

# Management Politics in Kenya's Sugar Industry: Towards an Effective Framework

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*Peter Wanyande\**

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## Abstract

*Poor management, corruption and vested political interests have made Kenya's sugar industry so inefficient that the country's goal of attaining self-sufficiency in sugar production will remain unattainable for a long time. To explain the persistence of this situation, the article examines the management practice in the industry, prevailing production arrangements and the problems associated with it, focusing on the politics that pervades the entire system*

## Introduction

This paper has two objectives. The first objective is to discuss the management of Kenya's sugar industry and to shed insights into the politics surrounding the management of the industry. The second objective is to suggest a way forward in terms of an effective policy framework for the effective management of the industry. In an attempt to meet these objectives we have provided a historical background to the sugar industry in Kenya including information about the various actors involved in the industry since its inception to date. These include sugar-cane farmers and their organizations, the owners of capital, both local and international, that have invested in the industry, the managers and the state through its various institutions. The paper then examines the production structure of the sugar industry including the production arrangements and the problems associated with the production system that has been put in place. The final part of the paper suggests a way forward in terms of policy. An attempt is made throughout the paper to highlight the politics affecting the management of the sugar industry. The argument of the paper is that poor management, corruption and vested political interests have made the sugar industry so inefficient that the aim of making Kenya self-sufficient in sugar is likely to remain elusive for a long time to come.

Data for this report was obtained from both secondary and primary sources.

Primary sources were derived from interviews conducted among twenty farmers in Muhoroni and fifteen farmers in Chemelil sugar-cane growing areas. The author had also attended the Open Forum of the Institute of Economic Affairs in 1999 at which problems in the sugar industry were discussed. Secondary sources included published and unpublished academic and non-academic materials on the industry. Newspapers and journals were also consulted.

## **Genesis and Development of Kenya's Sugar Industry**

The development of the sugar industry in Kenya is inextricably linked to the history of Asian Agricultural Settlement in the country. The Asians, first came to Kenya as labourers who were used by the British to build the railway line from Mombasa to Uganda during the initial years of the colonial period. The Asians then referred to as coolies, soon began to engage in retail trade and later in commercial agriculture. The most successful of these early Asian agricultural settlements were at Kibos in present day Nyanza Province. It was here that the first sugar production on a commercial basis was started when the Miwani Sugar Mills was established on a medium scale at Miwani in Kisumu District of Nyanza Province, in 1922 (Odada, 1986). It was run as a private business concern by the Hindocha family. Hindocha was an Asian who became a very successful businessman in the area. The second sugar mill was established in 1927 by the Associated Sugar Company Limited at Ramisi in Kwale District of the Coast Province and managed by the Madhvani Group International of India. These two were managed and owned by private Asian companies and the large-scale farms that supplied them with cane up to the mid-1960s were exclusively owned by Asians. This was the situation before independence.

The post-independence period saw the post-colonial state begin to participate directly in the sugar industry with the government aggressively boosting sugar production with the aim of making the country self-sufficient in sugar production. To this end the state's strategy to develop the sugar industry was guided by two policy documents. The first was the Swynnerton Plan of 1954 and the second was Sessional Paper No. 10 of 1965 a policy document in which the government stated its version of African Socialism. It has remained the country's development "bible" since its adoption. The full title of the document is African Socialism and its Application to Planning in Kenya. These two policy documents provided the broad framework within which the state was to revolutionize its agricultural sector including sugar-cane farming.

The Swynnerton Plan provided a land tenure policy that represented a new phase in Kenya's agricultural development as far as land utilization was concerned. The Swynnerton Plan introduced for the first time in this country, individual land tenure system and the registration of land including the provision of land title deeds. Prior to this land was communally owned. The plan is, however, best remembered for allowing Africans to cultivate profitable export crops hitherto an exclusive monopoly of white settlers (Migot Adholla; 1984: 203) and Asians. According to this policy document,

sound agricultural development is dependent upon a system of land tenure which will make available to the African farmer a unit of land and a system of farming whose production will support his family at a level taking into account requisites derived from the farm, comparable with other occupations. He must be provided with such security of land tenure through indefeasible title as this will encourage him to invest his labour and profits into the development of his farm and as well enable him to offer it as a security against such financial credits as he may wish to secure from sources as may be open to him ... (Swynnerton, RJM, 1995).

### **Direct State Involvement in the Sugar Industry**

The post-colonial state echoed the Swynnerton policy by stating that one of the requisites for successful farming is a system of land tenure that encourages investment in the land and enables it to be used as a negotiable asset for obtaining credit. The net effect of such a policy was that it enabled smallholders acquire land and use it for cane growing and more so changed the traditional land tenure system thereby creating individual private property in land. The aim of the government as already stated was to make Kenya self-sufficient in sugar-cane production and to meet both domestic needs and if possible export.

