REPUBLIC OF KENYA

HARAMBEE

KENYA NATIONAL ASSEMBLY

DEPARTMENTAL COMMITTEE ON AGRICULTURE, LANDS AND NATURAL RESOURCES

REPORT ON VISITS TO

KENYA SEED COMPANY IN KITALE,

AHERO IRRIGATION SCHEME IN NYANDO

WEST KANO IRRIGATION SCHEME IN NYANDO,

CHEMELIL SUGAR COMPANY IN NYANDO

MUHORONI SUGAR COMPANY IN NYANDO

AND MIWANI SUGAR COMPANY IN NYANDO

FROM 14TH TO 18TH SEPTEMBER 2004

Clerk's chambers,
National Assembly,
NAIROBI

September, 2004

REPORT ON THE COMMITTEE'S VISITS TO KENYA SEED COMPANY IN KITALE, AHERO AND WEST KANO IRRIGATION SCHEMES, CHEMELIL, MUHORONI AND MIWANI SUGAR COMPANIES IN NYANDO FROM 14TH TO 18TH SEPTEMBER 2004.

1.0. PREFACE

Mr. Speaker Sir,

The Departmental Committee A. on Agriculture, Lands and Natural Resources was constituted at the commencement of the Ninth Parliament pursuant to the provisions of Standing order No 151 of the Kenya National Assembly Standing Orders. The said Standing order No 151(1)4 mandates the Committee to do the following while carrying out its functions:-

(a) To investigate, inquire into and report on all matters relating to its mandate, management, activities, administration, operations and estimates of the assigned ministries and departments;

(b) To study the programme and policy objectives of ministries and departments and the effectiveness for the implementation;

(c) To study and review all legislation after the first reading subject to the exemptions under standing order No.101A(4);

(d) To study, asses and analyze the relative success of the ministries and departments as measured by the results obtained as compared with its stated objectives;

(e) To investigate and inquire into all matters relating to the assigned ministries and departments as it deems necessary and as may be referred to it by the House or a Minister; and

(f) To make reports and recommendations to the House as often as possible including recommendations of proposed legislation.

Mr. Speaker Sir,

The committee's subjects are as follows:-

(a) Crop and livestock production;
(b) Marketing;
(c) Lands and settlement;
(d) Natural Resources;
(e) Water resources;
(f) Land reclamation and irrigation; and
(h) Co-operative development.

The Committee oversees the performance of six (6) ministries, namely:-

(a) Agriculture;
(b) Livestock and Fisheries Development;
(c) Environment and Natural Resources;
(d) Water Resources;
(e) Co-operative Development and Marketing; and
(f) Lands and Housing.

The Committee comprises the following:-

The Hon. Franklin Bett, MP - Chairman
The Hon. Mwancha S.N. Okioma, MP
The Hon. (Prof) Patrick A. Olweny, MP
The Hon. Mwangi Waithaka, MP

The Hon. Julius Arunga, MP
The Hon. Patrick Muiruri, MP
The Hon. John Serut, MP
The Hon. Philip Rotino, MP
The Hon. P.G. Muriithi, MP
The Hon. J.N. Gachagua, MP and
The Hon. Isaack Shaaban, MP

Mr. Speaker Sir,

Between 14th and 18th September 2004, the Committee visited Kenya Seed Company in Kitale, Ahero and West Kano Irrigation Schemes, Chemelili, Muhoroni and Miwani Sugar Company all in Nyando District.

The purposes of the visits was to study and fact find on the operations and activities of the companies and schemes and thereafter make recommendations to the House on the best way forward.

The following Members made the visits:-

The Hon. Franklin Bett, MP - Chairman
The Hon. Mwancha Okioma, MP
The Hon. John Serut, MP
The Hon. Prof Patrick A. Olweny, MP

The Committee commends the Speaker, the Clerk and the Liaison Committee for sanctioning the visits. The Committee also appreciates the important role played by its secretariat in facilitating the visits.

Mr. Speaker Sir,

On behalf of the Committee, I now beg to lay on the table of the House a report on the Committee's visits

pursuant to provisions of Standing order No.162 of the Kenya National Assembly Standing Orders.

THE HON FRANKLIN BETT, MP
CHAIRMAN DEPARTMENTAL COMMITTEE ON AGRICULTURE, LANDS AND NATURAL RESOURCES

Sign____________________

Date 2/12/04

Mr. Speaker Sir,

2.0. KENYA SEED COMPANY

During the visit, the Committee held a meeting with the company management, led by the chairman Board of Directors and Chief Executive before touring some company facilities. After the tour, another meeting was held.

2.1 Background information

The Company was incorporated in 1956. Its headquarters are in Kitale town, Trans Nzoia District, Rift Valley Province. It has subsidiaries like Simlaw Seed Ltd, Kibo Seed Company and Mount Elgon Seed Company.

