main program intervention areas for improving industry competitiveness. Program efforts therefore continued to focus in this area in the reporting period and the following accomplishments realized.

Continued work on the Good Manufacturing Practices (GMP) and finalized the Scope of Work (SoW) for recruitment of a contractor to conduct the GMP training

The Good Manufacturing Practices (GMP) manual has been reviewed, edited and approved by the KEBS dairy technical committee. The document now has official KEBS recognition and has started the process of public review. When this process is completed the document will be issued as an official KEBS Standard. The GMP standard is aimed at imposing a framework for requiring three types of dairy businesses to implement and follow sanitary and hygiene operations in the daily operations of the

business. The three types of business which are targeted are Milk Bulking/Collection centers, Milk Bars/Shops and Milk Processing Plants. Kenya suffers from a very low quality raw milk supply – that is essentially milk with a very high bacterial load and which is frequently adulterated. GMP requires implementation of management practices which through documented operating procedures, requires the operators to adopt sanitary practices, while at the same time imposing a defined management structure on the daily operations.

It is KDSCP's intention to train all MCC, milk bar operators and all processing plant management personnel on GMP. The target number of trainees is estimated at 1200 – 2000 nationwide. ***When the training has been completed, the program will aim to have KDB make adoption and implementation of GMP a business license requirement.*** The KDB inspectors will carry out the inspections to ascertain that the businesses have adopted GMP and are maintaining its implementation. The GMP Standard, approved in the quarter, is the result of our having initiated and submitted a raw draft document to the KEBS dairy committee where through a series of meetings it was reviewed, edited and finally approved.

Assuming that all progresses well with the training and the implementation stage, GMP should contribute to reducing the high bacterial loads in the Milk Collection Centers (MCCs) and the milk bars/shops. This will be an effective improvement in food safety.

Finalized the Scope of Work for the development of the Kenya Standard Code of Hygiene for the Dairy Industry;

Currently, the Kenya Bureau of Standards (KEBS) has produced a Kenya Code of Hygiene. This document was approved at the meeting that was organized and facilitated by the KDSCP in Naivasha in the last quarter. There is also an East African Community (EAC) Code of Hygiene currently being discussed at the EAC level. Kenya is a member of the EAC and therefore is represented at EAC standards meetings. These documents are not identical. In August at the next EAC meeting, Kenya will propose to the EAC that they adopt the Kenya document which is viewed as being more comprehensive and superior. Though in themselves they are competent documents, the documents are very technical and not reader friendly, especially to the target audience, that is, people working in the processing plants and the milk collection/bulking centers.

The South African dairy industry has published a reader friendly Code of Hygiene in a graphically attractive format, illustrated and very accessible and readable by the target audience. The KDSCP wants to adopt that format to produce a 'user-friendly' version of the formal Code of Hygiene documents. Since the issue of which of the two existing documents currently under review and discussion, will prevail in Kenya has not yet been resolved. The user-friendly version also has a potential to carry advertising which could be leveraged for the costs of publishing. We believe this will go a long way to making the document reader friendly and beneficial to the target audience and the industry in general.

Other accomplishments in the quarter include:

- Carried out a laboratory inspection (laboratories identified as the leading contenders for support from KDSCP) in order to finalize our opinions and recommendations. A draft recommendation was then prepared and shared with the Kenya Dairy Board (KDB) for review and agreement.
- Continued working on the Kenya Dairy Ordinance
- Developed a handbook describing the mechanical and physical inspection of milk heat exchangers, pasteurizers and sterilizers and their associated safety equipment manual.

2.1.4 Facilitated meetings of the National Dairy Task Force and the Regional Working Groups

In the reporting period, the DTF held 3 meetings to discuss the various issues affecting the dairy industry in the country. The KDSCP used these meetings to share progress realized to date and to encourage industry stakeholders to maintain focus for sustained action to improve the industry in the country.

