REPUBLIC OF KENYA

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

NATIONAL POLICY ON SUGAR INDUSTRY

REFORM MEASURES IN THE INDUSTRY, INSTITUTIONS
AND
ESTABLISHMENT OF THE KENYA SUGAR BOARD UNDER NEW LEGISLATIVE FRAMEWORK

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TABLE OF CONTENTS

1.0 INTRODUCTION

1.1 The major national objectives of Kenya's food policy are self-sufficency, food security, employment creation, income generation, foreign exchange earnings, rural-urban balance, poverty alleviation and overall economic growth.

1.2 In order to meet the above objectives, high priority is placed on the sugar sub-sector because of its importance to the economy. By the end of 1999, the sugar industry offered direct employment to about 35,000 employees and was a source of livelihood for over 5 million people, including over 100,000 small-scale farmers who produce about ninety per cent of sugarcane in Kenya. Further improvement of this vital industry will help alleviate unemployment through backward and forward linkages with input suppliers, support services, marketing and distribution of sugar and by-products.

2.0 OBJECTIVES OF THE POLICY

2.1 The sugar sub-sectoral goals are to:

(a) achieve self-sufficiency in the most cost-effective and efficient manner with the ultimate goal of becoming a sugar exporting country;

(b) provide direct and indirect gainful employment for Kenya's growing labour force;

(c) provide raw materials for processing of beverages, soft drinks and pharmaceuticals, among other products as this will not only contribute to savings but also earn the much needed foreign exchange through exports; and

(d) promote rural development through direct participation of rural families in sugar producing areas in order to ameliorate the problem of rural-urban migration.

2.2 In order to realize these objectives the Government is:

(a) facilitating institutional and policy reforms through effecting necessary changes to the existing legal and policy frameworks;

(b) facilitating the privatization process, specifically addressing impediments to the sale of parastatal sugar companies;

(c) promoting measures aimed at raising and sustaining higher productivity with particular attention to viable land sizes and sustained long-term agricultural productivity;

(d) encouraging rural industrialization as a method of improving standards of living of rural people by creating employment opportunities and raising family incomes; and

(e) providing necessary infrastructure such as sugar roads, schools, health facilities, information centres, in collaboration with the private sector and other development partners.

3.0 CONSTRAINTS IN THE SUGAR INDUSTRY

3.1 Over the years, the sugar sub-sector has been contrained by many factors including:-

(a) low cane crushing capacity leading to substantial quantities of cane going to waste;

(b) low sugar extraction parameters caused by out-dated factory technology and mismanagement;

(c) poor crop husbandry aggravated by the existence of weak out-grower companies;

(d) poor physical infrastructure;

(e) inadequate research on appropriate cane production technologies and extension services;

(f) unpredictable weather patterns with erratic rainfall and prolonged periods of drought;

(g) inadequate funds for cane development, factory rehabilitation and maintenance;

(h) lack of synchronized planning for cane production and factory capacity leading to over-mature cane and delayed payments to farmers;

(i) high cost of inputs;

(j) uneconomic plot sizes; and

(k) diversion of uncustomed sugar imports into the domestic market.

4.0 OUTLOOK OF THE SUGAR SUB-SECTOR

4.1 Kenya has the potential to attain and sustain self-sufficiency in sugar production and also, produce surplus for export. Domestic demand for sugar has steadily risen from 217,462 metric tonnes in 1973 to 609,428 metric tonnes in 1999 while production has increased from 137,808 to 470,788 metric tonnes in the same period.

4.2 Area under cane in 1992 was 94,775 hectares, rising to 108,793 hectares in 1999. Since 1994 sugarcane yields have increased from 61.4 metric tonnes per hectare to 78.42 metric tonnes per hectare in 1999. Some of the factors that have contributed to the growth include timely availability of farm inputs to cane farmers through funding from the Sugar Development Fund (SDF), rehabilitation of sugar factories, improved cane husbandry practices and improved cane varieties.

4.3 Kenya has seven operational factories namely: Miwani, Muhoroni, Mumias, Chemilil, Nzoia, Sony and West Kenya. All the factories have on average been crushing below their rated capacities due to various constraints. Given the total installed crushing capacity of 24,500 metric tonnes of cane per day (TCD), 550,000 metric tonnes of sugar could be produced per year.

4.4 Projected production by the year 2002 is 723,020 metric tonnes, while consumption for mill white sugar is 674,827 metric tonnes. In order to realize the goal of self-sufficiency in sugar and produce surplus for export, new sugar factories will be established and the capacities of some of the existing ones expanded.

