SUGAR

SUB-SECTOR PROFILE

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The main rationale of the KAM sugar sub- sector profile is to highlight key action areas to address challenges hampering the growth of the sub- sector as we aim to transform Kenya into a industrial led economy

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MESSGE FROM THE SUB-SECTOR CHAIR

Kenya's Sugar Sub-Sector plays a pivotal role in our country's economy, with sugarcane being one of the major cash crops alongside tea, coffee, flowers, vegetables and coffee among others.

According to the strategic report by Kenya Sugar Board of Kenya 2010-14, the sugarcane industry is a major source of livelihood for communities living along the sugar belt region.

However, over the years, the sugar industry has faced challenges that have seen it reduced to a shell of its former thriving self. Stakeholders have offered suggestions and solutions to revive the failing industry, ranging from cane husbandry and factory operations to lobbying for change in government policies, laws, rules and regulations, and actions that negatively impact in the sector. Clearly, a lot of change needs to take place if the sugar industry is to be revived. The Sugar Industry Stakeholders Task Force Report 2019 clearly provides a road map for the revival of the Kenya sugar industry and its implementation will be a triumphant step towards the much needed change in this robust industry that has the capacity to change the economies of the sugar growing regions.

The Sugar Sub-Sector brief collated and aggregates recommendations to the challenges that ail the sector, some of which include developing clearly defined rules, guidelines and regulations for sugar imports to curb excessive importation and ensure a stable market; enforcing regulations on repackaging of both locally produced and imported sugar to ensure traceability; increasing production and efficiency to ensure self-sufficiency and protection of the local industry; enhancing inter-agency surveillance to curb sugar smuggling and reviewing the taxation regime to create a tax friendly investment environment including duty waivers on high end industry inputs such as diesel, farm implements, plant, and factory equipment, among others. Most important is the enactment of favourable Laws, and Regulations that will bring order into the sub-sector.

The survival of the Kenyan sugar industry hinges on the successful implementation of these recommendations.
We hope that all stakeholders, including government, shall consider these recommendations to revive this critical pillar of our economy.

Joyce Opondo
Sugar Subsector Chair

MESSAGE FROM THE KAM CEO

This Profile paints a picture of the state of Kenya's Sugar Sub-sector, which despite its potential to contribute to food security, employment creation, regional development, and improved livelihoods for more than 8 million Kenyans, continues to perform poorly.

It employs over 400,000 small-scale farmers, who supply 90 per cent of cane to 14 sugar factories in the country. Combined, they have a combined processing capacity of 56,800 tonnes of cane per day bringing the capacity of local production to 1.7 million tons of sugar per annum. This is enough to cover our local demand and to export.

There is a high potential for the Sub-Sector to employ more people and produce more sugar. This is because sugar is used both for industrial and domestic purposes in Kenya. The country, however, does not produce industrial sugar, hence local manufacturers rely on imports, to be used by those in the baking, confectionary, beverage and food processing industries. A high capacity Sugar Refinery is available in the country but has not been in production since its commissioning due to various reasons, one of them being East African Community Rules of Origin.

The Sugar Sub-sector has been on the decline, both in production and profitability, with the country becoming a net sugar importer. This is attributed to the high cost of production, high debt portfolio, acute cane shortage, declining yields, low value addition initiatives, inefficiencies of the public sector mills, inadequate research and extension, ageing equipment, obsolete technology, mismanagement of state-owned mills, reduced incomes to farmers and weak regulatory framework, among others. The Sugar Sub-Sector Profile gives an in-depth analysis of the sugar industry's growth and decline over the years and challenges and recommendations to rebound the industry.

If fully exploited, the Sugar Sub-Sector has the potential to provide the country's much needed jobs, generate high (tax revenues) and export earnings. The Sugar Industry Stakeholders Task Force Report submitted to the President of the Republic of Kenya in February 2020 which was approved for Implementation provides an excellent road map for the revival of this much needed sub-sector.

We laud the commitment and efforts by both National and County Governments towards reviving the once thriving sector and hope that these efforts continue to position the country as a major sugar producer and exporter in the region.

Phyllis Wakiaga
KAM Chief Executive

1. INTRODUCTION

Sugar is one of the most important commodities and is produced and consumed around the world. Approximately for the last seven years an average of 165 million tonnes of sugar has been produced each year on millions of small holder farms and plantations in 123 countries. 70% of production is consumed in domestic markets and only 30% is traded on the international market. Sugar, along with dairy is treated as a sensitive product in many countries in the world and since its trade is restricted, both the international price and the domestic price of sugar are distorted.

In Africa, 33 out of 55 countries are engaged in sugar production. The sugar production in Africa is dominated by Egypt and South Africa who account for 40% of the total production in Africa. The other leading producers include, Sudan, Eswatini, Kenya, Morocco, Mauritius, Uganda, Ethiopia, Mozambique, Zambia and Zimbabwe. The leading sugar producers are also the leading consumers with Egypt and South Africa accounting for 28% of the continent's consumption

The African continent imports 6.3 million metric tonnes of raw sugar and mainly from Brazil though for South Africa the leading import origin is Eswatini. The leading importers of raw sugar are Algeria, Nigeria, Egypt and Morocco who together account for 85% of total African imports. The main import origin of raw sugar is Brazil. On imports of white sugar, Africa imports 6.8 million metric tonnes and the leading importers are Sudan, South Africa, Angola, Ghana and Mauritania who account 44% of the African imports. Unlike raw sugar imports which is dominated by few countries, white sugar is imported by 48 countries in the continent. The imports are mainly from Brazil, India, UAE and African countries

1.1 Kenya sugar industry

Kenya's sugar sub-sector plays a vital role in the country's agricultural sector and economy. The Ministry of Agriculture, Livestock, Fisheries and Irrigation Agricultural Transformation and Growth Strategy (ASTGS) 2019-2029 ranks sugar and sugarcane crop among the top six commercial crops grown in Kenya. The others are tea, cut flowers, vegetables, coffee, and maize.

Generally, Sugar production generates other economic activities including co-generation of electricity from bagasse, production of ethanol from sugar molasses, and production of potash as a form of fertilizer from ash derived from burning bagasse. The extent to which these other economic activities are exploited differs across the countries depending on legislations guiding these activities.

In Kenya there are 16 sugar factories in the country with a combined processing capacity of 56,800 Tons of Cane per Day (TCD) and contributes to food security, employment creation, regional development, and improve livelihoods for more than 8 million Kenyans. According to the sugar taskforce report (2020), the sub-sector employs over 400,000 small-scale farmers who supply over 90% of milled cane.

1.2 Evolution of the sugar industry Kenya.

Sugarcane (Saccharum Hybrids spp.) was an indigenous crop grown in Kenya before the advent of the colonial era. Local sugarcane varieties were grown by agrarian communities along riparian lands. The crop was chewed as food or used in making traditional beer (Barnes, 1953). Sugarcane as an industrial crop was introduced in Kenya in 1902, when the first trials were planted in Kisumu (Wanyande,2001). The first sugar factory was established at Miwani, near Kisumu, in 1922 (Odada,1986). Policies on sugar production from the early 1900s up to independence in 1963 were based on colonial law, which dictated that only Asians were allowed to grow sugar. The policy reforms of the Swynerton Plan which allowed Africans to grow certain cash crops did not affect sugar (Swynerton,1955). That changed with the enactment of Sessional Paper No. 10 of 1965 , which allowed Africans to grow industrial sugar.

