



Future  
Agricultures

# The Revitalisation of Kenya Cooperative Creameries: The Politics of Policy Reforms in the Dairy Sector in Kenya

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February, 2008

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## Acronyms and Abbreviations

ERS	Economic Recovery Strategy for Wealth and Employment Creation
GDP	Gross Domestic Product K
ANU	Kenya African National Union
KCC	Kenya Cooperative Creameries
KDB	Kenya Dairy Board
K-REP	Kenya Rural Enterprises Programme
MFI	microfinance institution
NARC	National Rainbow Coalition
SITE	Strengthening Informal Sector Training and Enterprise
SRA	Strategy Revitalisation of Agriculture

## 1. Introduction

This paper presents a case study of politics of policy reforms in the dairy sector in Kenya with particular reference to the Kenya Cooperative Creameries (KCC). It is developed for the Policy Processes sub theme of the Future Agricultures Consortium (FAC). The sub theme recognises that while many policy recommendations on how to get agriculture moving have been made, too often such recommendations have foundered. This has been attributed to among other things, the narrow focus on the technical dimensions of policy, with little attention paid to the political economy and the complex politics of policy making in specific contexts (FAC 2007).

In Kenya a new government, formed by the National Rainbow Coalition or NARC, came to power following elections in December 2002. It quickly produced an Economic Recovery Strategy for Wealth and Employment Creation (ERS), then in early 2004 adopted a Strategy for Revitalisation of Agriculture (SRA) as a way of implementing the principles of the ERS within the agriculture sector (Smith and Karuga 2004). The SRA was widely seen as a good document and was warmly welcomed by the donor community in particular, given its emphasis on rationalising and reducing the role of the state in Kenyan agriculture so as to give greater space for private sector involvement and investment. However, more than three years on, there has been disappointingly little progress in implementing the SRA reform agenda.

This case study considers one notable reform within the agriculture sector that has been undertaken by the NARC government: the revitalisation of Kenya Cooperative Creameries (KCC) in 2003. The revival of KCC is widely perceived as a successful intervention in the country's dairy sector, albeit one that is somewhat at odds with the emphasis within the

(subsequent) SRA of reducing the role of the state in Kenyan agriculture. The study, based on a review of secondary literature sources and newspaper archives plus interviews with key informants in the Kenya dairy sector conducted in early 2007, discusses both the economic and the political context within which the revitalisation of KCC took place. The study asks the following questions:

- What were the driving forces for the intervention?
- What light does the story of the revitalisation of KCC shed on the broader picture of limited reform within the agricultural sector since 2003?

The discussion underlines that political environment is important for policy change. Conditions need to be 'right' for policy changes to take place. Political will to undertake change and implement it is equally important. It is argued here that the political changes that followed the coming to power of the NARC government in 2003 presented an opportunity for political transformation. There were changes in policy making and implementation. These were effected by the new government in its quest to make its mark and meet the challenges of a political euphoria that accompanied its electoral victory. The intervention in the dairy sector, through the revitalisation of KCC had both political and developmental (economic) objectives.

Immediately after the December 2002 elections, however, disagreements surfaced within NARC over sharing of political power. By mid 2004, one faction informally withdrew from the government. In order to maintain numeric strength in parliament, the government co-opted friendly parliamentary parties and opposition MPs through what came to be known as the Government of National Unity (GNU). This further fragmented the coalition. It also created

an opportunity for non-reformers from the previous regime to find a place in government. With members from the previous regime now in government, it became difficult to carry out radical reforms. The era for quick wins and radical surgery was over. This is the backdrop to the generally disappointing performance on implementation of SRA since 2004.

The paper proceeds as follows. We start with a brief conceptual note on the politics of policy reforms, then review the development and performance of the dairy sector in Kenya from the colonial period to the present. This provides the context for the discussion of the politics of the revitalisation of KCC in 2003. We conclude by drawing lessons from this experience.

## **2. The politics of policy reforms: a conceptual note**

We make two observations at the outset. Firstly, policy reforms in countries in transition from authoritarian to democratic regimes are a result of negotiations between and among groups and are generally formulated to serve public good. This is true where the governing elites are united in purpose and where the space allows elites to exert their influence without being challenged by authoritarian tendencies. Policy processes, therefore, reflect growing demand for change and transformation of the society. Secondly, in agrarian societies, dynamics in agricultural development lead to a certain form of politics which in turn drives policy processes. Because of the dominant role of agriculture in the economy, social forces and political interests anchored in the agricultural sector give rise to policy processes that advance interests of particular groups. Policies then become an outcome of processes of negotiations between various interests. Some social forces win and others lose out depending on their social basis of support in the society. For this reason, it may be argued

that that policies and their implementation are essentially negotiated outcomes, requiring the involvement of multiple stakeholders with different interests (Scoones, et al., 2005).

Policy processes involves a complex set of interactions with different players and interests as well as the political environment. Within the context of policy making, a number of factors come into play to determine the outcome. These include the constitution, powers of various social forces, the bureaucracy, as well as the prevailing state of democracy (FAC 2007). In Kenya, the nature of politics of state interaction with the society influences policy initiatives, with the political elite and different interests being important in determining policy outcomes. The concentration of power among the ruling elite, political patronage, donor influence, the technocrats and the civil society have all been important in the policy making process in the country. The political environment as well has been a major factor in determining policy initiatives and their implementation (Smith and Karuga 2004).

In Kenya the interaction of political and economic interests and their joint influence on policy outcomes are not recent phenomena. In the development of the colonial settler economy, economic interests influenced convictions as to what institutions were appropriate for governance of political life. Bates (1989) observes that material interests defined political preferences; institutions were created and forged to advance economic interests of particular groups. Because of this, there evolved a coherent pattern of interaction of politics and the economy: economic interests gave rise to a certain form of politics, and political interests in turn evolved certain forms of economic institutions. However, institutions that were put in place to enhance the growth of agriculture also furnished resources that helped political elites to maintain

themselves in power (Bates 1989), as well as providing the social bases of regime support. Thus, economic institutions became the theatre for political struggles. The interaction of economic and political interests is well illustrated by the story of the revitalisation of KCC.

### 3. Development of the dairy sector and dairy policy in Kenya

Kenya is one of the largest producers of dairy products in Africa, with the highest per capita consumption of milk in Africa, estimated as being four times the Sub Saharan African average of 25 kg (Republic of Kenya 2005). The dairy industry accounts for 14% of the agricultural GDP and 3.5% of the total GDP. It is based predominantly on smallholder production, which accounts for about 70% of the total annual milk production in the country (Kenya Dairy Board 2007). Estimates of the number of smallholder households depending on dairy for

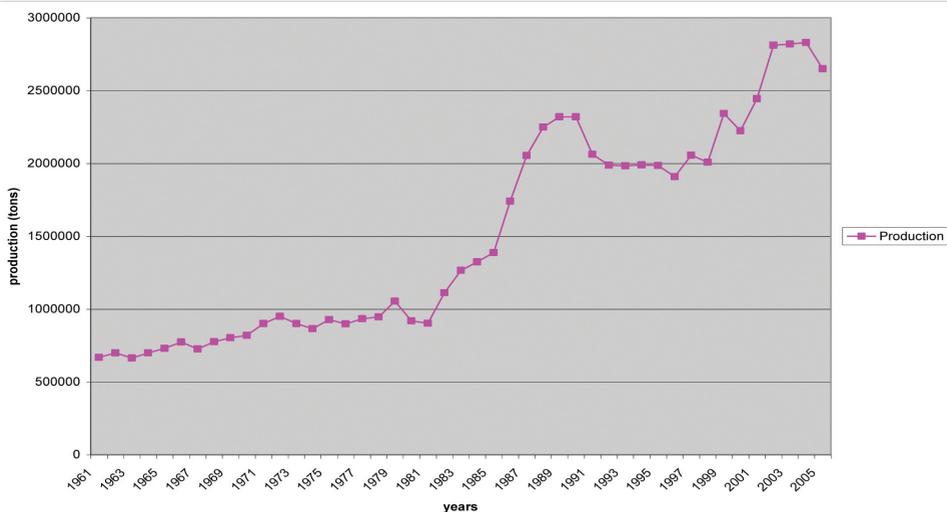
(part of) their livelihoods vary between 625,000 and 800,000 (Leksmono et al 2006, Kenya Dairy Board 2007). Dairy farming contributes to poverty reduction and equity in gender distribution of incomes since it is easily undertaken in small scale by women.

