

The Burden of Produce Cess and Other Market Charges in Kenya

What is Produce Cess?

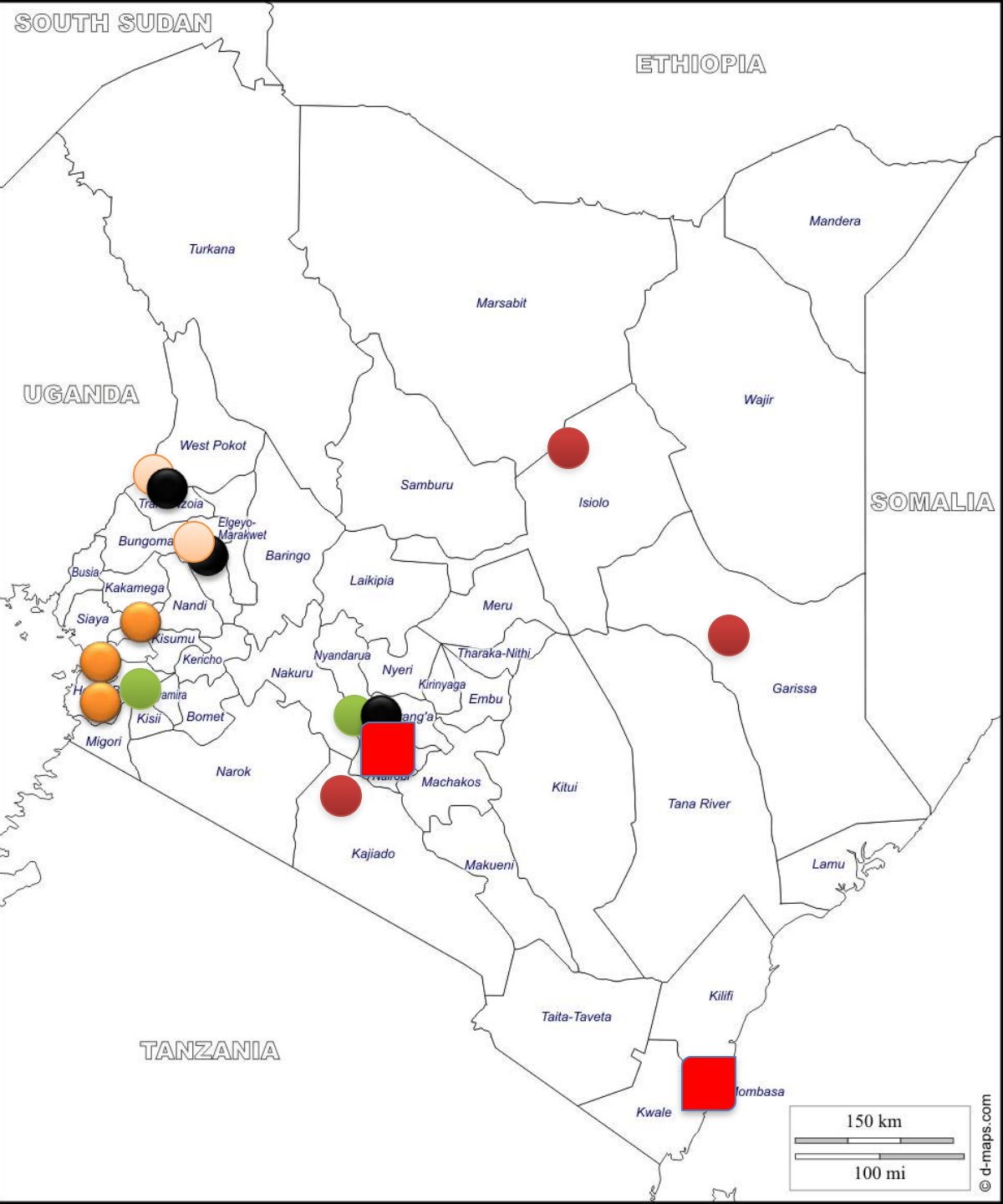
- Produce cess is a form of levy charged on domestic agricultural trade
- Revenue raised from cess is meant for improvement of production and distribution of the taxed commodities (*Agriculture Act Cap 318, Section 192A*).

