

Utafiti Sera Policy Brief 001

Declining Wage Employment along Sugar Value Chain: The need for Policy Change in Kenya.

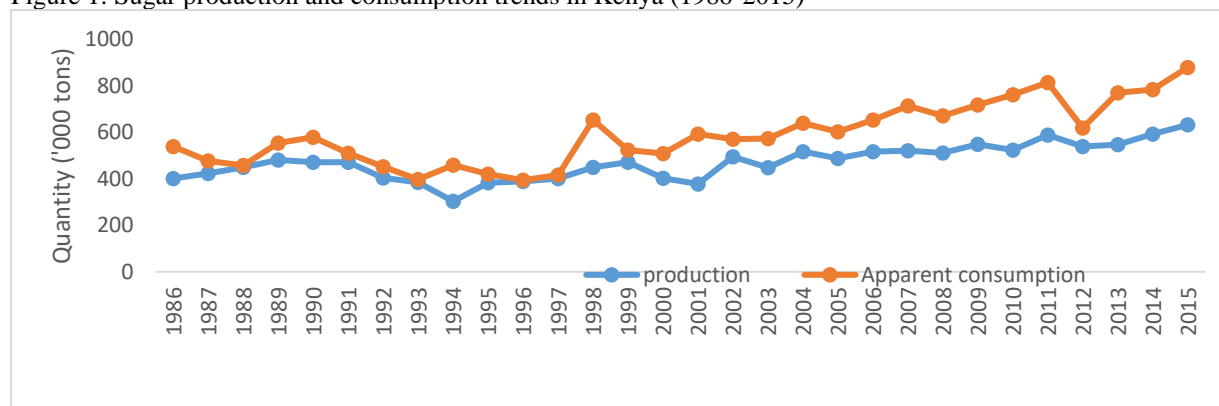
Summary

- Although sugar is a key commodity in Kenya supporting over 250,000 small-scale farmers directly and 6 million Kenyans indirectly, the sector faces many challenges that have led to its productivity decline and jobs lost over the last two decades.
- The government of Kenya has over the years underscored the importance of maintaining self-sufficiency in sugar but this goal has remained elusive over the years, with sugar consumption estimated to exceed domestic production by 247,000 metric tons in 2015.
- The sugar industry still has the potential to improve performance, reduce the need for sugar imports, increase employment and incomes.
- The following policy options are discernible: i) address costs of inputs and modernise cane transport and milling; ii) implement regulations on management of factory maintenance programs; and iii) implement guidelines on sugar importation, especially issuance and management of import permits.

1. Background

Sugar remains one of the key commodities in Kenya, with estimated production of 632,000 metric tons and consumption of 879,000 metric tons as at 2015. The sugar industry directly supports over 250,000 small-scale farmers and about 6 million Kenyans directly or indirectly¹. Sugar production in the country is done mainly by 13 factories, five of which are government-owned. Despite public investments in the factories, self-sufficiency in sugar has remained elusive. Over the last 30 years, consumption has mostly outstripped domestic production (Figure 1), with the deficit being met through importation.

Figure 1: Sugar production and consumption trends in Kenya (1986-2015)



Source: Computed from Food and Agriculture Organization Statistics data and Economic survey 2016

Production and trade data (Table 1) shows that Kenya's self-sufficiency in sugar production is far from being achieved. In the decade ending in 2013, annual self-sufficiency ratio ranged from 71% to 87%. This led to perennial imports to meet the domestic consumption needs. Notwithstanding the shortfall in

production during the same decade, the country still exported some sugar, ranging from 18,000 metric tons in 2004 to 77,000 metric tons in 2008. This means that imports almost always exceed the deficit occasioned by inadequate domestic production, by an estimated 15-69%.

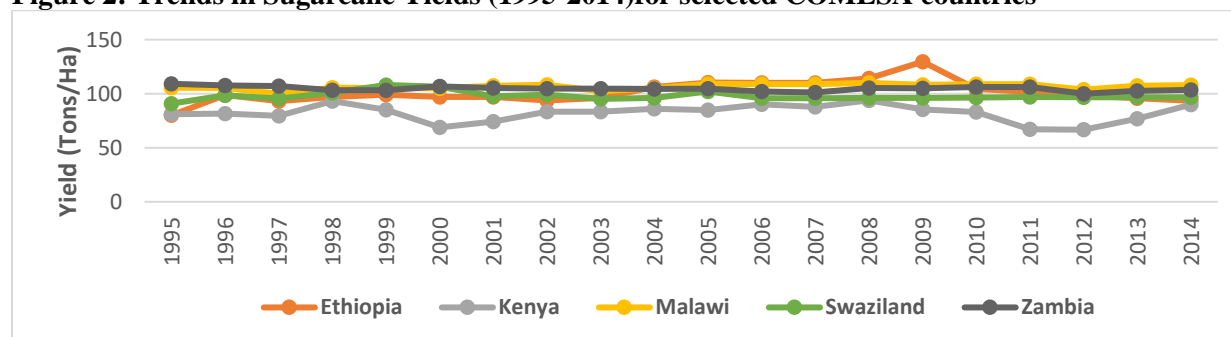
Table 1: Sugar production and trade statistics (2004-2013).