The Company is a parastatal with the Agricultural Development Corporation holding 52.8 % stake in it. The remaining 47.2 % shares are held by Kenya Farmers Association and the public.

At inception, the company grew pasture seed for European settlers. It later diversified production and has since then become a leader in East Africa in seed production.

Maize seed production is the company's core business and main revenue earner. The company grows the seed crop on 18,000 acres of land. Other seeds produced by the company are wheat, vegetables, sorghum, sunflower and beans.

The current management was appointed in December 2003 and immediately after taking over, some shareholders went to court challenging the company ownership. The case is pending.

The previous management had unlawfully floated some shares and the floating is also the subject of a pending court case.

After taking over, the company offices were burnt and the management was occupying rented premises while faced with an uphill task of rebuilding the burnt offices.

The company is also faced with the task of repaying debts left by the previous management. Since taking over, the management had repaid 800 million shillings with 30 million being dividends. The company was indebted to the tune of 200 million shillings.

The company supports farmers grow seed crops. This year, it advanced farmers cash and inputs worth 69 million shillings.

The company is however faced with the following challenges:-

I. Changing weather conditions which adversely affect crop production;

II. Diseases;

III. High production costs occasioned by high costs of inputs and labour;

IV. Compliance with new technology with specific regard to biotechnology.

Mr. Speaker Sir,

2.2. <u>Tour of the burnt factory</u>

According to the management, the burning of the factory was masterminded by the previous

management whose Managing Director was facing charges of abuse of office. The motive for the burning was to destroy documental evidence to be used against the accused.

Though the documents were burnt, there were back ups elsewhere and the prosecution would be relying on them as evidence.

Prior to the burning, Government auditors had audited the company and an audit report prepared. The report was not in the offices and had since then been submitted to the Minister for Agriculture for action.

Eight (8) people had been charged in connection with the burning. One (1) of them had however died. The case is yet to be heard and finally determined.

The total loss caused by the burning of the offices is estimated to be (40) million. The premises were insured and the insurer would be settling the claim.

The management was not ruling out possibilities of further crime on company assets and property. Consequently, the police officer who investigated the arson incident had been retained with the company for security purposes.

2.3. Tour of maize seed stores and marketing department premises

As a marketing strategy the company packs seeds in as less as one (1) kilogram packs to cater for the less income generating farmers.

The company had developed new red dyed maize seed which is more resistant to disease and pest attack. The seed is viable for six (6) years unlike the usual green

dyed seed. The management admitted that non viable seeds were on sale but denied any involvement by the company.

The company in conjunction with the Ministry of Agriculture and Kenya Plant Health Inspectorate Services (KEPHIS) organizes workshops for seed distributors where they are enlightened on counterfeit seed identification.

Mr. Speaker Sir,

2.4. Tour of the Sunflower seed factory

Trans Nzoia district is the leading sunflower producing district in the country. Most farmers are large scale.

It is recommended that sunflower seed farms be at an isolation distance of not less that one kilometer and this makes Trans Nzoia the only sunflower seed producing district. Otherwise sunflower is grown all over the country except in North Eastern province.

Close to 60% of the sunflower seed produced by the company is exported to Netherlands. The remaining 40% is sold locally and to other countries.

Palm oil is same as oil produced from sunflower. Kenya does not produce palm oil and all palm oil used locally is imported.

2.5. Tour of Endebess maize seed drier

The drier reduces moisture content in the seed to manageable levels.

After drying, the maize is shelled and stored in silos pending further processing. The company processes reject maize seeds into dairy meal.

After shelling, the maize cobs are used in energy provision for the plant.

2.6. Tour of Elgon downs farm

The Elgon downs farm comprises the main Elgon farm and Ex-Kamunche and covers 3191 acres.

Ex-Kamunche occupies 1252 acres. 1053 acres are occupied by buildings, roads, forest and marshy grounds. Permanent pastures and research plots occupy 1039 acres. Coffee occupies 132 acres.

This leaves the company with 2219 acres for crop activities. The company has however leased additional 308 acres from neighbours making 2527 acres of land available for agricultural activities.

The company has 600 cattle, 300 sheep and 60 goats. These animals feed on farm pastures and seed crop by products.

The Company in conjunction with the Kenya Agricultural Research Institute and other research organizations carry out research and trials on crops and animals on the farm.

There are ongoing trials on the farm on the development of better maize varieties. If successful, the resultant breed would be high yielding, fast maturing and disease resistant.

There are also ongoing trials on pyrethrum. If successful, the pyrethrin content in the flowers would be higher.

There are further ongoing trials on sorghum, finger millet, flowers and blacknight shade. If successful, better varieties would be developed.