Why study about cess?

- Popular form of county revenue
- Affects trans-county businesses
- There are concerns regarding its design, practice and implementation
- There is concern that it increases the cost of production
- General concern 'paying taxes' in the *Doing Business Index 2017*
- There is little evidence to address it

Research Questions

- What is the practice and design of cess levied across counties in Kenya?
- How does cess affect the cost structure of key commodities (Livestock, dairy, fish, and vegetables)?
- What other market charges besides cess are significant contributors to the cost of distribution of produce?
- What recommendations would address issues identified?

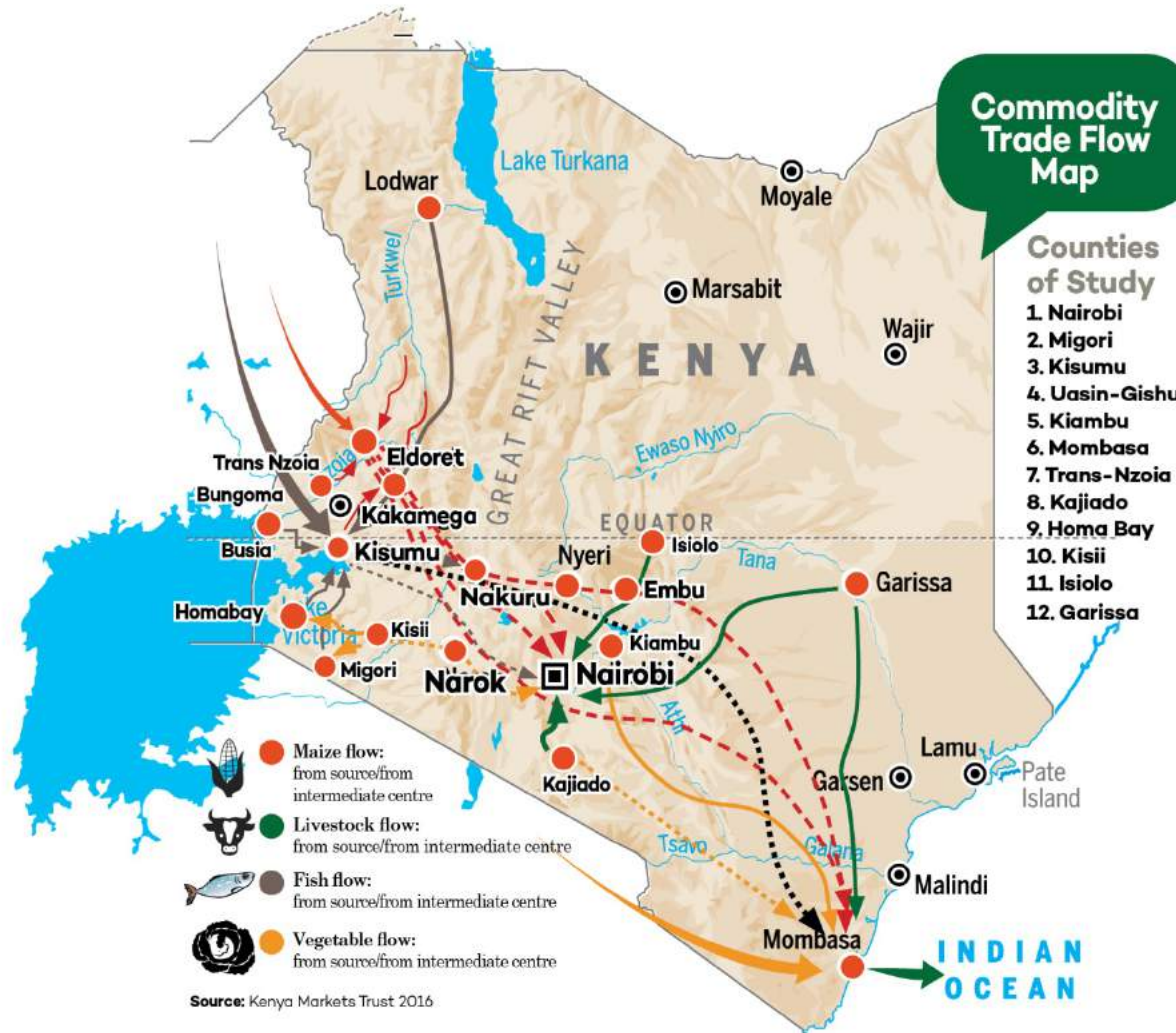


Scope of the Research

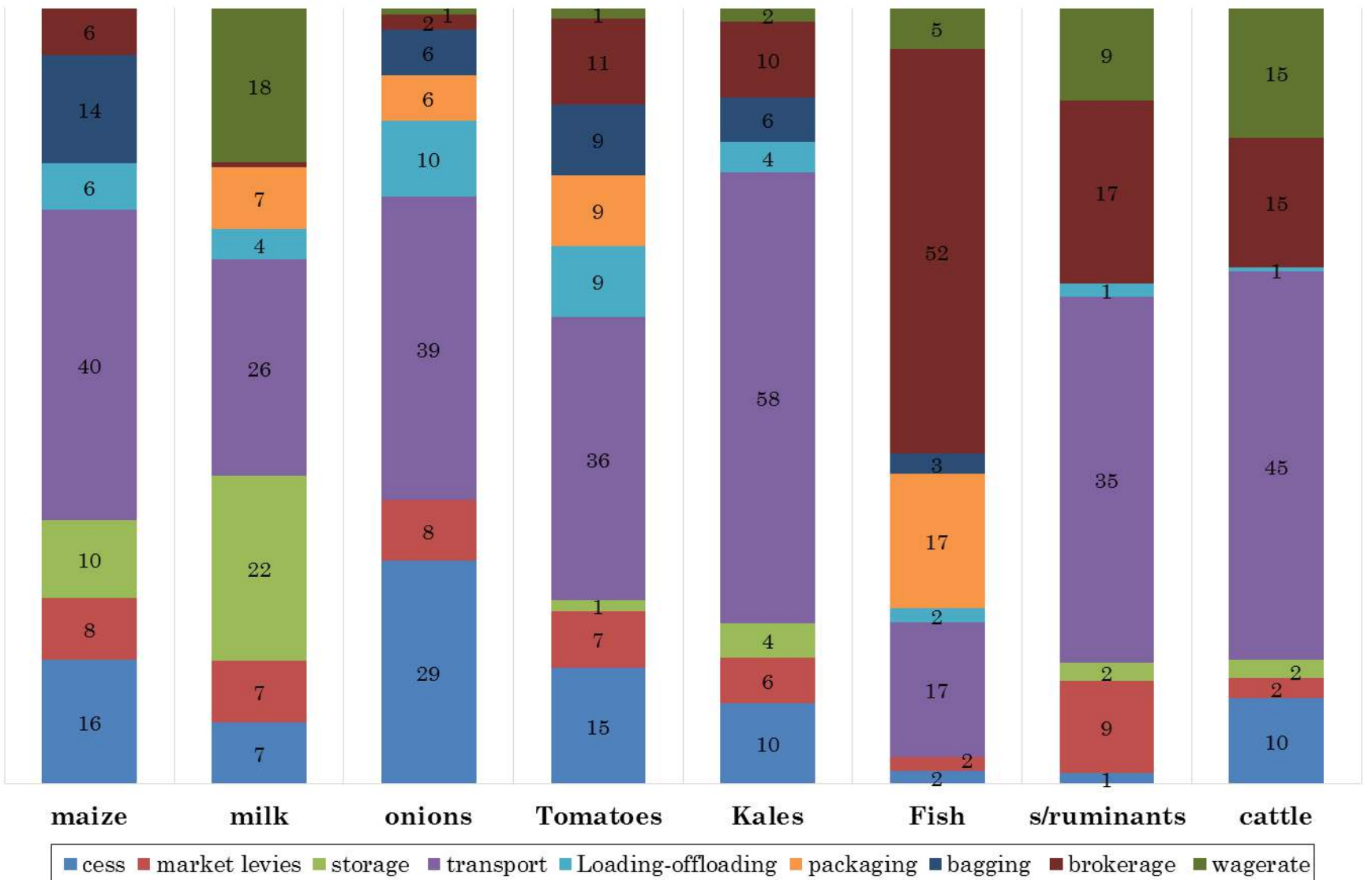
- Maize
- Dairy
- Fish
- Livestock
- Vegetables
- Market Destination

