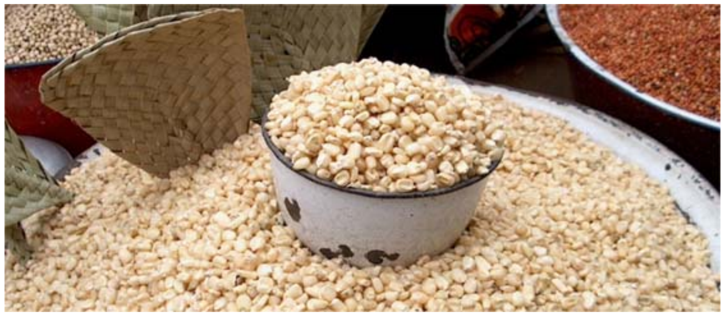
Staple food prices in Kenya



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Kenya Maize Marketing and Trade Challenges

- Maize marketing and trade policy in Kenya has been dominated by two major challenges:
  - how to keep farm prices high enough to provide production intensification incentives for farmers while keeping them low enough to ensure poor consumers' access to food.
  - how to effectively deal with food price instability, which is frequently identified as a major impediment to smallholder productivity growth and food security.

State of play in the Cereal sector

- Maize: main staple food in Kenya
  - 65% of total staple food caloric intake
  - 36% of total food caloric intake
  - Per capita consumption: 88 kgs maize products per year

- Wheat: second most important staple nationally
  - 17% of staple food caloric intake
  - 9% of total food caloric intake

Importance of Staple foods in Kenya

Table 1. Importance of staple foods in diet of Kenya

Commodity	Quantity consumed (kg/person/year)	Daily caloric intake (kcal/person/day)	Share of caloric intake (percent)
Maize	88	768	65%
Wheat	26	196	17%
Plantains	23	56	5%
Potatoes	31	60	5%
Beans	11	103	9%
Total	180	1183	100%

Source: FAO, 2009a

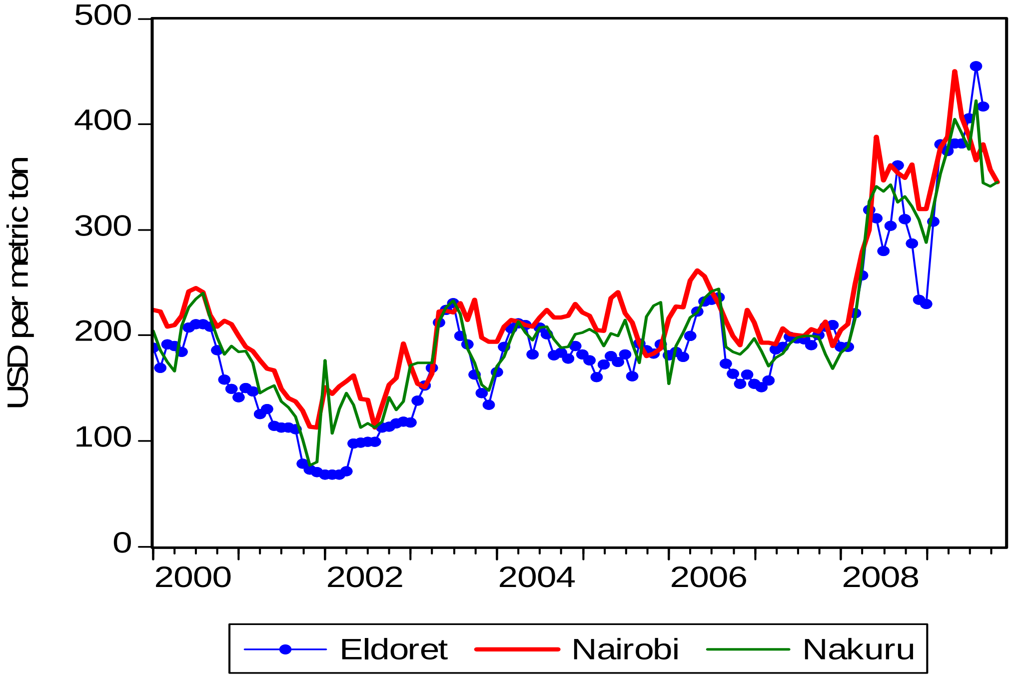
Food Production and Consumption

- Maize production in Kenya has not kept up with national consumption requirements
- Kenya is highly dependent on imports from Uganda and Tanzania to fill its maize deficit
- Imported wheat and rice are rising fast – especially in urban areas
- Domestic marketed maize is highly concentrated:
  - 2% of farmers in the smallholder sector account for over 50% of the national marketed supply estimated at 1 million MT

