

EGERTON



UNIVERSITY

**TEGEMEO INSTITUTE OF AGRICULTURAL  
POLICY AND DEVELOPMENT**

**Are KK policies responsive to food prices shocks?**

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May 17<sup>th</sup>, 2023

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# Introduction

- Govts must balance
- Producer's interests and Consumer's demands
- *Producers want to remain profitable*
  - Govt intervenes through inputs subsidies, protection policies, price support, & supply of public goods
- *Consumers want cheap food*
  - Govt intervenes through food subsidies, progressive taxation policies, direct transfers to households



# The Kenya Kwanza Dream

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- Kenya Kwanza administration has prioritized agriculture & food security as one of its five pillars
  - Raise agricultural productivity
  - Address cost and access to agricultural inputs
  - Reduce reliance on imports to attain food security
  - Enhance investments in agriculture
  - **Foreign exchange, Jobs, Income, Poverty alleviation & Industrialization**

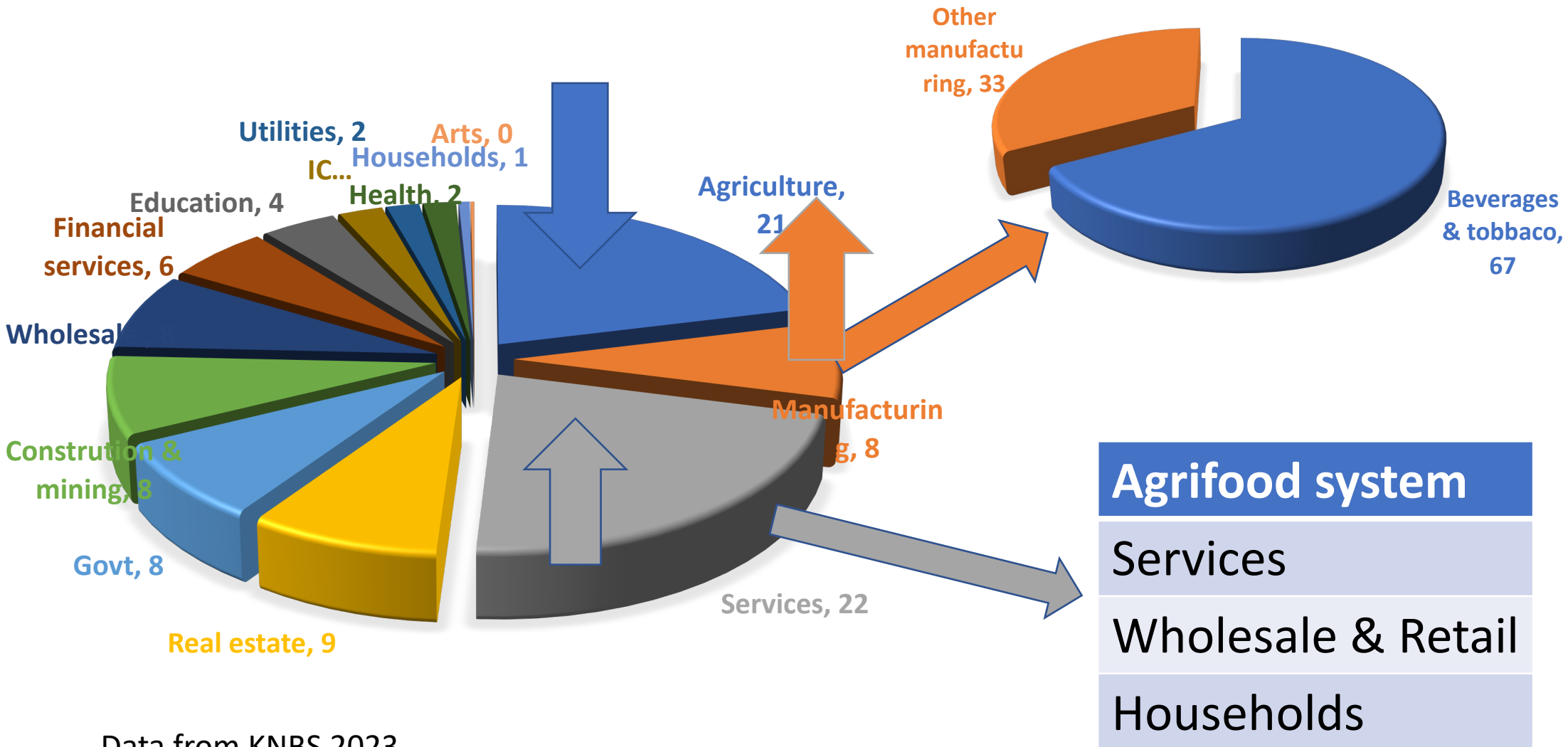


# Top key commitments addressing cost of food

- Bring down the cost of production
  - Fertilizer price
- Bring down the cost of food
  - Costs of Maize Flour
- Enhance agriculture production & reduce food imports
  - Enhance productivity
    - Maize (88%~double)
    - Milk (300%)
    - Beef (36%)
  - Reduce imports by 30 per cent

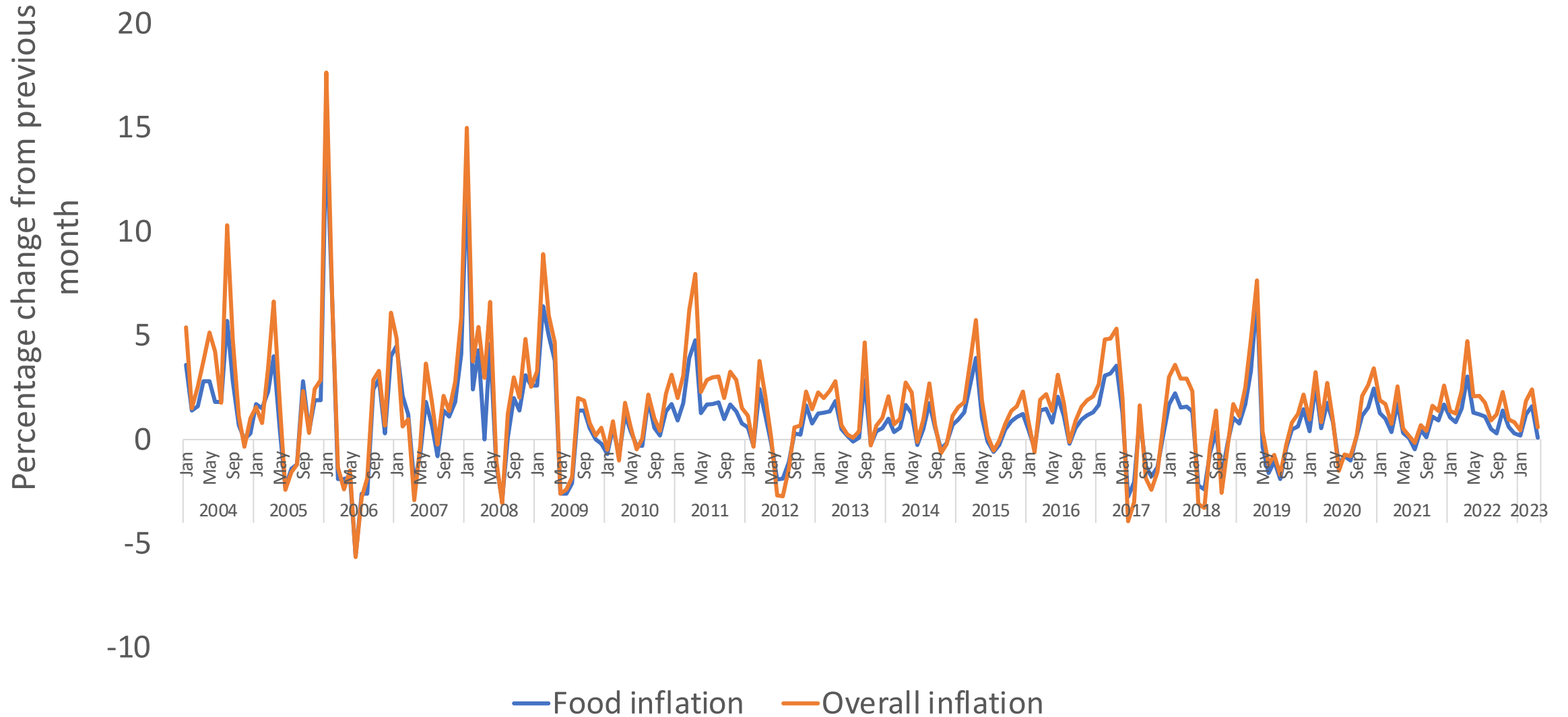


# Importance of Ag & rationale of KK's agriculture focus



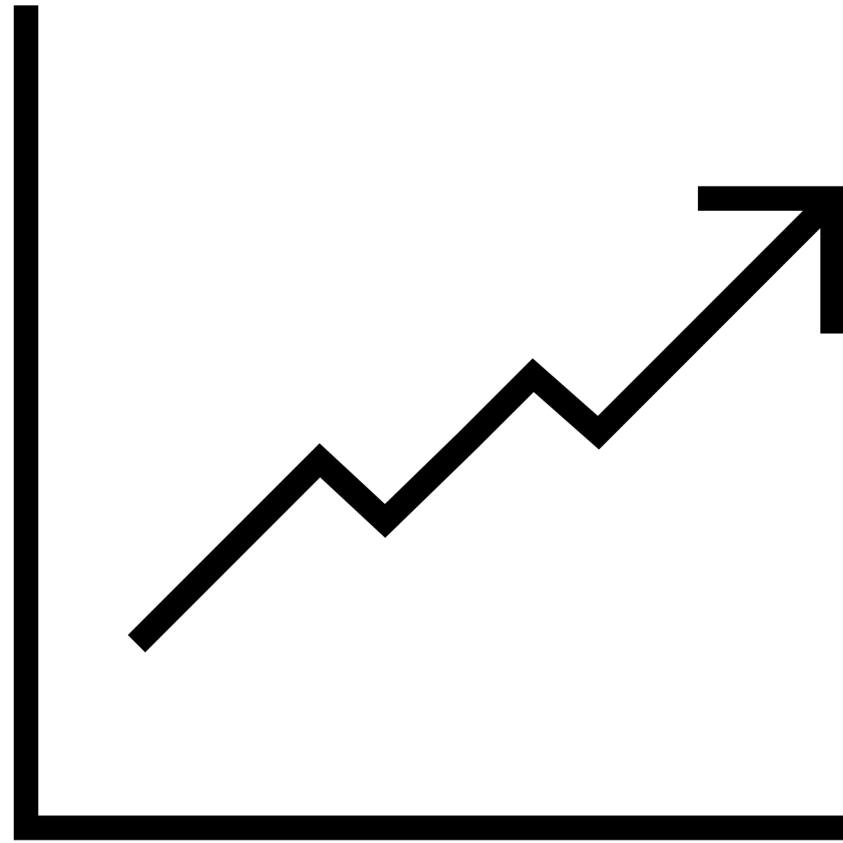
Data from KNBS 2023

# Food inflation a primary driver of overall inflation



# Current Situation

What can we learn from  
input & commodity  
price trends?