763 Trader Interviews
 34 Key Informant Interviews
 5 Focus Group Discussions

Commodity Trade Routes



Distribution & Marketing Cost Structure of Different Commodities



Cess is not a significant contributor of county revenue for most counties

1. Migori: Produce cess is more than 20% (mainly Tobacco and Sugar-cane cess)

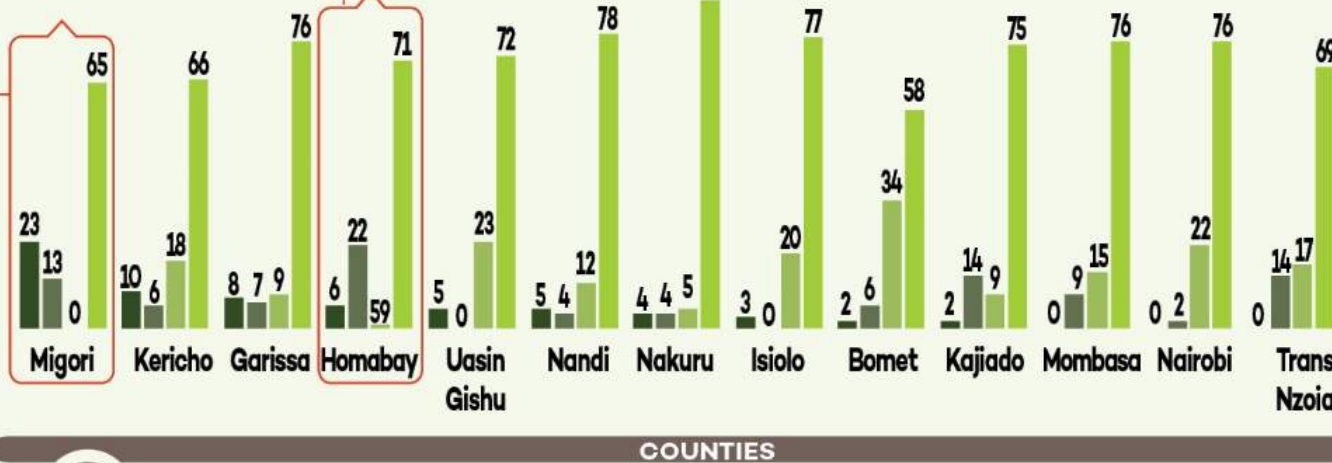
2. Homa Bay: Market rates substantial hence high compliance by traders (incentive)



