

LESSONS FROM KENYA:



TRANSFORMING NCPB INTO A WAREHOUSING SERVICES PROVIDER IN KENYA AND THE REGION

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Presented to Delegates from Eastern Africa Region

Venue: Pamodzi Hotel, Zambia

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OUTLINE OF THE PRESENTATION

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1. INTRODUCTION

1.1. Kenya's Vision 2030

- ❑ Driven by National Economic Social Council (NESC)
- ❑ Goal is to achieve middle income developed country by the year 2030
- ❑ Agricultural sector key and expected to be among drivers in the implementation of Vision 2030
- ❑ Key aspects include:
 - Food Security and diversification
 - Value addition
 - Create Institutions to deliver sector vision

1.2 WHAT/WHO IS NCPB?

- National Cereals and Produce Board (NCPB) is a state corporation under the Ministry of Agriculture and fully owned by the Government of Kenya.
- The Board has 110 Silos and depots countrywide comprising of **Warehouses**; Offices; Staff houses; and undeveloped land
- **Total capacity of warehouses is as follows:**

REGION	TOTAL STORAGE CAPACITY (X 90 KG BAGS)	TOTAL STORAGE CAPACITY (IN MT)
NAIROBI/EASTERN	3,720,500	335,180
NORTH RIFT	4,378,000	394,414
SOUTH RIFT	4,870,000	438,739
WESTERN	2,221,000	200,090
NYANZA	1,737,000	156,486
COAST	973,000	87,658
NORTHERN	2,504,000	225,586
TOTAL	20,403,500	1,838,153



1.3. CURRENT RESPONSIBILITIES OF NCPB

- Government's arm for intervention and stabilization of the grain market in Kenya
- Buying and maintaining grain on behalf of the Government's Strategic Grain Reserves (SGR) function – statutory levels 4 million bags**
- Buying, maintaining and distribution of Famine Relief Stocks (FRS) functions;
- Distribution of farm inputs
- Logistics support services provider for SGR and FRS;**
- A commercial grain trading organization.

2. HISTORICAL BACKGROUND OF NCPB

- 1939 - Establishment of the Board as Maize and Produce Board.
The role of the Board then was to support marketing of grains produced the colonial settlers both locally and internationally
- 1967 - Newly formed Kenyan Government merged the Maize & Produce Marketing Board with all other regional marketing boards to form the Maize & Produce Board. Wheat remained under the Wheat Board of Kenya.
The objective was to consolidate the marketing of maize following independence of the East African Nations.
- 1979 - NCPB established by merging the Maize & Produce Board with Wheat Board of Kenya.
The aim was to put the two major grains under one umbrella for purposes of easier control.
- 1985 - The NCPB Act, Cap.338 enacted.
This was to ensure proper regulation and control of grains and scheduled produce.
- 1988 - GOK with the support of the European Union, World Bank and International Monetary Fund, commenced the Grains Sector Reform Programme whose objective was to liberalize the sector and remove all controls.
The envisaged benefits included : reduced reliance on exchequer, improved efficiency and food security; and increased private sector participation.
- 1993 - Full liberalization of the Cereal Sector in Kenya:
➤ *Market forces to determine prices*
➤ *Marketing left to players.*
- 1996/ - Attempts at commercialization of NCPB *which did not succeed fully.*

3. NATIONAL MAIZE PRODUCTION AND CONSUMPTION (1996/97 TO PRESENT)

CROP SEASON	PRODUCTION MT	CONSUMPTION MT	SURPLUS/D EFICIT MT
1996/97	2,397,600	2,389,500	8,100
1997/98	2,197,491	2,470,500	- 273,009
1998/99	2,464,101	2,551,500	- 87,399
1999/00	2,265,913	2,632,500	- 366,587
2000/01	2,234,758	2,713,500	- 478,742
2001/02	2,775,926	2,713,500	62,426
2002/03	2,408,596	2,713,500	- 304,904
2003/04	2,710,848	2,802,150	- 91,302
2004/05	2,678,425	2,890,800	- 212,375
2005/06	2,935,193	2,979,450	- 44,257
2006/07	3,153,931	2,979,450	174,481
2007/08	2,879,712	2,979,450	- 99,738
2008/09	2,429,757	2,979,450	- 549,693
2009/2010 (EST)	1,800,000	2,979,450	- 1,179,450

- The production/consumption deficit is normally met through :
 - official channels;
 - unofficial cross border trade and
 - offshore imports (principally South Africa).