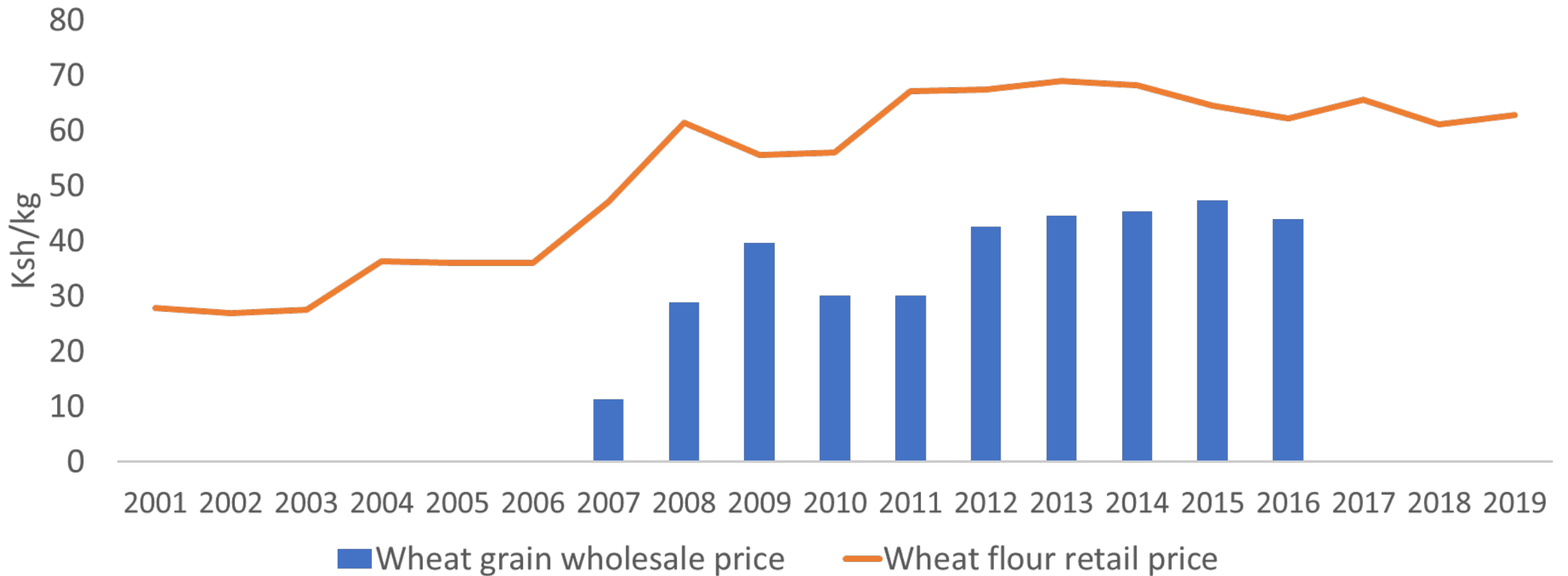


# Maize grain & flour

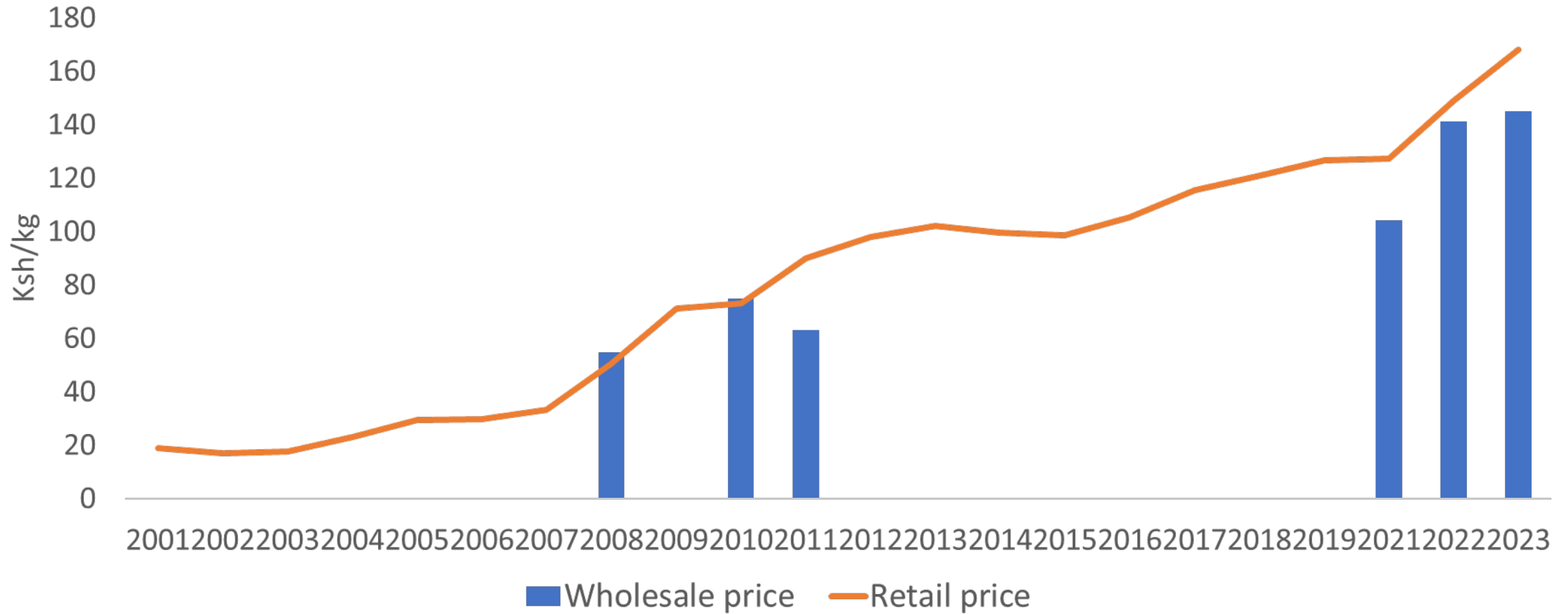




# Wheat grain & flour



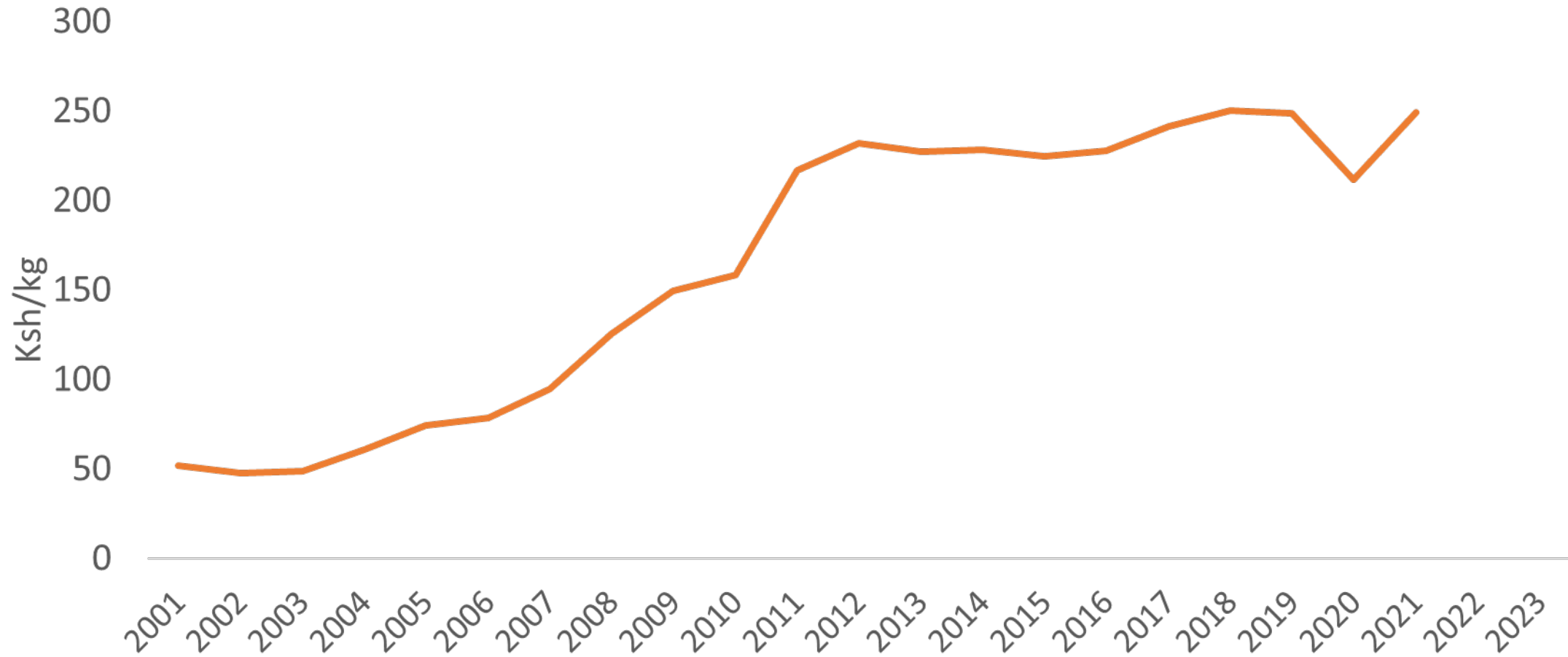
# Rice



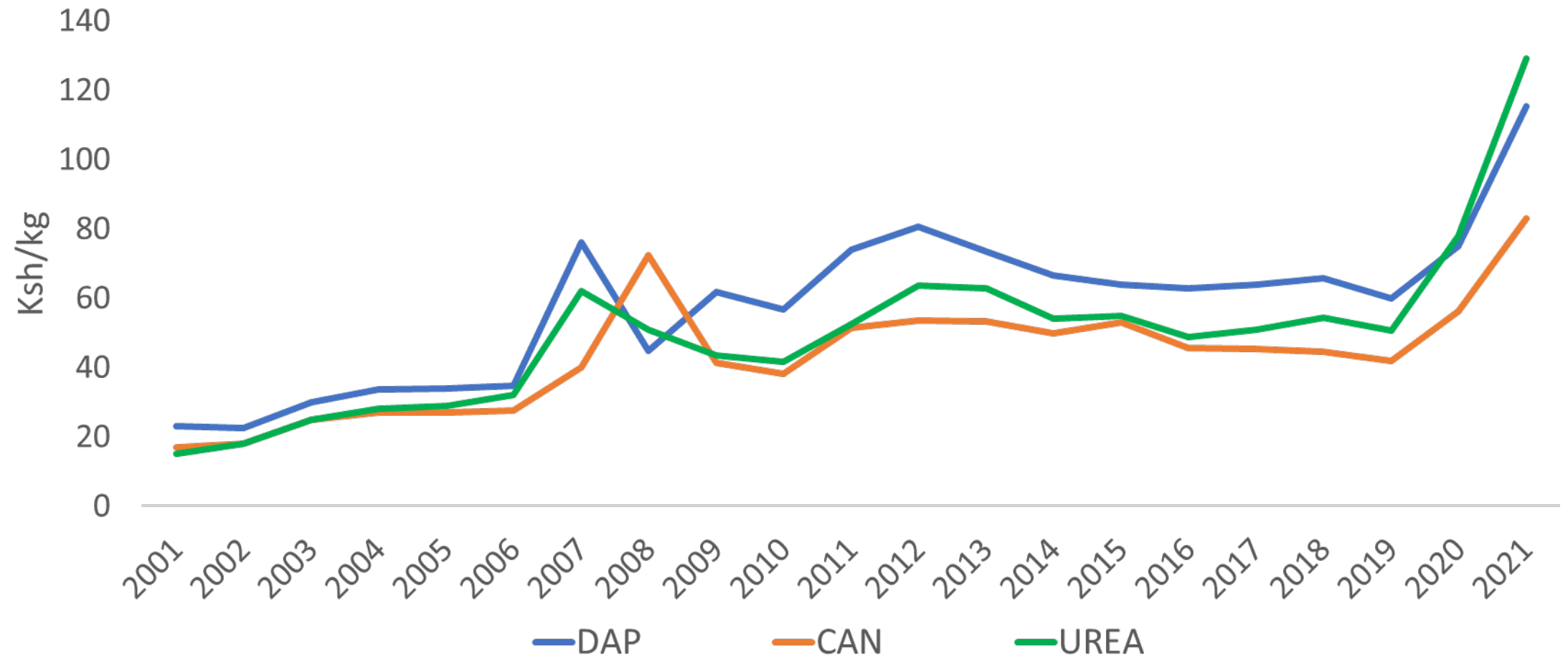
# Irish potato



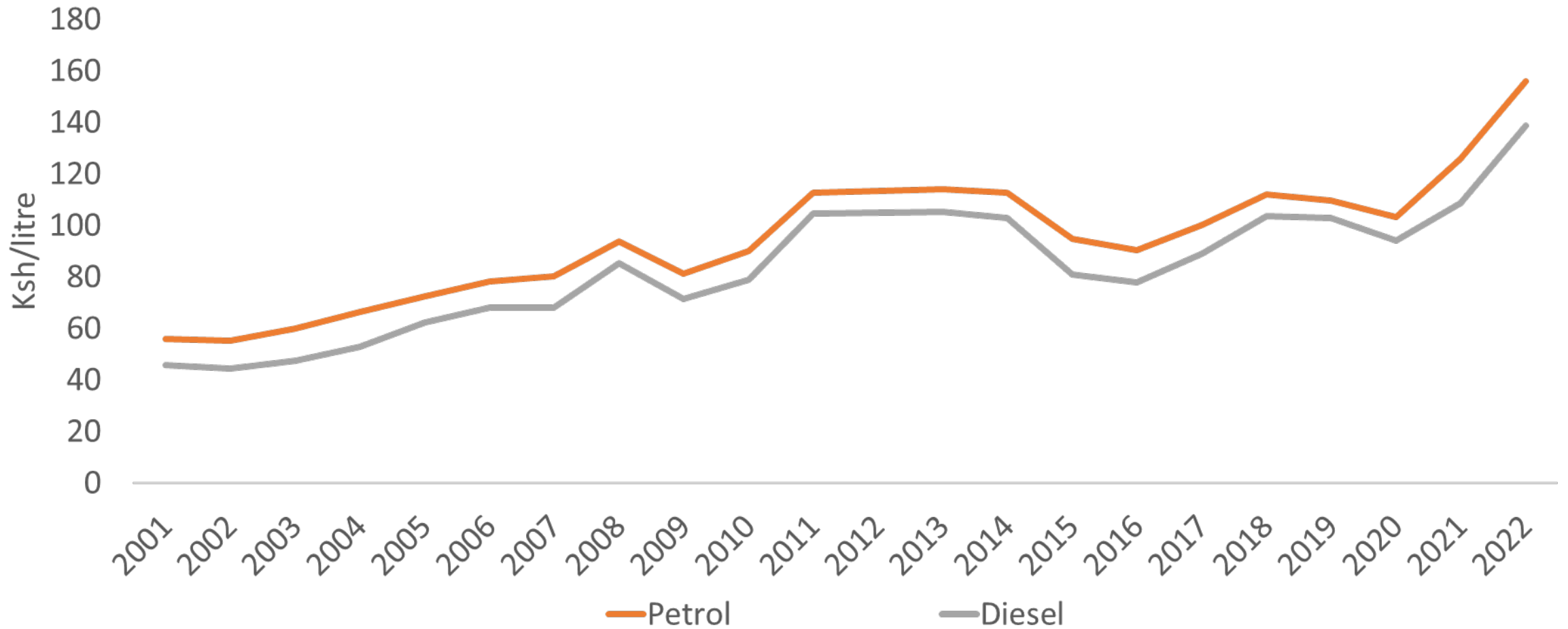
# Cooking oil



# Fertilizer (retail)

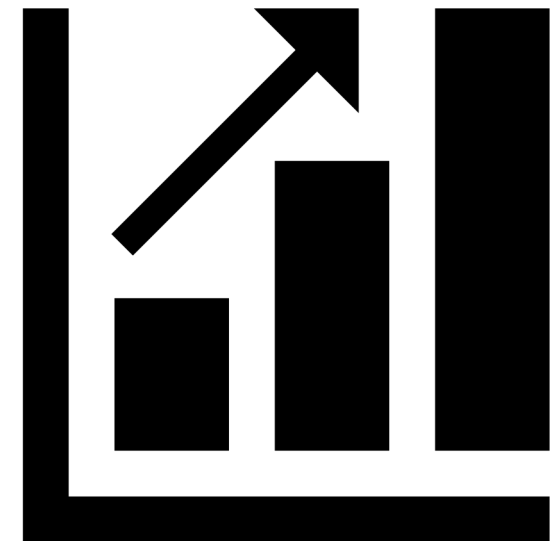


# Fuel prices



# Trends summary

- Current shock (triple shock – pandemic, drought, Russian war, + exchange rate shock) is the most significant for food security
  - Food prices remain high
    - Imports are more expensive due to exchange rate shocks
    - Local production also expensive due to high production costs



# Previous interventions

Period	Response	Implications
2008	Fertilizer subsidy	<p>General fertilizer subsidy ran for the next 10 years</p> <p><i>Beneficiaries registered lower costs</i></p> <p><i>The model was inefficient due to skewed distribution (heavily favoured maize regions), inefficiencies eg late delivery, quality concerns due to diversion</i></p> <p>Smarter subsidies eg NAIAAP, e-voucher pilot, conducted by not scaled</p> <p>No change in productivity for maize or other cereals</p>
	Producer price support	NCPB producer support also ran for the next
	Duty waivers	Duty waivers for maize imports
	Welfare support	Food distribution to vulnerable communities
2017	Subsidy program & producer price support program continue	
	Food subsidy	Price ceiling for maize flour
	Export ban	Cut maize exports to S. Sudan
	Welfare support	Food distribution to vulnerable communities
	Duty waivers	Duty waivers for Maize, rice, sugar



# Current interventions

Period	Response	Implications
2020/21	Fertilizer subsidy	General fertilizer subsidy reintroduced
	Producer price support	Producer price support programs ran through NCPB and KNTC
	Welfare support	Cash transfer to vulnerable communities
	Duty waivers	Duty waivers for Maize, rice, and raw materials for livestock feed
	NTBs	Bans on imports from EAC (protectionist, retaliatory, food safety?)
2022/23	Fertilizer subsidy	General fertilizer subsidy expanded
	Food subsidy	Food subsidies implemented for a brief period
	Welfare support	Food distribution to vulnerable communities
	Duty waivers	Duty waivers for Maize, rice, and raw materials for livestock feed
	NTBs	Bans on imports from EAC (protectionist, retaliatory, food safety?)

Have the interventions  
being effective?

