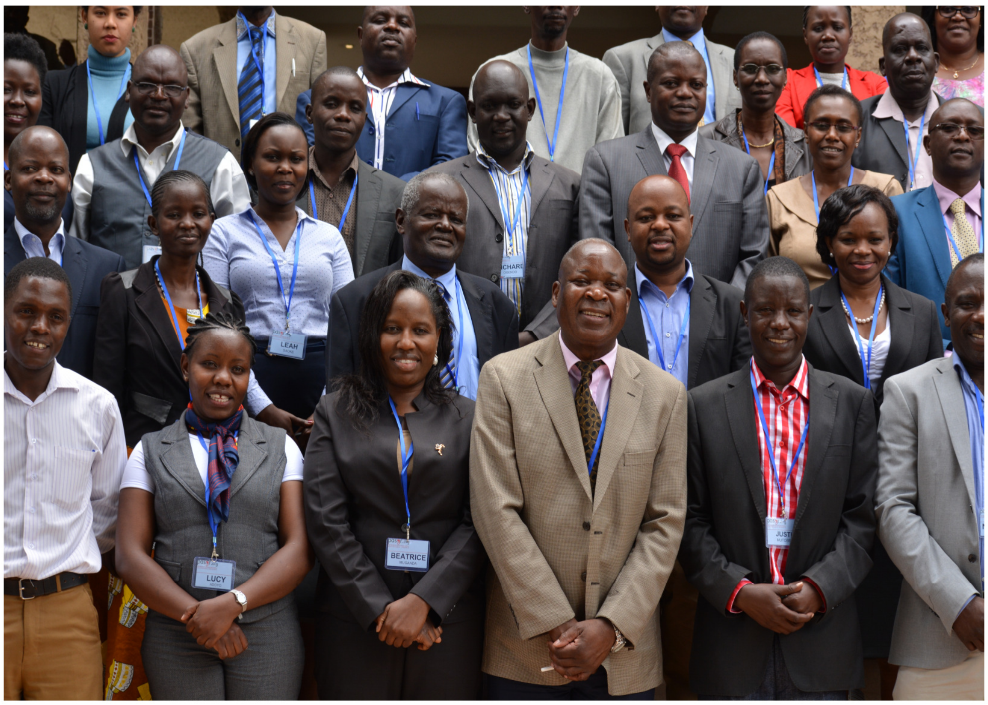
2ND FORUM ON EMPLOYMENT CREATION IN SUGAR SECTOR IN KENYA:

CHALLENGING THE POLITICAL ECONOMY DILEMMAS AND THE ROLE OF *UTAFITI SERA*

(RESEARCH-POLICY COMMUNITY)



PANAFRIC HOTEL, NAIROBI 15TH NOVEMBER 2016

Contents

Acknowledgments

Special gratitude to the Partnership for African Social and Governance Research (PASGR) for organising the *Utafiti Sera* (Research-Policy Community) forum, which brought together experts and key stakeholders in the sugar sector. Special mention goes to Pamellah Lidaywa of PASGR for making the links work. *Utafiti Sera* was made possible by the generous support of INCLUDE, UKAID and IDRC. Thanks to the Centre for African Bio-Entrepreneurship for facilitating the forum. We would also like to acknowledge the various presenters: Nicholas Awortwi, Research Director PASGR; the Research Team composed of Paul Kamau, IDS, University of Nairobi, George Odhiambo, Masaai Mara University, Ms. Leah Saoke, Kwale International Sugar Company, and Mr. Kenneth Ayuko, Lead Expert AgRisk Research and Advisory, for the informative presentations during the forum.

This forum would have been successfully without the invaluable participation of the members of the *Utafiti Sera* house and panelists that shared their experiences and suggestions. Much appreciation goes to Hannington Odame, Executive Director CABE, for moderating the discussions during the forum, and to Lucy Adoyo for rapporteuring and preparing this report. We would also like to express our gratitude to Panafric Hotel for providing the venue for the forum.

Executive summary

The Partnership for African Social and Governance Research (PASGR) and the Centre for African Bio-Entrepreneurship (CABE) held a stakeholder forum on employment creation in the sugar sector in Nairobi on 15th of November 2016. The forum titled ''Employment Creation in the Sugar Sector in Kenya: Challenging the Political Economy Dilemmas and the Role of *Utafiti Sera*'' brought together 42 stakeholders comprising representatives from Agriculture and Food Authority (AFA), sugarcane growers, millers, research community and the media.

The aim was to present and discuss findings and implications of a study on employment creation in the sugar sector by the Institute of Development Studies (IDS - University of Nairobi). The study revealed that employment policies over the years have been anchored on the agricultural sector but the potentials of the sector to promote wage employment have not been fully realized because of a number of blockages including; political interference, low application of technology at the lower end of the value chain, weak institutional framework for supporting the industry, unhealthy competition arising from commodity imports, and the existence of cartels that are able to influence policies in the sector for their private interest. Specific to the sugar value chain, is the involvement politicians in the industry as lobbyists for importers in exchange for rent from the industry instead of real production and supporting job creation. This dilemma contributes to the poor enforcement of regulations. Key policy actors and private companies are keen only at the high end of the value chain – trading and importation.

Another key manipulator of the industry identified in the study are sugar distributors who double as importers and sugar cartels working with the political elite. They use this connection to influence policy interventions in their favour but to the disadvantage of the productive components of the value chain that employs labour. This alliance to a large extent contribute to distortions or artificial shortage in the sugar market, resulting in the need to import instead of production. This enables the cartel to rake profit, which in turn affects local factories and sugar cane farmers. Legally, importation of sugar is limited to filling a gap in local production but given that cartels have captured the market, the filling gap policy appears unworkable.

From these findings the discussions were structured around four main issues: 1) Blockages in Employment Creation in Agriculture & Agro Industries: The Role of *Utafiti Sera* in Facilitating Negotiated Political Consensus; 2) Governing the Sugar Value Chains for Employment Creation in Kenya; 3) Creating Employment in Sugar Sector in Kenya: Industry Perspective; 4) Policy Considerations for Transforming the Sugar Sector in Kenya.

