

"STATE AND AGRICULTURE IN KENYA: THE CASE OF SUGAR INDUSTRY"

**BY
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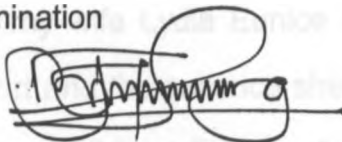
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**A THESIS SUBMITTED IN PARTIAL FULFILMENT FOR THE
DEGREE OF MASTER OF ARTS IN THE DEPARTMENT OF
POLITICAL SCIENCE AND PUBLIC ADMINISTRATION
UNIVERSITY OF NAIROBI**

2002

DECLARATION

I, Tom Mboya hereby declare that this thesis and/or parts of it has not been submitted elsewhere for examination

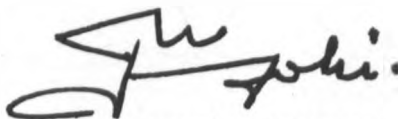


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I declare that this thesis has been submitted with my approval as university supervisor.



March 17, 2004

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(University supervisor)

DEDICATION

This Thesis is dedicated to my wife Lydia Eunice Mboya for her stimulating encouragement, moral support and the patience she went through as I worked on this programme, and my children Emma, Janet and Paul with love.

ACKNOWLEDGEMENT

There are a number of people to whom I greatly indebted. The completion of this thesis would not have been smooth without them. Special appreciation goes to Professor Nick Wanjohi for whose skilful advice and guidance as my supervisor provided the pace needed for a work of this nature. Of particular mention are the thought provoking critical comments he constantly raised relating to this thesis focus and development.

Very gratefully acknowledged is the cooperation and assistance of the management of Chemelil and Muhoroni Sugar Companies and their contracted farmers, Kenya Sugar Authority who provided valuable information on the sugar industry. To the library staff of Institute of Development Studies, University of Nairobi; French Institute for Research in Africa (IFRA), I say thank you. Special thanks also to Ruphine Opondo for typing this thesis.

Finally, I am grateful to Tokyo Foundation and French Institute for Research in Africa for a modest grant which made this study successful. And to Jeremiah Owiti whom as a colleague and friend gave me moral support and encouragement.

ABSTRACT

The central purpose of this study was to unearth the economic, political and policy factors that impinge on the performance of the sugar industry. A study of the political economy of sugar industry is important because the industry has a vital role to play in the growth and development of the Kenyan economy. Moreover there has been little empirical research on socio-economic and political factors as they impact on the sugar industry in Kenya.

The data that informs this study was largely based on secondary sources and complemented with primary data. The principal findings of this study included inter alia, deterioration of factory management and factory inefficiencies as reflected in low capacity utilization which leads to low sugar production; inadequate provision of incentives to cane growers; trade liberalization policy which has exposed local sugar to stiff competition from imported sugar and, inconsistent and selective application of tax laws with regard to import duties occasioned by vested interests and the importance of farmers' organization especially in advancing farmers interests in sugar industry. These problems have been a powerful disincentive effect producing a pandemic pattern of agricultural stagnation of the sugar industry.

Consequently, the study recommends that the state has to reduce its role in the sugar industry and only to undertake facilitative function in the development of sugar industry through appropriate institutions and coherent policies. Some of the more important among these includes the establishment of a law that will accord the Kenya Sugar Authority more powers in managing and directing the development of the sugar industry; improvements in management of sugar factories to make full use of their capacities; provision of

adequate incentives to cane farmers and strengthening of sugar farmers' organizations.

ABBREVIATIONS

A.F.C.	-	Agricultural Finance Corporation
C.D.C	-	Commonwealth Development Corporation
C.O.C	-	Chemelil Outgrowers Company
D.F.C.K.	-	Development Finance Corporation of Kenya
E.A.S.I.	-	East African Sugar Industry
GDP	-	Gross Domestic Product
I.C.D.C.	-	Industrial Development and Finance Corporation
I.D.B.	-	International Development Bank
K.A.N.U	-	Kenya African National Union
K.N.T.C.	-	Kenya National Trading Corporation
K.R.A.	-	Kenya Revenue Authority
K.S.A.	-	Kenya Sugar Authority
K.T.D.A.	-	Kenya Tea Development Authority
M.A.L.D	-	Ministry of Agriculture and Livestock Development
M.O.C	-	Ministry of Commerce
M.O.C.O.	-	Muhoroni Outgrower Company
M.O.F.	-	Ministry of Finance
N.E.	-	Nucleus Estate
N.S.R.S.	-	National Sugar Research Station
O.G.	-	Outgrowers
R.O.K.	-	Republic of Kenya
S.A.P.S	-	Structural Adjustment Programme
S.B.C.U.	-	Sugar Belt Cooperative Union
S.C.D.A.	-	Special Crops Development Authority

S.D.F.	-	Sugar Development Fund
S.S.O.	-	Sugar Settlement Organization
SONY	-	South Nyanza Sugar Company
T.C.D.	-	Tonnes of Cane per day
T.C.Y.	-	Tonnes of cane per year
W.B	-	World Bank

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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background

This study investigates the development of Kenya's Sugar industry in the period after independence and how and why there has been a decline in the performance of this agro-sub sector. This is not the first time that such a study has been attempted but the previous studies have relegated the non-economic factors that can explain the deteriorating performance of this sub-sector. To this end the whole story has not been told, and therefore the whole explanation has not been given. A long-term interdisciplinary project may be required to answer questions such as the decline in the performance of the sugar industry. This study is intended as a contribution to such a project from the standpoint of political economy placing the case of sugar industry in a long run historical framework.

In Kenya, agriculture provides the largest source not only of income but also of employment. In addition it is the predominant source of foreign exchange earnings. It is the principle sector in terms of its large share of GDP. Economic growth in this context is critically dependent upon a breakthrough in agriculture. The sector's importance for Africa's economic future is stated succinctly by the World Bank as follows: "Agriculture has the potential to reverse the increasing dependence on food imports, to produce the largest increase in export earnings in the Short and Medium term, to provide many of the imports for the industrial sector and much of the demand for its output and to strengthen the domestic income and tax base to finance education, health and infrastructural programs that will ease the basic constraints in African

development.¹ In the light of these considerations, the importance of this sector can hardly be exaggerated. However the growth of the agricultural sector has not performed to the above expectations. Kenya's agricultural sector and food security position on the whole grew at a healthy pace in the first two decades after independence to the extent that the country not only met nearly all her food requirements from domestic production, but it also generated substantial incomes out of the marketed small holder produce. However, since mid 1980s in the period since then, this capacity has not grown fast enough to cope with the rapidly increasing food requirements.² This has been due to several factors both internal and external. At the internal level the agricultural policies have been put in question whereas at the external level, the fall in price of agricultural products among others have been blamed.³ But this broad view of the Kenya's agricultural sector conceals profound processes of change taking place in this sector. It also glosses over vast differences in performance among commodities.

This is because within this sector there are several agro-sub sectors for example tea, sugar, coffer, cotton, rice, maize among others. which comparatively have differential performance with some doing better than others. Thus, it is imperative to take one of these sectors and look at its development in terms of growth. It is against this background that this study will take the sugar industry as a case study.

¹ World Bank, *Towards a Sustainable Development in Sub-Saharan Africa: A joint programme for Action*, World Bank, Washington D.C, IBRD, 1984, Pg. 4.

² IEA Publication, *Agenda '94 People Economic Affairs and Politics*, Institute of Economic Affairs, Nairobi, 1994, Pg 136.

³ Lofchie, Michael, *The policy factor: Agricultural performance in Kenya and Tanzania*, Lynne Rienner Publishers, Inc, Colorado, 1989, Pgs 21-64.

1.2 Statement of the problem

Compared to other agro-sub sector industries notably tea and coffee industries, the performance of Kenya's sugar industry has not been good enough. Whereas tea and coffee industries have maintained a steady growth (albeit with some problems) thereby meeting the domestic demand as well as supplying the export market, the sugar industry provides cases of success and failure during the post colonial era. Domestic production of sugarcane grew very rapidly during this period leading the country to self-sufficiency in sugar production in 1979. The self-sufficiency in sugar production was however short lived as the country started experiencing decline in sugar production when domestic demand exceeded production. As a result the country started importing sugar in 1984 due to low production.⁴

It is this failure to maintain self-sufficiency in sugar production that leads us to pose the question: - What economic, political and policy factors could explain the poor performance of sugar industry especially after 1979.

1.3 Objectives

1.3.1. To assess the factors behind the performance of Sugar Industry.

1.3.2 To assess the extent of state intervention in Sugar Industry.

1.3.3 To analyse the impact of Kenya's Agro-business policies on Sugar Industry.

⁴ Odada, J.E.O, et al, *Incentives for Increased Agricultural Production case study of Kenya's Sugar Industry*, Fredrick Ebert Foundation, Nairobi 1996 Pg 13.

1.4 Justification and significance of this study

A study of the political economy of sugar industry is important because the industry has a vital role to play in the growth and development of the Kenyan economy. Moreover there has been little empirical research on socio-economic and political factors as they impact on the sugar industry in Kenya. This is particularly the case when the sugar industry has a differential performance compared to other crops such as tea and coffee industries for example.

In as much as the study seeks to examine the implications of agricultural policies on the aforementioned sector, it will as well shed light on the policy implications, which economic planners wish to address as they seek to formulate agricultural policies geared toward economic sustainability of the sugar industry.

1.5 Literature Review

The argument that the poor performance of agricultural sector has political roots is shared by commentators of varying analytical hues. The World Bank⁵ (Berg Report) highlighted the negative effects of excessive State Intervention; Robert Bates and Peter Coughlin⁶ among others have identified the political calculus which underlies self-defeating agricultural policies; while neo-marxists argue that the peasantry is dominated and exploited by a state-bureaucratic bourgeoisie. The literatures that follow have been assembled to assess the validity of these explanations and contribute our understanding of the

⁵ World Bank, *Accelerated Development in Sub-Saharan Africa: An Agenda for Action*, Working Paper, IBRD, 1981.

⁶ Bates, Robert, *Essays on the Political Economy of Rural Africa*, Cambridge University Press, London, 1981 and Coughlin, Peter et al, *Farmers, Managers and Government in an Integrated Agro-Industry: Sugar in Kenya* in Coughlin and Ikiara (ed) *Kenya's industrialization dilemma*, Heinemann Kenya Ltd.

politics of sugar industry. The literature falls in two categories with the first dealing with sugar industry in Kenya and elsewhere outside Kenya. The second category deals with broad analytical issues of agricultural policies in Africa.

Few authors have attempted a systematic political economy study on sugar industry. Judith Heyer looked briefly at a few of the problems in the industry but not with analytical perspective. She observes that the major sugar marketing problem include policy underutilization of factory capacity and excessive factory costs, inefficiency arising from the system of appointment and remuneration of sugar wholesalers and retailers and illegal sales to Uganda resulting in local and national sugar shortage. Mark Odhiambo's work described and analysed the organization structure and practice in the industry and argued that the problems in the sugar industry included cane procurement which resulted in the widespread excess capacity, poor cane husbandry techniques among the majority of outgrower farmers resulting in low yields, and lack of extension services.⁷ He recommended that ways be devised to improve cane production and delivery to the concerned factories and modern techniques be used both in farms and factory plants. Odhiambo's work has a bearing on the modernization theory, which assumes that modern techniques of production borrowed from the developed world can enhance production in the third world. However even after these have been adopted the sugar industry is not performing well. Besides, his work had economic bias and neglected non-economic factors that can also particularly explain the poor performance of this agro-sub sector.

Nairobi, 1991.

⁷ Odhiambo Mark Ollunga, *The structure and performance of Kenya's Sugar Industry*, M.A. Dissertation, University of Nairobi, 1978, Pg. 200.

Peter Coughlin et al and Odada, et al in their various works looked at the role of state in the sugar industry. The state is the major shareholder in five of the seven large sugar companies in Kenya. It is represented in these companies by state appointed board of directors who thus set policies for running the sugar companies as viable enterprises.⁸ The state is also involved in the sugar industry through institutions such as National Sugar Research Station, which is a department of the ministry of agriculture and livestock, the Kenya National Trading Corporation and Kenya Sugar authority. It is argued that these institutions have not performed well thereby not contributing significantly to the sugar industry. As for the sugar research station they argue that it lacks adequate funding for its operations. The Kenya Sugar Authority is not autonomous and therefore lacks executive powers and basic facilities to enable it to co-ordinate and control activities in the industry since it has to go through the government red tape.⁹ They also allude to the fact that the industry lacks funds for cane development. But just mere numerating of such problems in the industry is not enough. There is need for such factors to be informed of an analysis of why the state does what it does at the expense of the industry. For instance why is it that such incentives are provided in other agro-sub-sectors for example tea and coffee and not to the sugar industry. This is what we intend to do in this research endeavour.

Another publication that gives some insights on the problems of sugar industry though rather superficially and devoid of systematic empirical research

⁸ Coughlin, Peter et al, "op.cit pg. 155.

⁹ Odada, J.E.O. et al, *Incentives for Increased Agricultural production: A case study of Kenya's Sugar Industry*, Friedrich Ebert Foundation, Nairobi, 1986, Pg. 21.

is that of institute of Economic Affairs.¹⁰ It attributes such factors as gross capacity under utilization, poor marketing structures, irrational implementation of policy, distorted import policy and too much political interference. Though they just alluded to the above-mentioned factors, their ideas can enable us to go and test their propositions.

Crispin Odhiambo Mbai also looked at the intervention of state in the sugar industry. The main thrust of Mbai's thesis was to grasp the socio-economic and political consequences of the interaction between state and international capital and the peasantry under agro-industrial development. He attempted to show how the state through its financial agencies for example Agricultural Finance Corporation (AFC), the Commercial Banks and the Cooperatives encouraged peasant farmers to be involved in the whole enterprise of cane production in the Muhoroni Settlement Scheme.¹¹ The International Capital through the Mehta Group which was managing Muhoroni factory also contributed to the above goal. However, the state Intervention in the sugar belt through the cooperative Union Movement had negative effects. These unions were mere agents of primitive accumulation for the management on the one hand and on the other they are mere instruments through which state siphoned surpluses from the peasant economies.¹²

He argued that this tendency on the part of the state tended to impoverish poor peasants and agricultural Workers whose social and economic status deteriorated.¹³

In a nutshell Mbai's thesis was concerned with whether the state in liaison with the international Capital did improve the conditions of the peasants.

¹⁰ Affairs Agenda'94, *People, Economic Affairs and Politics*, Institute of Economic Affairs, Nairobi, 1994, Pg. 151-153.

