Clues and solutions to Kenya's puzzling food price crisis

By Timothy Njagi Njeru

2 Jun 2017

Governments everywhere have the twin responsibility of ensuring that food prices are affordable for the majority of people, while guaranteeing good margins for producers.

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In practice, many opt to subsidise producers of staple foods. Subsidies usually have the effect of keeping the costs of production low enough to guarantee affordable prices for urban consumers. They may include subsidising the cost of inputs such as seed or fertiliser, or subsidising the output price to maintain an agreed minimum price.

The Kenyan government has from time to time applied input subsidies to reduce the cost of production. But they haven't always produced the desired effect. As a result the producer and consumer prices for maize – a major staple – have always been a subject of anxious debate in Kenya.

Such a debate has been sparked once again by the recent price spike in food prices, including maize. Maize and milk consumer prices have soared to new heights, fuelling inflation which now stands at a six-year high.

The high and rising consumer prices are all the more worrying because prices of imported food commodities have largely been stable. Kenya imports approximately 75% of the rice and wheat consumed.

The increases in prices , especially for maize, are not unique to Kenya. As a result of prolonged drought in large parts of the East African region, maize prices rose significantly in 2017, especially between January and April. But Kenya has the highest per capita maize consumption in the region and therefore suffers a greater burden due to the price hikes.

The latest crisis

Kenya's on-going consumer food price crisis – particularly of maize and maizemeal – is just the latest evidence of a litany of policy failures.

In a bid to curb rising prices, the government imposed an export ban in January. Policymakers believed that farmers were hoarding stocks and were likely to sell to markets such as South Sudan which offered better prices. The expectation was that maize stocks would be made available, easing the pressure on prices.

But the price of maize kept rising.

Then in April 2017 the government waived the tariff for imported maize to allow for duty-free imports of maize. Considering the time taken to import maize, it will take at least three months for this to affect local prices.

Finally, the government intervened with a food subsidy for packed maize flour under which it pays millers to supply maize flour at a set price to the market. This is meant to be a short term measure until the next harvest.

Kenya has repeatedly intervened in maize markets by supporting producer prices. This is done by setting a price higher than the prevailing market price. For example, in September 2016 the market price of a 90kg bag of maize was 2,300 shillings ($22). The government then announced that it was purchasing maize from farmers at 3,000 shillings ($29). Needless to say the market price in October rose to 3,000 shillings.

There could be better ways of supporting producers. Other countries in Asia have offered a guaranteed minimum price for their producers. In such a case, producers receive subsidies when market prices fall below the guaranteed minimum. This motivates producers to focus on reducing their costs of production to improve their margins.

Kenya and the world

World maize market prices have been coming down since 2012. But prices in 2017 in Kenya remain much higher, similar to its neighbours due to uncertainties about production as a result of a prolonged drought as well as pest infestations.

But transferring the benefits of low world markets prices is complicated because of common market and preferential trade agreement rules.

For example, being a member of the East African Community customs union, Kenya imposes a tariff of 50% for maize imported outside the region. Further, non-tariff barriers still exist. As recently as 2016, Tanzania banned maize exports to stabilise local prices. This meant that Kenya couldn't benefit from Tanzania's surplus production.

Milk prices have also been rising, reaching historic highs, with the spread between farm gate price and consumer prices widening. Kenya currently has the second highest milk prices in Africa after South Africa.

This is also being blamed on a prolonged drought. But that's only part of the answer. Kenya's milk industry is dominated by three main players accounting for more than three quarters of the market.

This means that the leading players can dictate the prices for both producers and consumers.

What needs to be done

The failure of subsidies to keep maize prices down can mainly be attributed to design issues. Subsidising fertilisers has, for instance, not helped smallholder farmers. This is because they face huge costs in accessing the fertiliser. On average, they travel up to 40 km to get to the nearest depot. On top of this, the quantities used by smallholders aren't big enough to incentivise them to access subsidised fertiliser.

The government should continue to invest in in irrigation, roads and markets, particularly in rural areas. But it needs to do more.

It should strength private sector fertiliser markets which has been shown to be effective in getting farmers to access and use fertiliser.

And it should use evidence generated from research to improve the efficiency of policies. For example, the soil quality in grain basket areas has been declining and studies have shown that it is markedly different, even within a village. But the subsidised fertiliser programme hasn't taken these factors into account. It should.

There's also need to improve the forecasting models and make use of their findings. For instance, the current shortfall in production was first forecast more than six months ago. Policy options that could have helped stabilise prices should have been discussed and implemented from the get-go, not when prices were rising.

Another major factor is that most functions in the agriculture sector have been devolved to county governments. This includes the provision of extension services. So special attention needs to be given to better co-ordination between the national and county governments.

To improve returns to producers, the government should provide incentives for primary producers to add value. Currently the largest gains go to players higher up the value chain.

And finally, innovative ways to finance farmers should be pursued to ensure that they can access inputs where costs are high.

Kenya can get this right. But only if it's honest about where it's failing and holds responsible institutions accountable. A good start would be to fix policies that have led to the perennial crises.

This article was originally published on The Conversation. Read the original article.

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