Stakeholders recommended the following five ways to boost the sugar sector and enhance employment creation from the sector:

- **Evidence based advocacy needed to drive sugar sector Policy, law and regulations development and reforms:** Sugar regulations need to be fast-tracked by parliament. The Sugar Campaign for Change (SUCAM) and Kenya Sugar Growers Association (KESGA) should use evidence on how taxes and levies distort incentives for processors to create employment to advocate for a policy to reduce taxes on technology for improving efficiency along the sugar value chain.

- **Conduct study to provide evidence on the benefits of farm level diversification** and models of financing in the sugar industry**:** the studies can be facilitated by the *Utafiti Sera* house with the aim of identifying enterprises that complement sugarcane production and lower its cost of production as well as the best models of financing in the industry.
- In the medium term, *Utafiti Sera* should mobilize value chain actors to share knowledge on available technologies and services. For example the Agriculture and Food Authority (AFA) should mobilize stakeholders to promote region specific fertilizer regime to increase sugar production.
- **Farmer organisations:** The government and development partners should support establishment of partnerships between farmers and politicians through farmer councils and stewardships.
- **Engage the youth involved in** agri-entreprenuers and document success stories: stakeholders including *Utafiti Sera* should document innovation success stories of youth in agri-entreprenuership. This should enable the government to obtain critical data on employment coming from agribusiness and to work County governments tosupport youth innovation platforms on sugar value chain.

Way forward

Dr. Awortwi of PASGR indicated that *Utafiti Sera* provides an opportunity for stakeholders to address key policy gaps in the sugar sector through provision of research evidence and advocacy. *Utafiti Sera* plans to produce documentaries, policy briefs and newspaper articles covering these issues before meeting the parliamentary committee and technocrats in February 2017. The targeted institutions include the judiciary, Kenya Revenue Authority (KRA), and farmer associations.

1. Introduction

The second *Utafiti Sera* forum on employment creation in the sugar sector was held on 15th November 2016. The forum focused on challenging the political economy dilemmas within the sector and brought together 42 stakeholders including the Agriculture and Food Authority (AFA), sugarcane growers, sugar millers, research organisations, academia and the media. The purpose of the forum was to present findings of the study conducted by a team of researchers from the Institute of Development Studies (IDS) at the University of Nairobi. Researchers, practitioners and policy actors discussed the findings and implementation strategies to inform policy uptake.

The Executive Director of CABE, Dr. Hannington Odame noted that the forum served as an opportunity to discuss the findings of research on the state of the sugar industry and the implications of those findings on employment creation and youth involvement in the industry.

The Study findings on Employment Creation in the Kenyan Sugar industry covered the following themes:

- Governing the sugar value chain for employment creation in Kenya;
- The industry perspective on creating employment in Kenya; and
- Policy considerations for transforming the sugar sector in Kenya.

PASGR Research Director of Research, Nicholas Awortwi, noted that the forum was an opportunity to formulate inclusive solutions and to reach a consensus in order to translate research into meaningful policy actions which meets the needs of all involved and speaks to local realities.

He noted that the narrative that Africa is rising faces challenging political economy obstacles in Africa. For instance, despite the GDP growth of about 6% (2004-2012), the labour force employed in wage paying jobs only increased by 0.4% in the same period. The growth in the general economy had not translated into increased employment. The low employment and income growth is partly attributed to lack of political will. There is need to unpack the challenge of weak political will and how it impacts wage employment creation.

Governments tend to promote and support policies selectively such as infrastructure development and debt waivers in coffee and tea growing zones. Understanding the motivation behind this selective support observed in formal and informal processes, agreements and practices in government could help clarify strategies that work in favour of specific sub-sectors. Such evidence can be useful to consolidate political consensus as a means of dealing with weak political will, vested interests and the distribution and use of power. Thus, affirmative action involving ruling elites, investors and technocrats can help to push for policy action on employment in other sub-sectors.

The sugar industry was selected for the study because of its potential to create wage paying jobs given it is a labour intensive enterprise and has implications for gender and inclusiveness. Constraints to employment creation in the sub-sector include weak backward linkages, political entrepreneurship and the pursuit of narrow interests by business cartels. Notably, importers are a major obstacle to achieving employment objectives given that their interests in amassing wealth often coincide with those of elites in the government. Politics plays a key role in job creation, hence the need for a negotiated solution. *Utafiti Sera* provides a platform for discussions among actors with different interests to interrogate policies, find a consensus in policy and suggest recommendations for policy action.

Key messages:

- **Dilemma of the rising GDP in Africa which does not translate into increased employment creation.**
- **Political will as a constraint to employment creation is not unpacked.**
- **The need for negotiated political consensus among different actors with different interests. (Need to involve sugar importers in job creation)**
- **Politics plays a key role in employment creation and support of productive sectors.**
- **The role of *Utafiti Sera* as a community of practice in facilitating a negotiated settlement with parliamentarians.**

2. **Politics, Policies, Laws and Regulations**

The sugar sector in Kenya contributes 15% to the Agricultural Gross Domestic Product (AgGDP) and supports about 15% of Kenya's population. Although public investment in sugarcane production was intended to achieve positive results, its implementation has come with negative consequences. Food production has been substituted with sugarcane to supply factories thus transforming sugar zones into food deficit areas. Sugarcane growing areas have become some of the poorest because revenue from sugarcane ends up outside the local economy.

