ABSTRACT

The dairy industry in Kenya has always operated under some form of government administered regulatory system. Government administered prices have not been efficient. There has not been sufficient flexibility to allow for (a) seasonal variation of producer prices to account for variability in costs of production, (b) spatial variation in prices to promote efficient allocation of resources, (c) frequent revision of producer prices to ensure adequate incentives to farmers, and revision of consumer prices to ensure reasonable consumption of milk in line with efficient operation. There could be improvements in the overall situation if (1) the extreme seasonality of milk production were reduced, (2) prices paid to farmers were made on the basis of a clear formula which related milk sales (through the Kenya Co-operative Creameries (KCC) with intake, (3) spatially differentiated producer prices could be reconsidered, (4) incentives for higher fat content in milk could be incorporated into prices. The article concludes that the granting of monopoly rights to a nationwide farmer co-operative as has been done in the Kenya dairy industry may be excused on the grounds of economies of scale, but it has not protected consumer interests.