Based on dairy farming experience accumulated over 90 years, Kenya has a relatively large herd of improved dairy cattle compared to other countries in the region, (Ngigi 2005). The traditional milk drinking culture and keeping of traditional cows have also helped in the development of the sector. Figure 1 gives the trends in milk production for the period 1961-2005.

Dairy production in Kenya is largely for the domestic market. Occasional surpluses may be exported to regional markets and shortfalls may be met through imports of milk powder. Most notably, droughts in 1980 and 1984 led to increased imports (Figure 2). However, the quantities shown in Figure 2 are tiny compared to

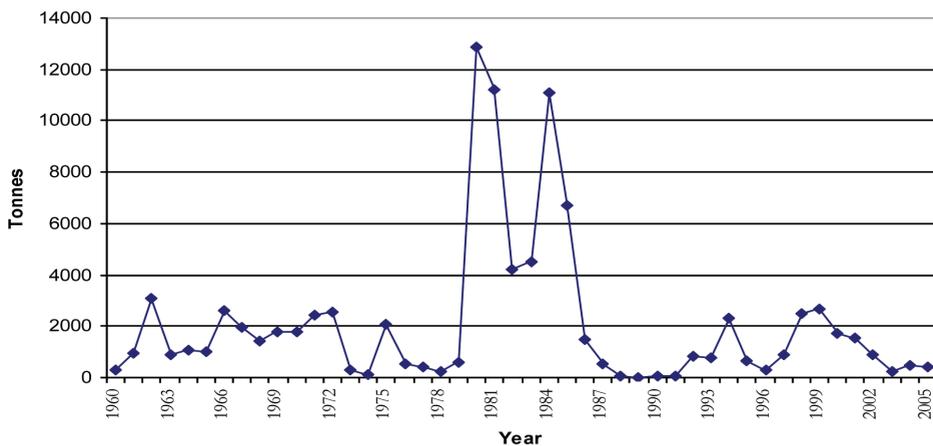
**Figure 1. Milk production trends 1961–2005 (tons)**

Source: FAOstat



**Figure 2: Average Milk Producer Prices (1964–2005)**

Source: Statistical abstracts, various issues



the production volumes shown in Figure 1. During the 2001–2002 period, there was deliberate government policy to protect the sector from milk imports through the imposition of import tariffs. The tariff was increased from 35% to 60%.

### 3.1. The Colonial Period

Dairy farming in Kenya dates back to the colonial period. Many settlers ventured into large dairy farming with the support of the colonial administration. The first high yielding cattle breeds were introduced into the country during the colonial period. The period also led to the emergence of formalised institutional and organisational framework for milk marketing as well as delivery of livestock breeding and health services (Ngigi 2005).

The interaction of the state and farming settlers meant that the sector would be politically regulated. Although many creameries were in place, the post-WW1 depression period occasioned a reduction in prices forcing some of the

creameries to merge. This led to the formation of Kenya Cooperative Creameries (KCC) in 1925 to facilitate the production, processing and marketing of milk and to insulate farmers from the impact of the depression. Later on demand for dairy was accelerated by prosperity from coffee and tea, which generated an increase in demand for milk and therefore demand for grade cattle (see Bates 1989). It is noteworthy that the settlers urged for restricted competition to ensure they monopolised the sector. They invested in creameries and commercial dairy herds. They also lobbied the state to enact enabling policy legislation and specifically legislations that would facilitate their monopoly of the sector. Domination of dairy farming by large-scale white settlers thus obtained until 1954 when the Swynnerton Plan introduced changes that allowed Africans to engage in commercial farming.

The Swynnerton Plan marked a major policy turning point in the dairy sector, opening up commercial dairy farming to the indigenous

population. This was accompanied by government training of smallholders on better methods of animal husbandry. There were also deliberate measures to strengthen the farm production of smallholder farmers more generally, which saw the emergence of cooperatives and agencies for the marketing of agricultural produce (Muriuki et al, 2003).

The Dairy Industries Act was enacted in 1958 to preserve the dominance of KCC in the market. KCC became the sole agent in the marketing of dairy products in the main urban centres, which became known as “scheduled areas”. The Kenya Dairy Board (KDB) was also instituted under the act as the state agent to regulate the industry. KCC was appointed the sole agent for the processing, packaging and sale of milk in the scheduled urban areas by the KDB. The act also established regulations that were interpreted as keeping raw milk out of the scheduled urban areas, where consumers were to be served pasteurised milk through the formal market<sup>1</sup>. The enactment of the Dairy Industries Act has been seen as resulting from fear among the settler farmers brought about by the opening-up of commercial dairying to the indigenous people. This appeared to weaken the ability to coordinate the dairy products markets through direct negotiation and voluntary cooperation of farmers. This increased the need for a legitimate authority to formulate the rules of the market and to monitor, sanction, enforce compliance and facilitate problem-resolutions. The settler-dairy farmers by 1956, increased their demand for statutory control of the industry. The series of activities that followed eventually resulted in the Act in 1958.

The colonial situation laid an elaborate infrastructure for dairy farming. This infrastructure tended to favour large-scale settler farmers, consistent with general state policies that protected and promoted settler economic

interests. The formulation and implementation of policies that favoured settlers resulted in the politicisation of the dairy institutional context: politics and economic interests interacted to promote certain group interests. This relationship between economic institutions and political interests was turned over intact to the post-colonial period.

### **3.2 The First Decades of Independence (1963-1981)**

At independence, the government sought to increase the involvement of smallholder farmers in dairy production. One of the country's broad development objectives was improving the welfare and the distribution of resources as reflected in the Sessional Paper Number 10 of 1965 on African Socialism and its Application to Kenya, which set out among the development objectives, the need to achieve high and growing per capita incomes equitably distributed among the citizens (Muriuki et al, 2003, Republic of Kenya 1965). Improved welfare and equitable distribution of the country's resources were at the centre of the development policy.

The government regarded the state control of the dairy subsector as central to its development, as was the case with other economic activities. Control of economic activities was considered central for the country's social and economic development. The government appointed a commission of inquiry in 1964 primarily to address the issue of the dismal market participation by smallholders. The 1964 Kibaki Commission on Dairy Development recommended increased access to the Kenya Cooperative Creameries (KCC) by all farmers as long as they met the acceptable quality, through the abolition of contracted milk quotas. This made KCC a guaranteed market for all raw milk as well as a buyer of last resort. It also became an agent for the implementation of statutory

controls in milk prices. Private dairies dealing with raw milk were shut down, giving KCC all monopoly rights and mandate to accept all milk delivered. KCC embarked on a rapid expansion programme, with guaranteed loans from the government, and official monopoly access to protected urban market. This expansion in capacity was necessary to achieve a national network of chilling stations and processing plants and packaging commensurate with its new role. This enabled it to be a reliable outlet for all dairy farmers and since it cushioned the smallholder farmers from price fluctuations it offered a stable marketing system (Ngigi 2005). This contributed greatly to the confidence that farmers came to cultivate in KCC over the years.