Factory Annual Expenditure KES 5-6.5bn		Household Annual Expenditure KES 3-3.8bn	
Expenditure Item	**%**	**Expenditure Item**	**%**
Cane Procurement	35	Food	40
Factory Maintenance	25	Education	25
Operational Expenses	20	Health	20
Salaries	20	Clothing, shelter	15
Total	100	Total	100

The impact of sugarcane income on local farmers' welfare has been mostly negative. Factory level expenditure is destined outwards, yet revenue from sugar should circulate in local economy. Factory maintenance and operational expenses (outsourced services) account for 45% of total factory expenses whereas salaries only account for 20% and cane procurement takes about 35%. This means that only 20% of the sugar revenue remains within the community out of which food alone takes about 40% and the farmer has to facilitate other expenses like health, education, shelter and clothing. Farmers are therefore not able to invest in efficient production technology and remain vulnerable to exploitation by factories which contract them to produce cane. Most farmers rely on credit which is given in kind and deducted with high interest rates.

Kenya's sugar has been unable to compete with cheap sugar imported from COMESA after the Free Trade Agreement (FTA) was launched. 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 conditions included elimination of tariff under the FTA. This measure has not reduced the inflow of imports causing injury to domestic producers.

Negative returns is a serious barrier to the expansion of sugar as a basic food crop and a major employer in Kenya. Unless the costs of growing and processing sugarcane are significantly reduced, increased government investment into the industry may not be viable. Despite this reality, the government maintains the position that self-sufficiency in the sugar sector is important in order to mitigate the effects of import price fluctuations. It also recognises that dependence on sugar imports would destabilise Kenya's foreign exchange balance. Therefore, while the government recognises the importance of the industry to the local economy, it has made little or no financial and policy commitment necessary to ensure the productivity and success of the local sugar industry.

Further pressure on the sugar sector emanates from the fact the industry has to compete with other regional sugar producers to adhere to COMESA commitments. While a number of the inefficiencies in the industry are linked to government bureaucracy, political interference and the role and influence of sugar barons, local production of sugar is unable to meet the consumption needs in Kenya. Imports have therefore been used to fill the gap. One way to mitigate the challenges of regional competition is to facilitate collaboration in the industry within Kenya and shift competition from the local level to the regional or international level. In doing so, the industry will be able to adopt regional standards and operational parameters and efficiencies to be able to compete in the regional market. More importantly, it should be recognised that the sugar industry in other major sugar-producing countries enjoy significant government support. Therefore, for sugar production to flourish in Kenya, political will and government support is vital.

Another way to ensure the survival of the sugar industry in Kenya and the livelihoods tied to the crop, is by creating a comprehensive tax collection system within the sugar sector. This is because, factories are only as efficient as the regulations they have put in place, and a more comprehensive tax system can facilitate better record keeping and industry regulation and monitoring. Regulation of the industry can also enable predictability at all levels of the value chain, allowing for the needs of the industry to be clearly identified. With this is place, the industry can achieve meaningful and lasting employment at all levels of the value chain.

In addition to industry regulation to ensure transformation, there is a need for collaboration between all the players in the industry. Through collaboration, issues impeding the growth of the industry can be identified and a transformative agenda created which would speak more clearly to the realities on the ground. In addition to industry-wide collaboration, there is the need for strong farmer associations that can involve farmers in decision-making on the industry.

Currently, there is a vacuum of farmer representation in the decision-making processes in the sugar industry. It is integral for industry growth for farmers to recognise that they are not helpless. Being brought to the sugar decision making table as a collective will ensure a suitable arrangement is created for all stake holders including. Additionally, the government needs to engage with its constituents to ensure that they meet the needs to those they claim to represent.

Political devolution in Kenya has not been matched by similar financial devolution. Currently, the county governments have little power and ability to influence the industry. While constituents along the sugar belt may feel as though the county governments have given up on the industry, this is not entirely true. Moreover, sugar remains a state run crop, giving county governments a limited ability to influence.

There remains a disconnection between state-owned mill production and private mill production. Currently, state-owned factories are not improving on their production capacity. One of the main reasons for this is government bureaucracy which stifle innovation in government owned mills limiting their ability to meet new demands and challenges in the industry. It was suggested that that the government should develop a legal framework to free companies from complete government control. In doing so, state-owned factories will be able to function along market principals.

Politicians have an integral role to play in the success of the industry and their influence cannot be ignored. Despite the inertia of politicians, it would be important to identify their interests and involve them if any meaningful change will occur within the sector. Without this, the needs of those at the bottom of the hierarchy of authority may remain unmet. This also includes the interests of the sugar barons. Creative ways should be found to incorporate them into a policy solution that suits all actors. Actors in the sugar sector could learn from successful strategies used by other agricultural sectors to lobby government support for their industry. The tea and coffee industry in Kenya have managed to secure political will. In addition, there should be consistent engagement with policy actors to ensure that relevant policy recommendations are prioritised. If a policy document speaks to the reality, the possibility for policy implementation increases.

Overall, the legislation regulating the sugar industry is outdated as it does not take into consideration population growth and the increased demand for sugar. It is also important to appreciate the challenges of government at the devolved level. Devolution is new in Kenya and while the country has been politically devolved, economic devolution has not happened to the same extent. Finally, Industry wide collaboration is essential for the prosperity of the sugar sector in the future. Collaboration holds the potential to enable the sector compete with regional and international sugar producers.

Constraints to employment creation:

- Small scale farmers rely on family labour which is inadequate
- Casual labour is paid very low wages and there is reluctance to employ women
- Political interference in employment causes redundancy
- High costs of production and low revenue

3. Growth and Transformation of the Sugar Sector

Between 2010 and 2015, Kenya's economic growth averaged 5.2%. At the same time, the new constitution brought with it renewed hope in the political system and subsequent devolution has allowed for a closer connection between the governed and those who govern. In addition, levels of poverty have reduced significantly from 56% in 2000 to 46% in 2015. However, while the population continues to grow, job creation has not increased to a similar degree. This has led to high youth unemployment throughout Kenya and is exacerbated by the decrease in formal employment as informal employment now accounts for 80% of employment. Therefore, questions arise about the inclusiveness of Kenya's economic growth as it has not uplifted large enough proportions of the population out of poverty despite new economic growth policies.