¹¹ Odhiambo, Mbai C., *State and International Capital in Agro-Industrial Development: The Case of Muhoroni Sugar Settlement Scheme*. M.A. Dissertation, University of Nairobi, 1981, Pg. 76.

¹² Ibid Pg. 79.

¹³ Ibid Pg. 189.

His work was not therefore concerned with the performance of the Sugar Industry.

The literature that deals with Sugar Industry outside Kenya includes the works of Patricia Mcfadden and Carl Henry Feuer. Mcfadden argues that the state in Swaziland pursued a deliberate and carefully planned policies which were oriented and made Swaziland to emerge in the 1980s as a major exporter of sugar, tea, citrus, cotton etc.¹⁴ Compared to Kenya's sugar industry the Swazi sugar industry has a capacity of 405,000 metric tonnes per year and it is able to export and get export earnings. On the Kenya's case, the six factories have the capacity to crush 530,000 metric tonnes per year but this output has never been realized.¹⁵ Such a contrast compels one to look at the policies of this agro-sub-sector.

Carl Henry Feuer looked at the development of sugar sector in Cuba during the first half of the 1980s. Though Cuba cannot be compared to Kenya due to differences in ideological setting, as the former pursue socialist policies while the latter follows the capitalist policies, one thing that can be said to be common is the confined role of the state in the agricultural sector. Feuer's work on Cuba reveals that the state enterprises in the sugar industry performed admirably well due to state's initiative to advance the agricultural production. These included providing incentives keyed to increasing yields promoting a more decentralized model of economic organization; maximizing organized coherence and efficiency at the local level and the establishment of the agro-industrial complexes, which rationalized and integrated production functions.¹⁶ It can be deduced that in the Cuban case, there has been good political will to support the sugar sub-sector.

¹⁴ Mcfadden, Patricia, "The State and Agro-business in the Swazi Economy in" in Bourenane, Naceur et al, *The State and Agriculture in Africa*, Codesria Book series, London, 1987, Pg. 90.

¹⁵ Institute of Economic Affairs Pg. 152.

¹⁶ Feuer, Carl Henry, "The Performance of the Cuban Sugar Industry 1981-1985" in *World Development* vol. 15 No.1 1987, Pg. 67-81.

The Cuban reported success brings us to the third category of the literature review, namely, state and agricultural policies in Africa. The term agricultural policy is used herein to include the entire range of government activities directed at the agricultural sector. Expanding this definition, Bates defines agricultural policy as those choices made by government which affect prices in the market which determines the real income of farmers; the market for commodities they produce, the inputs they employ in farming and the goods they purchase from urban manufacturers.¹⁷ According to Staatz and Eicher, in order for agricultural policy to be useful, its analysis needs to be framed in a context that recognizes the importance of political constraints on policy and its implementation.¹⁸ They subscribe to the view that the types of policies that are implemented in most third world countries are constrained by political considerations, and therefore are best analysed in a broader framework that takes account of inter-sectoral relationships and the political-economic constraints facing decision makers.

Robert Bates argues that Africa's agricultural failure as reflected in the long term stagnation of per capita food production and of agricultural exports lie in the actions of those who distort the operations of the market. He posed: "Why should reasonable men adopt policies that have harmful consequences for the societies they govern?".¹⁹ In answering this question Bates argues that Africa's agricultural policy makers behave this way when it is in their narrow self-interest to do so. This view is anchored on the premise that African governments are dominated by people whose narrow, short term material interests are served by such exploitative policies and whose survival in power must depend on their ability to use the resulting surplus to buy off elements of the losing groups. To

¹⁷ Bates, Robert, *Essays on the Political Economy of rural Africa*, Cambridge University Press, London 1983, Pg 107.

¹⁸ Staatz, John, M. et al *Agricultural Development in third World*, The John Hopkins University Press, London, 1984. Introduction.

¹⁹ Bates, Robert, *Markets and States in Tropical Africa* University of California Press, Berkeley, 1981 Pg 3.

this extent the state is influenced in its choice of agricultural policies by the individual and corporate interests and views of the state functionaries.

In the same vein David Steedman opines that African governments have not accorded political priorities to adjusting their economic policies along rational lines. Nor have they shown much interest in exploring their own capacity to formulate or implement economic policies or in improving their local analytical capacity.²⁰ This he argues is due to the fact that governments have difficulty implementing policy because the vested interest groups that dominate policy and use it to further their own ends, are adept at ensuring that their interests prevail. Often such groups profit from existing distortions or inefficiency and it is in the interest of government to maintain these practices to foster the patronage system that allows the regime to control its client base and ensure its own survival. This kind of reasoning will be scrutinized in this research to establish the extent to which the state's policy has served the idiosyncratic interests of the sugar importers in Kenya.

In the words of Robert Bates, the state is viewed as an agency for aggregating private demands and would interpret public policies as choices made in response to political pressure exerted by organized interest.²¹ In the same vein Brett, E.A. in an article "State power and economic inefficiency: explaining political failure in Africa", argues that having began as an agency captured from the colonialist on behalf of the nation, the state came to be seen as a mechanism for the extraction of surpluses from many for allocation to an increasingly favoured few.²² Brett goes further to argue that the allocation of resources to African agriculture involved choices between strata and regions which enriched some and impoverished others; choices between backing a few

²⁰ Steedman, David W. "The Internationalization of the policy making process" in the World Bank, *the long term perspective study of sub-saharan Africa*, vol. 12, World Bank, Washington D.C. 1990, pg.9.

²¹ Bates (1983) op.cit Pg. 121.

²² Brett, E.A. "State power and Economic inefficiency; explaining political failures in Africa" in *IDS Bulletin* vol. 1986, Pg. 22-29.

progressive farmers and a larger number of ordinary ones. In this situation planning decisions take a political dimension. Regionally the resource allocation pattern depends upon the origins of the groups, which had captured political power at the centre and this leaves some areas unserved and deepened their underdevelopment.²³ This perspective of looking at resource allocations to Agriculture will help us in explaining the differential investments by the state in various crop sectors notably sugar, tea and coffee.

To this end Steedman argue that where consensus is absent or national debate on policy are absent, as in the case of many African countries, groups are often able to influence the output stage of policy rather than the input stage.²⁴ These can undermine or distort policies as faction or groups use the implementation period to pursue conflicting goals as they compete for scarce resources and hence the nature of political leadership is the single most important factor that determines the type of economic management practised by a government, the strength of its analytical institution and the general social and economic climate.

In their various ways the literature demonstrates the inherently political nature of agricultural policy-making and delivery, the fact that policies are shaped by flows of power and clashes of interest within the state itself and in society at large. It is for this reason that the central departure of this research will be based on the premise that policy discussions about the current crisis in the sugar industry will not prove useful unless they take into account the political and organizational factors which shape the capacity of the Kenyan state to define and deliver policies in this agro-sub sector.

²³ Ibid, Pg. 26.

²⁴ Steedman, David, W. op.cit Pg. 10.

1.6 Theoretical Framework

Recognition of the poor performance of sugar industry, and acknowledgement of the importance of improved performance for development are far from understanding why there is stagnation in this sector and what might be done and by whom to improve the situation. In this study, the approach which lends some theoretical coherence in explaining the stagnation in the sugar industry is that of marxian political economy. Robert Gilpin supports a political economy approach on the reasoning that it responds to questions generated by the interaction of embodiment of politics and economics in the modern world.²⁵ This approach ask how the state and its associated political processes affect the production of wealth and in particular how political decisions and interests influence the location of economic activities and the distribution of the costs and benefits of these activities.

In Africa, the role of the state in economic development has been put in question. For instance, the report of the World Bank²⁶ argues that most state intervention in agricultural production has been damaging to the economy and recommends state minimalism. But whatever the merit of the recommendations they seem to be based on inadequate analysis of why governments do what they do. This deficiency can be corrected by means of marxist class analysis approach which will be used in this thesis.

²⁵ Gilpin Robert, *The Political Economy of International Relations*, Princeton University Press, New Jersey, 1987, pg. 9.

²⁶ World Bank, *Accelerated Development. in Sub-saharan, Africa: An Agenda for Action*, Working Paper IBRD, 1981.

1.6.1. Our Political Economy Approach: The Logic of Argument

The purpose of this section is to outline our argument and to provide some examples and illustrations of our perspective. We are going to assess the relevance of the political economy perspective in explaining policy making in Kenya and consider its utility in policy analysis. We are concerned here with the utility of the model in capturing the nature and process of policy dynamics in the sugar industry. We shall begin by presenting an implicitly broad-brush model of our political economy.

The starting point of marxian political economy is society as a whole - the entire economic system and the individual action is governed and circumscribed by the way this larger system works. It emphasizes the inseparability of economic, social and political dimensions of human societies. In the preface to *A contribution to the critique of political economy*, Karl Marx presents a model of society as structured by three loosely defined parts or levels namely, the economic foundation, a legal and political superstructure and definite forms of social consciousness.²⁷ Together these define a mode of production and its parts are said to be related in such a way that the first plays a primary role in the sense that changes in the economic foundation of society lead to corresponding changes elsewhere.

The economic foundation itself is further divided into relations of production and material forces of production. Relations of production involve definite forms of possession of or separation from the means of production. Forces of production refers to forms of organization and integration of distinct

labour processes and to various other features that affect the level of productivity of a society.

The method of marxian political economy is dialectical for example it focuses on tension and contradiction between opposites both as the focus of theoretical interest and as an explanation of the forces which drive society as a whole in particular directions. In our case some relevant opposites are inter alia production for use versus production for exchange, owners versus non-owners of productive resources and capital versus labour.

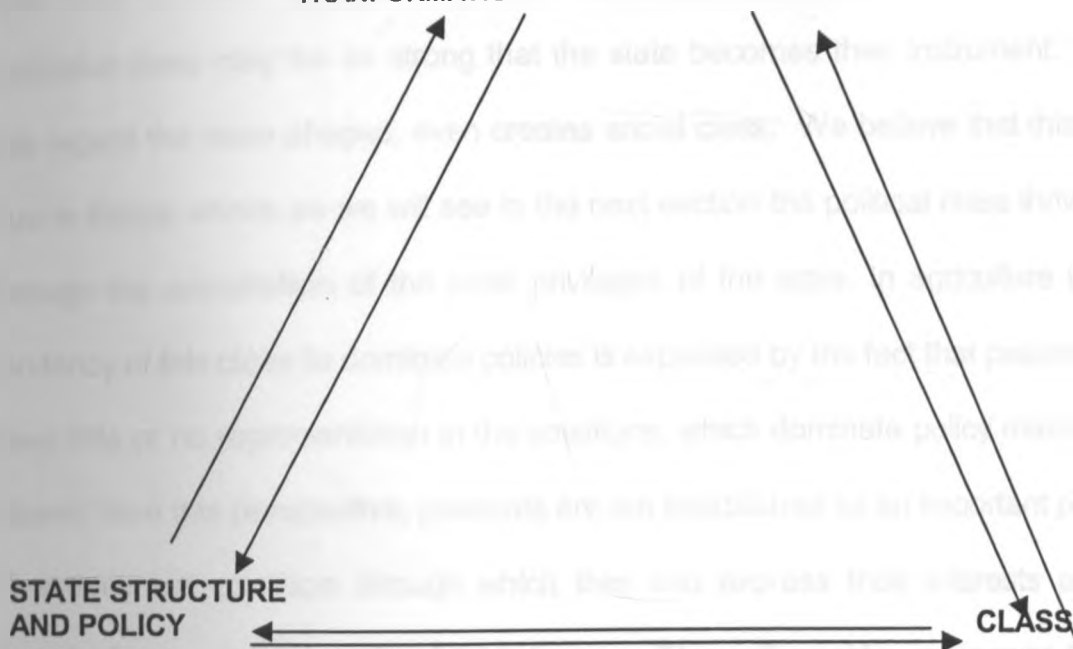
1.6.2. Application of our Political Economy Model

The Kenyan sugar industry is undergoing a significant number of problems. These problems have prompted a sharp debate over the primary agents of these maladies. Is the political class the cause? Where does the state fit into the puzzle? These questions can only be resolved through a theoretical framework that separately identifies class forces and state actions and that tries to see how closely the two are related in particular cases. In this thesis the marxist model will enable us explore the interaction between the sugar industry, the class structure and the Kenya state, an interaction that in our view perpetuates the limits of the development of the sugar industry. We take this position because socio-economic structures and public policies are linked in a complex never ending process of mutual causation.. Economic problems interact with social structures to stimulate governmental responses. Such policy initiatives are modified by but also modify the socio-economic structures at which they are directed, creating new problems and policies in an unceasing

²¹ Quoted in Hindess, Barry, *Politics and class analysis*, Basil Blackwell Ltd., Oxford, 1987, P.13.

circle. It is worth emphasizing that the above three variables are interdependent. Each one influences and shapes the other and hence each is therefore both cause and effect, both starting point and outcome. Our model therefore take the form of reciprocal causation (figure 1).

**Figure 1: A Schematic Presentation of the Interaction of the Variables
TRANFORMATION OF THE SUGAR INDUSTRY**



We would like to emphasize that we do not imply rank ordering of the arrows in the above figure; this is a fully simultaneous model. The meaning of the interconnection may be illustrated as follows. First, the process of transforming the sugar industry creates outcomes to which state actors must respond. For example, the sugar industry is capital intensive and thus the state may then need to respond with adequate capital to invest in the sugar industry. Secondly, state structure and policy²⁸ affects the rate and form of the growth of

²⁸ By state structures and policy we mean the organization of the monopoly of conserve means within society, the interventions into the economy that such a monopoly makes possible and the institutions through which intervention is carried out.

the sugar industry through its fiscal trade policy etcetera. Thirdly classes²⁹ mould state policy. Where does policy come from? Marxist analysis subscribe to the view that the state serves the interests of dominate classes and the state becomes a critical agent for Private accumulation. Subsequently, interest and pressure groups and in particular the political class seek to protect and promote their own interests through the state. In some cases, the influence of a particular class may be so strong that the state becomes their instrument. In this regard the state shapes, even creates social class. We believe that this is true in Kenya where as we will see in the next section the political class thrives through the exploitation of the inner privileges of the state. In agriculture the tendency of this class to dominate policies is explained by the fact that peasants have little or no representation in the coalitions, which dominate policy making. Viewed from this perspective, peasants are not established as an important part of a dominant coalition through which they can express their interests and bargain for greater rewards of their labour. This will enable us answer the question whether the absence of farmers' representation in the policy-making is responsible for the poor performance of the sugar industry. This study will look at the institutions of rural solidarity, for example sugar authority and outgrower schemes, which are forms of organization of producers in their common subordination to price setting and production controlling agencies.