The involvement of the state in the sugar industry must, however, also be seen in another light, namely the desire to be seen to provide citizens with the opportunity to improve their income in line with the government's stated commitment to improving the living standards of the people. This was politically important as a way of enhancing the legitimacy of the government in view of the many promises the nationalist leaders had made to the citizens during the struggle for independence. Kenyans had been denied a chance to grow cash crops until the Swynnerton Plan of 1954 already referred to. In addition, the state felt it was necessary to introduce sugar-cane production in Western Kenya because by 1966 this part of the country was already feeling that the government was not taking care of their interests. This followed the resignation of Oginga Odinga from the government after disagreeing with Kenyatta. Kenyatta was Kenya's first president and Odinga was at that time the country's vice president. Indeed there were already signs of growing ethnic tensions in the country with a feeling that Kenyatta's ethnic group was being favoured in the development process. The Luo community who reside in the present sugar belt was particularly unhappy since many of them were feeling marginalized politically and economically. The introduction of sugar-cane farming in this region was therefore partly aimed at giving the people of the region an assurance that the government was still ready to take care of their economic interests even if Odinga, the undisputed leader of the community, had fallen out with the government. The industry was also important because it would provide employment to local people as well as generate income.

It is important to note that in later years the people of the region interpreted the near collapse of the sugar industry as a deliberate attempt by the state to "kill" the

community economically. The Luo community had by 1969 made it very clear that it no longer supported the Kenyatta government especially after the detention of Odinga following the massacre in Kisumu town during the opening of the provincial hospital in the town by President Kenyatta. Odinga had on this occasion exchanged bitter words with the president causing excitement among the crowd which then threw stones at the presidential motorcade as it left the meeting. This prompted the presidential security to open fire at the huge crowd present at the ceremony leaving scores of people dead.

To encourage sugar-cane farming on a commercial scale, the state acquired a large area of land towards north and east of Muhoroni in present day Nyanza province. The state went on to establish sugar settlement schemes in 1966 under which a portion of land was allotted to each settler. The Sugar Settlement Organization (SSO) in the Ministry of Lands and Settlement was created and given the responsibility of managing the settlements with a commensurate milling plant capacity of East African Sugar Industry (EASI) now Muhoroni Sugar Company. To augment cane production, Sugar Belt Cooperative Union (SBCU) was established in the early 1970s for growing cane in traditional homelands to support cane supplies to the newly created Chemelil Sugar Company 12 kilometres from Muhoroni Sugar Company. Consequently, there was an increase in the area under cane especially in the period between 1966 to 1977.

It is important to note that although many poor people were given land in the new settlement schemes, and encouraged to grow sugar cane, a large number of very rich people also got the land. The point about this is that because many of these rich people were employed far away from the farms in places such as Nairobi, they operated as absentee landowners or farmed through remote control by relying on employees to run the farms. One of the consequences of this was that productivity on such lands was not always at a maximum.

Since the two sugar factories established in the 1920s at Miwani in Nyanza and Ramisi at the coast were privately owned and managed, the post-independence state, as a major shareholder in the industry decided to set up five sugar factories. This marked the beginning of direct participation of the state in the sugar industry in the form of ownership. Toward this end the state established the East African Sugar Industries Limited at Muhoroni in 1966 with a rated capacity of 1,200 tonnes of cane per day (TCD) and Chemelil Sugar Company Limited in 1968 with a rated capacity of 3,000 tonnes of cane per day (TCD). The establishment of Muhoroni and Chemelil marked the introduction of monopoly capital into the sugar industry. The management of Muhoroni Sugar Company was entrusted to the Mehta Group International while Chemelil Sugar was entrusted to Bookers and Tate International. In 1973 the state established another factory at Mumias in Kakamega district with a capacity of 2,000 TCD and its management was entrusted to Bookers and Tate International. In 1978, a French Company Techniscare established a factory at Nzoia in Bungoma district with a rated capacity of 2,000 expandable to 3,000 TCD. Its management was left to French Techniscare with the state being the major

shareholder. The fifth sugar mill was established in 1979 at Awendo in South Nyanza (SONY) and its management was entrusted to Mehta Group International. More recently, the government constructed the West Kenya sugar factory in Western Province. The government has also proposed to build a sugar factory in Busia in Western Province and to rejuvenate Ramisi sugar factory at the coast. Ramisi had been closed down due to, among other factors, mismanagement.

The government thus participated in the sugar industry by owning shares in these companies in collaboration with the foreign capital. The state owned the majority shares in these companies. For example, it owned 98.8 % of the shares in SONY, 95.38 % in Chemelil, 74.17 % in Muhoroni, 70.76% in Mumias and 97.93% in Nzoia company. It is, therefore, correct to say that these are state-dominated companies. The state also dominated them in the sense that it took control of the distribution of sugar after the processing had been done. The state did this through the now defunct Kenya National Trading Company (KNTC). KNTC was a parastatal organization used by the state to distribute not just sugar but just about every commodity in which the state had an interest. Indeed the KNTC monopolized the purchase of sugar from the factories at a price determined by the state. The result of this was that farmers, both in the nucleus estates and the outgrowers had no incentive to increase production.