The Kenya government had signed a material transfer agreement with the Tanzanian government on blacknight shade (suga) with regard to research and tests.

Kentom (Kenyan tomatoe) had been developed courtesy of research and tests on the farm. The tomatoe is high yielding, sweet and disease resistant.

Tests had been carried out on oats and better varieties developed. Tests had also been carried out on weed control by chemicals and positive results achieved.

Once positive results are obtained, the company in conjunction with KARI or involved research organizations make recommendations to the relevant ministry for implementation.

Mr. Speaker Sir,

2.7. Meeting between the Committee and the company management at Elgon downs boardroom

The meeting realized the following:-

Kamunche coffee farm

The farm was purchased for 150 million shillings by the previous management. The price was inclusive of the coffee plants on the farm.

The Committee questioned the rationale for spending such a huge sum of money to purchase the coffee farm together with the coffee plants when the company did not produce coffee seeds and had a lot of unutilized land.

According to the management, the coffee farm was purchased because the company needed more land for seed production and further that the intention at the time of purchase was not to utilize the coffee but the land itself. It was not the company's priority to immediately cut down the coffee trees as it had not identified an activity to be carried out on the land.

According to the management, there was a wrong perception by many people that the company had a lot of unutilized land in view of Agricultural Development Corporation land on which the company carried on seed production activities.

The Committee was told that though Agricultural Development Corporation was a principal shareholder in Kenya Seed company, the company could not dictate to it on how to utilize its land and that the previous management was therefore justified in purchasing Kamunche coffee farm.

Dividends for 2002/2003

The dividends for the years had been declared and approved by shareholders at an Annual General Meeting in 2003.

The management however withheld payment of dividends because of the pending court case in which the legality of the floating of 4 million shares by the previous management is being challenged.

The management is currently seeking legal opinion on payment of the shares that were lawfully floated and will act accordingly. The court case will determine the fate of the unlawfully floated shares.

Ownership

Kenya Seed Company is a parastatal with the Agricultural Development Corporation owning 53% shares in the company.

There was an attempt by the previous management to dilute the ADC shareholding without the consent of Ministry of Finance but the attempt failed. In fact a notion was created to that effect when the previous management illegally floated 4 million shares.

Seed quality, growth and distribution

The management admitted that the distribution chain of seeds was long and unnecessary expenses were incurred as a result, making seed prices high.

The management denied producing unviable seeds but admitted that it had recorded a few cases where its seed rate of germination was low. The situation had since been rectified.

Mr. speaker Sir,

2.8. Recommendations

The Committee is strongly opposed to palm oil importation when the same oil is obtainable from sunflower. The Committee calls upon the government to facilitate production of palm oil from sunflower. This would save the country a lot.

The Committee takes issue with the police department for retaining the investigating officer on the arson incident with the company. This is an officer of the police force who is duty bound to investigate and once investigations are complete to return to his base for routine assignments.

The Committee recommends that this officer goes back to his base and the Base Commander deploys a different investigating officer only when necessary.

Mr. Speaker Sir,

Seed viability is vital in crop production. The recent hunger in the country was attributed to poor yields. The cause of poor yields is at times caused by poor germination which is at times attributed to poor seeds.

The Committee recommends that the government sets higher standards of quality seed production and puts in place proper mechanisms for checking counterfeit seeds.

Kenya Plant Health Inspectorate Services (KEPHIS) and seed manufacturing companies are equally to blame for the distribution of counterfeit seeds and the Committee wants them to urgently arrest the situation.

The Committee also recommends that stiffer penalties be imposed on counterfeit seed dealers. Culprits have the option of paying fine which is little and taking into account the amount of money made from sale of counterfeit seeds, the culprits will not be deterred at all.

Mr. Speaker Sir,

During the tour of the company factories, the

Committee noted some of them had inadequate fire fighting equipment. The Committee recommends that the company acquires modern and adequate fire fighting equipment.

The committee also noted that some of the company equipment and machines were old, outdated and incompatible with modern seed production technology. Just to mention, temperature control in the seed driers was manual thus unreliable when compared to a modern automated temperature control system. The company also lacked modern research equipment which has been an impediment to research development.

The Committee recommends that the company acquires modern equipment and machines for efficiency, quality production and competition with other seed producers.

The Committee wants the government to financially support agricultural and livestock research. Most research equipment is imported and its cost is very high owing to the high duty paid.

The Committee recommends that the government waives duty on agricultural and livestock research equipment as one way of supporting development.

Mr. Speaker Sir,

Kenya's seed varieties and elite materials are not well protected from international piracy. The Committee recommends that the government comes up with proper legislation and mechanisms for eradication of the piracy.

The chain of seed distribution is very long culminating into unnecessary expenses which make the price of

seeds high. The Committee recommends that seed producing companies downsize the number of agents involved in seed distribution as one way of reducing seed price.