In applying this model, we will take individual as the basic unit of social analysis.³⁰ The individual are rational, and as such they seek to maximize

²⁹ By social class, we mean groups of people who share a certain set of property rights i.e class is defined primarily, but not exclusively, by ownership relations rather than by status or political position.

³⁰ See Buchanan James M. and Gordon Tullock, *The calculus of consent logical foundations of constitutional Democracy*, University of Michigan Press, Ann Arbor, 1962; Colander, David C. (ed) *Neoclassical political economy: The analysis of Rent seeking and Dup activities*, Ballinger, Cambridge,

individual utilities or values, in other words, they pursue their self-interest. Self-interest is theoretically contentless until individual preferences are revealed through behaviour, although it is generally assumed that self-seeking individuals will pursue enhanced economic welfare or economic security. In the words of Melee Grindle, individuals will try to maximize their gains from economic interaction and simultaneously they will try to use the government to increase or protect these gains.³¹

Central to understanding the politics in the sugar industry through this perspective is the assertion that individuals cannot always achieve their self-interest individually. At times it will be rational for them to join together with other individuals whose self-interest corresponds with their own to press for the achievement of individual goals. Rational individuals therefore, cooperate with Likeminded others if and when such cooperation clearly results in a more optimal individual payoff than solitary action.³² When the achievement of such goals involves making claims on the state, the basis for political action is laid. Politics then is considered to be activities in pursuit of self-interest through lobbying for fashionable policy outcomes by groups.³³ Lobbying in this case involves seeking access to benefits that cannot be acquired through a competitive market and to this end, James Buchanan argues that such lobbying activities will increase the more the state intervenes in the economy.³⁴ Such

1984; Barry, Brian and Russel Hardin (eds), *Rational man and Irrational society. An Introduction and source book*, sage publications, Beverly Hills, 1982 and Riker, Millian H. and Ordeshook, Peter C., *An Introduction to positive political theory*, Preitice Hall, New Jersey, 1973.

³¹ Merilee S. Grindle, "The new political economy: positive Economics and negative politics" in Gerald M. Meier (ed) *Politics and Policy making in developing countries*, ICS Press, San Francisco, 1991, P. 45.

³² Merilee S. Grindle opcit p.46.

³³ Riker and Ordeshook for example define politics as the selection of the preference of some person/or the potential preferences of some person) to be the choice of society (Riker and ordeshook op.cit p.2).

³⁴ Buchanan, James M., "Rent seeking and profit-seeking" in James M. Buchanan, R.D. Tollison and G. Tullock, (eds), *Toward a theory of the Rent seeking society*, Texas Adm, University Press, Texas, 1980.

economic benefits which are sought through non-economic markets are considered by Srinivasan, T.N. and Bhagwati Jagdish to be wasteful in that they result in a loss of social welfare.³⁵ (NB. This aspect will be made explicit later when we will be discussing the issue of sugar importation). State policy therefore distorts economic interactions and encourage inefficiency through excessive regulation designed to protect or promote the plethora of interests. Hence Stephen Magee opines that in such circumstances while an "invisible hand" regulates economic markets, an "invisible foot" results in their distortion through politics.³⁶

Accordingly, restricting the activities of the state means that it will have less with which to reward specific interests.³⁷ This then implies that if there is less to acquire through efforts to influence the state, there will be less political activity focused on extracting benefits from government and a more unfettered economic system able to respond with greater speed to market forces. But according to James Bennet and Thomas Diloranzo, the solution requires more than just mere state minimalism and thus subscribes to the view that the problem of reforming the rent-seeking society requires the adoption of an appropriate set of rules to limit the burdens of the government.³⁸ In this formulation, interest group competition in the absence of specific rules to control the scope, breeds big governments and distorts the normal functioning of the market. Thus viewed from the perspective of this model of analysis, politics and markets are often in conflict because the efficient operation of competitive

³⁵ Srinivasan, T.N. "Neoclassical political economy, the state and economic development" in *Asian Development Review* vol. 3 no.2 1985 pp. 38-58; Bhagwati, Jagdish N., "Directly unproductive profit-seeking activities" in *Journal of political economy* vol. 90 no. 51, 1982 pg. 988-1002.

³⁶ Magee, Stephen J., "Endogenous Tariff Theory: A survey in David Colander opcit pp. 41-51.

³⁷ Colander, David opcit p.5.

³⁸ Bennet, James T., and Thomas J. Diloranzo, "Political Entrepreneurship and Reform of the Rent

markets is easily threatened by policy interventions resulting from interest group pressures on government. Public policy tends in this way to reflect politically rational choices that lead to economically irrational outcomes. Hence, rational political choice acts as impediment to achieving the collective economic good. To this end, Ames Barry and Robert Bates argue that since the self-interest of politicians is expressed as the desire to maximize their hold on power, they will therefore be motivated to use state resources to reward those who support their hold on power and at times to punish those who seek to unseat them.³⁹ In this way, policy elites become more active in attempting to maximize their chances of staying in power by putting together supportive coalitions and using public resources to buy support. The policy that tends to emerge from this situation, asserts Merilee Grindle, is largely incoherent and even limited to economic stability and growth because of the short-term horizons of the politicians and their lack of commitment to the content of public policy.⁴⁰

The aim of this has been to present our model of analysis to lay a basis for an analysis of particular forms of political imperatives in particular contexts, which is necessary for meaningful reappraisal of the political factors underpinning the stagnation of the sugar industry.

1.6.3 An Understanding of the Post Colonial State in Kenya

By the late 1970s and 1980s, both Marxist and liberal scholars working from parallel albeit inverted paradigms, made an attempt to reorient their work

Seeking society in David Colander opcit. p. 217.

³⁹ For more details see Barry, Annes, *Political Survival: Politicians and Public Policy in Latin America*, university of California Press, Berkeley, 1987 and Robert Bates, *Markets and States in Tropical Africa*, University of California Press, Berkeley, 1981.

⁴⁰ Merilee S. Grindle opcity p.40.

so that it would focus more squarely on specific processes occurring within Africa.⁴¹ According to Naomi Chazan et al these efforts took cognisance of importance of the state and state actions in grasping the roots of the political and economic crises of the 3rd decade of independence.⁴² They viewed the state as the primary motor force behind social and economic occurrences in the continent and state leaders were held responsible for economic deterioration in early 1980s. The literature in this genre have concentrated on studying the state apparatus, its expansion, its uses of power and its relation with the domestic groups and the international economy.⁴³ It is this interest to unearth the characteristics of Africa states in the independence period, which is important to us in this section.

We start by positing that any theory of the state should pinpoint the class forces upon which it rests. What is important to understanding the nature of any mode of production (like in this case capitalist mode of production) is to identify the classes that are linked to the formation, capture and utilization of surplus. In other words, an explanation is required of the underlying social dynamics that allows for the reproduction of classes and their linkages. In the words of Bade Onimode, the conceptualisation of social class is important because of the central role of the category in understanding and analysing the dynamics of African societies.⁴⁴ In particular, the class formation underlie the structure of inequality and the functioning of the post colonial state. Thus, the structure and function of the state cannot be understood without an adequate appreciation of the configuration of class forces in society. Understanding the post colonial

⁴¹ Chazan, Naomi et al *Politics and Society in contemporary Africa*, Lynne Rienner Publishers the Colorado, 1988, p.17

⁴² Thomas M. Callagy, *The state-society struggle; Zaire in comparative perspective*, Columbia Uni. Press, NY 1984; Richard Sandbrook op.cit; Colin Leys, "The overdeveloped post colonial state" in *Review of African political economy* no. 5. Michaela Von Freyhold "The post colonial state and its Tanzania version" in *Review of African political economy*, 1977.

⁴³ Onimode, Bade, *A political economy of the African Crisis*, Zed Books Ltd. London, 1988, p.120

⁴⁴ Kasfir, Nelson, *State and Class in Africa*, Frank Cass, and company Ltd. London, 1984, p.2/

state in Kenya is therefore anchored to the elucidation of the state in the contexts of neo-colonialism, the basic underdevelopment of the post colonial economies hence the investigation of the role of the state in the economy and its transformation, the process of class formation and the issue of the relative autonomy of the state in performing its theoretical functions.

According to Nelson Kasfir, both Karl Marx and Max Weber saw the vital role the state could play in consolidating the class position of a dominant social group.⁴⁵ Neither, however, saw the state as the inherent locus of the process of class formation and of class domination. For Marx, the state typically the instrument through which a firm grip on the means of production could be secured by a class. For Weber, the appropriation of economic opportunities widens social stratification which in turn lead to the monopolistic appropriation of governing powers and of the corresponding economic advantages.⁴⁶ They differ of course, on the degree of potential state autonomy from dominant classes. But analysis of the use of the state create and strengthen class position provides a second area of agreement between these two modes of social thought. Another theory of the state's central role in the generation of class domination is found in Gaetano Mosca's work. He subscribes to the view that, there is in every society a minority that constitutes a ruling class, which may be termed a "political class" because it is formed through and based upon monopoly over the instruments of power.⁴⁷ An analysis of the Kenyan state will illustrated this argument.

⁴⁵ Weber, Max, *The theory of social and economic organizations* Glencoe, 1964. p. 429.

⁴⁶ Mosca, Gaetano, *The ruling class*, New York, 1936. pp. 50-69.

⁴⁷ We still use the term 'political class' as it serves to suggest that political power is the primary force that creates economic opportunity and determines the pattern of social stratification. In the words of Larry Diamond, this class forms and consolidates its social dominance through political power and it has the advantage of avoiding the implication of a maternally productive class that is suggested by the bourgeoisie.

In the absence of countervailing forces in third world countries, the 'political class'⁴⁸ play a dominant role in the economic, industrial, political and social spheres. The seeds of this class were sown in the colonial era. The colonial political economy divided the African peoples into two major strata: the African working class or semi-proletariat which consisted of the civil servants. This group was dominant because of its relationship with colonial administrators and the regime structure. African peasants were confined to native reserves and hedged in by restrictions. The colonial state controlled access to lucrative export crops like tea and coffee and African production was seen as complementary to the European settler.

The nationalist groups, a revolutionary stratum broke off from the petty bourgeoisie salariat or civil servants and the small African traders to seek hegemony in Kenya. To achieve this purpose, it mobilized the peasants, the progressive civil servants and the workers to demand political independence from the British colonial rule. It then inherited state power and maintained the status quo of civil servants, the peasants and working stratum. According to Hamza Alavi, this state that was handed over at independence was actually overdeveloped state, a superstructure capable of dominating all indigenous social forces.⁴⁹ The new state undertook to promote indigenous private capitalism and to establish public control over the commanding heights of the economy. Thus, new institutions were established to implement state policies and parastatals part of the institutional framework essential to rapid economic development were set up. It is these tasks which made Alavi and later John

⁴⁸ Alavi, Hamza. "The state in post colonial societies; Pakistan and Bangladesh" in *New Left Review* (July-August, No. 74, 1972, pp. 61).

⁴⁹ For further details on its aspects see John Earl, *The state and Revolution in East Africa* and John Obrien, "Bonapartism and Kenyatta's regime" in *Review of African political economy* No. 5, 1976.

Earl and John Obrien⁵⁰ to subscribe to the view that the state is overdeveloped in relation to the structures of the post colonial societies and that it is equipped with a powerful bureaucratic apparatus.

But according to Nelson Kasfir, the notion of overdeveloped state by Alavi masks an ambiguity. The capability. In the works of Kasfir, "Alavi's post colonial regime which he labels a bureaucratic military oligarchy is not provided with class roots or a class interest to defend which gives it an unsubstantiated illusion of great autonomy."⁵¹ As soon as the control over the state apparatus is made available to local social forces, the state can no longer be thought to dominate all of them assuming that local classes are not presumed to be entirely beholden to metropolitan interests.

On the other hand, the term 'overdeveloped' has been interpreted by Colin Leys as suggesting that the inherited state apparatus is larger, its coercive or administrative powers weightier or more ramified than an indigenous dominant class would have found necessary. Thus, the centrality of the state is recast as size and the question becomes how large and how effective are third world states relative to their economies.⁵²

The East African states, Colin Leys claims are not central to their societies because they extract only a small percentage of their total GDP for government expenditure by comparison to industrialized states. But thus comparison of Colin Leys glosses over the extreme difficulty any government faces in trying to tax its non-monetary sector which is large in East Africa than it is in the Western Europe. Not only does Leys' dismissal overlook the scope

⁵⁰ For further details on its aspects see John Earl, The state and Revolution in East Africa and John Obrien, "Bonarpatism and Kenyatta's regime" in *Review of African political economy* No. 5, 1976.

⁵¹ Kasfir, Nelson opcit p.8.

⁵² Leys, Colin "The overdeveloped post colonial state: A Evaluation" in *Review of African Political*

of the tasks undertaken by colonial states and even more expanded range assumed by their successors. It therefore understates the post colonial regimes abilities to extract surplus from their societies. The proposition, argues Kasfir, is that over development of the post colonial state has grown dramatically since independence. They monopolised local enterprise and took control of the retail trade.⁵³ But the question that should concern us here is how the capacity of the post colonial Kenyan state has affected class formation and in particular helped the development of the political class. To this, we follow the marxist interpretation that class interests are served through participation in the state. Consequently class formation may become sufficiently solidified to make direct use of the state, but before that can happen, there may be a complex interim period in which the state as an independent actor mediates its decisions with various classes or class fraction. Thus the growth of state revenues from involvement in economic activities can provide possibilities for class formation as will be illustrated below.

According to David Leonard, the motif of Kenya development since independence has been Africanisation. The first drive in the immediate post colonial period was to indigenise the civil service, the second was to take over settler agriculture; the third was to replace the Asian commercial bourgeoisie; the fourth was to man European corporations and finally it was to attempt to compete with international capital through new investments and the purchase of firms.⁵⁴ These forms of economic control provided avenues for the

Economy, (Jan-April) No. 5 1976, p.41.

⁵³ Kasfir, *opcit* p.9.