The enactment of Sessional Paper No. 10 of 1965, was a big win, it allowed Africans to grow industrial sugar. According to a study by Bancy Mati et al, analysis (2019) on the sector performance, *"By the mid-1970s, Kenya was a sugar exporter, but, from the 1980s, the sugar sector started to decline both in production and profitability, with the country becoming a net sugar importer by the 1980s."*

A number of factors have contributed to this shift. These include but not limited to: high cost of production, high debt portfolio, acute cane shortage, declining yields, low value addition initiatives, inefficiencies, inadequate research and extension, ageing equipment, obsolete technology, mismanagement of state owned mills, reduced incomes to farmers and weak regulatory framework among others.

1.3 Key Policies, institutions, and laws changes in the sugar industry

Year	Policy/regulation	Rationale /impact to the sector
1992	Liberalization of the Kenyan economy under the Structural Adjustment Programme (SAP)	This lead to opening up of competition in the industry. Marketing of sugar which had previously been reserved to individual mills who marketed their own sugar was now open to wholesalers and other retail outlets. This coupled with other measures, led to high importation of sugar mainly from the EAC and COMESA region.
1992	Sugar Development Levy (SDL) introduced	SDL was introduced to finance critical activities within the Sugar Industry value chain, that is crop husbandry, plant maintenance, Infrastructure development and research. This led to an average increase sugar price by 7% . The levy was later de-gazetted in 2016.
2001	Sugar Act. No.10	The Act came into force to provide for development, regulation and promotion of sugar industry and establishment of powers and function of Kenya Sugar Board (KSB) KSB as an institution was created charged with the responsibilities to implement Act.
2002	Common Markets for Eastern and Southern Africa (COMESA) sugar safeguard No.1	Importation of Sugar COMESA started under safeguard measures. This led to cheap sugar from partner states accessing the Kenyan market on a duty-free and quota-free basis. Over this period the sector addressed the constraints leading to her non-competitiveness.
2010	Kenya's Constitution	It has led to devolution of certain sugar sub-sector functions to the County governments, for example extension services.
2012	County Governments Act No. 17	The act has given county governments the responsibility of implementing agriculture policy, crop husbandry, plant and animal disease control amongst others.
2013	Crops Act No.16	In 2013 the Crop Act.No 16 of 2103 came to force to provide growth and development of agricultural crops. The act has recognized the growers who produce sugarcane or any other scheduled crop in Kenya for the manufacture of sugar.
2013	Agriculture and Food Authority (AFA) Act .13	The Act came to force to provide for the consolidation of laws on regulations and promotion of Agriculture Generally.The Authority roles of National and County Government in Agriculture in line with the relevant provision of the Fourth Schedule of the Constitution. Generally, the Authority has streamlined the agricultural sector and introduced new governance and supervisory structures in order to better coordinate agriculture in the devolved system of government.
2013	Kenya Agricultural and Livestock Research Organization (KALRO) Act, No.17	The Act established the Sugar Research Institute (SRI) as the research arm of the industry. It's mandate is to conduct research and develop appropriate technologies, products and services for the production of sugar cane and related crops, the milling of such crops, utilization and marketing of sugar and its co-products. SRI has partnered with KEPHIS and other relevant bodies in the certification of seed cane and importation of improved seed cane variety to the subsector.
2019	National Sugar Taskforce Report	The report has suggested reforms to al Sugar industries in Kenya.
2020	Crops (Sugar) (General) Regulations	They cover all aspects of on registration of growers, out growers' institutions as well as millers and their umbrella bodies. In addition, the regulations cover agreements on sugar and sugar cane products. They also address sugar cane development plans, the milling capacity of millers, the establishment and functions of the sugar cane pricing committees and the implementation of sugar cane testing services and standards.

Source: Reviews from various publications.

1.4 Interntional Trade Agreements

As a member of the World Trade Organization (WTO), Kenya has access to more than 90%nt of world markets with Most Favored Nation (MFN) treatment (KIA, 2012). Kenya is also a member of several regional trade organizations and a signatory to multilateral and bilateral trade agreements. These organizations and major trade agreements are as follows:

- African Growth and Opportunity Act (AGOA). This agreement, which was signed in 2000 with the U.S. Government for 8 years and was extended until 2025, primarily benefits Kenya's textile exports to the U.S. market by eliminating the duty and quota for imported products.

- ACP-EU Trade Agreement. This agreement, signed in 2000 between the European Community and the African, Caribbean and Pacific Group of States (ACP), gives Kenya no-reciprocal market access to the E.U.

- Common Market of Eastern and Southern Africa (COMESA). Kenya is a member of COMESA, a regional economic co-operation organization, which has been working to reduce trade barriers applied to goods produced within and traded among its 19 member countries. Under COMESA, a Free Trade Area has been in effect since 2000.

- East African Community (EAC). Kenya, Tanzania, Uganda, Rwanda, Burundi and South Sudan comprise the East African Community, which aims to achieve cooperation and regional harmonization on issues related to labor movement, work permits, education qualifications, standards, customs, rules of origin and common tariff nomenclature

1.5 Type of sugar

There are many types of sugars produced globally but two are well known in Kenya: Industrial sugar (commonly referred as white refined sugar) and brown sugar. Generally, refined white sugar in the Kenyan market is mainly used by manufacturers such as those in the baking, confectionary, beverage and food processing industries. Kenya does not produce industrial sugar therefore, it is all imported but under control by the government. The biggest challenge facing local industries today is when the imported industrial sugar is sold and used for other purposes other than which it is intended for, which is manufacturing.

A. Brown sugar(1703.10)- This is a sucrose sugar product with a distinctive brown color due to the presence of molasses. It is either an unrefined or partially refined soft sugar consisting of sugar crystals with some residual molasses content, or it is produced by the addition of molasses to refined white sugar.

B. Refined white sugar(1701.99): White sugar, also called table sugar, granulated sugar or regular sugar, is commonly used in North America and Europe, made either of beet of sugar or cane sugar, which has been refined . To make white sugar, sulfur dioxide is added to cane juice before it gets evaporated. This gas does the bleaching of the juice so that it does not turn brown and produces white sugar.

At later stages, phosphoric acid, calcium hydroxide or carbon dioxide is added to absorb impurities. This juice is then filtered through a bed of carbon and then crystallized in a vacuum many times. Finally, the crystals are left to dry on their own to get paper white crystals of sugar. This shows that refined cane sugars are produced by further purifying raw sugar through a series of crystallization and centrifugation cycles, to result in an astonishingly pure sucrose at 99.95%. Generally, in kenya, white sugars are used by manufacturers such as those in the baking, confectionary, beverage and food processing industries (industrial consumption).

2. KENYA'S SUGAR INDUSTRY PERFORMANCE

2.1 Production of Sugarcane

Figure 1 shows Kenya's annual growth trend in sugarcane production, areas harvested and yield from 2010 - 2019. In the period under review, sugarcane production increased from 5,695 thousand tonnes in 2010 to a high of 7164 thousand tonnes in 2015 before it started to decline and closed at 4,606 thousand tonnes in 2019.