### **Organizations in Kenya's Sugar Industry**

The Kenyan government has not only been active in affecting the establishment of new sugar companies, but it has also been involved in directing and controlling various programmes supposedly aimed at ensuring rapid development within the industry. To this effect the state has been represented in the industry by different institutions. The Office of the President through the Secretary of State Corporations sets and controls the terms and conditions of service for sugar companies especially through the appointment of directors of the firms and parastatals attached to the industry.

In 1973, the government declared sugar a special produce and the Kenya Sugar Authority (KSA) was legally instituted as an advisory body within the Ministry of Agriculture under legal notice 32/73 to promote and accelerate development of the industry. According to the Agricultural Act Chapter 318 (Republic of Kenya, 1967):

... There is hereby established an authority to be known as the Kenya Sugar Authority (KSA), for providing and fostering the effective and efficient development of sugar cane for the production of white sugar in any area of Kenya.

The KSA is thus the overall government body charged with the development of the sugar industry in the country. Its mandate includes the coordination of research and development activities of the industry with the aim of improving not just productivity but also the discovery of high-yielding cane varieties. In this regard KSA is

expected to work closely with the Kenya Agricultural Research Institute and the Kenya Sugar Research Foundation. KSA also controls the Sugar Development Fund, a fund established in 1992 to help finance cane development, the development of infrastructure such as roads in the cane-growing areas, factory rehabilitation and research. The fund is a revolving fund which is collected by sugar companies and contracted agents from locally produced and imported sugar. It is important to note the KSA is purely a government body without representation from the farmers.

As an advisory body to the government on the production of sugar, the authority's roles have been: to advise on the effective and efficient development of sugar-cane production for the manufacturing of white sugar; to advise on rules and regulations necessary to enable the effective and efficient functioning and development of the sugar industry and to develop and implement, upon approval by the Ministry of Agriculture, a cane-testing service and a sugar-cane quality control system. Thus, KSA in collaboration with the Ministry of Agriculture determined the price of sugar cane after gathering systematic data from all sugar companies on the costs for the whole range of farm-level activities from bush clearing, land preparation, care development and transport costs. To implement the cane price, KSA goes through a price review committee; the state was represented by five ministries. These are the ministries of Agriculture, Commerce, Industry, Finance, Economic Planning and National Development, and the Office of the President. The committee then makes price recommendations to the cabinet for amendments and final approval.

From the factory gate, the role of KSA is limited particularly with regard to sugar marketing and distribution. The latter function was governed by the provisions of the imports, exports and essential supplies Act (Cap 504). Through the provisions of the Act, sugar marketing and distribution was controlled by the Ministry of Commerce as the state classified sugar as an essential product. Domestic distribution of sugar under the state was delegated to the Kenya National Trading Corporation (KNTC), a parastatal that was established to Africanize trade in the country and which was answerable to the then Ministry of Commerce and Industry. Thus, KNTC became the sole distributor of sugar in the country before the wave of liberalization rendered it almost absolute. KNTC is now defunct.

Thus, in as much as the crisis in the sugar industry is a function of the absence of policy and legal framework, the situation is further compounded by the weak institutional arrangements in the sector that do not provide for effective interactions between the stakeholders in the industry. The KSA whose mandate is to manage the industry as it is presently constituted is a non-industry body and suggestions have been made to have it reconstructed from being a government-appointed overseer of the industry to a stakeholder organization. This, as it were, would make it more efficient. Farmers are also demanding greater representation in the KSA whose management of the Sugar Development Fund (SDF) is being queried as non-transparent.

## **Cane Growers (Outgrowers' Organizations)**

Some analysts subscribe to the view that the most likely way in which agriculture in sub-Saharan Africa will get favourable prices and investments from governments is for rural class formation to proceed to the point of creating strong rural producers as a class. The basic argument here is that currently rural producers are fragmented and politically weak and defensive. This is the case of the sugar industry in Kenya where, as we have said, farmers are key stakeholders.

In the Kenya sugar industry, cane-farmers are organized in cooperatives and outgrower companies. The sugar cooperatives exist among the sugar-cane farmers in Mumias, Chemelil and Muhoroni. These grower organizations ought to be understood within the broadest framework of cooperative movements in Kenya with the enactment of Cooperative Societies Act of 1966. Underlying the enactment of this legislation was the perception by the Kenyan policymakers that cooperatives could provide viable instruments for integrating smallholders with the modern economy. In this role, cooperatives would offer a service network in rural areas, which combined first stage processing and marketing with supply of credit and inputs.

