The Burden of Produce Cess and Other Market Charges in Kenya
Contents

3
What is Produce Cess?

4
Why the study matters

5
The law on Produce Cess and other market levies

6
Burden of Produce Cess and other market levies

7
High Market levies a burden to consumers

8
Multiple market levies, a burden to maize farmers

9
Is Cess reduction achievable?

10
Brokers play a key role in livestock trade

11
Lesson from Fish Traders

12
Sukuma Wiki. Onions and Tomatoes: The pocket drainers

13
Cess burden vary by commodity and by county

14
Cost of putting food on the table

Study done by: Bayesian Consulting Group
First Published: October 2016
Copyright: Kenya Markets Trust
Consulting Editor: James Ratemo
Sub Editor: Kevin Mabonga
Graphics: Michael Mosota
PRODUCE cess is a form of levy charged on domestic agricultural trade. The revenue raised is invested in improvement of production and distribution of the taxed commodities.

From this study however, cess charged across counties was not necessarily ploughed back to the sector. Instead it ended up making cost of food prohibitive and out of reach for most households.

Worse still a significant proportion of the Kenyan population suffers acute food insecurity.

The rising urban populations (constituting about 32% of total population) depend exclusively on markets for supply of food.

Given that Kenyans including farmers are net buyers of food and 46% of Kenya’s population live below the poverty line, market levies restricting food flow or increasing cost of food harms Kenyan consumers, who bear the additional tax burden.

### Findings

<table>
<thead>
<tr>
<th>Findings</th>
<th>Interventions proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Counties have introduced Cess charges for products moving between counties and refused to accept permits issued by other counties. This has led to double taxation thus increased cost of transportation leading to high cost of products.</td>
<td>Cess collection should be synchronized across counties. Once charged in the source county it should not be levied on the same goods in any county of transit or destination.</td>
</tr>
<tr>
<td>Cess collected is not earmarked for improving agriculture as envisaged in the law. Counties collect cess and simply treat it as one of the sources of revenue which can be directed to any expenditure.</td>
<td>Counties should establish accounts dedicated for Cess to ensure that the money collected goes into the intended purposes. This will motivate the traders and the farmers to pay Cess especially if the counties can demonstrate that Cess is effectively being ploughed back to the sector.</td>
</tr>
<tr>
<td>Cess significantly contributes to increasing the overall cost of doing business and may restrict trade in agricultural products.</td>
<td>County governments, at worst should not increase Cess levels and at best, should reduce it.</td>
</tr>
<tr>
<td>In most counties, traders do not get commensurate services to market levies charged, such as water, electricity and security. There is no transparency on amounts collected.</td>
<td>Collection of Cess should be automated to curb corruption and other inconveniences.</td>
</tr>
<tr>
<td>Overall, cess, payment to brokers and unofficial levies impact more heavily on maize and vegetables, market levies impact more heavily on milk and livestock distribution.</td>
<td>Possible, alternative sources of funds may be introduced to help bring down levels of Cess on important food staples such as maize and other cereals, vegetables, and milk.</td>
</tr>
</tbody>
</table>
**Why the study matters**

- Over the years, food markets have been affected by a number of challenges which include: prohibitive market charges, high transport costs, agricultural cess, heavy informal charges, high agency fees, high storage costs and other costs of distributing farm produce.

- To understand cost structure of distribution of agricultural commodities, the Kenya Market Trust (KMT) commissioned this study covering 12 Counties in Kenya (See map below) and five agricultural products (maize, vegetables, milk, fish and livestock).

- The overall purpose of this study was to generate evidence and information on the nature of cess and other charges, how it is levied across counties and how it influences the cost of production and distribution in the agricultural sector in Kenya.

- This information would be used to gauge the significance of produce cess and other charges and propose recommendations on how it can be structured to ensure its revenue generation objectives do not undermine the competitiveness of the agriculture sector.

- In Kenya, no serious empirical study has been done on the impact of produce cess on agriculture sector thus the need to undertake this research. Such empirical evidence is critical for informing policy discussions and debates on produce cess.

- The study used both qualitative and quantitative approaches, interviewing 763 traders, and 34 key informants. Five focus group discussions were also held.

There is a tendency along the value chain of adding price without adding value.

**Choice of study areas: Criteria**

- Garissa, Isiolo and Kajiado were selected for their importance in livestock production and trade. Kiambu was selected for its importance in milk and vegetable production while Uasin Gishu and Trans Nzoia were chosen for their importance in maize and milk production and trade. Kisumu, Homa-Bay and Migori were selected because of their relative importance in fisheries. Kisii County was chosen because of its role in production and trade in vegetables.