Although areas under cane have remained relatively high, production continues to decline as well as areas harvested. Output of sugarcane per hectare in 2010 and 2019 has seen significantly reducing, from 64.4 ton/ha in 2010 to 51 Ton/ha. Some of contributing factors for the reduction of productivity include the widespread use of low-quality sugarcane varieties, poor agricultural and land management practices and delayed harvesting of mature sugarcane

Table 1: Sugarcane production, area under cane, area harvested and yield in Kenya, 2010-2019

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Area under cane ('000 Ha)	157.9	179.5	204.1	213.9	211.3	223.6	220.8	191.2	202.4	**197.3**
Area harvested ('000 ha)	78.5	79	87.3	85.9	72.2	77.8	85.8	67.7	73.1	**71.9**
Total Production ('000 tonnes)	5,695	5,307	5,824	6,673	6409	7,164	7,151	4,751	5,262	**4,606**
Average yield (tonnes/ha)	64.4	58.8	51	54.7	61.4	66.4	62.2	55.3	55.1	51

Data source: KNBS

2.2 Sugarcane production zones in Kenya

Sugarcane production largely depends on climatic and biophysical (soil and topographic) conditions, which vary significantly throughout Kenya. Sugarcane is grown in 14 counties namely Kakamega, Kisumu, Homabay, Migori, Siaya, Nandi, Bungoma, Busia, Narok, Kericho and Kwale. These counties are spread across the Western, Nyanza, Rift Valley and Coastal regions, mainly on small scale farms (figure 1).

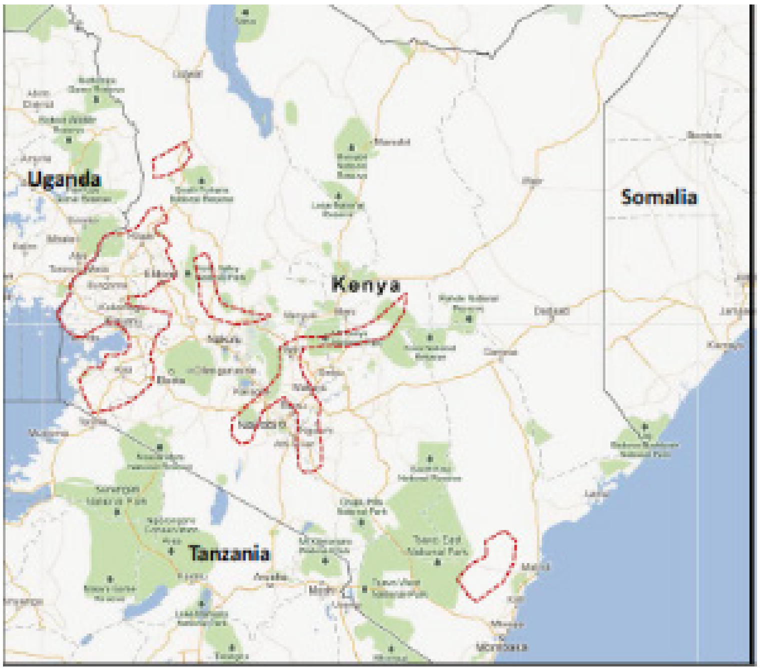


Figure 1: Geographical presentation of sugar regions in Kenya

2.3 Sugar Production Companies

There are 16 sugar factories in the country with a combined processing capacity of 56,800 Tons of Cane per Day (TCD) as shown in Table 2. However, only 12 out of 16 are in operation. Out of 12 in operation, 5 are owned by government and 7 are privately owned.

Table 2: List of sugar factories, year of establishment and their milling capacities in Kenya

Sugar factories Company		County	Ownership	Year of Est.	Capacity TCD	Status
1	Miwani Sugar Company	Kisumu	Public	1922	-	Under receivership[1]
2	Ramisi Sugar	Kwale	Private	1927	-	Closed
3	Muhoroni	Kisumu	Public	1966	2,200	Under receivership[2]
4	Chemelil Sugar Company	Kisumu	Public	1968	3,000	Milling
5	Mumias Sugar Company	Kakamega	Public	1973	8,400	Under receivership[3]
6	Nzoia Sugar Company	Bungoma	Public	1978	3,000	Milling
7	West Kenya Sugar Company	Kakamega	Private	1981	4,200	Milling
8	Sony Sugar Company	Migori	Public	1989	3,000	Milling
9	Soin Sugar Company	Kericho	Private	2006	150	closed
10	Kibos Sugar & Allied Industries Limited	Kisumu	Private	2007	3,500	Milling
11	Butali Sugar Mill limited	Kakamega	Private	2011	3,000	Milling
12	Transmara Sugar Company	Narok	Private	2011	4,000	Milling
13	Sukari Sugar Company	Homa-Bay	Private	2012	2,800	Milling
14	Kwale International Sugar Company	Kwale	Private	2014	3,300	Milling
15	Ole Pito Sugar Company	Busia	Private	2017	1,250	Milling
16	Busia Sugar Company	Busia	Private	2018	1,500	Milling
TOTAL					**56,800**	

Data Source: AFA

2.4 Sugar Production, Consumption, And Imports

a) Production

Based on the above figures, the country has capacity to produce 1.7 million tons of sugar p.a. However, domestic production of sugar has been on the decline, from 523,652 MT in 2010 to 440,935 MT in 2019 (figure 2). This is attributed to a number factors such as high cost of production, low sugarcane production and influx of imported sugar among others. However, influx of imported sugar in the market, lack of sufficient sugarcanes and inefficiencies among the companies (especially government owned companies) remain a big threat to increasing sugar production in the country.

b) Consumption

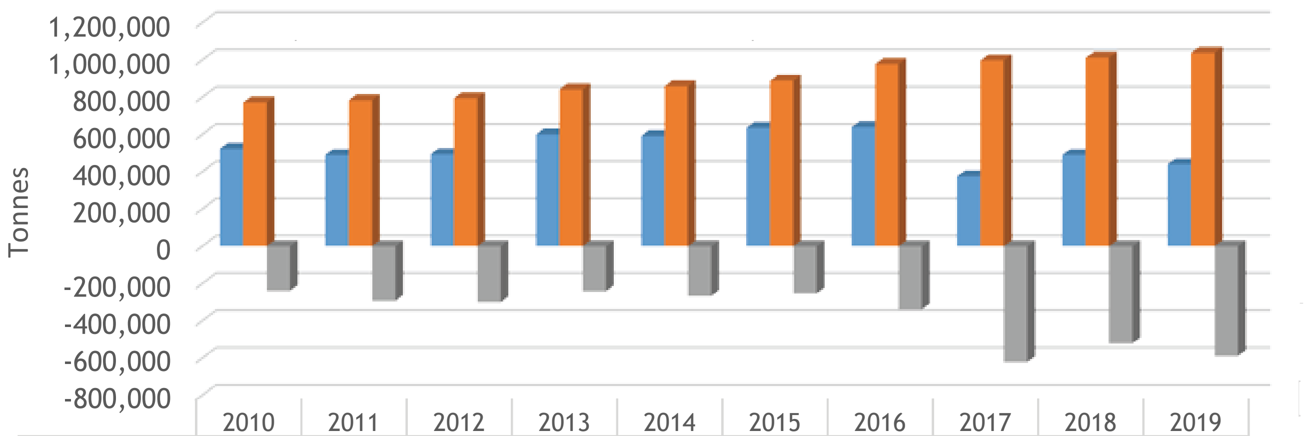
Sugar consumption in Kenya has grown steadily, outpacing domestic production (Table 3). Total sugar consumption increased from 772,731tonnes in 2010 to 1,031,055 tonnes in 2019 (figure 2). According to the United States Department of Agriculture(USDA) 2011 Global Agriculture Information Network report, the main factors driving increased sugar consumption in Kenya are population growth and industrial use for the production of biscuits, confectionary products, soft drinks and other beverages which has been rising steadily over the years.

c) Deficit

Kenya's sugar deficit has continued to increase, rising from 240,079 tonnes in 2010 to 590,120 tonnes in 2019 (figure 2). This has been fueled by increasing consumption and the decline in domestic production of sugar. The National Taskforce Report of 2019 indicated that Kenya currently produces 48% of her domestic sugar requirement against an estimated total sugar requirements of 1,000,000 MT, made up of 850,000 table sugar and 150,000 tons of industrial sugar. Kenya does not produce industrial sugar.