Realization of these aspirations required a rational and orderly development of the cooperative sector. But given the perceived lack of knowledge and organizational capacity in rural areas, it was therefore seen as axiomatic that the government would have to be the major player in designing and directing this process. Hence an acceptable level of effectiveness could be ensured only with the support of the resources and organizations of the state. At the policy level, it was made clear that the government defined the basic activity pattern. Cooperatives would have to accept to operate within a prescribed range of marketing activities. Indeed the cooperative societies in Kenya are treated more or less as departments of the Ministry of Cooperative Development, now merged with the Ministry of Agriculture. They do not have any management or even policy autonomy. This has had rather negative implications on the sugar industry as farmers have to abide by government rules governing their own organizations.

Apart from Mumias Outgrowers Company (MOCO) which the KSA acknowledges as the only outgrower organization to have succeeded in offering the farmers good services despite the insurmountable problems in the sub-sector, the other outgrower organizations have not performed to the expectations of farmers. There are many reasons for this state of affairs. First is the deliberate misuse of funds by the officials of the organizations. This was the view of our respondents, who are members of these organizations, who also pointed out that this is the most serious problem. Elected officials use the organization as a platform to further their individual accumulation. More often than not they are guided by their personal interests disregarding what is best for the organization.

The above problem is further exacerbated by illiteracy among the officials which breeds incompetence and poor bookkeeping, the effect being apathy among the members. Another factor tends to accentuate the inefficiency of these

organizations is the nature of the peasant society itself with other writers observing that the rural group that ordinarily works and lives together is too small to form the basis of a modern cooperative.

The poor record of cane-grower organizations may not be due so much to the social organization of local communities as to a more fundamental inability of the national superstructure to establish the prerequisites for the effective and sound management of these organizations. Thus to fully understand and appreciate the pattern and behaviour of these outgrower organizations, it is imperative to shift the focus within a wider set of institutionalized power, while taking into consideration factors such as social capital attendant therein. To this end, therefore, it can be plausibly stated that the malpractice bedevilling the cane-grower organizations partly lies with the state which through the Ministry of Cooperatives should ensure that all the regulations pertaining to the operations of the cooperative are strictly adhered to by the elected officials. The existence of the parallel producer organization in the sugar industry negates the very principle of collective action by the persons. In an effort to make the views of the ordinary farmer felt an umbrella organization for all the individual farmers organizations was established in 1982. The organization is known as the Kenya Sugar Growers' Association (KESGA). One problem the farmers face even with KESGA in place is the lack of experience in dealing with issues affecting their members compared to farmers in the tea or even coffee industry. These farmers have had organizations for many more years than the sugar-cane farmers.

### **Management of Sugar Companies**

As is evident from what has been said so far, the management of these state-owned sugar companies was left in the hands of foreign multi-national corporations. This was in line with the state's policy as outlined in its policy paper Sessional Paper No. 10 of 1965. This document made provision for the participation of foreign firms in the domestic economy. This approach was to permit Kenya to attract private foreign capital and management in the sugar industry which the government believed rightly or wrongly that it could not otherwise obtain locally. Thus, a symbiotic relationship has evolved between dominant foreign private business and the Kenyan State as an investor in the sugar industry. The managing agents of these sugar firms have been responsible for overall management of their companies. They provide top-level managerial as well as technical personnel from their parent companies abroad. Only rarely do they supplement such personnel with Kenyans. They are also responsible for the general administration of their respective sugar companies, handling recruitment and training of staff, maintenance of books and accounts, operation of the factory, management of the nucleus plantations and establishment of cane on outgrower fields with the help of cane establishment loans from local sources.

The question of entrusting foreigners with the management of the sugar industry has been a hot political issue in Kenya over the years. This is especially in the recent



past. Two issues have made the practice near explosive. First is that, while in the initial period one could perhaps convincingly argue that Kenya did not have enough qualified people to manage the industry, this argument is hard to defend after thirty years of independence in which the country has made great strides in manpower development. Secondly, the issue has been aggravated by the poor performance of the sugar industry over the years in spite of the reliance on management by the so-called foreign experts. This is compounded by the fact that expatriate managers of these companies are paid salaries well above those of their local counterparts even though they don't necessarily perform better than the local managers.

### **Production Arrangements**

Every sugar company in the sugar belt area has a nucleus estate and an outgrowers' scheme. The nucleus estates belong to the sugar company while the outgrowers' scheme covers the individual or private sugar-cane farmers. The idea behind the nucleus estates is simply to ensure a constant supply of cane to the factories. They are some kind of safety valve or insurance just in case farmers fail to deliver cane to the factories. It is, however, also a source of income for the factory owners and a chance for them to participate in sugar-cane farming. It is interesting to note that despite the existence of nucleus estates, sugar factories have not been able to meet production targets.