Factors causing food price volatility

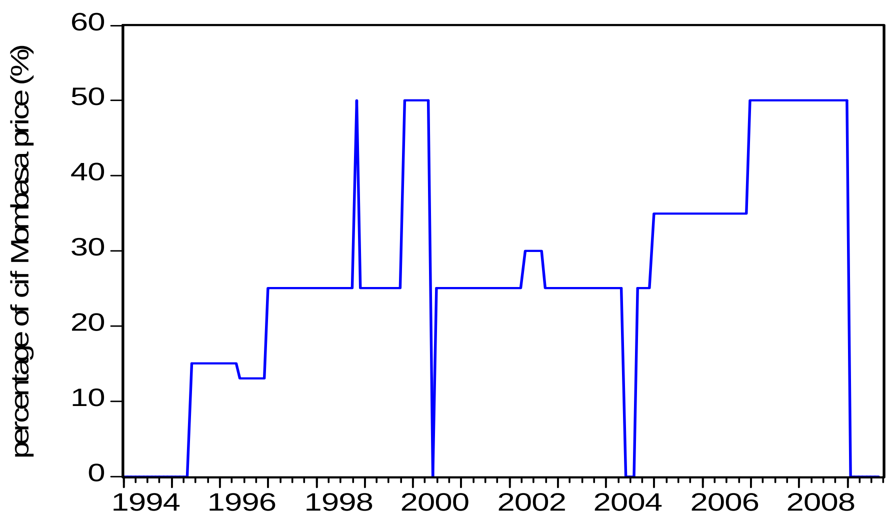
- Maize prices in Kenya are among the highest in Eastern/Southern Africa
- Government still plays a major role:
  - fixed producer price setting
  - Variable import duties through Mombasa
- NCPB buys 10-20% of the domestically marketed maize output, mainly from large farms > 50 acres
- Between 1995 and 2005, NCPB market interventions raised wholesale market prices by 17 to 20 percent.
- NCPB purchase price > domestic market prices

Wholesale maize prices in Kenya



Policy factors exacerbating food price instability

- Frequent and unannounced changes in maize import tariff rates



Policy factors exacerbating food price instability

- Frequent and unannounced changes in maize import tariff rates
- Export/Import bans
- Government price setting method
- NCPB purchasing and selling procedures – payment to farmers
- Regulations affecting private sector maize marketing
- Reduced investments by private sector in storage due to policy uncertainty