While the agricultural sector remains an industry of opportunity in terms of employment prospects, especially for women, it has not received the support it requires to realise its production potential. The sector provides 84% of total employment in the country besides supporting another 67% of the population that live in rural areas. Despite the sector contributing 24% of the country's GDP, only 4% of the national budget is allocated to agricultural and rural development and only 3.5% of bank loans are provided to those in the agricultural sector. Moreover, the prosperity of the agricultural sector remain heavily tied to political performance as seen in the past. Elections have resulted in an agricultural production dip and an overall slump in agricultural performance. This reality encourages a strategic conversation of moving policy discussions to an implementation strategy that improves the lives of all Kenyans.

Sugar is the most widely consumed commodity, making it a cross-cutting crop which affects the majority of citizens. Despite the sugar sector's support of millions of small-scale farmers in Kenya's sugar belt, in recent years, these areas are plagued by poverty as political regimes have neglected the growth potential of this industry. Being a predominantly state-owned and driven industry, political influence largely determines the industries success. To date, political influence in the sugar sector has been largely manipulated by sugar importers who have profited immensely from local production failures.

The level of support the industry has garnered from the government has varied significantly since independence. Immediately after independence, the government embarked on an aggressive approach to grow and expand the sector. The aim was to accelerate socio-economic development, redress regional economic development and ultimately, reducing the sugar import bill. In doing so, the government attempted to promote economic development in the rural economy. Consequently, along the sugar growing belt, sugarcane replaced food production, leading to food insufficiency in area which had once been food abundant. This resulted in sugar growing regions becoming some of the poorest regions nationally.

It is important to establish different employment opportunities at various levels of the sugar value chain. The Kwale International Sugar Company Limited (KISCOL) has adopted both normal cane planting and mechanical planting procedures. This has created job opportunities in the irrigation industry and offers opportunities for innovation in the irrigation industry. Innovation can also be extended to farming techniques, cane varieties, new systems of mechanisation and transport.

Value can be added to the sugarcane industry through diversification. However, there are different and often competing perspectives on diversification, as the biggest beneficiaries of these ventures remains unclear. Some argue that the biggest beneficiaries are the companies without those benefits being transferred to the communities. The other perspective is that diversification at the company level supports job creation in sugar mills. Also, contestation exists around the type of diversification which should take place. Some argue that diversification in sugar factories will be spreading the industry too thin. Therefore, it was suggested that before venturing into vertical diversification, the sector should exhaust all horizontal diversification opportunities.

Despite the debate, there are a number of opportunities for diversification in the sugar industry. This includes energy generation, ethanol production, briquettes (in which case, trees will be saved), other food products and animal feeds. Individuals from surrounding communities can benefit from working in these new units. Additionally, land lease production can provide wage employment opportunities and casual employment in cane production and marketing activities. Further, training opportunities exist in pest and disease control. With a better knowledge of pest and disease control, cane yields could increase, further contributing to income generation.

Finally, comprehensive collaboration between varied levels of the sugar value chain and proper management within the sector represents the best opportunity for job creation in the industry. This includes the timely remuneration of farmers which would make sugar production an attractive business opportunity for those not yet in the industry and profitable for those already in the sugar sector. In addition to diversification, the welfare aspect of sugar farming needs to be taken seriously.

4. The Sugar Value Chain and Spaces for Cooperation and Collaboration

There are five elements in the sugar value chain:

1. **Sugar Farming** which consists of small-scale farmers or nuclear farms. It predominantly incorporates the rural population of roughly 6 million on small parcels of land. Ownership is dominated by males while labour is predominantly done by women.
2. **Sugar Milling** which consists of five state-owned millers and seven privately owned millers. The Kenyan Sugar Directorate stipulates that millers should be outside a 40km radius of each other. This element of the value chain also consists of 150 jaggeries which are able to meet 70% of the demand. Overall, factories in the sugar value chain operate below installed capacity.
3. **Sugar Trading** incorporates the wholesalers and distributors of sugar as millers do not market the sugar they produce.
4. **Sugar Imports** incorporates the barons who import sugar. They have been linked to politicians as they need political will and influence to manipulate the local sugar industry to ensure there is a shortage and therefore need for importation.
5. **Consumers** are the final link in the sugar value chain. Due to import and price manipulation by barons as well as local factory inefficiencies, sugar remains an expensive commodity for consumers.

The purpose of a value chain is to trace how the product moves physically from the producer to the consumer. In addition, it depicts how value increases as the product moves through the chain. This facilitates an understanding of business-to-business relationships. The sugar industry, throughout the value chain, has contributed to the employment of permanent and seasonal workers. Being a labour-intensive industry, the sub-sector provides direct and regular employment to 16 000 workers and indirect employment to over 60 000 others. Additionally, the sub-sector supports the livelihood of over 250 000 smallholder farmers directly and about 6 million indirectly.

In the production of sugar cane, about 85% of the cane is supplied by small-scale growers. Cane production is usually undertaken through credits, provided for land preparation, seed cane and fertilisers. These are provided by the miller or out-grower institutions or self-financing for independent cane farmers. One of the challenges facing cane farmers is the fragmentation of land into small and uneconomic land units. This leads to challenges regarding mechanisation and input utilisation of cane farming. In addition, small land sizes have led to strong competition for land between food crops and sugarcane which has increased food insecurity and high poverty levels in sugar growing regions.

Private sugar companies have increased in number over the past few years. They are usually better equipped than state-owned companies as they do not need permission from the state to increase production and expand capacity. While privately owned sugar mills have provided farmers with increased opportunities, the opportunistic behaviour of private companies has disadvantages small holders. This includes mechanisation which increases worker displacement.

Sugar milling results in refined sugar, raw sugar, specialty sugar products, molasses and electricity generation. Value is also added at this point in the value chain by serving different markets. In terms of employment, an increased focus on efficiency in mills has led to a reduction of labour costs in public mills. By doing so, mills have reduced permanent employment but have increased seasonal employment. The profitability and sustainability of public mills have decreased due to the use of outdated equipment and the lack of trust between farmers and sugar producers due to payment delays and irregularities.