As shown by Figure 1, milk production grew steadily in the first decades after independence, with an average annual growth rate of 1.69% between 1961 and 1981. (Note that this was well below the rate of population growth). Government investment in the dairy industry during this period took the form of highly subsidized inputs for breeding, animal health services and production<sup>2</sup>, in addition to intensified training for local staff. In addition, the government supported widespread introduction of highly productive breeds of dairy cows. There was also a major land transformation during this period involving the subdivision and redistribution of former large farms owned by white farmers. The land transfer programme contributed significantly to the increase in smallholder dairy production. By mid 1970s, smallholder dairy farmers had overtaken the large-scale farmers as the major producers of milk in Kenya (Leksmono et al., 2006, Ngigi 2005).

During this period, the dairy sector enjoyed various forms of donor support. The development of cooperatives in the country also greatly benefitted from donor support. Furthermore, this period witnessed the rise of new economic-political elites interested in pursuing large-

scale farming and dairy farming in particular. Inspired by the success of some of the large-scale colonial settlers, the new black elites bought settler land in the former white highlands through the land purchase programmes. They also entrenched themselves in the agricultural economic institutions established by the settlers, including KCC.

Whilst KCC provided valued services to new smallholder dairy producers, the cost of its operations was high. By the 1970s, KCC started experiencing trading losses, which reduced the price that it could afford to pay to farmers for their milk. According to Ngigi (2005), during the period 1971-92 the producer price for raw milk declined at 1.36% p.a. in real terms.

Since the KDB had to get funds from the beneficiaries of its services to discharge its responsibilities, it was empowered by the 1958 act to levy cess on all commercially handled milk. KCC became the agent to levy the cess on all those supplying it with milk on behalf of KDB. In response to KCC's trading losses, in the 1970s the government empowered it to retain 50% of the cess that it collected on behalf of KDB. In the 1980s KCC was allowed to retain all the cess, instead of remitting any to KDB. The retention of the cess heralded the start of a series of concessions that eventually led to the limitation of KDB's ability to carry out its regulatory responsibilities. At the same time, KCC's privileges and monopoly powers increased.

### **3.3. The 1980s**

As illustrated in Figure 1, the sector experienced rapid production growth between 1981-1991 with an average annual growth rate of 10% (Ngigi 2005). None of the secondary sources consulted for this study fully explain this rapid increase in growth rate as compared with the previous two decades. Producers continued to benefit from subsidised support services until the mid-1980s, but subsidies were gradually removed in the latter part of the decade.

Meanwhile, as already noted, real producer prices were declining in real terms through the 1980s. Moreover, growth in the Kenyan economy as a whole – an important determinant of dairy demand – began to slow during this period, following annual growth of 6.6% between 1964-1973 and 5.2% between 1974-79.

What is clear is that the performance of KCC became an increasingly serious issue during the 1980s. This is partly because of the greatly increased volumes of business that it was dealing with, but mainly because of problems with increasingly politicised – and inefficient – management.

As already noted, the interaction of economic and political interests was first observed in the colonial period. Post-Independence, both the Kenyatta and the Moi regimes effectively utilised economic institutions to furnish political patronage networks. The ruling elite would staff the senior management positions in these institutions with relatives or members of their own ethnic communities. This was done to make them gatekeepers for patronage resources which the ruling elite required to strengthen its political base of support. Those rewarded with such positions reciprocated by giving lucrative contracts to their senior elites and/or employing more staff from the ethnic communities of the elite. A study by Mwangi (1993) noted that, in the 1970s, the staff from President Kenyatta's ethnic community (Kikuyu) occupied about one half of all senior parastatal posts (Chairmen and Managing Directors). This changed with the coming to power of President Moi – a Kalenjin. In the early 1990s, the Kalenjin occupied about one quarter of senior positions yet their total share of national population is about 12%.

By the late 1980s KCC was struggling to cope with demand to collect increasing volumes of milk from smallholders. Two new dairy cooperative societies – the Meru Central Farmers Cooperatives Union (1983) in Eastern Province and the Kibinda Dairy Farmers Cooperatives

Society (1986) in Western Province – were registered as dairy processors to fill the gaps evolving from KCC's declining capacity. However, according to Ngigi (2005), these never accounted for more than 2% national milk intake.

At this time, some influential politicians and farmers started pushing for an end to KCC's monopoly. More generally, donor agencies were also exerting growing pressure for economic reform. The Sessional Paper Number One of 1986 on Economic Management for Renewed Growth, (Republic of Kenya 1986) marked a major turning point in the policy environment that affected the dairy sector. Within the sector itself, the first reforms were initiated in 1987, with the reduction of government's role in provision of breeding and health services. This was followed by liberalisation of the manufacture and sale of feeds and a reduction of the government's role in the feed industry.

### **3.4 . Liberalisation**

The marketing of milk itself was liberalised in 1992. (Ngigi 2005, Muriuki et al, 2003). Milk prices were decontrolled and KCC's monopoly on urban markets was revoked, ending 60 years of KCC dominance.

Following liberalisation two groups of players entered the dairy sector to compete with KCC and gradually take over its milk marketing and processing roles. The first group were small-scale milk traders, who moved in in large numbers to buy raw milk from farmers and sell it to consumers. The rise of these small-scale traders both contributed and responded to the collapse of marketing cooperatives during the 1990s. Leksmono et al. (2006) cite estimates that, by 2004, there were 40,000 such informal vendors accounting for 86% of total retail milk sales in Kenya. The shift to raw milk sales was dramatic, contrary to the thrust of official policy since the colonial period and, therefore, controversial. However, many poorer consumers preferred the option of cheaper raw milk, rather than more

expensive pasteurized milk, whilst some allegedly preferred the taste of raw milk (Leksmono et al. 2006). Ngigi (2005) notes that in Kenya much milk is drunk in tea and coffee, and that Kenyans habitually boil milk for these uses, hence reducing the need for pasteurization.

The second group of new players were formal private processors. According to Ngigi (2005), the first of these were commercial farms (such as Brookside, Delamere and Illara), with their own milk supplies, which integrated forward into processing. By 2005 there were 45 registered processors. However, whilst many entered the market initially, not all were successful and some concentration in activity took place after a few years. The private processors, like KCC, found it hard to compete with the informal milk vendors, given the preference of many consumers for cheaper raw milk<sup>3</sup>. Through their representation on the board of KDB (representation not extended to informal milk vendors) and through advertising campaigns, they tried to restrict the activities of informal milk vendors,

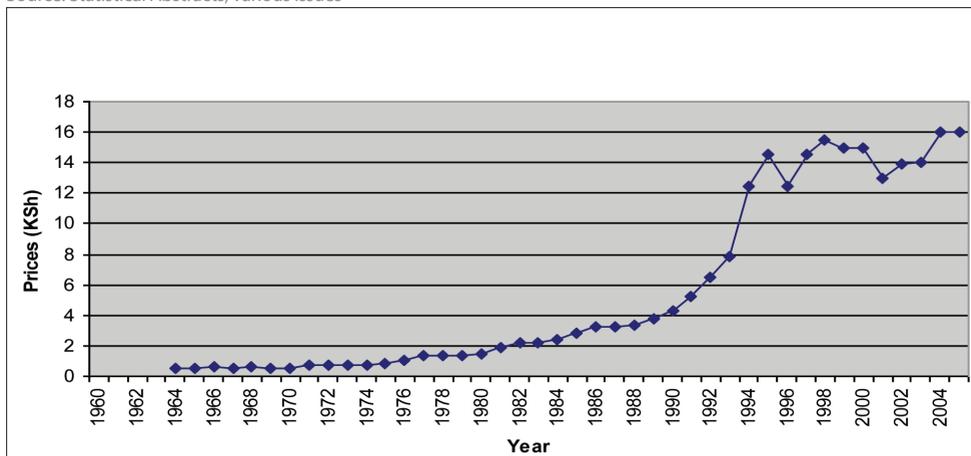
but so far without success (Leksmono et al. 2006).