- The choice of the Counties (see map above) was informed by the production and flow of the agricultural products of interest. Mombasa and Nairobi are important markets for almost all agricultural products although in this study they were targeted as consumption centres of maize, milk, fish and vegetables.

- The key informants included County officials, transporters and officials of traders’ associations who are knowledgeable in trade dynamics, cess and other market levies charged on agricultural products.
The law on produce cess and other market levies

**Before the promulgation of the Constitution of Kenya (2010), collection of produce cess in Kenya was under the local authorities. Section 192 A of the Act, directed local authorities to spend 80% of all cess monies in maintaining roads and other services related to the sector from which the cess monies were levied.**

**During the transitional period up to September 2013, counties continued to charge cess under the Public Finance Management Transition Act.**

**After that period, majority of counties entrenched cess tax into their legal system through statutes that are passed by the County Assemblies.**

Key informants included County officials, transporters and officials of traders’ associations who are knowledgeable in trade dynamics.
Analysis of main trends in the supply chain of various farm produce across counties shows there is a tendency along the value chain of adding price without adding value.

High cost of production renders Kenya agricultural produce expensive and internationally uncompetitive. The high cost is due to; high cost of inputs, outdated and inefficient production techniques, high government taxes and other charges, high transport costs due to poor infrastructure, high energy cost that increases processing cost among others.

With the new era of devolution in place, the use of Produce Cess has become a popular avenue for raising revenue for the counties in Kenya.

A number of market players have raised concern about multiple Cess levies being charged across counties that straddle across main trading routes. These multiple levies lead to high consumer prices and make the commodities uncompetitive in cross border trade.

High Market levies a burden to consumers

Although produce cess, market levies, brokers’ fees and informal levies constitute lower proportions of the total distribution cost of the agricultural products, their effects would not be any different from those of transport cost.

Unlike transport cost, market levies and cess may be open to abuse and evasion, which may make collection expensive. High brokers’ fees and informal levies, on the other hand, could drive traders out of the market.
From the study, brokers’ fees, market levies and unofficial levies significantly increase the cost of distributing agricultural produce.

1% increase in market levies was associated with 0.7% increase in average distribution cost. One percent increase in fee paid to brokers was associated with 0.5% increase in cost of distribution while a 1% increase in unofficial levies was associated with 0.6% increase in average cost of distribution.

Despite produce cess and other market charges and levies constituting a smaller proportion of the total distribution costs compared to transport cost (see Figure below), its impact substantially affects cost of farm produce.

**Source:** Survey data, 2016
Multiple market levies, a burden to maize farmers

Maize being staple food for Kenya, any slight change in cost of production harms consumers, who bear the additional tax burden.

From the study, cess, transportation and parking fee (for those selling in Nairobi and Mombasa) are some of the most burdensome charges, impacting maize trade in Trans Nzoia.

For example a maize trader sourcing maize from West Pokot where he pays cess on leaving the area. On reaching Kitale, the trader dries the maize and re-bags it. Again the trader pays cess on leaving Kitale for Nairobi or Mombasa market to sell to millers who deduct further cess. This transaction constitutes three levels of cess levying.

The components of various distribution costs of Maize from Trans Nzoia to Nairobi are summarized in below

Transportation of maize is complicated by the fact that a truck could take three or more days before offloading at the mills. Thus, the transporter charges waiting fee in addition to high parking fees charged by the counties of Nairobi and Mombasa.

Other challenges in the maize trade, as raised by the focus groups, the individual traders and key informants were the high cost of drying maize to meet the desirable moisture content, especially during the rainy periods; unavailability or poor access to real time market information; and delays at cess collection points.

Transportation of maize is complicated by the fact that a truck could take three or more days before offloading at the mills.

<table>
<thead>
<tr>
<th>COST COMPONENTS ON THE SELLING PRICE OF 90KG OF MAIZE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>6% Brokerage</td>
</tr>
<tr>
<td>8% Cess</td>
</tr>
<tr>
<td>10% Storage</td>
</tr>
<tr>
<td>14% Bagging</td>
</tr>
<tr>
<td>16% Transport</td>
</tr>
<tr>
<td>40% Transport</td>
</tr>
</tbody>
</table>

SOURCE: SURVEY DATA, 2016
GRAPHIC: MICHAEL MOSOTA
Is cess Reduction Achievable for Counties?

The study concludes that lowering or abolishing some market levies can increase value addition and not price addition. This will be beneficial for the sector and the economy as a whole.

A review of the county revenue sources, for the 2015/16 Financial Year, revealed that, across most counties, national government allocation remained the major sources of revenue, accounting for over 60% of counties’ total annual revenues (see Figure on the right).

1. Migori: Produce cess is more than 20% (mainly Tobacco and Sugar-cane cess)
2. Homa Bay: Market rates substantial low hence high compliance by traders (incentive)

Notably though, Nairobi and Mombasa relied substantially on locally generated revenues, accounting for about 55% and 47% respectively, of total annual revenues, supported mainly by their established industrial and service sectors.