### **Performance of the Sugar Industry**

As indicated above it is quite clear that the Kenya sugar industry has not performed according to the expectations of the government's goal of self-sufficiency in sugar production. This objective has remained elusive especially since the 1980s despite the government's massive investments in seven joint ventures in sugar-milling factories in collaboration with private companies. The target has also remained elusive despite the involvement of factories themselves in actual sugar-cane production through the nucleus estates. It was only in 1979 that the country was able to achieve self-sufficiency in sugar production.

Although sugar-cane production rose from about 308,000 tonnes in 1982 to the highest estimated at 446,000 tonnes in 1989, there was a steady decline to about 330,000 tonnes in 1994. However, in 1995, there was a rise in production to about 439,400 tonnes. Unlike production, consumption has been rising steadily from about 328,000 tonnes in 1982 to about 560,000 tonnes in 1995; this was expected to rise to about 700,000 tonnes by the end of the year 2000 according to the Kenya Sugar Authority estimates (KSA, 1998). These statistics indicate that over the years, the country has only been able to produce 50–60% of its sugar requirements and has to import the deficit.

According to one source, increased government investment in the sugar sector propelled Kenya from a net importer of sugar in 1966—importing about 70% of her consumption requirements—to that of self-sufficiency in 1979 when domestic demand stood at 253,000 tonnes against domestic production of 296,000 tonnes.

The same source goes on to lament that problems besetting the sectors have made Kenya a net importer of sugar again 20 years after demonstrating that self-sufficiency is achievable (*The Point*, the bulletin of the Institute of Economic Affairs, Issue 30, April 1999).

## Problems Facing the Sugar Industry

The Kenya sugar industry has experienced numerous problems mainly of a managerial and political nature. Many of these problems have also to do with the way in which the government has treated the sugar sector. We shall begin discussion of these problems by looking at the role of government in the genesis and perpetuation of the problems. The government has contributed to the current inefficiency in the sugar industry in several ways. We have already indicated the monopolistic role of the KNTC in the distribution of sugar throughout the country. It must be added that during one party rule the government "protectionist" approach to economic development in general, and to the sugar industry in particular, made the sugar companies complacent. The government also formed the habit of bailing out sugar companies from collapse by injecting huge amounts of money whenever the companies were in the red. The companies were therefore assured of returns to their investment and so did not find it necessary to be innovative and competitive. In the course of conducting research for this report, we gathered that many of the sugar companies began to upgrade their production equipment only recently after being threatened by competition from imported sugar due to the current liberalization of the economy. The government has also been rather lenient with those who illegally imported sugar into the country, a factor which has contributed to problems in the industry in that it has led to dumping. Many powerful people are said to import sugar duty free and sell it at a much cheaper price than the locally produced sugar and thus making it hard for the local companies to sell their stock. This problem has been compounded by gross misappropriation of funds meant for improving operations of the industry. According to one source, about 700 million Kenya shillings of the Sugar Development Fund was misappropriated by the Kenya Sugar Authority and other middle players (Reported in the *Executive*, June, 1999: 25). There is no evidence that the people behind this misdeed were punished. There were also complaints of massive or rampant tax evasion in the sugar industry with the culprits going scot-free. This is done by politically powerful individuals. We are here talking about corruption, a vice that has become pervasive in the country. Another problem that has made the companies difficult to manage is the practice in which the government provided loans to the companies and did nothing to recover such loans. This means that a manager coming to the company finds the company in such a huge debt that it cannot pay. This simply discourages the manager from even starting to repay the loans.

The other problem that creates inefficiency in the sugar industry is the appointment of managers on the basis of political considerations rather than merit. All the chairmen of the government-dominated sugar companies are political appointees. In some cases they are people who failed to get elected to parliament but were in

good books with the powers that be. Their appointment is, therefore, more of a political reward than aimed at improving the management of the companies. The same applies to the few local managers of these companies. Many of these lack the requisite technical qualifications and knowledge let alone the interest in the sugar industry. One of the consequences of this is that the managers feel that their duty is to serve the interest of the state and not necessarily the farmer. Secondly, such employees feel that because they are not certain that they will retain such jobs should there be change of government, they had better take as much as possible from the companies before they are replaced. They thus turn and treat the companies as mere sources of personal capital accumulation. This has been a general problem in Kenya especially since Moi took over the reins of power in 1978. He has not allowed people to stay in one public office for long and many, therefore, loot the organizations they work for as much as possible while they are in their public positions.

A recent open forum by the Institute of Economic Affairs called to discuss the problems of the sugar industry, noted that a major problem in the industry is lack of clear policy guidelines. The government appears reluctant to develop such a policy. This is evidenced by the fact that the government has on three occasions refused to introduce in parliament a draft bill on the industry (*The Point*, April 1998, Issue 30). This was confirmed by the Secretary of the Kenya Sugar Growers' Association (see *Executive*, June 1999: 26). The lack of policy has meant that the roles of various interest groups in the sugar industry such as the farmers is not quite clear. It also becomes difficult to accuse an individual of wrongdoing within the industry in the absence of a clear policy. This lack of policy perhaps explains, to a large extent, the absence of farmers' representation in the various government institutions involved in the industry. The bodies in question are the Kenya Sugar Authority, the Inter-ministerial Committee, the Sugar Board, and the Sugar Development Fund. The lack of representation by farmers is particularly absent in the Kenya Sugar Authority given the central role they play in the development of the industry.

