Effective regulation will stimulate growth of the sugar sub-sector

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A policy position of the Sugar Campaign for Change

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The **Sugar Campaign for Change** is a civil society organisation whose purpose is to promote the development of a viable and efficient sugar industry that will ensure that sugarcane farmers in Kenya enjoy a life that is just, fair and free of poverty.

Introduction

We welcome the recent announcement of the President to create a sugar industry task force. This brief sets out many of the industry challenges from an industry perspective and makes suggestions for priorities for consideration.

Background

The sugar sector is a key agricultural sector in the Kenya economy. The sugar sub-sector contributes 15 per cent of agricultural GDP, three per cent of national GDP and provides direct and indirect employment to 500,000 workers along the entire value chain.[1]

The sugar industry mainly comprises smallholder farmers, located primarily in the Western and Nyanza regions. These are found around sugar settlements schemes which were mooted in the sixties and seventies to alleviate poverty in those regions by converting peasant farmers into stakeholders of the multibillion sugar industry.

The sugar sub-sector is under-performing. According to Kenya National Bureau of Statistics (2018): [2]

- Sugar production has declined to 376,000 tonnes in 2017 from 600,000 tonnes in 2013.
- The revenue from sugarcane sold has declined by 17 per cent from KES 25 billion in 2013 to KES 20 billion in 2017. This can be largely attributed to the decline in acreage devoted to sugar cane falling to 191,000 hectares compared to 214,000 hectares in 2013.
- The quality as measured by the amount of sugar recovered has slightly slipped form 9.35 tonnes of cane/tonne of sugar (TC/TS) to over 10 TC/TS. This is less than the recovery achieved by Kenya's regional competitors.
- Utilisation of milling capacity is estimated at 56 per cent which is sub-optimal level.[3] Moreover, this means that industry is foregoing revenue of KES 40 billion per annum using the 2010 ex-factory prices.
- Sugar exports are dismally low while imports have risen to 990,000 tonnes in 2017 compared to 238,000 in 2013.

Whilst it would be inappropriate to blame government policy for all of the sugar sector's under-performance, it is undoubtedly a contributory factor.

The current policy

The country's strategy to develop the sugar industry was guided by two policy documents, first the Swynnerton Plan of 1954 and then, second, the Sessional

[1] Sugar Directorate Contribution of sugar industry to the economy. Accessed at https://goo.gl/oFBgd6
[2] Kenya National Bureau of statistics (2018). Economic survey, 2018.
[3] Daily Nation (2015) How the mistake of small-holder farm unions made Kenyan sugar unavailable. Access at https://goo.gl/uPbkMh

Paper No. 10 of 1965, a policy document in which the government stated its version of African socialism. Post-independence, the sugar industry was entirely government controlled and attained a measure of success. The government liberalised the subsector in the 1980s under the structural adjustment program, though the process was undertaken haphazardly and lacked a clear policy direction. The government has always been clear that it aims to stimulate growth in the sector, to create jobs and to raise farmer incomes, but it has not always been clear how the policies were intended to bring this about.

The industry and, in particular, the smallholder farmers have encountered many challenges. However, the general response of government has been to address the symptoms – rather than seeking to determine the underlying problems and constraints and address those – through multiple interventions including national and sectoral policy papers and laws. Key amongst these is the Economic Wealth and Employment creation 2003-2007 as conceptualized in the Strategy for Revitalization of Agriculture, Sugar Industry Taskforce 2003, National Sugar Conference 2004 and the Draft Sessional Paper for revitalizing the sugar industry.

Of note was the decision in 2013 to repeal 131 pieces of legislation and develop over aching legislation, the AFFA ACT and the Crops Act. The Crops Act regulates scheduled crops such as sugar. Subsequently, the Ministry through the Directorate of Sugar has drafted proposed regulations to govern the sugar industry, though these have not yet been adopted. Furthermore, remnants of government control of the sector can still be seen in the current legislation and proposed regulations.