4.5 Government recognises that there is potential for private investment in the establishment of new sugar factories in areas such as Soin, Yala Swamp, Opapo, Lambwe Valley, Tana River, Busia, Transmara and Ramisi.

4.6 Projected consumption of refined sugar by 2002 is 80,000 metric tonnes. The rehabilitation and establishment of refined sugar processing plants is an urgent measure required to stem the costly importation of industrial sugar.

4.7 The sugar industry is expected to undertake product diversification in order to become more competitive through power co-generation and production of power alcohol, animal feeds, yeast, confectioneries, pharmaceuticals, etc. Other complementary enterprises could include livestock production, growing of other crops and inter-cropping cane with short term crops.

5.0 REFORM MEASURES IN THE SUGAR SUB-SECTOR

5.1 **Liberalization:** With Government's adoption of economic liberalization, sugar price and marketing controls on sugar have been abolished. However, necessary regulations will be put in place to ensure that the sugar industry operates in an orderly manner.

5.2 **Privatization:** The Government of Kenya predominantly owns the sugar industry. With its decision to divest its shareholding in the sugar industry, the Government has scheduled all the sugarcompanies for privatization and has further decided that adequate equity be reserved for farmers and employees after adequate consultation with the stakeholders.

5.3 In order to address the constraints enumerated above, the following measures will be undertaken:

(a) expansion of the crushing capacity and improvement of efficiency in operations;

(b) installation and/or rehabilitation of sugar refineries;

(c) enhancement of extension services for good crop husbandry;

(d) application of appropriate tax incentives;

(e) restructuring and strengthening out-grower institutions;

(f) restructuring of indebted sugar companies;

(g) development of infrastucture through effective utilization of sugar development levy and agricultural produce cess;

(h) enhancement of research for better yielding varieties with high ratooning ability;

(i) encouraging irrigation by adopting appropriate low-cost technologies; and

(j) strengthening the Sugar Imports Monitoring Committee.

6.0 TRADE IN SUGAR

6.1 Kenya, having ratified its membership in the World Trade Organization (WTO) is required to formulate policies in tandem with the WTO Agreement. It should however, be appreciated that over 80% of total annual sugar production is dealt in lucrative quotas, under bilateral agreements and local markets, thus only between 12% and 18% reached the world market. Kenya is among the few sugar producting countries that have not taken advantage of the arrangements. In addition, the country is a transit point for exports to her land-locked neighbouring countries, whose diversion to the domestic market is injurious to local production.

6.2 In order to protect the industry against the dumping of cheap sugar, Kenya will, where necessary, apply the safeguard measures under the WTO Articles Agreement on safeguards. The modalities for this undertaking will be worked out and discussed with the WTO before implementation.

6.3 The domestic trade policy will be harmonised with the regional and international trade arrangements.

6.4 The specification for mill white sugar and refined sugar as per the Kenya Bureau of Standards specification (KS-05-38) will be continously monitored, reviewed and enforced. On quality and safety standards, a committee comprising Kenya Sugar Board, Kenya Revenue Authority, Kenya Ports Authority, Kenya Association of Manufactures and Kenya Bureau of Standards will be set up to coordinate the inspection and certification of imported sugar.

7.0 SUGAR MARKETING

7.1 In order to harmonise the marketing systems, stringent measures will be put in place and enforced to eliminate tax evasion and other malpractices in sugar marketing.

7.2 The industry will ensure that adequate stocks of sugar are maintained throughout the year.

8.0 PRICING OF SUGARCANE AND SUGAR

8.1 The price of cane is negotiated between the Kenya Sugarcane Growers' Association (KESGA) and Kenya Sugar Manufacturers' Association (KESMA). These negotiations take into consideration factors such as cost of production, rendement, sugar price and other costs. The Kenya Sugar Authority facilitates this process by undertaking independent studies on costs of sugarcane production and processing of sugar, which serve as useful guidelines for the industry. It is expected that sugarcane pricing will be determined on the basis of sucrose content whose formula will be reviewed from time to time.

8.2 The ratio of sharing proceeds from the sale of sugar between the farmers and millers is negotiated on the basis of sugarcane weight. However, a payment system based on cane quality will be implemented as per the modalities set out in the guidelines for the sugar industry agreements.

8.3 There is a need to reduce the high cost of cane transport and operations by encouraging the use of fewer, larger capacity vehicles and improving the roads and infrastructure.

