REPORT OF THE SUGAR FARMERS TASKFORCE

Farmers Input to The Ongoing Dialogue Around the Future Of The Sugar Industry In Kenya

March 2019

Kenya National Alliance Of Sugarcane Farmers Organisations

CONTENTS

EXECUTIVE SUMMARY

In response to a directive from the President, the Cabinet Secretary for Agriculture formed a Sugar Taskforce in late 2018. Sugarcane farmers were concerned, and represented to the CS, unsuccessfully, that NO sugar farmers or their representatives were included in the Task Force. Alarmed, sugarcane farmers organisations came together and resolved to form their own Task force to ensure that the farmers voice is heard in the ongoing deliberations around the sugar sector. This is in line with the principle of public participation enshrined in the Constitution Of Kenya, 2010.

Between January 28th and February 7th 2019 the team visited ALL sugar zones. All meetings were subject to 7 days written notice and open to sugarcane farmers. Politicians and government officials also attended some of the meetings as did a strong contingent from the print and electronic media. All attendees registered, minutes were taken and the proceedings were recorded. Farmers said many things…but they can be summarized in the following:

We, the sugarcane farmers of Kenya make the following resolutions

1. That the sugar industry be completely deregulated by deletion of sugarcane from the First Schedule of the Crops Act 2013.

   Farmers were clear that they want no zoning, no merger of factories, and that the long delayed draft Crops (Sugar) General Regulations be discarded.

2. Complete privatisation of sugar mills and more active support for current and potential private investors.

   Farmers want as many factories open and able to compete for their cane as possible to avoid a situation where they are tied to a mill that is unable to pay for or process their cane. They have suffered too long from the inefficiencies of government owned mills and prefer dealing with the private sector. Those dealing with private millers had issues, but no significant payment delays. Support is needed to clear legal issues around Miwani, Busia and Ramisi, and to have government organisations like the KRA and KEBS have farmers in mind when they close factories down or freeze their accounts. Farmers saw no distinction between central and county governments when they demand that government stays away from their business.

3. Sugar be declared a corruption free zone.

   We welcome the government decision to pay off government sugar mill debts to farmers, but the crooks must not be allowed to get off scot free. Government agencies should work with us and go back 10 years to investigate and prosecute all cases of corruption in the sugar sector. Farmers pointed out that they did not sell their cane to the government, and are tired of seeing the beneficiaries of their sweat - a long list of known board members, MD’s, managers and clerks - driving around in big cars while their own children are unable to join Form 1 or attend school due to lack of fees. They also want an update on the status of the Ksh 7bn from the Sugar Development Fund that was transferred to the Crop Development Fund.

4. To strengthen our umbrella organisations to provide not just policy advocacy and lobbying, but also modern membership services, assistance in dialogue with the public and private factories, inputs, extension services, access to financial services and the funding of research.

5. That there be a more predictable and transparent process around sugar imports and that some of the funds raised from tariffs, auction of quotas and import levies be directed toward improving the industry

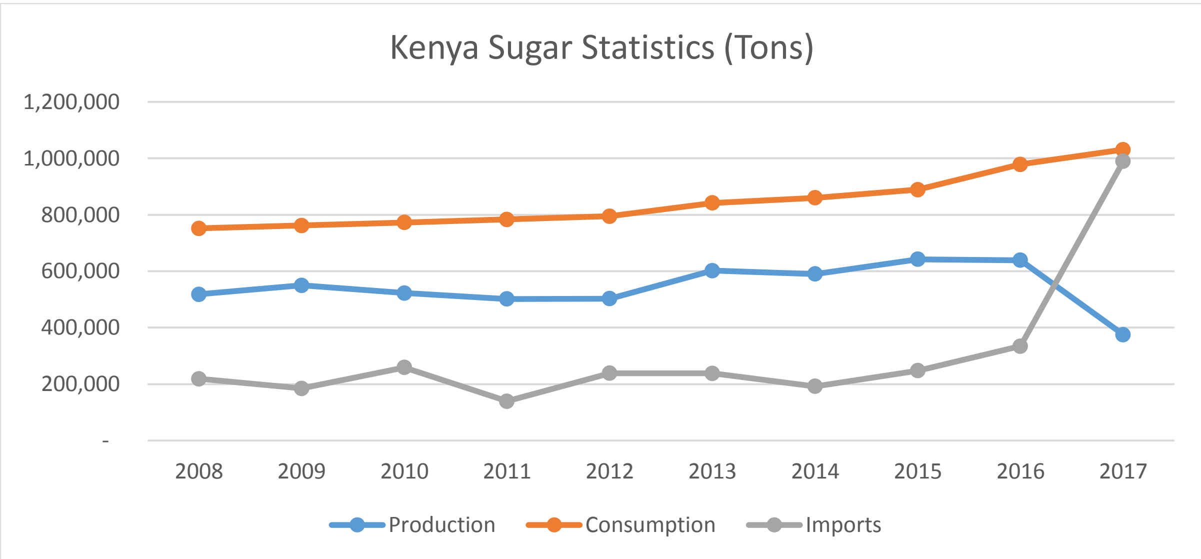
6. To engage with government and the government task Force

   Having met 500+ sugarcane farmers in all 16 sugar factory zones, we would like to present these views to, and initiate an ongoing dialogue with, the government task force. Some assistance may be required in this regard.