The issues

There are a wide range of issues that affect the sugar value chain. These include:

- Farmers are unable to make a decent living because costs are too high as a proportion of their selling price.
- Furthermore, farmers argue that they do not receive a fair price because they are paid through an unsustainable payment system that focuses on weight rather than sucrose content (and moreover there is a feeling that the pricing formula is stacked against them).
- Even if farmers could negotiate a fair price, all too often they are not paid by the state-owned sugar mills (and currently the farmers are owed a great deal).
- Effectively, contracts for the purchase of sugar are unenforceable
- Millers, too, find that production costs are high relative to the price at which they can sell processed sugar.
- There is a lack of industry specific regulations following the repeal of the Sugar Act 2001.
- At the same time, there is a perception that there is a high level of regulation and a perception that the regulation does not always address the right issues or else does not address the issues in the right way.
- The tax regime does not treat all the actors in the value chain equitably and, in particular, encourages imports which are taxed much more lightly that domestically processed sugar.
- There are too many vested interests pushing for competitive advantage and a perception that policy makers fail to take a holistic view.
- Whilst it may not be a policy issue, it seems that outgrower associations do not deliver value to farmers.
- Whilst there are appropriate quality and health standards, there is a perception

that the mills do not comply with all the environmental standards (and lack of compliance to the standards that do exist).

- The transport system is inefficient and expensive and the costs are all passed back down the smallholder farmers.

We very much hope that the task force will be able to look at all these issues and we stand ready to provide support. However, we are also conscious that in parallel with the work of the task force, the Ministry for Agriculture has recently drafted new sugar regulations and that these have been subjected to a regulatory impact assessment. Rather than offer here a detailed response to the proposals, we would like to suggest some over-arching principles against which the proposed regulations can be judged.

Principles for regulation

Section 40 of the Crops Act 2013, read together with section 46 of the Agricultural Fisheries and Food Authority Act 2013 (AFA) gives the power to the Cabinet Secretary in consultation with the authority and county government to make regulations to implement the provisions of the Act. The Ministry of Agriculture, Livestock, Fisheries and Irrigation in conjunction with the county governments has now prepared a proposal for the Crops (Sugar) (General) Regulations 2018.

We believe that, as well as being coherent, logical, practical, clear and responsive to the challenges, these should be judged against the following principles:

- The regulations should be rooted in a clear policy framework (and if one does not yet exist, perhaps now would be a good time to think about it)
- Promote independence rather than dependence amongst stakeholders (that is, actors do not seek regulation to substitute for their own efforts or to secure competitive advantage through regulation rather than improving productivity)
- Promote equity in the sugar in the sugar value chain (so that different actors in the value chain do not believe that they are being treated more harshly than other actors in the chain)
- Ensure that responses are proportionate, that is, the benefits should outweigh the costs by a sufficient margin to be seen by all players to be worthwhile
- Provide a framework of standards and compliance requirements
- Spell out clearly the individual roles of national and county governments and other stakeholders.
- Promote transparency and accountability.
- Provide a framework for sustainable growth and investment

Conclusions & recommendation

Despite a long history of government protection to promote the level of production and productivity, the sugar sub-sector is still riddled with inefficiencies at the miller level especially among the state-owned mills. Government interventions to promote the industry have done little to improve the state of state-owned mills. Instead, they have transferred the gains to importers and bureaucrats thus promoting rent-seeking activities in the sector.

In order to reform the sector into a path of sustainability and competitiveness, there is need to:

- Install modern and efficient processing plants and strengthen the management of factory activities.

- There in need to enforce the contractual obligations between millers and farmers. This will in turn eliminate cane poaching and improve cane supply to mills.
- Address high costs of inputs and production by strengthening extension and private sector innovations in cane production.
- The government should have a clear plan to exit sugar processing, where it has been inefficient. It should undertake crop development and regulatory functions, which are now clearly identified roles of County governments and the Agriculture and Food Authority (AFA).

This will only be achieved if the government adopts regulations that promote an efficient and competitive industry. We thus recommend that the government adopts our proposed principles and ensures that these are all reflected in the final agreed version of the regulations.

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