[1] See: https://www.standardmedia.co.ke/business-news/article/2000073043/state-seeks-new-managers-for-muhoroni-miwani-sugar-firms
[2] See https://www.standardmedia.co.ke/business-news/article/2000073043/state-seeks-new-managers-for-muhoroni-miwani-sugar-firms
[3] See https://www.google.com/search?client=firefox-b-d&q=mumias+under+recivership

Figure 2: Sugar production, consumption & deficit; 2010 - 2019 (tonnes)



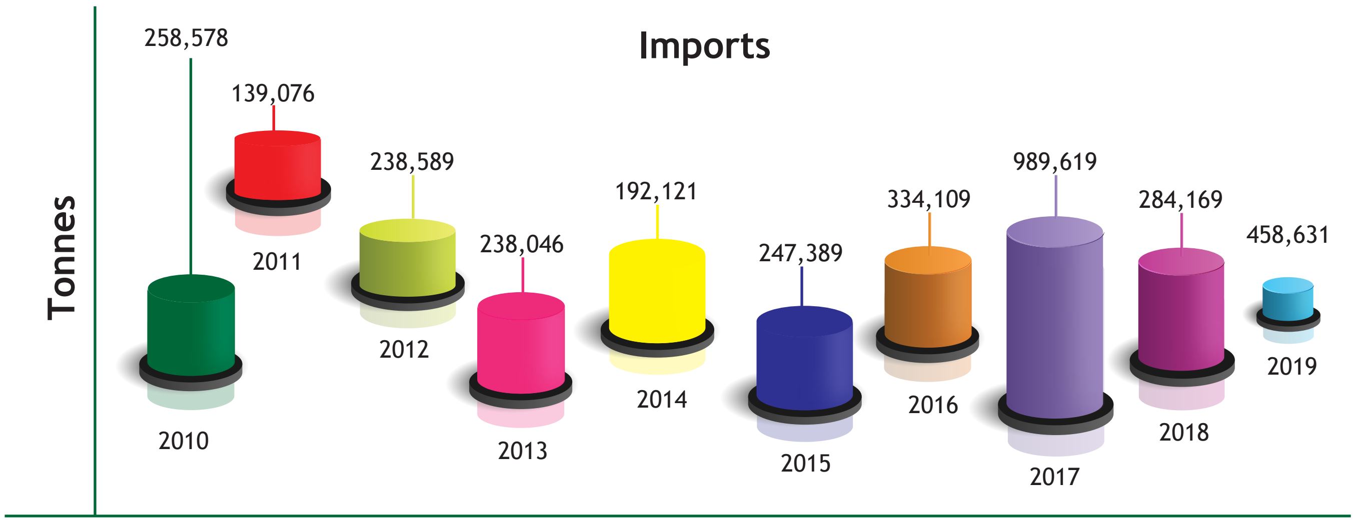
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Prroduction	523,652	490,210	493,937	600,179	592,668	635,674	639,741	376,111	491,097	440,935
Consumption	772,731	783,660	794,844	841,957	860,084	889,233	978,746	997,944	1,012,39	1,038,71
Deficit	-240,079	-293,450	-300,947	-241,778	-267,416	-253,559	-339,005	-621,833	-521,302	-590,120

Data source: KNBS

2.5 Sugar Import

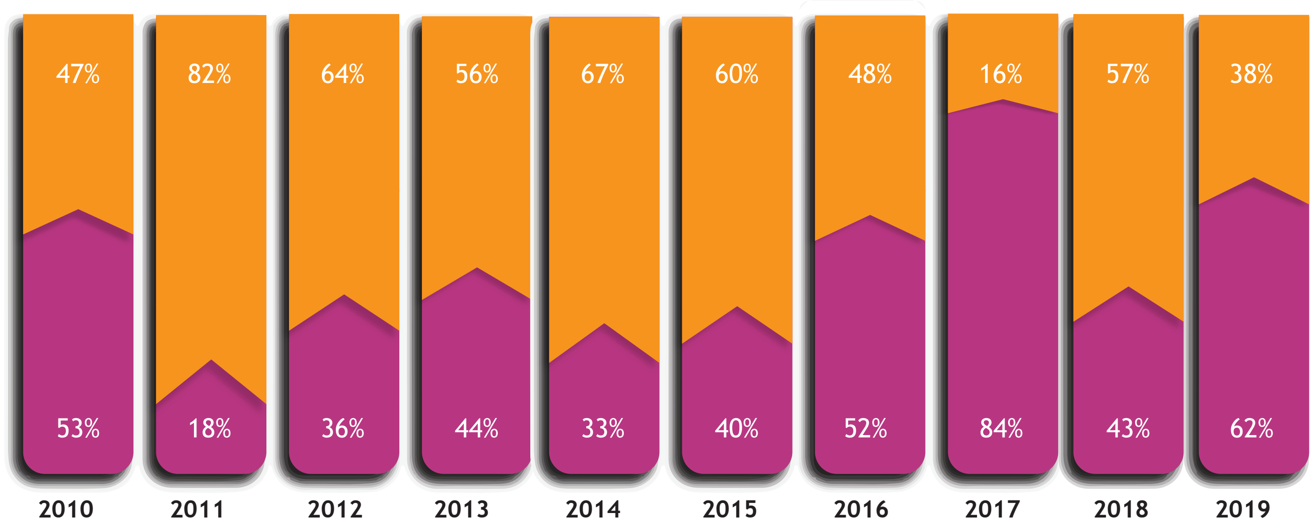
Kenya's sugar deficit is mainly filled through imports of raw sugar and the refined sugar for industrial use. For the period 2010 - 2019, Kenya remained a net importer. Total sugar imports increased from 258,578 ton in 2010 to 458,631 ton in 2019, recording a high of 989,619 ton in 2017 to meet the rising domestic demand against declining production (figure 3). Further analysis shows that, milled brown accounts for the largest share of imported sugar. In 2019, milled brown/white sugar accounted for 62% of imported sugar, a jump from 43% in 2018. On the other hand, industrial sugar accounted for 38% of imported sugar in 2019, a decline from 57% in 2018(figure 4).