1. Context

The global market is oversupplied with sugar, an oversupply situation that will continue for the foreseeable future. Global production is 185 MM tons for 2019 with India and Brazil the largest producers with 35 and 30M Mt. Global demand is 176 mmt and stocks are a record 53 mmt. Brazil is the largest exporter and has up to 30 million metric tons to export each year i.e. each year they can export 30 years' worth of Kenya's demand. And 53 years' worth of Kenyan consumption is sitting in ships and in warehouses just waiting to land in Mombasa, or Kismayu to get a share of this market. Global prices are at record lows, with the 10 year low coming in August 2018 with sugar at US 10c/lb, equivalent to Ksh 25,000 per ton, or 25 per kg delivered in Nairobi. Domestic ex-factory prices are currently Ksh 80 per kg.

Clearly government policy decisions regarding taxes and duties, import tariffs, excise duty, and VAT has a huge impact on the domestic market situation. With 700,000 tons imported duty free in 2017 the market is oversupplied and domestic prices are low. Enforcement of taxes and duties is another key parameter. When enforcement is lax, imported sugar reaches the market at well below domestic market prices leaving huge sums of money to be divided between importers and government officials – police, KRA etc, who should have done the enforcement. A 30 ton trailer of uncustomed sugar is worth Ksh 1,650,000 of bribes and kickbacks to the importer, and enforcement officials.



Kenyan sugar production peaked around 600,000 tons in 2015. Consumption is slightly over 1 million tons. Imports make up the difference with COMESA countries and Brazil being the main source.

2. THE CURRENT CRISIS, THE GOVERNMENT AND FARMER RESPONSE

The current crisis comes from four simultaneous, but interrelated occurrences:

— rising domestic sugar prices in the run up to the general and two presidential elections of 2018,
— large duty free imports in late 2017, early 2018, that were available at record low prices
— Government factories unable to pay growers for their cane deliveries
— The closure of Mumias Sugar in April 2018.

The government had given Mumias a bailout of Ksh 1 Bn to pay farmers in mid-2018. Most of this was used to cover other expenses. Just prior to the Jamhuri Day celebrations to be held in Kakamega in December 2018, western Kenya politicians met with the President and he instructed the Minister of Agriculture to form a Task Force to determine the way forward for the industry. Its terms of reference were

a) Review the policy, legal, regulatory and institutional framework of the sugar industry
b) Review the current and emerging challenges facing the sugar industry
c) Review the sugar industry value chain including research and import structures
d) Undertake an assessment of the industry's competitiveness in the East African community, COMESA and internationally
e) Analyse the role of different stakeholder segments and make recommendations on how they can collaborate amongst themselves, and with county and national government to develop the sugar industry
f) Review the pricing and funding mechanisms in the industry
g) Review any matters that may aid in the revitalization of the sugar industry
h) Prepare and submit to the Cabinet Secretary a comprehensive final report with recommendations to be implemented in the short, medium and long term.

The task force of 17 was composed of 3 governors (Kakamega – co Chair, Kisumu and Migori), 1 senator (Kakamega), 1 MP (Navakholo), 7 public servants (Privatization Commission, 2 intergovernmental committees/councils, Ministry of Agriculture, Sugar Directorate, Treasury and Attorney General's Office), 3 sugar factory officers (MD Sony Sugar company, MD Butali Sugar Company, Chairman Mumias) and the CEO of the Kenya National Federation of Sugarcane Farmers. A secretariat of 4 comes from the Ministry of Agriculture, the Agriculture and Food Authority (AFA), the Lake Region Economic Bloc and the Council of Governors.

Alarmed at the lack of farmer representation, a group came together and lobbied for more farmer and expert inclusion in the Task Force. This effort was unsuccessful. The sole farmer representative in the team is an employee of Kenya National Federation of Sugarcane Farmers. The Federation executive of 28 is split 50:50 and is in court over disagreements on their position on matters before the task force. Half the federation executive joined up with other farmer organisations – Kenya Sugarcane Growers Association (KESGA), and the Kenyan Alliance of Sugarcane and Allied Products (KASAP), and the Sugar Campaign for

Change (SUCAM) to form the Kenya National Alliance of Sugarcane Farmers Organisations (KNASFO) in Kisumu on January 7th. They led a demonstration in the town demanding that farmers be paid their arrears before the task force travels around the country seeking their views – using the slogan "Pesa Kwanza". They swore in Hon Saulo Busolo as their Chairman and mandated KNASFO to form their own taskforce and go round the sugar zones seeking farmers' views for presentation to the government taskforce, to the government directly and to the President.

The farmers' taskforce was composed of 7 members and a 3 person secretariat.