3. NATIONAL WHEAT PRODUCTION AND CONSUMPTION (1996/97 TO PRESENT)

CROP SEASON	PRODUCTION	CONSUMPTION	SURPLUS/D EFICIT
	MT	MT	MT
1996/97	310,500.00	465,750.00	- 155,250.00
1997/98	254,506.86	381,760.29	- 127,253.43
1998/999	270,810.45	406,215.68	- 135,405.23
1999/00	211,793.40	317,690.10	- 105,896.70
2000/01	198,000.00	297,000.00	- 99,000.00
2001/02	252,000.00	378,000.00	- 126,000.00
2002/03	307,215.09	460,822.64	- 153,607.55
2003/04	378,655.02	567,982.53	- 189,327.51
2004/05	375,628.68	563,443.02	- 187,814.34
2005/06	368,878.59	553,317.89	- 184,439.30
2006/07	358,060.86	537,091.29	- 179,030.43
2007/08	354,249.00	545,204.00	- 190,955.00
2008/09	366,422.00	557,373.00	- 190,951.00
2009/2010(EST)	280,000.00	555,000.00	- 275,000.00

4. RATIONALE FOR LIBERALIZATION OF THE GRAIN SECTOR IN KENYA

4.1. The Grain Sector Reform Programme was part of the Structural Adjustment Programmes (SAP) pioneered and financed by:

- European Economic Union,
- World Bank, and
- International Monetary Fund.

4.2. Rationale for Liberalization of the Grain Sector

- Reduce burden and reliance on the Exchequer;
- Reduce Government control including price controls ;
- Improve efficiency of state corporations. Such institutions would be expected to emulate private sector management principles and make profit for the government and in turn create wealth for Kenyans; and
- Increase private sector participation in grain business .

5. CHALLENGES OF THE GRAIN MARKET IN A LIBERALIZED ENVIRONMENT

A. GENERAL

- Lack of transparency and accountability;
- Uncertainty in setting up prices;
- Stabilization and/or intervention by the Government;**
- Lack of reliable market information** to guide players hence exploitation especially of farmers by middlemen;
- Escalating costs of farm inputs and labour:** further contributing to major food deficits in the country;
- Unpredictable income to farmers/producers;



5. CHALLENGES OF THE GRAIN MARKET IN A LIBERALIZED ENVIRONMENT

B. SPECIFIC

- a. Setting up prices of maize always not market driven;
- b. Inadequate institutions to support grain farmers;
- c. Uncertainty of prices for miller and other players;
- d. Exploitation of the farmers; and
- e. Unavailability of grains to small millers.

6. INSTITUTIONAL GAPS IN GRAIN TRADE AND FOOD DISTRIBUTION

- ❑ Disorganised storage facilities for farmers.
- ❑ The marketing and processing support for Farmers led to a disorganized market. (free for all)
- ❑ **Lack of institutional mechanisms to set up prices:**
 - poor price signalling effect
 - management of risks.
- ❑ **Inadequate CREDIT to farmers (Inadequate support from institutions such as banks).**
- ❑ Weak buyer of last resort (NCPB).
- ❑ De-institutionalization of regulation of quality and standards in the grain sector.
- ❑ Government monitoring system and regulatory mechanisms were weakened.
- ❑ Lack of Collateral Management institutions



7. VISION AND MISSION OF NCPB

Vision

To be the leading agricultural commodity management and trading organization in East and Central Africa.

Mission

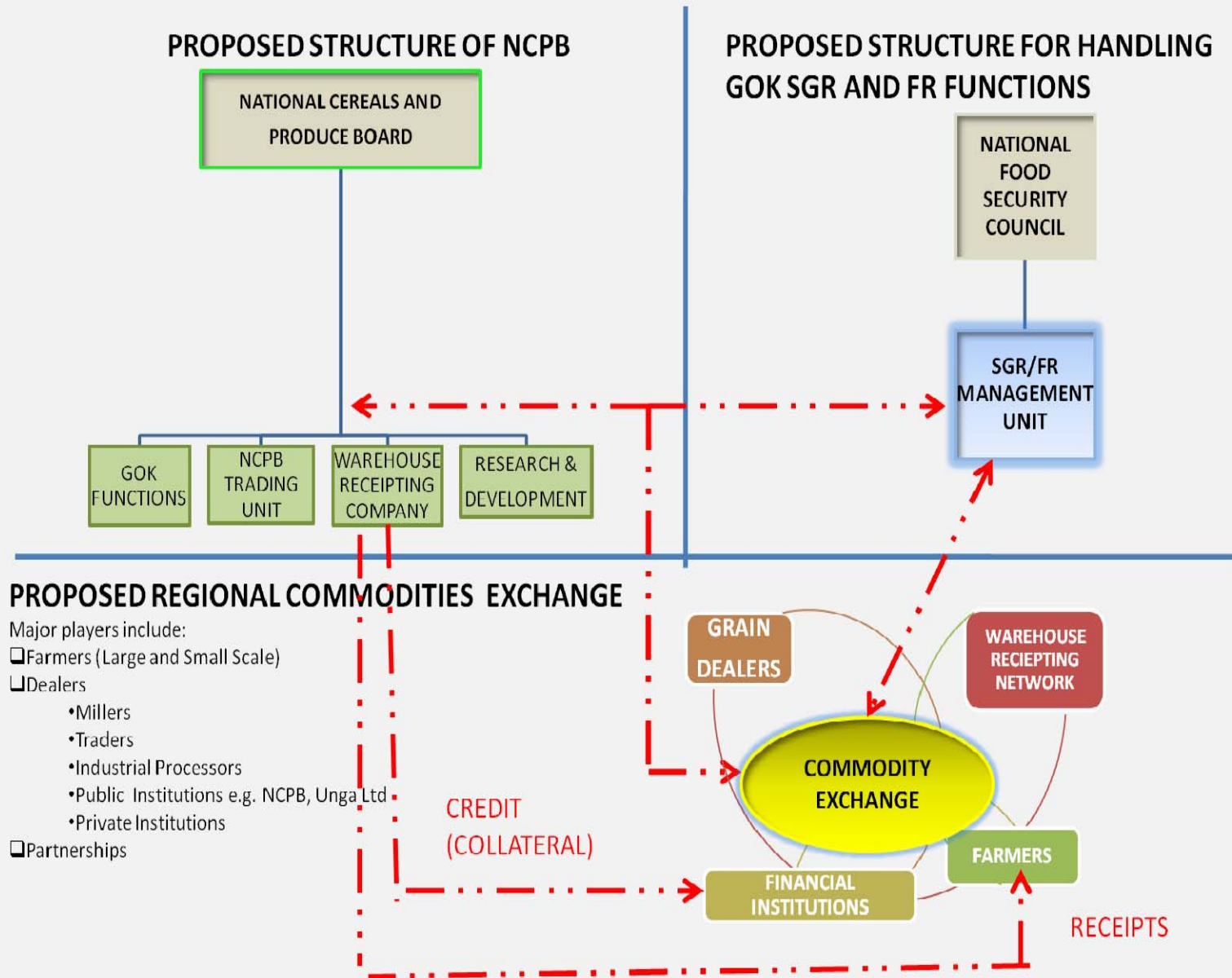
To promote free and fair trade in commodities through research and market development and ensure that there is timely accessibility of commodities to all.