Produce cess as a proportion (%) of local revenue streams

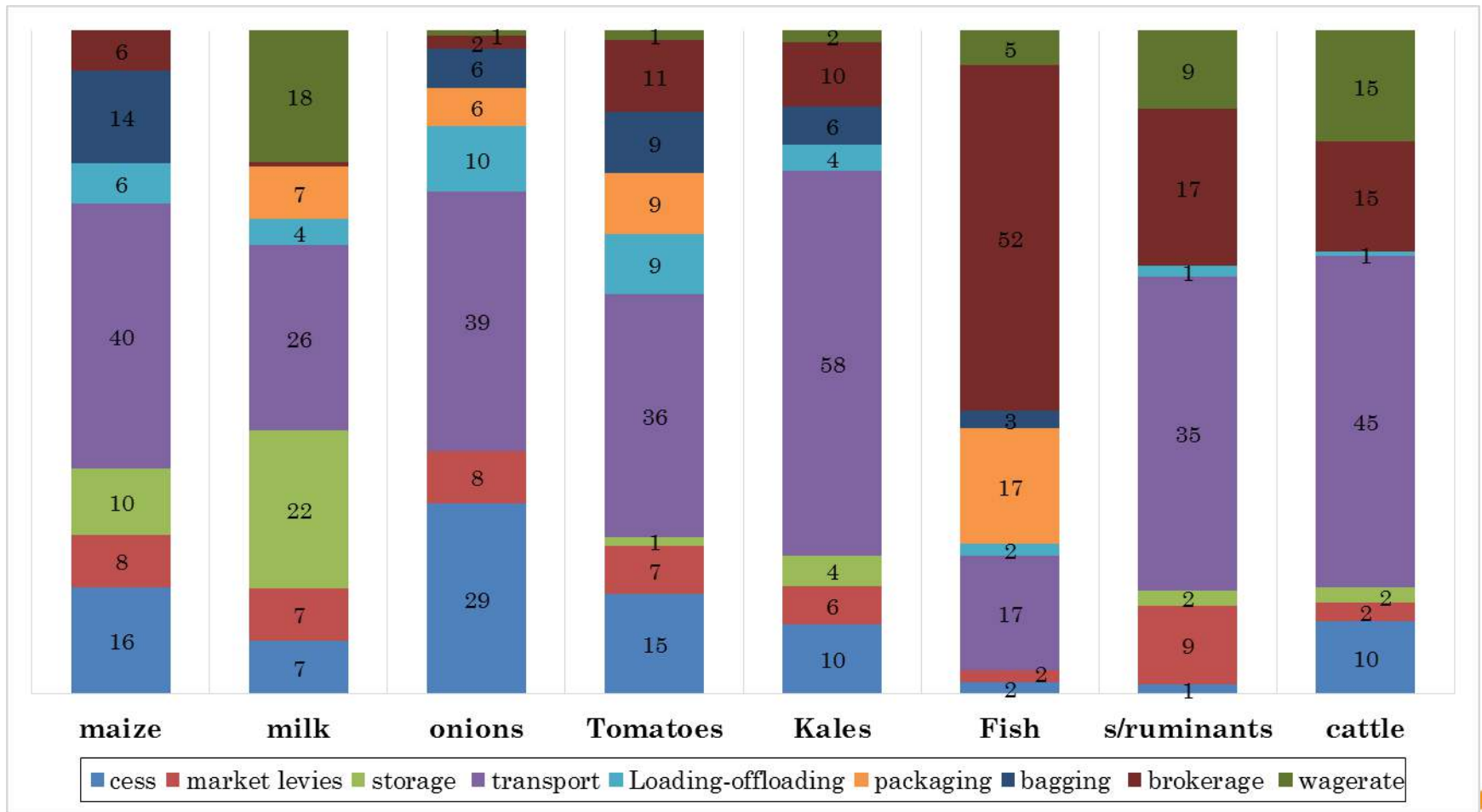


- Agriculture Produce cess
- Market Fees
- Property rates
- Other sources



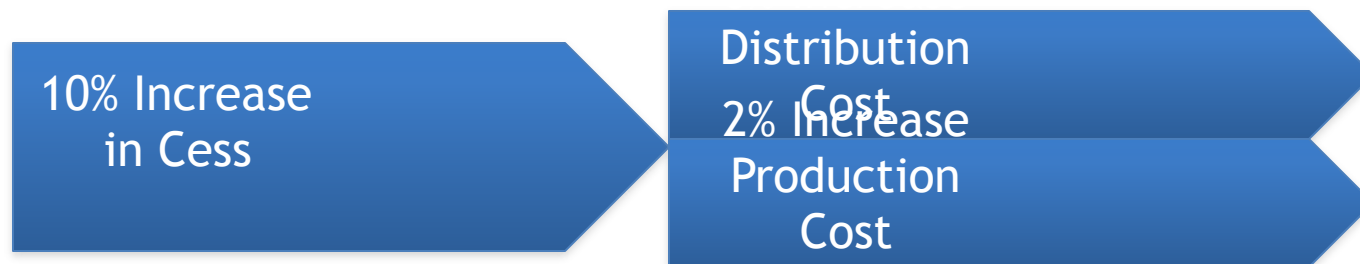
Source: Kenya Markets Trust 2016

Cess costs are highest on commodities likely consumed by low income households



Cess Findings cont..

