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EDRP. 65
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29.1.65

The Production and Marketing of Maize in Kenya

Arrangements under which maize is produced and marketed in Kenya raise two related issues which are of great interest to an economist. The first concerns the efficiency with which maize is produced within the country itself, while the second relates to the effects on inter-country economic relationships in East Africa arising out of the maize policy of the Kenya Government. Both these aspects will be discussed in this paper as examples of the kind of institutional changes which are likely to be required in production as well as in marketing of agricultural produce within the East African Region in order to foster regional specialization. Some of the conclusions of the paper can only be tentative since more time would be needed to study this problem before clearly articulated recommendations can be reached than was at the disposal of the present writer; nevertheless the issues raised in this paper are perhaps those that are likely to be of crucial significance to East African Planners within the next few years when they seek to increase the contribution of agriculture to the development effort. (It is regretted that because of the pace of political developments in Kenya and the rate at which major Ordinances governing agriculture are being amended some matters of detail included in this paper may be out of date, but these will not be such as to invalidate the most fundamental conclusions of the article. It is hoped, however, that readers of the paper will not hesitate to point out the missing links in this regard).

B. Salient features of Maize production and Marketing.

Maize is the staple food of the African Population of Kenya. Valued at local current prices, it would also be the most valuable single crop produced in the country at nearly £20 million it would be about twice as valuable as coffee exports, the next most valuable crop * Maize is therefore a crop which has got special significance in the economy of Kenya. The great bulk of the crop, more than 85% of the total, is produced in Africa (non-scheduled) Areas, while the rest is produced in the scheduled areas under arrangements significantly different from those in the non-scheduled areas. The most significant difference seems to have been the production of maize in the Scheduled Areas under production order or approvals issued by the Board of Agriculture (scheduled Areas) with a guaranteed return per acre to those farmers who receive such orders (or approvals). This was not peculiar to maize but applied to some other crops declared "essential" such as wheat, barley, oats and sunflower. Before 1960 these arrangements applied almost entirely to the Scheduled Areas, but the Agriculture (Amendment) Ordinance, now privides for some crops which the Minister wishes to promote to be fostered in both the Scheduled and Non-scheduled Areas as "special crops". Tea is one such "special crop" and it has been developed in Kenya under the aegis of the Special Crops Development Authority.

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* Even at export prices it would still be more valuable than coffee exports.

A second distinguishing feature of the set-up has been that most of the maize grown on these scheduled farms has been marketed through the Statutory Maize Marketing Board: in the 1962/63 season this was about 86%, whereas only about 8% of the total crop from the African Areas was delivered to the Board during the same period. In fact the Board handles not more than 10% of the total maize crop produced in the country. That part of their production which the farmers in the Scheduled Areas do not deliver to the Maize Marketing Board they either feed to their livestock on the farm or is given to their labourers in the form of rations.* For the African farmers the great bulk of their maize is eaten on their own farms, with a varying proportion finding its way to the local markets, but without going through the hands of the Maize Marketing Board. In addition, unknown but possibly sizeable quantities of maize - depending on the supply and demand situation within the country itself - find their way into Uganda in the form of smuggled produce. This maize, usually smuggled in the form of flour is of superior quality to Uganda maize and goes under the name of 'nylon' in the local shops.

The Maize Marketing Board is given very wide powers over the disposal of maize under the 1959 Ordinance by which it was established. It has got the power to "regulate, control and improve the collection, storage, marketing, distribution and supply of maize and maize products;" and with some exceptions, "All maize grown in the Colony shall...., vest in the Board as soon as it has been harvested". Exceptions include maize grown and consumed on the same farm and for single districts in the African Areas. If surpluses of maize occur, only the Board has got the power to export maize from the country, although in cases of shortages the Minister of Agriculture may direct the Board to import maize. All maize millers have to be registered with the Board, and their milling margins are fixed by the same body: the Minister fixes the prices to be paid to the growers, while the Board fixes the prices of milled maize ex millers. Up to 1963 a regional quota system was in force in Kenya itself to penalise those regions which contributed most to export surpluses by exceeding their quota: export losses were apportioned according to how far regions exceeded their quotas. This necessitated the control of maize movement within the country between districts. A second reason for imposing this control would be to prevent the creation of 'artificial shortages' in certain areas by shipping maize to areas with a big shortfall and where it would be profitable to sell maize on the black market - (official prices are virtually uniform throught the country).

