PRESS STATEMENT BY HON. PETER MUNYA, MGH, CABINET SECRETARY, MINISTRY OF AGRICULTURE, LIVESTOCK, FISHERIES AND COOPERATIVES ON 2ND JULY, 2020 AT KILIMO HOUSE

Empowering Farmers and Transforming the Sugar Industry in Kenya: The Government's Reform Agenda

1. Brief Background on Sugar Industry

The Kenyan Sugar industry is a significant employer and contributor to the National economy. The most substantial contribution of the sugar industry is its salient contribution to the fabric of communities and rural economies in the sugar belts. Households and rural businesses depend on the injection of cash derived from the industry.

The industry is intricately woven into the agricultural economies of Counties in Western Kenya with an emerging presence in the Coastal area, specifically Kwale. In 2019 the country produced 440,935mt against a consumption of 1,038,717MT.

Other than sugar consumption for food, the Kenyan Sugar industry has the potential to generate 260MW of electricity and produce enough ethanol to run all the vehicles currently running on diesel. That is, in addition to the employment and income it provides presently to Kenyans in the sugar belt.

Sugarcane is as essential a cash crop as are tea, coffee, horticulture, and even maize. However, for the industry to meet this potential, reforms to its existing structure are pertinent. Without the production of ethanol and power to drive its processing, Sugar will remain an expensive commodity to most Kenyans. The production of these two additional products will cross-subsidize the cost of sugar production, making it cheaper, as is the case in countries such as Brazil and Mauritius.

To be a globally competitive producer of Sugar and give sugar cane farmers a better return on their investments, the Government has looked at addressing perennial challenges in the sector. These include:

- Lack of regulations to govern the industry
- High cost of production
- A wasteful and expensive cane haulage system
- High debt burden
- Acute cane shortage
- Lack of adequate research and funding to support cane development
- Low sucrose yield
- Low value addition
- A weight-based cane payment system that gives farmers no incentives to grow high sucrose cane
- Aging equipment and obsolete technology
- Sector-wide governance issues

The Ministry has embarked on extensive and intensive reform efforts to address these challenges to create a high-value sugar sector. Among the measures the government has undertaken or will undertake soon are the following:

1) Implementation of the Sugar Task Force Report recommendations;
2) Gazzetting of the Sugar General Regulations
3) Gazettement of the Import-Export Regulations that are currently with the Attorney General's office
4) Writing off Debts of State-owned Mills and Outgrower Institutions
5) Conversion from Weight to Quality cane payment system based on sucrose content
6) Privatization of the State-owned Mills through a long-term lease Model

Highlights of the above interventions:

1) Implementation of the Sugar Taskforce report recommendations

The Task Force report was presented to H.E. the President on 24th February 2020. Among the key recommendations from the Task Force report are the following:

1. Increased cane, sugar production, and productivity to enhance sugar industry competitiveness, which will be achieved by

i. Improving Research and Extension

ii. Increasing cane production and productivity

iii. Supporting Farmers by

a) Strengthening grower institutions

b) Paying promptly

2. **Enhanced milling efficiency and competitiveness of Sugar and coproducts by:**
   i. Reducing the cost of production
   ii. Synchronizing milling capacity with cane availability
   iii. Adding value

3. **Enhanced and favourable sugar marketing and trade**

4. **A sugar sector compliant with COMESA recommendations that allow the industry competitiveness;**

5. **A market-driven pricing and funding mechanism that enhances income to stakeholders by ensuring that:**
   i. Pricing discrepancies have been adequately addressed in the Sugar Regulations.
   ii. Sufficient funding for price support, if and when needed, exists.

To fund the ambitious reforms we have embarked on, the Ministry recommends the re-introduction of the Sugar Development Levy (SDL). The Fund will be a source of affordable credit and infrastructure support to the sugar industry.

6. **Improved competitiveness of publicly-owned sugar factories**

Every year the government sinks billions of shillings in the sugar factories it owns even as farmers get more impoverished and cane quality deteriorates. This situation benefits no one: whether government or out-growers or farmers. The government now proposes to lease its factories to private companies. The successful bidders will be required to have a Factory Improvement and Modernization Programme as well as a commitment to co-production and co-generation. In other words, we shall set targets for both ethanol and power production for the lease-holders.