There are several other dimensions to the problems in the sugar industry apart from those caused directly by the state. Among these is the problem of management. According to a number of farmers interviewed sugar factories appear to lack capacity to collect cane from the farmers. The farmers observed that many times their cane dries up on the farms simply because the factories do not collect it in time. They also pointed out that even if the farmers wish to use their own transport to take cane to the factories they cannot do so since they have to get the okay from the factory. This implies that either the factories do not have the capacity to receive a certain amount or quantity of cane at any given time or that they simply are not sensitive to the interests of the farmers. This is why farmers and politicians from the sugar belt often interpret this as a deliberate act of sabotage to frustrate the community of sugar-cane farmers. They often see the hand of the state and therefore politics in all this. As a result many farmers become frustrated and opt not to plant sugar cane and this, too, reduces the amount of cane available. Consequently, the production targets are not met.

It proved difficult to obtain explanation from the management of the sugar

companies for the failure to meet the production targets. Many of them were reluctant to give information perhaps for fear of possible victimization by the government.

We were, however, able to establish that one of the biggest problems in the sugar industry is the dumping of cheap sugar from outside the country. This makes it difficult for the sugar companies to sell their stock. This in turn discourages them from getting cane from the farmers hence the delays in cutting or harvesting cane. This has resulted in a situation in which many farmers simply leave their sugar-cane farms idle. It is important to observe that the importation of sugar is done not by ordinary people but by well-connected political elites who enjoy the protection of the state. It is this which leads many politicians from the sugar-cane-growing areas to blame the state for the mess in the sugar industry and to view it as a deliberate act of sabotage by the state.

There is nothing wrong in importing a commodity if a country can get it cheaper compared to what is produced locally. However, the position in Kenya is that imported sugar is much cheaper than locally produced sugar despite the fact that the cost of sugar-cane production, estimated at Ksh.1,000 per tonne, compares favourably with the world average. This competitiveness is, however, eroded by the high processing costs and marketing problems which have affected the performance of the Kenyan sugar industry. As Nyangito (1996) states, the underlying causes of the problems are the management of the factories and government regulations in pricing, marketing and importing. He further argues that the cost of processing sugar for the factories is well above that expected in a competitive industry, noting that the average costs estimated at Ksh.16,500 per tonne for all factories in Kenya are 50% in excess of the ex-factory value of sugar. The main causes of this being the high costs of labour, electricity, fuel, packaging materials and chemicals required to process sugar cane. These costs make locally produced sugar uncompetitive.

The high costs of processing sugar undoubtedly has implications on the financial performance of the factories and eventually their capability to pay farmers. Most factories are often unable to realize enough money to pay farmers at the industry set prices. Indeed, late payment of farmers for cane delivered to the factories is a common problem in the industry.

The present capacity of the seven factories in the country for sugar processing is 600,000 tonnes per year but the utilization is estimated at 60% annually. This under-utilization is attributed to the inadequate supply of sugar cane to the factories; contrary to this, there has been an outcry from farmers that they are unable to have their cane processed, a clear indication of adequate supplies of cane at farm level. (*Sunday Nation*, 23.6.96). The main problem in capacity utilization is the inability of the factories to collect sugar cane from the farmers due to transport problems. Most milling companies are unable to synchronize cane supply from outgrowers and factory needs through financing and organizing farmers adequately to ensure steady supply.

The producer price for sugar cane has been a major concern in the industry for many years. Before May 1994, prices at all levels of the sugar industry were set by the government. They were based on the farmers' costs of production as computed by the Kenya Sugar Authority (KSA), plus some margin for profit. Studies on the industry indicate that the low producer price for sugar cane and the various deductions by milling companies for the services rendered to the farmers in terms of land preparation, provision of inputs and transportation of the cane to the factory, resulted in low returns which, at times, could be negative.

The pricing was semi-liberalized in 1994 and the producer price is supposed to be negotiated by the millers and the growers. This, however, was not practical because the farmers do not have the capacity and capability of negotiating effectively with the millers. Thus, the price remained on the costs of production as calculated by Kenya Sugar Authority but the margin for profits was increased to 25% as an incentive to producers.

According to KSA, the current average producer price for sugar cane of Ksh. 1,553 per tonne is about 50% of the ex-factory price for sugar. This proportion compares well with the worldwide average of 55%. However, most Kenyan farmers are disadvantaged in that there are usually long delays in payments which end up reducing the real value of their earnings and also cause a lot of inconvenience, particularly the need for cash to meet the farmers' obligations. Due to these disincentives, some farmers have switched to alternative crops such as maize and hence the declining levels of sugar production.