Most of these characteristics of maize production and marketing have arisen largely because of the acceptance and adherence by the Kenya Government to a policy of self-sufficiency in maize production. As long ago as 1957, before the setting up of the Maize Marketing Board, it was officially stated that ".....Further it would be fundamentally bad policy for a country such as Kenya, with an economy based on

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* Since internal prices fixed by the Minister are about 75% above prices realized for exported maize, mixed farmers who have production orders would tend to sell their maize to the Board and purchase their maize requirements for livestock from the Board at export parity prices, so long as they can prove that for each bag of maize so purchased, at least one pig was delivered to processing plants four months later. Also see Marvin P. Miracle: An Economic Appraisal of Kenya's Maize Control, East African Economics Review, Vol.6 No.2, Dec.1959.

agriculture, to rely on importing a staple food from overseas"[1]. The latest official statement states simply that "Maize is the staple food in Kenya and it is important that the whole of the country's requirements should be produced internally"[2]. And although since 1942 there have been six full-scale enquiries concerning the production and distribution of maize in Kenya, none of the enquiries has ever been allowed by the way their terms of reference have been framed, to examine the full implication of accepting such a policy, both with regard to the efficiency of allocation of resources within Kenya and, secondly with respect to the scope for specialization and cooperation in agricultural trade matters for East Africa as a whole. Instead, these enquiries have been given the job of advising how best the industry should be organised, given the basic policy of self sufficiency. The economic implications of fostering this policy have been voiced in the main by proffessional economists, such as the article referred to above by Marvin P. Miracle, and by others in miscellaneous publications sometimes not dealing specifically with maize.

C. Some of the Major Consequences of Maize Control.

Only four effects of maize control will be considered in this paper.

1. High prices of maize to consumers: It may not often be easy to compare prices of goods such as maize because of the different grades which can be identified under the same name: it has, for instance, been suggested above that Kenya's maize fetches a premium on the Uganda market because of its high quality and palatability. Nevertheless, most commentators on Kenya's maize situation - on both sides of the argument - agree that the price charged to the consumers is higher than it need be. The defendants of control feel that this is only a small price to pay for the privilege of being assured regular supplies, and that in any case due regard ought to be paid to the producer's interests. It was realized, in point of fact right from the very start of declaring certain crops as scheduled or essential that resort would have to be had to high prices to the grower in order to induce the required level of supplies. With all its inherent contradictions, it may be worth quoting at length from the 1955 Agriculture Ordinance which gave power to the Minister of Agriculture to declare some crops scheduled and/ essential. these measures were designed to provide and maintain.."... a stable and efficient agricultural industry capable of producing such part of the Colony's food and other agricultural produce as in the interest of the Colony it is desirable to produce therein, and of producing it at minimum prices due regard being had to the interests of all persons engaged, employed, or having capital in the industry". There seems very little doubt that the interests of the producer as against the consumer have been given priority, and that the main arguments against importing relatively cheap maize from Uganda have centred around the preservation of the maize industry in Kenya generally, and particularly the effects of such a change of policy on farmers in the scheduled areas.3 This point needs emphasizing because

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1. Sessional Paper No. 6 of 1957/58.
2. Kenya Government: Development Plan 1964-70, Government Printer Nairobi 1964.
3. See for example the reply to Mr. Miracle's article by Mr. A.A. Haller in the same issue of the Economics Review.

