Livestock and Hides and Skins Marketing in Kenya: Problems and Investment Needs[1]

M A Jabbar
International Livestock Research Institute
PO Box 5689, Addis Ababa, Ethiopia

Abstract

The paper briefly summarises the historical perspective on the development of livestock marketing in Kenya, current problems of livestock and hides and skins marketing, and recommends investment opportunities to improve the situation.

1. Introduction

Livestock production in the country is carried out mainly in three broad systems of production: the pastoral extensive systems in the arid and semi-arid land (ASAL) areas, commercial ranching in the semi-arid areas and also on the borderline between semi-arid and high potential highlands, and smallholder systems in the high and medium potential areas and also in the semi-arid areas. The pastoral and commercial ranch systems traditionally contribute to the supply of beef and small stock meat and the smallholder system mainly supply dairy products and meat (culled bulls, females, and calves) as its by-product. People in the ASAL region have huge livestock resources yet they are poor. In fact the region has the highest incidence of poverty and lowest literacy in the country. About 70% of beef and the bulk of goat and sheep meat produced in the country come from the ASAL region. Therefore, the life and livelihood of the ASAL people depend a great deal on the market outlet and marketing system for their livestock. Hides and skins are joint products of meat and the total value of the marketed animal often depends on the relative market prices for meat and hides and skins. Therefore, both live cattle and hides and skins marketing issues will be discussed in this paper.

2. Historical perspective on livestock marketing system

At present nearly the entire beef and small stock meat produced in the country is domestically consumed but a significant proportion of meat used to be exported until the late 1970s and the export market was a major outlet for a significant number of animals from the ASAL region. This was made possible by the creation two parastatals, The Kenya Meat Commission (KMC) in 1950 and the African Livestock Marketing Organisation (ALMO) in 1952, which played key complementary roles in livestock marketing in the country. The KMC, an abattoir and meat canner, was established by an Act of Parliament with the following objectives:

- Promote the country's meat industry by purchasing livestock from ranchers and pastoralists, slaughtering and marketing both locally and in the export market,

---

[1] Working paper for the Kenya ASAL-Based Livestock Development Programme, African Development Bank, Abidjan, Cot de'Iviore, November 2002.

- Contribute to national development as a strategic drought management tool,
- To use this as a disease control tool.

The KMC has an installed capacity of a daily throughput of 750 heads of cattle on a single shift, up to a 1000 heads on a double shift. During the early days it required slaughtering an average of about 250 heads of cattle per day to break even.

On the other hand, the ALMO was established under the then Division of Veterinary Services with the following objectives:

- Organise orderly marketing of disease free livestock from reserved Northern arid lands to the settler ranches in the South for fattening,
- Maintain a network of holding grounds, quarantine facilities and stock routes to facilitate the above,
- Undertake livestock marketing activities to facilitate de-stocking and drought management strategy of the KMC.

In 1963, after the attainment of independence, the ALMO was transformed into the Livestock Marketing Division (LMD) of the Ministry of Agriculture, and apart from all the ALMO functions, LMD was given the responsibility of the alternative buyer or buyer of last resort to strengthen its role in drought management strategy along with the KMC. To fulfil these objectives, ALMO and later LMD established 112 holding grounds and outspans, 34 stock routes, and 34 water points, 46 boreholes and 4 storage tanks in and around the holding grounds and stock routes. Also they inherited eight quarantine facilities including disease-screening labs established during the 1940s in the disease control corridor extending from the Kenya-Uganda border across central Kenya to the Indian Ocean. These facilities allowed to maintain a Disease Free Zone (DFZ) in the central regions of the country by creating a buffer zone through vaccination around the DFZ.

The LMD used to buy immature steers from pastoral areas by live weight and animal condition, keep the stock in quarantine on its holding grounds and resell by the same method but at a different price, theoretically guaranteeing a working margin, to fatteners in the highlands. Animals were also purchased for the KMC and additional emergency purchases were made during drought years. The system resulted in unsustainable losses to the treasury through both LMD and KMC operations. During the 1978/79 droughts, LMD undertook emergency purchases of a large number of animals as a part of the drought management strategy but lost nearly one third of the purchased animals due to the severity of the drought. The government declined to make up the loss through a drought emergency fund and also denied further trading funds, which ultimately grounded LMD's marketing operations by 1982.