A number of sector issues were resolved in the quarter. Some of these include:

- Review of Dairy Master Plan, which was initially shelved due to inadequate collaboration, is now back on track. The Permanent Secretary, Ministry of Livestock, has since appointed a 12 member technical working committee to oversee its review. The committee will operate under the National Dairy Task Force and will answer directly to the Permanent Secretary. The KDSCP is represented in the task force. Progress will be reported in the next quarter report.
- The E Dairy project which aims to network the dairy industry in the country and to institute a traceability system⁵ for the industry is now at an advanced stage thanks to the DTF. The project, which has an overall budget estimated at **US\$ 12.5 million**, will be funded to a large extent by the DTF members. The program contribution has already been approved by USAID. Progress on this noble initiative will be reported in future progress reports. Once finalized, this will form a considerable proportion of funds leveraged by the KDSCP program.
- The KDSCP leveraged a considerable amount of non project resources through collaborations via the DTF in the reporting period. These include:
 - ✓ An estimated **US\$ 10,000**⁶ for preparing manuals on good husbandry practices/farm toolkits from the Netherlands Development Organization (SNV). Work is in progress.

⁵ This will go a long way in enhancing industry competitiveness

⁶ 1US\$=Kshs. 80

- ✓ Brookside dairy, a private sector milk processor, has installed a 10,000 liters milk cooling tank valued **US\$ 87,500** at in a Milk Collection Centre of a farmer group working with the KDSCP program
- ✓ The KDSCP facilitated sector assessments and Regional Working Groups (RWGs) recommendations have resulted in the government acquiring funds for disease control. The Government has been carrying out vaccinations in the entire country in the quarter. The government has used an estimated **US\$ 3 million**.
- ✓ The DAI program of USAID is currently finalizing a survey on credit access in the dairy value chain in close collaboration with the KDSCP (The program is using a sample of farmers in the KDSCP milk sheds). Once finalized, this report will form a basis for action along the value chain.
- ✓ Farmers have spent a substantial amount of money participating in program activities. These include providing their own transport, and in some cases accommodation. In the reporting period, farmers spent an estimated **US\$ 16, 875** in transport and accommodation.

This now takes the total non program funds leveraged to **US\$ 3.3 million**. We will report progress on this once we get the total value of the other activities.

2.2: Component 2: Develop Dairy Smallholder Business Organizations (SBO)

Following the identification of the final beneficiaries, the program team focused on implementing the action plans developed by the KDSCP assessments, and the Regional Working Groups recommendations. Program activities were aimed at facilitating the provision of technical skills on good dairy husbandry practices at the farm level and on identifying and solving weaknesses and constraints to improve management and operational capacities of the selected farmer groups. Specific activities carried out in the reporting period include:

- ✓ Finalized SBO capacity assessment and action planning for all the selected groups
- ✓ Facilitated capacity building of SBOs
- ✓ Facilitated capacity building of **11,328** farmers, **3964** female.

2.2.1 Finalized SBO capacity assessment and action planning for all the selected groups

As indicated in the KDSCP project document, a detailed assessment was carried out after selecting the SBOs that the program will be working with in the eight milk sheds. The assessment revealed a number of constraints/weaknesses that currently negatively impact their performance and designed action plans for all groups assessed that if implemented, will greatly improve their operations.

The assessment results indicates that apart from the stated functions or activities of co-operatives, most organizations did not seem to have concrete, competitive strategies to enhance their growth and development and achieve member satisfaction. Further, there is general lack of diversity of skills, knowledge and experience among most of the SBOs management and leadership, with the biggest constraint being lack of strategic planning and financial management skills. In most societies, management capacity is inadequate and in some cases non-existent. Majority of them still lack capacity to produce and utilize financial reports. The tendency among the farmer groups is to hire unqualified managers who have limited skills in cooperative and financial management but whose remuneration they can afford due to low financial base. Likewise, the SBOs have not been actively reaching out to members hence have very low registered membership or low active membership verses total registered membership which limits the business volumes and opportunities for economies of scale.

Most of the organizations do not have systems in place to manage change. Many farmer groups assessed have not embraced the concept of strategic planning even though it's a legal requirement. Majority of them have not developed long term plans, for some who have, the internalization and operationalization of the strategic documents is wanting. The quality of the plan in some cases shows inadequate skills in strategic planning. None of the SBOs had a business plan. The culture of organization learning scored poorly in almost all organizations. The systems for monitoring and evaluation are poorly developed and there is low adoption of modern information technology such as ICT. Almost all organizations have at least one partner but the partnership is not structured, or formalized in most cases, majority being milk processors/ buyers and extension service providers.