Stakeholders in the seed industry had resolved that a seed tribunal be established to deal with seed disputes. This is because of the dilatory process in courts of law which has adversely impacted on the seed industry and the agriculture sector as a whole. The Committee recommends that the government lives by the will of people and establishes a seed tribunal.

Mr. Speaker Sir,

3.0. AHERO IRRIGATION SCHEME

At the scheme, the Committee held a meeting with the scheme management, the chairman National Irrigation Board and farmer's representatives. The Nyando Member of Parliament Hon. (Eng) Eric Nyamunga was with the Committee as a friend. After the meeting, the Committee toured the scheme's pumping station and rice fields.

3.1. Background information

The National Irrigation Board was established in 1966 pursuant to Cap 347, Laws of Kenya.

The Board is entrusted with the responsibilities of policy making and implementation, technical, financial and material support of all irrigation schemes in the country.

The Board has the control of three irrigation schemes in Western and Nyanza namely; Ahero, West Kano and Budalangi.

3.2. Ahero Irrigation Scheme

The scheme was established in 1969 and was designed for rice and sugar cane farming. The scheme occupies 2200 acres of land.

The scheme has rice growing contracts with 529 farmers. Each farmer occupies four (4) acres of land.

At the time of establishment, 500 farmers had their land compulsorily acquired for the project. These farmers were settled in small parcels of land near the scheme. They were inadequately compensated and have never been issued with title deeds despite assurances and a presidential directive 1997. After acquisition, the land was registered in the name of National Irrigation Scheme and farmers operated as tenants within the scheme.

The agreement between contracted farmers and the National irrigation Board was inter alia that the Board would supply farmers with all inputs and the farmers would tender the crop and deliver it to the Board for payment per kilogram delivered.

This was the practice until mid 1990's when the arrangement failed. Consumers opted for cheap imported rice following liberalization of the economy. Local rice could not sale making it difficult for the Board to pay for deliveries.

Marketing of the crop also took a different dimension when farmers at Mwea irrigation Scheme on advice of politicians that they were being exploited by the Board refused to deliver their rice to the Board.

All rice irrigation farms in the country were supported by a revolving fund created by National Irrigation

Board. The crisis in the industry led to the extinction of the fund rendering the Board financially incapable of settling farmer's arrears and supporting them in farming. Consequently, many disillusioned farmers abandoned rice farming.

The National Irrigation Board's woes brought to a halt operations at the scheme's pumping station. With time, some farmers devised their own irrigation methods and are up to now growing rice without support from the Board. The farmers have formed Water Users Association whose duty is to manage the utilization of the limited water resources at a fee.

The farmers are however experiencing marketing difficulties and have on many occasions been exploited by merchants.

The entire scheme's infrastructure is in a dilapidated state. The rice store's roof had sometimes back been ripped off by strong winds and has never been repaired. The processing plant was operating at very low capacity and farmers are constrained to deliver their produce to West Kano for processing.

The Board is currently working round the clock to normalize operations in the rice industry and farmers are slowly venturing back to farming.

3.3. Water pumping station

The scheme uses water from River Nyando.
The first pump was installed at inception. In early 1990's four (4) new pumps were installed with a water discharge capacity of 600 litres per second. All the pumps are electrical powered.

In 1995, all the pumps failed and the entire system collapsed. The economy of the area was dealt a big as many people lost their only source of livelihood.

For the long period the pumps were not operational, they were vandalized and parts got stolen and worn out. The National Irrigation Board is currently rehabilitating the Pump station and will procure two new pumps for the scheme.

Mr. Speaker Sir,

4.0. WEST KANO IRRIGATION SCHEME

The Committee toured the scheme in the company of the scheme management, National Irrigation Board chairman and the area Member of Parliament Hon. (Eng) Eric Nyamunga. After the tour, a meeting was held.

The meeting and tour realized the following:-

The Scheme has a total of 690 contracted farmers. Initially, it had 553 farmers. The total land occupied by the scheme is 1260 acres divided into 497 blocks.

Land tenure at the scheme is tenant. Basmati and pishori are the brands produced on the scheme. 30,000 people in Kano derive their livelihood from rice farming.

The scheme has four (4) pumps. All the pumps are electrical powered. Following the crisis in the rice industry, rice production at the scheme was adversely affected with operations on all the pumps stopping in 1999.

The pumps had been revived but are not operating to capacity. A lot more needs to be done to restore them to the required operational capacity.

Farmers at Ahero and West Kano presented memoranda to the committee highlighting their plight as a result of the crisis in the rice industry.

There had been increased poverty levels as a result of loss of income which had led to increased school dropout, increased crime rate and increased mortality rate due to unaffordable medical services.

