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USAID KENYA DAIRY SECTOR COMPETITIVENESS PROGRAM

QUARTERLY PROGRESS REPORT

MAY 2008 – JULY 2008

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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.

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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
KDSC	Kenya Dairy Sector Competitiveness Program
KENDAPO	Kenya National Milk Producers Organization
KLBO	Kenya Livestock Breeders Organization
LOL	Land O'Lakes, Inc.
MOLFD	Ministry of Livestock and Fisheries 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
PMO	Pasteurized Milk Ordinance
PMP	Performance Management Plan
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

1.0 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). The KDSC is a five year program that aims to improve Kenya's dairy industry competitiveness. Under this program, Land O'Lakes, Inc. will employ a market driven value chain approach, utilizing a Business Development Services (BDS) methodology. The 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 will be facilitating this transformation, while the industry stakeholders will lead it.

The KDSC contract requires Land O'Lakes, Inc. to submit a quarterly progress report to the United States Agency for International Development (USAID). This report describes the operations and implementation progress in the first quarter (May – July, 2008) of the program, and mainly details the start-up and roll out process since signing of the contract.

In the reporting period, program activities focused on core start-up activities including office set up and the development of year one work plan, among others. Activities planned for implementation in the first quarter as per the work plan included:

- Recruitment of key personnel
- Establishment of the dairy Task Force and holding initial meetings,
- Development of the year one work plan
- Development and submission of sub-grants management manual
- Developing and issuing a SoW for the Pesticide Evaluation Report Safer Use Action Plan (PERSUAP)
- Development and issuance of a Scope of Work (SoW) to carry out a competitiveness assessment and action plan for the dairy value chain,
- Developing and issuing the SoW for milkshed mapping and Smallholder Dairy Business Organizations (SBO) needs analysis;
- Developing and issuing the SoW for the program website design
- Development of the Performance Management Plan (PMP) and the baseline assessment plan
- Initiating the program baseline survey, among other activities
- Development and submission of the branding and marking policy

Program Goal

Increased smallholder household income from the sale of quality milk

Program Objectives

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

Program Components

1. Enhancing Capacity for Milk and Production Input Quality Certification and Market Promotion;
2. Developing Dairy Smallholder Business Organizations; and
3. Increasing availability of Dairy Business Development Services.

2.0 Program Implementation

This section expounds the key activities undertaken during the period under review, and the associated accomplishments/progress realized.

2.1 Start-up and Related Administrative Activities

Office setup

The KDSC office is now fully set up at Peponi Plaza and all the administrative structures in support for the program are in place. All key project staff and equipment have been procured.

Development of year one work-plan

Land O'Lakes submitted KDSC year-one work plan to USAID on 13th June, 2008. Comments on the same were received from the Mission on 16th July, 2008, and the revised work plan incorporating USAID comments was submitted on 22nd August, 2008. Approval is awaited.

Developing a branding and marking policy

Land O'Lakes Inc. has developed a branding and marking policy to be applied to all activities and public communications funded by USAID under this Contract. The branding policy document was submitted to USAID for approval on June 13th 2008. Approval is awaited.

Development of the Grants and Sub Awards Manual

Land O'Lakes has prepared and submitted the KDSC Sub-Awards Manual to USAID on June 13, 2008. The document details the process, types of awards and grants to be made and lays the procedures to be followed before awards and grants are issued. The sub awards manual is awaiting USAID approval.

Developing and issuance of the scope of Work (SOW) for the KDCSP website design

The SoW for the design of the program website was finalized in the quarter and issued to 12 bidders. The bids evaluation process has been finalized and the winning bidder was awarded a fixed price contract to design the KDSC website.

