High Commodity Prices – Who gets the Money?

A case study of the impact of high food prices on Kenyan agricultural producers

– Preliminary Findings for World Food Day 2008 (October 16); final results ready by December 2008 –

Background & Objective of the Study

Since early 2007, the world is experiencing an extreme increase in world market prices for staple food commodities such as grains, rice and maize as well for crude oil and therefore fuel and energy prices. This increase has led to unprecedented challenges to poverty reduction, particularly in food-deficit developing countries. Yet, for a long time higher agricultural commodity prices have been lobbied for in order to get price incentives right for agricultural producers in developing countries.

It is against this background, that the Heinrich-Boell-Foundation has engaged in debating underlying causes and effects of food price trends and in analyzing the different implications – for producers as well as for consumers in developing countries. It intends to deepen the analysis of impacts on particularly smallholder food producers in Kenya.

In a sequence of analytical work, this study follows a rapid four-country survey (Mexico, Burkina Faso, Kenya and Cambodia) undertaken by German Technical Cooperation (GTZ) in July/August 2008 and studies undertaken under the auspices of the "*EcoFair Trade Dialogue*". The final report will be published as a discussion paper of Heinrich-Boell-Foundation.

Scope and Methodology of the Study

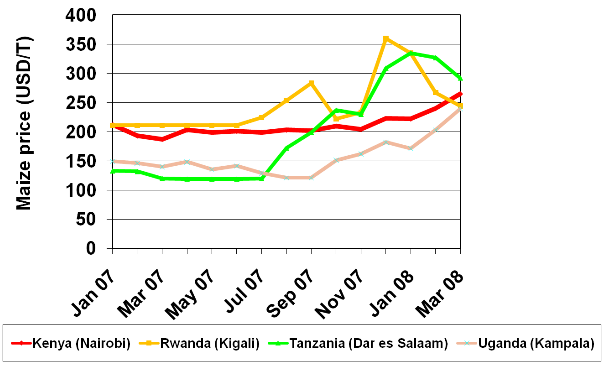
The main focus of this study is on farm gate price development in the year 2008 for major staple crops (cereals, root crops and tubers) in selected farming regions of Kenya. Input and production prices as well as the overall price developments will be taken into account to understand at what stage in the food supply chains the increasing food prices were transmitted and to whom. Therefore, a selected number of about 30 farming households is repeatedly interviewed during the harvesting and selling season (Sept-Nov 2008). Furthermore, input dealers, traders, millers, transporters and wholesalers are interviewed to gain a deeper understanding about the trading margins along the marketing channels.

To put the interview result into the national context and perspective, a set of about 20 national agricultural economists from government, private sector, academia and development organisations is also interviewed.

Development of Food Prices in Kenya in 2008

As most countries, Kenya was hit unexpectedly by the sharp increase of food prices over the past 12 months. The country then even exacerbated this international trend by the national post-election crisis between January and March 2008 (see box on following page).

Increasing Agricultural Commodity Prices



Source: ASARECA / Re-SAKKS Initiative "*Responding to the Food Crisis in Eastern and Southern Africa*"

As indicated in the graph above, Kenya as a traditional large producer of maize didn't seemed to be as badly affected during the first wave of fluctuating prices for the main staple crop compared to other East African countries (most reliable figures are so far only available until March 2008).

However, looking into consumer price changes for other crops between January 2007 and May 2008, Kenya also experienced drastic increases as shown in the table below.