Hon Saulo Wanambsi Busolo, Interim Chairman KNASFO, Chair SUCAM, 20 acres cane, Bungoma

Charles Atiang Atyang, Chairman KASAP 4 acres cane, Chemilil, Kisumu

Richard Ochieng Ogendo, Secretary General KESGA, 20 acres cane, Muhoroni, Kisumu

Stephen ole Narupa, Treasurer, KNFSF, 30 acres cane, Transmara, Narok

Jeckonia Oyoo, 1st Deputy Chair, KNFSF, 7 acres, Sukari Industries, Migori

Vitalis Okinda, 5 acres ,

Micheal Arum, CEO SUCAM

Kingsley Mutali, secretariat

Judy Wangila, secretariat

Gem Argwings-Kodhek, consultant

Between January 28th and February 7th 2019 the team visited ALL sugar zones. All meetings were subject to 7 days written notice and open to sugarcane farmers. Politicians and government officials also attended some of the meetings as did a strong contingent from the print and electronic media. All attendees registered, minutes were taken and the proceedings were recorded.

Date	Venue	Factory	County
27th Jan	Mabanga FTC	Nzoia	Bungoma
28th Jan	Kapkatembu ACK Church	Butali	Nandi
29th Jan	Mumias Cultural Centre	Mumias	Kakamega
29th Jan	Malava Friends Church	West Kenya	Kakamega
30th Jan	Busia ATC	Busia, Olepito	Busia
31st Jan	Miwani Catholic Church	Miwani	Kisumu
1st Feb	Mariwa Centre	Muhoroni	Kisumu
1st Feb	Osengeti ACK Church	Chemilil	Kisumu, Nandi
4th Feb	Queens Court Hotel	SONY	Migori
4th Feb	Paris Hall	Sukari Ind.	Migori
5th Feb	Friends Church	Enoosaen, Transmara	Narok
7th Feb	Child Care Center	EASI Ramisi	Kwale
25th Feb	Vunduba Hotel	Farmers Verification	Kisumu
26th Feb	Royal City Hotel	Expert consultations	Kisumu

2.1 Sugarcane farmers resolutions

The farmers, through their Taskforce came up with 5 resolutions:

1. That the sugar industry be completely deregulated by deletion of sugarcane from the First Schedule of the Crops Act 2013.
2. Complete privatisation of sugar mills and more active support for current and potential private investors.
3. Sugar be declared a corruption free zone that farmers' arrears be paid, but that the long line of crooks responsible for the state of the industry not be allowed to get off scot free.
4. To engage with government and the government task Force
5. To strengthen their umbrella organisations

Each of these resolutions is examined in the remaining sections of the report where some of the detail behind the resolutions are presented, an examination of alternatives is given and how the resolution fits into the farmers' vision for the sector in the decade to 2030 and beyond is laid out. Options for implementing the resolutions and the costs involved is also given.

3 Deletion of sugarcane from the First Schedule of the Crops Act 2013.

This resolution may come as a shock to many readers. But it shows how grave the situation in the industry is and how desperate sugarcane farmers are for a solution and out of the box thinking. They want the governments hand OUT of the industry. This simple amendment would achieve that, and would fit neatly in the upcoming Miscellaneous Amendments Bill. They hope their party leaders and area MP's hear them.

Farmers did not express the wish in these words. They said "let us be free to deal with the millers without any force or direction from government or the government mills. Sugar has been governed by government laws, regulations and parastatals for decades. The Kenya Sugar Authority Order, 1977, the Sugar Act 2003, and now the Crops Act of 2012 have provided the legal and regulatory framework for the industry.

The Crops Act was part of legislation consolidating and updating 107 pieces of legislation in the agricultural sector, and part of separating regulatory from development roles in the large number of agricultural parastatals that had mushroomed over the years. The agricultural parastatals had 452 board members, 40 MD's, and over 12,000 employees and were a drain on the sector and the farmers, consumers or the national treasury that financed them. The consolidation of legislation is not complete but the formation of the Agriculture and Food Authority (AFA), is one step toward the ultimate aim foreseen in Vision 2030. The Sugar Board has been reduced to a Sugar Desk, but still retains many of the staff and functions of the former, larger, Sugar Board.

Many farmers asked for the return of the Sugar Board. They appreciated the voice they had through electing directors, and they appreciated the Sugar Development Fund as a source of easy to access funds for the sector. Both the Board and the Fund had issues that farmers recognised, but they felt they were better off and had more voice in government policy making in those 'good old days'. The Farmers Taskforce chairman was elected twice to chair the Sugar Board, knew the organisation well, and knows its shortcomings. The primary shortcoming is that even as Chairman, elected by farmers nationwide, he headed a government parastatal under the State Corporations Act, and was subservient to, and had to take directions from the PS Agriculture.

Deletion of sugar from the schedule of the Crops Act would set the industry free. Farmers would be free to build their own organisation, subservient and under the direction of no office – the trade unions COTU or KNUT, the Kenya Flower council or KEPSA – that face government as equals when it comes to dealing with matters in their sector. Many of the functions farmers miss about KSB can be better undertaken by a strong farmers body as detailed below.

3.1 No zoning

In more than one meeting farmers talked of police officers being used to arrest tractors carrying cane that the government mill suspected to have been developed, or contracted to them. Farmers, including taskforce members, could not explain why they continued to deliver cane to factories that were not paying them. During the time of our visits statements by the President in Muhoroni, and by the Deputy President at a meeting with the Council of Governors really resonated with them. Both leaders asked farmers not to deliver cane to factories that were not paying them.

