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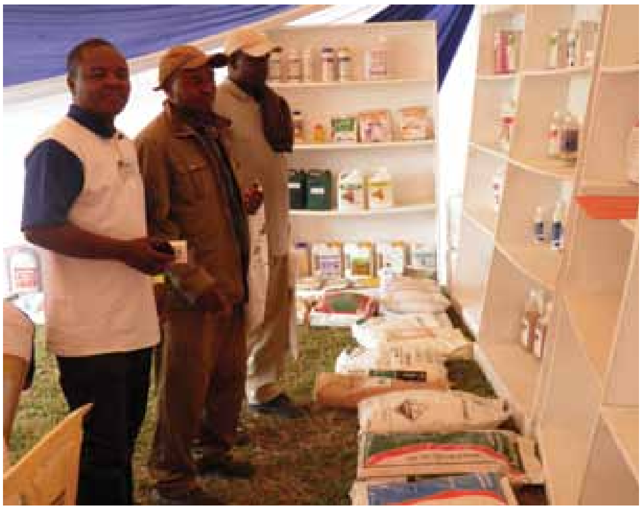
Why government involvement in fertilizer supply is a bad idea

The government's noble idea to subsidize the price of fertilizer was initially meant to get as many farmers as possible to take up the all important component in crop production. Ironically though, it has been every farmer's nightmare. For starters it is never delivered on time and has been the cause of delayed planting, which has had catastrophic effect on food security. In fact a report by Bridgenet Africa places delayed fertilizer distribution to farmers as among the causes of the 2009 drought that placed over 10 million Kenyans under food relief and led the then President Mwai Kibaki to declare it a national disaster.

The litany woes by the farmers just goes to show how the government should never be involved in the purchase of fertilizer or subsidizing it. It has been counter productive, defeatist and unsustainable.

We can actually get farmers fertilizer at a reasonable fee without having government directly involved. History has shown how liberalizing the market achieve results. In early 90's after the elimination of retail price controls, import licensing quotas, foreign exchange controls, and the phase-out of external fertilizer donation programs that disrupted commercial operations, Kenya has witnessed rapid investment in private fertilizer distribution

Then there is the nagging problem of greedy middlemen and cartels who buy the subsidized fertilizer then repackages it and sells it exorbitantly to unsuspecting farmers. In a shocking revelation recently farmers in the country's food baskets said they have never seen or come across any subsidized fertilizer and infact had decided to buy their own following multiple delays in planting as they waited for the government subsidy. The subsidy has never benefitted the very same people it set out to benefit;the small holder farmers.



networks, with over 15 importers, 600 wholesalers and 10,000 retailers now operating in the country.

Full liberalization would now mean elimination government involvement in the fertilizer supply chain and letting the market forces and healthy competition prevail which ultimately benefit the farmer.

What government needs to do is play a facilitative role and create incentives and favourable environment for investors and private companies, especially local ones to be actively involved in the supply chain. Countries like Malawi and Ghana where government has a hands off approach in the supply chain but create legislation and capacitative policies to allow for a freer market has yielded tremendous fruits. In Malawi, after government invested in assisting local companies in fertilizer supply, food production shot up by a whopping 50 percent within one season and the food insecure people went down from 5 million to 3 million within one year.

Yet fertilizer costs in most African countries like Kenya are higher than in Latin America and Asia mostly due additional transport costs related to under-developed physical infrastructure. This shouldnt be. Which is why the government should have its work cut out. One of the main constraints to widespread use and profitability of fertilizers by smallholder farming units in Kenya has been the high product prices, which are a function of a number of variables among them poor fertilizer cargo clearance processes and procedures at the port of Mombasa. There is need to have a complete picture about fertilizer cost buildup from the initial point of origin, USA, Ukraine, among others, to the final delivery to the farmer.

Rationalisation of port charges and improvement in cargo clearing processes and procedures can, in our opinion, save up to US$35 per ton. This will then be passed onto the final consumer, the farmer.

There are opportunities to reduce domestic costs. Estimated reductions in the farm-gate price of fertilizer that will be realised from implementing the full range of options range from 15 to 30%. Price reductions of this magnitude, if passed along to farmers, would increase farmers' effective demand for fertilizer.

Then there is the transportation. Rail transport for fertilizers is not a profitable option for importers due to risks and delays. There is also a shortage of covered wagons. Most cargo cleared out of the port is transported by long distance haulage trucks, which charge expensively compared to rail transport: the usual rate is US$53 per tonne or roughly KSh 8-10 per tonne per kilometer.

If government focused attention in addressing these challenges farmers will benefit by getting the fertilizer at a cheaper price and on time, always.