What can we expect from current interventions

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# Interventions have failed to achieve intended objectives

- Producer support interventions especially in the pandemic period led to better returns for producers, but this was paid for by taxpayers ~ transfer
- Duty waivers did not lead to reduced local prices as global prices remained high
- Consumer subsidies led to shortages due to low supply and over-purchasing by households
- Fertilizer subsidy – has led to reduced prices for beneficiaries, but the impact on food prices after harvest - *likely not to be passed to consumers*

# Forecast

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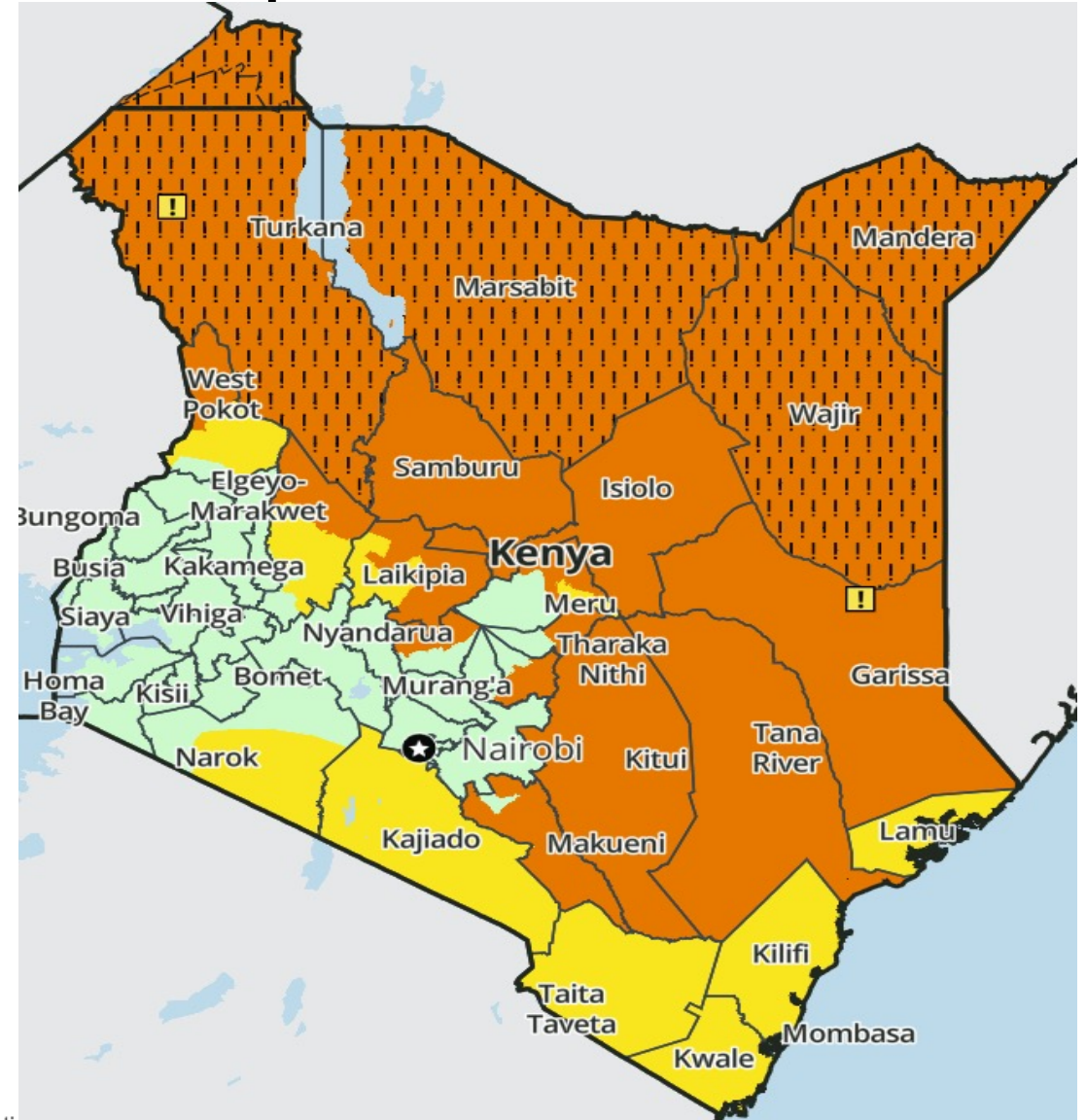
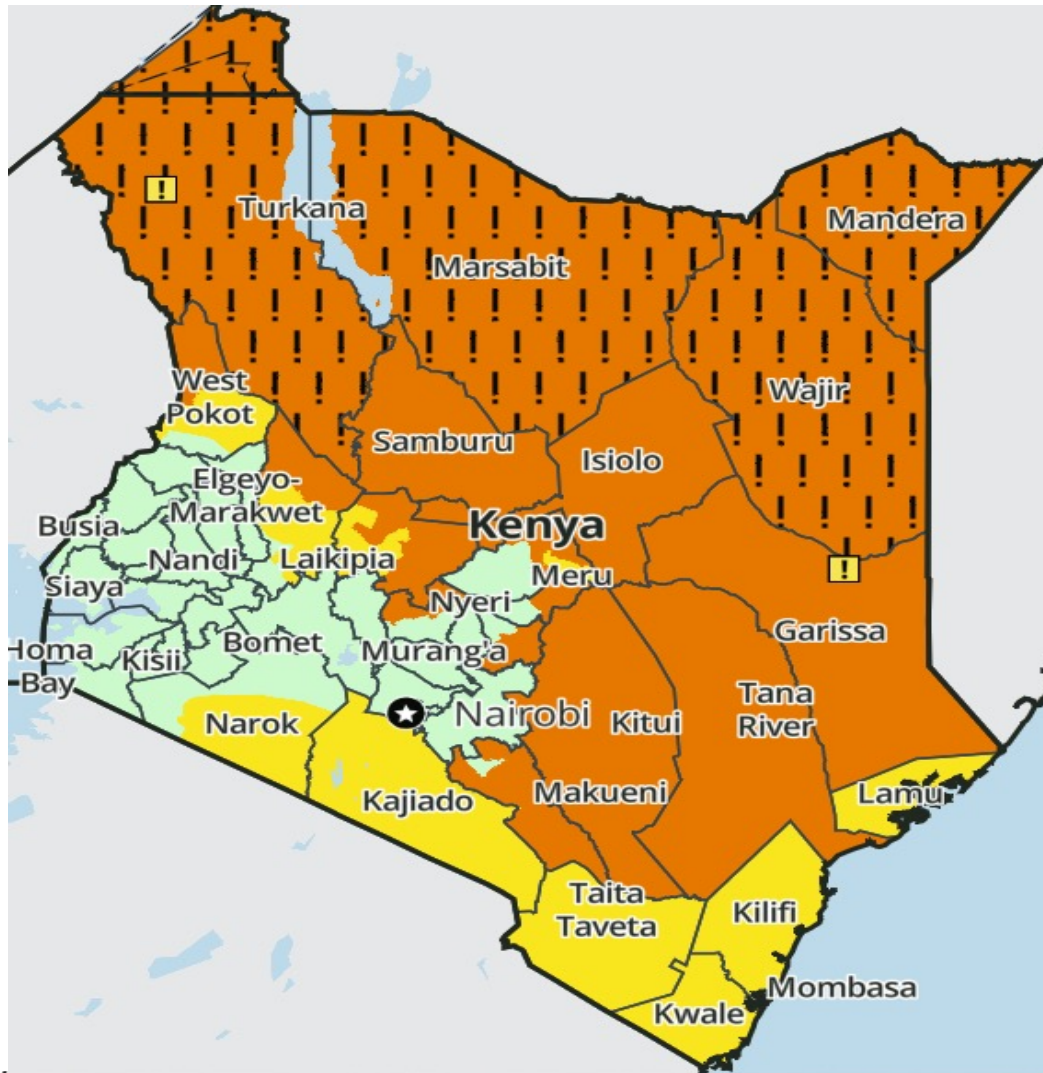
Prices are likely to remain high through 2023



# ASAL regions projected to face food insecurity in

## May 2023 the short term

## June to September 2023



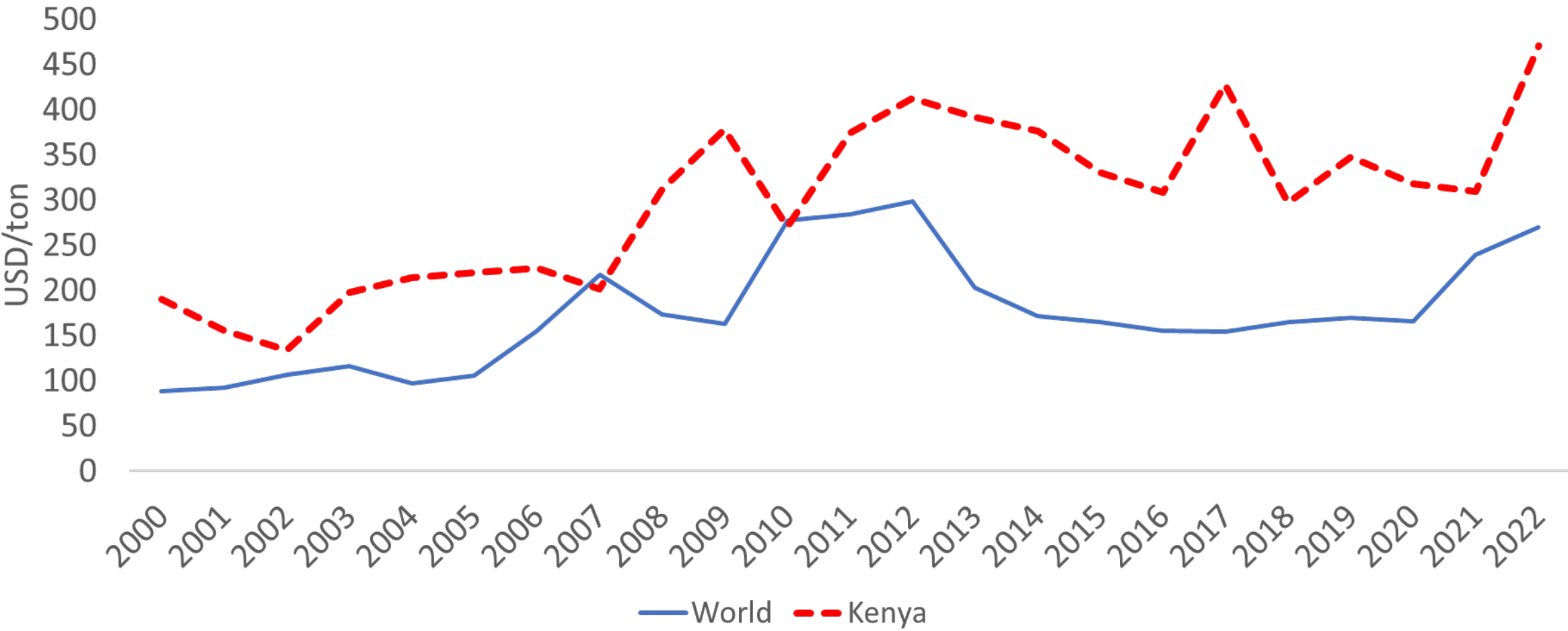
IPC vs. Acute Food Insecurity Phase

1: Minimal
  2: Stressed
  3: Crisis
  4: Emergency
  5: Famine
  Concentration of displaced people