Farmers described the proposed zoning as colonial suppression, or like being a cow tied on a rope that cannot reach good grass or water because of the rope. The desire to be free to sell their cane to any miller able and willing to take their cane, and pay a good price, expeditiously, came up again and again. Farmers around the state mills were aware that their colleagues who delivered to private mills had no payment delays or accumulation of arrears (except Ramisi). Farmers in private factory zones could not understand those who sold to factories known not to be paying.

Public mills, some farmers' organisations and, reportedly, the government task force, were said to be in favour of zoning. This would limit the setting up of weighbridges and buying stations that in some cases are over 150 km away from the sponsoring factory. West Kenya and Kibos Industries have been most active in this regard. However farmers were happy to have competing buyers for their cane, particularly where their only option before was a government mill that would take the cane, but where there would be NO clarity or predictability about when payment would be received. We encountered farmers with arrears going back up to 2 years.

The question of zoning did not only relate to payment. In recent memory – most painfully in the SONY-Transmara zone, farmers could remember having to wait 6 years for their cane to be harvested. The licencing of new factories in places like Busia, Transmara and Butali has given farmers more options than were available in the past where factories had 40km exclusive zones. They welcomed this trend and would like as many new factories as possible to be opened and for those with court cases stopping the development or opening of new factories to withdraw those cases, encourage cane development and compete.

Sugarcane farmers want contracts with sugar factories. But they want contracts that also protect them when the miller does not perform e.g. if harvesting is delayed up to 30 days they be free to sell to another miller. But they felt there is no need to force them only to contract with the closest mill. They pointed out the plight of Mumias farmers. What would happen to farmers in a zone when their mill is closed or lacks funds to buy cane. Sugarcane farmers want to be free just as the producers of other crops are free and have no sympathy with the arguments advanced in favour of zoning.

3.2 NO MERGER OF FACTORIES

There has been a plan mooted for the merger of factories in the Nyando sugar belt i.e. Muhoroni, Chemilil and perhaps Miwani be run as part of a single large new factory. Proponents talk of the economies of scale in a single large factory rather than the 4 factories currently in the zone. Farmers do not want to hear of this suggestion. They point out how Mumias collapsed with all its size. Experts testified that the industry in Kenya is better off with 2 or 3 smaller plants than one huge one. Weaknesses in management, problems raising capital, and the nature of land tenure where there are many small parcel spread over a large area militate against a merger. The farmers in the Miwani zone want their factory to reopen and have developed detailed plans for how this should be done, the phases and the funding required. This information has been presented to the county Governor.

3.3 DRAFT CROPS (SUGAR) GENERAL REGULATIONS BE DISCARDED

These regulations have been in the works for over a decade. But many problems remain. These include lack of a policy addressing the key issues in the sugar industry, regulatory overreach where the proponents/drafters are trying to amend the parent Crops Act through the regulations, lack of justification for specific regulations and overburdening prospective private investors. The authors are not known to the sugarcane farmers and have not consulted with them. Some of the proposals seem to have beneficial aims and address some of the farmers' wishes, but overall, the farmers feel the draft is far from meeting the required threshold of being ready for enactment. Farmers would prefer that these regulations be withdrawn, and go further to demand that sugar be deleted from Crops Act. Many of the proposed regulations would be better negotiated between a strong farmers body, millers and other players e.g. transporters and weighbridge owners. They do not need to be gazetted by a national government minister. Under the 2010 Constitution agriculture is a devolved function.

4 PRIVATISATION AND ENCOURAGEMENT OF PRIVATE INVESTORS

4.1 PRIVATISATION

Kenya has 16 operational sugar mills. 5 are wholly, majority, or partly owned by the government – Mumias, SONY, Chemilil, Muhoroni and, indirectly, Miwani. The 5 mills are the focus of delayed payments, corruption and other problems. Farmers supplying the private mills have some issues with them, but these problems are far less than those with government mills and do not include payment delays. The farmers' headache is similar to the government headache. The bulk of problems the government has to deal with in the sugar industry come from the minority of mills with government ownership. These problems stretch all the way to the Head of State and his deputy who have had to make policy pronouncements, promises and commitments largely relating to problems with these government mills.

Farmers want the government out of the sugar industry. And for over 15 years the government also has said it wants out. Now is the time to privatise the government mills. The details of exactly how are beyond what farmers were able to lay out but they noted and wish the process would note:

— the lessons and mistakes with the Mumias privatisation
— the farmers wish to be at least part owners, and directors, of the privatised mills
— their ability to raise relatively large sums of money through a per ton check off system. They proposed Ksh 200 per ton. This would amount to Ksh 200 million per year in a 3000 TCD plant
— a desire, according to some farmers, for their payment arrears to be converted to shares.

Many of the legal and political blocks to the privatisation process have been removed. And a number of foreign and domestic investors are keen on investing in the industry. It is time to get the government – national as well as county- out of the sugar business. Government ownership brings with it much baggage that makes running a successful sugar factory in Kenya today near impossible. Sugarcane farmers have suffered long enough from the corruption, bad governance and impunity Kenyans exhibit when government systems are in place.