7. A supportive policy, legal, regulatory and institutional environment. To do this, we as a government shall:

i. Develop Industry Policy
ii. Develop and gazette relevant Regulations
iii. Review the various Acts of Parliament

The Task Force Report noted that there was a need for stand-alone legislation for the sugar sector to provide a legal regime for sub-sector management, an independent regulator, and, essentially, a research institute. These reforms call for more legal reforms as the bedrock for a thriving industry. To do this effectively and to speed up these reforms, the government has taken the extraordinary step of supporting a private member's bill and proposing amendments that establish the Sugar Sector Stakeholders Committee as an advisory institution.

8) Gazettement of the Crops (Sugar) General Regulations

The General Sugar Regulations 2020 were gazetted on 27th May 2020. This gazettement was historic because it marked the first time that the government has been able to furnish the industry with guidelines to guide its operations. The regulations address issues of registration of all players in the industry: agreements for dealing in sugar and sugar byproducts; provides for regional catchment areas; establishes a Sugarcane Pricing Committee to ensure fair returns to growers and millers through a payment formulae and that is based on quality cane testing through the Cane Testing Units, CTU. We have operationalized cane testing in nine out of eleven factories. This testing aims to determine the sucrose content of the sugarcane and use sucrose as the basis for payment rather than weight. The regulations also act as guidelines on how millers should manufacture, package, transport, and store Sugar and its byproducts in accordance with the specifications as set out in the Second Schedule.

The Ministry has also completed the revision of the Sugar Import and Export Regulations to stakeholders in the importation and exportation of sugar and sugar byproducts. These regulations have already been forwarded to the Attorney General's office for gazettement.

9) Writing off Debts of State-owned Mills and Outgrower Institutions

To make factories attractive to leaseholders, the Cabinet has approved debt write-off as follows:

- All debt owed to Government and the former Kenya Sugar Board/Commodities Fund as at 31st December 2019;
- All Growers’ debts owed to the former Kenya Sugar Board/Commodities Fund as at 31st December 2019;
- All tax penalties and related interest accrued as at 30th June 2009, and any additional interest and penalties that have accrued since then.

In consideration of this, the leaseholders will be expected to revamp and modernize the sugar mills to the point where they can generate power and produce ethanol.

2) Privatization of the State-owned Mills through a long-term lease Model

To increase value addition, increase farmers' incomes and improve competitiveness and service delivery in the Sugar sector, the Cabinet has decided to approve the lease of five (5) state-owned sugar factories. The factories will be leased through long term leases, at least 20 years. The model, the government, will use is a transfer the Right of Use (ROU) of each factory to the lessee on an ”as is where is" principle. The RoU shall be on a firm commitment that the lessee will re-develop and operate the factory to meet the government's objective of higher farmers' income and increased profitability through the production of ethanol and generation of power.

The objective is to facilitate the turn-around of the now dead or underperforming sugar companies and return them to profitability by modernization and efficient management. That will not only make Kenya compliant with her regional partners; it will also enhance the competitiveness of Kenyan Sugar in both the local and global markets.

The five factories slatted for leasing are:

i. **Chemelil Sugar Company Ltd.,**
ii. **Miwani Sugar Company (1989) Ltd. (already under receivership),**
iii. **Muhoroni Sugar Company Ltd. (already under receivership),**
iv. **Nzoia Sugar Company Ltd., and**
v. **South Nyanza Sugar Company Ltd.**

In the domestic market, these Sugar factories have a combined share of 30% of the sugar industry market. The potential for increase is significant. At the moment, sugar consumption in Kenya is approximately 1 million tonnes per annum. We import between 350 million metric tonnes and 400 million metric tonnes. The truth is that if government-owned factories were producing at capacity and farmers were growing high sucrose content cane, Kenya would be an exporter rather than an importer of Sugar.

The idea behind leasing is that Government will invite investors with experience in the Global Sugar Industry. Our focus will be on Sugar (main product), and co-production (ethanol) and co-generation (power) and value add products such as Industrial Sugar, Pharma Sugar, and Sugar cubes, etc.

The Government believes that this will have two benefits: reduce Sugar's price through cross-subsidies and reduce the cost of power.

The current position is that the Ministry has finalized the draft documents and has forwarded these to the Attorney General. Upon his concurrence, we shall advertise for the leases on Monday next week.

Thank you and God bless you.

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CABINET SECRETARY