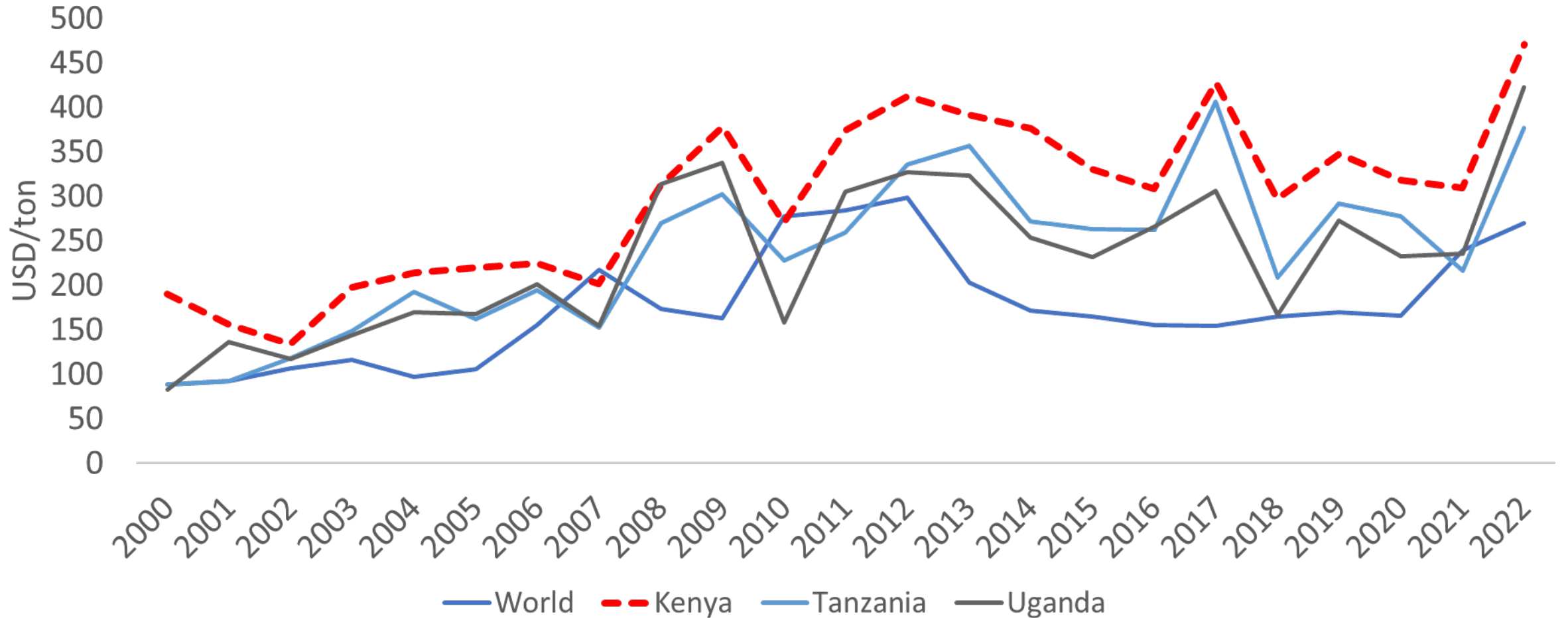
! Would likely be at least one phase worse without current or programmed humanitarian assistance