4.2 MORE FACTORIES

Visiting all the sugarcane zones was eye opening. Over the last 20 years sugar growing has moved into highland areas in the Rift valley that were ever seen as sugar producing zones. Climate change, newly released cane varieties, and challenges in the maize and dairy sectors have encouraged farmers in places like Nandi, Kericho, Trans Nzoia and others to go into sugarcane. And they are happy with the results. Acreage is expanding and they want and will need more factories and processing capacity. The same need for more capacity is seen in the southern areas of Nyanza and Transmara, western Kenya in Siaya and Busia, and new zones like Tana River and Kwale. Even the relatively crowded Nyando belt could do with more processing capacity and farmers were particularly keen for the reopening of a mill at, or near, Miwani. The point is that Kenya has the land and climate and can produce a lot more cane than is currently the case.

Sugarcane farmers lost Ksh 11bn of potential sales revenue between 2016 and 2017 when production declined by by 37 percent or 2.7 million tons. 2018 statistics are not out yet but are sure to reflect the continuing decline. Much of this is the result of problems at Mumias and farmers there are leaving land fallow, or planning to go back to the maize they used to grow pre 1974. For the farmers still harvesting having new private mills has been their savoir. But it is clear that there is underinvestment in cane development in the zone.

New cane means more processing capacity. Our expert consultation shows the need for new investment in reviving and modernising existing factories and starting new greenfield sites. That is what sugarcane farmers want.

4.3 More Active Facilitation of Private Investors

New investment in sugar processing needs private investors. With about 4 cases needing revival/modernisation and privatisation, and 4 new plants of e.g. 3000 TCD capacity to start the sector needs/can absorb Ksh 20bn (US$200m) of investment in the medium term just for the processing and transport operations. Cane development also needs a huge cash infusion.

New investors are reported to be interested in investing in sugar processing in Kenya with several recent investments showing that the sector remains attractive. However new investors, Particularly those coming from outside the country who are not yet schooled on profitable cane processing in Kenya, look at how the current investors are treated before making their decision. Farmers pointed out uncertainty about the granting and renewal of licences, demonization of private investors in the media, and unhelpful actions by government agencies as discouraging private investment. The Kenya Revenue Authority and Kenya Bureau of Standards were mentioned more than once.

When factory accounts are frozen, or warehouses sealed for inordinate amounts of time, farmers suffer as the factories cannot pay them. At some of the poorly performing government mills farmers reported that Managers are forced to choose between making statutory payments and paying farmers. At Ramisi the warehouse has been sealed for months in the alleged ‘mercury’ probe. All apparently arbitrary government actions are addressed through payment of kickbacks or slow and costly legal processes to reverse administrative actions. This does not augur well for encouraging the large investments in the sugar industry that cane farmers said they want. There should be more transparency in the process of government agencies exercising lawful enforcement actions against sugar mills.

4.4 Role of National Government

Sugarcane farmers were quite happy with the roles assigned by the Constitution 2010. In the context of the sugar industry and the current crisis those are to make policy, and to bring corrupt people to account through its roles in security and the maintenance of law and order. The Constitution does not imply national government running sugar mills. Nor does it foresee national government making detailed rules around the operation of this, or any other agricultural commodity sector.

Sugarcane farmers had doubts about the diligence of the weights and measures department in checking on weighbridges.

4.5 The Role of county governments

The roles of county governments are also laid out in the Constitution. Crop husbandry County governments also collect millions of shillings in cess from the sugar industry. Sugarcane farmers a good portion of that to go towards maintaining the roads they use and funding the woefully underfunded agricultural extension services they need. The amount of cess collected from the industry should be made transparent i.e. how much is raised and how it is used.

5 DECLARE SUGAR A CORRUPTION FREE ZONE, NOT A FREE CORRUPTION ZONE

5.1 A LONG HISTORY OF CORRUPTION, AND IMPUNITY,

Farmers were able to report a long and wide ranging list of cases of grand and petty corruption in the sugar industry, some several decades old e.g. around the founding of SONY. The team had the opportunity to talk with the Hon Kassim Mwamzadi who was in parliament from 1963 to 1992 who examples of governance failures, influence peddling and corruption going back to the 1970's and often associated with the funding of elections. Many examples from the time of former presidents, ministers and KSB bosses in the 80's, 90's and 2000's to as late as this year and currently ongoing were also sited. Examples also came from the more recent tenures of several ministers and PS's of Agriculture, boards and managers at KSB, and the now defunct outgrower companies. For each government factory we were regaled with tales of impropriety overseen or indulged in by Presidents, ministers, Board Chairmen, and the long list of MD's and senior officers. And the culture of impropriety filtered through the whole industry all the way down to the officers deciding which cane will be harvested, clerks at the weighbridges, in the finance and computer sections, clerks filling medical claim forms, and, by their own admission, farmers themselves.