Whereas most of the SBOs had adequate staffing, very few had well structured human resources systems or HR plans for staff recruitment, retention, training and development. A noticeable challenge in nearly all the farmer groups was inadequate qualified milk graders or inadequate skills and facilities for milk handling and testing as most relied on milk processors like Brookside, KCC and Tuzo for milk collection and testing. Inadequate capital base and access to financial services also emerged as a key challenge that is limiting effective service provision and performance, which calls for interventions in resource mobilization. Share contribution in most societies remains very low. In most of the SBOs, share contribution has since stopped making it hard to run their operations or fund their budgets especially on development or structural investments. Majority of organizations seemed to be unable to fully fund their budgets even though they had a long list of what they want to do like purchasing a cooler, AI services, establishing a feed mill, or expanding departments, among other activities. The use of computers in conducting business operations was also limited. Over half of the producer groups were operating in their own premises, with some having rentals and undeveloped plots.

Weak linkage in extension service provision to members was observed in nearly all of the SBOs. The groups do not have or provide extension service but rely mostly on development agencies. Some offer services such as facilitation of provision of farm input services, extension services, financial services and veterinary services while others are yet to adopt these practices. Very few organizations provide household consumables to members.

Milk collection is a major challenge in some societies with some lacking the necessary facilities. Whereas milk rejection is not a major problem in most of the assessed societies, the milk handling or testing techniques do not meet the required standards, which is likely to impact on the competitiveness of their products. Many of the SBOs lack necessary infrastructure such as milk coolers to harness evening milk from farmers while ensuring safe quality. This is one key area that the dairy program will need to focus on as meeting set quality standards is vital to enhanced competitiveness. Still there is a very big variation in milk collection during wet and dry seasons as most organizations have not put in place adequate drought mitigation mechanisms for its members. There was general consensus among the SBO representatives that strategies such as feed preservation or silage and hay making that provide support to its members during droughts are indispensable in transforming them into viable business units.

The assessment covered **77** SBOs that currently work with the program and had an **overall rating of 1.78 on the Capacity and Performance Index**. The action plans and the SBO Capacity and Performance Index score will provide a basis for future monitoring as we progress with implementation.

2.2.2 Facilitated capacity building of the SBOs working with the KDSCP program

Program activities in the quarter also focused on addressing the identified constraints/weaknesses in the SBO performance assessment report. A total of **17 SBOs benefited** in the reporting period. Specific activities included facilitating the development of strategic plans and business plans for **7 SBOs** in Kabete Milk shed, while

46 management committee members from **10 SBOs** received training on effective leadership and governance. The training highlighted the attributes of good leaders and effective governing/steering committees.

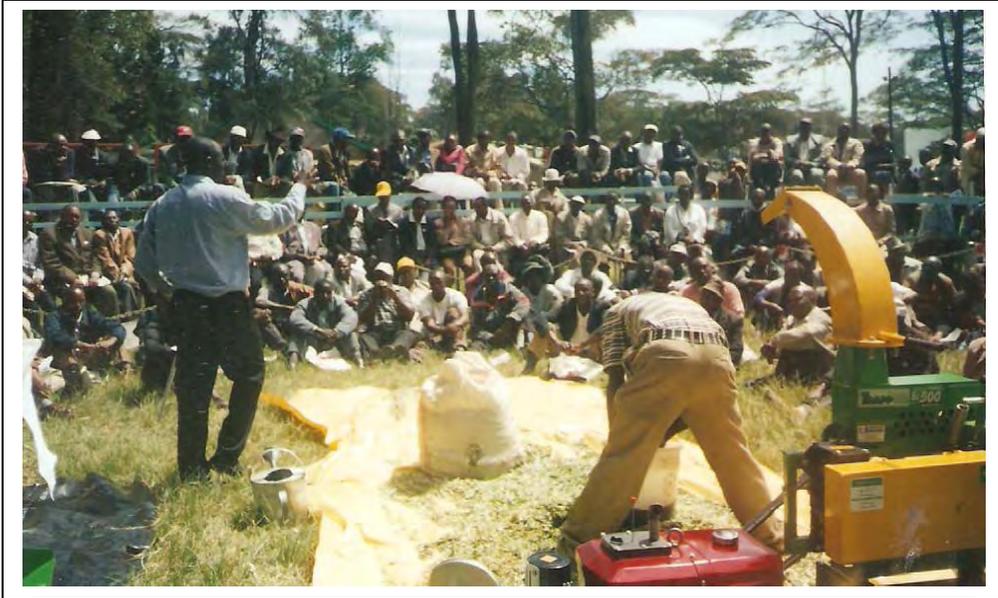
2.2.3 Facilitated capacity building of 11,328 farmers, including 3964 females.