Variable	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Domestic production ('000 tons)	516.8	488.1	517.0	520.4	511.9	548.0	523.7	588.3	539.4	547.8
Imports ('000 tons)	140.2	158.9	178.2	249.5	236.0	199.3	273.9	277.6	132.9	255.9
Exports ('000 tons)	18.2	45.1	41.7	56.5	77.2	30.1	35.0	52.2	54.2	33.3
Self-sufficiency ratio (%)	80.9	81.1	79.1	73.0	76.3	76.4	68.7	72.3	87.3	71.1
Import dependency ratio (%)	21.9	26.4	27.3	35.0	35.2	27.8	35.9	34.1	21.5	33.2
Excess imports (% implied deficit)	15.0	39.6	30.5	29.3	48.6	17.8	14.7	23.2	68.9	15.0

Source: Computed from Food and Agriculture Organization Statistics data.

Failure to achieve set objectives is attributed to low productivity, low sugar yields and production. Low productivity in turn, is linked to under-utilization; poor cane husbandry practices; policy and marketing problems occasioned by cheaper imports; and high cost of sugar productionⁱⁱ. However, statistics show that there is potential to improve performance of the industry. For instance, in the two decades ending in 2014, sugarcane yields were below 90 tons/ha, less than those of some key exporting countries in the COMESA region (Figure 2). Moreover, the national sugarcane variety list shows that yields of up to 150 tons/ha are attainable from available improved varieties.

Figure 2: Trends in Sugarcane Yields (1995-2014) for selected COMESA countries



Source: Computed from Food and Agriculture Organization Statistics

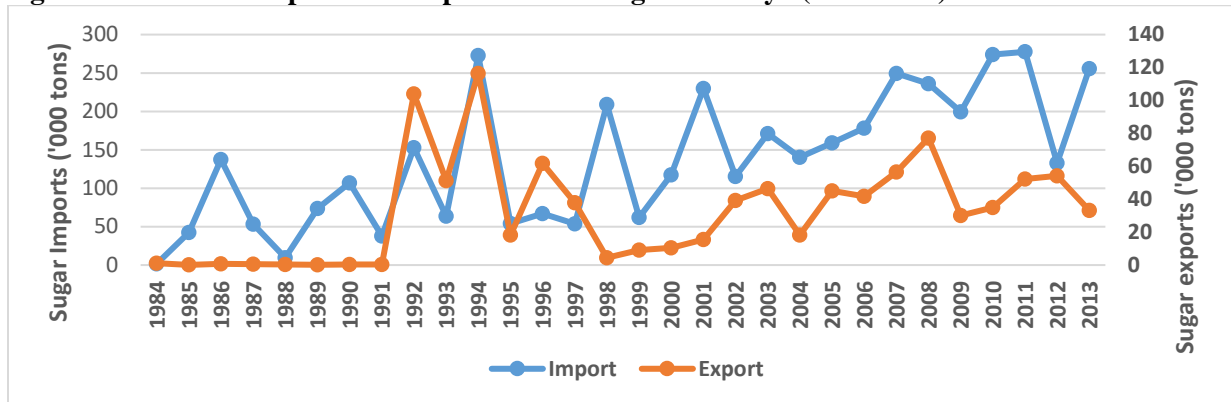
2. Sugar Importation in Kenya

Economic liberalization in Kenya in the mid 1980's and early 1990's presented challenges to the sugar industry. Multilateral and regional trade agreements, specifically those associated with COMESA, have facilitated the importation of sugar into the country at minimal or Zero tariffs. This has had an adverse effect on the marketability of locally produced sugar, which, because of high production cost, cannot compete head to head with foreign sugar in the domestic and foreign markets. Import of cheap sugar into Kenya is restricted using tariff and non-tariff barriers. It is against this background that Kenya invoked the provisions of the Safeguard Clause (Article 61) of the COMESA Treaty to offer conditional protection to the sector for a limited time. The primary objective of the safeguard was to accord Kenyan sugar producers (farmers and millers) protection for a period of 10 years, during which the producers, working with government and other concerned stakeholders, would address the sector's lack of competitiveness.

On the other hand, excess importation of sugar is as a result of government inability/unwillingness to enforce quotasⁱⁱⁱ (which partly explain why annual imports have always exceeded deficits created by low domestic production as shown in Table 1); too many regulations, and arbitrary cancellation of issued import permits. It is also widely believed that politically well-connected sugar "barons" hoard sugar so as to create artificial shortage, thereby forcing the government to allow importation, especially in the periods just before general

elections --resulting in periodic sharp increases in sugar imports^{iv}. For example, during 1991-1992 period, imports of raw sugar increased from 38,013 to 152,713 metric tons (302%). The cycle was repeated in 1997-1998, 2000-2001, 2006/2007 and 2012/2013 (Figure 3). The importation of sugar is done by well-connected political elites who enjoy the protection of the state. Moreover, increases in imports tend to be accompanied by increase in sugar exports, perhaps to rid the market of excess supply. These trends imply that sugar imports are not always motivated by the need to close the domestic production-consumption gap.