Farmers named names, and gave, and documented examples. They see the beneficiaries living large among them driving big cars carrying their healthy well fed children while they struggle to educate and feed theirs. They talked of lacking fare to go from office to office chasing payments, and the need to bribe to get paid. The farmers' pain is real. And some of the examples are so current. They demanded that if government pays arrears the list of farmers to be paid be publically displayed as they are sure many fake farmers are in the list of people lined up for the Ksh 1.9-2.6 bn government is getting ready to pay – even after the recent vetting. Fake farmers, fake deliveries, diversion of farmer tonnage to factory staff, cane from the nucleus estate being added to officers small deliveries were among the example sited. With names.

Farmers want to see beneficiaries of known corruption cases brought to book. They have evidence but can do little. Notwithstanding a 2010 Kenya Anti-Corruption Commission Report that identified corruption, mismanagement and impunity as vices that bedevil the sugar industry, and several high profile cases in the media and even parliament, no individual has ever been jailed for corruption in the sugar sector. And no funds or assets have ever been recovered. Farmers are keen that government pays their arrears, but at many meetings pointed out that they did not sell their cane to Uhuru, or the government, and want those involved in fraud and corruption brought to account.

5.1 IMPACT ON FACTORY EFFICIENCY AND FARMERS PAYMENTS

Factories buy cane and convert it to sugar. However when factories are inefficient – poorly maintained, old technology, and have not had a full and proper maintenance, factory efficiency goes down. In Kenya today average tons of cane to produce a ton of sugar is 12. It should be 8 or 9 in a globally competitive industry.

Experts pointed out that a number of government mills have not had the proper annual out of crop maintenance for 3 years. That annual maintenance can cost between Ksh 600 – 1 Bn per annum. When factories are cash strapped managers just keep them running as best they can. Machines are cannibalised and overall efficiency keeps falling. One of our experts pointed out that with inefficient factories farmers payments are literally burned up in the factory. After paying for process materials and utilities, wages and transport, there literally is no money left to pay farmers. The farmers' money was not stolen, it was "eaten by the machine!"

Currently ex-factory prices are on the order of Ksh 80 per kg, Ksh 4000 per 50 kg bag and Ksh 80,000 per ton. 12 tons of cane is Ksh 4,000 * 12 or Ksh 48, 000. Just for the cane. Transport (Ksh 1000 per ton cane average is another Ksh 12,000). For an inefficient mill cane delivered is Ksh 60,000 of the Ksh 80,000 ex-factory price

Processing (per ton sugar) Ksh 20,000 at the best mills to Ksh 50,000 at the worst mills. This leaves thin margins for the best performing factories, huge losses for the inefficient factories. The inefficient, or inefficiently run factories are all in government hands. That inefficiency makes it difficult for them to pay sugarcane farmers.

The Sugar Pricing Committee uses this cost and returns data to determine indicative cane prices – currently between Ksh 4,200 and 3,800 per ton across the factories. Farmers wanted more transparency in the pricing mechanism, and more input in the price determination negotiation and process. Farmers complained of what seemed to be arbitrary reduction in cane prices at several of the mills during our meetings. They want more openness in price determination, more competition between mills, and stronger farmer representation in factories decisions to alter prices. Naturally they would want higher prices than the ruling Ksh 4000 or so per ton. Factory efficiency is a key determinant in what factories can afford to pay for cane.

Farmers recognised the role of sucrose content in the conversion from cane to sugar and have seen the cane testing units at all the factory gates. They are not functioning and farmers would like more clarity about their role in the future. Currently cane in Kenya is not bought on the basis of sucrose content.

5.2 THE CROP DEVELOPMENT FUND

Ksh 7 Bn was transferred from the Sugar Development Fund to the Crops Fund in 2013. Farmers expressed worries that they had no information about the money, where it is, how it is accessed, or even if it still exists. They demanded that SDF funds only be used in the sugar industry, and not on other crops or the general administration of the Crop Fund or AFA. They knew the names of those who used to be in charge of the SDF, but have yet to see anyone from the Crops Fund.

The funding of sugar roads was an important contribution of the SDF. This is no longer happening. Farmers were keen that 80 percent of the county cess collected from their cane be used on roads. County officials (agricultural officers in two counties and an MCA in one, were not even aware that sugar cess was being collected and remitted to the county.

6 THE NEED FOR A STRONG FARMERS UMBRELLA ORGANISATION

The sugar industry is strewn with a plethora of different organisations. These include the Kenya National Federation of Sugarcane Farmers (KNFSF), Kenya Sugarcane Growers Association (KESGA), the Kenyan Alliance of Sugarcane and Allied Products (KASAP), and the Sugar Campaign for Change (SUCAM). In all meetings farmers were keen to have a strong farmers body and hoped that the Kenya National Alliance of Sugarcane Farmers Organisations (KNASFO) might become that body. They were aware of the history, infighting, and disunity that has plagued the farmers organisations and urged the KNASFO team to remain united but to be aware that many in the industry do not want a string farmers voice.

There were a range of purposes farmers felt they need a strong national organisation for. They applauded the policy advocacy role being undertaken by the team, but also indicated the need for a range of other services. The roles, structuring, management, membership and financing of such an organisation is beyond the scope of this report but farmers expressed the need in all the meetings we held and tasked the existing team to move the process forward.