Source: FEWSNET 2023

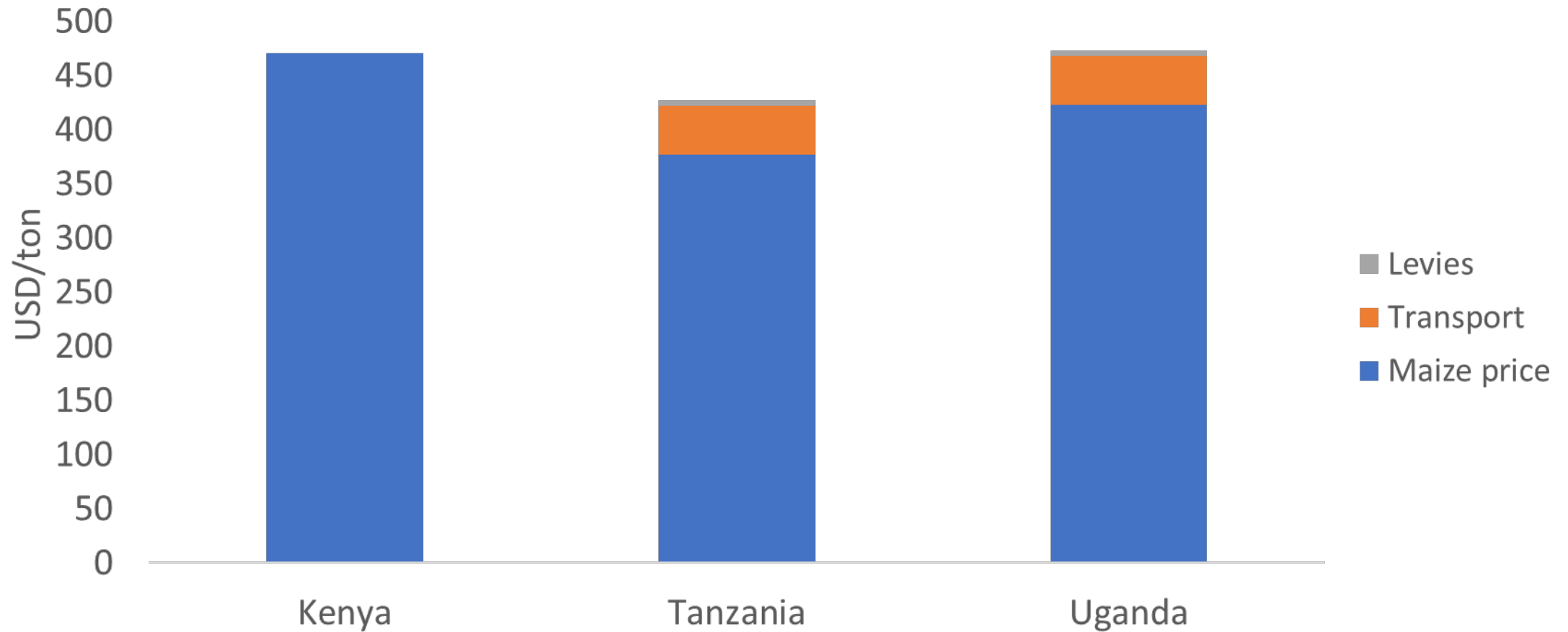
# Trends in maize prices



# Trends in maize prices with EAC

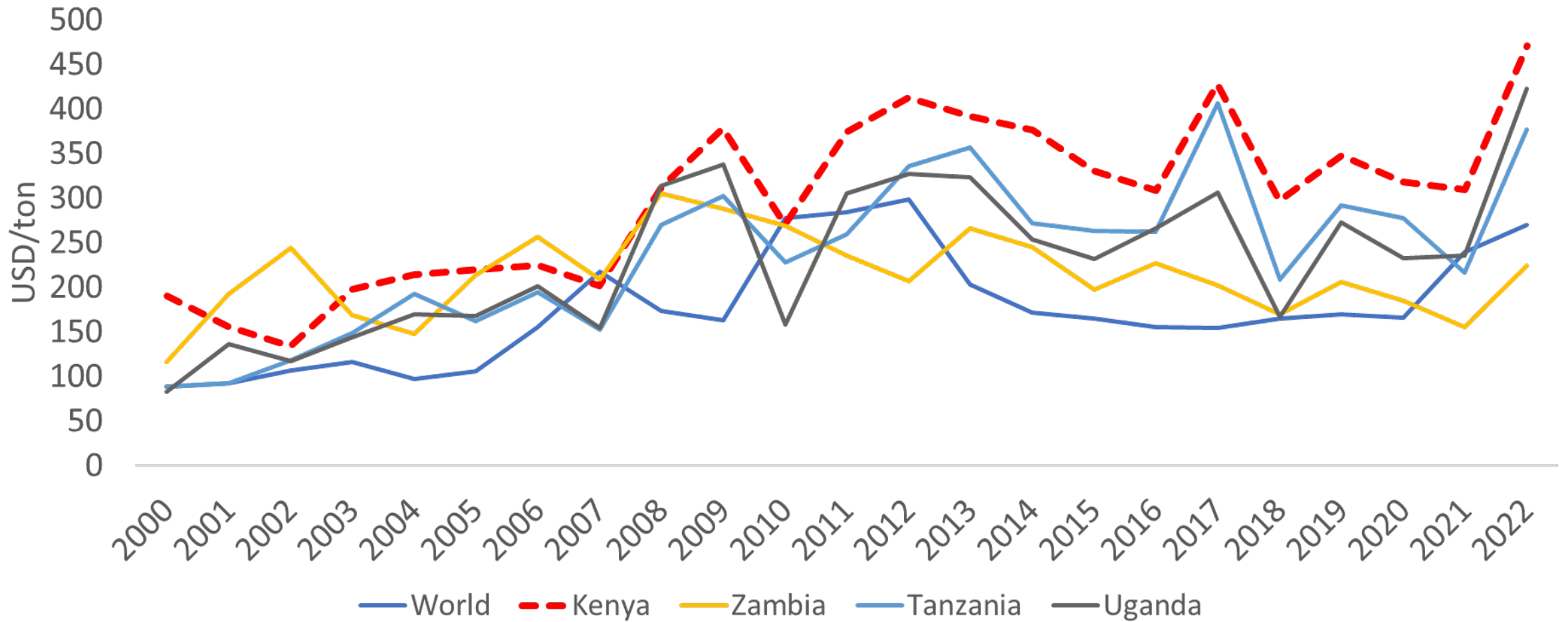


# Scenario to get EAC maize to Nairobi

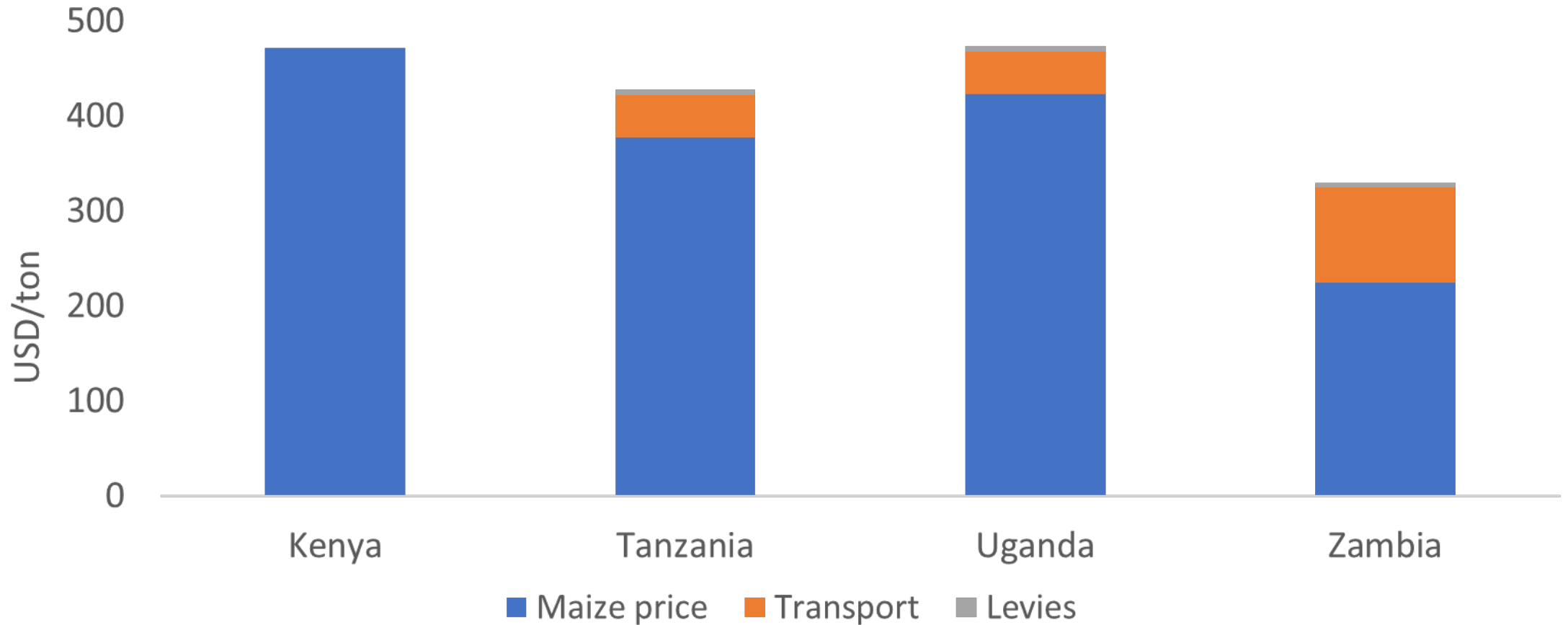




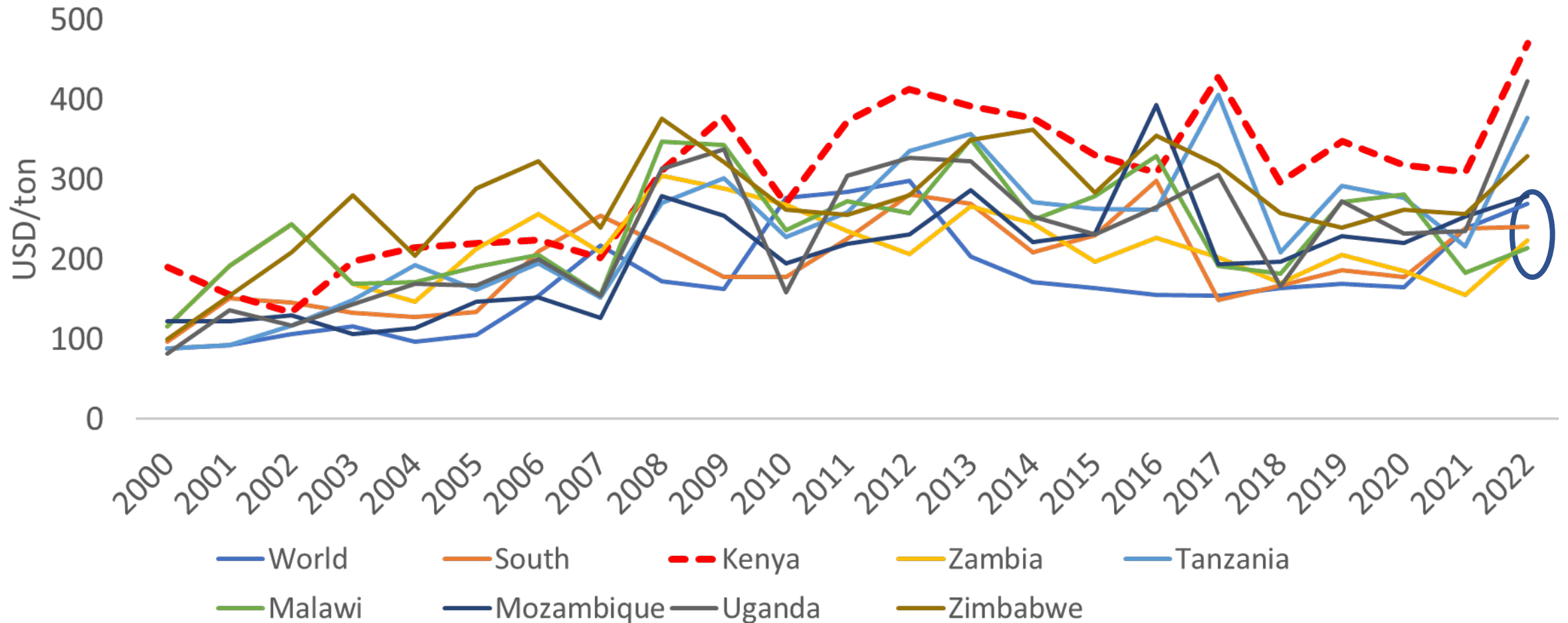
# Is Zambia the answer?



# Maize scenario with Zambia



# Scenario with COMESA countries

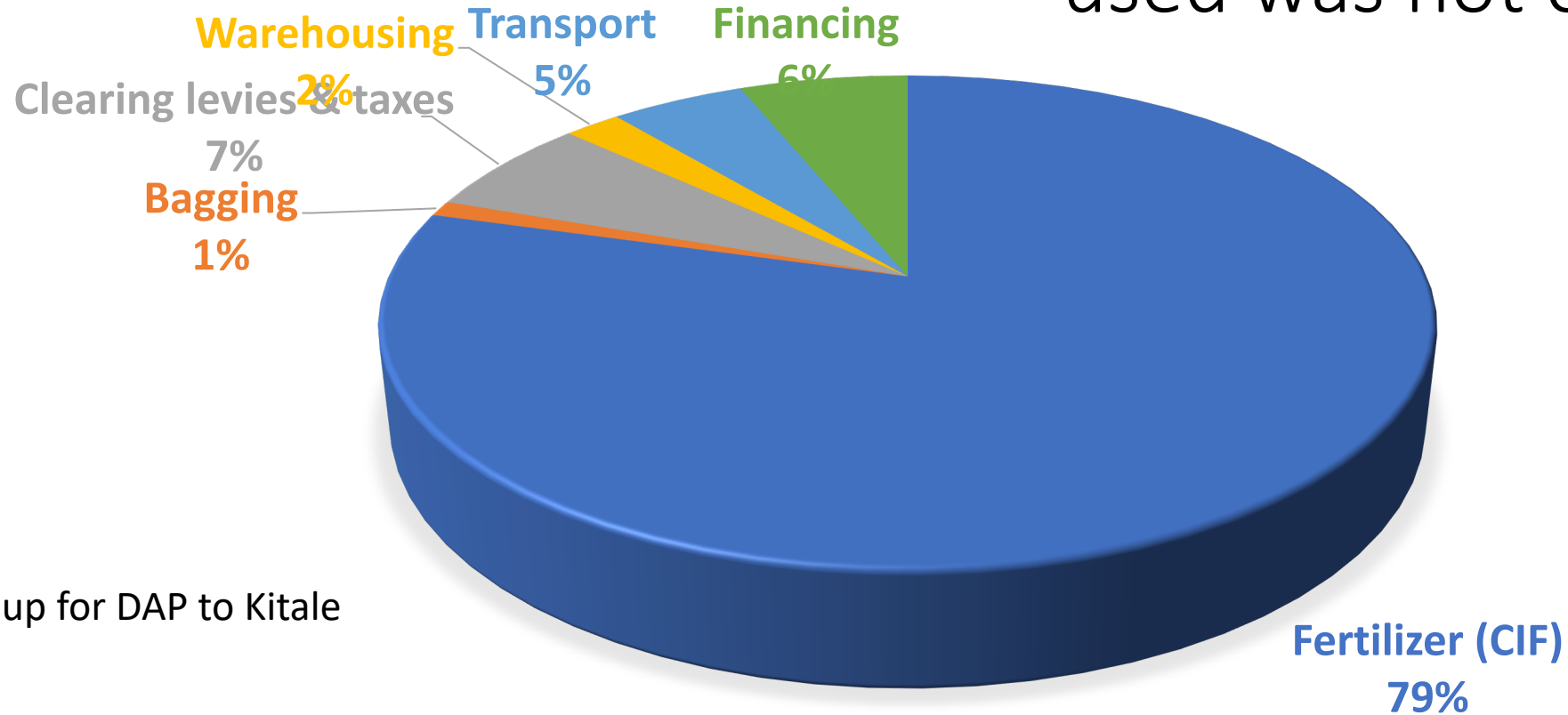


# Will the fertilizer subsidy deliver?

How does the past experience inform our expectations?