Program interventions focused on training dairy farmers in various milk sheds to equip them with necessary technical skills to increase herd productivity and incomes. The total number of farmers trained now stands at **13,348 against a target of 54,000** at the end of Year 2. The training forums, organized in collaboration with key stakeholders such as Ministry of Livestock extension personnel, private players in the industry – mainly service providers, 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 of feed conservation techniques to enable smallholders to conserve feed in wet seasons (when feed is abundant) for use in the drier parts of the year. On breeding, the program has facilitated trainings to impart modern breeding techniques to commercial service providers and farmers to improve the genetic base of their dairy cows. Farmer trainings were achieved via exposure tours, field days, and model farms / on farm demonstrations. The section below reviews a sample of activities undertaken in the reporting period.

Exposure tours

The program assisted more than **1300** farmers from the KDSCP milk sheds to attend the East African Breeders show in Nairobi. The breeders' show is an annual event organized by a committee that was originally initiated by KLBO but which later expanded to a trust mostly representing breeders and breeder societies. The breeders' show provides breeders from all over East Africa with a forum to exhibit their stock, create awareness on the breeds, provide markets for willing breeders and educate farmers on breeding and management issues. The 2009 breeder's show took place from the 10th to 12th of June at the Jamhuri park show ground, Nairobi.



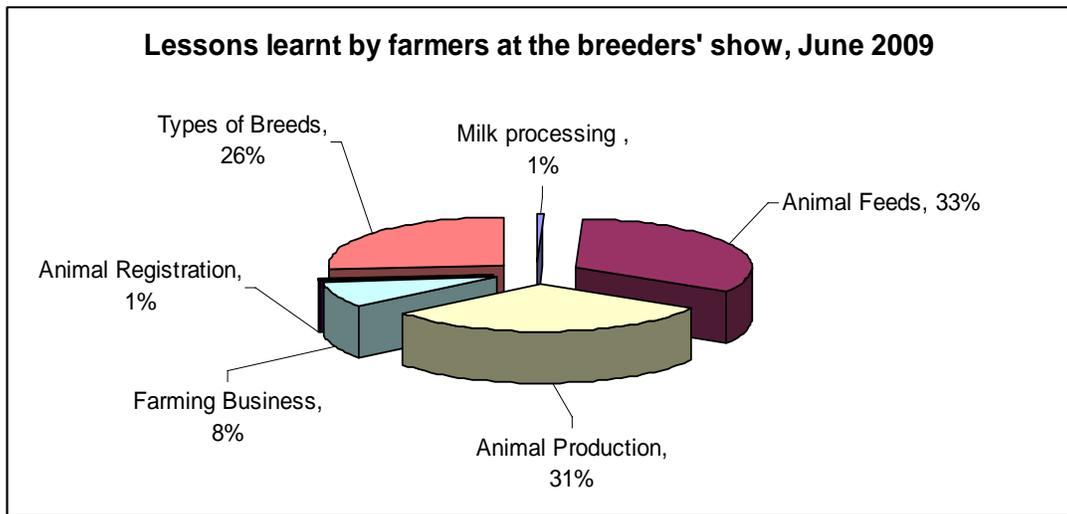
KDSCP facilitators demonstrate silage making at the breeders show in Nairobi



The champion Dairy Cow selected by judges as the best dairy cow at the Breeders Show in Nairobi

The breeders show presented a good forum for learning good breeding practices. It also provided a good opportunity for farmers to interact with renowned breeders in the region and develop contacts which they may call upon for herd upgrading in the program life and even beyond. At the end of the show, farmers were asked to choose between 6 categories of lessons learned at the breeders' show; namely types of breed, animal registration, farming as a business, animal production, animal feeds and milk processing. Results indicate that the key lessons learned were about animal feeds, 33%

of farmers overall, animal production lessons (31%) and types of breeds (26%). Full results are shown in the figure below.