The country has imported sugar over the years to meet the gap between production and consumption but the import policy has been at the centre of controversy for many years. Before the liberalization of the industry, the Ministry of Commerce and Industry was by law (Chapter 329 of the laws of Kenya) responsible for importing sugar. This was done using the Sugar Equalization Fund through the Kenya National Trading Corporation (KNTC). This fund was established to finance the purchase of all sugar produced in the country, importing whenever shortages were anticipated and exporting it when there was a surplus.

The law was often flawed and private individuals or companies were allowed to import sugar, for example, in 1986 sugar imports by a few private companies created a controversy in the country. The then Commerce and Industry Minister Jonathan Ng'eno had to explain to parliament why this had to be done. The reason given then was lack of funds but there were questions left unanswered as to what happened to the money saved by the fund (SN 23.6.96). It was widely believed then that the move was aimed at giving a few individuals an opportunity to reap huge profits from importing cheap sugar and selling it at high domestic prices. With the liberalization of the sugar industry, anybody interested in importing can theoretically do so but the Government has put in place import levies to protect the industry from dumping of cheap imports. The levies are currently six per cent VAT, seven per cent Sugar Development Fund (SDF) and a variable Import Duty of about ten per cent (Nyangito, 96).

Despite the existence of a government import policy especially under one party rule, sugar imports found their way into the market without payment of the levies. Even today, when the government bans sugar importation, imports of the commodity continue unabated. For example, in February 1996, there was an embarrassing furore over sugar imports. The then Minister for Agriculture, Simon Nyachae, banned the imports but the president overruled him the following day. Thus, the policy on sugar importation is more often than not flawed by ad hoc political decisions regardless of their negative repercussions on the industry. The politics of the sugar imports aside, the current import policy on the variable import duty does not provide incentives to reduce factory production costs through increased efficiency.

The distribution of sugar, as already indicated, was dominated by the Kenya National Trading Corporation (KNTC) before the liberalization of the industry in 1994. The KNTC had a network of warehouses in all the major towns and thus was able to serve most parts of the country. Presently under a liberalized industry, and with KNTC out of the way having become defunct, private wholesalers buy directly from the sugar mills for distribution. It should be recognized that partial liberalization of the marketing system doesn't encourage efficiency in the distribution of a commodity. The government should have a clear policy on freeing all aspects of the marketing system for it to work well. Its role should be to enforce the trading rules and provide supportive services to the industry such as information about markets and improving the infrastructure.

The problems discussed above have resulted in delays in cane harvesting, and delays in payment to farmer for cane delivered to the factories. It was claimed by some farmers interviewed that in some cases cane stays in the field for up to 48 months before harvest instead of the required 24 months. When this happens the weight of the cane is drastically reduced and the farmer earns very little for the cane crop since payment is based on the weight delivered. Farmers have consequently become disillusioned. The factories are also heavily in debt and experience very high production costs which places them at a disadvantage compared to international competitors.

From the foregoing, it is clear that the problems in the sugar industry are mainly due to government policies and interference, which does not favour efficient performance. Although, the government espouses privatization of the industry, it is dragging its feet and seems not yet ready to release control over the milling companies. This has led to management inefficiencies of the factories with the belief that the government will always bail them out of their financial difficulties. Efficient management of the sugar factories is the key to the success of the sugar industry.

### **Why Kenya's Sugar is Dearer than Imported Sugar**

As already indicated imported sugar is much cheaper than locally produced sugar. This has encouraged the problem of dumping. It is also the case that Kenya—

perhaps unique among the sugar-producing countries—imports the highest amount of sugar for domestic consumption. This is because elsewhere, 80% of world sugar produced is consumed in the respective countries of production and only 20% of the world sugar produced is traded on the world market. It is, however, instructive to note that world sugar prices do not reflect the cost of production from the respective countries of origin. This is due to the various subsidies offered by governments of exporting countries to their respective sugar industries.

World leading producers of sugar such as Brazil, Mexico and the European Union, highly subsidize their sugar production. Brazil, Sudan, Mauritius and South Africa have an added advantage. Nearly 90% of sugar cane is grown on large-scale plantations. Their sugar factories have been designed to operate at much higher capacities. Some of their medium sugar factory capacity is about 30,000 tonnes of cane per day. Growing of cane under large-scale plantations and operating factories which have higher capacities, has an added advantage of economies of scale, which Kenya's domestic sugar factories cannot easily match. Again, most of the sugar economies of Mauritius, Sudan and Brazil, grow their sugar cane under low altitude areas and are supplemented with irrigation. This allows the cane to mature earlier than in Kenya's case and therefore cuts costs at the farm level.