the Government Sessional Paper No.6 of 1957/58 referred to above seems not to have been convinced on this point. There it was argued that although export prices of maize might be below the internal price of the same commodity, yet maize from overseas would be landed at the same price as the internal price. This argument obviously excludes maize imported from say Uganda and Tanganyika, but the reasoning has become a familiar one in East Africa, being applied as it has to many other agricultural commodities which Kenya sells in the East African Common market at prices substantially higher than f.o.b. export prices for the same goods.4

This situation has arisen because the Minister of Agriculture is supposed under the Ordinance to consult the interests represented in the industry before fixing his guaranteed or minimum prices. The I.B.R.D. Mission to Kenya for instance criticized the basis for calculating the price to be paid to the grower which is based on an eight-bag yield per acre (1,600 lbs per acre) on the grounds that this was extremely low in relation to what an efficient producer can achieve. In the same vein the V. Matthews Report in 1963 stressing the need for efficiency in the maize industry concluded that "The future of commercial maize growing lies with the present 10-bag plus land and the sooner the maize industry is conditioned to this more realistic factor the better for the industry and the country as a whole."5

2. Inefficiency in allocation of resources. This preoccupation with developing the maize industry in the scheduled areas has most likely diverted attention and scarce resources of manpower and capital from concentrating on maize production in other areas outside the scheduled areas which might be more suitable to maize growing. The high price of maize has not only had the effect of fostering sub-economic production of the crop in the scheduled areas, but has also driven large plantantion operators to cultivate small plots of maize in order to feed their labour in areas where maize production would otherwise be uneconomic.

In the African areas the District Councils are also allowed to impose a cess on maize sold up to a maximum of shs 3.00 per bag. Gontrolled maize marketing, of course, is not responsible for the imposition of the cess (although by making the method of collection easier makes this form of taxation more attractive), but this differential where it exists makes maize relatively less attractive to farmers in the non-scheduled areas. (It also increases the rewards for selling on the black market).

3. Consequances of failing to balance Demand and Supply:

Even granting that high prices were necessary in order to induce the farmers to produce enough maize to feed Kenya's African population, a failure to balance demand and supply in any one season raises awkward problems for the Maize Marketing Board. If surpluses occur, and it is deemed inadvisable to store them they are exported at heavy losses which have to be made up by a deduction from the price guaranteed to the farmers. This means in effect that the level of exportable surpluses also influences the price to be paid to the farmers,

4. See D.G.R. Belshaw: Agricultural Production and Trade in the East African Common Market - A Survey; a paper submitted to the University of East Africa Conference on Public Policy 1963/4, November 1963.
5. V.G. Matthews: Report on the Kenya Maize Industry, Nairobi, 1963.

and since it is pretty difficult to estimate the level of these surpluses, for reasons which will be detailed below, the usefulness of the price guarantee to the farmer as a guide to the allocation of resources is thereby reduced. In fact these deductions can sometimes be substantial: in 1957-58 they amounted to shs 5.00 per bag when the official price to the grower was shs 39/98 which was a deduction of 12½% from the price guaranteed by the Minister. In the 1958/59 season the deduction for export losses was shs 10/- per bag for European farmers and shs 8/- for African farmers against guaranteed prices of shs 35/40 per bag.

On the other hand when deficits of maize occur, the Maize Marketing Board may have to take immediate steps to fill the gap through imports either from within East Africa or from outside. The deficiency, however, cannot be discovered - especially its order of magnitude - until it has actually occurred because of the limited knowledge the Board has concerning the supply and demand for maize in the country. Partly for the reason that arrangements to correct a deficit are made in a hurry, and also because they are made with the maximum amount of secrecy to prevent black marketing and the holding back of stocks, they turn out to be very expensive for the Board. The general public in East Africa was, for example, taken by surprise when the following report appeared in a local sunday newspaper on the front page with the heading that "Now it can be told, Famine Crisis Beaten"..... it went on to say that "Kenya has just scraped through a critical food shortage during which it was touch-and-go in many parts of the country where families near famine point could only be given day-to-day supplies of maize"[6]. It was then reported that 200,000 bags of maize had been imported secretly by rail from Tanzania, most of it coming from the Southern Highlands Region and 50,000 bags had been imported from Uganda. It was further added that on the Tanzania deal £40,000 had been lost to the Board, although that maize is by far the cheapest on the international market; railage costs largely accounted for this loss.