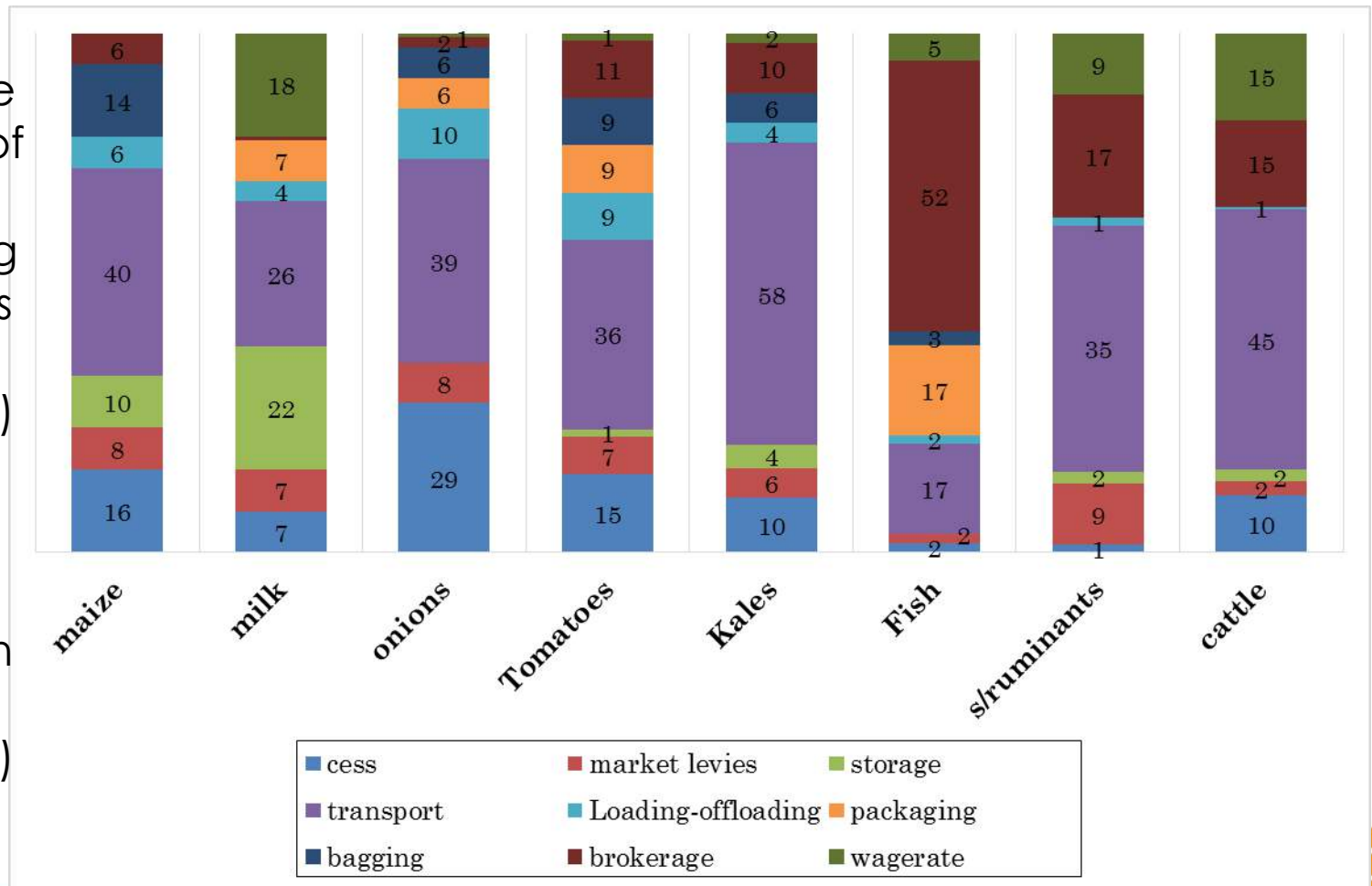
- Wide disparities in the way counties charge produce cess on same agricultural commodities
- Cess significantly affects the cost of production and marketing (a 10% increase in cess leads to 8% increase in the price)



Other Market Charges

Transport is the highest cost of distribution and marketing in all products except fish (Average 46%)

Brokerage is Highest cost Component in fish (Average 52%)