There are mixed views and perspectives regarding the effect of liberalisation on the sector. Many donors and international organisations like ILRI, who had championed the reforms, feel that it was a good thing, creating opportunities for small traders vending milk. Others argue that policy reforms, including the liberalisation of milk prices in 1992, produced mixed outcomes at best.

Competition in the milk market led to sharply higher farm-gate prices in nominal terms (Figure 3). However, as shown by Ngigi (2005), these price rises were much more modest in real terms. Indeed, real prices only rose during 1993-95. By 1999 the average farm-gate price in real terms was back to pre-liberalisation levels. Then, as shown in Figure 3, it fell even in nominal terms over the next couple of years. Meanwhile, the introduction of cost sharing for inputs and services as a result of the reduction in subsidies in the late 1980s meant that many farmers were not able to respond to higher prices due to

**Figure 3. Milk import trends 1960–2005**

Source: Statistical Abstracts, various issues



problems accessing inputs and other support services.

Whilst price increases as a result of liberalization were modest in real terms, liberalization also led to increased price volatility for producers. This is in part the inevitable result of replacing an administered pricing system with market competition. However, changes in the processing industry also contributed to this increased volatility. According to Ngigi (2005, p41), the combined capacity of the private processors rose steadily during the 1990s, reaching 500,000 liters per day by 1999. Higher figures for private sector capacity are implied by Leksmono et al. (2006) and by Ngigi (2005, p51-52), which quote KDB figures that show private processors handling 600,000 litres per day in 2000 – at low capacity utilization due to competition from informal vendors selling raw milk. Ngigi (2005, p51) claims that KCC's average daily milk intakes during 1986-1991, during which time KCC averaged 77% capacity utilization, was 920,000 litres per day or around 360,000 tons p.a.<sup>4</sup>. If so, a figure of 600,000 litres per day handled by private processors in 2000, combined with the 370,000 litres per day handled by (New) KCC in that year, compares well with this figure. However, unlike KCC, none of the private processors had the capability of turning excess milk into milk powder during times of glut. Thus, seasonal peaks in production post-liberalisation have at times led to sharp falls in prices.

Exposed to market competition, KCC's inefficiency and other internal problems led to its gradual demise in the 1990s. An initial symptom of its malaise was delayed payments for milk deliveries by farmers, which eroded farmer confidence in KCC, thereby further reducing supplies received. KCC collapsed in 1999, leaving many farmers unpaid for their milk deliveries.

Looking back to Figure 1, we see that national milk production had already fallen from its late 1980s peak prior to milk market liberalisation. The ending of subsidies on inputs and support

services contributed to this. For several years after 1992, production remained essentially static. However, it began to pick up again from 1999 and has since passed the peak levels achieved prior to liberalisation.

One final observation on the post-liberalisation era is that official policy and, even more so, legislation have lagged behind structural changes in the sector. As with many agricultural activities in Kenya, a number of old laws remain on the statute books, but are either no longer enforced or are subject to varying interpretations. Official attitudes towards informal milk vendors have been a particular area of uncertainty and cause for concern since 1992, although there has recently been progress in this area (Leksmono et al, 2006)<sup>5</sup>.

In 1993, the Kenya Dairy Development Policy was formulated to guide the dairy industry through the liberalised market environment. This policy document has since been revised a number of times into various drafts, but not yet implemented or even finalised. It was updated in 1997 and revised in 2000 after wide stakeholder consultations. At this point it was accompanied by a Draft Dairy Industry Bill. The policy was revised again in 2004 and 2005. It was presented for stakeholder consultation in April 2006 and has currently reached a draft Sessional Paper stage awaiting presentation to the cabinet together with the Draft Dairy Bill. From the discussions with stakeholders, there is a feeling that policy is not leading the sector. It is lagging behind the developments in the sector. Policy is also not seen as reflecting the reality of the industry and is also not guided by evidence.

### **3.5. The Revitalisation of KCC**

The decisive intervention by the NARC government in re-establishing control over KCC in 2003 and investing in the company to expand its operations stands in some contrast to the protracted deliberations over wider sector policy. The remainder of this paper investigates

the events leading up to this decision and the reasons why it happened. In this section we briefly discuss the outcomes of the revitalisation of KCC.

Much as with liberalisation in 1992, the outcomes of the revitalisation of KCC can be debated. However, there is a widespread view that the revitalisation of KCC has had a positive impact on the Kenyan dairy sector. Leksmono et al. (2006, p11) note that, "The ... re-launch of KCC has broadened the competition in the formal market segment, contributing to better farm gate prices and the current relative exuberance in the dairy sector."

New KCC's own milk intake has increased from 40,000 litres per day (or around 14.6 million litres p.a.) in 2002 to 400,000 litres per day (or around 146 million litres p.a.) by end of 2006 (KDB 2007). Figure 4 shows that all KCC plants have seen an increase in intake, but that the increase has been much more pronounced in some than others. Other figures indicate that the total milk intake to processing plants in the country rose from 173 million litres in 2002 to 274 million litres by 2004 and 332 million litres in 2005 (Republic of Kenya 2005 and 2006). This suggests that, whilst most of the national increase in milk processing has been accounted for by KCC, it has not crowded out the activities of the various private processors. Nevertheless, the private processors do feel that KCC is getting undue advantage in the form of protection and different forms of support from the government.

An indication of the impact of KCC revitalisation on farm gate milk prices can be seen in Figure 3. KCC sets what amounts to a benchmark price, in the range of Kshs 16-20 per litre, giving farmers some price predictability. With its wide coverage over the country and capacity it is able to purchase all the milk delivered to it by farmers. KCC is, therefore, seen as a major stabilizing factor for milk prices.

It remains to be seen whether this improved confidence will translated into increased milk

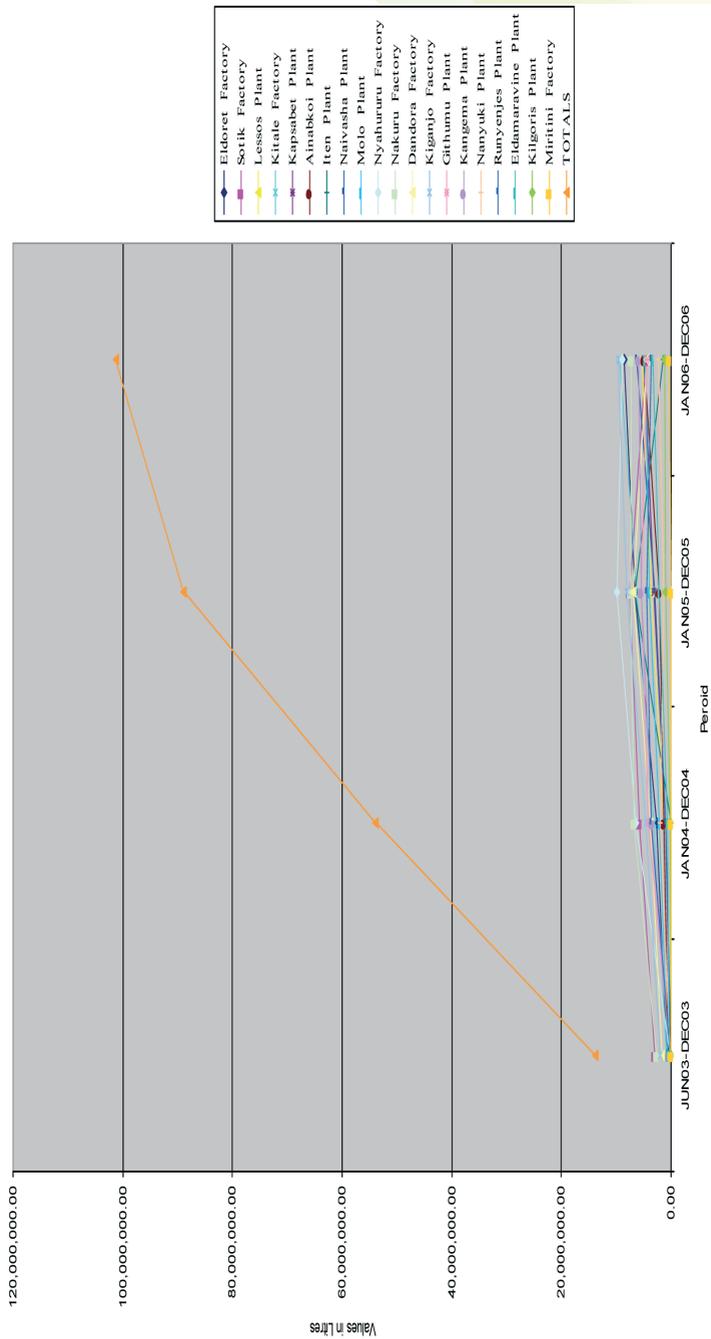
production. The picture painted by Figure 1 is unclear. However, it is estimated that milk production in the country increased by 10% from 3.2 billion litres in 2005 to 3.5 billion litres in 2006 (KDB 2007, Daily Nation January 30, 2007).