8. PROPOSED TRANSFORMATION AND RESTRUCTURING OF NCPB AND THE GRAIN MARKET

The following reforms are proposed to address the gaps and food security issues.

- 8.1. To transform NCPB into a major National Warehousing Institution.**
 - Stock grains produced in the country;
 - Sell the grain at the right time
- 8.2. To introduce a Warehouse Receipting system in Kenya and the Region**
- 8.3. Enactment of National warehousing Act**
 - Certified Warehouse network
 - Set standards and quality control
 - Promote standardization in the sector
 - Facilitate entry of private sector into certified warehousing
- 8.4. To sponsor Commodity Exchange:**
 - To initially encompass all agricultural commodities in the Region; and
 - Management of risk by introducing a futures market**
- 8.5. To prepare adequate Legal and Regulatory framework to govern grain trade.**
- 8.6. Support establishment Collateral Management institutions.**

PROPOSED RESTRUCTURING OF NCPB IN THE GRAIN MARKET



9. LESSONS FROM OTHER MARKETS

9.1. United States of America

- Robust Commodity Exchange (CBOT) established and run by private sector participants.
- Enactment of Warehousing Act to:
 - Set standards
 - Certification of warehouses.

9.2. South Africa

- Private sector run vibrant commodity exchange (SAFEX) supported by strong domestic market.
- SA strong Self Regulating Organization.
- No warehousing legislation.
- Collateral Management institutions

9.3. India

- Established National Warehousing System in 1952
- Strong private sector run warehouses.
- The Government encouraged development of both public and private commodity exchanges.

9.4. Ethiopia

- Has put in place warehousing legislation.
- Established a Commodity Exchange.

NB. The Government was the main driving force.

9. LESSONS FROM OTHER MARKETS contd.

9.5. Critical Factors of Success

- ❑ There are unique challenges in every market, hence solutions should be tailored to environment.
- ❑ A well developed network of certified warehouses and system that issues tradable and or transferable receipts.
- ❑ Successful Commodity Exchanges are supported and driven by stakeholders.
- ❑ A big domestic market and large volumes of commodities are essential for sustaining Commodity Exchanges .
- ❑ Trust, discipline, confidence and integrity are key in a non-regulated environment.
 - ***An Act of parliament may be essential for discipline***
- ❑ Support from all stakeholders and partners critical for success.



10. WAY FORWARD FOR KENYA AND THE REGION

- All Countries in the Region to establish a harmonized warehouse receipt system.
- Kenya to enact a national warehousing Act. This act should be harmonized with the other Countries and jointly improve warehouses to international standards.
- Sponsor a Regional Commodity Exchange.
- Support introduction and strengthening of Collateral Management Institutions.

11. CONCLUSION

- ❑ **NCPB plays a crucial role in the grain sector in Kenya as recognized in the Vision 2030** for Kenya hence a major player in transformation of the agricultural sector and the economy.
- ❑ Legislation is crucial instrument for pushing forward desired reforms.
- ❑ Private/public sector partnership key in driving changes, standardization and certification of warehouses.
- ❑ EAGC a crucial institution and Partner to facilitate certification of both public and private warehouses in the Region by internationally recognized/accredited inspectors .
- ❑ Hope to achieve our goals by



THE END

THANK YOU