The marketing of sugar was previously undertaken by state-controlled companies. However, as the number of private mills has increased, there is increasing competition within the sector. The marketing of sugar is characterised by an extensive distributor network and a vibrant, highly segmented retail market. This is due to the fact that most of the supermarket stores engage in in-house repacking of both domestic and imported sugar. One of the challenges faced by local mills in marketing their sugar is that the price of imports is pegged on the stabilisation of retail prices. This increases cash flow problems for local producers as they are unable to move their relatively more expensive stocks.

5. Engaging the Youth

One of the challenges which has confronted the industry in recent years is inadequate/limited youth engagement. This has and continues to affect the longevity of the sector as young people move into other industries. The industry needs to find innovative ways to engage the youth and find new avenues of participation in the 12 billion shilling market. If the sugar value chain is taken into consideration and developed, the youth can participate at other levels of the value chain. Employment opportunities could include but not limited to engineers, managers and technical assistants.

Presently, there are a number of factors which have discouraged youth engagement in the industry. These include: 1) requirement for several years of employment experience 2) politicisation of the industry and 3) low wages. Currently, the average income earned by a sugar cutter is KES 300 per day - the remuneration earned does not support the cost of living aspired to by many young people. In order for the sugar to not be perceived as a poverty crop, employees and contributors to the sector should be paid a decent wage and on time; 4) additionally, accessing loans remains a challenge for young people as banks have noted that often young people do not use the funds allocated to sugar production for their intended purpose; and finally 5) working conditions are poor.

The meeting discussed a number of practical ways to better incorporate the youth into the industry. One option is to incorporate youth in diversification projects. Therefore, funds could go towards alternative projects while sugarcane matures. Another possibility is to build capacity and create awareness amongst the youth by facilitating youth workshops in which young people learn how to farm the crop and the importance of the crop. In order to generate more interest in the industry, education needs to be the basis. Young people need to know the importance of sugarcane and sugar production. Additionally, the private sector can contribute to helping elicit youth interest in the industry through activities such as a challenge or competition in which the youth can participate. Finally, it is important to note that young people cannot be forced to be passionate about farming. Beyond passion, there needs to be a possibility for earning good profits in the business to encourage youth engagement in sugar.

6. **Prospects for the future**

While there is still hope for the sugar industry, there are a number of fundamental issues which have to be addressed. Despite their influence, sugar barons are not solely to blame for the failures in the sugar sector. Political interests are crucial at both local and national levels and even though devolution was intended to mitigate some of the challenges caused by political interference, it has achieved limited results in the sugar sector. Another major challenge to the sugar sector is the lack of accountability mechanisms to curtail non-compliance with Acts and policies within the sector. While there is a policy framework governing the industry, policy frameworks are not legally binding; therefore, a legal framework should be developed to suit current needs in the industry and incorporate the county governments.

While imports remain one of the main barriers to the growth of the sector, evidence to explain the reason for sugar importation in Kenya remains vague. Additionally, there are no accurate figures available on the amount of sugar being produced in Kenya and that imported into the country. An important issue to take into consideration is that, unlike many other crops, sugar has an existing market. Despite significant population growth, local sugar production has not grown to the same degree. In order to increase supply, bureaucratic bottlenecks should be resolved.

Mechanisation in the industry cannot be ignored. To improve mechanisation, there needs to be better and organised collaboration between neighbouring farms which can be realised if trust between farmers improves. While profits should remain a key concern for the government, job creation should be treated as a priority. Joblessness, in turn, should be recognised as a security issue in order to rouse government interest in prioritising the growth of the sugar sector in Kenya. Therefore, to ensure job security, affirmative action policies need to be implemented by the government before mechanisation displaces large numbers of workers.

Current technology in the industry is outdated which has led to lower production levels and inefficiency and loss when cane is converted to sugar. Therefore, technological improvements would increase mill capacity. Also, the profitability of the industry should be re-established and farmers should be paid promptly to discourage them from uprooting cane in order to plant other, more profitable crops. Improving trust between state-owned and privately owned millers would improve weak sugar institutions due to collaboration and negotiation strength. To improve the governance of the sugar value chain and production capacity, farmers need to increase yield through consistent fertiliser application and by growing higher yielding and early maturing varieties. Pricing in the input and output markets should be transparent to improve trust throughout the value chain. Additionally, there is a need for functioning research, education and extension linkages in the sugar industry.

Educating farmers about the new varieties of sugarcane, how to plant them and new farming techniques is essential to the updating of the sugar sector in Kenya as new varieties of sugarcane have been welcomed by many millers due to their high sucrose content and shorter maturing time. However, it is important to note that new sugarcane varieties are usually lighter than the more widely used varieties. Therefore, the viability of new varieties of the cane for farmers is debatable as farmers are still remunerated according to the weight of their cane. This discrepancy indicates that there is a disconnection between research about new varieties and the practical and economic implications for farmers. In addition, harvesting cane is determined by factory operations and often, political connectedness determines when the cane is harvested. This could lead to cane being left unharvested for up to five years, at which point, a significant amount of its value is lost. In order to mitigate this issue, millers should go into contracts with farmers supplying them with cane.

7. Policy Considerations for Transforming the Sugar Sector in Kenya

Policy, law and regulations

The private millers have been opportunistic in sourcing cane by encroaching on farms contracted by state factories. Private factories also prefer spot markets but they are not supporting farmers, and mistrust has developed between these private millers and state - owned companies. Policy tends to be inclined towards sugar imports who are on the increase with no clear justification allowing barons to dominate sugar trade. There are no clear policy guidelines on how county government in sugar zones are involved in sugar matters yet, agriculture is a devolved function.

To redeem the sector, regulations on land use and management in sugarcane growing areas have to be put in place. These include consideration for zoning and enterprise diversification in the sugar zones while enforcing farming contracts that will ensure proportionate allocation of land between sugarcane and food crop production. Transparency in sugar trade requires proper statistics on demand and supply to match production and importation of sugar, while controlling sugar imports will require creating a one window system for trading in sugar, implemented by the Kenya Revenue Authority.