Mr. Speaker Sir,

4.1. Recommendations

Irrigation methods used on all the two irrigation schemes are very expensive. This is because of the heavy electrical machines used. The schemes pay heavily for electricity consumption, repairs and maintainance of the pumps.

The Committee recommends that the two schemes switch to gravitational irrigation which is very cheap.

Financial support is important in the agricultural development of this country. The National Irrigation Board's revolving fund which was the main source of financial support to rice farmers collapsed and farmers are experiencing difficulties accessing to financial support.

The Committee strongly recommends that the National Irrigation Board re-establishes the revolving fund.

Mr. Speaker Sir,

The National Irrigation Board owes farmers monies for previous deliveries. The Committee recommends that the Board settles the arrears as quickly as possible to motivate farmers.

All roads leading to the two schemes are rough and impassable during rainy seasons. This affects delivery of rice to the markets and inputs to the fields. The Committee recommends that the government tarmacs key roads in the areas.

The two irrigation schemes don't have medical facilities. These facilities are very important for the welfare of employees and farmers and the Committee recommends that the government provides the facilities.

Mr. Speaker Sir,

Most farmers in the scheme carry out their farming activities individually and have experienced marketing difficulties and inability to attract corporate support. The Committee recommends that these farmers form organizations like Co-operative Societies for better marketing and corporate sponsorship attraction.

Rice production has recently advanced with new farming technologies being developed. Cheap and better quality varieties have been developed by other countries and have flooded the Kenyan market.

The Committee recommends that the government embarks on an intensive programme for rice farming development with specific regard to technological advancement, if the country is to compete effectively with other rice producing countries.

Agricultural extension officers are very important in the agricultural development of this country. The officers have however been a big disappointment to farmers for many years. The Committee calls upon the government to make the officers deliver.

Mr. Speaker Sir,

People of West Kano have persistently been displaced by floods during rainy seasons. This matter is of grave concern to the committee and the Committee recommends that a lasting solution be found. The Committee wants the Government to build dykes to arrest the situation. The Committee also wants underground tunnels built to drain water from the land into the lake at the time of floods.

People of Ahero and West Kano solely depend on rice production as a source of livelihood. A crisis in the rice industry leaves them with no income. The Committee recommends that rice farmers in West Kano and Ahero diversify agricultural production to counter any crisis in the rice industry.

Farmers at Ahero had their land compulsorily acquired for establishment of the scheme. The farmers have never been issued with title deeds and the Committee recommends that the government urgently issues them with title deeds.

Mr. Speaker Sir,

5.0. CHEMELIL SUGAR COMPANY

At the Company, the Committee first held a meeting with the company management before touring the factory and nucleus estates. Also present were the

Chairman and Chief Executive of the Kenya Sugar Board.

5.1. Background information

The Company is situated in Nyando District of Nyanza province.

The Company was incorporated on 15th July 1964 as a private limited company. In 1974 it turned into a parastatal when the government acquired 95.5% stake in it.

The objectives for the establishment of the company were two fold, namely:-

- To produce quality mill white sugar from sugar cane.
- To alleviate poverty in Nyanza to wit residents were to generate income from the company through cane farming and employment.

5.2. Meeting between the Company management and the Committee

The meeting took place in the company's boardroom. In attendance were the Chairman and Chief Executive of Kenya Sugar Board.

The meeting disclosed the the following:-

85% of the cane crushed by the company is received from outgrowers while 15% comes from the company's nucleus estate. The nucleus estates cover a total area of 2,248 hectares while the outgrowers cover 16,171 hectares.

Last year, the company crushed 522,000 tonnes of cane. The management was determined to increase the crushing capacity to 1.2 million tonnes by 2009. By 1991, the company crushed 830,000 tonnes per annum and according to the management, the ambition was achievable.

When the current management took over in 2003, the company was advanced 260 million shillings by the Kenya Sugar Board. The whole amount was spent on rehabilitation. At the end of the financial year, the company recorded profit.

Currently, there is shortage of cane in the area and the company has been constrained to crush immature cane to make ends meet.

The genesis of the shortage is the non payment of farmers for past deliveries culminating into farmers abandoning cane farming. Most of them are however venturing back to sugar cane farming in the light of the ongoing government restructuring and revamping of the sugar industry.

Kenya Sugar Board had advanced Chemelil outgrowers 50 million shillings late last year for cane farming development. The Board was prepared to advance them another 80 million this year if satisfied with the utilization of the 50 million. The Board would be advancing Muhoroni outgrowers 81 million shillings in the course of the year for the same purpose.

The Board would also advance Muhoroni and Miwani Co-opeative Unions 200 million shillings for cane farming development.

During the meeting, Kenya Sugar Board Chief Executive presented to Nandi Escarpment outgrowers a

cheque for 32,854,632.00 for cane farming development.

