Nairobi, 25th May 2017 … The interaction between drought, policy and markets have been the major cause of high commodity prices in Kenya. The year 2016/2017 has been characterized by pronounced drought, which has led to low food production. Wheat decreased by 7% to 222,000 MT, rice output fell by 12% to 102,000 MT, maize fell by 14% to 37 million bags. Milk supply to processors also fell from 560,000 litres to 360,000 litres for the same period. The drop in output occasioned unprecedented price increase of these commodities in the country. The governments short term responses have paid much attention to maize, milk and sugar with much emphasis on measures meant to make available ‘cheap maize and sugar’.

Our analysis shows that the moment we protect the farmer and the industry, then distortion of market price arises. This is seen in the case of sugar, milk and maize. However, for rice and wheat where farmers are not protected and national outputs does not meet consumption requirement, prices have remained stable in retail and wholesale markets. There are no serious price repercussions. However, Kenyans still lack information on the availability and affordability of other alternative food stuffs such as wheat, rice, and sorghum. The researchers at Tegemeo Institute undertook a rapid review of production, imports, consumption and price changes for these alternative grains.

Issues on maize
Is the country out of the woods yet? With the government interventions is the situation under control? In raising these we need to be clear on how much maize the government is planning to import. The suggested 5 million can only take the country for one and a half months. Our concern is that with the earliest harvests expected in September, what are the medium to long term measures that the government is considering so that we don’t find ourselves in this situation given that depressed rains are going to decrease maize production by 11% to 32 million bags this year (Based on projections), drought is going to be more severe and intense in future (NDMA) and there is another alert for La Nina that has been set. We need a more reliable early warning system.

On per capita consumption, values used by different institutions are 64/68/72/76/98. The current population is also 48.5 million but other values like 47 million and even 45 million are used. These variations makes planning and estimation of food supplies difficult and can lead to food shortages. On imports, the government is only subsidizing maize flour. Does it mean that all Kenyans need flour?

In the current plan, what is the actual cost of the subsidy? In our calculation 7.1 billion is required to subsidize the 110,000 that the millers were holding (subsidized at KES 1,900), the 300,000 from Mexico @ 1300 per bag, the 5 million bags yet to arrive @1700 per bag). Could this money have been better utilized earlier to mitigate against the shortage?
Our suggestion on improving the maize flour subsidy, perhaps the best option would be to allow more imports and let market forces adjust the price. This would remove most of the incentives for market misbehavior as observed above.

Alternatively the government could also avail the maize to households with a limit as to bags per household. The challenge with this option is the logistics as previous relief food distribution exercises have shown. Care must be taken to avoid a situation where traders buy at 2300 then sell back to NCPB at KES 3,600.

Another option may require the millers to link with smaller millers or distributors to ensure enough supply is available to the most remote parts of the country.

Even as the government tries to address the current situation, it is important to closely monitor the current maize crop. Already it has faced two major constraints namely the fall worm infestation and reduced rains. Currently, some areas of Nakuru have not received rains at this critical crop development stage. The earliest substantial harvest is not expected before September 2017.

SUGAR

The output of sugar in Kenya has been increasing due to increase in the area under cane though productivity has been low. This has led to a sugar deficit in the country which has continued to increase. In Mumias sugar zone, for example, productivity has declined from an all-time high of 80 tons/ Ha to 30 tons/ Ha. This has been due to inefficient field management. Currently, the area under cane has also declined from 75,000 hectares to 30,000 hectares in that region. Higher sugar prices witnessed in the country are due to the scarcity of raw material for the processing factories and poor planning for imports. The scarcity comes about due to inefficient production and low productivity. It is notable that despite an increase in the number of sugar processing firms, low and inefficient production has led to price increases. These inefficiencies have led to declining production and imports have not been properly planned to cover the deficit.

Sugar imports into the country would attract an excise duty of 100% if it goes beyond 350,000 MT. The duty has been used to protect the nascent sugar industry that has been in operation since 1971 in Kenya. Regional costs of production are much lower that what is reported in Kenya. The cost of production in Egypt is as low as US$ 250 per ton and retail price per kg is US$ 0.37, while in Kenya the cost of production is US$ 600 per ton. Since locally produced sugar is not affordable to most Kenyans, imports can be used to improve access to the commodity since sugar is one of the cheapest commodity in the international market. Malawi, Uganda and Mauritius are other low cost producer of sugarcane in the region.

MILK

Milk prices have also risen to high levels in the recent past, though Kenya is the second highest producer of milk in Africa. Marketing, drought and government policy have been the cause of the high price of milk in the country. Milk production stands at about 5.1 billion litres of milk and only about 15% -30% gets into the formal market. Milk prices have shown a general increase since January due to drought. Prices in the formal market have almost doubled and the commodity has become unaffordable to the common man. Even the unprocessed milk retails at about KES 70 for a litre, 50% lower than formally marketed milk. The consumption in the formal market shows brand loyalty since not all the brands in the retail shops sell and some brands sell up to KES 20 higher.

The major concern in milk industry has been the cost of processing. While farm gate prices average KES 38 per litre, the consumer price is a KES 140. Processors retain a bigger margin. This is expected in a market where the market share of the three largest processors is large. In Kenya, this has declined from 74% to 68% in the last one year implying improving
competitiveness of processing and prices may fall. However, given the changing climate, 2016 was better than 2017 and we expect high milk prices since supply will dwindle with increasing drought which has been predicted by the meteorology department. The cost build up in processing continues to be a grey area may be the cause of unequal distribution of benefits along the milk value chain with consumers paying more and farmers receiving little. While government policies are meant to ensure a win-win situation in the milk market, they seem not to favor the consumer who has to pay more for milk. Government policies are thus a contributor to the high cost of milk to consumers. In addition, the supply to the processing market does not meet the consumption requirement. The resulting high demand leads to higher milk prices. In order to develop milk processing and ensure that products in the market are safe for consumption, protectionist policies should be adapted to signals from the world market.

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