Roles, structure, services, budget, membership.

6.1 POLICY ADVOCACY AND LOBBYING

There was strong recognition for the need for a united organisation that could give farmers a voice – nationally as well as locally e.g. at the county and factory level.

6.2 MODERN MEMBERSHIP SERVICES

6.2.1 DIALOGUE AND REPRESENTATION AT FACTORIES – WEIGHBRIDGE, PAYMENTS

Farmers expressed the need for a strong voice at the factory level. Too often they felt alone dealing with tractor loaders, cane cutters, weighbridge clerks and the agriculture and finance sections of the factories – public as well as private. Many, particularly women, described the difficulty of having to travel seeking services, dealing with and issue, or following a payment. Even relatively simple issues took several costly and time consuming trips and much of the time the issue was not conclusively addressed. The outgrower companies that were to assist farmers with such things also developed the same bad customer service practices as the factories. Many a farmer gave up after many visits following a simple issue. Some, they pointed out, died before their issue was sorted. Having a farmers advocate located at, or near the factory, who could deal with a farmers case and perhaps update by sms and only get the farmer to come when absolutely required would address much of the frustration expressed by sugarcane farmers.

Lack of transparency around weighbridges deserves special mention. In too many meetings farmers expressed doubt about the accuracy of the weighbridges and wondered how often the weights and measures department of national government checked on them. It was difficult for farmers to follow their deliveries and check the weight given. It was even more difficult to follow the weights and how they are translated/forwarded into payments. They suspected that much of their cane was being diverted to fake farer accounts associated with the clerks manning the reception area. But a simple farmer did not have the wherewithal to follow and audit the process. We were told of cases where farmers were flushed out of a factory office by police called to throw them out of the office because they were allegedly causing a disturbance. Farmers were very bitter about their treatment at cane reception, agriculture and finance offices and had no one to take their complaints to.

Farmers really appreciated the opportunity to come together, meet and share views, issues and problems. They wished they could be having such local area meetings at least twice per year. There have apparently been none in recent times. They appreciated meeting industry leaders from other regions and really appreciated the opportunity to express their views on national television.

6.2.2 INPUTS

Over the years many different institutional arrangements for getting inputs and services to farmers have been tried. At different times cooperatives, outgrower institutions, and factory agriculture departments have been tried, all with mixed success and different shortcomings. But the lack of transparency seemed to be the most common underlying factor. Issues around how many cares were ploughed, how many times, how much fertiliser was delivered, at how much per bag, interest rates etc. that usually came to a head 18 months later when the farmers saw their statement and perhaps got a debit balance. Farmers recognised their responsibility to pay more attention to the debits entered in their account but felt the need for a strong farmers organisation to assist them.

Ploughing, seed cane, fertiliser, weeding labor, crop protection and weeding chemicals are the primary inputs cane farmers require. Farmers know it is best to undertake all these activities themselves, but often lack the cash and resort to credit for expensive products and services at unclear interest rates. Farmers expressed the desire for a strong farmers organisation to intervene and explore ways of leveraging on new innovations – like mobile wallets, sms, mobile banking, bulk purchasing and One Acre Fund, Mkopa Solar, asset financing types of schemes to address the problem.

6.2.3 FINANCIAL SERVICES, AND LOANS

There have been many innovations in access to financial services that sugarcane farmers would want to benefit from. They see online banking platforms and lending to strangers and wondered why a known, registered sugarcane farmer cannot access a similar product. Others talked of a market where they can forward sell their cane once its planted and replace some of the more traditional crop/credit systems prevalent in the sugar belt where brokers can buy a cash strapped farmers field at a significant, often exploitative, discount. Apart from payments for inputs, sugarcane farmers main financing needs were for school fees, medical emergencies (NHIF?) and household expenses. They tasked the emerging farmers organisation to explore these options with players in the financial and mobile digital space.

6.2.4 Extension services

Sugarcane farmers said they no longer receive any extension services from government or factories. Agricultural extension is a devolved function and counties in the sugar belt seem to have failed in this regard. A strong farmers organisation should agitate for county governments to reinstate extension services.

6.2.5 Funding and management of research

Farmers felt they were not sure what the roles, programs, funding and outputs of the Sugar research stations formally KESREF but now part of KALRO. Farmers said they have had the same varieties – CO 425,900 etc for decades and wonder when they will get new and improved ones. In the emerging highland zones some good work seems to have been done and they have appropriate varieties. However they still need more information about the growth patterns of these varieties to be shared with their factories some of whom seem to be bringing lowland rules of thumb about the age and growth of cane to this new environment.

6.3 Link to other industry organisations

There has been a history of linkages between sugar industry organisations – farmers, millers (KESMA), transporters, policy makers, parliamentary groups (SUPAC). Sugarcane farmers felt that due to the weaknesses and division between their organisations their voice and needs were not being heard or well-articulated. There was no response or outcry from sugar farmers when duty free imports were allowed, nor when the window was extended. There was no farmer response to the government decision that KSB import fertiliser, or that the Sugar Board be abolished and sugar be placed in AFA. When the government task force wanted to meet cane farmers they could only reach them through millers. Farmers need a strong and financially independent organisation to make some of these linkages. They want to engage through their own organisations, not through millers, provincial administration, county governments or other groups.