Confidence that production will grow again comes from the entry of new players into the dairy sector since the revival of KCC. The current vibrancy in the sector is thus associated with the development of farmer support services like feeds suppliers, providers of artificial insemination services and other services supporting the dairy industry. There has been an increase in those providing veterinary services like agrovet enterprises, whilst non-governmental organisations and microfinance institutions (MFIs) have seen dairy as a strategic activity for poverty reduction interventions. For example, Heifer Project International support small scale farmers through provision of dairy cows and associated support services, whilst MFIs such as Kenya Women Finance Trust, Ecumenical Church Loan Fund and K-REP have started to extend credit to farmers for purchasing dairy cows, with repayment done through milk deliveries. KCC is also collaborating with traders and suppliers of dairy inputs to enable farmers to access such services on credit terms. Farmers can take inputs on credit, with the payment being deducted by KCC from the milk deliveries. Commercial banks have also introduced specific loans for dairy farmers, giving farmers loans for purchase of dairy cows, repaid through the delivery of milk. An article in the local press captures the growing attractiveness of the dairy sector to the financial market:

Banks line up to fund dairy farming The resurgent dairy industry has been increasingly attracting commercial banks who are lining up to milk it. First was the Equity Bank which introduced a loan to be given against milk deliveries. Now the

Figure 4. KCC Milk Intake, by Plant 2003–2006

Source: New KCC records



Cooperative Bank has taken cue, motivated by the significant growth in the sector in the last three years.....Dubbed the maziwa loan, the Cooperative Bank targets individual farmers and farmers cooperative societies....Sunday Nation, March 4, 2007, p.26.

The revival of dairy marketing cooperatives, with active support from the government, has gone hand in hand with the revival of KCC and the dairy sector. Before the Cooperative Society's Act was reviewed in 1997, the Minister for Cooperative Development played a major supervisory role in the activities of the cooperatives. This led to the feeling that the government was overindulging in the management of cooperatives. The withdrawal of the powers of the Commissioner of Cooperatives through the act, together with the liberalisation of the sector and mismanagement of cooperatives accelerated their collapse. Since the NARC regime, the revival of the cooperatives has been one of the major undertakings. The ordering of elections to be held in all the societies was the start of changes aimed at improving the management of cooperatives. In 2004, the Cooperative Societies Act was amended through the Cooperative Societies Amendment Act 2004. This gave the Commissioner for Cooperatives powers to regulate the cooperative societies especially by improving their governance practices. Measures included powers to ratify investment decisions by cooperatives, supervise cooperative activities, and surcharge them where necessary. The ministry also set up a tribunal to arbitrate in cases of conflict especially those involving payments to members and where decisions are made without consensus of all members. There has also been training for cooperative society officials on management skills. The revival of KCC has helped in the revival of dairy cooperatives, since farmers had confidence in KCC as an outlet for their milk deliveries and payment. An

issue which is identified as a threat to the improvement of cooperatives is the fact that, while cooperatives are supposed to be member based, there has been interference in their running, especially from politicians.

### **3.6. Unresolved Issues in the Dairy Sector**

The revitalisation of the KCC in 2003 has been widely seen as a positive intervention for the Kenyan dairy sector, resulting in its resurgence. There have been a number of positive developments in the sector. However, the revitalisation has not solved all the woes of the sector. There is still potential for improvement.

A number of outstanding issues have been identified that can push the sector forward. More effort is still needed to enable the sector to deal with seasonality of milk production. Due to limited capacity to store excess milk or convert it to powder, which can be reconstituted during droughts when milk production is low, KCC and the other major processors are not able to buy all the milk delivered to them during peak seasons. KCC is the only company with the capacity to convert milk into powder, which is not adequate for all the milk delivered. Although Kenya at times especially during high seasons has surplus milk production, export to the regional market is restricted mainly due to the high cost of production that makes the products uncompetitive. The importation of milk powder is another factor affecting the dairy sector. Milk needs to be gazetted as a strategic food commodity. This would pave way for the removal of VAT from milk and make it accessible to more people.

Further gains in dairy production and marketing are also constrained by a wide range of problems, such as poor and unreliable quality feed, barriers to animal health services, declining productivity due to poor breeding services leading to low quality dairy cows and poor access to milk markets. Primary marketing faces infrastructural bottlenecks due to poor road

infrastructure and inadequate cold chain, leading to high wastage levels. Poor feeder roads reduce the farm gate prices of milk, yet the cess levied on milk is not used to improve the roads. Accessing external markets remains restricted mainly due to the high cost of production and the sanitary and phytosanitary standards imposed in the regional market.

#### 4. The politics of reform and the struggle over KCC

Following the liberalisation of the dairy industry in 1992, KCC experienced increasing problems with its operations, major among them being delayed payments for milk deliveries by farmers. This together with internal mismanagement led to its collapse in 1999 with unpaid farmers' dues for their milk deliveries.

Despite its problems, KCC has always remained attractive to farmers because of its elaborate infrastructure. Unfortunately, politicians took charge as the company declined in the 1980s and 1990s. They influenced election of representatives without reference to farmers interests. While cooperative societies had a role in the appointment of directors, influential politicians neglected this and instead appointed those they thought were politically loyal to the government. At one time, those in the board of directors included the then President's family members and political allies. Appointment to the board was not based on someone's knowledge of dairy or cooperative issues. It was based on how close one was to the ruling elite. Those appointed, therefore, used their positions not to better the KCC but to acquire individual wealth. Their aim was to use their positions to make personal financial gains through supplying goods and services. One director, for instance, gave all security contracts to his private security firm. Another director got a contract to buy toilet papers for about 10 years and cash paid upfront. In the late 1990s, there were still other directors who were planning to take over KCC assets. By

1999, KCC's own directors, the majority representing interests of senior politicians in government, had looted and/or plundered the company's assets. This halted the companies operations.

#### Box 1. The crisis in the KCC as it was once reported

In 1999, more than 2000 of Kenya's dairy farmers dissolved the management board of KCC, paving the way for the establishment of a steering committee to run the giant milk body. This followed KCC's inability to pay farmers for their milk deliveries. The dairy farmers also resolved that each of the 11 KCC plants would be managed autonomously by local farmers while the national board coordinated milk production and processing and marketing activities (Eurofood July 1, 1999).