The management took issue with the Kenya sugar Board for the intended licensing of a fourth sugar company at Kibos which was less than 40 kilometers from Miwani Sugar Company. The Sugar Act 2001 clearly provides that no new company would be established within a radius of 40 kilometers from any existing company.

The management had plans of ensuring that the company in the near future produces electricity from bagasse for supply to the National grid.

5.3. Tour of the factory

The factory had been closed down for routine maintainance services. Nevertheless, the Committee was taken round all sections of the company and made some observations.

The factory machines were old and the company was using very old technology in sugar production.

The company generated its own power from bagasse unlike many companies which use hydroelectric power. There was a lot of bagasse at the factory in respect of which the company spends heavily on disposal.

The factory was dusty right from the roof to the floor. This posed a health hazard to employees.

The company packs sugar in plastic bags of one to two Kilograms. The company was using poor quality paper for packaging and this had adversely affected sales. The management made an admission to the effect.

5.4. Tour of the nucleus estates

The company irrigates some of its cane. The total area of irrigated cane is 400 acres.

The company uses water from a nearby river for irrigation. Used water from the factory is also used for irrigation. The committee was informed that irrigated cane was fast maturing and of higher quality.

The management decried high costs of land preparation occasioned high fuel consumption by tractors. This was because of the black cotton soils which require tilling by a single moldboard.

Mr. Speaker Sir,

6.0. MUHORONI SUGAR COMPANY

While at the Company, the Committee first held a meeting with the Receiver Manager before touring the factory and nucleus estates. In attendance were the Chairman and Chief Executive of the Kenya Sugar Board.

6.1. Background information

Muhoroni Sugar Company (in receivership) is situated in Nyando District. The company caters for other cane growing areas like Kericho and Nandi Districts.

The Muhoroni sugar zone covers an area of 16,490.465 hectares and is capable of producing 650,000 tonnes of milling cane per annum under perfect conditions.

Currently, the area under cane is 10,000 hectares. The zone has a population of 500,000 with 10,000 being actively involved in sugar cane farming.

The company receives cane from its nucleus estates and outgrowers. The nucleus estates cover a total area of 1,660.68 hectares and the outgrowers 14,829.97.

6.2. Meeting between the Receiver manager and the Committee

The meeting took place in the company's boardroom. The Kenya Sugar Board chairman and Chief Executive also attended. Farmers were also represented.

The meeting realized the following:-

The company ground to a dead halt in December 2000 when it became impossible to continue operations. This was because the company was heavily indebted and several judgements had been obtained against it with Auctioneers threatening to proceed with attachment.

In March 2004, Mr. Ndungu Gathenji and Mr. Jack Rangoma were appointed by the then Kenya Sugar Authority (Now Kenya Sugar Board) as joint receiver managers of the company.

The company's debenture holders were the then Kenya Sugar Authority, National Bank of Kenya and the Kenya government directly. The Agriculture Development Corporation was a major shareholder in the company.

The Receivers' terms of reference among others were:-

- To secure the assets of the company;
- To retain a few staff for care and maintainance purposes and send the rest on 120 days unpaid leave;

- To facilitate processing of the company's cane at Chemelil sugar company:

The Receivers were convinced that the company would be revived. They came up with a scheme of arrangement for restructuring the company and finding a strategic partner.

They submitted a report to Kenya Sugar Board to that effect. In view of the fact that company was indebted to the tune of 5.5 billion shillings and the government was not ready to bail it out, the Board was of the conviction that the company could not settle this debt without the government's support and recommended that the company be wound up.

The Receivers submitted another report declining to wind up the company. They argued that the company was capable of repaying its debts and that winding up of the company would have far reaching socio-economic consequences to the local community. They continued with operations.

They entered into Memorandum of understanding with farmers in respect of cane supply, suppliers with regard to factory rehabilitation and cane transporters. Under the Memorandum, payment would be after the company had started operations and recorded sales.

In December 2001, the company re-opened and has since then made 3.9 billion shillings from its operations with 3.6 billion coming from sale of sugar. The company has paid suppliers 620 million shillings, farmers 1.5 billion shillings, staff 320 million shillings, government taxes 365 million shillings and 190 million shillings to Kenya Sugar Board as sugar development levy. The big debt of 5.5 billion however remains

unserviced. The company also owes retrenched staff 27 million shillings.

At the time of closure, the company had 1174 employees. Currently, it has 655 employees permanent and pensionable and 250 casuals.

The Receivers are convinced that with the current government restructuring and revamping of the sugar industry, there will be an upsurge in cane farming and in the near future, the company may not be able to cope up with cane supply.

