KIPPRA
Debating the merits of price controls

The *Kenya Institute for Public Policy Research and Analysis* (KIPPRA) engaged members of a Parliamentary Committee to inform the policy debate on commodity pricing.

SETTING THE SCENE —The prices of many essential commodities in Kenya, including food, rose sharply in the last decade – the price of sugar, for example, increased by almost 65 percent between 2000 and 2009. In almost all the cases, domestic prices were above international prices. Over the same period, per capita income shrank, eroding consumers' power to purchase essential goods. The rising cost of living and the prices of staples like maize flour, rice and sugar made it impossible for many families to manage even one meal a day. Such rises can have adverse consequences, including political and economic instability, and sparked debates and protests around the country.

In June 2010, in an attempt to address the problem, Parliament passed a populist Bill aimed at controlling the prices of many essential goods. However, that September, President Mwai Kibaki declined to sign the Bill on the grounds that it violated some of Kenya's international and regional trade agreements and would be difficult to implement. Instead, he returned it to the National Assembly for revision. In April 2011, the *Parliamentary Select Committee on the Cost of Living* was formed to inquire into the factors fuelling the sharp rise in inflation and the cost of living, and to report back with substantive recommendations for immediate and long-term remedial measures. Their recommendations would be incorporated into the revised Bill. KIPPRA, concerned about potential problems with price controls, became involved at this stage.

WHAT KIPPRA DID —The Kenya Institute for Public Policy Research and Analysis (KIPPRA) has long advocated for free markets, as set out in its 2010 policy paper *Should Kenya Revert to Price Controls?* Although it recognizes that price controls have merit when markets are imperfect and that they can benefit the poor in the short-term, the think tank has found that direct price controls as a long-term measure have not worked previously in Kenya or elsewhere. Among other negative effects, price controls have led to food shortages that result in long queues, black markets and even collapse of the targeted sectors. As an example,

price controls in Kenya in the 1990s were dogged by claims of manipulation, corruption and political interference, leading to unpredictable markets, massive losses to businesses and layoffs that triggered social discontent. KIPPRA instead called for increased agricultural productivity, the diversification of consumption patterns through support for alternative commodities and enhanced private sector competition.

KIPPRA understood that many politicians were leaning toward price controls to win favour with the public, especially with a constitutional referendum pending and a general election to follow soon after. However, the Institute felt that Members of Parliament (MPs), the media and the general public lacked sufficient information about what price controls could really mean to Kenya's economy and its social stability. To provide leadership to the debate, it focused on engaging MPs on the Parliamentary Select Committee on the Cost of Living, sending key policy messages through various presentations and roundtable discussions, as well as through the media. As one example, a retreat was organized during which KIPPRA presented the issues, possible benefits and demerits of price controls, including a situational analysis of the commodities targeted.

THE OUTCOME —In September 2011, President Kibaki assented to the *Price Control (Essential Goods) Act 2011*. It was a much-revised version that excluded the regulation of many essential commodities found in the initial Bill. In its final report tabled in Parliament in October 2011, the Select Committee called for caution in implementing the Act and was able to lobby other parliamentarians to back down from blanket price controls. Many of its recommendations reflected KIPPRA's own, such as establishing a social welfare program to cushion the most vulnerable segments, enhancing agricultural productivity and increasing the acreage of food crops under irrigation.

Through this experience KIPPRA realized that to influence policy successfully it needed to work more closely not only with the executive arm of government, but also with the increasingly well educated and informed members of the legislature, the judiciary and the media. Drawing on its successful engagement of the Select Committee, it has since developed a Memorandum of Understanding with the National Assembly that, once adopted, will enable KIPPRA to anticipate future parliamentary debates on key policy issues and to develop appropriate mechanisms for informing the policy process.

For more information on KIPPRA, visit www.kippra.org

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