Figure 3: Total sugar imports, 2010-2019



Data source: AFA

Figure 4: Sugar production, consumption & deficit; 2010 - 2019 (tonnes)



Data source: KNBS & AFA

2.5.1. Key source of imported sugar

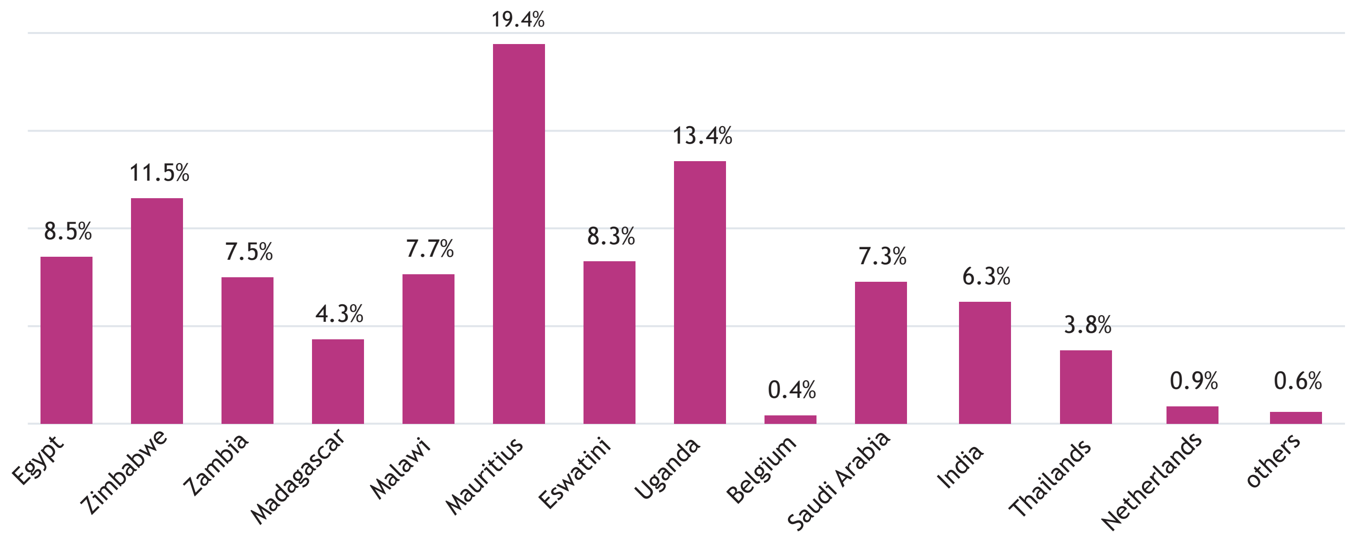
COMESA countries are the main source of imported sugar in Kenya and accounted for 67% of total imports in the country in 2019 (Table 3). Thirteen (13) countries accounted for 99.4% of sources of imported sugar in Kenya in 2019 (figure 5). Sugar from COMESA region is said to be relatively cheaper than locally produced sugar due to subsidies given to industries in these countries. Additionally, there is a general feel from the industry that the sugar deficit in the country is an overstatement that leads to over importation. The result is low sales and low turnover for the local producer. This further cripples the struggling sugar industry.

Table 3: Source of sugar imports by trade bloc, 2010-2019

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
COMESA FTA	133,755	48,823	93,751	106,835	49,764	118,192	207,467	265,989	133,221	270,701
COMESA non-FTA	1,680	-	-	-	908	1,644		86,424	11,738	38,115
% share of total imports from COMESA Countries	**52%**	**35%**	**39%**	**45%**	**26%**	**48%**	**62%**	**36%**	**51%**	**67%**
East Africa Community (EAC)	8,138	73	31,922	4,820	40,187	30,289	39,109	26,700	62,647	61,652
The rest of the world	115,004	90,180	112,916	126,391	101,262	97,263	87,533	610,506	76,563	88,163
Total Imports	**258,577**	**139,076**	**238,589**	**238,046**	**192,121**	**247,388**	**334,109**	**989,619**	**284,169**	**458,631**

Data source: AFA

Figure 4: Share per country of origin for total sugar imports,2019



Data source: AFA

2.5.2 Source of imports by type of sugar

a) Brown sugar

Kenya imports brown sugar mainly to bridge the shortage in local production for all forms of usage, except for industrial use.

Table 4 shows the top 8 source countries of imported milled white/brown sugar in 2019.They accounted for about 99.9% imported brown sugar during the year under review . Uganda and Zimbabwe were the first and second largest sources of imported brown sugar accounting for 22% and 19% respectively.

Table 4: Imports, Mill white, Brown sugar, tonnes 2019

COUNTRY	QUANTITY (TONNES),2019	% SHARE OF TOTAL BROWN SUGAR IMPORTED,2019
1. UGANDA	61,652.15	21.6%
2. ZIMBABWE	52,957	18.6%
3. ESWATINI	38,115	13.4%
4. MAURITIUS	37,199.16	13.0%
5. MALAWI	34,992.76	12.3%
6. ZAMBIA	34,445.22	12.1%
7. MADAGASCAR	19,800	6.9%
8. EGYPT	5,925	2.1%
9. OTHERS	6.68	0.002%

Data Source: AFA

b) White refined sugar

Refined white sugar in the country is mainly used by manufacturers such as those in the baking, confectionary, beverage and food processing industries. Currently, Kenya does not produce industrial sugar (white refined sugar) and the gap is filled through imports. Table 5 shows the main sources of Kenya imported white refined sugar in 2019. Mauritius is the largest source of imported white refined sugar, accounting for 30% of total imports in 2019, followed by Egypt, Saudi Arabia and India at 19%, 19% and 17% respectively.

COUNTRY	Quantity (Tonnes),2019	% share of total brown sugar imported,2019
1. MAURITIUS	51,969.4	29.95%
2. SAUDI ARABIA	33,333.5	19.21%
3. EQYPT	33,262.7	19.17%
4. INDIA	28,692.23	16.53%
5. THAILAND	17,210	9.92%
6. NETHERLANDS	4,092	2.36%
7. SOUTH AFRICA	51	1.48%
8. BELGIUM	2,000	1.15%
9. OTHERS	405.77	0.23%

Data Source: AFA

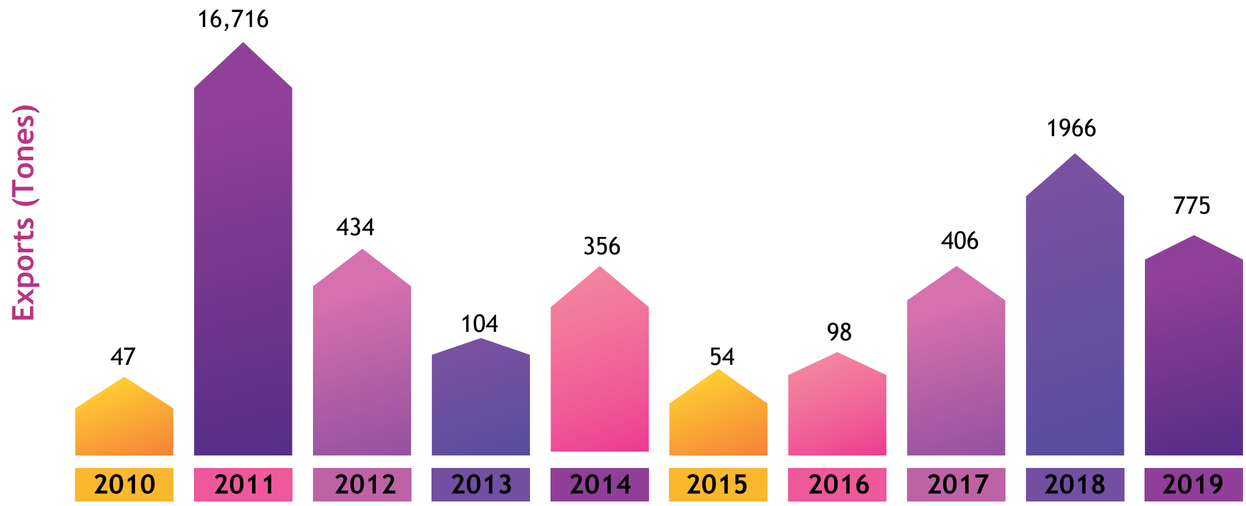
White refined sugar

Kenya does not produce industrial sugar (white refined sugar) and the gap is filled through imports.