KCC became so inefficient that it was unable to service its loans with commercial banks. Debts continued to soar. The company could not pay farmers and suppliers of goods and services. Consequently, some farmers stopped supplying milk to KCC. They shifted their deliveries to new private companies and cooperatives. With reduced supplies, the company plunged into more difficulties. Apart from the managerial and debt challenges, the company began to experience legal challenges. In May 1999, farmers and suppliers sued it for unpaid deliveries. Responding to public demands that those who had brought down KCC be arrested and prosecuted, the government arrested several of its directors. But as the case proceeded, another group of influential farmers and senior politicians allied to the then President organized to develop what they called 'a rescue operation' to get KCC back on its feet. However, before they could design a strategy to do so, the Kenya Commercial Bank moved in to liquidate and sequester the company's property for an unpaid loan of Ksh. 1.5 billion (USD 22 Million). The initial

debt was Ksh 400 M (USD 6M) but this rose over the years because KCC was not able to make regular repayment. Consequently, the bank put KCC on receivership.

A receiver manager was appointed and a board appointed to run the body. In 2000, the receiver issued out a tender for sale of KCC. Influential politicians allied to the government and the ruling party quickly formed a new company – KCC Holdings – claiming that they were dairy farmers. They submitted a tender to buy the company. Shareholders of the new company included a billionaire Asian businessman who owned a large timber company in which several powerful KANU politicians had an interest. Others included relatives and business associates of other powerful politicians in KANU and in the government. In the end, two companies, Timara Properties Ltd and Cherry Hill Ltd, owned the majority shares (90%) in KCC Holdings. The remaining 10% was allocated to those who were promoting the new venture. Powerful individuals, who included the then President, owned these companies. The former President's shares were held in trust in one of these companies by a prominent Nairobi lawyer. Thus KCC Holdings emerged as a company owned only by a small group of powerful individuals. These individuals controlled the government as well as politics of privatization of public enterprises. They paid Ksh. 400 Million only (USD 6 Million) to acquire the company and in March 2001 renamed it KCC – 2000 Ltd. They bought KCC at a low price yet assets value of KCC was estimated at about Ksh. 6 Billion (USD 86 Million).

Political and economic interests intertwined to undermine the growth of KCC. The monopoly that KCC enjoyed in the dairy sector and its elaborate infrastructure attracted powerful elites from the day liberalization reforms were introduced in the agricultural sector. Proliferation of small holder cooperatives and other new private dairy firms that begun to compete with

KCC provided an opportunity for influential politicians and their business associates to argue for privatization of KCC. Secondly, political patronage played a part in contributing to the collapse of the company. Ruling party elites appointed directors to represent their interests rather than farmers. Farmers were in the periphery of the management of the company; they were not involved in decision making. Decision making was done on basis of political expediency rather than managerial prudence. Combined, these factors undermined the performance of KCC as a business venture. The rescue operation was initiative for the purpose of individual gain rather than benefits for the small holder farmers who were the majority stakeholders in the cooperative movement. It is ironical that the new investors were using the name of farmers – or the concept of farming – to milk the farmers body when the ordinary poor dairy farmers required a rescue plan to get the company back on its feet. In the name of the poor, commercial and political interests intertwined to bring down the farmers' body.

This discussion suggests that there were significant political and commercial interests that stood to gain from the collapse of KCC. Interests of leading politicians – including the then President and his close allies – interacted with their commercial interests to lay a framework for taking over the farmers' body. It is notable that they contributed to the poor performance of the company. They bought it at a time when farmers' confidence in the company was at its lowest.

It is apparent that they used two interrelated approaches to buy the company at a cheap price. They used politics and the law. They had the political influence to lobby in the name the farmers.

They were politically positioned to petition anyone in their endeavour. And since some of them such as the then President were large-scale dairy farmers, other farmers believed that they

were acting on their behalf. An elaborate legal scheme was designed for the purpose of buying the company: they formed companies to buy KCC. In the new companies, senior people like the then President had their share held in trust by lawyers. This was certainly meant to conceal the real identity of the people who brought down the farmers body and bought it later at a cheap price. Again it is interesting that efforts to lobby against these malpractices failed. Some directors were arrested and arraigned in court. Other farmers organized to fight the sale but they could not raise the required funds to repay the bank.

#### **4.1. The Politics of Revitalisation**

A small group of powerful people bought KCC and renamed it KCC 2000 Ltd. This certainly infuriated farmers the majority of who thought that the government would prepare a rescue plan and prevent the company from going under. The collapse of KCC and the poor management of other economic institutions provide the growing political opposition with ammunition to fight the government. By end of 2001, the opposition had formed a loose alliance comprising mainstream opposition political parties. They began mobilising support around issues such as economic decay, collapse of agricultural institutions such as farmers' bodies, decaying infrastructure, and widespread corruption among others. And in December 2002, Kenyans voted in support of the Presidential candidate, Mwai Kibaki, from the opposition coalition – NARC.

The new President constituted a government in 2003. Members of the government included individuals whose political careers could be traced to their roles in activist movement and other pro-reform groups of the civil society. The government reviewed its pre-election manifesto and the Poverty Reduction Strategy Paper to

develop a national development strategy – Economic Recovery Strategy for Wealth and Employment Creation (ERS \_WEC). Among the strategies identified as critical for economic recovery was revival of the agricultural sector and its institutions. This provided the entry point to rapid revival of various sectors. There were several reformers in the new government and some of them were keen to follow the party's blue print for reforms.

A point at issue here is that individuals in the new government were in a hurry to show results. There was post-election euphoria which accompanied the overwhelming defeat of Kenya's ruling party since independence in 1963, and defeat of a corrupt regime of President Moi. Each Minister was under pressure to show how the new government would not only govern but also deliver results. The first sign of a government in a hurry to delivery was witnessed when one of the Ministers issued instructions to take over from KANU Kenya's premier Conference Centre – the Kenyatta International Conference Centre – which housed the offices of KANU. The Minister argued that the building was built with funds from the government but the then ruling party had appropriated it for its own use. The party had made the public believe that KANU owned the building. Arguing that the government owned the building, the Minister moved in and took over the entire building. This effectively locked out KANU from its offices which it had used for about four decades. The government assumed total control of the building. KANU rushed to the court but the government insisted that the building was taken over through an 'executive order' of the government. The matter is pending in the court .

The taking back of KICC aroused huge public excitement and expectation. It inspired other cabinet Ministers to design strategies that would show results. Radical reforms were effected in

several sectors. For instance, the Judiciary was purged of corrupt Judges (about half) under what came to be known as 'radical surgery'. The Ministry of Housing, Roads and Public Works also launched a programme to demolish buildings that had been built in public places by powerful individuals and other people. Powerful individuals had used their positions to acquire public land including land meant for public utilities. Others expropriated land meant for roads and market centres. The Ministry demolished the structures put up on land meant for expansion of roads. In some instances the Ministry ignored court instructions to halt the process and/or filed counter suits. The message that was sent by this initiatives was clear: no one was standing on the way to reform and to undo the wrongs committed by the previous regime.

This is the background that informed the initiative to take back the KCC and revitalise the dairy sector in general. The process to buy back KCC began in June 2003 when both the Minister for Agriculture and the Minister for Cooperatives announced that the government had approved plans to take back KCC and give it back to farmers. The Minister for Livestock Development also noted that key institutions in the sector would be revived in order to enable the farmers get better returns for their investment. The Ministers announced that the Ministries were consulting on how to complete the process of reverting the KCC back to farmers. The Minister for Agriculture specifically pointed out that the government would spend about Ksh. 400 Million to pay back the owners of KCC 2000 Ltd (The Daily Nation 17 June 2003). On his part, the Minister for Cooperatives pointed out that:

'KCC was fraudulently taken away from farmers by another company called KCC 2000' ... (I will) personally supervise its repossession. ...KCC belongs to dairy farmers and they must be let to operate it ... we don't mind whether the new owners

are willing to hand it over to us or not ... all (that) I can assure you is that we shall return it to its rightful owners in the next 21 days' (Daily Nation, 11 June 2003).

