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| AccessKenya Group **10.40** (-0.55) | Athi River Mining **183.00** (+1.00) | Bamburi Cement **198.00** | Barclays Bank **68.50** (+6.00) | BOC Kenya **151.00** | British American Tobacco **27**

Market Closed | NSE Live Feed: Tue 3:16:00 PM

POLITICS AND POLICY

State's foray into maize marketing distorts pricing, hurts stakeholders

Kenya requires an agricultural marketing policy that will enable the private sector to mop up food crop harvests from farmers and protect them from rock-bottom prices during harvest season. Photo/JARED NYATAYA

By Steve Mbogo (**email the author** *<URL: javascript:void(0);>*)
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Intervention by the government in maize marketing has created uncertainty and risks that have discouraged the private sector from investing in the stable food.

As a result, the chaotic nature of the maize marketing system has made small scale farmers vulnerable to brokers while consumers continue to pay high prices for the commodity, especially during off-harvesting season when maize earlier bought at rock-bottom prices is reintroduced to the market at a higher cost.

A new study by Tegemeo Institute, a research arm of Egerton University, recommends that the government should stop uneven intervention in the maize marketing system that has created unnecessary risks and uncertainty, which tends to stifle private sector investments in the system.

"A more predictable and transparent set of rules governing state involvement in markets, particularly with reference to changes in import tariff rates and National Cereals and Produce Board (NCPB) purchase and sales prices, could further reduce costs and margins in the maize value chain," the study by Lilian Karimi, Nicholas Sitko, and Gibert Bor, among others, says.

James Nyoro, the managing director of global development group Rockefeller Foundation in Africa, and a food security expert, said Kenya requires an agriculture marketing policy that will enable the private sector to mop up food crop harvests from farmers, store it and negotiate a future price to protect farmers from rock-bottom prices that are paid during harvest season.

"Policies that empower the private sector to buy produce, store and negotiate prices with farmers for future sale will prevent a scenario common in Kenya when prices of commodities hit rock-bottom at a time of harvest because of high supply," said Dr Nyoro.

"The current policy on storage and marketing is not predictable. Sometimes, unregulated imports of maize, for example, flood the market distorting prices and this is not good for private investors.

"Kenya should have a private sector controlled commodity exchange like that of South Africa," he said.

The study found that there is little seasonal storage of maize despite a great deal of storage space in the country.

"Interviews with traders indicate that the problem is not inadequate storage facilities but inadequate incentives to store due to high risks, constraints on borrowing capital because of banks' high risk rating of the maize marketing system, and features of the East African grain market in which supplies from Uganda, Tanzania, and parts of Kenya come on the market at various times of the year, which can put downward pressure on prices and hence affect returns on storage."

Because of this disincentive to storing maize, surpluses tend to be sold and quickly distributed to deficit rural areas, and urban areas for milling by large-scale firms, instead of being stored for later sale to meet the needs of households.

"Maize is exported out of certain areas directly after harvest only to be distributed back to the same areas later when many households run out of supplies. The redundant transport costs involved inflate prices beyond what they should be in a well-functioning system where risks of storage are lower," notes the study.

Progressively liberalised

The research says that while private trade in grain has been progressively liberalised, the government has continued to intervene in maize and maize meal markets through operations of NCPB as well as ad hoc changes in trade policies, tariff rates, bans, quotas, and use of state resources to allocate grain to selected firms at subsidised prices under non-transparent terms.

"These highly discretionary government actions cause substantial uncertainty for private firms and hence the anticipated rate of rapid investment and upgrading of marketing facilities immediately after liberalisation did not occur," says the study.

It recommends that the government should increase the budget on a key set of public investments that promote productivity growth throughout the maize value chain.

These public investments are identified as rehabilitation of roads, the railway, and port infrastructure in order to reduce the cost of transaction in productivity-enhancing inputs, improving farmers' access to buyers.

Juliet Wanjiku of the Regional Strategic Analysis and Knowledge Support System (ReSAKS), a pan-African agriculture research group, says what is needed is for Kenya to increase the budget for agriculture to 10 per cent from the current four per cent.

"This will be the easiest way of mobilising resources required to invest in projects that will help the country improve its maize productivity," she says.

The study recommends that payment of cess should be streamlined so that traders pay the levy only once, in the district in which the grain is produced.

This will reduce marketing costs that are ultimately borne by farmers and consumers.

It also recommends that laws on handling of grain should be applied to reduce the circulation of wet maize, which increases storage losses and contributes to aflatoxin (a toxic mold caused by poor handling and drying of maize after harvest).

Originate from millers

The study says the impetus for the use of grades and standards will need to originate from millers because they have a great deal to gain from a reliable system of maize grading and also because they are in a better position to enforce a system of inspection.

"Once wholesalers and assemblers realise that the prices they receive for maize grain will depend on quality, they will in turn impose grading more strictly on farmers," notes the study.

It emphasises the need for Kenya to pursue integration, saying the East African Community has resulted in improvement in the regional trade policy environment.

"A reduction in regional trade barriers is in Kenya's interest because the country is a food importer and it can procure maize more cheaply from its neighbours than it can from the world market," says the study.

Experts say that allowing food to move freely within the EAC bloc will help to end seasonal price fluctuations.

"Different countries have different harvesting seasons and this will allow traders to move food from countries where there is harvest to those needing supplies, helping to end seasonal food price fluctuations.

"This region has a comparative advantage because when one country is harvesting, the other is planting while the other may be waiting for a few months to harvest. If the governments make it easier for food to move within the region, it will ensure availability where there is demand," said Dr Nyoro.

The importance of integration is reinforced by the fact that the country's food production system is under pressure from a growing population and poor farming methods.

This will worsen food availability in the long term.

Improve yields

Tegemeo Institute director Mary Mathenge says the country needs to empower small scale farmers to improve yields and balance on the high costs of farm inputs such as fertilizer.

"Small scale farming is no longer sustainable and cannot be done at a profit because the cost of production is very high and farmers are not using improved high yielding seeds," said Dr Mathenge.

Evidence based on research by the institute and Michigan State University reveals that 98 per cent of small scale farmers in Kenya grow maize, Kenya's staple food.

It means that if their production methods are not adequate, then yields will be low affecting food supply.

Kenya entered a maize deficit cycle in the 1990s when demand outstripped supply.

Since then, the country has been experiencing regular shortage of maize, the most severe being in 2008.

Since then, there has been no serious large scale attempt to address the deficit despite an increase in population from 28 million people to 40 million currently.

Lilian Karimi, a researcher at Tegemeo Institute, says the deficit can be reversed if issues that affect production, processing and marketing of food crops like maize are addressed.