Since the early 1980s, the government has adopted various policy changes within the structural adjustment framework and in the livestock sector, major policy changes were:

- ending controls on meat prices and liberalisation of the industry,
- ending controls on animal feed prices,
- transfer of dipping services to the private sector and supply of livestock drugs at cost,
- ending of control on milk prices and liberalisation of the industry, and

- privatisation of artificial insemination and clinical services.

Under the new liberalised economic environment, LMD's marketing function was considered inconsistent with national economic policy, so its role was limited mainly to supervise and maintain the holding grounds and quarantine facilities and establish and maintain a livestock marketing information network to serve the various stakeholders in the sector. Consequently, its supporting infrastructures (holding grounds, stock routes, water points etc) started degenerating due to non-use by new players in the market. Out of 112 holding grounds, no more than 60 are still in place but in poor condition, the others have been repossessed by local councils or have been put to other uses. Out of 34 stock routes 16 are still being used to some extent, and less than 20% of the watering facilities are functional. The reasons for these include encroachment by squatters, an increased number of animals being trucked to city markets and slaughterhouses, the loss of KMC market outlet. LMD's role in developing and maintaining a good livestock market information system also remains largely unfulfilled.

While LMD's role in the marketing arena has been declining, the KMC has also been following in its footsteps. The KMC initially built a reputation for good quality products, and due to the disease control facilities in place, was able to export to Europe, the Middle East and elsewhere in addition to supplying the domestic market. Since the mid 1970s, poor management, old machinery and equipment leading to rising cost of production and highly competitive world and domestic market in the era of deregulation led KMC to undergo huge losses that the treasury could no longer sustain. An outbreak of Foot and Mouth Disease in the late 1980s and consequent loss of the DFZ dealt the last blow as the European market was totally lost as a result. The factory closed operation in 1987 and reopened in 1989 but was still performing poorly due to inadequate operational capital, failure to recapture the overseas market, heavy processing losses due to old machinery and overall poor management and outside interference. So the factory was fully closed in 1992 due to its inability to service overdraft. In 1992, GOK investment of KSh 429 million for factory rehabilitation and Japanese Mitsubishi Corporation loan of US$3.3 million for new equipment (canning lines and boilers) allowed the factory to be refurbished by 1995 giving it a new lease of life for 15 years.

In the mean time taking advantage of the liberalisation policies, many small and large slaughterhouses and slaughter slabs have been established throughout the country and they do not follow stringent environmental control and regulations as would an organisation like KMC would do. Therefore, even in the domestic market, rehabilitated KMC would face tough competition. A market survey in 1996 showed that in the past KMC's meat supply to the local market have been characterised by former buyers as irregular and fluctuating with rigid pricing. The survey also indicated that KMC could capture a segment of the Nairobi and Mombasa markets but to be commercially viable, it would require to capture a significant share of special meat markets, e.g., 20% of beef sides, 40% special cuts, 80% of corned beef and a share of the export market in non-EU countries. To attain this goal, it would be necessary to increase its slaughter throughput beyond its pre-rehabilitation levels by launching aggressive marketing initiatives, paying promptly for all livestock deliveries and setting prices at competitive levels. A primary need to do all these was adequate cash, which KMC did not have because the GOK was unable to provide the needed cash. So without adequate working capital and a clear definition of its role and management structure in the liberalised economic environment (e.g., clarification on the strategic role in drought management and its mechanism), the factory remained closed to this day with an uncertain future.

3. Current livestock marketing problems and issues

After the collapse of the KMC and LMD’s marketing roles and the accompanying infrastructure, a major constraint for the ASAL region is to have adequate market access for its livestock resources, which then limits the possibilities to increase production and invest in productivity increasing technologies and other innovations to improve the life and livelihood of the people. Some characteristics and problems of the current marketing systems are discussed below.