Changes in Consumer Prices (Basis: Jan 2007)

Maize		Beans		Rice		Wheat	
Year 2007	J-M 2008[2]	Year 2007	J-M 2008	Year 2007	J-M 2008	Year 2007	J-M 2008
12%	19%	36%	32%	99%	58%	71%	21%

Source: ASARECA / Re-SAKKS Initiative "*Responding to the Food Crisis in Eastern and Southern Africa*

It is evident that the highest price increases for maize and beans occurred during the early months of 2008, whereby rice and wheat prices increased mainly in the course of 2007. Given that the major harvest of all major cereals and staple food crops in Kenya takes place between July and November, and based on the first round of interviews with producers in Kenya, the following preliminary observations and interpretations are made:

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1. **Rice** was largely imported and had already increased by 100% in 2007 → potential windfall gains for Kenyan rice farmers are suspected for 2008.
2. The **wheat** harvest in 2007 was poor and the low quantities resulted partly in a direct price increase → wheat farmers may have benefitted from that (but most are middle-large-scale farmers with own storage capacities). The increase of 21% in wheat prices in 2008 is suspected to be fully absorbed by millers and grain stores.
3. **Maize** and **beans** were largely harvested by November 2007 and most maize farmers sold their produce at harvest for various reasons at relatively low prices. Most of the maize and beans from the 2007 harvest was already sold off-farm by the time the prices increased sharply → little evidence that farmers benefited from any price transmission here.

What is the situation for the season 2008?

The recent harvest has not yet been evaluated carefully enough and might give a different picture. First results from our interviews with farmers and traders indicate the following:

- The sharp increase in factor prices, mainly fertiliser (particularly phosphorus-containing fertiliser) and fuel has led to extraordinary costs of agricultural production and has limited the area under food production
- The grain growing Rift Valley regions seem to have enyoed favourable weather conditions during the season, however productive land remained underutilised due to insecurity (because of the crisis) and due to prohibitive factor prices (mainly fertiliser) → projected shortfall of maize by 30% of last year's quantity.
- Current prices for maize do not fully compensate these high factor prices even though the demand for maize is very high. Brokers for private millers tour the countryside to buy off-farm at approx. 18% higher prices than the National Cereal Produce Board.
- Even though the harvest just took place and even though most farmers sell directly post-harvest, there is very little maize sold on retail markets (→ suspected wholesale storage).
- High fuel prices impede farmers from bulking their produce effectively and limit them to price takers at farm gate vis-à-vis the brokers.

Who gets the money along the supply chains?

We are not yet in a position to answer this question for the Kenyan case. However, given the known market imperfection in cereal marketing in the country plus the observation that the highest increase for maize and bean prices took place at a time when most producers had sold already their harvest, there is so far little evidence that farmers benefitted from high food prices. Instead, there is growing evidence that grain traders, importers and millers benefitted the most from consumer price increases.

Whether rural small-scale producers in Kenya will benefit or lose out on high commodity prices in the longer term still needs further empiric analysis. We expect to contribute to answering this question by concluding our study in the next two months.

The Impact of the Post-Election Crisis (Jan–March 2008) on Food Production in Kenya

KENFAP, the Kenya National Federation of Agricultural Producers, is the apex farmers organisation in Kenya, representing the interest of over 1.4 million Kenyan farm families. They found out that as a result of the post election violence livelihoods of farmers were disrupted and national interventions put in place over the past five years to revive the agricultural sector faced a major drawback. Poverty levels among the farming families escalated and lead to food insecurity. More than 1,000 people had been killed and over 400,000 people (more than 1.3 % of the entire population) displaced with over 200,000 farmers amongst them. Food security in the country had been badly affected. Over 40% of the farmers from the affected regions were disrupted in their production and land preparation for the season 2008. Consumer prices had consequently increased by 50-100%. Transportation along most markets lines were blocked due to impromptu illegal roadblocks resulting to delayed, reduced and unreliable supply of farm inputs which led to relatively higher prices and unreliable uptake of farm output at lower prices. This severely disrupted the market for agricultural inputs and outputs.

With support from the German government, KENFAP conducted a "return to farming" initiative starting right in the crisis which eventually led to successful restoration of peace and reconciliation among some farming communities and ensured farmers got back to the farming cycle.

KENFAP (2008): *A report on peace and reconciliation among the farming community in Kenya*. Paper presented at the 12th Africa Forum, Sept- 29 – Oct 3, 2008, Addis Ababa, Ethiopia.

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