6.3. Tour of the factory and Nucleus estates

The tour realized the following:-

The factory was operating under capacity owing to shortage of cane in the area. The company had a crushing capacity of 4000 tonnes of sugar per day but was crushing 2000 tonnes. This was because farmers had in the past abandoned growing the crop owing to the failure by the company to pay them for deliveries.

The company was operating two small boilers which were inadequate and ineffective. It had applied to Kenya Sugar Board for funding and the Board was addressing the issue.

Generally, the entire company infrastructure is in dilapidated state owing to the long period of neglect when the company was not operating. The Committee however commended the company for having a gene bank where old varieties are preserved.

The Agricultural Development Corporation owned vast land next to the company's nucleus estate. The land had been unlawfully allocated to prominent individuals.

Land belonging to the company had also been unlawfully allocated to private individuals.

There is prevalence of fires in Muhoroni area. In as much as these fires are for harvesting purposes, many arson cases have been reported.

Primates in the area have for many years been destroying cane. The primates are tamed by one Naman Brooks and appeals to him to control them have been in vain.

6.4. Other findings by the Committee

For some unknown reasons, the company had never been audited by the Controller and Auditor General since 1999. This was notwithstanding an Inter-ministerial team recommendation in 2000.

The Receivers had been filing reports on receivership from which the Kenya Sugar Board discovered anomalies relating to financial transactions. The Receivers could not account for the whereabouts of 189 million shillings and when Kenya Sugar Board queried the anomaly, 46 million was secretly deposited in the company's bank account.

Consequently, the Board caused investigative, tax and operational audits to be carried out by the Kenya Revenue Authority with effect from 20th September 2004.

Mr. Speaker Sir,

7.0. MIWANI SUGAR COMPANY

At the Company, the Committee held a stormy meeting with the Receiver Manager. Also attending were the

Kenya Sugar Board Chairman and Chief Executive, former area Member of Parliament Hon. Onyango Midika and farmers' representatives.

7.1. Background information

Miwani Sugar Company (in receivership) is situated in Nyando District of Nyanza province.

Miwani is the oldest sugar company in the country. It was established in 1922 and until going under receivership, it was the only industrial sugar producing company in the country.

Miwani sugar zone covers 18,100 hectares including the factory nucleus which covers 3200 hectares. 12,000 hectares are untapped making 30,100 hectares, total caneable area.

The factory's rated capacity is 2200 tonnes of sugar per day.

7.2. Meeting between the Committee and Receiver Manager

The meeting took place in the company's boardroom. In attendance were the Chairman and Chief Executive of Kenya Sugar Board.

The meeting disclosed the following:-

Until receivership in 2001, Venessa Associates held 51% shares in the company with the government holding 49%. The authorized share capital was 200 million which was duly issued and paid for.

At the time of receivership, the company was indebted to the tune 2 billion shillings with the key creditors being as follows:-

- Venessa co Ltd, 1.1 billion;
- Kanya Sugar Board, 491 million;
- Delphis Bank, 150 million;
- Farmers, 97 million;
- Transporters, 19 million and
- Kenya Power and lighting company, 4.2 million

Venessa Company Ltd which apparently was a key shareholder at the time of receivership was said to be owned by the controversial businessman, Mr. Ketan Somaia.

The company stopped operations six months after receivership. The receiver retained 63 employees for security, accounting, cleaning and cane maintainance purposes. The rest were sent home.

The company had not serviced any of its debts since being placed under receivership. In fact the meeting took place in a dark boardroom as Kenya Power and Company Ltd had disconnected electricity supply owing to the outstanding electricity bills.

The company recently received some funds from the Kenya Sugar Board and will be settling some of its debts.

Before the company went under receivership, most of the company land had illegally been sold by the previous managements headed by Mr Surjeet Singh and Mr. Chenan Singh. The two were also in the process of unlawfully acquiring the company's 10,000 hectares of the nucleus estate.

7.3. Tour of the factory

Milling plant

The plant was in a dilapidated state and needs to be replaced. The plant has a rated capacity of 2200 tonnes per day.

Refinery plant

The plant has a rated capacity of 100 tonnes of refined sugar per day. It has room for expansion to a capacity of 200 tonnes per day.

The plant was in a very poor state and requires replacement.

Distillery plant

The plant is capable of producing methylated spirit from molasses and refinery syrup. The plant was in a dilapidated state and requires replacement.

The previous managements of Surjeet Singh and Chenan Singh for some ulterior motive vandalized sections of the factory building and machines before departure.

The Receiver on the other hand admitted lending and selling some factory parts to Chemelil Sugar Company. The reason given was that Chemelil was crushing Miwani Sugar Company's cane.

The company's distillery was in good state. New machines had just been installed prior to receivership and are functional save for power.

The revival of the company had been extremely difficult owing to the high cost of replacement of machines and parts. A report by Kenya Sugar Board Engineers had revealed that many of the company machines and parts were beyond repair.