Model Farms/On farm demonstrations

Prior programs – Kenya Dairy Development Program (KDDP) among others – have highlighted the important role that learning from other similar farms (size and locality) play in technology and/or management practice adoption. The KDSCP management team has therefore made it a policy to have model farms in all the milk sheds where farmers can go and see first hand, the benefits of the various technologies the program promotes. In the reporting period, the program **developed six (6) model farms in two milk sheds**. The program targets to have at least one model farm per farmer group.

At the farms, farmers see first hand the benefits of good breeding and feeding practices. They also learn about the various types of dairy fodder and feed conservation technologies, including the preservation and use of crop residues as animal feed to reduce the cost of production while increasing yield. The pictures below were taken from two of the program model farms in Gatanga and Nyeri Milk sheds.





A heap of pineapple residues used as dairy feed at a demonstration farm in Gatanga Milk Shed



Dairy animals feeding on silage at a demonstration farm in Gatanga Milk shed

These farmer training initiatives have started bearing fruit in some milk sheds. In Lessos milk shed for example, Cheptiret milk cooling plant that has perennially been operating under capacity has registered immense growth in volumes of milk delivered. The plant currently operates at full capacity and has an excess of 600-700 liters per day that they transport by cans, due to program intervention. It is hoped that this will also be replicated in other milk sheds to increase volumes sold by small holder farmers.

2.3 Component 3: Increase Availability of Dairy Business Development Services

2.3.1 Capacity building of service providers

The KDSCP implementation method focuses on capacity building of providers i.e. switching from assisting micro enterprises directly to ensuring sustainable access to services, via functioning markets. To achieve this objective, and for effectiveness, outreach and impact, the program uses a portfolio approach in provision of BDS. This entails working with multiple partners as BDS providers rather than work with one or just a few and also the capacity building of the providers to provide a range of services (with some embedded), rather than just one for increased effectiveness. So far the program has recruited and is working with a total of **202 service providers against a target of 150** by the end of year two of program implementation.

In the reporting period, a total of **104** service providers were trained on a number of topics, including:

- Business and enterprise management skills
- Service providers have also been provided with manuals and training modules, and exposed to additional service provision. These are the services they could provide as embedded services and may include silage making for Artificial Insemination providers, among others.

This has resulted in the number of business service providers supplying additional services going up to **221 cumulatively against the program target of 150 by end of Year 2 of program implementation.**

2.3.2 Facilitation of Farmers Financing

Though farmers stated access to credit as one of the major constraints in commercializing dairying and were willing and ready to go for loans in the SBOs that have been selected, this exercise was initially delayed in order to first determine the financial institutions that have favorable dairy based loan products. Experiences from other similar programs have shown that financial institutions (FIs) are enthusiastic to provide agricultural loans without undertaking a detailed assessment on the capacity and repayments modalities for agribusinesses. This has sometimes raised the default rate to farmers being unable to repay the loans which eventually causes the collapse of the farmers' enterprise.

Currently suitable Financial Institutions have been identified and negotiations and partnerships finalized that put in place a tailor-made loan product to farmers. Over **301** farmers have acquired loans in the reporting period.

2.4 Challenges

A number of challenges were experienced in the quarter.

Expected Direct Financial assistance

Response from target groups was rather slow during the initial part of the period under review. Farmers, SBOs and BSPs expected direct financial assistance from the program largely because the BDS approach is fairly new as a development strategy. This flawed expectation slowed the recruitment of the target groups. Several meetings were held to level expectations and raise the interest of the target groups in the program. These meetings had good results and we have finalized the recruitment process of SBOs, and BSPs.

Poor turn up in meetings

Meetings held for officials of the cooperatives were not well attended during this quarter. This was due to the fact that the program is new and they seemed to express apathy, however, after being oriented well it is believed that they will gain interest and improve on their attendance.

'Giant' Cooperative societies

The 'Giant' Cooperative societies have been slow in appreciating the program's benefits, and took time to join the program. Specific meetings targeting these cooperative societies were carried out to convince them the importance of joining the program. The problem was solved and currently the societies are participating in the program

Recruitment of Business Service Providers

Recruitment of business service providers was slower than anticipated. Attendance to orientation and recruitment workshops by BSPs was low, but improved after the Dairy Task Force (DTF), through the government veterinary and livestock officers were involved in the invitation and recruitment process. We anticipate a faster rate of implementation now that we have finalized the recruitment process.