⁵⁴ Leonard, David K. "Class formation and Agricultural development" in Joel D. Barkan (ed) *Politics and*

formation of the political class. This class develops out of the patrimonial administrative state and creates an economic base for itself by entering the sphere of production and ensuring that domestically generated capital accumulation is appropriated by and serves those who comprise the state. Richard Sandbrook on the other hand gives two factors, which further enhanced the growth of this class.⁵⁵ The first is the cohesiveness and cultural distinctiveness of this group which owes much to the Kikuyu domination of African big business whose preponderance is attributed to their opportunities in education and jobs during colonial rule; and under Kenyatta's leadership, their domination of the ruling Kenyan African National Union (KANU). They then benefited from the considerable assets built up in colonial Kenya by settlers, Asian capitalists and transnational. To this extent therefore, the indigenous class used their control of the state to provide differential benefits to their consolidation.⁵⁶ The question then becomes whether this class is dominant? Or put differently is this class the same as those found in the Western European countries?

In responding to this question, the most forceful formulation of this perspective comes from Richard L. Sklar. In contradiction to the Marxist conception of the economic determinants of class formation, he asserts that the exertion of political power in the form of state action appears to overtake and outweigh more gradual processes of economic and social change in the formulation of dominant classes in Africa because class relations are

Public Policy in Kenya and Tanzania, Heinemann Kenya Ltd., Nairobi 1984 p. 149.

⁵⁵ Sandbrook Richard. *The politics of Africa's Economic Stagnation*, Cambridge University Press, Cambridge, 1985, p. 70.

⁵⁶ For further discussion of this aspect see Leys, Colin. "Accommodation, class formation and dependency Kenya" and Raphie Kaplinsky, "Capitalist Accommodation in the periphery Kenya" in Martin Fransman, *Industry and Accumulation in Africa*, Heinman Educational Books Ltd. London, 1982.

determined by relations of power not production.⁵⁷ Viewed from this perspective, the Kenyan bourgeoisie is not a dominant class in the West European mould as Richard Sandbook puts it, the Kikuyu elites' political power in the anti-colonial movement allowed it to blind its economic power in the ant-colonial movement allowed it to blind its economic power not vice versa.⁵⁸ This economic power is not a national class. In Kenya, under the presidency of Danial Arap Moi, a Kalenjin, it became advantageous to be a Kikuyu. By 1983, the Kikuyu were a minor force within Moi's system of personal rule. The president surrounds himself with the leaders of the smaller tribes who in turn tried to use the state to displace the Kikuyu bourgeoisie. The Kikuyu dominance thus proved vulnerable to the turns of political future⁵⁹ class analysis. Fundamental to this is the notion that economic power of a class condition the exercise of political power, though the state retains a vague political autonomy. In the Kenyan case, therefore, we are designating a 'political class' which aspires to become a bourgeoisie. But this aspiration itself connotes little more than an opportunistic exploitation of inner privileges of the state not the classic risk taking entrepreneurial behaviour. Elsewhere the nature of this class is described succinctly as "Indifferent to the bourgeoisie values that made European Society so dynamic in the 19th Century to a respect for thrift, hard work and punctuality – our leaders operate with a pre-capitalist mentality. They embrace the type of conspicuous consumption which is the hallmark of the feudal ruling case, where the patron has to impress his dependent clients with the hollow pomp and lavish signs of

⁵⁷ Sklar, Richard L. "The nature of class domination in Africa" in the Journal of modern African Studies XVIII, 4 December, 1979. p. 536-7.

⁵⁸ Sandbook, Richard opcit p.71.

⁵⁹ opcit p. 72.

wealth and influence. They respect the big belly squeezed under the steering wheel of the Mercedes far more than they respect talent, quality and productivity. As perpetual parasites, they are simply not good enough to be truly bourgeoisie.⁶⁰ Hence the embryonic class is heavily dependent on the state for its protection. Understanding the state in terms of a 'political class' therefore, provides a cogent starting point for interpreting the nature of dynamics in the sugar industry.

State will be conceived in the Weberian sense as a corporate group that has compulsory jurisdiction, exercises continuous organization and claims a monopoly of force over a territory and its population including all actions taking place in the area of its jurisdiction.⁶¹ It is the ability of the state to pronounce, implement and enforce commands, laws policies and regulations that gives the state its empirical attribute.⁶² But it is important to see the state in relation to society. Here Azary's definition would be fruitful. He defines the state as an organization within the society where it co-exists and interacts with other formal and informal organizations.⁶³ It is however distinguished from the myriad of other organizations in seeking predominance over them and in aiming to institute binding rules regarding the organization's activities. This will serve as a working definition as it sees the state as part of the society but at the same time stands slightly above the society in the sense that it has to guide other organizations' activities. The three main components of the state are, consequently, decision-making structures (executives, parties

⁶⁰ Anonymous, *Independent Kenya*, Zed Press, London 1982, p. 79-80.

⁶¹ Jackson and Rozberg "Why Weak states persists" in *world politics* vol. 35 Oct 1982 pp.7

⁶² Quoted in Bratttan, Michael, *Beyond the State: Civil society and Associational Life in Africa* in *World politics* vol. No.3. April 1989, pp. 407-430.

⁶³ Ikiara, G.K. Structural changes in the Kenyan Economy in Tony Killick, *Papers on the Kenyan Economy: Performance problems and policies*, Heinemann Education Books Ltd. Nairobi, 1981, pp. 25.

and parliaments) decision enforcing institutions (bureaucracies, parastatal organizations and society forces), and decision-mediating bodies (Primary courts, tribunals and investigatory omissions). Thus the character of the state is determined by the pattern of organizations of these institutions at specific points in time.

1.7 Hypotheses:

From the theoretical framework above, the following hypotheses were formulated to guide the research.

- (i) The higher the class of the economic decision makers, the more manipulative it becomes toward the development of sugar industry.
- (ii) The more united the farmers are, the more leverage they have on policy decisions.
- (iii) The less interference of the state in management of the sugar industry, the better the performance of the industry.

1.8 Methodology

This study relied largely on secondary data sources which were used to assemble data on policy and policy decisions, mainly Chemelil and Mohoroni sugar companies' records, Kenya Sugar Authority Policy documents, official government reports, journals, books and Kenya Newspapers. In order to supplement and hence enrich the data gathered from secondary sources, additional information was elicited from farmers, top managers of Chemelil and

Muhoroni sugar companies and officials of Kenya Sugar Authority. In the farmers category, a total of 57 cane farmers were interviewed with 28 from Chemelil and 29 from Muhoroni sugar belt zone. Their interviews covered a wide range of topics such as how cane prices as then set by the government affected their profitability; delays in cane harvesting and payment from their respective contracted sugar companies; their involvement and perceptions of the performance of cooperative societies and their involvement in the policy decisions affecting the sugar industry. In the sugar company category, 12 managers were interviewed, 6 from each company and were drawn from the following departments: Agricultural Manager in charge of cane production; Agricultural Services Manager in charge of transport and field operations; Chief Accountant; Factory Production Manager and head of land survey. At the Kenya Sugar Authority, 5 officials were interviewed comprising of Human Resource Manager; Head of Planning; Agricultural Manager; Finance Manager and head of Statistics. As the regulatory body of the sugar industry, the information from the Kenya Sugar Authority was important in that it corroborated the data from the two sugar companies as well as providing further information on Mumias, Nzoia, Sony, Miwani sugar companies for comparative analysis.

CHAPTER TWO

2.0 THE POST COLONIAL STATE AND THE DEVELOPMENT OF SUGAR INDUSTRY

2.0. INTRODUCTION

This chapter will provide an historical overview of state interventions in the sugar agro-subsector. It aims at understanding the historical and contemporary processes in the sugar industry associated with state directed development. The intention is to do this by documenting the content, implementation and effect of major intervention policies and mechanisms.

2.1 The state-interventionist stance

One of the main characteristics of the state in independent African countries has been the overwhelming presence it has sought to effect in nearly all areas of social, economic and political life. But why this overwhelming presence of the state in economic life? To this we now turn. At independence, Africans had high hopes of rapid development. New energies were released by the ending of colonialism and African leaders were determined that their countries should catch up with the developed world. The first generation of African leaders adopted economic strategies that echoed the ideas of prominent economists of the day. According to Gerishon Ikiara, state intervention in the economy is anchored on the premise that the state represents a single organized entity and as such it can plan and carry out faster, more effective

economic development than if the major role were left to private enterprise.⁶⁴ This view emphasized the fragility of institutional structures and hence the need for an active role of the state in directing development.

Benno Ndulu argues that due to the predominance of peasant economies with an inadequate infrastructural and technological base for an autonomous development process in Africa, there was need for the state to act as agent of developmental process.⁶⁵ In the same vein Svanidze, I.A. posits that the state has to play a most important role in raising the yields of agricultural products in Africa, especially since the market does not affect the farming methods of the indigenous population to any great extent, the prospects of mechanising agriculture are limited and there are a number of important social barriers hampering its successful development.⁶⁶ More importantly, the industries in Sub-saharan Africa are still in their infant stages and therefore face stiff competition from the developed countries. It then necessitates the assistance of state policies to create and maintain competitive advantage (herein referred to as the relative export strength of the firms of any country compared to the firms of countries selling in the same sector in international markets). These arguments in effect, became a demonstration of the extent to which the special conditions which existed in developing countries demanded an even more extensive level of state intervention. Reginald Green for example wrote; "Given the very late start, weak private domestic sector, poor domestic savings, mobilization capacity and extreme openness to trade, African economic development

⁶⁴ Benno Ndulu op.cit pp. 37.

⁶⁵ Svanidze, I.A. The African struggle for Agricultural Productivity in *Journal of Modern African studies*, vol. 6 1968, No. 3.

⁶⁶ Green, Reginald. "Some Problems of National Development Planning and Foreign Finance" in Schatz, sp (eds), *South of Sahara, Development in African economies*, Temple University Press Philadelphia, 1972..

(whether capitalist or socialist) will require large public sectors both government and public enterprise... without public sector leadership, African economic development will not take place.⁶⁷ But despite the overwhelming propensity toward statism (the concentration of economic activities around the state), various leaders chose to structure the public domain in different ways.

In the Kenyan case, the economic strategy since independence can broadly be summarised as Kenyanization and modernization in a capitalistic framework. The political and economic strategy adopted by the Kenyan government since independence was self-described as African socialism. While domestic and foreign private ownership has been encouraged, the public sector has simultaneously expanded rapidly as a result of state intervention in the economy. In this respect, Francis Stewart argued that, Kenyan development resembles that of many other economies in being one of managed capitalism or a mixed economy.⁶⁸ Domestically the government has favoured private ownership as the mode of the production both in agriculture and industry. In agriculture, land consolidation and registration has enabled private ownership to flourish. Internationally, the government has encouraged the integration of the Kenyan economy into the world capitalism system where multinational corporation have been offered favourable terms. In a historical perspective the period under investigation represents a bridge between the above professed statism and the state divesture under the rubric of structural adjustment regime. In this thesis we will refer to these as the economic nationalist strategy under

⁶⁷ Stewart, Francis, *Kenya Strategies for development* in Tony Killick opcit pp. 77.

⁶⁸ World Bank, *Sub-Saharan Africa from Crisis to sustainable growth*; the international Bank for Reconstruction and Development Washington DC., 1989. pp. 16.

statism from the period of 1963 to 1980 and the economic stabilization approach under structural adjustment regime from 1980 to 1997.

Under the economic nationalism centred approach, the Kenyan state took increasing control of her economy by applying a variety of instruments. As was noted above the first act of nationalism was the Africanization which sought to encourage more active participation of their apparently weak domestic petty bourgeoisie to take share in the existing firms or new firms. The approach involved advancement of loans to the local elite or rich peasants (top level civil servants). According to the World Bank, this view of nationalist strategy underscored the distrust of market mechanisms and as a result and with full donor support, the state drew up comprehensive five year plans, invested in large state run core industries and enacted pervasive regulations to control prices, restrict trade and allocate credit and foreign exchange.⁶⁹ Either way, this led to increased participation of domestic capital and state in the economy. But from 1980 to 1997, the role of the state breaks down. The state is increasingly challenged from inside and outside and has to accept fundamental changes in policies, for example signifying the breakdown of the immediate post-colonial model. The important features of this period include reduced state intervention and control of the economy. The state's involvement in the sugar industry under the above models will illustrate these arguments.

2.2 The development of sugar industry

In Africa sugar consumption is already significant and is rising rapidly and many countries are now investing in sugar production to ease their imports, with

⁶⁹ Hagellberg, G.B., *Structural and Institutional aspects of the sugar industry in developing countries*, Institute

the intention of exporting the surplus. According to Hagelberg, the developing countries can be conveniently divided into two categories: those producing mainly for export and those trying to build up their own industries and become less dependent on imports.⁷⁰ In Sub-saharan Africa, the countries that belong to the first category are Mauritius, and Swaziland both with economies heavily dependent on sugar exports. The second category includes Kenya, Ivory Coast, Sudan, Ghana, Tanzania inter alia.

In Kenya, the pre-independence era was characterised by a lack of government involvement in both sugar production and marketing. The development of sugar industry has been linked inextricably to the history of Asian Agricultural Settlement in the region where there existed minimal European Settlement. The most successful of these early settlements were at Kibos in Nyanza Province. It was here that the first sugar production on a commercial basis was started when the Miwani sugar Mills established a medium scale sugar mill at Miwani in Kisumu District of Nyanza province in 1922.⁷¹ It was being run as a private business concern by the Hindocha family. The second sugar mill was established in 1927 by the Associated Sugar company Limited at Ramisi in Kwale District of Coast Province and managed by the Madhvani Group International of India. These two were managed and owned by Private Asian companies and the large scale farms that supplied them with cane upto mid 1960s were exclusively by Asians.

for Zuckerindustrie, Berlin, 1976, pp. 40.

⁷⁰ Odada, J.E.O. et al *Incentives for increased Agricultural Production: A case study of Kenya's sugar industry*, Friedrich Ebert Foundation, Nairobi, 1986, pp.2 and George G. Awuor-Okullo "Factors Limiting sugar cane Yield in small scale farmer's peasants plots in Nyanza" in *Journal of East African Research and Development* vol. 5, No. 2, 1975, pp. 93.

The post-independence period saw the post colonial state begin to take direct participation in the sugar industry. The need for direct participation of the state in this agro-sub-sector was anchored on the premise that both Ramisi and Miwani could not satisfy the domestic requirements of white sugar. Consumption was rising from an annual average of 75,645 tonnes during 1956-60 to 110,493 tonnes in 1965. Ramisi's plant facility produced an output of 4,242 tonnes against a capacity of 20,000 tonnes in 1965. In the same year cane supplies to Miwani sugar mill decreased due to the 1965 drought and partly because independent cane growers found it unprofitable to process their cane into jagger.⁷² Hence for Kenya to produce a larger percentage of her own white sugar requirements the government planned to promote substantial private and public investment in both the agricultural and processing of sides of the industry. To this end the state's strategy to develop sugar industry was guided by two policy documents. The Swynnerton Plan of 1955 and the sessional paper No. 10 of 1965 provided the definitive framework within which the state was to revolutionise its agricultural sector.