Diversification

Over-reliance on sugar as the main product from cane is unsustainable since income from sugar is not enough to support farmer's livelihoods over the 24-month waiting period as well as the operations of the industry. Integrating both vertical and horizontal diversification will enhance the earnings from sugarcane business. There is need for complementary enterprises at the farm level which include: jaggery, chewing sugarcane, dairy, palm oil, etc. to leverage farmer earnings during the 24-month waiting period. Factory level diversification would include diversified sugar products, Ethanol, power generation, charcoal, etc.

Sugar production as a business

Sugarcane production is currently characterized by low profits. This is, in part, due to dependence on rainfall and declining soil fertility. The enterprise also receives low investment priority and funding. There is low factory efficiency due to mismanagement and under-utilization of existing capacity. Many research reports recommend that the cost of sugar production must be substantially reduced to attain self-sufficiency in production and make it a meaningful investment. Hence, cost of production and transport (including private transport) must be reduced using cheaper vehicles. Adopting high yielding varieties with better sucrose content will enhance cane productivity at the farm level. This requires creating awareness on the improved varieties; and setting up nurseries of high yielding varieties which fetch better prices.

Farmer organisations

Farmer organisations are vehicles of inclusion in development and decision making processes. The Sugarcane Growers Association (KASGA) is weak and there is low farmer participation in decision making to address market inefficiencies. Hence, farmers are unable to leverage market opportunities, incur high transaction costs and lack access to services, information and productive assets. In order to strengthen farmer organisations and give farmers a voice in decision making there is need to include them in the policy process, assist them to build trust relations, and address market failures through collective action.

Engaging youth

Agricultural production and agro-processing have great potential in creating employment. Youth participation in the sugar value chain is low, partly because available jobs are low paying and laborious in nature. Data on employment at the farm level is not readily available to assess the participation by age and gender. Youth need captivating opportunities that will attract them to participate. This could perhaps be achieved by creating a Kenya Sugar 'buzz' for youth to innovate. This could also include capacity building, business mentoring and negotiating for contracts and better access to credit.

See a summary table 1 of key emerging and cross cutting issues.

8. Policy prospects and way forward

1. Sugar should be treated as a special crop or food security enterprise in trade agreements in order to combat extensive imports.
2. Effective management of imports and resolving bureaucratic bottlenecks should facilitate industry development and growth.
3. Support for joint ventures for development of auxiliary industries linked to sugar manufacturing in order to enhance synergistic enterprises of diversification and substitution.
4. Over-reliance on the factory floor employment is not sustainable. There should be an emphasis on job creation throughout the sugar value chain in order to facilitate industry-wide growth.
5. As neo-liberal economic policies have shown, privatisation is not the only answer to industry growth and development.
6. Finally, policy recommendations should recognise opportunities for collaboration between different levels of the sugar value chain and capture diverse but complementary positions held by all actors in the industry.

Table: Key Emerging and Cross-cutting Issues in the Sugar Sector

Thematic areas	Policy Messages/Issues	Strategic solutions	Issues of immediate action	Research Issues	Policy Review Issues
Policy, law and regulations	• Private sector prefer spot markets but do not support farmers • Future of sugar production at risk because the small holders who supply 85% of cane have continued to subdivide their land into uneconomical sizes and are replacing sugarcane with horticultural crops • Political interests in sugarcane matter.	• Enforce farming contracts that ensure proportionate allocation of land between sugarcane and food crop production. • Engagement with government on moving forward the sugar regulation. • Land use management in sugarcane growing areas including zoning and enterprise diversification. • Lobbying/ Advocacy role of parliamentarians from sugar zones and other champions	• Engage MPs and the senate on fast tracking the sugar regulations- breakfast meeting in February. • Increased interaction with policy makers including carrying out joint research activities and dissemination of findings. • The strategy is to work with SUCAM and Kenya Sugar Growers Association to identify technocrats and influential parliamentarians to champion *Utafiti Sera* agenda.	• Conduct desk research to establish how sugar taxes and levies on sugar impact on sugar producers	Sugar diversification policy to include enterprise and product diversification, industry financing, marketing and distribution
	• Sugar is a highly taxed commodity • Sugar imports are on the increase with no clear justification. • Policy bias towards importers than producers	• Create a single window trading system in sugar- implemented by Kenya Revenue Authority • Proper statics on demand and supply to match production and importation of sugar. • Facilitate regulatory	• Establish the exact demand and supply gap that will inform levels of production and importation.	In collaboration with AFFA establish statistics on sugar production and import. Conduct a desk review research to establish the exact demand and supply gap that will inform	

Thematic areas	Policy Messages/Issues	Strategic solutions	Issues of immediate action	Research Issues	Policy Review Issues
	• Private factories encroach on state factories by sourcing cane beyond their zones. This leads to mistrust between private-owned companies and state - owned companies.	framework to rationalize operation zones of public factories		levels of production and importation. These requires production and factory data viz a vis data on imports.	
	• Sugar industry regulations is in place but are incomplete • Unclear policy guidelines on how county governments in sugar zones are involved in the sugar industry.	• Fast-track completion of regulations. • Encourage State-County policy and programme negotiations	• Work with AFA and other stakeholders to fast-track completion of regulations • Support development of policy guidelines for negotiated state-county settlement.	Conduct a study comparing private versus state milling companies potential for competitiveness in the sugar industry	Protecting employment in the sugar industry
Diversification	• Over-reliance on sugar as the main product from cane. • Product enterprise diversification • Jaggeries create employment yet sugar board is keen on closing them.	• Diversify sugar products, Ethanol, power generation, charcoal, etc. • Develop complementary enterprises to cane production at the farm level. These include jaggery, chewing sugarcane, dairy, palm oil, etc.		Conduct research on diversification at the farm level for increased food production, production of high value crops alongside cane production and lowering cost of production for sugar.	
Sugar production as a business	• Sugarcane is not farmed as a business thus characterized by low	• Reducing cost of production and transport --including private transport and cost	• Facilitate exhibitions on sugar that brings chain actors to share knowledge	• Assess profitability of sugar based on	

