

## Kenya's Animal Feeds Manufacturing Competitiveness

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### SUMMARY

- The Kenyan animal feeds industry is not competitive, resulting in adverse effects on the growth and competitiveness of livestock value chains in Kenya.
- Prices of animal feed have been increasing since 2019, mainly driven by rising costs of raw materials, especially imported raw materials.
- Kenya cannot access cheaper raw materials from global markets due to a ban on the importation of GM products.
- Uncompetitive feed prices have hurt farmers and animal feed manufacturers due to competition from imports.
- The government has responded by allowing an import duty waiver for imported raw materials. However, this intervention is unlikely to lead to the long-term competitiveness of animal feed manufacturing or the livestock value chains.
- To boost animal feed manufacturers and livestock farmers, the waiver of the ban on genetically modified products will enable access to cheaper raw materials at the world market, sustainably reduce animal feed prices, and is a more sustainable solution towards attaining competitiveness of livestock value chains

### BACKGROUND

Kenya's livestock sub-sector plays an essential role in the country's economy through directly providing food, income and employment to millions of Kenyans and indirectly providing raw materials to the agro-processing industry. However, the livestock's contribution to agricultural GDP has been declining. Poor animal husbandry, mainly because of poor feeding practices, has led to low livestock productivity. In part, the high costs of commercial livestock feed, the unfriendly business environment for trade in livestock feed, and the weak regulatory environment have affected the availability, affordability, and utilisation of quality commercial feeds to grow the livestock value chains. This has resulted in increased competition from imports for livestock products and animal feed from neighbouring countries.

The costs of animal feeds have been rising from 2021, with the price increases attributed to a shortage of raw materials such as soya and oil cakes seeing the most significant price increases. According to the Association of Kenya Feed Manufacturers (AKEFEMA), the price of soya and oil cakes increased by more than 60% in 2021<sup>11</sup>. The immediate impact of the rising feed prices has been losses by farmers amidst sticky output prices. As a result, farmers are cutting back production, and as a consequence, animal feed manufacturers are also being adversely affected.<sup>1</sup> Amid reports of farmers abandoning livestock enterprises such as poultry, AKEFEMA also reports the folding of small-scale feed manufacturers amid rising costs and increasing losses leading to massive job losses. Furthermore, animal feed wholesalers and retailers are increasingly importing animal feeds from neighbouring countries to maintain demand from livestock farmers.<sup>1</sup>

### Cost of production for feeds

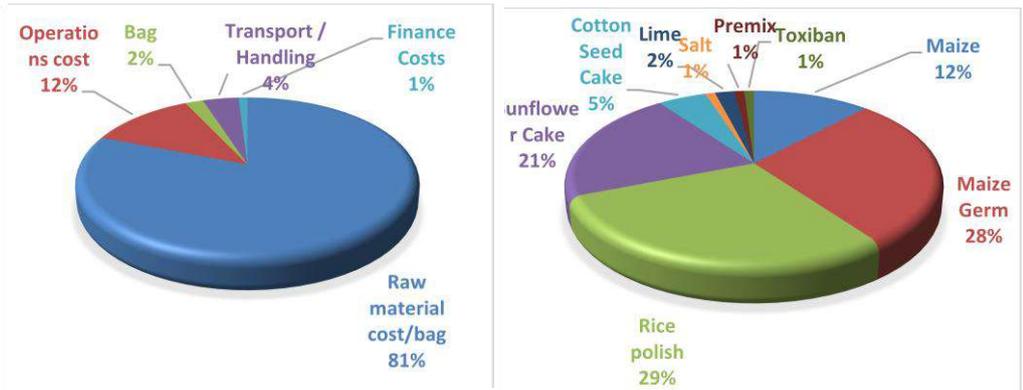
Data from AKEFEMA has been used to estimate the costs of producing a standard dairy meal in 2021. The total cost of raw materials accounts for the largest cost component at Ksh 26,268/ton or Ksh 1,839/70 kg bag (Figure 1). Maize, inform of grain and germ, accounts for 40% of the cost of raw materials. Rice polish accounted for 29%, suggesting that energy sources account for 69% of the cost of raw materials. Oil cakes account for 26%. The costs of other animal feed products are expected to follow a similar trend. The local maize prices and the cost of animal feeds are highly positively correlated.