Analysis of some of the counties’ local revenue streams, for FY 2015/16, revealed that agricultural Produce Cess contribution to local revenue streams varied widely across counties, ranging between 2 – 23%, for the sampled counties (Figure on the left).

A review of County Finance Acts show wide disparities in the way counties charge produce cess on same agricultural commodities across various counties.

For instance in Mombasa, onions cess is charged per ton of truck carrying onions rather than per unit (net or bag) as applies in other counties.

Produce cess and market levies are not the most important revenue sources for most counties so they can be reduced without significant reduction in revenue.
Brokers play a key role in livestock trade

The study also revealed that brokers are important players in the livestock distribution chain, particularly in secondary and terminal markets where they link potential buyers and sellers. In the terminal market, newcomers would find it very difficult to sell their animals without going through a broker.

Cess and the market levies (which too are considered to be very high) have to be transferred to the final consumer. This has the impact of raising the final price which makes it difficult to find a customer for your livestock.

The imposed taxes can drastically reduce the profit margins as expenses go up but the market price for sale which is being offered by the final buyer usually falls within a constant range which is unprofitable. Traders thus easily make losses as a result.

The figures below show typical distribution cost structures for cattle and goats/sheep from Garissa as source market to Nairobi as destination market.

Beef production is mainly carried out by the pastoralist communities in the arid and semi-arid areas of Kenya. In these areas, livestock trade is the main economic activity and a critical source of livelihood for local communities.

Therefore any slight effect in the cost of production and distribution highly impacts on the livelihoods.

Brokerage and road blocks are great contributors to Sheep/Goat distribution costs after transport

DISTRIBUTION COST STRUCTURE FOR LIVE CATTLE FROM GARISSA TO NAIROBI

SOURCE: KENYA MARKETS TRUST 2016
GRAPHIC: MICHAEL MOSOTA

DISTRIBUTION COST STRUCTURE FOR LIVE SMALL RUMINANT (GOAT/SHEEP) FROM GARISSA TO NAIROBI

SOURCE: KENYA MARKETS TRUST 2016
GRAPHIC: MICHAEL MOSOTA
While transport is the highest contributor to milk distribution costs, storage cost is quite high!

* Transporting milk accounted for the single largest component of the distribution cost (26%) followed by storage costs (22%).

* Irregular supplies, storage and poor transport infrastructure were highlighted as the main challenges that the milk traders had to contend with, raising cost of production and distribution.

* Irregular supplies, storage and poor transport infrastructure were highlighted as the main challenges that the milk traders had to contend with, raising cost of production and distribution.

* The distribution costs of a litre of milk from Kiambu to Nairobi are summarized in Figure above.

Lesson from Fish Traders

* Brokerage costs in fish marketing is higher than transport costs, explained by how fish is procured at source and delivered to the market.

* According to the study, fish traders used agents to collect fish from the beaches in a bid to save cost and time.

* The traders concurred that, although the market levies may not have been high, the ultimate amount paid was high if one took a longer time to clear the stock. For instance, Notice that one sack of omena would attract a market levy of about Ksh 30 per day.

* On a good day, the whole sack may be sold. However, there were instances when the same quantity could take up to 7 days to clear. This made the levies burdensome.
Sukuma Wiki. Onions and Tomatoes: The pocket drainers

**Since Vegetables** are among the most consumed farm produce, cess and other market levies will be burdensome to consumers. Worse still, these products are sourced from farms far away from market destinations meaning they are likely to attract higher transportation costs. The distribution costs of onions, tomatoes and Sukuma wiki are summarized in Figures below.

Vegetables traded in Nairobi were sourced from Nyeri (onions), Narok (tomatoes) and Kiambu (sukuma wiki). Other sources of onions included Kajiado and Tanzania. Other sources of tomatoes included Kajiado and Kirinyaga. Some kales were sourced from Nakuru.

In Mombasa, over 70% of the traders got their onion supplies from Tanzania. Others got from Taita-Taveta and Nyeri. About 40% of the traders got their tomato supplies from Kajiado while 23% got supplies from Taita-Taveta. Other tomato supplies came from Nakuru (17%), Nyeri (7%), Makueni (3%) and others (10%). For kales supplies, 95% of traders relied on Kiambu. The rest got supplies from Nyandarua.