The Minister proceeded to point out that the NARC government had a responsibility to take back what had been stolen from the public and give it back to the public. He observed that:

...NARC government had promised to return to the public what was taken from them during the previous regime ... (the government) would not relent on its quest to fulfil this promise. ... (ibid)

The Ministry of Cooperatives finally took over KCC 2000 and renamed it New KCC. Immediately after the take over, the shareholders of KCC Holdings and KCC 2000 went to the court to block the bid by the government. They argued that the government was unilaterally taking over the assets of KCC Holdings – the owners of KCC 2000 Ltd. This attempt did not stop the government from taking over KCC. The Minister appointed a 15-member interim board to run the New KCC Ltd. He pointed out that 'the intention to take over KCC and hand it over to farmers should be seen in the light of correcting malpractices which were designed to rip off co-operators of their hard earned wealth' (Daily Nation 26 June 2003). The companies that had sued the government, however, eventually withdrew the suit arguing that the new government had staffed the new Judiciary with judges loyal to the government and therefore they expected no favourable judgement. But this may not have been convincing; it is possible they withdrew the case because the government showed interest in repaying them.

In February 2005, the government agreed to pay back the owners of KCC 2000 Ltd. The government approved about Ksh. 547 Million (USD 7.8 Million) for the purpose. From this amount only 8.5% or Ksh. 47 Million (USD

670,000) would go to farmers. Over 90% of the refund figure went to pay the companies owned by influential politicians including the former President. Among the beneficiaries were Timara Properties Ltd and Cherry Hill Ltd. The company was to get about Ksh 300 Million while Cherry Hill was to get about Ksh. 100 Million (The Standard February 13, 2005).

As the government was preparing to repay the companies, the former President went to the court to block the prominent Nairobi lawyer (who was holding the shares in trust for him) from receiving the refund on behalf of Cherry Hill Ltd. The former President argued that the refund should not be given to the lawyer through whom Cherry Hill was to receive the money. He argued for the refund of about Ksh. 100 million (USD1.4 million) meant for Cherry Hill to be made to him. He observed that he had contributed the Ksh. 100 Million as shares for KCC Holdings but because of state duties and responsibilities he appointed the lawyer to hold the shares and the company in trust for him. Evidently, the secret faces behind the buying of KCC came to the fore. The matter was finally settled out of court. The government consolidated its take over of the New KCC. A new management team was put in place.

After buying the KCC, the government embarked on rehabilitating it, through measures like revival of dairy cooperatives and improving its management. The New KCC was registered on the 25th of June 2003. Its predecessor, KCC Ltd had operated in Kenya since 1925, making it the oldest dairy processor in the country.

The twinning of political and economic interests did not end with the revitalization of KCC and transforming it into New KCC. New economic interests evolved in the new space attending the political change. These interests emerged in tandem with the disintegration of the national political coalition beginning in mid 2004. Those

who had taken charge of reforms began to show commercial interests especially after the consolidation of the endeavours. In January 2005, a company owned by the Minister for Cooperatives who superintended the buying back of the KCC, won the tender to provide insurance services to the New KCC for the period ending to December 2005 (Daily Nation January 18 2005). A company associated with the Minister, Secular Insurance Brokers, was awarded the tender but other companies that participated in the bid protested. They argued that that this was irregular because the Minister and his relatives owned the company and that the Minister was responsible for the Ministry of Cooperatives which oversee the operations of the New KCC. The board acknowledged that the Minister did not declare conflict of interest at the outset but defended the Minister's firm. The Board said that it would not revoke the tender because they awarded it without interference from the Minister. The board defended its decision notwithstanding public demand to have the tender revoked. Arguably, the old ways of doing business was gradually creeping into the public arena – the reform space was contracting again.

Gains that had been acquired through rapid implementation of reforms in 2003 began to roll back in 2005. An important context that informed the perceptions of rolling back to the old ways was the collapse of the political coalition starting in the middle of 2004. The coalition comprised several political parties that loosely united to defeat KANU. Immediately after elections, disagreements over sharing of political power evolved. By mid 2004, one faction informally withdrew from the government. In order to maintain a numeric strength in parliament, the government co-opted friendly parliamentary parties and opposition MPs. This further fragmented the coalition. It also created an

opportunity for non-reformers from the previous regime to find a place in government. With members from the previous regime now in government, it became difficult to carry out radical reforms. The era for quick wins and radical surgery was over. This is the backdrop to the awarding of the tender for insurance by the New KCC. Moreover, by this time, in 2005, grand corruption scandals had re-emerged and the public was getting increasingly disillusioned by the government. With the break up of the national coalition in 2004, there was no unity of purpose any more. The reform window was firmly shut.

## **4.2 Understanding the Policy Change and Results**

We now turn to examining the factors that contributed to the successive take over of KCC and the implications of these factors for the reforms in the sector in general. We note once again that the interaction of political and economic interests played an important part. There was post-election euphoria and an expectant public. The new government came to power on a reform platform. Its pre-election campaign promises centred around revival of the economy, arresting spread of corruption, and preventing further plunder of public resources. The post-election euphoria and the huge public expectation provided an immediate entry point to carry out radical reforms. As the Minister for Cooperatives remarked, there was nothing to stop the government from taking over what was stolen by individuals in the previous regime and giving it back to the public. There was an enabling political environment to support the reforms.

The public was supportive too. Both in parliament and outside, people expressed support for the take over and for other initiatives that the government was undertaking to correct past mistakes. Farmer organisations and private individuals were supportive of the government's

initiative. These factors made it difficult for individuals in the previous regime to constrain the revitalisation. On the other hand, the government was relentless on its approach because of the need to show political results.

Reform discourse and narratives attended the post-election period to intensify euphoria. This provided the government with the moral and legitimate authority to make the necessary interventions. With new faces in the government including many who led previous pro-reform movements in the civil society, public discourses centred on how the government would transform both the economy and the politics. The discourse centred especially on addressing historical wrongs and undoing the wrongs committed by the past regime. This focused the government Ministries towards fostering changes in their different sectors. This informed the joint discussions between the Ministries of Agriculture, Cooperatives and Livestock development. The three consulted at the level of cabinet on how to get back KCC.

So far this discussion shows that the new political elites stood to gain by taking back KCC. The action of the new government was meant to demonstrate a commitment to reform and show that the government was doing things differently. The take-over was meant to meet the expectations accompanying the overwhelming defeat of a corrupt regime and the coming to power of a new government on a reform platform. Farmers whom the government was mobilising during the election stood to gain too. The government began to revive key institutions including the Kenya Meat Commission, KCC, and embarked on process to revive sugar, coffee and tea farming. In other words, there was special attention to agriculture as the backbone of the economy. There were also other efforts to revive other sectors of the economy in line with the government's Economic Recovery Strategy (ERS).

An additional issue is that the key players in this revitalisation effort were individual Ministers who included the Minister for Agriculture, the Cooperatives, and to some extent the Minister for Livestock Development. The three had served in the political opposition for many years and were close allies of the new President. While the Minister for Cooperatives oversaw the taking back of KCC, other Ministers played a supportive role because their ministries had certain functions that touched on the dairy sector. They all acted to promote synergy and ensure coherence in implementing the policy decision by the government.

Influential recent literature on African politics (e.g. van de Walle 2001) highlights the central role of the President in decision making. In the case of KCC, President Kibaki has a long-standing interest in the institution, dating back at least to the 1964 Kibaki Commission. His home area, Central Province, is also a leading dairy producing area. However, during the period of 2003 when the process to take back KCC began, the President himself was not taking a leading role. He had been taken ill following a motor accident a month before elections. For a while in 2003 he was rarely at the centre of decision making; he was not leading from the front. Moreover, there was an understanding that the new government would govern differently; Ministers would have autonomy to run their ministries without interference by the President. This was in response to the central role which the former President played in the previous regime and which prevented Ministers from making decisions on what affected their ministries. Ministers had little space to exact their authority. The new government created the necessary space for Ministers to influence events and to make key decisions (sometimes after consulting at the cabinet) without reverting to the President.