Withdrawal of the government from direct production and marketing functions has encouraged increased private sector investment in various functions within the chain from trading, transporting and butchering livestock, establishment of slaughterhouses and slaughter slabs and in animal health services[2]. Government policy is to increase the number of market centres, which will help maintain the holding grounds, stock routes and handling infrastructure through the increased participation of private traders. Much stock is currently trekked or trucked from the range areas to the main markets but the effectiveness of disease control is questionable. Public veterinary services are obliged by law to inspect all trade stock and issue movement permits only for healthy animals. Private traders are deterred from purchasing stock from areas where quarantine requirements are in force. Also clearing and transport costs are prohibitive to purchase animals from those areas because of poor condition of the infrastructure throughout the chain (transport, storage, market places, cold chains, information, quality control) and the to pay protection fees to rent seekers to move animals across districts to the markets.

The strategic drought management role of KMC and LMD still remains a necessity as recurrent droughts decimate stock and people go through enormous hardships but the unorganised private sector has not assumed that role in any form or degree. This is not to argue that KMC’s role in this respect has to be re-established but to emphasise the point that alternative mechanism has to be developed in conjunction with the private sector marketers. The early warning system to monitor long term weather changes and disseminate advance warning to herders is currently being tested as a strategy to motivate and warn herders to move to less risky areas or to voluntarily de-stock ahead of impending disaster so that they have cash to rebuild herd once the climate become normal again. Information gathering technology for this purpose is now quite easy to access and

[2] Pig and poultry marketing has traditionally remained in the private sector. Among the companies involved in pig slaughtering, processing and marketing, the largest one takes 70-80% of the market, so enjoys a near monopoly, especially in quality products for the tourist trade. This company also has become a major exporter of pug meat. However, this monopoly situation also has its pitfalls as attempts to expand smallholder pig production faced major difficulty in marketing products at incentive prices. After the liberalisation of the dairy industry, quite a good number of enterprises have entered the dairy business and also many unlicensed vendors operate, making the market highly competitive. However, none of these enterprises are significant in the ASAL region. Cows milk is locally marketed and only some amount of camel milk is transported to certain cities including Nairobi. Because of the problem of hygiene and poor quality, camel milk producers and traders are unable to expand the size of the market and obtain a good price. Establishment of a pilot mini dairy at Garissa by the Kenya Camel Association has been proposed as a potential solution to this problem (see the working paper on credit: Jabbar 2002).

handle but best option for disseminating information to create real impact on herders is still to be developed.

Public livestock markets are under local authority control but the range and standard of services vary widely. Regardless of the service provided, the local authorities derive a good portion of their income from marketing fees. Once universal system of sale by auction is now rarely used in any market, instead private negotiations predominate. This situation has apparently resulted in the evolution of trader cartels in most markets, especially large terminal markets, instead of competition as would be expected under a liberalised market economy. Large traders are thus taking advantage of lack of adequate market information. Stability of livestock and meat prices is sometimes cited as an evidence of the smooth and hitch free transition from public to private sector dominated marketing system. For example, price of a mature beef cattle remained about Ksh 10,000 during 1999-2001 and price of beef per kg remained about Ksh 100 during the same period in spite of devaluation of the currency. However, price stability could also be considered as the result of trader cartels throughout the chain, which deprive actual producers a fare price for their animals and a fare share of the consumer spending on meat. Lack of adequate capital and lack of organisation prevents smaller traders from playing a significant role in price determination as many of them work as agents of the large traders or are obliged to sell their purchases to them. The newly formed Kenya Livestock Marketing Council, which derives membership from producers, traders and user associations and other market stakeholders, has one of its objective as promotion of market competition and creation of a level playing field for all operators through provision of market information but any tangible result of its efforts are yet to be seen.

The disease control corridor previously restricted animals from neighbouring countries to enter the central region and the urban markets. Collapse of the disease control corridor has opened the central region and urban markets to animals imported through cross-border trade. In fact, the proportion of beef from cross border trade animals has been increasing significantly and now account for about 25% of beef output (Table 1). The extent of trade has increased significantly after the neighbouring countries lost the Middle Eastern markets. Apart from problems of increased disease risk and grazing land management, cross-border trade keeps domestic price of beef low thus have a negative impact on the earnings of livestock keepers in the ASAL region.

