

EFFECTS OF GOVERNMENT MAIZE MARKETING AND TRADE POLICIES ON MAIZE MARKET PRICES IN KENYA

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Abstract

This paper determines the effects of NCPB maize trading activity and the maize import tariff on wholesale maize market price levels and volatility. The analysis uses monthly maize price and trade data covering the period January 1990 to September 2004. Results are based on a vector autoregression (VAR) approach that allows estimation of a counterfactual set of maize prices that would have occurred over the 1990-2004 period had the NCPB not existed and trade restrictions been removed. We assess the separate impacts of policy on wholesale prices in Kitale, a major surplus-producing area, and Nairobi, the major urban demand center in the country.

Results of the VAR modeling and counterfactual simulations indicate that the NCPB's price setting and market operations have, on average, raised wholesale market prices in Kitale and Nairobi by 5.1 and 5.5 percent, respectively, over the entire sample period. However, the NCPB's impact on the market varied considerably over different periods, being negative during the 1992/93 drought year and the 1993/94 year, when the NCPB was both buying and selling maize at a discount to market prices. During the 1989/90 to 1992/93 seasons, as from the 1995/96 to 2003/04 seasons, NCPB operations are estimated to have raised Kitale and Nairobi maize prices by 15 to 18 percent, implying a transfer of income from maize purchasing rural and urban households to maize-selling farmers. The NCPB's activities have also reduced the standard deviation and coefficient of variation of prices as well, consistent with its stated mandate of price stabilization. The maize import tariff, on the other hand, appears to have exerted only modest effects on open market maize price levels. Despite being set at 20 to 30 percent over the sample period, the tariff appears to have raised market maize price levels by only 2 to 3 percent. The relatively weak impact of the tariff is likely to be due to apparently widespread maize smuggling across borders, informal arrangements at border crossings that reduce effective tariff rates, and trade flow reversals in several years.

The NCPC results imply very important income distributional effects arising from Kenya maize marketing and trade policy. Because 70 percent of Kenya's maize surplus is believed to be produced by roughly 10 percent of the farm population (mainly large farmers in the North Rift Valley), and because 65 percent of the rural small-scale farm families are typically net buyers of maize, policies that raise maize price levels are likely to have highly concentrated benefits and anti-poor distributional effects.