3.0 Performance Data Table

Impacts					
Performance Indicator	Baseline Value	Y2 Target	Y2 Actual	Status/ Cumulative Realized Years 1&2 Actual	Comments
Household level impacts					
% change in smallholder household income (%)	Kshs. 2,043	25%	59.8%**	59.8%**	Current estimates indicate that farmer incomes have increased to Kshs. 3,265 on average. Up to date data will be provided once an ongoing farm level survey is finalized.
Number of rural households benefiting	0	110,000	79,830	102,367	These are households reached through action planning workshops, program facilitated field days, exposure tours, farm demonstrations, among other program facilitated events.
Sub-Sector Level Impacts					
Total volume of milk purchased from smallholder dairy farmers (MT)	65,535	20,000	48,000**	48,000**	The volumes and value reported is that collected in the reporting period. Accurate data will be provided in the annual report.
Total value of milk purchased from smallholder dairy farmers (US Dollar)	16,38M	5 M	12M	12M	
Total value of exports to regional and international markets (US Dollar)	14.32 M	9.95 M	N/A	14.38M	Year 2009 data will be provided end of year.
% change in volume of milk conforming to quality standards increased	0%	30%	98%	98%	Currently, only 2% of milk is rejected due to of poor quality at the SBOs working with the program on average. About 98% purportedly confirms to the set quality standards. This could be attributed to drought and hence processors do not have the luxury to reject milk.
Total value of milk conforming to quality standards increased (US Dollar)	0%	30%	98%	98%	
% change in volume of milk and dairy products sold by processors	392,336 MT	6%	2%	2%	400,323 MT was processed in the year.
% change in value of milk/ dairy products sold by processors	119.6M US\$	6%	2%	2%	

Impacts					
Performance Indicator	Baseline Value	Y2 Target	Y2 Actual	Status/ Cumulative Realized Years 1&2 Actual	Comments
(Percent)					
Number of Jobs created in the value chain	0	13,000	117	117*	117 new permanent jobs have been created in the SBOs and service provider firms' working with the program. Farm level jobs – full time and part time (full time equivalent) will be reported after the farm level survey is completed.
Firm Level Impacts					
Number of producers accessing/ receiving/ utilizing BDS services, inputs, technologies, and management practices	0	80,000	42,962	42,962*	Program has linked farmers in the all SBOs with service providers in the 8 milk sheds.
Number of farmers using improved technology	0	65,000	NA	NA	Farm level survey is ongoing
Change in annual productivity (Liters)	6.5	12	NA	NA	Farm level survey is ongoing
% change in gross margin per litre of milk	Kshs. 5.80	16%	NA	NA	Farm level survey is ongoing
% change in cost of production	Kshs.14.20	16%	NA	NA	Farm level survey is ongoing

Outcomes					
Component 1 - Enhance Capacity for Milk and Production Input Quality Certification and Market Promotion					
Number of industry policies and acts improved and enacted	0	1	18	18	Considerable progress has been realized:
Number of Quality certification frameworks (Milk product, Animal feeds) developed, implemented/enforced	0	1	2	2	<p>The Good Manufacturing Practices (GMP) document has been reviewed, edited and approved by the KEBS dairy technical committee. The document now has official KEBS recognition and has started the process of public review and when this process is completed, will be issued as an official KEBS Standard.</p> <p>Trained 38 KDB Regulatory Inspectors on Pasteurized Milk Ordinance and regulatory inspection</p> <p>Finalized the Scope of Work (SoW) for recruitment of a contractor to conduct the GMP training for between 1200-2000 dairy industry operators. The program aims to have KDB make adoption and implementation of GMP a business license requirement.</p> <p>Finalized the scope of Work for the development of a reader friendly version of the Kenya Standard Code of Hygiene for the Dairy Industry. The exercise will produce a 'user-friendly' version of the document, which as is, is very technical and not reader friendly, especially to the people working in the processing plants and the milk collection/bulking centers.</p>
Number of dairy enterprises achieving national/international certifications and enforcing quality regulations on suppliers	MBC: 0 Processor: 0 Vendor: 0	22 5 TBD	0 0 0	0* 0* 0*	A GMP training is planned for the next quarter that targets to train between 1200-2000 industry players. Once this is finalized, we aim to make compliance a licensing requirement by the KDB.
% change in volume of feed marketed under new quality standards	0	20%	0	0*	Through the DTF, the feed and livestock feed policy review is at an advanced stage. A dairy related