To justify their place at the policy and dialogue table the sugarcane farmers want a strong organisation. It needs a known office, website, social media presence, email address, bank account and registration. Farmere are keen to be known and registered by name, address, id and mobile phone number. It needs a secretariat with capacity and authority to engage, support analytical work, organise tours and benchmarking locally and even abroad. And eventually, but not yet, free and democratic election of office bearers. If all this can happen they said they are willing to contribute to the funding of such an entity. If they had such a body there would be less crying out for the return of the, less than perfect, Kenya Sugar Board.

7 IMPORTS

Kenya has to import sugar each year. The gap between production and consumption is 300,000 tons per annum and rising. And imports can be landed at well below the domestic cost of production. Farmers made various demands about keeping cheap import out as it impacts them negatively and are blamed for some of the problems at the government run factories. They were disturbed by the silence of their leaders when the duty free import gazette notices were issued.

The world sugar market is not a free, and is distorted by a range of policies countries around the world have put in place to protect domestic producers. Kenya's policy is unclear, and subject to change depending on circumstances, and political expediency. Farmers, as well as the current and potential investors in the industry need clarity about how imports – from COMESA and beyond, will be handled.

Between May and December 2017, at the peak of the political cycle around the elections, Kenya imported 981,000 tons of sugar, duty free. COMESA countries are allowed to bring in 350,000 tons free of duty. Any COMESA sugar beyond this volume is subject to 100 duty. 627,000 tons came from Brazil, outside COMESA in violation of COMESA rules from where we should have sought prior approval. That non-COMESA sugar should have been subjected to a 25 percent levy. The duty waiver transferred billions of shillings – between 10 and 20 Bn- to importers. Some of it, farmers are sure, helped finance the election campaigns. This – sugar financing elections – started happening as far back as the 1960's according to the former MP we interviewed.

The duty waiver was for table sugar. Industrial sugar pays 10 percent duty. Kenya and Tanzania both imposed tariffs on Kenyan manufactured products – juice, ice cream and confectionery suspecting it was made from sugar that did not pay the 10 percent duty. Raw sugar, of which Kibos Industries brought in 150,000 tons, attracts zero duty. 4 companies and SONY Sugar were accused in parliament of selling industrial sugar direct to consumers.

Farmers are disturbed how little they know about the goings on in the sugar import trade and want an atmosphere of more transparency, more consultation and more predictability. Parliamentary investigations one year later are of little use. And farmers noted that some members of parliament were being given money in toilets to influence their votes regarding the parliamentary probe. They wonder who they can trust to hold brief and defend their position. They asked "where are our MP's?"

The farmer consultations generated a range of proposals including:
a) A ban on imports
b) That a single agency be the sole authorised importer
c) That sugar factories be the only authorised importers
d) That the SDF levy on imports be reinstated
e) A transparent auctioning of import quotas.

The worst case scenario is the free for all witnessed in 2017 where unlimited imports were allowed and 1 million tons came in.

Farmers and experts are not sure what the best way forward, but they are sure that they want to be involved in the discussions to determine the policy, formula and way forward. Funds raised from the quota auction can be applied toward the sugar portion of the Crop Development Fund or whatever mechanism evolves from that. One day, perhaps, that money can be managed as an industry fund handled by the umbrella farmers organisation.

The amount of money generated from sugar importation is enough to solve many of the problems in the sugar industry.

8 LINK TO THE GOVERNMENT TASK FORCE

During the time of the Farmers Taskforce the media was replete with provocative statements attributed to Taskforce Members. These included that 'CS should be sacked", 'we will bring 1000 farmers to Nairobi and march on State House to present our views", and the successful slogan "Pesa Kwanza!" by which farmers meant that before government pays their farmers arrears they were unwilling to meet the government taskforce. The press also reported rebuttals where CS Kiunjuri called our team "a bunch of busy bodies", and said that he would never meet us.

Farmers resolved that we present our views to the government task force, the Minister, and the President. They also asked that we, together with them, present them to the former Prime Minister in the hope that the spirit of the 'Handshake' can finally bring political goodwill to solving the plight of the sugarcane farmer.

We are keen to work together for the benefit of the industry, but are most keen that the farmers point of view be given more importance than was apparent in the way the government team was constituted. Farmers were concerned that the task force was dominated by public officials who may hold back on pointing out mistakes made by government, government officials, the cabinet and President that they all, ultimately report to. Those officers may be transferred, retire or be sacked. But the long suffering sugarcane farmers are here to stay.

Farmers must be heard.

They expressed the need to develop a Vision for the industry over the next 10-30 years, they want the industry private sector driven, with a strong farmers voice coming from a strong united farmers organisation. They want more factories, remunerative prices, seamless administrative and contractual arrangements, better yields, improved quality of their soils, to stay in sugar production but to be guided on options for diversification. All they really want can be summarized as improved livelihoods for themselves and future generations of their families. They are sure the government wants the same thing.