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Smallholder dairy farmers unable to exploit huge market potential

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Two years ago, the country experienced a milk glut resulting to a situation where customers were given one free packet of milk for every two purchased despite the fact that the price per half a litre was less than Sh30.

Equally astonishing were the reported cases of milk being poured out on the ground in some parts of Nyandarua County.

This year the situation has completely changed and customers are not only charged a high price of Sh45 per half a litre but are equally discouraged from buying more than two packets at a time.

Extreme price variations as has happened in the past are not good for the dairy sector. It is estimated that about 70 per cent of the country's milk output is derived from smallholder farmers.

Globally, it is estimated that there are about 150 million small-scale dairy farmers, the majority being found in developing countries.

Making smallholder dairy production more competitive could be a powerful tool for reducing poverty, raising nutrition levels and improving the livelihoods of the rural population in many developing countries.

These smallholder farmers are affected by trade liberalisation which increasingly exposes them to competition from multinational and local large-scale dairy companies which are able to respond swiftly to changes in the market environment.

This creates a production strategy dilemma for the smallholder farmers who dominate the sector. Dairy farming remains a major farm activity in Kenya, accounting for 3.8 per cent of GDP and acting as a source of income, employment and food for many households.

It is the single-largest component within the agricultural sector; larger in value (Sh100 billion) than horticulture (Sh65.7 billion) or tea (Sh46.8 billion).

The country has highest population of dairy cattle in sub-Saharan Africa, and the dairy herd is more than the combined total of the rest of eastern and southern Africa countries.

These milk-deficient countries provide an important export market for Kenya dairy products, but the country exports less than one per cent of the dairy output.

The growing consumer demand for dairy products driven by population growth and rising incomes offers important domestic market opportunities for smallholder farmers.

Whenever seasonal milk yields rise, the domestic market does not absorb the enhanced output nor is the surplus sold to the EAC or COMESA markets where the country's goods enjoy preferential status.

This brings us to the critical issue of milk access both within the country and in the export market. Kenya's dairy cattle milk yield at about 1500 kg per cow per year remains significantly below international standards.

This adversely affects economic returns as the unit cost of production is high.

This contrasts with countries such as South Africa and Argentina that have high yields ranging between 2,500 and 3,500kg per cow per year, while the US has an average of 9,000kg per cow per year.

Dairy farmers in these countries operate profitably due to economies of scale arising from higher output.

Despite enormous market opportunities for the country's dairy sector, smallholder farmers face a bleak future since they are unable to exploit the existing market potential.

Funding of the ministry of Livestock Development is quite low, and the number of technical staff has reached the lowest level ever.

The ministry should be sufficiently funded in order to hire enough livestock production and veterinary officers to efficiently handle the 1.8 million smallholder farmers and the estimated 13 million cattle.

There is a need to explore other avenues of funding the dairy sector. The government should compel commercial banks to dedicate to the sector and related enterprises a certain share, say 10 per cent, of their loan book in order to boost production for domestic and export markets.

Farmers' organisations such as dairy marketing cooperatives should be harmonised and given tax holidays by the government as a strategy to encourage value addition and the expansion of market horizons.

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