Figure 3: Trends in imports and exports of raw sugar in Kenya (1984-2013)



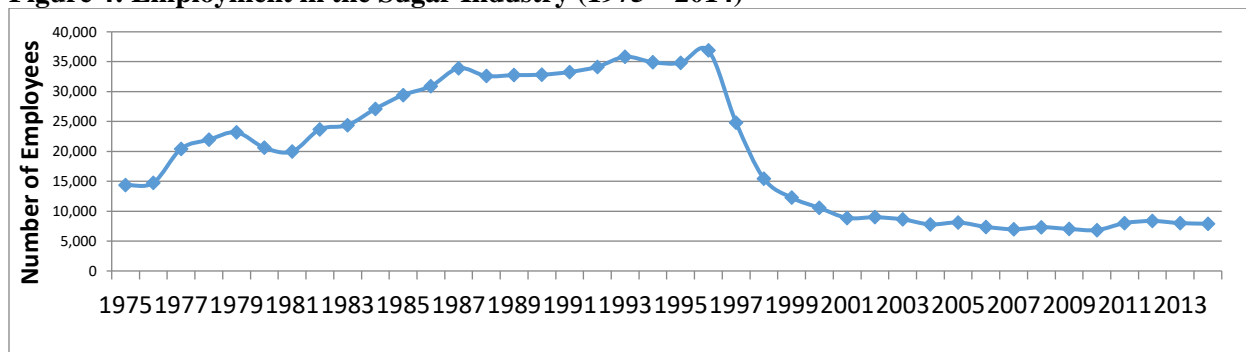
Source: Computed from Food and Agriculture Organization Statistics data

Politics in the growing, milling and marketing of sugar, seems to undermine the success of the sector and by extension adversely affect the livelihoods and employment of thousands of Kenyans. ^v.

3. Employment creation in the sugar industry

The period of economic liberalization marked the onset of policy reforms such as removal of controls, enhanced agricultural sector growth through provision of incentives to producers in the form of higher producer prices, while liberalized trade had a dampening effect on production of food crops^{vi}. Although government policy focused on diversification of agricultural commodities, there was emphasis of increasing and expanding production of seven commodities namely; coffee, tea, maize, wheat, milk, beef and horticulture. This led to neglect of some of the crops including sugarcane, since the government position was that “ very low and uneven negative returns are serious barrier to expansion of sugar as a basic food crop which is a major employer in western Kenya” and “it was therefore essential that the costs of growing and processing sugarcane be reduced substantially before further investments can be considered”^{vii}. The sugar industry in Kenyan being a major employer of wage labour has witnessed drastic reduction in provision of employment opportunities since the peak of 1994 (57,392 workers) to less than. 10,000 in the year 2013 as shown in Figure 4.

Figure 4: Employment in the Sugar Industry (1975 – 2014)



Source: Kenya Sugar Board Year Books (Various issues)

4. Recommendations

The government of Kenya has over the years underscored the fact that “it is important to maintain self-sufficiency in sugar because import prices fluctuate considerably and future dependence on imports would destabilize Kenya’s foreign exchange balance^{viii}. It is against this background that the Government in consultation with industry actors should formulate and implement strategies for increasing competitiveness of domestically produced sugar and improve management of sugar imports. In this regard, policy makers should:

- i) Address the high costs, including (a) cost of inputs such as energy and fertilizers, and (b) modernise cane transport and milling technologies to reduce costs at factory level;
- ii) Formulate and implement of policy and regulations on managing sugar factory maintenance programs, to ensure continuous supply of sugar and reduce the need for imports;
- iii) Implement and ensure adherence to policy guidelines on sugar importation such as strict issuance and management of import permits, collection and continuous use of data to estimate sugar deficits that must be offset through imports;

Acknowledgements

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Further information about this Policy Brief and reports of the study and the stakeholders are available at: www.Cabe-africa.org. Utafiti Sera appreciates the support of the Knowledge Platform for Inclusive Development Policies (INCLUDE).

ⁱKenya Sugar Board. 2010. Kenya Sugar Industry Strategic Plan 2010 -2014. Nairobi: Kenya Sugar Board

ⁱⁱKenya Sugar Board, 2014. Baseline Study for Sugar Agribusiness in Kenya. Final Report

ⁱⁱⁱCommon Market of Eastern and Southern Africa. 2012. Draft Report of the Kenya Sugar Sector Safeguard Assessment Mission. Lusaka: COMESA

^{iv}Otieno-Odek, Kegode P. &Ochola S. 2003. The Challenges and Way Forward for the Sugar sub-sector in Kenya. Frankfurt: Friedrich Ebert Stiftung

^vCommon Market of Eastern and Southern Africa. 2012. Draft Report of the Kenya Sugar Sector Safeguard Assessment Mission. Lusaka: COMESA

^{vi} Nyangito H. and Okello J. 1998. Kenya’s Agricultural Policy and Sector Performance: 1964 to 1996. IPAR Occasional paper No. OP/04/98

^{vii} Republic of Kenya, 1986. Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth. Government Printing Press. Nairobi.

^{viii} Ibid.