# General fertilizer subsidy

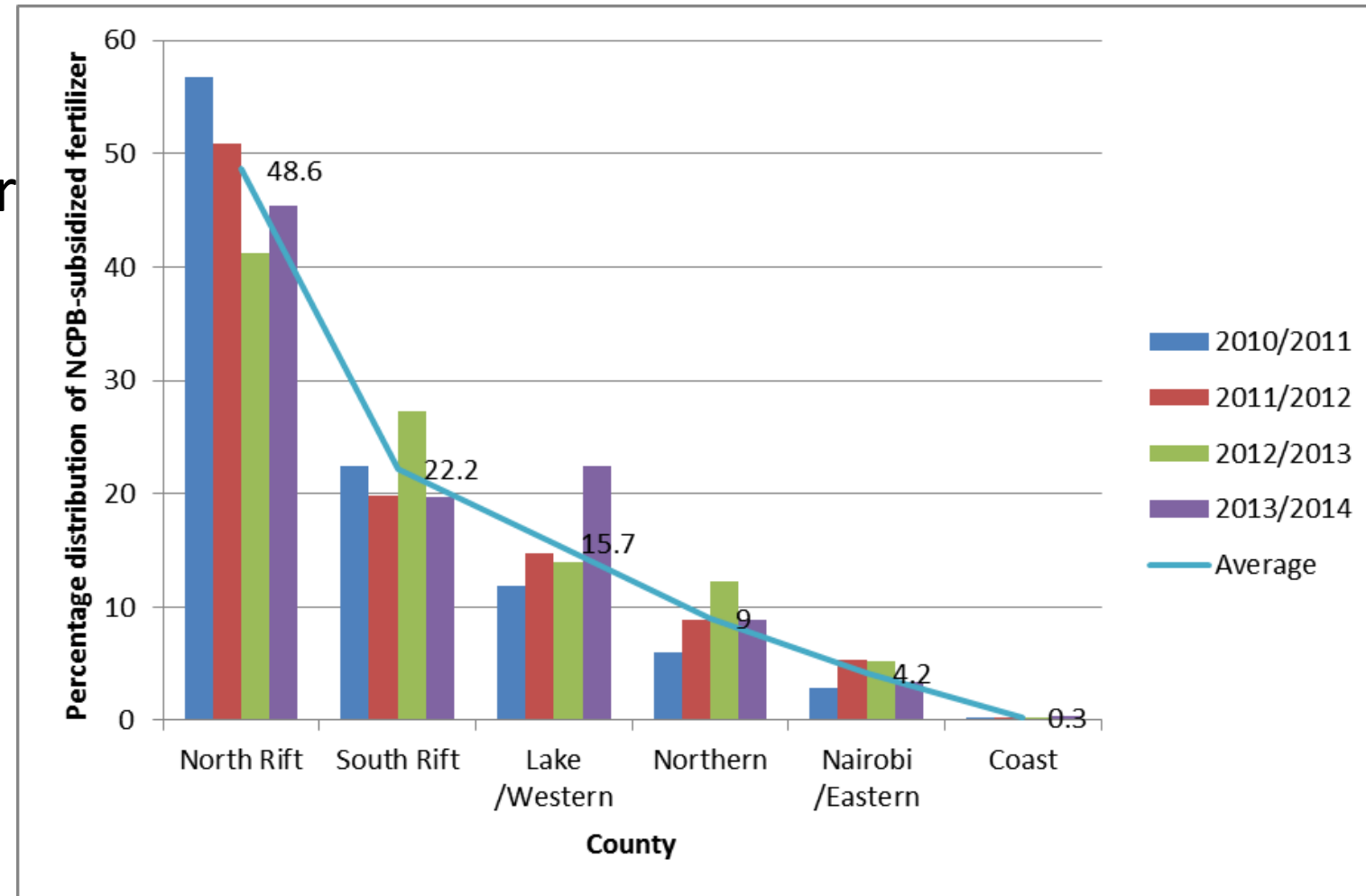
The subsidy was necessary, but the model used was not optimal



Cost build up for DAP to Kitale

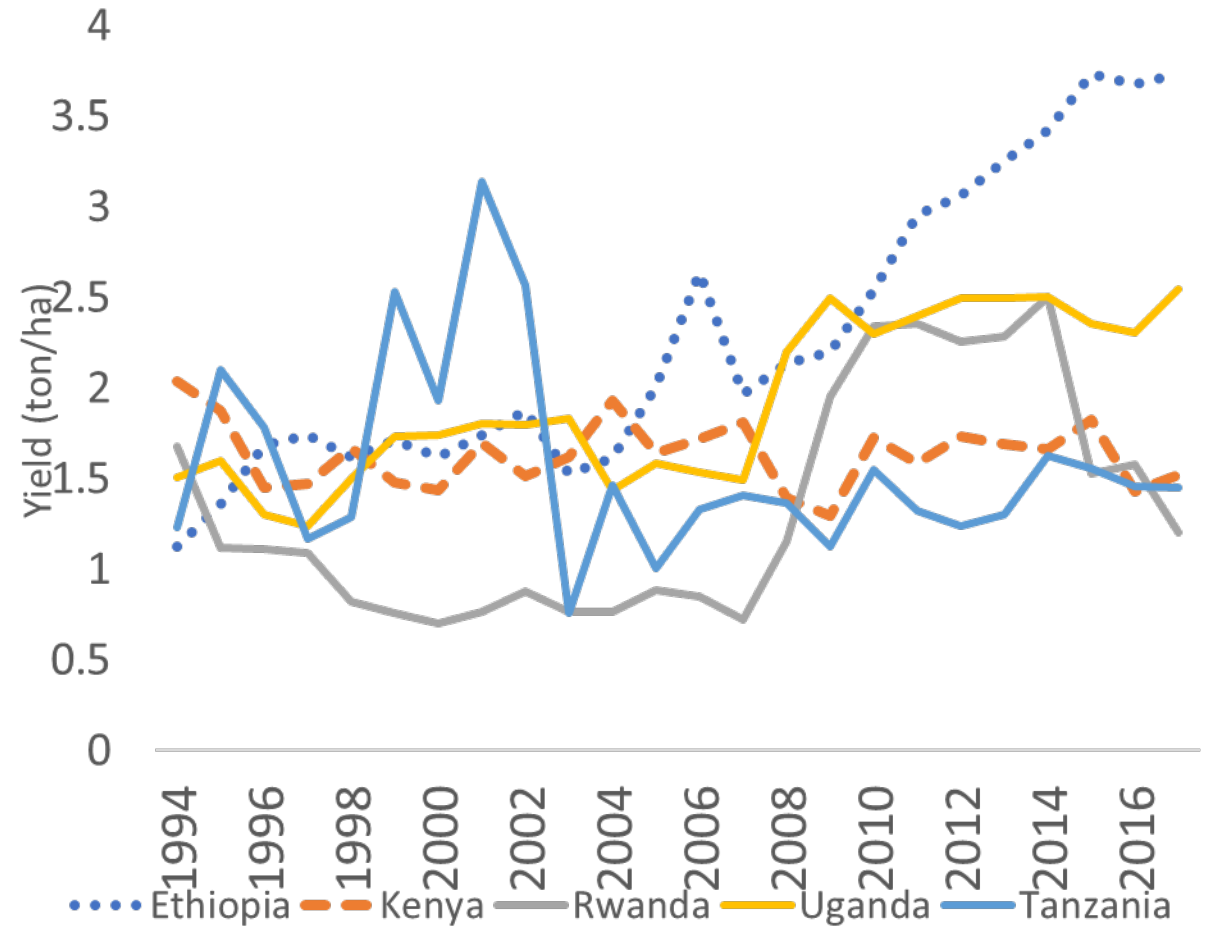
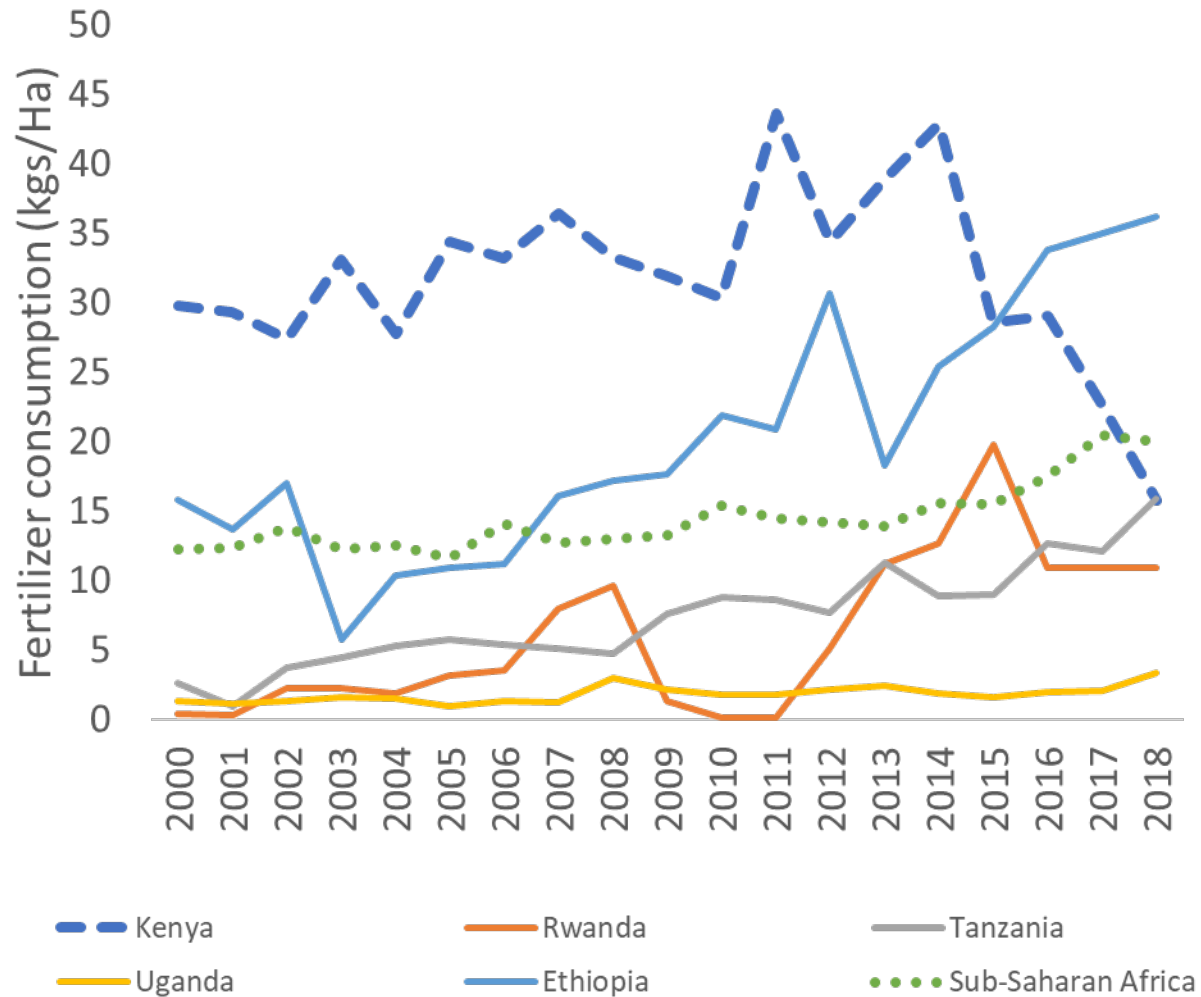
# Previous general fertilizer subsidy had distortionary effects in the private fertilizer markets