The pending court cases by Surjeet Singh and Chenan Singh against the company had also been an impediment to the speedy revival of the company.

7.4. Kenya Sugar Board's remarks on the company

There was an Inter ministerial committee inquiring into the company's ownership. The Board would meet the Committee on the first week of November for a briefing on ownership of the company. The Inter ministerial committee's report would have been released by then.

The company had not been audited since going under receivership. By end of October 2004, an audit report would have been prepared. A cabinet paper on the revival of the company would also have been prepared.

Mr. Speaker Sir,

7.5. Recommendations

The current crisis in the sugar industry has been caused by importation of cheap sugar from COMESA countries. Kenyan sugar is expensive because of high production costs.

The Committee recommends that sugar companies reduce production costs if their sugar is to compete locally with that from COMESA countries.

Mr. Speaker Sir,

The government is equally to blame for the high cost of sugar. The Government does not subsidize the sugar industry unlike other COMESA Governments. The Government levies the sugar industry Value Added Tax unlike other COMESA Governments.

The Committee recommends that the government henceforth subsidizes the sugar industry and stops collecting Value Added tax from the industry as is the case with the coffee and tea industries.

The Committee further recommends that the government zero rates consumables, inputs, parts and machines used in the sugar industry.

Mr. Speaker Sir,

The Committee found that the three companies were using very old technology and machines in production and this made them incur unnecessary expenses on repairs, maintainance and fuel. The old machines and technology have also been responsible for inefficiency and poor quality sugar.

The Committee recommends that the companies acquire modern machines and apply modern technology in production.

Mr. Speaker Sir,

The COMESA safeguard measures which limit importation of sugar will lapse in 2008. Thereafter it will be free for all trade. It is very important that the ministries of agriculture, trade, finance, sugar companies and all stakeholders find a long term solution to the adverse effects of importation now. Otherwise it would be total destruction to Kenya's sugar industry come 2008.

The three companies are heavily indebted to employees, farmers and suppliers. The Committee recommends that the companies pay their creditors. The Committee calls upon the government to consider assisting some of the companies in settlement of the debts.

Mr. Speaker Sir,

The three companies have restricted themselves to sugar production when there are several by products which could be manufactured. Bagasse which is a by product could be used in electricity production, manufacture of paper, soft board and charcoal.

The Committee recommends that all sugar companies in the country diversify production if they are to survive the adverse effects of importation.

Information dissemination from research institutes to the farmer has been very poor. Extension officers have been ineffective. The committee recommends that the government urgently addresses the issue.

The Committee further recommends that all stakeholders in the sugar industry share pertinent information for the benefit of the country. In line with the foregoing, the Committee calls upon Sugar Research Institutes to do more research for the cane farming development. The Committee would like to see better farming techniques and cane varieties developed.

Mr. Speaker Sir,

The Committee heard of cases where money disbursed to the industry was misappropriated, diverted to unauthorized purposes or embezzled. The Committee

recommends that Kenya Sugar Board monitors the utilization of all disbursements.

The Committee also learnt of cases where some farmers were provided inputs by companies for use but sold them. The committee recommends that farmers take farming seriously for their own good and of the country and calls upon companies to monitor the use of supplied inputs.

Most farmers in Nyando grow rice or sugar cane only as their only source of livelihood. The two are cash crops. The committee recommends that the farmers also grow subsistence crops to make the country food secure.

With efforts the government is putting in the restructuring and revamping of the sugar industry, the committee is strongly convinced that in the near future, there will be an upsurge in cane supply and the companies may not be able to cope up. The Committee recommends that the companies gear up for the upsurge.

The Committee further recommends that the companies ensure that there is continuity of supply of their products to the market. Once they fail to meet demand there products are abandoned by customers and recovery is very difficult.

Credit access is vital in the development of the entire agricultural sector. The committee recommends that the government makes it easier for farmers to access to credit.

Mr. Speaker Sir,

The Committee learnt of the impending licensing of a third sugar company to operate at Kibos which is less

than forty (40) kilometers from Miwani Sugar Company. The Sugar Act 2001 prohibits establishment of new companies within a radius of forty kilometers from existing companies and the Committee calls upon the Kenya Sugar Board not to license the company.

All roads in the Nyando sugar zone are in very poor state. The cess collected is not enough to put them in a good state. The committee recommends that the government subsidizes cess collection for roads improvement.

Vast Agricultural Development Corporation's land forming part of the Muhoroni Sugar Company's nucleus estate was unlawfully allocated to prominent people in the previous regime. The Committee recommends that the government repossess the land for reversion to the company.

The three factories were dusty and not painted. This poses a health hazard to employees. The committee recommends that the companies put the factories in a clean and habitable state.

xxxxxxxxxxxxxxxxxxxxxx