Table 1. Estimated beef production in Kenya, 1997-2000

	1997	1998	1999	2000
Total beef (mt)	268,278	270,000	273,450	286,305
% share Pastoral herds	49	47	46	46
Dairy herds	29	28	28	28
Cross-border import	22	25	26	26
Total	100	100	100	100

Source: MOARD, Unpublished data

A number of multi-sectoral as well livestock sector focused development projects implemented in the ASAL region during the 1980s and 1990s included specific components for rehabilitation of some of the marketing and disease control infrastructures. Some of the major one are:

a) Integrated ASAL Development Programme phase 1 and 2 in the 80s and 90s: The programme covered Machacos, Kajiado, Baringo, Turkhana, Samburu, Marsabit, Laikipia and arid areas in the Coast , and addressed strategic holding grounds and put in place buying centres, operationalised some stock routes and outspans, equipped some major holding grounds with cattle dipping facilities, crushes and loading camps. Some of the infrastructures that benefited from this project include the Isiolo quarantine complex, the Jalseda holding ground in Marsabit, Habaswein holding ground in Wajir, Wargadud Livestock Development centre in Mandera, Nomatio Livestock Multiplication Centre in Samburu and Mogatio Livestock Development Centre in Koibatek, which was originally in Baringo.
b) Arid Land Resource Management Project in the 90s: As part of an integrated project run from the President's Office, this project had a livestock marketing component to develop marketing infrastructure and market information, and promote community based initiatives to handle marketing issues. The project has initiated community based livestock marketing associations and registered the Livestock Marketing Council as the umbrella body for stakeholders in their endeavour to tackle marketing problems.
c) Southern Rangelands Project (Rural Services Design Project) : This project initiated a pilot activity on livestock market information for Kajiado and Narok districts and improve livestock marketing infrastructure in these districts. The actual outcome of the project is not clear.

Other projects that included minor livestock marketing infrastructure development components include the Livestock Development Programme in the 90s, Range Management Handbook Project in the 90s, Animal Health Services Rehabilitation Project, Pan African Rinderpest Control (PARC) project, Special Project for the Eradication of Rinderpest from Africa (SPREAD). Although some positive results have been recorded in specific locations where these projects were tested or implemented, there has been little spill over to non-project areas and most of those results have not been sustained due to inadequate funds to follow up from where the projects left them.

Alongside broken down marketing infrastructure, various stakeholders mention breakdown of local law and order situation as a major problem for marketing livestock in the ASAL region. Insecurity results in large scale theft of animals, and inter-tribal conflicts may also result in cattle rustling and displacement of entire communities in certain areas. Some of old local markets spread throughout the ASAL region from where LMD used to buy animals have apparently stopped functioning due to insecurity. While this is more a political and social issue, appropriate resolution of this problem will be required to improve market access for the affected population.

Liberalisation policy has led to significantly increased investment in the slaughter business. Currently, there are 84 slaughterhouses and 952 slaughter slabs in the country, respectively 5 and 15 of them are located in greater Nairobi area. However, only a few companies have well equipped slaughter facilities of relatively good hygienic standards with refrigerated chilling and storage facilities and insulated trucks for hygienic delivery. These produce a range of processed products in addition to fresh, chilled and frozen meat for the domestic and export markets but a downturn in the tourist trade has adversely affected the domestic sales of some products. Most other slaughterhouse and slabs do not follow the environmental and hygienic standards stipulated in the law. In fulfilling the health and hygiene requirements of overseas buyers, KMC had established norm for hygiene standards for all abattoirs in the country but these standards are no longer fully adhered to although the laws governing slaughterhouses have not been amended. The result is increased public health concern both from the wasted from the slaughterhouses and from the meat reaching the market.

4. Marketing of hides and skins

The quantity and quality of hides and skins produced in the country is primarily a function of the number and quality of animals slaughtered for meat. It is well known that only commercial ranching sector sell animals for slaughter at optimal age while pastoralists and smallholders sell over mature, sick and unhealthy animals. These along with husbandry practices such as branding and open grazing leading to horn rakes, thorn cuts etc reduce the basic quality of raw hides and skins. The final quality of hides and skins processed into leather depend on a second set of factors starting from slaughtering and flaying techniques and practices, tanning and leather processing technologies, and storage and handling methods used.