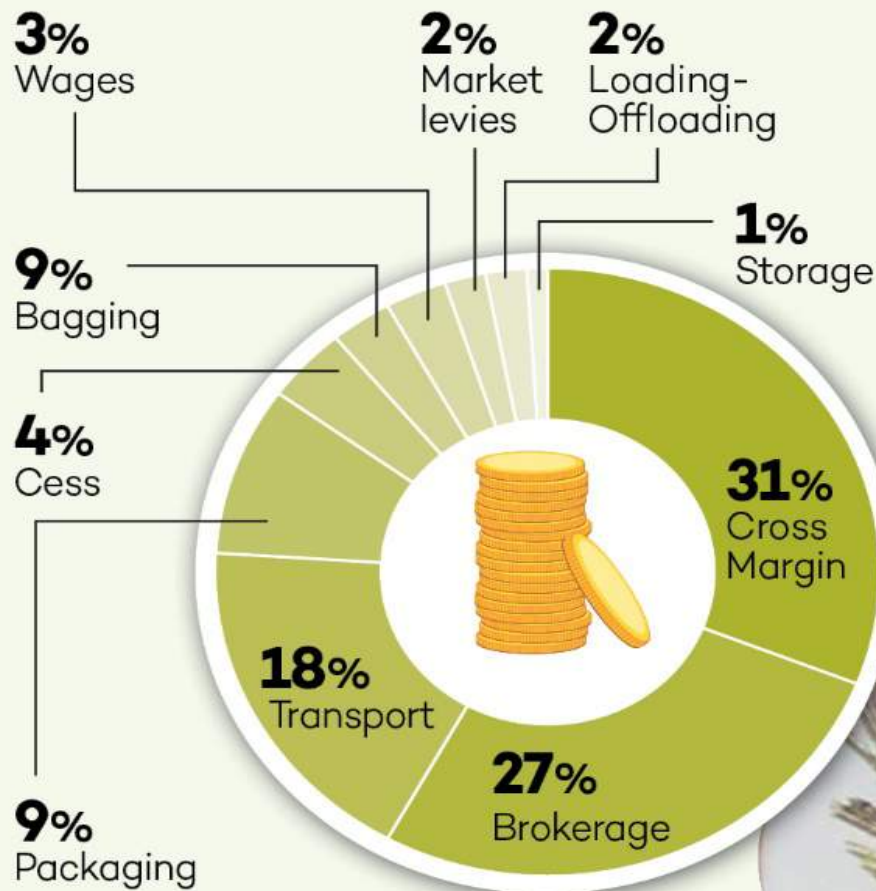


Other Market Charges Cont...

- Storage costs are highest in the milk value Chain (18%), Cattle (15%)
- Loading and offloading consist of 10% and 9% in Onions and tomatoes respectively
- Fish packaging costs constitute 17% of the total distribution cost
- Market levies, unofficial fees and brokerage fees significantly increases average distribution cost (0.7%, 0.5% and 0.6%)

Beyond profit, why else should we care?

Scenario 1: Ugali, Sukuma wiki, Fish, Onions, Tomatoes



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



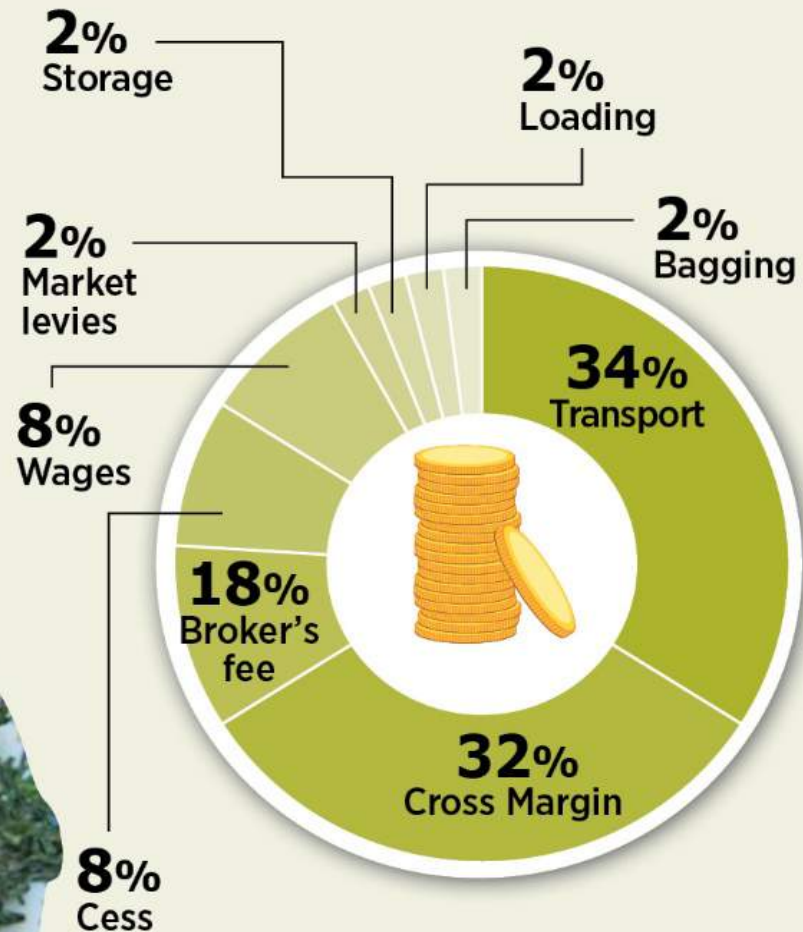
Scenario 2: Ugali, Sukuma wiki, Beef, Onions, Tomatoes