9.0 SUGARCANE EXTENSION SERVICES

The main thrust for improving sugarcane extension services has been through factory agricultural staff. It is envisaged that outgrower institutions will be strengthened to acquire the necessary capacity to offer extension services in collaboration with the Kenya Sugar Research Foundation.

10.0 SUGAR RESEARCH

10.1 Kenya Sugar Research Foundation will collaborate with related research institutes in other countries and develop linkages with the Ministry of Agriculture and Rural Development, domestic factories and outgrower institutions. Overall, the Foundation's research agenda will be dictated by the needs of the sugar industry.

10.2 In order to improve sugarcane yields, better sugarcane husbandry practices will be pursued. The search for better sugarcane varieties with special attention to early maturing varieties that are adaptable to local conditions will be intensified. In the long-term, improved early maturing sugarcane varieties will be developed and commercialized.

10.3 The Foundation will spearhead research into improved factory operations, agricultural engineering and sugar marketing, in addition to agronomic technologies.

11.0 ENVIRONMENT PROTECTION AND USE OF RESOURCE BASE

11.1 Increased use of inorganic fertilizers and pestcides are important for increasing agricultural productivity. However, this has to be associated with an agro-ecologically based approach to agricultural research and extension which stresses conservation measures such as maintaining vegetative cover and retention of soil organic matter as well as intergrated pest management. In particular, harvesting of green sugarcane will be encouraged. The sugar industry has to play its role in achieving food security and poverty alleviation, in an environmentally friendly and therefore sustainable manner.

11.2 The industry will progress on the basis of measures for impact assessment and the necessary intervention developed under the National Environmental Action Plan (NEAP). In particular, water resources after use in the sugar factories should be swimmable and fishable. The industry will therefore be required to take the necessary steps to conform to the requirements of the Environmental Management and Co-ordination Act, 1999.

12.0 ROLE OF GOVERNMENT

12.1 The role of the Government will be to support the industry through regulation, enhancement of competition and fairplay within the industry and provide an enabling environment for stakeholders. The Government will continue providing public goods and services such as infrastructure, health facilities, water, and other social services. The Government's role in the industry will gradually diminish as privatization is effected.

12.2 The Government has committed itself to major structural reforms, which include *inter-alia*, economic liberalization and privatization of public enterprises. All the Gorverment owned sugar companies are to be privatized.

13.0 THE ROLE OF KENYA SUGAR BOARD

13.1 The Kenya Sugar Authority (KSA) is a public enterprise which was established under an Order made under the Agriculture Act, Cap. 318 through Legal Notice Number 32 of 17th March, 1973 to promote and foster the effective and efficient development of sugarcane for production of white sugar in Kenya. The Kenya Sugar Authority will be restructured and succeeded by the Kenya Sugar Board (KSB) to adequately address the challenges for a privatized sugar industry. The major role of KSB will be to undertake development aspects and co-ordinate the interests of growers, millers and other stakeholders in the industry.

13.2 KSB's Mission will be "To provide leadership in the development of an efficient and self-sustaining sugar industry in Kenya for the benefit of growers, millers and consumers while contributing to the social and economic development of the country".

13.3 In addition, KSB will provide loans from the Sugar Development Fund (SDF) to affiliated Sugar Companies and Out-grower institutions, as well as grants to Kenya Sugar Research Foundation for research and development. The Fund will continue financing the following components:-

- (a) cane development;
- (b) factory rehabilitation;
- (c) research and development;
- (d) infrastructure (roads) in cane growing schemes; and
- (e) administration of Kenya Sugar Board.

14.0 ROLE OF OUTGROWER INSTITUTIONS

14.1 The basic function of an out-grower institution is to promote, represent and protect the interests of sugarcane farmers.

14.2 The institutional framework and human resources capacity of the outgrower institutions will be strengthened as a matter of priority.

15.0 ROLE OF SUGARCANE MILLERS

The basic role of the miller is to make a fair return on investment through efficiently operating a sugar mill or jaggery for the production of sugar and other products for sale and making payments to cane growers within the agreed time.

16.0 ROLE OF OTHER INSTITUTIONS

16.1 A National Sugar Training Institute will be established. In the meantime, the Directorate of Industrial Training will continue offering the neccessary training in relevant matters.

16.2 All jaggery factories will be registered with the Kenya Sugar Board and will operate under the same policy environment as sugar companies. This will include having their own weighbridges and contracted sugarcane growers and payment of VAT, Sugar Development Levy and other applicable taxes.

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