In Kisii, the main sources of onions were Bungoma and Narok. Tomato supplies came from Nakuru (46%), Narok (45%) and Trans Nzoia (9%). For kales supplies, 64% of traders got supplies from within the county while 36% got their supplies from the neighbouring Nyamira County.
DISTRIBUTION COST OF TOMATOES FROM LOITOKTOK TO NAIROBI (%)

- Transport: 48%
- Cess: 10%
- Brokerage: 10%
- Storage: 6%
- Market levies: 6%
- Bagging: 4%
- Wage rate: 2%
- Loading-offloading: 4%

SOURCE: KENYA MARKETS TRUST 2016
GRAPHIC: MICHAEL MOSOTA

DISTRIBUTION COST OF ONIONS FROM LOITOKTOK TO NAIROBI (%)

- Transport: 48%
- Cess: 10%
- Brokerage: 10%
- Storage: 6%
- Market levies: 6%
- Bagging: 4%
- Wage rate: 2%
- Loading-offloading: 4%

SOURCE: KENYA MARKETS TRUST 2016
GRAPHIC: MICHAEL MOSOTA
Cess burden vary by commodity and by county

- Traders in urban counties located away from the major production areas faced higher cess as a percentage of profit and this indicated multiple taxation existence along trading routes.
- Produce cess significantly increased the average cost of distribution.
- This implied that average cost of distribution increases with increase in rate of cess but less proportionately.

Why there is need to increase quantity of production

- Average cost of production and distribution declined with increasing level of production or quantity sold. This is consistent with economic theory of the inverse relationship between average cost and quantity produced or sold.

Other charges influencing cost of produce distribution

- Other charges found to influence average distribution costs were market levies, payment to brokers and unofficial levies.
- A one percent increase in market levies is associated with a 0.7% increase in average distribution cost.
- A one percent increase in fee paid to brokers is associated with a 0.5% increase in cost of distribution while a 1% increase in unofficial levies is associated with a 0.6% increase.

A one percent increase in cess is associated with a 0.8% rise in the average cost of distributing a product.

From the study, a 1% increase in quantity produced is associated with a 0.5% decline in the average cost of production while 1% increase in marketed quantity was associated with a 0.3% decline in average distribution cost.

From these scenarios it is apparent, transport is the largest component of distribution cost.

Produce cess, market levies, brokers’ fees and informal levies constitute a lower proportion of the total distribution cost but their effects on increasing distribution cost is not different from those of transport cost. They significantly increase cost of production and distribution.

A key recommendation from the study is to seek alternative sources of funds to help bring down levels of cess on important food staples such as maize and other cereals, vegetables, and milk.
Cost of putting food on the table

**Scenario 1**

**IMPACTS OF DISTRIBUTION COST ON CONSUMERS: SCENARIO 1 (%)**

Ksh 710
Total cost on consumers for a typical meal of Ugali, Sukuma wiki, Fish, Onions, Tomatoes

- 18% Transport
- 27% Brokerage
- 1% Storage
- 31% Cross Margin
- 3% Wages
- 2% Market levies
- 9% Bagging
- 4% Cess
- 9% Packaging

**Scenario 2**

**IMPACTS OF DISTRIBUTION COST ON CONSUMERS: SCENARIO 2 (%)**

Ksh 690
Total cost on consumers for a typical meal of Ugali, Sukuma wiki, Beef, Onions, Tomatoes

- 34% Transport
- 18% Broker's fee
- 32% Cross Margin
- 8% Cess
- 8% Wages
- 2% Market levies
- 2% Bagging
- 2% Loading
- 3% Market levy
- 2% Wages
- 2% Brokerage
- 3% Packaging
- 2% Storage
- 3% Loading
- 1% Bagging
- 1% Storage
- 1% Market levy
- 1% Wages
- 1% Loading

**Scenario 3**

**IMPACTS OF DISTRIBUTION COST ON CONSUMERS: SCENARIO 3 (%)**

Ksh 270
Total cost on consumers for a typical meal of Ugali, Sukuma wiki, Milk, Onions, Tomatoes

- 30% Transport
- 3% Wages
- 2% Packaging
- 4% Bagging
- 5% Loading
- 5% Broker's fee
- 6% Storage
- 6% Market levy
- 9% Cess
- 32% Cross Margin

**Scenario 4**

**IMPACTS OF DISTRIBUTION COST ON CONSUMERS: SCENARIO 4 (%)**

Ksh 150
Total cost on consumers for a typical meal of Ugali and sukuma wiki only (poor man’s meal)

- 37% Transport
- 9% Cess
- 29% Cross Margin
- 4% Storage
- 4% Loading
- 1% Wages
- 4% Bagging
- 6% Broker's fee
- 6% Market levy
- 1% Loading
- 1% Wages
- 1% Market levy
- 1% Brokerage
- 1% packaging
- 1% Storage
- 1% Market levy
- 1% Wages
- 1% Loading

**Produce cess increases the average cost of production**

From the study, a 1% increase in cess is associated with a 0.2% increase in average cost of production.