2.3 The development of the sugar industry within the policy framework

The post-colonial state's development strategy identified expanded agricultural production as the principal means of economic development. Success in planning, therefore, predicated in large measure on the ability of the state to control events in the agricultural sector. In accordance with the national objective of modernising the agricultural sector and in particular increasing the agricultural productivity, there are a variety of channels through which the state has exerted influence on sugar production. These can be summarised as land

⁷² Republic of Kenya, *Development Plan*, 1966/1970 Pg. 174.

policy, management of state owned firms, developing a symbiotic relationship with the multinational firms, pricing and marketing of sugar and the rural development schemes as well as the provision of incentives to cane farmers.

2.4 Land Policy

It is important to note that the Swynnerton Plan mentioned above provided a land tenure policy that represented a new phase in Kenya's agricultural development as far as land utilization was concerned. According to this policy document, "Sound agricultural development is dependent upon a system of land tenure which will make available to the African farmer a unit of land and a system of farming whose production will support his family at a level taking into account perquisites derived from the farm, comparable with other occupation. He must be provided with such security of land tenure through an indefeasible title as this will encourage him to invest his labour and profits into the development of his farms and as will enable him to offer it as a security against such financial credits as he may wish to secure from sources as may be open to him..."⁷³ In line with this strategy the post colonial state echoed this Swynnerton's policy pronouncement in its land adjudication and registration policy paper⁷⁴ by stating that one of the requisites for successful farming is a system of land tenure that encourages investment in the land and enables it to be used as a negotiable asset for obtaining credit. Accordingly the Swynnerton plan projected that every family in the respective crop zone would have planted

⁷³ Swynnerton, R.J.M. *A Plan to intensify the development of agriculture in Kenya*, Government Printer, Nairobi, 1955, pp. 15.

⁷⁴ Republic of Kenya, *Land adjudication and registration policy*, Kenya Government Printer, Nairobi, 1983, pp. 81-7.

half an acre by the end of 10 year period from 1953 to 1963 as illustrated by the table 2.1 below.

TABLE 2.1 PHASED DEVELOPMENT OF CASH CROPS

GROUP	ACRES	ACRES	ACRES	ACRES
	1953	1958	1963	1968
COFFEE	4,000	18,000	43,000	71,500
PYRETHRUM	1,300	12,000	30,000	48,000
TEA	35	2,000	6,000	12,000
PINEAPPLES	3,000	10,000	18,000	25,000
SUGARCANE	200	10,000	25,000	45,000

Source: Republic of Kenya, Swynnerton Plan 1955, Govt. printer p.15.

As can be seen from the above table, the land tenure system advocated in the Swynnerton plan projected that by 1968 45,000 acres of land would be under cane.

It is argued here that the net effect of such a policy enabled smallholders acquire land and use it for cane growing and more so changed the traditional land tenure system thereby creating individual private property in land.

To realize this, the state acquired a large area towards North and East of Muhoroni and established sugar settlement scheme in 1966 under which a portion of land was allotted to each settler. The Muhoroni Sugar Belt Scheme was part of the giant one million are settlement programme which was launched during Kenya's decolonisation process to solve the problems of African landlessness. The establishment of white settlement during the colonial period led to the dispossession of a large number of peasant households⁷⁵ The resettlement programme of which Muhoroni Scheme was a part, involved a

⁷⁵ Odhiambo-Mbai, opcit pg.23

process whereby a land board was to be established to purchase land from white settlers. The sugar settlement organization (S.S.O.) was created and made responsible for managing the settlement scheme with a view to producing and supplying cane commensurate with milling plant capacity of East African Sugar Industry (E.A.S.I) now Muhoroni sugar company. To augment cane production, Sugar Belt Cooperative Union (SBCU) was established in the early 1970s for growing cane in traditional homelands to support can supplies to the newly created Chemilil sugar company 12 kilometres from Muhoroni sugar company.

Consequently there was an increase in the area under cane if we take the period from the year 1966 to 1977 for instance as evidenced in table 2.2. below.

TABLE 2.2: AREA UNDERCANE IN THE NYANDO SUGAR BELT '000 HEC

Year	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
Hectares	17.1	21.9	19.1	26.1	26.4	28.1	26.9	27.1	29.3	31.5	30.1	32.2

Source: Republic of Kenya, *Statistical Abstract*, 1978.

Thus it is clear that the post colonial state has played an important role in providing indigenous cane farmers with the advantages denied them during the colonial period. This therefore led to increased sugarcane production as evidenced in following table.

TABLE 2.3 SUGARCANE PRODUCTION (PERCENTAGE OF TOTAL)

TYPE OF GROWER	1971	1974	1978	1982	1986
Factory Estates	32	36	27	27	22
Large farms	39	13	12	16	14
Small holders	7	25	36	43	48
Cooperate societies	16	14	15	5	7
Settlement schemes	16	12	10	9	9
Total (Tonnes)	1,378,002	1,719,083	2,349,208	3,107,730	3,551,600

Sources: Republic of Kenya, *Economic Survey* 1975:94; 1983:123; and 1987:115; Govt. Printers, Nairobi.

Table 2.3 illustrates a huge rise in smallholder sugarcane production from 29% or 0.4 million to 64% or 2.3 million between 1971 and 1986. The bulk of the sugarcane shown coming from cooperative societies was also grown on small farms. At the level of production increases noted in table 2.3, small farm sugarcane can be seen as one of the post colonial Kenya's remarkable agricultural improvement. It was the result of considerable government effort and expenditure to stimulate small-holder production in line with these above land policy.

Another factor in this process which is related to post colonial state's intervention was the construction of sugar factories to cater for cane from farmers. Since the two sugar factories established in the 1920s at Miwani in Nyanza and Ramisi at the coast were privately owned and managed, the post independence period up to 1980 saw the new state aggressively investing and boosting sugar production with the aim of making the country self-sufficient in sugar. To this end the state as a major shareholder set up five sugar factories;

sugar company ltd in 1968 with a rated capacity of 3,000 tonnes of cane per day (TCD). The establishment of Muhoroni and Chemilil marked the introduction of monopoly capital into the sugar industry.⁷⁶ The management of Muhoroni sugar company was entrusted to the Mehta Group International while Chemilil sugar was entrusted to Bookers and tale international. In 1973 the state established another factory at Mumias in Kakamega district with a capacity of 2,000 tonnes of cane per day (TCD) and its management was entrusted to Bookers and tale international. In 1978, a French company Techniscare established a factory at Nzoia district in Bungoma District with a rated capacity of 2,000 expandable to 3,000 tonnes of cane per day. Its management was left to French Technicare with state being the major shareholder. The sixth sugar mill was established in 1979 at Awendo in South Nyanza at Awendo and its management was entrusted to the Mehta Group International.

As seen from above, the management of these state-owned sugar companies was left in the hands of foreign multinational corporations. This was in line with the state's policy as outlined in its policy paper sessional paper No. 10 1965. This document gave a provision for the participation of foreign firms in the domestic economy. The policy document states in part "to conserve Kenya's limited development money, partnerships with private capital will be considered provided that private participants will accept that government policies will be dominant in the operation of the firms....."⁷⁷ In this regard the state expected the private sector to play a large role in development project, however to firm guidance and explicit controls when necessary. This approach was to

⁷⁶ Mbat Crispine O. "State and International capital in agro-industrial development! The case of Muhoroni settlement scheme (1960-1980)", M.A. dissertation, univ. of Nairobi, 1980, pp. 29.

permit Kenya to attract private capital and management in the sugar industry, which could not otherwise be obtained. Thus a symbiotic relation have evolved between dominant foreign private business and the Kenya state as an investor in sugar industry. The managing agents of these sugar firms have been responsible for overall management of their companies. They provide top level managerial as well as technical personnel from their parent companies abroad and supplement such personnel with qualified Kenyans. They are also responsible for the general administration of their respective sugar companies, handling recruitment and training of staff, maintenance of books of accounts, operation of the factory, management of the nucleus plantations and establishment of cane on outgrowers fields with the help of cane establishment loans from local sources.⁷⁸

The state thus intervenes directly in the running of the sugar companies through government appointees on the boards of Directors of the companies. These boards make policy decisions on the running of the sugar companies as viable commercial enterprises. Hence the state may terminate the contract with any management agent depending on their performance. For instance, the management contract with the Mehta Group International in South Nyanza Sugar company (SONY) was terminated prematurely by the state in 1985 before the normal expiry date at the end of June, 1986 due to general mismanagement of the company and irregularities in the recruitment of expatriates to top management positions in the company.⁷⁹ The following table summarizes the details of ownership and management agents for the five state-owned sugar

⁷⁷ Republic of Kenya, *Sessional Paper No. 10 1965, African Socialism and its application to planning in Kenya*, Government Printer, Nairobi, 1985, pp. 36-37.

⁷⁸ Odada, J.E.O. *op.cit.*, p.2.

⁷⁹ *Op.cit* pp.8.

companies. From this table the linkage between state owned companies and international agents like CDC, IDB, DFCK, Kenya Shell, Grindley Finance Co-op, French Tire C. Baoock, etc. is clear. This linkage gave international capital a direct hand in manipulating Kenya's economy.

Kenya Shell		Grindley Finance Co-op	
1974	1975	1974	1975
1976	1977	1976	1977
1978	1979	1978	1979
1980	1981	1980	1981
1982	1983	1982	1983
1984	1985	1984	1985
1986	1987	1986	1987
1988	1989	1988	1989
1990	1991	1990	1991
1992	1993	1992	1993
1994	1995	1994	1995
1996	1997	1996	1997
1998	1999	1998	1999
2000	2001	2000	2001
2002	2003	2002	2003
2004	2005	2004	2005
2006	2007	2006	2007
2008	2009	2008	2009
2010	2011	2010	2011
2012	2013	2012	2013
2014	2015	2014	2015
2016	2017	2016	2017
2018	2019	2018	2019
2020	2021	2020	2021
2022	2023	2022	2023
2024	2025	2024	2025
2026	2027	2026	2027
2028	2029	2028	2029
2030	2031	2030	2031
2032	2033	2032	2033
2034	2035	2034	2035
2036	2037	2036	2037
2038	2039	2038	2039
2040	2041	2040	2041
2042	2043	2042	2043
2044	2045	2044	2045
2046	2047	2046	2047
2048	2049	2048	2049
2050	2051	2050	2051
2052	2053	2052	2053
2054	2055	2054	2055
2056	2057	2056	2057
2058	2059	2058	2059
2060	2061	2060	2061
2062	2063	2062	2063
2064	2065	2064	2065
2066	2067	2066	2067
2068	2069	2068	2069
2070	2071	2070	2071
2072	2073	2072	2073
2074	2075	2074	2075
2076	2077	2076	2077
2078	2079	2078	2079
2080	2081	2080	2081
2082	2083	2082	2083
2084	2085	2084	2085
2086	2087	2086	2087
2088	2089	2088	2089
2090	2091	2090	2091
2092	2093	2092	2093
2094	2095	2094	2095
2096	2097	2096	2097
2098	2099	2098	2099
2100	2101	2100	2101
2102	2103	2102	2103
2104	2105	2104	2105
2106	2107	2106	2107
2108	2109	2108	2109
2110	2111	2110	2111
2112	2113	2112	2113
2114	2115	2114	2115
2116	2117	2116	2117
2118	2119	2118	2119
2120	2121	2120	2121
2122	2123	2122	2123
2124	2125	2124	2125
2126	2127	2126	2127
2128	2129	2128	2129
2130	2131	2130	2131
2132	2133	2132	2133
2134	2135	2134	2135
2136	2137	2136	2137
2138	2139	2138	2139
2140	2141	2140	2141
2142	2143	2142	2143
2144	2145	2144	2145
2146	2147	2146	2147
2148	2149	2148	2149
2150	2151	2150	2151
2152	2153	2152	2153
2154	2155	2154	2155
2156	2157	2156	2157
2158	2159	2158	2159
2160	2161	2160	2161
2162	2163	2162	2163
2164	2165	2164	2165
2166	2167	2166	2167
2168	2169	2168	2169
2170	2171	2170	2171
2172	2173	2172	2173
2174	2175	2174	2175
2176	2177	2176	2177
2178	2179	2178	2179
2180	2181	2180	2181
2182	2183	2182	2183
2184	2185	2184	2185
2186	2187	2186	2187
2188	2189	2188	2189
2190	2191	2190	2191
2192	2193	2192	2193
2194	2195	2194	2195
2196	2197	2196	2197
2198	2199	2198	2199
2200	2201	2200	2201
2202	2203	2202	2203
2204	2205	2204	2205
2206	2207	2206	2207
2208	2209	2208	2209
2210	2211	2210	2211
2212	2213	2212	2213
2214	2215	2214	2215
2216	2217	2216	2217
2218	2219	2218	2219
2220	2221	2220	2221
2222	2223	2222	2223
2224	2225	2224	2225
2226	2227	2226	2227
2228	2229	2228	2229
2230	2231	2230	2231
2232	2233	2232	2233
2234	2235	2234	2235
2236	2237	2236	2237
2238	2239	2238	2239
2240	2241	2240	2241
2242	2243	2242	2243
2244	2245	2244	2245
2246	2247	2246	2247
2248	2249	2248	2249
2250	2251	2250	2251
2252	2253	2252	2253
2254	2255	2254	2255
2256	2257	2256	2257
2258	2259	2258	2259
2260	2261	2260	2261
2262	2263	2262	2263
2264	2265	2264	2265
2266	2267	2266	2267
2268	2269	2268	2269
2270	2271	2270	2271
2272	2273	2272	2273
2274	2275	2274	2275
2276	2277	2276	2277
2278	2279	2278	2279
2280	2281	2280	2281
2282	2283	2282	2283
2284	2285	2284	2285
2286	2287	2286	2287
2288	2289	2288	2289
2290	2291	2290	2291
2292	2293	2292	2293
2294	2295	2294	2295
2296	2297	2296	2297
2298	2299	2298	2299
2300	2301	2300	2301
2302	2303	2302	2303
2304	2305	2304	2305
2306	2307	2306	2307
2308	2309	2308	2309
2310	2311	2310	2311
2312	2313	2312	2313
2314	2315	2314	2315
2316	2317	2316	2317
2318	2319	2318	2319
2320	2321	2320	2321
2322	2323	2322	2323
2324	2325	2324	2325
2326	2327	2326	2327
2328	2329	2328	2329
2330	2331	2330	2331
2332	2333	2332	2333
2334	2335	2334	2335
2336	2337	2336	2337
2338	2339	2338	2339
2340	2341	2340	2341
2342	2343	2342	2343
2344	2345	2344	2345
2346	2347	2346	2347
2348	2349	2348	2349
2350	2351	2350	2351
2352	2353	2352	2353
2354	2355	2354	2355
2356	2357	2356	2357
2358	2359	2358	2359
2360	2361	2360	2361
2362	2363	2362	2363
2364	2365	2364	2365
2366	2367	2366	2367
2368	2369	2368	2369
2370	2371	2370	2371
2372	2373	2372	2373
2374	2375	2374	2375
2376	2377	2376	2377
2378	2379	2378	2379
2380	2381	2380	2381
2382	2383	2382	2383
2384	2385	2384	2385
2386	2387	2386	2387
2388	2389	2388	2389
2390	2391	2390	2391
2392	2393	2392	2393
2394	2395	2394	2395
2396	2397	2396	2397
2398	2399	2398	2399
2400	2401	2400	2401
2402	2403	2402	2403
2404	2405	2404	2405
2406	2407	2406	2407
2408	2409	2408	2409
2410	2411	2410	2411
2412	2413	2412	2413
2414	2415	2414	2415
2416	2417	2416	2417
2418	2419	2418	2419
2420	2421	2420	2421
2422	2423	2422	2423
2424	2425	2424	2425
2426	2427	2426	2427
2428	2429	2428	2429
2430	2431	2430	2431
2432	2433	2432	2433
2434	2435	2434	2435
2436	2437	2436	2437
2438	2439	2438	2439
2440	2441	2440	2441
2442	2443	2442	2443
2444	2445	2444	2445
2446	2447	2446	2447
2448	2449	2448	2449
2450	2451	2450	2451
2452	2453	2452	2453
2454	2455	2454	2455
2456	2457	2456	2457
2458	2459	2458	2459
2460	2461	2460	2461
2462	2463	2462	2463
2464	2465	2464	2465
2466	2467	2466	2467
2468	2469	2468	2469
2470	2471	2470	2471
2472	2473	2472	2473
2474	2475	2474	2475
2476	2477	2476	2477
2478	2479	2478	2479
2480	2481	2480	2481
2482	2483	2482	2483
2484	2485	2484	2485
2486	2487	2486	2487
2488	2489	2488	2489
2490	2491	2490	2491
2492	2493	2492	2493
2494	2495	2494	2495
2496	2497	2496	2497
2498	2499	2498	2499
2500	2501	2500	2501
2502	2503	2502	2503
2504	2505	2504	2505
2506	2507	2506	2507
2508	2509	2508	2509
2510	2511	2510	2511
2512	2513	2512	2513
2514	2515	2514	2515
2516	2517	2516	2517
2518	2519	2518	2519
2520	2521	2520	2521
2522	2523	2522	2523
2524	2525	2524	2525
2526	2527	2526	2527
2528	2529	2528	2529
2530	2531	2530	2531
2532	2533	2532	2533
2534	2535	2534	2535
2536	2537	2536	2537
2538	2539	2538	2539
2540	2541	2540	2541
2542	2543	2542	2543
2544	2545	2544	2545
2546	2547	2546	2547
2548	2549	2548	2549
2550	2551	2550	2551
2552	2553	2552	2553
2554	2555	2554	2555
2556	2557	2556	2557
2558	2559	2558	2559
2560	2561	2560	2561
2562	2563	2562	2563
2564	2565	2564	2565
2566	2567	2566	2567
2568	2569	2568	2569
2570	2571	2570	2571
2572	2573	2572	2573
2574	2575	2574	2575
2576	2577	2576	2577
2578	2579	2578	2579
2580	2581	2580	2581
2582	2583	2582	2583
2584</			