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

Activity 1.1: Establishment of the Kenya Dairy Sector Competitiveness Task Force (DTF)

Key to the KDSC program implementation is the establishment of the DTF. This vital program organ has been successfully established, with membership drawing from all players in the industry. Members include private sector leaders, farmer organization representatives, processors, service providers, development organizations including Non Governmental Organizations (NGOs) engaged in dairy industry development, and government officials. (See appendix I)

The Task force has since developed a work plan and action plan on priority areas affecting the dairy sector especially after the Post Election Violence (PEV). Areas prioritized for action included:

- Promotion of peace and reconciliation in dairy producing areas;
- Safeguarding the health of dairy herds by rebuilding district and national infrastructure for animal disease control, emergency disease preparedness and response;
- Restoration of food security;
- Generation of cash income and employment opportunities while laying the basis for acceptable standard of living in small holder dairy producing areas that were impacted by post election violence; and,
- Consolidation and harmonization of dairy policies and regulations to make them responsive to the challenges posed by the PEV to the Kenyan Dairy Industry.

Promotion of peace and reconciliation was deemed a main concern by the task force. The DTF therefore recommended that the program facilitate three exploratory leaders' workshops in the Rift Valley province as a precursor to a series of peace field days in the target area. Three workshops under the theme "Charting the Way Forward for a Prosperous Dairy Industry" have since been held. The meetings brought together over 300 leaders in Eldoret, Kericho and Nakuru Milk sheds, and collected a wide range of proposals on how to revitalize the industry.

Key outcomes of the peace meetings

The most important outcome of the peace building workshops was the opportunity for participants to appreciate the magnitude of loss in the industry as a result of the post election violence. Participants also shared their individual and dairy associations' experiences, - read challenges, constrains and opportunities-, in increasing milk production and marketing.

Leaders on their part stressed the importance of group associations, especially in the face of rising cost of doing business, and urged farmers to form bigger groups to improve their bargaining power and achieve economies of scale. Participants were further challenged to treat dairying as a business to enable them to improve their livelihoods. The leaders further used the forums to educate farmers on the need for strong representation at the national level. The chairman of the Kenya National Milk Producers Organization (KENDAPO) informed participants of their initiative, with the support of the Kenya Dairy Board and other dairy producer associations, to form a national dairy producer's organization in line with other national agricultural products organizations. The aim of KENDAPO is to be a strong voice for dairy farmers and thus improve their bargaining power. He stressed that the organization will sit together with other stakeholders especially processors and feeds manufacturers and negotiate for the mutual benefit of all parties.

Participants in addition discussed ways of creating employment opportunities in the sector. They noted that the unemployed youth were the major perpetrators of the post election violence and that efforts need to be focused on providing them with more responsibilities, to enable them to develop an interest in dairy farming. One participant suggested that dairy farmers with young adults could transfer the responsibility for managing one dairy cow per youth in order to learn on the job.

Local leaders in dairy business further committed to lead their communities in concentrating on development rather than political rhetoric. They urged local communities to conserve the environment in order to exploit the full potential of the Rift Valley Province, which they observed used to produce about 70% of the total milk in the country but has experienced serious declines in output. Participants agreed that dairy farmers have to produce quality milk that meets requirements for both domestic and export markets.

On the way forward for the industry, participants decried the quality of graduates of the local training institutions, citing lack of practical skills of graduates as a serious concern for the industry's development. They complained that even university graduates seemed ill-equipped to offer quality services. This situation needs to be addressed for the sector to be competitive in the region.

Other observations included:

- The need to develop a national dairy cow breed like in other countries – e.g. the United Kingdom and South Africa;
- That farmers should change their farming attitudes to enable them increase production
- That widespread in-breeding and diseases have worked against the sector and quality herds

The meetings ended with the National Chairman of KENDAPO, who is a member of Wakulima Dairy Cooperative in Central Province, extending invitations to their Rift Valley Province counterparts to visit his cooperative and share notes on the opportunities, challenges, and constraints.

As earlier stated, these meetings laid the foundation for a series of field days which will start in the second quarter in both provinces. Full workshop report is available.

Activity 1.2: Develop Dairy Value Chain Competitiveness Assessment and Action Plan.

A scope of work was prepared in the period under review and issued to 34 potential consultants who had expressed interest. Slightly over half (18 consultants) submitted their expression of interest to carry out the assignment. The evaluation has been finalized and the contract awarded to the winning bid in August.