Thematic areas	Policy Messages/Issues	Strategic solutions	Issues of immediate action	Research Issues	Policy Review Issues
	profits. This is because production is dependent on rainfall and there is declining soil fertility. There is low adoption of high yielding varieties	determination based on transport zones. • Creating awareness on high yielding varieties based on sucrose content through extension and advisory services. • Supporting agri-prenuers to set up nurseries of high yielding varieties which fetch better prices based on sucrose content.	and do business on available technologies and services.	the cost of production at the farm level. • Support the development of fertilizer regime to increase sugar production based variety and region.	
	• Investment in sugar is given low priority and funding--partly due to social crop versus industrial crop dilemma. • Low factory efficiency due to mismanagement and low capacity	• Consider sugar as a basic food crop which should be supported and protected despite its low comparative advantage. • Implement sugar development fund to support sugar productivity to improve infrastructure and public utilities.	•	Undertake research for models of financing, raising funds and re-investing in the sugar industry.	
Farmer Organizations	• Weak Sugarcane Growers Associations • Low farmer participation in decision making to address market inefficiencies.	• Strengthening farmer organizations to give farmers a voice in decision making to build trust relations and address market failures. • The strategy is to support formation of women and youth business associations	• Support social partnerships between farmers and politicians through farmer councils and stewardships. • Facilitate registration of Kenya Millers' Association		

Thematic areas	Policy Messages/Issues	Strategic solutions	Issues of immediate action	Research Issues	Policy Review Issues
	• Kenya Millers' Association not registered to date.	to promote sugar farming as a business including setting nurseries for improved cane varieties, accessing loans and negotiating for better prices.			
Engaging Youth	• Unemployment among the youth • Data on employment at the farm level is not readily available. • Low youth participation in the sugarcane value chain	• Internship programmes for the youth • Create a youth innovation platform in the sugar value chains through: identifying nodes in the value chain where returns are high, capacity building, business mentoring and negotiating for contracts and access to credit. • Create Kenya sugar challenge buzz for youth to innovate.	• Develop and support internship programme • Support creation of youth innovation platforms on sugar. • Document success stories of youth agri-prenuers innovation platforms.	• Desk review to document employment levels at the farm levels and dis-aggregate by gender and age	

Annex 1: Agenda

Employment Creation in Sugar Sector in Kenya: Challenging the Political Economy Dilemmas and the Role of *Utafiti Sera* (Research-Policy Community)
Held at Panafric Hotel, Nairobi
November 15, 2016

<table>
<tr><td>08:30 –09:00</td><td>Registration</td></tr>
<tr><td>09:00 – 09:10</td><td>Welcome Remarks:
Hannington Odame, Executive Director, CABE
Prof. Tade Aina, Executive Director, PASGR</td></tr>
<tr><td>09:10 – 09:30</td><td>Blockages in Employment Creation Potentials in Agriculture & agro industries: The Role of Utafiti Sera in facilitating Negotiated Political Settlements
Presenter: Nicholas Awortwi, Research Director, PASGR</td></tr>
<tr><td colspan="2"><u>Moderator: Hannigton Odame, Executive Director, CABE</u></td></tr>
<tr><td>09:30 – 09:50</td><td>Analysis of Employment Creation in the Kenyan Sugar Industry: Policy Issues, Challenges and Prospects
Presenter: Paul Kamau, IDS, University of Nairobi
Floor Discussion</td></tr>
<tr><td>09:50 – 10:30</td><td>Status of Sugar Sector in Kenya: Government Perspective
Presenter: Jude Chesire, Agricultural Food Authority (AFA)
Floor Discussions</td></tr>
<tr><td>10:30 – 10:45</td><td>Health Break</td></tr>
<tr><td>10:45 – 11:25</td><td>Governing the Sugar Value Chains for Employment Creation in Kenya
Presenter: George Odhiambo, Lecturer, Mara University
Floor Discussion</td></tr>
<tr><td>11:25 – 12:15</td><td>Creating Employment in Sugar Sector in Kenya: Industry Perspective ………
Presenter: Leah A. Saoke, Kwale International Sugar Company
Floor Discussion</td></tr>
<tr><td>12:15 – 13:00</td><td>Policy Considerations for Transforming the Sugar Sector in Kenya
Presenter: Kenneth Ayuko, Lead Expert, AgRisk Research and Advisory</td></tr>
<tr><td>13:00 – 14:00</td><td>Lunch break</td></tr>
<tr><td>14:00 – 15:50</td><td>Plenary Session: Opportunities and Challenges of Transforming the Sugar Sector in Kenya
Panelists:
i. Jude Chesire, Agriculture and Food Authority
ii. Chrispine Omondi, KALRO, Industrial Crops Research Institute
iii. Mr. Jack Opiyo, Sony Sugar Co Ltd
iv. Richard Ogendo, Kenya Sugarcane Growers Association
v. Michael Arum, Sugar Campaign for Change</td></tr>
<tr><td>15:50 – 16:00</td><td>Way Forward and Closing Remarks
Hannington Odame, Executive Director, CABE
Nicholas Awortwi, Research Director, PASGR</td></tr>
<tr><td>16:00</td><td>Tea/Coffee and Nibble Discussions</td></tr>
</table>

Annex 2: List of Participants

Employment Creation in Sugar Sector in Kenya: Challenging the Political Economy Dilemmas and the Role of Utafiti Sera (Research-Policy Community) Held At Panafric Hotel, Nairobi, Kenya, November 15, 2016