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



Source: Kenya Markets Trust 2016

Scenario 3: Ugali, Sukuma wiki, Milk, Onions, Tomatoes

**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



Source: Kenya Markets Trust 2016

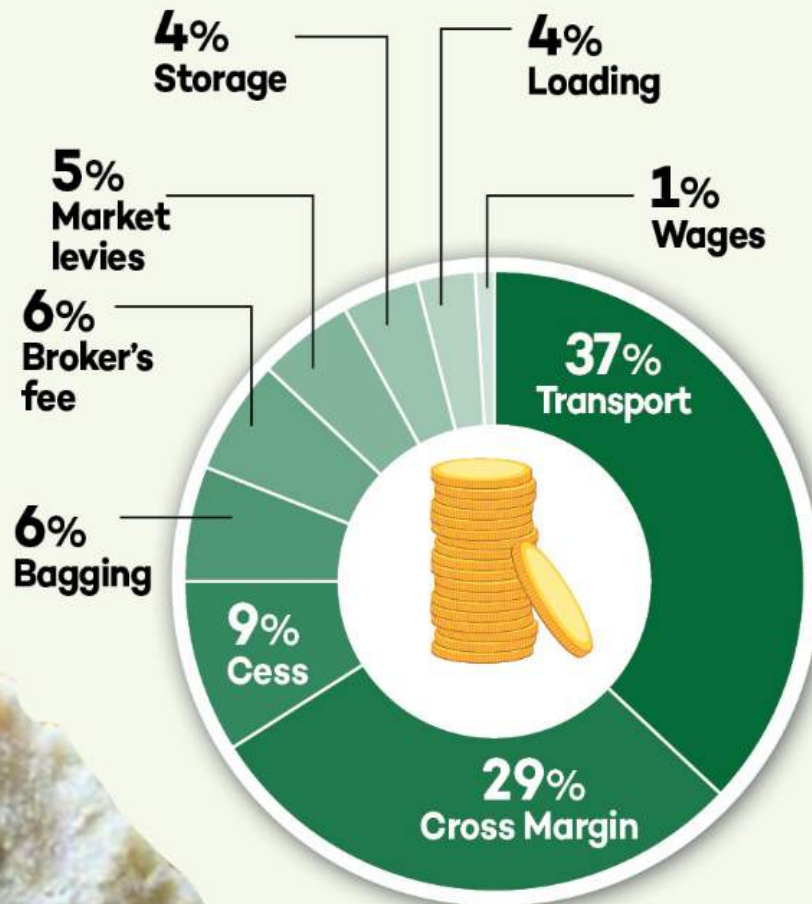
Scenario 4: Ugali and sukuma wiki only (poor man's meal)

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)



Source: Kenya Markets Trust 2016

Reflections

- Harmonize county cess across counties
- Counties could benefit by revising cess rates downwards
- Automation of cess collection could increase efficiency
- County and national governments to jointly coordinate on transport infrastructure
- Enforce the creation of dedicated cess funds

Thank You