### Trends in raw materials supply and prices

The Ministry estimates that the country utilises 12.5% of the total maize demand on animal feeds. Kenya only has a stable production of maize. However, due to competition with other uses, mainly a significant staple food commodity, Kenya must rely on imports to meet her total maize demand. Maize is usually imported from Uganda and Tanzania. Other raw materials used for animal feed production, such as wheat, rice, oil cakes are vitamins, are primarily imported. Maize germ, wheat grain, wheat pollard, rice bran, rice polish and millet are mainly sourced from Uganda. Soya bean, Soya meal, and groundnut cake are primarily sourced from Tanzania. Sunflower meal, cotton meal, and *omena* are sourced from Uganda and Tanzania. Vitamins, mineral premixes, and amino acids are mainly imported from Asia and South Africa, with China being a key source country in Asia.

Domestic prices for raw materials increased in 2021, sustaining price increases from 2019. Figure 1 shows the trends in costs for energy sources raw materials. Except for maize grain,

Figure 1 Costs of production for a standard dairy meal



Cost components for producing a 70kg dairy meal

Data Source: AKEFEMA 2021

the prices of maize germ, wheat bran and wheat pollard have increased since 2019.

The price of wheat pollard increased by 35% from 2019 to 2021. For maize germ, wheat germ and wheat bran, the prices doubled (100% increase) over the same period. The soya prices have risen by 90%, while those of premixes have been increased by 20% from 2019 to 2021. Production and supply shocks in the global markets explain the spike in soya prices. Due to the ban on GM products, Kenya cannot take advantage of cheaper sources of soya in the international markets as lead producing countries mainly produce GM soya. In the last half

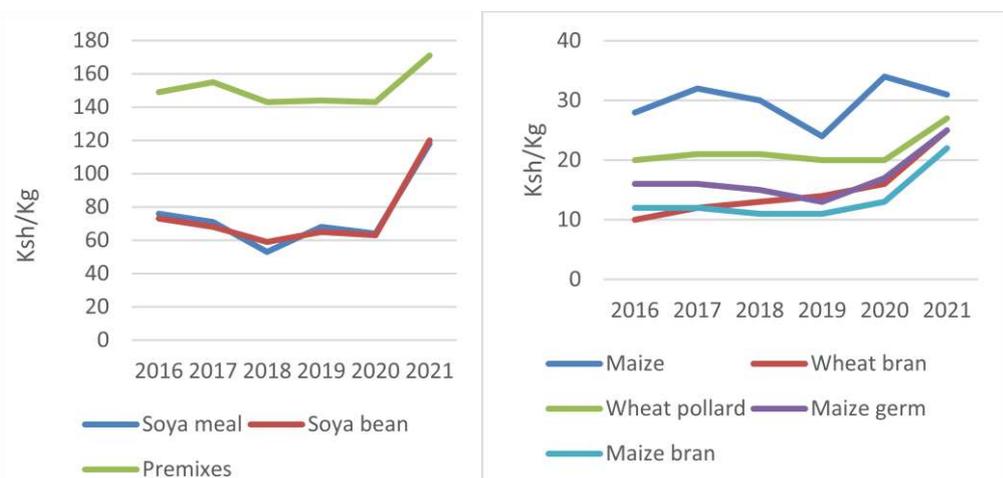
Raw material costs breakdown for producing a 70 kg dairy meal

of 2021, the ex-factory price for a standard dairy meal increased by 33%, while layers increased by 29% on average.