While this was the immediate context informing the success made in the revitalisation of KCC, there were several other factors to consider. Notably, the new government formed a new policy framework – Economic Recovery Strategy – which emphasised poverty reduction through wealth creation as its main pillar. This set the pace for revitalising agriculture including the dairy sub-sector. One of the new government's campaign promises was the reduction of poverty through the revival of the economy<sup>6</sup>. The preparation of the ERS was therefore the means through which this political promise could be translated into concrete action to revive the economy and create wealth.

The government's intervention to buy back KCC can be seen as being a political interest that was aimed at achieving developmental objectives. The revival of KCC in 2003 as New KCC, was seen as strategic in reviving the dairy sector, which is one of the major agricultural activities for smallholder farmers. As already noted, the coming to power of the NARC government in 2002 and the publication of the ERS in 2003, provided the right political climate for taking policy actions that although political, had economic gains and could endear the new government to the people. The political change generated expectations for changes in public policy. There was also pressure on the government to address the problem of poverty and declining agricultural performance.

Related to the above, ERS set the strategy for economic recovery of the whole economy. In agriculture, the ministry's response to the implementation of ERS was through the publication of the SRA, which proposed policy and institutional changes necessary for reversing the decline in the sector which was a major concern. This translated into the need to revive strategic sectors in agriculture like the dairy sector. According to key informant interviews, KCC was

strategic for this intervention in reaching many farmers due to its national coverage and grassroots appeal. Its revival was therefore part of the government's response to pronouncements in the ERS, which was its blueprint for reviving the economy. ERS itself was the NARC government's translation of its political pronouncements.

From the key informant interviews, it emerged that there was also the nostalgic attachment to KCC as a national asset. Farmers had cultivated confidence in KCC and there is therefore social capital in the form of goodwill by farmers. On the other hand, private processors had proved unreliable with low prices and irregular payments for milk deliveries. There had also been cases of traders and processors closing down with farmers' payments for their milk delivery. All these woes were associated with the inefficiencies of the previous KANU government. KCC with its cooperative background appealed more to farmers who were able to mobilise themselves into cooperatives.

The above also suggests that revitalisation of the sector was an opportunity for the state to re-establish itself in the development space and to be seen to be protecting the interests of the population. The state was increasingly reverting back to a developmental state to address challenges of market failure. Thus KCC was not the only intervention undertaken by the government; the state embarked on revitalisation of the Kenya Meat Commission, among others in the sector. Outside of agriculture, recent trends in the Kenyan economy tend to confirm the justification of government intervention to revive collapsing state enterprises. In June 2006, a supermarket chain owned by the government (Uchumi supermarkets) went bankrupt after years of making losses. The government later came in to inject capital and revive it.

It became necessary for the government to be seen to be acting to address the woes of the farmers. There was also the pressure on the government to stay relevant to the electorate. Dairy provided an opportunity to intervene because of its favourable conditions and uniqueness, smallholder based, attractive to private investment, commercially oriented and has wide pro-poor benefits through its multiplier effect on the local economy. This coincided with a changing political background, with the NARC government having made political promises and seeking to make its mark and identify with the people's needs.

This intervention may also reflect the changing role of the donor community in influencing policy. While the donors may support less direct government involvement, the government appears to be of the view that while private sector is good, it needs to intervene to protect the wider welfare of the population. So while SRA may advocate for reduced involvement by the government, this may not be politically sound.

#### **4.3. The Losers and Winners of the Process**

From the key informant interviews, the private processors view themselves and importers as losers from the process. With KCC operating, importers are not likely to easily get import licences to import milk powder, since KCC can produce powdered milk. The private processors also feel that KCC is getting undue advantage in the form of protection and different forms of support from the government. However, while private processors appear to feel that KCC is getting undue advantage, they also point out that KCC has not affected their volume of milk processing operations.

The winners have been farmers who have benefited from the increased and stable producer prices for their milk, which is due to

KCC benchmarking of prices. The rejuvenation of the dairy sector has led to the emergence and development dairy related activities.

## 5. Emerging issues and lessons

The key lesson from the revitalisation of KCC is that the timing of the process is important. The arrival of the NARC government provided a conducive environment for change. It presented a new government with steam and desire to act and prove its commitment to addressing people's problems. The speed with which a strategy (ERS) was put in place to achieve its agenda attests to this.

Success of policy is dependent on the national economic and political contexts. The successes noted above were the result of macro-level economic and political dynamics which catalysed events at the sectoral levels. There were measures to revive the economy and there was a unity of purpose among politicians at the national level. There was an adequate reform space to effect changes in the sector.

It is important also that policies are synchronised. The changes in the dairy sector took place in tandem with changes in other sectors. The Ministries of Agriculture and the Livestock development were supported of the Ministry of Cooperative's initiative; they all synchronised their efforts to have KCC revived.

For reforms to succeed there must also be in place an enabling political environment and the public must be supportive. Elites must be united in purpose and must show a commitment to reforms. A sense of commitment induces the public to develop trust and to develop a sense of ownership – they identify with what is happening and in turn support policy implementation.

Economic objectives of the population provide an opportunity to achieve political goals. The revitalisation of KCC was a political

intervention with clear economic goals. The existence of political will to initiate and implement policy when it matters is critical for making the decision to commit resources. The intervention and direct support of KCC by the government appears to run counter to other policy orientations and donor conditionalities, and requires strong political commitment to the objective. It is an example of the state re-establishing itself in the development domain by strategically intervening in areas where it is perceived that the benefits to the citizens are maximised.

By contrast, the absence of an enabling political environment constrains reform. We have shown how the collapse of the ruling coalition by 2004 undermined the unity of purpose and created opportunities for the coming back of 'old ways' of doing things. The relapse to corruption undermines public confidence in government's reform initiatives. And if the public withdraws its support for reforms, then sustainability of reforms and gains obtained by past initiatives become difficult.

## End Notes

<sup>1</sup> According to Leksmono et al. (2006), the 1958 Act did not make the sale of raw milk illegal. However, the Public Health Act, which KDB became responsible for enforcing within the dairy sector, states that traders in food products must have "acceptable premises" in order to be licensed. Most informal traders don't have premises, so their activities were widely understood to be illegal.

<sup>2</sup> Artificial insemination services were subsidized by up to 80 percent subsidy rates, whilst veterinary services and medicines were available at nominal charges at more than 280 clinical centres across the country.

<sup>3</sup> Whilst more efficient than KCC in many ways, most of the private processors lacked the

economies of scale that KCC, in theory, could achieve.

<sup>4</sup> Note that this is only a small fraction of the figures for total production shown in Figure 1, implying that a high proportion of total production was either consumed at home or sold to neighbours in the 1980s.

<sup>5</sup> Recently, some small scale market traders have benefited from a KDB initiative to start licensing them to run milk bars and transport operations which were previously considered illegal. A project between KDB and SITE to improve hygiene standards in milk handling by farmers, bar operators and transporters has contributed to this initiative (The Standard, December 23, 2006).

<sup>6</sup> During the 2002 elections, the NARC coalition campaigned on a platform of alleviating poverty through revival of the economy. At this time the national poverty was estimated at 56% of the country's population living below the poverty line. At the time the KCC was being revitalized, the NARC coalition was still united and appeared in the public eye, to have a common purpose

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This **Research Paper** was written by **Rosemary Atieno** and **Karuti Kanyinga** of the **Future Agricultures Consortium**. The series editor is David Hughes. Further information about this series of Working Papers at: [www.future-agricultures.org](http://www.future-agricultures.org)

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FAC appreciates the support of the UK Department for International Development (DfID)