- In North Rift, national fertilizer subsidy reduces farmers' probability of participating in commercial fertilizer market by 30%
- On average one ton of subsidized fertilizer displaces 0.2 tons of commercial fertilizer



Source: Makau et al., 2016

Kenya's cereal productivity remained unchanged over the period fertilizer subsidy was implemented

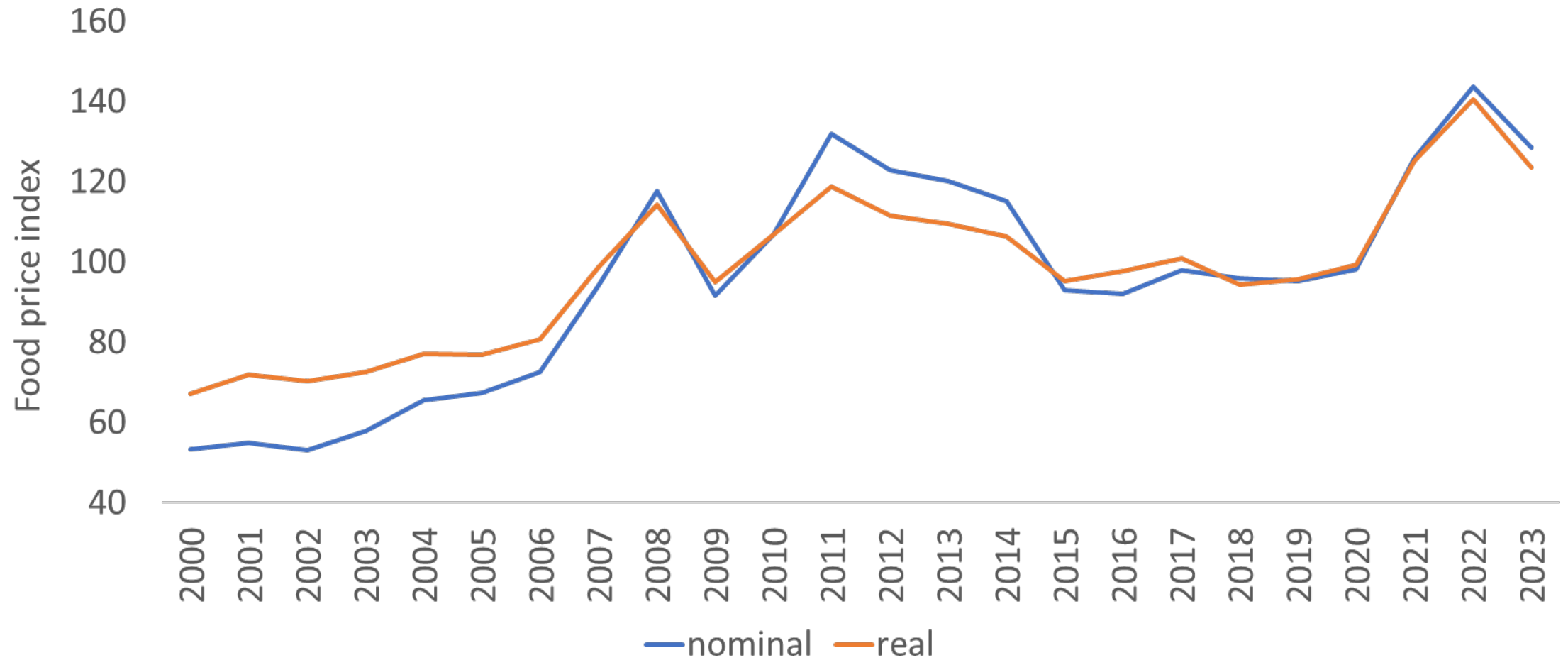


# Fertilizer alone is not optimal, farmers need to adopt a bundle of inputs (Improved seed+fertilizer+knowledge)

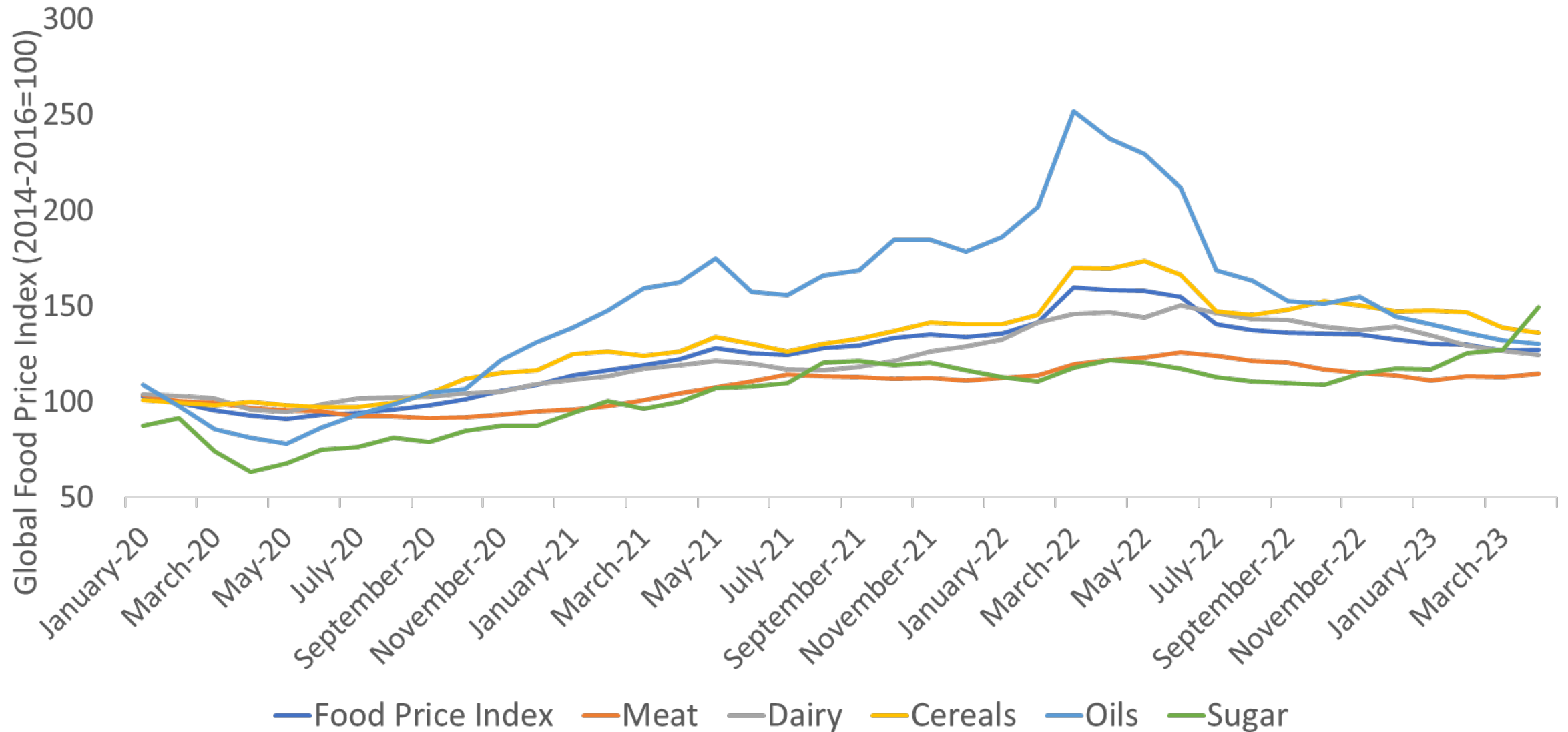
Variable	Non-improved seed only	Non-improved + fertilizer	Improved seed only	Improved seed + fertilizer
Age of household head	56.9	54.5	53.1	52.3
Household size	5.3	5.8	5.9	5.5
Total cultivated land (acres)	1.5	1.5	1.6	1.7
Proportion of land allocated to maize (%)	0.8	0.8	0.7	0.7
Seed use intensity (Kg/acre)	9.9	10.0	8.0	7.9
Fertilizer application rate (Kg/acre)	-	22.8	-	34.7
Maize productivity (kgs/acre)	410	452	626	820
Off farm income	121,280	100,090	111,575	149,973
Crop Income	28,297	33,530	46,468	70,321



# Global prices remain above pre-pandemic prices



# Other commodities stable but sugar prices rising



# Conclusion

- **STOP** Politicizing the food price debate
  - Creating unrealistic expectations of food prices
- Objective debate on what works
  - Subsidy models
  - Effectiveness of interventions
- Better data
  - Projection on production & consumption
- Address long standing challenges on productivity & competitiveness of agricultural value chains

A photograph showing a lush green cornfield in the foreground. In the background, there is an industrial facility with several large green cylindrical storage tanks and a building with a blue roof. The sky is clear and blue.

Thank you