

Improving price incentives for cattle producers in Kenya

Main Findings and Recommendations

Live cattle producers in Kenya generally received lower prices than those they would have obtained with more efficient markets. These price disincentives mainly came from traders' high profit margins, local government fees and restrictions on cattle movement. Recurring drought and disease outbreaks, which force producers to sell their cattle prematurely, also led to lower producer prices. MAFAP analysis suggests that the following measures could help improve incentives for cattle producers:

- ▶ exploring opportunities for reducing government taxes and fees to facilitate livestock movement; and
- ▶ improving producers' access to market information.

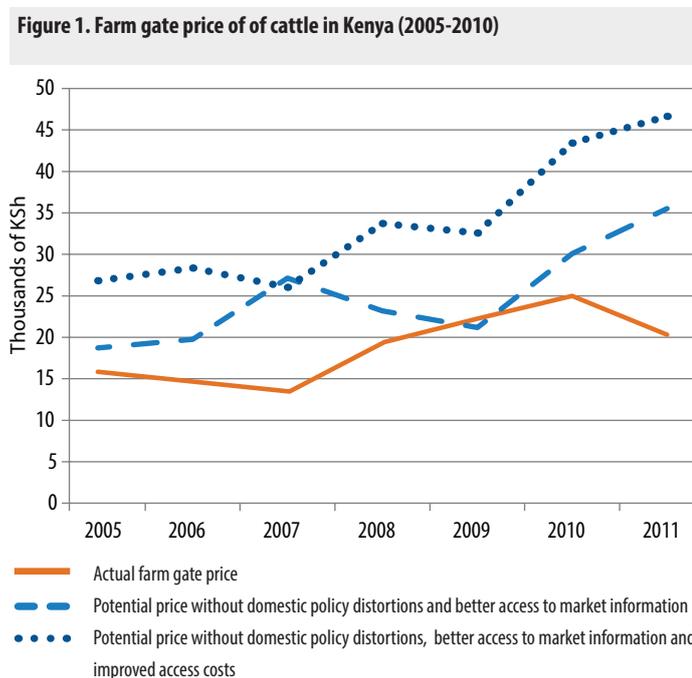
Additional areas of improvement could include:

- ▶ strengthening animal health delivery, disease surveillance and insurance systems to reduce producers' vulnerability to recurring shocks; and
- ▶ rehabilitating cattle marketing and sanitary infrastructure.

SUMMARY

The livestock sector contributes to about seven percent of Kenya's GDP and 17 percent of its agricultural GDP. Live cattle make up 80 percent of all hooved livestock slaughtered in Kenya. In 2009, Kenya conducted a comprehensive national livestock census for the first time in 40 years. The census showed that 70 percent of the country's cattle stocks are located in the Arid and Semi-Arid Lands (ASALs) and account for a large share of household income in the region. Although the number of live cattle traded internationally is small compared to total domestic production, live cattle have a high export potential.

The cattle market in Kenya has been liberalized, and there are no trade policies which directly affect domestic prices. Nonetheless, MAFAP analysis shows that producers generally received prices significantly lower than equivalent world market prices (Figure 1). This disparity is mainly due to intermediaries' high profit margins and, to a lesser extent, taxes and fees along the value chain. If these inefficiencies were removed, producers could obtain prices up to 45 percent higher than the prices they currently receive. Moreover, results show that low domestic prices caused by drought and disease also reduced incentives for producers.



KEY ISSUES

Unstructured markets and the lack of organization among producers resulted in information asymmetry and high profits margins for traders

Since market liberalization in 1987, an increasing number of private agents have entered Kenya's livestock market and most of Kenya's livestock marketing infrastructure (i.e. holding grounds, quarantine stations and stock routes) has deteriorated. Furthermore, producers are largely unorganized. This has led to a market environment where traders often have better access to information on cattle prices than producers. Consequently, producers received lower prices during the period analyzed by MAFAP, while middlemen and traders' profit margins were estimated at between 20 and 30 percent of their invested costs.

Making more public market information available to producers and strengthening producers' associations, which could

also serve as hubs for collecting and disseminating market information, could help producers to negotiate better prices from traders. These measures would also improve producers' access to markets.

Government taxes and fees imposed on traders, which are often duplicated, represented additional costs for producers

In addition to traders' high profits, the second source of market inefficiencies were local government taxes and fees imposed on traders, especially those who transport cattle on foot (cattle trekkers). MAFAP found that cattle trekkers were subject to higher government taxes and fees than traders who transported cattle by truck (cattle truckers). The extra costs imposed on trekkers tended to reduce the prices that trekkers were willing to pay producers for their cattle, and even deterred the movement of cattle from remote pastoral areas to markets.

Further research on government taxes and fees levied on all agents in the cattle value chain could help identify where they could be reduced or more evenly distributed.

Recurring drought and disease depressed domestic prices by reducing the overall quality of cattle and forcing farmers to sell their cattle prematurely

Events such as severe drought and disease outbreaks depressed domestic prices by reducing cattle quality and increasing the number of cattle offered for sale. Indeed, many producers decided to sell their stocks prematurely because of the risk that cattle would contract disease or decrease in value. The deterioration of marketing and sanitary infrastructure after liberalization and the high volume of informal cross-border trade made cattle more susceptible to transboundary animal diseases. If animal disease outbreaks are not contained, and water sources and feed are not provided during periods of severe drought, these events will continue to reduce domestic prices and market incentives for producers.

It is therefore crucial to strengthen animal health delivery, disease surveillance and insurance systems, which help reduce sell-offs during periods of crisis. Producers' associations at the county level could act as platforms for developing these systems. In addition, more private and public investment in rehabilitating cattle marketing and sanitary infrastructure should be encouraged.

CONCLUSION

Kenya's cattle producers are currently hindered by the structure and functioning of the domestic market, recurring drought, the prevalence of disease and the inability to meet importing countries' sanitary requirements. MAFAP analysis suggests that unless these issues are addressed, they will continue to serve as major barriers to Kenya's stated goal of expanding its cattle export market as a strategy for poverty alleviation in its Arid and Semi-Arid Lands (ASALs) regions.



Cattle market - Narok, Kenya. Live cattle producers in Kenya generally received lower prices than what they would have obtained with more efficient markets.. (Photo: ©FAO/Simon Maina)

Further Reading

MAFAP Technical Note on Live Cattle Production in Kenya (2012) by Makokha, S. and Witwer, M.

Available at: <http://www.fao.org/mafap>

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