TABLE 2.4: OWNERSHIP AND MANAGEMENT OF SUGAR COMPANIES

COMPANY	Management	%	Magt. Agent
Muhoroni	Government Mehta Group D.F.C.K. Individuals	74.2 16.9 8.6 0.3	Mehta Group
Chemelil	Govt. D.F.C.K. Kenya shell Grindley Finance Corp.	95.4 1.7 1.2 1.7	Bookers International
Mumias	Govt. C.D.C. Kenya Commercial Finance Company Busker McConnel	70.76 17.18 5.0 4.42	Bookers International
Nzoia	Govt. I.D.B. French Fire Cait Baboock	93.3 3.0 3.7	French Technicure
SONY	Govt. I.C.D.C I.D.B. Mehta Group	93.8 3.6 1.5 1.1	Mehta Group

Source: Developed from the interview with Head of planning, Kenya Sugar Authority

From the above table, we can see that the state is the major shareholder of these sugar firms going by the percentage of shares. However, as a result of changes that the state undertook in the sugar industry, the management of these firms have so far changed and by the time of writing this thesis the ownership and management were as reflected in the table 2.5.

TABLE 2.5: OWNERSHIP AND MANAGEMENT OF SUGAR COMPANIES

COMPANY	Management	%	Magt. Agent
Muhoroni	Government	74.2	Government
	Mehta Group	16.9	
	D.F.C.K.	8.6	
	Individuals	0.3	
Chemelil	Govt.	95.4	Government
	D.F.C.K.	1.7	
	Kenya shell	1.2	
	Grindley Finance Corp.	1.7	
Mumias	Govt.	70.76	Bookers International
	C.D.C.	17.18	
	Kenya Commercial Finance Company	5.0	
	Booker McConnel	4.42	
Nzoia	Govt.	93.3	Government
	I.D.B.	3.0	
	French Fire Cait Baboock	3.7	
SONY	Govt.	93.8	Bookers International
	I.C.D.C	3.6	
	I.D.B.	1.5	
	Mehta Group	1.1	

Source: Developed from the interview with Head of planning, Kenya Sugar Authority

Not only has the state been actively involved in effecting the establishments of new sugar companies but it has also been involved in directing and controlling various programmes aimed at ensuring rapid development within the industry. To this effect the state has been represented in the industry by different institutions. The office of the President through the secretary of state corporations sets and controls the terms and conditions of service for sugar companies and as was mentioned above the directors of the firms and parastatals attached to the industry are appointed by the president.

In 1973 the government declared sugar a special produce and the Kenya Sugar Authority was legally instituted as a an advisory body within the ministry of agriculture under legal notice 32/73 to promote and accelerate development of the industry. According to the agriculture Act Chapter 318. ".....there is hereby established an authority to be known as the Kenya sugar Authority (hereinafter called the Authority) for promoting and fostering the effective and efficient development of sugarcane for the production of white sugar in any area of Kenya".⁸⁰ As an advisory body to the government on the production of sugar, the authority role has been: to advise on the effective and efficient development of sugarcane production for the manufacturing of white sugar; advise on price of cane to growers; advise on rules and regulations necessary to enable the effective and efficient functioning and development of the sugarcane industry and finally develop and implement upon approval by the Ministry of Agriculture a cane testing service and a sugarcane quality control system. Thus this organization in collaboration with the Ministry of Agriculture determines the price of sugarcane after gathering systematic data from all sugar companies on the costs for the whole range of farm level activities from bush clearing, land preparation, cane development and transport costs. It is important to note at this juncture that under such circumstances of setting cane prices the farmers thus operate within rigidly prescribed input and output price structures (NB. implication of this will be emphasized in chapter four as it is not within the purview of this chapter to do so). More still to implement the cane price, it has to go through a price review committee and in this committee, the state is represented by five ministries viz the Ministry of Agriculture, Commerce and

⁸⁰ Republic of Kenya, *The Agricultural Act Chapter 318*, Government Printer, Nairobi, 1967, pp. 160.

Industry, Finance, Economic Planning and National Development and the Office of the President. The committee then makes price recommendations to the cabinet for amendments and final approval.

2.5. Marketing and distribution of sugar

From the factory gate, the role of Kenya sugar Authority is limited particularly with regard to sugar marketing and distribution. The latter functions are governed by the provisions of the imports, exports and essential supplies Act (Cap 504). Through the provisions of this Act, sugar marketing and distribution has been controlled by the Ministry of Commerce as the state classified sugar as an essential product. Domestic distribution of sugar under this state dirigiste was delegated to the Kenya National Trading Co-operation, (KNTC) a parastatal that was established to Africanise trade in the country and is answerable to the Ministry of Commerce and Industry. Thus KNTC became the sole distributor of sugar in the country. Table 2.6(a) and (b) show the patterns of control in production and marketing of sugar before and after the liberalization of the industry 1992.

Table 2.6(a) shows that the sale of raw cane to the various processing plants is done in two ways. The smallholder farmers sell their cane to the factories through cooperative societies and large-scale farmers sell their cane either through the cooperatives or directly to the companies. After the sugar had been produced it was sold to the Kenya National Trading Corporation which was then the sole distributor of sugar to retailers. The ministries of Agriculture and Finance in liason with Kenya Sugar Authority used to determine the price of both

raw cane and sugar. However, after market liberalization was effected in 1992, the factories are now selling their sugar directly to retailers/wholesalers as indicated in table 2.6(b) Kenya Sugar Authority remains an advisory body to the industry.

2.6 Control of research and credit in the sugar industry

The agricultural research and credit form an integral part of the country's agricultural policy. In this broad agricultural policy, the objective of agricultural research is to generate new technologies that encourages more intensive use of land, increase yields of crop. In sugar research, the objective is to improve cane varieties. To realise this objective, the state established a national Sugar Research station in Kibos with the main role of furnishing the companies with information on farming practices, diseases and pest control and invention and improvement of cane varieties. The state entrusted the management of sugar research station to the then Ministry of Research, Science and Technology through Kenya Agricultural Research Institute. On the other hand, the state has intervened in this agro-subsector by the provision of credit to cane farmers. This it has done through its established institutions for example the Agricultural Finance Corporation (AFC). The purpose for which AFC was set up was to assist in the development of agriculture and agricultural industries by providing loans to farmers, cooperation, private companies and persons engaged in agriculture.⁸¹ To assist the AFC in realising the above objective, the state mandated cooperative Bank of Kenya to lend cane farmers with loans for their

⁸¹ Patrick D. Alila. *Small holder credit for rural development in Kenya: Origins and future perspectives* in Ulf Himmeslstrand et al, *African perspective on development*, 1994, pp.111.

cane development. The performance of these institutions as far as efficient provision of credit to cane farmers will be discussed in the subsequent chapters. Suffice it to remind ourselves that these have been areas where the state has intervened in the sugar industry.

TABLE 2.6 (A) PATTERNS OF CONTROL IN PRODUCTION AND MARKETING OF SUGAR BEFORE LIBERALIZATION OF THE SUGAR INDUSTRY

Production	Marketing	Processing	Disposal	Statutory control
Smallholder	Cooperative	Factories	K.N.T. C	- M.O.A.
Large scale farmers				- M.O.F
Nucleus Estates				- K.S.A

**TABLE 2.6 (B) PATTERNS OF CONTROL IN PRODUCTION AND MARKETING OF SUGAR
AFTER LIBERALIZATION OF THE SUGAR INDUSTRY**

Production	Marketing	Processing	Disposal	Statutory control
Smallholder Large-scale farmers Nucleus Estates	Cooperative	Factories	Open to interested parties	- K.S.A. as advisory body - K.S.A

Source: Developed from the interview with a head of planning, Kenya Sugar Authority

NB: M.O.A. - Ministry of Agriculture
M.O.F.- Ministry of Finance
K.N.T.C. - Kenya National Trading Cooperation

2.7 The Role of the State in the Sugar Industry within the Framework of Structural Adjustment Programmes (SAPS)

The agricultural crisis of the 1980s in Africa that was characterised by falling per capita production, decline in the African share in the world trade, increased food dependency, and poor agricultural performance threatened to rend the fabric of African society.⁸² In explaining the causes of this crisis, the World Bank argued that hindrances to competitive optimality was one of the major causes. Hindrances especially state policies that in both domestic and international markets, block the optimal operation of competitive forces.

⁸² Elliot Berg, "The World Bank's Strategy" in John Revenhill (ed) *Africa in Economic Crisis*, The Macmillan Press Ltd, London, 1986, pp. 45.

Unimpeded, these would otherwise provide incentives for improved efficiency and higher productivity. The state policies identified by the World Bank included protective tariffs that sheltered inefficient private and public enterprise, state's agricultural policies including marketing boards, subsidies and price controls. Thus at the core of structural adjustment is a disillusionment with the efficiency of state intervention. This represented a major reorientation in orthodox development thinking with the key assumption being drawn from neo-classical economic theory as government reduces the scope and intensity of its intervention into the economy. In essence, the frontiers of the state were to be rolled back, distortions to the market eliminated and restrictions on the free flow of trade and capital substantially reduced.⁸³ In line with these structural adjustment policies, a number of countries in Africa have been implementing a variety of adjustment and liberalisation programmes. The Kenyan state's implementation of these economic measures in the sugar industry will enable us to see its continued patterns of intervention in this agro-subsector under structural adjustment regime.

The Kenya state came to embrace the World Bank Policies in 1986 as reflected in its Policy Paper of "Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth". This policy document underscored the need to implement the economic reforms as prescribed by the Bretton Wood Institutions. In the Sugar Industry these economic reforms have been in the areas of import liberalisation, Marketing and pricing of sugar and privatisation of

⁸³ For more details see Chriss Dixon et al "Introduction: The Nature of Structural Adjustment" in David Simon et al *Structurally Adjusted Africa: Poverty, Debt and Basic Needs* Pluto Press, London, 1995, pp. 2-5; Bela Balassa "Structural Adjustment Policies in Developing Economies" in *World Development* vol. 10., 1982.

state owned sugar companies. Prior to 1986, the Ministry of Commerce and Industry was directly involved in policy making, marketing and distribution of sugar. However, since the adoption of the economic reforms, private firms have been granted licences to buy sugar from the factory gates and sell it directly to wholesales/retailers without recourse to the Kenya National Trading Corporation (KNTC) or the Ministry of Commerce. At the same time, the state deprived the Ministry of Commerce the monopoly of importing sugar and subsequently the private sector have been given the import licences to import sugar and sell it in the local market. As far as the fixing of prices are concerned, the state has since allowed the price of sugar be determined by the forces of market, that is forces of supply and demand. The state has also undertaken steps aimed at privatising the state enterprises in this sector. To this end, it has floated shares of state-owned firms to private individuals. Thus the privatisation of these firms is still in the process albeit at a slow pace. It is important to note here that despite of these economic reform measures undertaken by the state, it still has more control of the sugar industry. These are reflected in its large shares in the state owned sugar firms which invariably gives it more powers to appoint the managing directors of these firms. Moreover the Kenya Sugar Authority which is the apex body of the industry is still under state control.