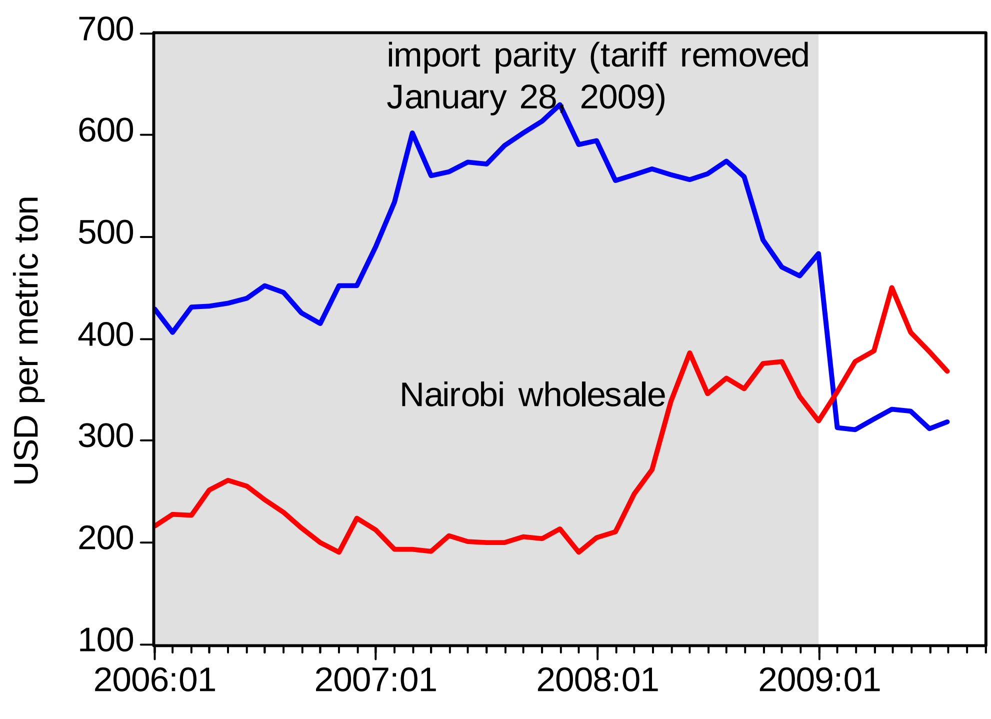
2008/09 Maize crisis response

- In early 2008, Kenya's main season was estimated to be below average due to high fertilizer and fuel prices as well as post-election violence in early 2008.
- Early warning estimates of import requirements were in the range of 1.1 million tons.
- Tanzania had an export ban in place
- Kenya, on the other hand, maintained a 50% import duty on maize from outside COMESA
- Prices moved from under USD 200 to close to USD 400 in less than three months

2008/09 Maize crisis response

- January 2009: Kenya's food crisis deepened over
  – allegations of corruption over the issuing of import licenses
  – reported diversion of maize imports to Sudan
  – lack of transparency over the sale of subsidized NCPB
- January 16th, President launched an international appeal for US$ 463 million to feed roughly 6 million people
- 23 January 2009: maize import duty finally lifted

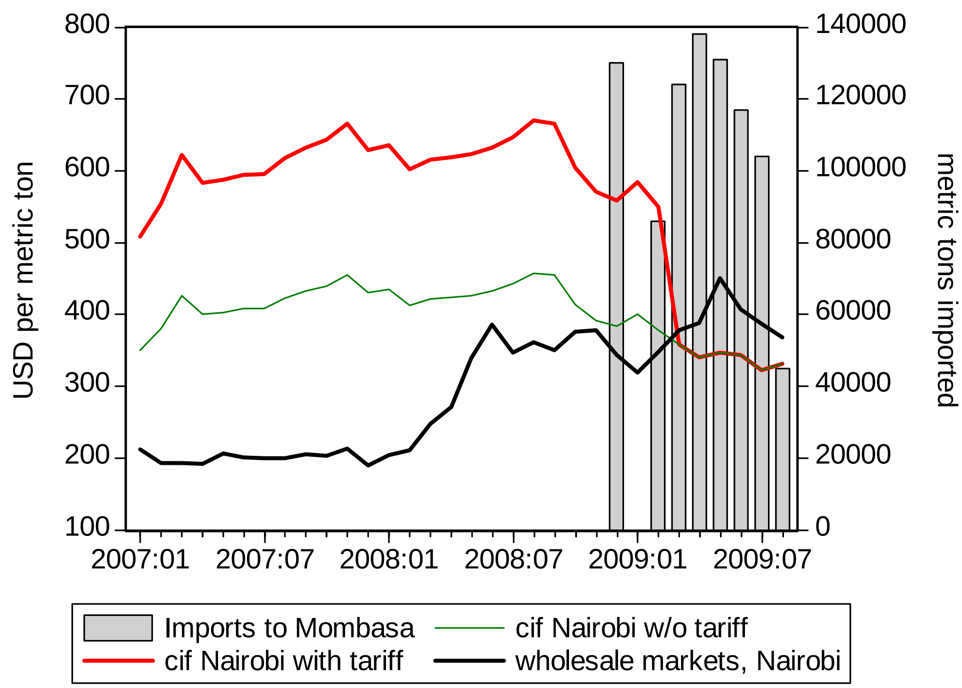
Nairobi local and import parity prices



Duty waived Jan 2009 – why did food prices exceed import parity for 6 months?

- Imports started arriving at Mombasa within 3 weeks (govt started importing December 2008)
- But transport capacity constraints only allow for 120,000 tonnes per month upland to Nairobi – bulk grain handling could only offload 140,000 tonnes per month.
- But Kenya's deficit was 1,1 mill. tonnes
- GoK needed to waive the duty 4 months earlier to enable sufficient grain to be imported and transported up country to alleviate the shortage

August 2009, Kenya



Conclusions

1. While world food prices peaked in July 2008 and started declining thereafter, food prices in Kenya started skyrocketing in mid-2008 and exceeded import parity for much of 2009
2. Private sector responded quickly to import maize within 3 weeks after lifting of import tariff
3. Lack of price transmission from world markets to Kenya due to import tariff in 2008 and transport capacity constraints in 2009
   – Imports concentrated in period of fertilizer importation

Policy Issues:

1. Reconsider impacts of maintaining import tariffs after production estimates indicate a national shortfall
   – eliminating import tariff at last minute concentrates the timing of imports and increases the risks of capacity constraints
2. How can food crises borne of alleged corruption be minimized? Governance or policy?