The cost of farm inputs also plays a key role in determining cost of production. Application of fertilizer is very necessary for improved cane yield and a country like Brazil has raw materials and industries that manufacture such fertilizers at more competitive prices. Another factor to consider is the cost of farm machinery. Comparatively, the cost of farm machinery and their operations are fairly competitive in such sugar economies like Brazil, Mexico and the European Union countries which manufacture their own farm machinery. Kenya on the other hand, has to import all its fertilizers and farm machinery.

It must also be noted that world sugar prices are at their lowest in the history of the world sugar market. This scenario has come about due to the political and economic developments in the former Soviet Bloc and the overproduction of sugar in Brazil, Thailand and India. Brazil's main product from sugar cane has been ethanol and sugar is considered as a by-product, which is not the case in Kenya. This partly explains why Kenyan sugar is dearer. However, due to the decline in demand for ethanol in the Eastern Bloc, Brazil switched and increased sugar production, most of which has been off-loaded to the world market. The ultimate result has been increase in the world sugar surplus of 5.1 million tonnes. While world sugar production for 1999 has been estimated at 129.1 million tonnes, consumption for the same period is estimated at 12.6 million tonnes, creating a surplus of this highly subsidized commodity available for the world market (KSA, 1999).

Kenya, on the other hand, has about 100,000 small-scale sugar-cane farmers with an average holding of 0.6 ha. Kenya does not extend subsidies to the sugar-cane farmer. The cost of production is therefore relatively higher. The road infrastructure is very poor, making cane transportation expensive due to the high cost incurred in maintaining the cane haulage fleets. Most of the factory machinery is obsolete and

requires replacement. Unfortunately, we do not have adequate capital for such an undertaking. Cane-growing in Kenya is rain-fed and done in high-altitude areas. This elongates the maturity period. Cane research in early maturing varieties had for a long-time been ignored. This has had a negative effect on the sugar industry in Kenya. This shortcoming is now being addressed especially through the establishment of the Kenya Sugar Research Foundation. All these factors adversely affect our domestic sugar price.

## **The Way Forward**

From the foregoing discussion it is quite clear that the sugar industry in Kenya is beset with numerous problems. The problems revolve around poor management and are compounded by politics. The industry has become a source of capital accumulation for politically powerful people who get state protection for their illegal activities in the industry. In charting out a new course to revitalize the management of the sugar industry it then becomes necessary to deal with the management problems including corruption as well as the political questions. The place to start from is to develop a clear policy framework to guide the different players in the industry. This is necessary because currently there appears to be no policy guiding the industry. This means that it is difficult to even determine who has violated policy since a policy does not exist in the first place. The problem of lack of policy came up frequently among the people interviewed. It was also a major issue of concern at the open forum of the Institute of Economic Affairs already referred to in this report. The issue of policy has become even more urgent in view of the liberalization of the economy since the 1980s. While many have hailed liberalization of the economy and regard it as the cure of the country's economic problems, it is important to note that this is not necessarily true. There must first be clear policy guidelines on liberalization. Secondly, unless a liberalized economy is well regulated the private sector can easily take advantage of its new found freedom to exploit consumers in an even worse way than the controlled economy was doing. This is especially the case in developing countries where monopolistic firms are still predominant. In the case of Kenya's sugar industry it is very important to have clear privatization policy that gives farmers a voice. Currently farmers are not effectively represented in the sugar industry despite the existence of several organizations in the industry. The privatization proposals for the industry have already drawn opposition from many stakeholders. The opposition, which has come mainly from the politicians in the sugar industry, is premised on the fact that it is likely to leave out farmers who may not even be able to afford to buy the companies. It is also important to ensure that the existing farmers' organizations, such as the Kenya Sugar Growers' Association, are strengthened to make them effective players in the industry.

Secondly, the politicization of the management of the sugar industry by the government should stop forthwith. That is, the government should stop appointing industry managers based on patron-clientele relationships, this breeds graft and



inefficiency; the government should also reduce ad hoc political influences in sugar importation and marketing. What is needed is the political will to support prudent policies, because, however theoretically sound a policy is, if there is no political will to support it, the desired results will not be obtained.

While the viability of investing in the sugar industry in Kenya is not in doubt as shown by the desire to invest by foreign investors such as Tate and Lyle PLC Corporation and Commonwealth Development Corporation (CDC), the government must ensure that the massive public investments in the seven milling companies do not go to waste. And last but not the least, farmers should be supported to have a stake in the ownership and management of the factories. The KSA should play a leading role in improving the management capacity of the factories besides supporting farm production activities and monitoring and regulating the performance of the industry.

## Note

\* Dr Peter Wanyande is Senior Lecturer in Government, University of Nairobi, Kenya. This paper is the result of a research project conducted with the generous financial support of the Ford Foundation offered through the Small Research Grants Programme of the African Association of Political Scientists (AAPS).

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