2.8 Conclusion

It has been the aim of this chapter to provide the patterns of state interventions in the sugar industry from an historical perspective.

The period after independence witnessed active involvement of the state in this agro-subsector. In terms of land, it permitted rural smallholders to engage in cane production. The diversification of the sugar companies in the post-colonial period was made possible by the states' efforts, which were aimed at increasing sugar production in the country. The state then established various mechanisms in order to control and direct the development of the industry. These were in the form of economic institutions such as the Kenya National Trading Corporations and the Kenya Sugar Authority. Thus one major feature of the post-colonial period has been the modernization of the sugar industry and the consolidation of the post-colonial state. The establishment of KNTC and KSA were to act as co-ordinating mechanisms to enable the state control the industry effectively: The consequences of these strategies and policies that underpinned these development options reached their critical threshold in the late 1980s when the state was called upon to relinquish its control of the economy by the Bretton Wood institutions and this has marked the beginning of state divestiture in the sugar industry. But despite of these policy measures, the state, still remains a key player in the industry. Hence in order to understand the nature of sugar industry, it is necessary to look at how these state interventions have impacted on the performance of the sugar industry and this we now turn in the following chapter.

CHAPTER THREE

3.0 THE PERFORMANCE OF THE KENYAN SUGAR INDUSTRY 1981-1997

3.0.1 INTRODUCTION

This chapter aims at presenting the performance of the sugar industry. The aim is anchored on the premise that in order to understand properly the dynamics of the sugar industry, it is imperative that we underscore the performance of the industry and the intervening factors that underpin such performance. Kenya has been following a policy aimed at self-sufficiency for domestic demand and surplus for export. However progress in this respect has been disappointing for consumption has increased faster than anticipated while production has been below target. For instance in 1997, sugar consumption was 580,000 tonnes and production was 40,1610. It is against this background that we will take the following as our parameters in assessing the performance of the industry. Production (cane deliveries, cane crushed, and sugar made), factory's capacity utilization and financial performance (measured in terms of profit and loss). The chapter has the following format. We examine the importance of the industry in Kenyan economy and the organization of sugar production as there are a necessary preliminary to any adequate understanding of the performance of the sugar industry. This will be followed by an assessment of the performance of Muhoroni and Chemelil. Then we will look at the performance of other sugar companies in comparative perspective.

3.1 The Concept of Self-Sufficiency

There is a growing consensus that the developing countries around the world have to opt for self-reliant development and feed themselves. Hence self-sufficiency in food production has now come to be regarded as a major indicator of agricultural modernization which is considered to be synonymous with economic growth for most of these countries subject to their factor endowments.⁸⁴ In the Kenyan case, self-sufficiency in sugar has emerged as an issue in agricultural and economic policy. It has, however, been implicit in the formulation of government's action in a number of occasions. For example, it is stated in its development plan of 1989-1993 that the overall thrust of the agricultural policy is to achieve internal self-sufficiency in sugar production; to maintain adequate levels of strategic reserves and to generate additional supplies for export.⁸⁵ Self-sufficiency is a concept which, when applied to the food system has invited a wide range of interpretation. According to Stephen Fallows and Verner Wheelock, the degree of self-sufficiency achieved is therefore a measure, which compares production with consumption.⁸⁶ If we apply this meaning to the case of sugar then:

$$\text{Self-sufficiency in sugar} = \frac{\text{Production of Sugar (tonnes)}}{\text{Consumption of sugar (tonnes)}}$$

But self-sufficiency rest not only on the value of the home grown produce but perhaps more important, also on the price paid for imports since the costs of food imports may also play a substantial role in the national balance of

⁸⁴ Aziz, S. (ed) *Hunger, Politics and Markets*, New York University Press, New York, 1975. PP. 55-9.

⁸⁵ Republic of Kenya, *Development Plan, 1989-1993*, Government Printer, NRB, 1989.

⁸⁶ Stephen J. Fallows and J. Verner Wheelock "Self-Sufficiency and the UK. Food Policy" in *Agricultural Administration* Vol. 11 1982 p. 116.

payments. Viewed from this perspective, the equation of self-sufficiency becomes:

$$\text{Self-sufficiency} = \frac{\text{Sugar produced}}{(\text{Locally produced sugar} + \text{sugar imported})}$$

Hypothetically, we assume that the state is engaged in the production of commodity (x). The consumption rate of the commodity in question is ten tonnes and its production is 6 tonnes. The state will be compelled to import four tonnes of the commodity to meet the domestic requirement. Thus when we apply the above formula

$$\text{Self-sufficiency} = \frac{6}{6+4} \times 100 = 60\%$$

If production of (x) is increased by 2 tonnes, imports can be reduced by the same margin. However, this second definition is quite misleading for it presupposes that if we have a domestic deficit, this can be met by importing additional quantity to meet the domestic requirement and this then results in self-sufficiency. We will argue that this undercuts the essence of self-sufficiency, which compares production and consumption. Thus we will take Stephen Fallows et al's conception of self-sufficiency as our working definition. Thus Kenya will be said to be self-sufficient in sugar when it is able to produce as much as it consumes.

3.2 The Significance of Sugar Industry in the Kenyan Economy

The sugar industry provides about 80% of the current domestic requirements of sugar and therefore helps in saving the foreign exchange reserves. The industry also provides wage employment opportunities to Kenya's fast increasing labour force. While large number of people find regular wage employment in sugar plantations, large-scale farms and sugar companies, an even larger number find casual employment in cane production and marketing activities in the smallholder sugarcane farmer sector. Table 3.1 summarizes the pattern of employment in this sector since 1980. As can be seen from Table 3.1, the sugar industry has provided employment opportunities to Kenya's labour force. In particular, from 1980 to 1997 the number of people employed in sugar firms has increased by 39.4% whereas in the factories there has been an increase of 111.1%. Overall, the total number of people employed in the industry increased by 79%. This is besides small businesses and informal activities, which have sprung up as spill over effects of the industry.

Other than providing employment opportunities to a number of Kenyans, the state extract agricultural surplus from this industry. In the literature, the term 'agricultural surplus' has occupied a central place in the history of economic thought and has been used in a variety of different senses. This can be explained by the predominant role played by the agricultural sector in the early phases of the development process and its potential as a source of resources for other sectors.

We will not belabour ourselves with the different meanings attached to this concept, suffice it to say we will use the term 'surplus' to indicate the resources

potentially available in the sugar industry for possible transfer to other sectors of the economy.⁸⁷ Thus, among the manufactured food products in Kenya, sugar is unique in its historical and current attraction to the treasury as an important source of revenue in the form of excise tax. In table 3.2, the major sources of this tax are shown.

⁸⁷ For more details see Morrison, Christian and Erik Thorbecke. The concept of agricultural surplus" in *World Development* Vol. No. 8 1989 pp. 1081-1095.

TABLE 3.1: PATTERN OF EMPLOYMENT IN THE SUGAR INDUSTRY FROM 1980 TO 1997

	YEAR																	
ITEM	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
SUGAR PLANTATIONS	14,488	14,121	17,191	16,777	18,352	19,565	20,515	22,010	21,651	20,198	20,238	20,666	21,130	22,952	21,933	22,121	23,926	28,0
SUGAR FACTORIES AND REFINERIES	6,135	5,860	6,501	7,621	8,765	9,865	10,395	11,906	10,958	12,563	12,585	12,618	13,010	12,869	12,981	12,693	12,949	13,10
TOTAL	20,623	19,981	23,692	24,398	27,117	29,430	30,910	33,916	32,609*	32,761*	32,823*	33,284*	34,140	35,821	34,914	34,814	36,875	41,18

* Excluding Miwani and Ramisi which were closed indefinitely in April, 1988

NB. In addition to the regular employees, there were casual workers as follows:

1992 - 4,981
 1994 - 3,205
 1994 - 7,287
 1996 - 11,604

Source: Kenya Sugar authority, *statistical Year book*, 1984, 1990 and 1996.

TABLE 3.2: EXERCISE REVENUE BY THE EXCISABLE COMMODITIES

	1976	1977	1978	1979	1980	1981	1982	1983
Beer	24,143	14,419	15,617	15,283	17,033	18,140	17,555	15,220
Sugar	5,668	9,091	11,420	14,371	17,326	15,817	15,700	22,576
Cigarettes	8,580	12,533	17,173	23,327	25,251	29,789	34,091	41,609
% Sugar	15	25	26	27	29	25	23	28

Source: R.O.K, *Statistical Abstract*, 1984

Table 3.2 reveals that the sugar industry is making significant contribution to the treasury. Compared to other excisable commodities in the table, the sugar sub-sector gave the treasury an average of 22.1% of total contribution from 1976 to 1983. A part from the excise duty described above, the state also extract surplus from the sugar industry in the form of road cess, which is remitted to the local authorities serving the various sugar companies. The following table shows total Road cess Remittance to the local authorities by the sugar firms from 1990 to 1997.

TABLE 3.3: ROAD CESS PAID TO LOCAL AUTHORITIES BY THE FIVE SUGAR FIRMS
1990 – 1997

YEAR	REMITTANCE (KSHS)
1990/91	15,719,000
1991/92	17,163,000
1992/93	21,239,000 (a)
1993/94	35,509,000 (b)
1994/95	42,201,000
1995/96	46,655,000
1996/97	N.A
TOTAL	178,486,000

Source: Kenya Sugar Authority, *Statistical Year Book* 1990, 96.

- (a) Excluding Remittance from Muhoroni
- (b) Excluding Remittance from Nzoia
- (N.A) Not Available

Sugar as a product is used in industrial processes for sweetening, texturing, fermentation, preservation and other purposes in the manufacture of such products as beverages, confectionaries, beer, canned fruits and other foodstuffs. There are also two main by products of sugar, the bagasse and the molasses. The former is the fibrous stem left after juice extraction. It is used as fuel in the factory boilers. It can also be used in the manufacture of particular board plastics, writing papers et cetra. The latter is also used for the manufacture of industrial spirits and fermentation of alcohol. Thus sugar remains an important agricultural commodity in terms of employment, revenue to the government and as a raw material to other industries.

3.3 The Organization of the Production of Sugar

An evaluation of the performance of the sugar industry should take into account, the structural transformation which the industry undergoes throughout the process of sugar production. A clear understanding of the process of structural transformation is crucial to the selection of appropriate performance indicators and to the interpretation of the effectiveness of policies on the development objectives for this agro-subsector. Thus sugar production is a complex process that entails land preparation for cane production to actual sugar bagging in the milling factories as revealed in section 3.3.1 and 3.3.2 herein below.

3.3.1 Cane Production

Cane production involves mechanical operations right from the beginning until the crop is transported to the sugar mill. Land preparation encompasses opening up of the soil by one round of deep ploughing and one or two rounds of light ploughing. Harrowing is then carried out to ensure a suitable soil tilth. This requires the use of the heavy machinery as crawler tractors on the black cotton soils of the Nyanza sugar belt which covers Miwani, Chemelil and Muhoroni. Conventional wheel tractors with light ploughs and harrows or even ex-ploughs can be used successfully on the lighter soils of the other regions. After harrowing, a sugarcane field is furrowed to make appropriate beds for seedcane. The sugarcane crop is called the 'plant crop' or 'plant cane'. It is harvested at least three times before uprooting to plant a new sugarcane crop. The subsequent crops before uprooting are known as the first and second ratoons. While the plant crop normally matures in 22 to 24 months. A complete crop cycle thus takes about five years from establishment of the plant crop to the harvest of the second ratoon crops. The geographical and climatic factors notwithstanding, cane fields are predicated upon the qualities of the initial land preparation, seedcane variety and good crop husbandry. The most common seed cane varieties recommended in Kenya according to the ecological zones are as follows: In Kibos-Miwani-Chemelil area, the popular varieties are C0621, C0331, C0617, B35151, C0775 and N50/211. In Muhoroni the principal variety is C0421. On the higher elevation B35151, N050/211 are good yielders. On lower elevation C0331, C0617 and N51/168 are recommended. In Sony, the

varieties includes, C0421, C0331, B35151, C0440 and N50/211. In Mumias and Nzoia, there are C0421, C0775, C0467, C0680 and NC0376. In Coast Province, the varieties that can do well are C0775, C0331, C0421, NC0334, C0617 and B35151.

Cane is harvested when it is considered mature and millable. Immature or over-mature cane produces less sugar because of its low sucrose content and hence a need to harvest it before it over matures. In Kenya, there are two ways of harvesting cane. The most common is burning which is followed by cutting. This is done since the operation is less cumbersome and less costly. The other method of harvesting involves cutting the cane green without burning it.

The burnt cane is required to be milled immediately or at least within 48 hours since its sucrose content diminishes rapidly after 48 hours. Unburnt cane retains its sucrose content until after 72 hours from the time it is harvested. At the factory gate, the delivered cane carriers are weighed together with the cane on arrival at the weighbridge and re-weighed after they have been unloaded to determine the quantity of cane delivered.

But the organizational framework within which cane production takes place is affected by a set of institutions which affects the use of land, the provision of key inputs into this sector. Thus the structure of cane production depends on such elements as farm size and distribution, land tenancy system, the organization of production through alternative systems such as nucleus estates and outgrower farms (small and large scale farms) and the institutions affecting the availability of credit and other inputs.

The nucleus estates are tracts of land granted to the sugar companies to provide a buffer against the risk of inadequate cane supplies to meet the requirements; avail land for scientific research by the agronomy departments of the sugar companies and to dedicate land for the multiplication of seedcane varieties selected by the National Research Station at Kibos and Mtwapa.⁸⁸ Thus cane development under nucleus estates is managed by the respective sugar companies. The outgrower farms consist of peasant and large scale farmers of middle class farms.

It is argued here that in line with the government efforts to boost sugar production discussed in the last chapter, there has been remarkable improvement in the total area dedicated to cane production as revealed in table 3.4. It is shown that the total area under cane has gone up by 63.7% from 80,094 hectares in 1980 to 131,130 hectares at the end of 1996 with that of the outgrowers increasing by 96.3% from 59,304 hectares in 1980 to 116,415 hectares in 1996.

⁸⁸ Odada, J.E.O., et al *Incentives for Increased Agricultural Production: A Case Study of Kenya's Sugar Industry*, Friedrich Ebert Foundation, Nairobi, 1986, P.91.