Activity 1.3 Develop Quality Standards and Support Policy Reform Initiatives.

Considerable progress was made on this activity in the quarter. Specific accomplishments include:

- A proposal for the development of a Pasteurized Milk Ordinance (PMO) has been finalized. Various stakeholder bodies will need to be involved in the creation of the Ordinance right at the beginning so that they buy in to it.
- A first draft of a Good Manufacturing Practice (GMP) manual for the dairy sector has been developed by the KDSC Senior Quality Specialist and submitted for review and comments to the Kenya Dairy Board before presentation to the DTF and the broader cross-section of stakeholders for debate and adoption.
- Initiated the baseline survey on raw milk quality
- Initiated the review of Good Management Practices (GMP) Manual. Exercise currently ongoing.
- Training of the Kenya dairy Board (KDB) quality inspectors has started. In total, 16 inspectors attended the first training. Three participants were female.
- A list of standards to be reviewed has been identified and the process of review started

Activity 1.4 Promote Market Expansion of Milk and Value-added Dairy Products.

Land O'Lakes is collaborating with Netherlands Development Organization (SNV) and the KDB in the promotion of a commercially sustainable school milk program in Kenya. In the reporting period, Land O'Lakes participated in the planning and launching of the program in Nairobi targeting 20,000 students.

2.3 Component Two: Dairy Smallholder Business Organization Development.

Activity 2.1: Identify Milk Sheds and Smallholder Business Organizations Needs analysis for KDSC Interventions.

A scope of work was prepared and issued to 78 potential consultants who had indicated interest. Twenty six (26) consultants submitted proposals to carry out the assignment. The evaluation exercise has been completed and the winning bidder has signed the contract. This exercise is expected to be finalized by end of second quarter.

2.4 Other activities

Development of the Performance Management Plan (PMP) and the Baseline Assessment Plan

During the first quarter a detailed plan for the Baseline Assessment was developed together with the Performance Management Plan. These detail the KDSC monitoring and evaluation framework. The baseline survey is currently ongoing. As indicated in the baseline assessment plan, this activity is being carried out in at various levels of the value chain: Producer/farm level; Co operative level; Service providers; Process level and the national level. The report will be shared once the exercise is finalized.

Environmental Review and Pesticides Assessment

The program prepared a scope of work and issued it to a consultant who carried out an Initial Environmental Evaluation to identify potential environmental concerns in accordance with USAID regulations. A mitigation report has been prepared. The reports are available.

2.5 Activities planned for the second quarter

The program will continue with the planned activities as specified in the Year one work plan. As mentioned, the KDSC will employ a market driven value chain approach, utilizing a Business Development Services (BDS) methodology to enhance the competitiveness of the local dairy industry. The main players under this model will be local service providers. Land O'Lakes, Inc. will play a facilitative role. Activities in the second quarter will therefore continue to focus on developing SoWs, and issuing awards (after evaluation) to the winning bidders to kick off the program execution process. The major activities in the quarter will include;

- Finalize the evaluations and issue awards to carry out program website design; Dairy value chain competitiveness assessment; and milk shed

mapping & smallholder business organizations needs analysis. We expect the consultants to complete the assessments by end of the second quarter ;

- Conduct gender and youth sensitization meetings for winning bidders;
- Finalizing the baseline surveys;
- Develop a SoW for the dairy code of practice;
- Develop a food safety/GMP manual;
- Develop a SoW to conduct training in unified testing methods and standards;
- Complete the development of a SoW to assist KDB to build up the dairy export development strategy;
- Develop a SoW for local tender to undertake a BDS market diagnostic;
- Develop a SoW and conduct a Business Service Providers needs analysis survey;
- Hold a gender sensitization workshop for staff;
- Develop a SoW for competitive tenders for Business Innovation Grants;
- Award and monitor Business Innovation Grants;
- Develop SoW for local tenders for BDS delivery of specialized services;
- Develop SoW for local tenders for development of innovative financial services, among other activities; and
- Facilitate field days to enhance peace and reconciliation in the target area.

3.0 Appendices

Appendix 1: Members of the Dairy Task force

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