The KMC and some other good quality slaughterhouses once ensured production of good quality hides because of the regular slaughtering of fattened animals from the commercial ranches. Collapse of the KMC has left a void in that area. Dispersed slaughtering facilities also mean more widely varied slaughtering and flaying practices and standards, and problems of collection and transfer of hides and skins to less widely distributed tanneries. Lack of good transport infrastructure makes collection, handling and transporting hides in good condition difficult. Also no standard grading is practiced or known widely in the lower end of the hides and skins sector, which also lead to production of poor quality products. There is no incentive price for producing better quality hides and skins. The result is that high proportion of hides and skins produced are of poor quality (Table 2). However, a small pilot project is currently being implemented by the East and southern African Leather Industries Association (ESALIA) in Kenya and some other countries in the region with financial support from the Common Fund for Commodities to develop and test a grading system for hides and skins and provide incentive pricing for better grades. The project has generated some encouraging results and need to be replicated and disseminated widely.

Table 2. Quality of hides and skins produced in Kenya

Grade	Hides (%)	Goatskins (%)	Sheepskins (%)
1	34	19	23
2	25	40	30
3	11	31	24
4	30	10	23

The structure of the industry is not well documented but it seems that the livestock- to-leather supply chain is very poorly integrated with poor linkages among various segments of the chain. Of the various segments, the slaughter- to- tannery stage is the most unorganised and handled by people with inadequate skills, knowledge, market information, capital, facilities and technologies. The leather processing sector has three sub-sectors : the large scale sector comprising the leather processing plants that process only to the first stage of value addition, the small and medium size commercial tanneries that process up to finished leather for the domestic market, especially the j*ua kali* shoe makers, and the *jua kali* entrepreneurs who buy wet blue from established tanneries for retanning using non-mechanical drums. Apparently there is very little multi-dimensional linkages for capital transfer, product transfer and technology sharing or diffusion rather they operate in their own niches. The jua kali sub-sector works with locally deriving materials and serve the local market. The other two sub-sectors engage in nationwide market operations and also international trade.

Initially in line with the government's industrialisation policy that encouraged import substitution, export promotion and employment generation, tanning and leather processing and leather goods manufacturing industries were established by the public sector and also by the private sector with public policy support through easy access to credit, tax exemptions etc. The export incentive scheme was extended more widely during the 1984 –1996 period even within the on-going structural adjustment programme and market liberalisation. A rationale for this was availability of raw materials from both domestic sources as well as from neighbouring Tanzania and Uganda where the tanning sector was yet not very developed. However, the euphoria led to the creation of a huge over capacity in the sector. Tanzania and Uganda have since increased their production capacity, so have decreased supply of raw hides and skins to Kenya. By 1997, local raw materials could satisfy les than 50% of the installed capacity of the 15 tanneries then present. Currently, the industry operated at 20-30% of capacity, with several tanneries out of action, and its profitability is negative or zero. Major problems are lack of capital to upgrade to upgrade and difficulty in addressing environmental concerns. Some are likely to be forced to close while others may have to relocate, as environmental demands become more stringent.

Most raw hides and skins are currently exported rather than processed domestically for value addition due to several factors. First, policy of market liberalisation has created opportunity to choose between local processing and raw export. There is an export levy of 2% on raw hide, 1% on wet-blue hide and 0.5% on finished leather but there is import duty and value added tax of 15 and 17% on imported hides and skins respectively. Moreover, 17% VAT is imposed on sub-contracted processing by leather traders. Thus the inconsistent tax policies give more incentive for exporting raw materials rather than processing for value addition. Second, international prices of hides and skins have been rather good in recent years and some countries provide subsidy to their leather and footwear industry so they offer higher prices for raw materials in the international market. Third, open market policies have allowed second hand and cheap footwear to enter the local market. The local footwear industry has significantly declined being unable to stand the competition. Therefore, local demand for processed leather has also declined. The footwear and leather goods industry now employs about 800 people compared to over 4000 in pre-liberalisation period.

The poor livestock-to-leather chain linkages and its further deterioration have also eroded its technical manpower base. Skilled personnel in both formal and informal sectors have diminished and state of the art leather tanning and finishing processes are not being applied in Kenya, which also is a reason for its lack of competitiveness with imported products. The Animal Health and Industry Training Institute has the mandate to train skilled workers for the industry but its training facilities including workshops and tools have deteriorated to the extent of non-use. It is training staff in an improvised manner. The training facilities for the footwear industry are in the same condition but recently, ESALIA has started a training programme with UNIDO support with the aim to provide footwear and leather goods manufacturing training at cost. It appears that there is adequate demand for training to run the programme on a self-sustaining basis.