### Proposed interventions and implications on feed prices

To bring down prices of animal feeds, the government can consider allowing the importation of cheaper raw materials by waiving the duties and restrictions that currently bar access to cheaper products. Duty waivers have been a common intervention in the past, and the government considered this intervention for the current crisis. In December 2021, the government exempted import duty for yellow maize, soya bean, soya bean meal, cottonseed cake, sunflower seed cake, white sorghum and fish meal until the end of

Figure 2 Trend in prices for raw materials



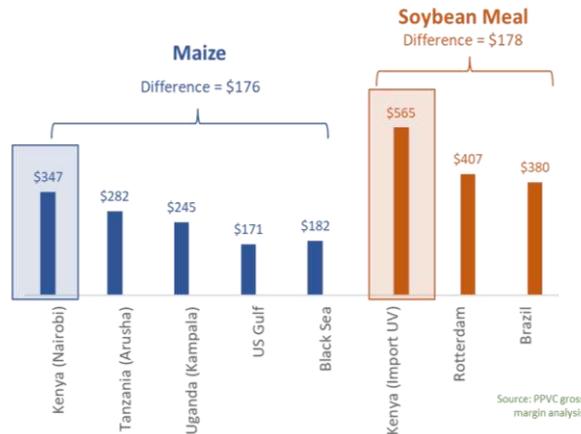
Data Source: AKEFEMA 2021

October 2022. However, the imports must be non-GM. Once, imported other levies charged are estimated at an average of 15% of the customs value. Figure 3 shows that GM maize was much cheaper than non-GM maize, although Kenya could still benefit from importing non-GM maize from other regions. However, the expected costs of logistics (e.g. transport and port charges) are likely to wipe out any benefits from accessing raw materials from these sources, even with an exemption of import duty. This was similar for soya. Even without the duty, the high transportation costs and port charges significantly reduce the advantages for cheaper raw materials sourced in the global market.

The potential effect of importation of duty-free maize and soya is a cost-saving of 7% for maize, and 48% for soya, based on June 2021 costs of production. Subsequently, the expected decrease in ex-factory prices would be about 28%. However, the cost-saving depends on the landed costs of the raw materials. Given the anticipated trends in the first quarter of 2022, the drop in feed prices at the retail level may be much lower than expected since the country cannot access cheaper GM raw materials.

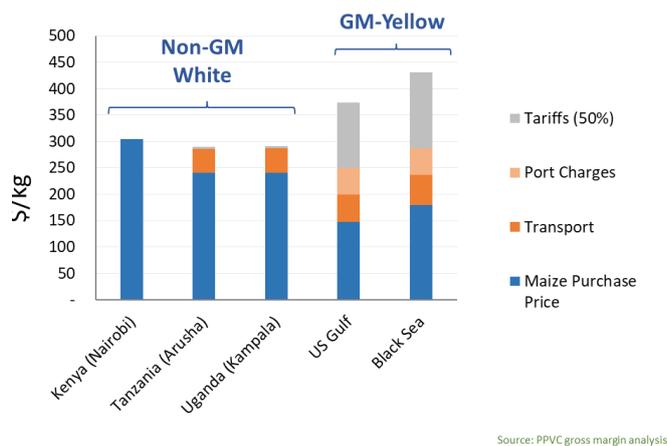
Therefore, the government should consider the animal feeds sub-sector's long-term competitiveness. This includes reviewing options such as importing semi-processed GM products (non-Living modified organisms-LMOs) such as crushed maize; Distillers Dried Grains with Solubles (DDGS); soy cake; enhancing access to cheaper sources of raw materials by addressing incoherent policies; investing in research and development in alternative sources of more inexpensive raw materials such as insects and their utilisation in the manufacture of animal feeds; enhancing the efficiency of the feeds sectors by providing incentives to

**Figure 3 Price of critical feed raw materials (\$/mt)**



Source: PPVC Gross Margin Analysis, 2021

**Figure 1 Prices of maize from alternative sources**



Source: PPVC Gross Margin Analysis 2021

adopt modern technologies and capacity utilisation; and improving the business environment by addressing the high costs of energy, transportation and taxation. Long term competitiveness of the animal feeds, and the livestock sectors will ultimately require competitive raw material sourcing and production.

## REFERENCES

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