% change in value of feed marketed under new quality standards	0	22%	0	0*	program (Smallholder Dairy Commercialization Program) is funding the final stages of the process.
Total Value of non-project resources leveraged (US \$)	\$0m	\$10m	\$3.4M	\$3.4 M*	This has mainly been leveraged through the Dairy Task Force, with a small (but significant) proportion coming from farmers.
% change in revenue collected by KDB and KEBS	US\$ 980,842	20%	2%	2%*	Total revenue reported was US\$ 1,000,006. The slight increment has mainly been attributed to a severe drought that has affected the country.
Number of new technologies or management practices under research as a result of program assistance	0	15	8	8*	These include: 6 Lucerne varieties; 1 fodder sorghum; and one variety of dual maize – for both grain and forage.
Component 2 - Dairy Smallholder Business Organization (SBO) Development					
Number of producer organizations strengthened	0	50	55	55*	The program is working with 55 SBOs in the eight milk sheds. All the SBOs and 3 sector wide organizations were capacity built in the reporting period.
Number of SBOs/MBCs with HACCP and/or national certification	0	22	0	0*	A GMP training is planned for the next quarter that targets to train all the SBOs working with the program. Once this is finalized, we aim to make compliance a licensing requirement by the KDB.
% change in volume of raw milk sold by SBOs under agreements that pay premiums for quality	0	10%	0	0*	The program has submitted a discussion paper on differential graded payment for raw quality milk to industry stakeholders for discussion and possible adoption. If this adopted, then all milk passing through the formal chain will be paid for based on quality.
% change in value of raw milk sold by SBOs under agreements that pay premiums for quality	0	10%	0	0*	
% change in gross revenue of SBO/MBCs from sale of inputs and services other than milk cooling (US \$)	US \$ 715,209	22%	13%	13%*	Program activities have also focused on embedded service provision where farmers pay on a check off system from their dues at the end of the month.
Number of SBO/MBCs transformed into sustainable business entities	0	25	24	24*	The program is working very closely with 24 SBOs out of the 55. We will provide accurate data by end of year.
Number of cooling units installed/rehabilitated	0	15	5	5*	Brookside dairy has installed a 10,000 liter cooler; New KCC has installed 2 in Murnga, and Nyeri. 2

in SBO/MBCs (Number)					coolers have been rehabilitated in Tongaren and Naitiri.
Component 3 - Availability of Dairy Business Development Services					
Number of firms providing new business services to producers (Number)	0	150	221	221	Program activities have focused on embedded service provision to increase the revenues for the providers. All providers are trained on feeds & feeding and feed conservation.
% change in value of Services/inputs provided by BSP (US Dollar)	0%	10%	NA	NA	Reported annually
Number of smallholders purchasing private sector services at full commercial rates	0	44,000	NA	NA	Farm level survey is ongoing.
Number of new technologies or management practices made available for transfer	0	15	18	18	Include milk quality systems – component analyzer, tit dips, porta check, mastitis kits (3); new breed (distributed by fleckvieh Esst africa); ICT – data capture systems; new feeds – silage mola plus; microbes;
Number of producers receiving loans from financial service providers	0	18,000	4200	4200	Financial service providers currently working with the program include Faulu Kenya, Equity; Co operative bank; Family finance; Unity bank; and local farmer SACCOs.
% change in value of loans received from financial service providers	150,000	10%	38%	38%	US\$ 157, 500 has been disbursed. Accurate data will be provided in the next quarter.
Number of smallholders engaged in new, diversified dairy-related enterprises	0	12,600	NA	NA	Data collection ongoing
Number of producers receiving short-term training	0	54,000	11,328 farmers, 3964 female	13,348*	In the reporting period, 1300 farmers attended an international breeder's show.

* The observed variances can be explained by the fact that the program has just begun the second year of implementation (from May, 2009). The first year was mainly spent on ground working, (sector assessment studies) and roll out. We aim to achieve and surpass the set targets by end of Year 2 of implementation.

** Refers to current estimates. Accurate data will be provided in the next progress report.

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