2.6 Sugar export.

Kenya is not self-sufficient in sugar production and therefore, her exports are negligible mainly-Tanzania and Rwanda. Kenya exported 775 tons in 2019 compared to 1966 tons in 2018 (table 6).

Table 6 : Sugar export from 2010-2019



Data Source: AFA

2.6.1 Sugar distribution and marketing.

Before the liberalization of the sugar industry in 1992, marketing and distribution was controlled by the government through Kenya National Trading Corporation which regulated producer and consumer prices and imports (KSB, 2010). Currently, processed sugar reaches end consumers through an integrated network of private wholesalers, retailers, importers, and distributors. It has led to opening up of competition in the industry as the marketing of sugar which was previously reserved for individual mills was now open to wholesalers and other retail outlets. This coupled with other measures, led to high importation of sugar mainly from the EAC and COMESA region.

2.6.2 COMESA imports safeguard extended to 2023

The Kenyan sugar industry has been ailing over time and the total production capacity has been inadequate to meet local demand. At the commencement of the implementation of the COMESA Free Trade Area in the year 2000, Kenya sought and was granted in 2002 a sugar safeguard since the sector was not able to compete with sugar from other COMESA member states. In the Directive No. 1 of 2007, Kenya was expected to do a number of things which would turn around the sugar sector and make it competitive. In July 2018, the COMESA Secretariat (under Article 61 of the COMESA treaty) extended Kenya's sugar import safeguard. This extension lasts to 2021 and allows Kenya to limit duty-free imports from COMESA countries to a maximum of 350,000 MT per year. This grant of import safeguards has now been extended nine times in place for sixteen years (table 7). In principle, the grant requires Kenya to comply with conditions, such as the privatization of the state-owned sugar mills, introduction of a sucrose-content-based cane payment to farmers, and provision and maintenance of transport infrastructure in the sugar growing areas.

The safeguard measures limit imports from COMESA countries to protect local industries from cheap imports. The extension of the safeguard measures by the Council is a welcome move expected to provide the Kenyan Government with additional time to revive the sugar industry. Kenya has been slow in taking the corrective measures prompting COMESA to form a sub-committee to monitor and assess the implementation of the safeguards. It remains to be seen whether the Government will take the required measures to revive the sugar industry considering the COMESA safeguards have been extended for a period of more than 10 years.

The COMESA Committee has once again proposed to the Council that Kenya be granted an extension of import safeguards from March 2021 – February 2023. The safeguards are granted to Kenya pursuant to Article 61 of the COMESA Treaty which allows a Member State to take necessary safeguard measures in the event of serious disturbances occurring in the economy of a Member State and upon approval by the Council.

The sugar safeguard measures allow Kenya to import limited quantities of sugar originating from COMESA countries without applying preferential rates on a quota basis from countries that do not have local deficits in order to satisfy the Rules of Origin. In return, Kenya is expected to take corrective measures to promote recovery of the sugar industry. One of the measures has been to privatise the Government owned companies but Kenya has been slow to actualise this. The current recommendations for extension of the safeguards are:

i) Kenya to provide deficit each year based on ISO Statistics;
ii) Kenya to provide a clear road map on how to enhance the sugar industry competitiveness within the extension period, and,
iii) Kenya to ensure the import permit process is transparent, fast and efficient.

3. EAC CET STRUCTURE

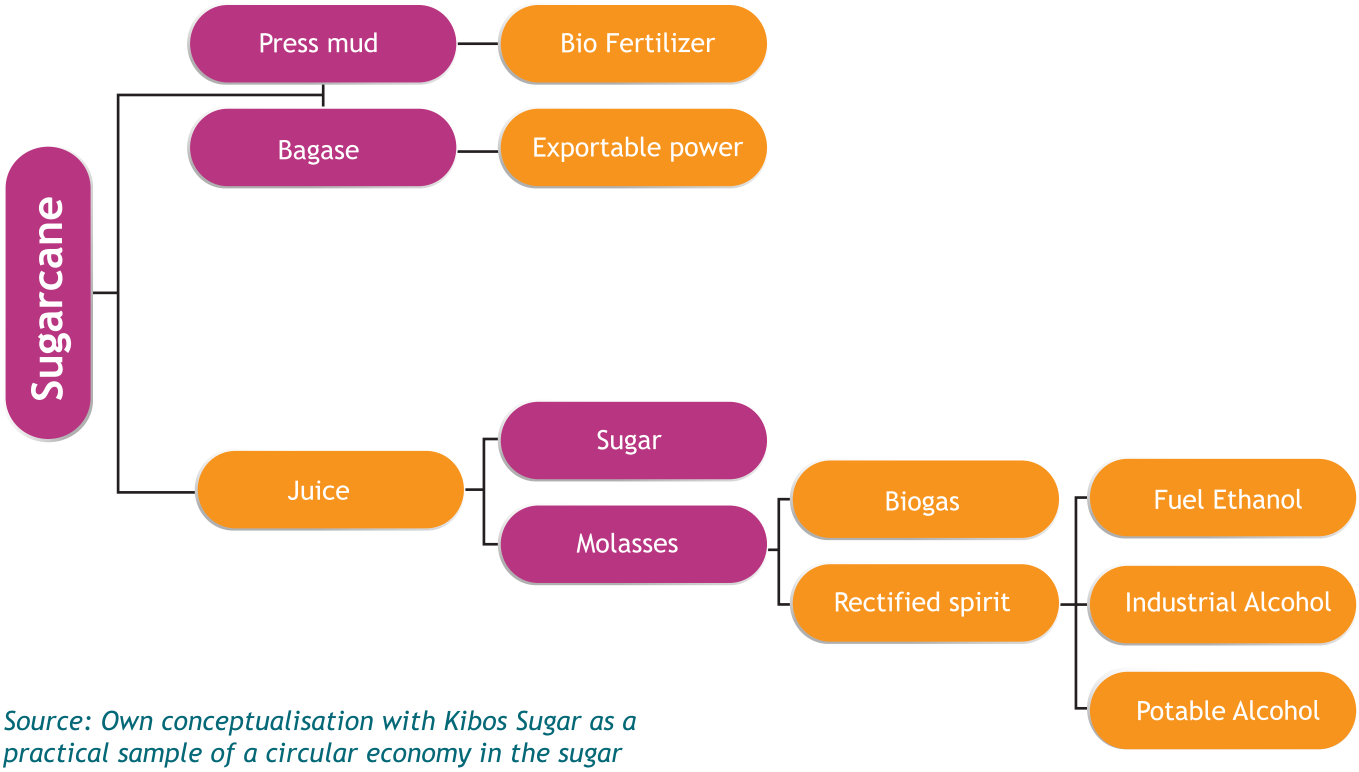
Raw sugar under the HS codes is classified in HS codes: 170112, 170113 and 170114 while refined sugars are under HS codes 170191 and 170199. HS code 170112 is raw beet sugar, 170113 is raw cane sugar, 170114 is other raw cane sugar not specified under 170113 while 170191 is refined sugar containing flavouring or colouring matter and 170199 is refined sugar not containing flavouring or colouring matter.