All that this means is that when either deficits or surpluses occur somebody in Kenya is bound to lose money. The Maize Marketing Board has tried to meet this problem by installing a lot of storage capacity all over the country, which is almost equal to its own annual turnover. With an annual turnover of between 1.5 and 1.9 million bags, its storage capacity in 1959 was 1.3 million bags.* The need to maintain such large storage capacity must contribute, together with other administrative costs to the high price of maize to the consumer. While a commitment to assure the African population in Kenya of their food supplies need not have led automatically to a policy of self-sufficiency, it was perhaps not realized that the kind of information required for carrying out such a policy was not likely to be available even to a statutory board or Govt.Department. On the supply side a wrong impression seems to have been created that the overall supply of maize depends almost solely on production from the scheduled areas, since it was assumed that the African farmers cater primarily for their own subsistence requirements. If this were so, it would in large part be attributed to the policy of maize control

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* Because the Board does not deal directly with the consumers of maize, one must add to this storage a capacity that carried by the wholesalers and retailers of maize flour.

6. Sunday Nation, 27th December 1964.

itself. In fact as the need for cash spread among the African population, those farmers who happen to be situated in regions favourable to maize prodution such as Nyanza would have found that they could produce maize profitably as compared to other crops so long as no restrictions were imposed on the disposal of their crops. A more serious food shortage in the country can only arise if production from the African areas drops substantially, whereas an increase in production of 15% from these areas could easily replace the whole output of maize from the scheduled areas. The officials of the Board quite rightly admit that they know very little about estimates of production from the African areas, and yet it is the activities of these farmers which are more significant in influencing the ovrrall supply situation of maize in the country. The sort of information which the officials need to have refer to acreage, yield per acre in African areas, the farmers' own needs for subsistence and the net quantity smuggled into the country from the neighbours. This information is not readily available and so there is no need to pretend that this job can be done adequately without it. The advantage of a free market seems to be that before actual shortages occur prices act as indicators, and in any case the small traders in small shops in the rural areas provide much valuable market intelligence than we seem to realize: they are in much closer contact with the farmers on the one hand and with the big traders in the larger towns to whom they sell. In Uganda much more use is made of this source of information to provide estimates of surpluses likely to be available for sale.

4. Effect on East African economic relationships. The Kenya Government policy of restricting maize imports from her East African neighbours has generated a lot of heat within the common market, and has resulted in retaliatory measures from the other two countries which have rendered the working of the market less perfect. The two major arguments in favour of restricting imports from Uganda and Tanzania have been that this would force the European farmers out of maize production, and secondly that even if the European farmers could be sacrificed supplies from the other two countries would not be reliable enough. One can only try to contest the second argument since the first is true as a statement of fact with regard to high-cost farmers whatever their race.

Most observers of the tropical scene make the point that the probability of crop failure in tropical agriculture is so high that this may in itself call for some kind of control in order to ensure against the great risk which this entails, particularly with a major staple foodstuff such as maize. "The sheer degree of biological risk in tropical agriculture may possibly be under-estimated by some enthusiasts for the cash economy, including the authors of the Roral Commission Report on East Africa."7 This may very well be so except when it is used to restrict trade between regions which otherwise ought to be complementary because of their natural endowment. The risk of biological crop failure must surely be lower the larger the area we are thinking of: thus it is more likely ~~that there~~ will be a crop failure in Kenya than that there will be a crop ~~failure for the whole of~~ East Africa, even recalling the events of 1961/62. The efforts of East Africa should instead be directed towards encouraging maize production wherever it can be grown economically, and if a surplus occurs export it outside East Africa. Should a big export surplus result for the whole of East Africa as is most likely, then it should be

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7. Anne Martin: The Marketing of Minor Crops in Uganda, London H.M.S.O. 1963.