No	Name	Position in Organisation	Institution	Email Address
1.	Prof. Timothy Sulo	Dean,	Moi University School of Agriculture and Natural Resources	timothysulo@gmail.com
2.	Dr. Chrispine Omondi	Institute Director	Industrial Crops Research Institute, Mombasa	Chrispine.Omondi@kalro.org; chr.omondi@gmail.com
3.	Mr. Richard Ogendo		Kenya Sugarcane Growers Association (KESGA),Secretary	ogendor@gmail.com
4.	Dr. Olufunso Somorin	Senior Policy Officer	African Development Bank Transition Support (Fragile States) Department)	o.somorin@afdb.org
5.	Dr. Mathew Muma	Researcher	KIPPRA P O Box 19533-00202, Nairobi, Kenya	ajuogam2005@yahoo.com
6.	Prof Winnie Mitullah	Associate Research Professor	Institute for Development Studies University of Nairobi	mitullahwinnie@gmail.com
7.	Ms. Sheila Kilonzi	Lecturer	Karatina University, Nyeri	skilonzi@gmail.com
8.	Dr. Hannington Odame	Executive Director	African Bio-Entrepreneurship Regional Hub Coordinator, APRA-East Africa, Nairobi.	hsodame@gmail.com
9.	Prof. Mark Okere	Professor	Egerton University, Kenya	okeremark836@yahoo.com
10.	Dr. Obadia Miroro	Assistant Knowledge Manager	African Economic Research Consortium	Obadia.miroro@aercafrica.org
11.	Mr. George Odhiambo	Lecturer	Masaai Mara University	odhiambodhis@gmail.com
12.	Dr. Paul Kamau	Research Fellow	Institute for Development Studies, University of Nairobi	pkamau@uonbi.ac.ke
13.	Mr. Michael Arum	Coordinator	Sugar Campaign for Change	sucam@kenyalink.org michaelarum04@gmail.com
14.	Ms. Elsie Kangai	Program Manager	Centre for African Bio-Entrepreneurship (CABE)	kangaielsie@gmail.com

No	Name	Position in Organisation	Institution	Email Address
15.	Ms. Angela Wauye	Consultant	Food Security and Livelihoods	angela.wauye@gmail.com
16.	Mr. William Kopi		Butali Out-growers	Kopiwilliam2@gmail.com
17.	Dr. Joy Kiiru	Senior Lecturer	University of Nairobi School of Economics	jmueni@uonbi.ac.ke ; joykiiru@yahoo.com
18.	Mr. James Shikwati	Director	Inter Region Economic Network (IREN)	james@irenkenya.com
19.	Mr. Bernard Atonga	Chief Human Resources	Sugar Directorate Agriculture and Food Authority (AFA)	bernatonga@gmail.com
20.	Mr. Kenneth Ayuko	Lead Expert	AgRisk Research and Advisory Nairobi, Kenya	ayukokenneth@gmail.com
21.	Mr. Albert Wetundu	MCA	Kakamega County	
22.	Mr. Ochieng' Ogodo	Regional Coordinator	Sub-Saharan Africa SciDev.Net Chester House	ochieng.ogodo@scidev.net
23.	Dr. Jacob J.J. Ochieng' Konyango	Lecturer	Machakos University School of Agriculture and Natural Resources Management	jaonyango2003@yahoo.com
24.	Ms. Leah A. Saoke	Agricultural Economist	Kwale International Sugar Company	leah.saoke@gmail.com
25.	Ms. Bernadine Mutanu	Media	Nation Media Group	bmutanu@ke.nationmedia.com
26.	Ms. Lucy Adoyo	Research Associate	Centre for African Bio entrepreneurship	lucyadoyo@yahoo.com
27.	Mr. Leonard H. Oduori	Research Fellow	Tegemeo Institute	oduorileohaggai@gmail.com
28.	Dr. Elijah N. Muange	Lecturer	Machakos University	e_muange@yahoo.com
29.	Mr. Jack Opiyo	Industrial Relations Officer	South Nyanza (Sony) Sugar Company, Migori, South Nyanza	jopiyo@sonysugar.co.ke
30.	Mr. Justin Mutobela	Advisor	Kakamega County Assembly	jmutobera@gmail.com
31.	Ms. Nereah Anyango	Admin. Assistant	CABE	N.Anyango@future-agricultures.org

No	Name	Position in Organisation	Institution	Email Address
32.	Ms. Maureen Akwara	Research Associate	CABE	maureenakwara@gmail.com
33.	Ms. Jackline N. Kathingo		Digital Focus Communication	jacklinecathingor@gmail.com
34.	Mr. Edwin W. Shisia		Kakamega County	edwinshisia@yahoo.com
35.	Mr. Micky Abachi		CABE	mickabachi@gmail.com
36.	Mr. Christopher Ojiambo	Accounts assistant	CABE	Chrisojia1@gmail.com
37.	Mr. Hesbon Ndunde		Kakamega County	Hesbon2013@gmail.com
38.	Mr. Joel M. Mutuku		Digital Focus Communication	jodmulwa@gmail.com
PASGR STAFF				
39.	Dr. Nicholas Awortwi	Director of Research	Partnership for African Social and Governance Research (PASGR)	awortwi@pasgr.org
40.	Dr. Beatrice Muganda	Director, Higher Education Programme	Partnership for African Social and Governance Research (PASGR)	bmuganda@pasgr.org
41.	Femi Balogun	Research Associate	Partnership for African Social and Governance Research (PASGR)	femi@pasgr.org
42.	Pamellah Lidaywa	Programme Assistant	Partnership for African Social and Governance Research (PASGR)	Plidaywa@pasgr.org
43.	Dominique Dryding	Research Associate	Partnership for African Social and Governance Research (PASGR)	d.dryding@gmail.com
	PASGR OFFICE CONTACTS			
Partnership for African Social and Governance Research (PASGR), KMA Centre, 4th Floor PO Box 76418-00508 | Mara Road, Upper Hill, Nairobi, Kenya T: +254 20 2985 000 | +254 731000065 | info@pasgr.org; www.pasgr.org				