HS code	Description	Duty rate
1701.91	Refined sugar Containing added flavouring or colouring matter	SI
1701.99	Sugar for industrial use	SI
1701.12	Raw beet sugar	100 % or $ 460/MT whichever is higher
1701.13	Raw cane sugar	100 % or $ 460/MT whichever is higher
1701.14	other raw cane sugar not specified under 170113	100 % or $ 460/MT whichever is higher

Data source: EAC CET(2017)

4. ANALYSIS OF SUGAR PRODUCTION SUPPLY CHAIN

The sugar value chain comprises three core activities: (i) sugar cane production, (ii) milling to produce raw sugar (brown sugar) and (iii) refining for white sugar. From figure 6 below, the primary by-products along the sugar value chain are molasses, bagasse and press mud.



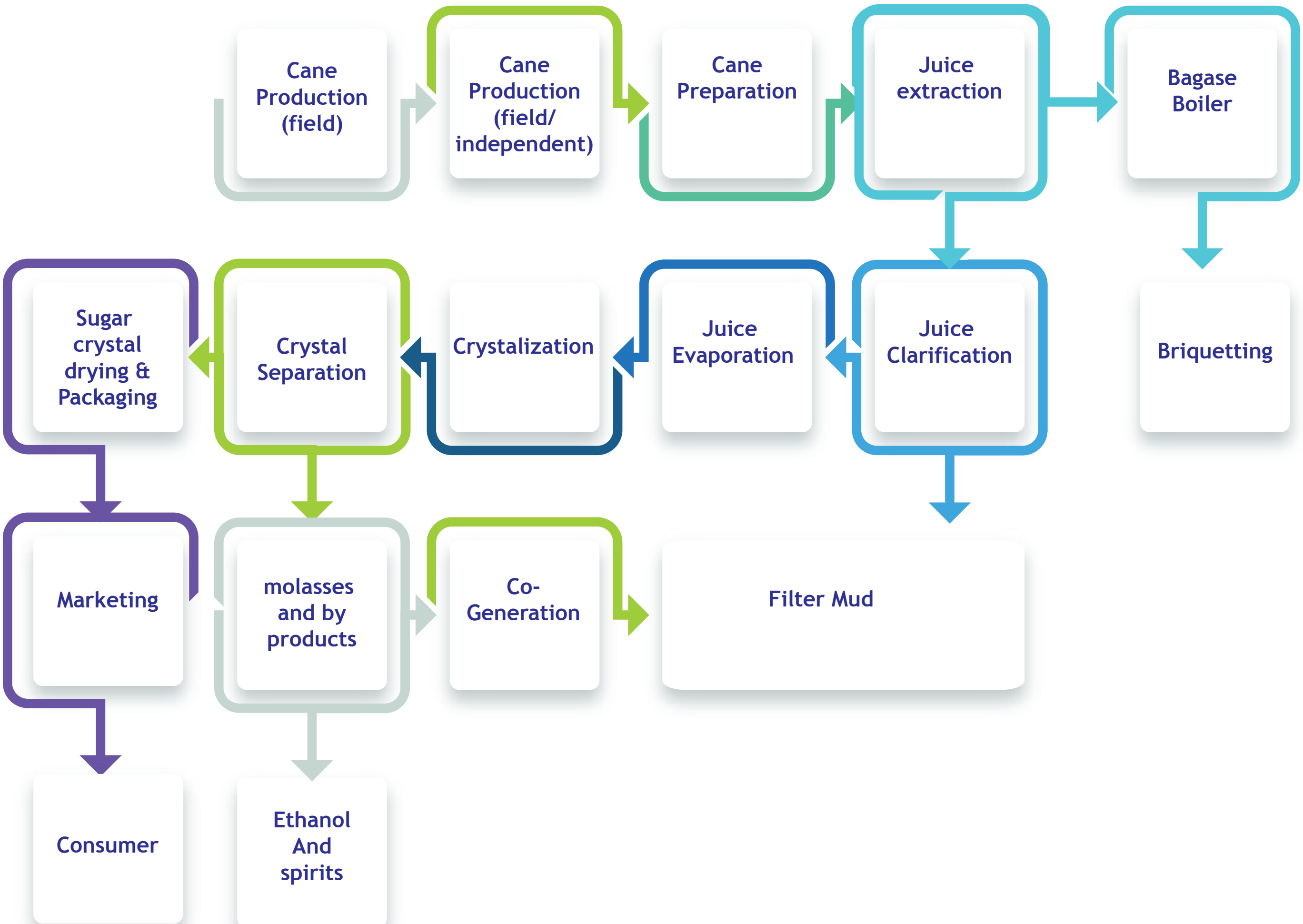
Source: Own conceptualisation with Kibos Sugar as a practical sample of a circular economy in the sugar industry

A detailed sugar and by-products processing is presented in figure 7 below. Once canes are received, weighed and shredded at the factory, juice in the cane is extracted. The juice goes through the clarification process to remove impurities and then treated with phosphate, lime and heat. The clarified juice obtained is then concentrated through evaporation of water to form syrup. The syrup is processed into Massecuite. (Massecuite is processed in the centrifugation process where sugar crystals are separated from liquid (Molasses), thereafter dried, packaged and taken to the market.

The main by products from this process are bagasse, filter/press mud and molasses.

- Bagasse is further used in the co-generation plant to produce steam and electricity.
- Filter/press mud can be used as farm manure or mixed with vinasse (waste from ethanol production) in a drying and crystalizing process to produce bio-fertilizer and packaged for the market.
- Molasses produce include animal feeds, ethanol, spirits, yeast and carbon dioxide.

Figure 7: Sugar value chain



Source: (Modified from taskforce report,2019)

Though they are not shown in figure 7, several key installation play a role in Kenya's sugar value chain. These include;

i) The government of Kenya which in addition is being responsible for the sector policy direction is currently the sugar industry largest shareholder(KSI)- Others are presented in the table 9

Table 9: Key stakeholders in the sugar industry

Name	Brief	Role
a) Sugar Directorate	The Agriculture and Food Authority Sugar Directorate (AFA-SD) was established under the Agriculture and Food Authority Act 2013 as one of the Directorates of AFA.	The role of the AFA Act 2013 and the Crops Act 2013 is to streamline the agricultural sector and introduce new governance and supervisory structures in order to better coordinate agriculture in the devolved system of government.
b) County Government	The Constitution of Kenya 2010 introduced a new dynamic relevant to the sugar sector. Certain functions in the sugar sub-sector were devolved to the county governments.	The County Government is responsible for the implementation of agriculture policy, crops husbandry and plant and animal disease control among others.
c) Sugar Research Institute	The Sugar Research Institute (SRI)- (formerly KESREF) is the research arm of the industry established under the Kenya Agriculture Livestock Research Organization (KALRO) Act of 2013.	SRI has the mandate to conduct research and develop appropriate technologies, products and services for the product ion of sugar cane and related crops, the milling of such crops and utilization and marketing of sugar and its co-products.
d) Millers	Millers are licensed to operate a sugar or a jaggery mill for the production of sugar and other products	Processing of sugarcane for the production of sugar and other products for sale and making timely payments to cane growers.
e) Distillers	Distillers are licensed investors who process molasses to spirits and derivatives.	Distillers process molasses as feedstock into ethanol and its derivatives.
f) Kenya Society of Sugar Technologist (KSSCT)	Kenya Society of Sugarcane Technologists (KSSCT) is an affiliate body of both the International and East African Societies of Sugarcane Technologists (EASST).	KSSCT is an association of sugar technologists in Kenya, which forms a platform of sharing research findings and innovations among the scientist
g) Farmers	Farmers are recognized by the Crops Act 2013 as growers who produce sugarcane or any other scheduled crop in Kenya for the manufacture of sugar.	Farmers grow and supply Sugarcane to millers for processing.
h) KUSPAW	Kenya Union of Sugarcane Plantation and Allied Workers (KUSPAW).	The Union's main role is negotiating and settling differences arising between members and their employers by conciliation, arbitration or otherwise. It also safeguards the interests of members, to obtain redress for all broken contracts on behalf of members who may be unreasonably or unjustly dismissed from their
i) Kenya National Federation of sugarcane farmers		
j) Kenya National Federation of sugarcane Growers		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5. CHALLENGES.