5. Summary and recommendations

Based on current knowledge and given the urgency of the problems, some actions should be taken to revitalise the livestock marketing system and improve its efficiency. Further studies will be needed to identify appropriate actions in some areas.

Renovation and establishment of disease control and related infrastructures and stock routes to regulations are essential first steps for improving marketing, especially for export market outlet. As a follow-on, it will be required to support existing livestock information management and simultaneously develop and pilot test a new livestock market information system. Funds should be provided for construction of 4 slaughterhouses and camel slaughter slabs at Laikipia, Isiolo, Marigat and Garissa. These are strategic entry points for a large of animals from the ASAL region destined for urban markets as well as for local consumption but currently there are highly insufficient slaughter facilities. Management of these should be contracted out and the municipalities should ensure the maintenance of these structures from realized revenues. Training and demonstration will be required for MOARD staff, meat inspectors and beneficiaries, including hides and skins producers (and also bee keepers and honey processors who belong to the livestock sector). Support will be needed for AHITI to strengthen its faculty for hides and skin training and leather development. The marketing activities should be linked to micro-credit, especially for rural tanneries, camel milk processors, and livestock traders (as well as honey and bee wax producers and processors). In order to improve and promote camel milk marketing in distant cities, a mini dairy for camel milk processing should be established at Garissa.

It is clear that although some knowledge about the structure, functioning mechanism and constraints of the livestock and hides and skins marketing sectors are known, a much fuller understanding of the structure, efficiency, constraints and opportunities will be required to identify options for intervention that will improve the marketing systems for the benefit of the ASAL producers and other stakeholders. A full value or supply chain analysis for the livestock-to-meat and livestock- to- leather chain will be needed to assess the competitiveness of the various segments of the industry so that private and public investment can be guided by actual market potential and business viability. The analysis will also reveal missing links or constraints at each segment of the industry, which will guide policy interventions to alleviate those constraints. Lack of a widely accessible market information for all livestock and livestock products is already known as a major constraint facing different stakeholders, which also is creating imperfection in the market. The market structure and value chain analysis will provide a strong the basis for developing a workable and useful market information network.

Documents consulted

Aklilu, Yacob. 2002. Critical issues impacting livestock trade in Kenya, Ethiopia and Sudan. Paper presented at the 10th Annual Conference of Ethiopian Society of Animal Production,22-24 August, 2002, Addis Ababa, Ethiopia. 18pp.

Gatere K and Dow, K 1980. Improving price information service in beef marketing in Kenya. Development Planning Division, Ministry of Agriculture and Livestock Development, Nairobi, Kenya. 49pp.

Jabbar, M A. 2002. Micro-finance for livestock development in the arid/semi-arid areas of Kenya: Investment opportunities and credit supply mechanisms. Working paper prepared for the African Development Bank, Abidjan, Cote de'Iviore. 17pp.

KLMC. Undated. KLMC concept paper presented to African Development Bank. Kenya Livestock Marketing Council, Unpublished draft. 4pp.

Little, P. 2001. Cross-border livestock trade and food security in the Somalia and Northeastern Kenya borderlands. A summary prepared for the OSSREA/BASIS seminar on cross-border trade, Addis Ababa, Ethiopia, 2-3 April, 2001.

MOARD. Undated. Marketing livestock and livestock products in the ASAL areas. Unpublished draft document. 11pp.

MOARD. Undated. Briefs on the Kenya Meat Commission. Unpublished draft document. 9pp.

Muriuki, J M, and Koech, G C. 2002. Leather and leather products in the industrialisation process in Kenya. Paper presented at the International Conference on the Clothing and Footwear Industries in Africa and Distribution Channels, Mombasa, Kenya, 5-6 July, 2002. 19pp.

World Bank. 1999. Livestock-to-leather. Discussion paper: Supply chain. World Bank, Washington, D.C, USA. Unpublished paper. 22pp.

Comment [GK1]: These names are not Ethiopian names.