	Issue	Detailed description of the issue	Intervention required
1.	Excessive sugar imports	Kenya is currently a net importer of sugar mainly from COMESA countries. Whenever there is an acute shortage, the country imports from COMESA on duty free basis. This occasionally leads to oversupply and glut in the market, dampening local sugar prices hence adversely impacting on both price and demand. Country specific analysis especially for COMESA countries reveals that a number do export to quantities than their production potential – this is against the protocols which require re-exportation only after value addition (by min 10%)	✓Effective regulatory framework and oversight mechanism for coordinating sugar import/export ✓Stringent enforcement mechanism of 100% duty for sugar from the worlds market save from COMESA region ✓Establish proper mechanism with h COMESA Secretariat to ensure that net importing countries within COMESA do not export to Kenya. ✓Monitoring of national sugar stocks and projection. ✓Establishment of controls and enforcement of ban of sugar imports by sugar millers
2.	Smuggled Sugar	A sizable amount of uncustomed sugar is smuggled into the country through the porous borders. This causes a distortion in the market, compromises in quality and leads to loss of government revenue	✓Establish a multi-agency team to enforce surveillance to curb sugar smuggling. ✓Increase border surveillance in collaboration with other Government agencies. ✓KEBS to vigorously enforce packaging rules and standards
3.	Sugarcane development funding.	Before the establishment SDL, cane production was financed by millers and individual farmers. With the introduction of the SDL in 1992, the fund grew to become the single largest source of funding for research, cane development, factory rehabilitation and infrastructure development. The de-gazettement of SDL in 2016 largely contributed to inadequate funding for research, cane development and factory rehabilitation, resulting in low research initiatives, acute cane	✓Re-introduction of the SDL at the rate of 4% to support the industry; – Specifically Research, cane development, infrastructure development, factory rehabilitation and administration. ✓Institute proper control mechanism to ensure funds are used for intended purpose
4.	Lack of laws and regulations	There has been lack of a governance structure to coordinate cane production, supply and processing in the industry. This has led to cane poaching, farmer exploitation, inadequate financial and technical support for farmers, long distance hauling of cane leading to wastage and staleness, high cost of transport, harvesting of immature cane and consequent loss of income, acute cane shortage and overall disharmony in the sub-sector. There is need therefore to establish a governance framework for coordination of the industry activities	✓Create forum to address and manage the movement of cane in a manner that does not disadvantage weaker Millers against aggression. This will provide enabling environment to support investment. ✓The enactment of the sugar Act 2019[J01] with amendments as per the Sugar Task Force Report and the establishment of Rules and regulations as per the Sugar Task Force Report will enhance the management of the Sub-Sector in a sustainable manner.
5.	Lack National Sugar Policy	Sugar economies in the world always depend on Government support because of the cyclic nature of problems in the industry irrespective of whether they are public or private entities. These dynamics require to be systematically handled through Substantive National Policies because of the scope of interaction that exist in the sugar manufacturing value chain	✓Develop National Sugar Policy
6.	Weakness in regulatory mechanism-	The industry has hitherto operated without a national policy and supportive regulations to facilitate the implementation of existing legislations. This has paved way for disharmony in the sector, cane poaching, proliferation of weighbridges that do not match cane development and ultimately acute cane shortage.	✓Finalize and publish the policy and sugar regulations
7.	Limited research and development	Research is key to addressing productivity challenges along the entire sugar value chain and assuring the industry's sustainability. Although a number of studies have carried out focused in this industry, this has been predominantly concentrated on cane varietal development and soil testing. There is need therefore for SRI to expand its scope to cover the entire sugar value chain in line with their mandate.	✓Re- establish an independent public sugar Institute ✓Establish research field stations to undertake agro-ecological research and ✓Reinstate the SDL to support the research institute
8.	Packaging and traceability	There are regulatory provisions on standards of sugar packaging. However, enforcement remains a major challenge. The retail market does not adhere to labelling requirements provided for by law. This window has been subject misuse to allow packaging of illegal sugar the market	✓Enforcement of regulations on repackaging of both locally produced and imported sugar.

PRIVATE OWNED COMPANIES		PUBLIC OWNED COMPANIES	
Issue	Interventions required	Issue	Interventions required
Co-generated power transmission-In the current Power Purchase Agreement, the miller is required to develop the infrastructure for transmitting electricity from the mill to the nearest sub-station. This is a capital-intensive venture that should be borne by KETRACO.	Negotiate with KETRACO to develop the requisite infrastructure for transfer of cogenerated electricity from the mills to the nearest KPLC sub-stations. The power parity arrangements should be favourable to ensure profitability of the venture	Delayed payment to farmers- Some of the millers do not meet their contractual obligations to pay farmers for cane deliveries as stipulated by the contract. This delay translates to lost opportunity and financial losses attributed to time, value of money, accumulative cost of credit and forces farmers to dispose cane to other millers below cost	Negotiate with KETRACO to develop the requisit infrastructure for transfer of cogenerated electricity from the mills to the nearest KPLC sub-stations.
Land disputes- With regard to the sugar industry, there is a perception by a large segment of the stakeholders that nucleus land is communal land. Pursuant to its function, the National Land Commission (NLC) carried out an investigation into present and historical land injustices relating to land under the sugar industry.	National Land Commission to sub-divide the land belonging to communities and Sugar industry for cane development, this will determine the ownership of the land & it will reduce the community/company war. Is this an issue for us to be highlighted here?	**Lack of capital and high debt-**Due to non-performance of public millers, the mills do not have working capital to support daily operations and to meet their financial obligations. The net effect of this inability is the cyclic nature of lack of raw material as farmers are owed and are therefore unable to maintain their farms and/or invest in cane farming	Millers to mobilize resources from both National and County Governments to keep the mills running and ensure farmers and employees are paid promptly
High cost of machine in terms of buying spare parts and maintenance-Taxation on agricultural machinery was abolished in 2006. This has however not translated into low cost of machinery, and hence unaffordable to farmers. On the other hand, VAT is still charged on spare parts, fuel and other process consumables making them expensive to procure as they are mostly imported and are subject to taxation.	Review the taxation regime to create a tax friendly investment environment including duty waivers on high end industry inputs such as diesel, farm implements, plant, and factory equipment	Inefficiency and high cost of sugar production-The cost of production especially in public owned mills is comparatively high due to ageing and obsolete equipment, inefficiencies along the value chain and low value addition initiatives among others.	The scope of the cane pricing committee should consider all charges recoverable from the farmer and government to consider introducing cost reduction management technologies along the value chain.
		Ageing and obsolete technology and operational inefficiency-Public mills operate ageing mills with obsolete technologies. This is exacerbated by the lack of maintenance of these mills due to lack of funds.	Mobilize resources for capital injection through a strategic investor as approved by parliament in 2015 to enable the companies meet their financial requirements. Government negotiate with banks and other creditors for the restructuring of other debts. Outright sale of the public owned companies to investor after waiving taxes owed by the same and paying all debts owed to farmers, suppliers and others. This will provide an incentive to investors.

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