TABLE 3.4: TOTAL AREA UNDER CANE FROM 1980 TO 1997 IN HECTARES

YEAR	NUCLEUS ESTATE	OUTGROWERS	AREA UNDER CANE
1980	20,790	59,304	80,094
1981	20,899	63,486	84,385
1982	21,899	66,763	87,998
1983	21,021	71,002	92,023
1984	19,678	72,445	92,123
1985	20,294	76,489	96,783
1986	19,567	82,236	101,803
1987	18,822	89,579	108,401
1988	14,955	88,006	101,116
1989	12,703	80,849	93,552
1990	12,647	79,606	92,253
1991	13,112	85,703	98,815
1992	12,626	82,149	94,775
1993	12,950	87,853	100,803
1994	12,991	91,684	104,675
1995	13,821	109,817	123,638
1996	14,715	116,415	131,130
1997	13,816	113,744	127,560

Source: Kenya Sugar Authority, *Statistical year Book*, 1984, 1990, 1996 and 1997.

3.3.2 Sugar Processing

At the factory sugar processing undergoes eight processes, which entails cane-weighing and storage, cane preparation, juice extraction, juice purification, evaporation, crystallization, curing or centrifuging and finally drying and bagging. A brief description of these processes will suffice to enable us understand the full process clearly.

After the cane has been offloaded at the factory yard, it is conveyed and fed into cutting units and shredders, which mechanically prepare it for milling. At the milling stage, the mass passed on is crushed and squeezed to extract juice from the cane. From here, the juice is separated from the waste material (bagasse). This bagasse, which is the fibrous stem is used as fuel in the boilers. The juice is strained through screens and heated, livened and phosphated to prevent conversion of sucrose into simple sugars. This process is known as purification of juice also results in precipitation and separation of suspended matter and soluble non-sugars in the juice. The juice is then pumped to evaporators where boiling takes place at low pressure to remove water while being careful to avoid darkening or browning due to burning.

The next process is crystallization where the thick syrup obtained from the evaporation is fed into vacuum pans when the super-saturated mixture of molasses and sucrose crystals form the massecute. The massecute is then led to crystallizers (open pans) what it is agitated by stirring to encourage growth of sugar crystals. The massecute is then purged into automatic centrifugals with a modicum of washing which separates, the sugar crystals from molasses. The molasses is then fed back to the pans to re-concentrate and crystallize it before being sent to the centrifugals again. This process is repeated for three times. After crystallization, the centrifugal are dried and bagged and ready for distribution. The diagrammatic flow chart in the next page will illustrate the description more clearly.

3.4 An Assessment of the performance of Muhoroni and Chemelil

The sugar industry in Kenya is served by sugar companies, which are often accused of poor performance including financial losses and inefficiency. But adequate empirical statistical evidence has never been presented to showing the dimensions of or reasons for the industry's performance problem. We will examine more closely the performance of the Muhoroni and Chemelil sugar companies. The choice of these companies has been based on the fact that the reasons for poor performance of the sugar industry can be contextualized more fully by examining the differential performance of the two companies. The similarities that they have in common are: they are in the same ecological zone (the Nyando sugar belt) and as such have a common set of geographical and climatic conditions; they were the first two companies that were established by the state (Muhoroni in 1966 and Chemelil in 1968) and government is their major shareholder owning 74.2% in Muhoroni and 95.4% in Chemelil) and since both are dependent on the production of sugar it can be argued that they confront an identical economic environment. These shared experiences gave rise to two companies that were fundamentally alike in terms of the purpose for which they were set up and their capacity to become viable economic enterprises.

3.4.1. Production (Cane deliveries and cane crushed)

The ultimate goal of the sugar industry is to produce sufficient quantities and satisfactory quality, white sugar for domestic and industrial purposes. The

amount of sugar produced depends in the quantity and quality of cane crushed. The more the cane of good quality crushed, the more the cane of sugar produced.⁸⁹ The amount of sugar that may be obtained from a given quality of cane crushed is governed by three factors. First, as was indicated above, is the quantity of cane which is measured in terms of Pol % cane and fibre % cane. The higher the pol % cane and the lower the fibre % cane the better. The pol % cane depends on the variety of cane grown and the climatic and soil conditions under which it is grown. The second factor is good crop husbandry, which means that crop maintenance operations are necessary for ensuring control of weeds and improved plant nutrition. In this respect, weeding and fertilizer application will lead to good quality. The third factor is harvesting and transport. As we indicated in the previous section, cane should be harvested at an age (18-24 months) when it has achieved its optimal sucrose content. Harvesting at an early age means a loss of the potential realizable sucrose content. This means if it is harvested after the above duration the sucrose content in cane diminishes. It then follows that upon harvesting, it should be transported immediately to milling plant. Against this background, let us now look at cane deliveries and cane crushing in the two companies.

3.4.2 Cane availability

Since the sugar firms depend on sugar as their raw material, its availability is significant in determining the amount of sugar produced. Thus the

⁸⁹ Kenya Sugar Authority, *Statistical Year Book* 1990, p.2.

supply of cane, the bulk of which comes from the outgrowers has to be maintained throughout the year. Table 3.5 shows the amount of cane delivered to Muhoroni and Chemelil from 1980 to 1997. It reveals that the outgrower farmers remain the major suppliers of cane to these farmers. The variation of cane deliveries over the years is explained below.

TABLE 3.5: CANE DELIVERED TO MUHORONI AND CHEMELIL SUGAR FACTORIES FROM 1980-1997 IN METRIC TONNES

N.B NE.....Nucleus estate
OG.....Outgrowers

YEAR	MUHORONI		CHEMELIL	
	NE	OG	NE	OG
1980	60,863	470,887	180,564	449,581
1981	49,89	431,286	131,841	438,243
1982	72,598	257,902	119,518	293,421
1983	74,750	317,346	133,111	411,470
1984	74,952	415,070	122,198	450,324
1985	99,205	361,898	106,453	443,520
1986	55,979	371,815	126,458	434,814
1987	53,598	375,166	71,210	546,984
1988	53,531	358,280	108,979	560,990
1989	43,679	487,472	97,784	657,208
1990	40,273	349,150	108,228	668,108
1991	40,480	406,775	74,357	643,710
1992	22,111	189,845	82,119	399,459
1993	27,991	240,399	95,449	586,902
1994	95,86	92,954	28,369	376,013
1995	24,276	289,034	76,512	507,067
1996	33,179	287,738	63,072	61,574
1997	41,442	195,972	110,611	455,153

Source: Kenya, Sugar Authority *Statistical Year Book* 1984, 1990, 1996 and 1997.

NB* Muhoroni figures for 1988, 1989 and 1990 include 52,883, 120,027 and 104 tonnes

respectively from other zones.

** Chemelil figures for 1987, 1988, 1989 and 1990 include 62,573; 1993; 1994;; 122,993 and 135,390 tonnes respectively from other zones.

In 1981, Chemelil sugar company annexed about 2500 hectares of standing from Muhoroni zone under legal notice of 1977.⁹⁰ The intention was to accord Chemelil company with more zones for contracting outgrower farmers. The effect of this diversion costed Muhoroni a loss of 100,000 tonnes of cane per year (TCY) between 1980 and 1983. As reflected in Table 3.5 cane deliveries in Muhoroni dropped by 26% between 1980 and 1983.

Secondly, due to the ecological condition in the Nyando Sugar Belt cane crop production and maintenance costs is high compared to the western sugar belt (See table 3.6). As can be discerned from the table the mean cane crop production costs for Muhoroni and Chemelil was Kshs. 17,320 while the mean for Mumia, Nzoia and Sony was Kshs. 8,866. Overallly outgrowers in the Nyando sugar belt spent about Kshs. 1228 per tonne of cane. The cane production costs in the Nyando sugar belt therefore has an impact on cane availability to these factories.

Thirdly, the price paid to farmers for their cane produce has not been adequate enough to prove them with economic returns. The impact of low cane prices to cane production manifest itself in the longer term because farmers have less income from which to save and invest in cane development particularly in maintaining the ration crops. The producer prices as shown in Table 3.7 have been very low to the farmers in this zone. The price structure in Kenya's sugar industry does not reflect tier zonal pricing which could have meant that farmers from high cost producing areas are to get higher prices from

⁹⁰ Interviews with Agricultural manager, Muhoroni Sugar Co. August 1997.

their cane. The absence of this implies that the uniform cane prices over the years have been quite inadequate and detrimental to these high cost farmers. Table 3.7 shows that despite the increase of cane prices of 59% between 1992 (before the decontrol) and 1996 (after the decontrol), cane prices were still far much low compared to cane production costs in Muhoroni and Chemelil.

TABLE 3.6: PLANT CANE PRODUCTION COSTS PER HECTARE IN CHEMELIL, MUHORONI, MUMIAS, NZOIA AND SONY AS AT 1996 (KSHS)

COST ITEM	CHEMELIL	MUHORONI	MUMIAS	NZOIA	SONY
Crop production	18348.00	16292.60	9010.00	9566.00	8022.00
Land preparation	14956.00	19535.00	15688.00	14000.00	16785.00
Seed cane	2029.50	1770.00	3458.00	2175.00	2062.00
Planting	10064.53	11594.38	9315.00	10920.00	1777.20
Fertilizers	-	-	-	-	-
Hand	6765.00	7500.00	10494.00	11130.00	6065.00
Chemical	13786.70	10424.18	-	-	-
Oxen		1504.80	-	-	2182.00
Others	2508.00	5458.00	5000.00	2700.00	728.80
Subtotal up to maturity	68457.73	74078.96	52965.00	50491.00	47621.00
Interest 24%, 24 months	32859.71	35557.90	25423.20	24235.68	22858.08
Total up to maturity plus interest	101317.40	109636.90	78388.20	74726.68	70479.08
Cutting	2691.00	3410.00	12746.90	9995.70	13185.40
Transport	19833.60	22642.40	37117.60	25625.20	36389.20
Subtotal	22524.6012	26052.40	49594.50	35260.90	49574.60
Total costs (per Ha)	123862.00	135689.30	127988.70	109987.60	120053.70
Yield tonnes (per Ha)	59.8	68.2	111.8	76.1	109.6
Total costs per tonne	2071.27	1989.58	1144.75	1445.30	1095.28

Source: Developed from interviews with Agricultural Managers of Muhoroni, Chemelil and Kenya Sugar Authority.

TABLE 3.7: CANE AND SUGAR PRICES FROM 1972 – 1997

EFFECTIVE DATE	CANE KSHS/TONNES	MILL WHITE	SUGAR
		EX-FACTORY PRICE (Kshs/Tonne)	CONSUMER PRICE (KSHS/KG)
March 1972	52.00	1,080.00	1.85
February 1974	62.00	1,230.00	2.40
March, 1975	92.00	1,860.00	3.50
January, 1976	105.00	2,300.00	4.50
May, 1977	133.00	2,800.00	4.50
April, 1981	150.00	3,075.00	4.85
December, 1981	170.00	3,600.00	5.75
January, 1983	227.00	4,290.00	6.30
February, 1984	250.00	4,773.00	6.90
January, 1985	270.00	4,986.00	7.20
February, 1986	300.00	5,263.00	7.55
February, 1987	341.00	5,830.00	8.15
May, 1988	368.00	6,080.00	8.40
January, 1990	405.00	7,237.00	9.70
January, 1991	524.00	10,530.00	13.65
January, 1992	630.00	13,000.00	16.70
March, 1993	826.00	16,521.00	Decontrolled
May, 1993	1,259.00	27,420.00	34.00-36.00
February, 1994	1,553	29,035.00	40.00-45.00
December, 1995	1,553	28,000-34,000	33.00-40.00
October, 1996	1,553	37,000	40.00-50.00
1997	1,553	32,000-38,000	33.00-50.00

Source: Kenya sugar authority, *Statistical Year Book* 1984, 1990, 1996 and 1997.

The **other** factors which affected amount of cane availability in Muhoroni and Chemelil **was** the frequent factory problems and subsequent temporary closure of Miwani sugar company in 1989 which had both positive and negative impact on the **amount** of cane delivered to Chemelil and Muhoroni. Between 1988 and 1991 **when** Miwani became insolvent, there was a presidential decree that Chemelil and Muhoroni had to harvest the non-contracted cane in the Miwani zone so as to salvage the affected cane farmers. In so doing, the amount of cane delivered to these companies went up as revealed in Table 3.5. However, when this was being done; the factories had to forego harvesting some cane in their respective zones, the consequence of which saw their contracted farmers lose interest in cane growing so that by the time Miwani reopened in 1992, the amount of cane delivered to the companies declined, with that of Chemelil declining from 718,067 tonnes of cane in 1991 to 481,578 tonnes in 1992 whereas the figures for Muhoroni declined from 447, 255 tonnes cane in 1991 to 211,956 tonnes of cane in 1992. It is important to remember that these low figures were also as a result of the 1992/93 drought.

3.4.3. Cane Crushed

Upon their establishments, Muhoroni and Chemelil had rated capacities of 1,200 and 3,000 tonnes of cane per day (TCD) respectively which where to expand depending on the expansion of the respective plant machineries. The difference in the rated capacity then explains why Chemelil has been crushing more than Muhoroni as seen in Figure 2. However, the difference is rated capacity does not explain why at some point Muhoroni could crush as low as

105,471 tonnes of cane in 1994 compared to 531750 in 1980. The same applies to Chemelil which crushed 796,753 tonnes of cane in 1990 compared to, may be 333,737 tonnes of cane in 1972. This then leads us to an examination of other factors that could explain the varied crushing rates other than the rated capacity itself.

Looking at figure 2, it reveals that both Muhoroni and Chemelil have had ups and downs in terms of crushing cane with both crushing steadily from the years of their inception until 1971. In 1972, they both showed a decline with Muhoroni recording 22.7% decline while Chemelil recorded 28.5% decline. Between 1973 and 1980, they showed an improvement with Chemelil recording an improvement of 59.3%. While Muhoroni recorded an improvement 53.7%. The above trends in crushing rates are dependent on capacity utilization. Figure 3 reveals the capacity utilization of these companies from 1981 to 1997. If we compare figure 2 and figure 3 we realise that the trends of crushing and capacity utilization trends to correspond. The factors that were identified to have determined the utilization of the rated capacity includes factory management and factory efficiency. Let us look at these factors in detail.

Figure 2

CANE CRUSHED BY MUHORONI AND CHEMELIL; 1968 TO 1997
("000" METRIC TONNES)

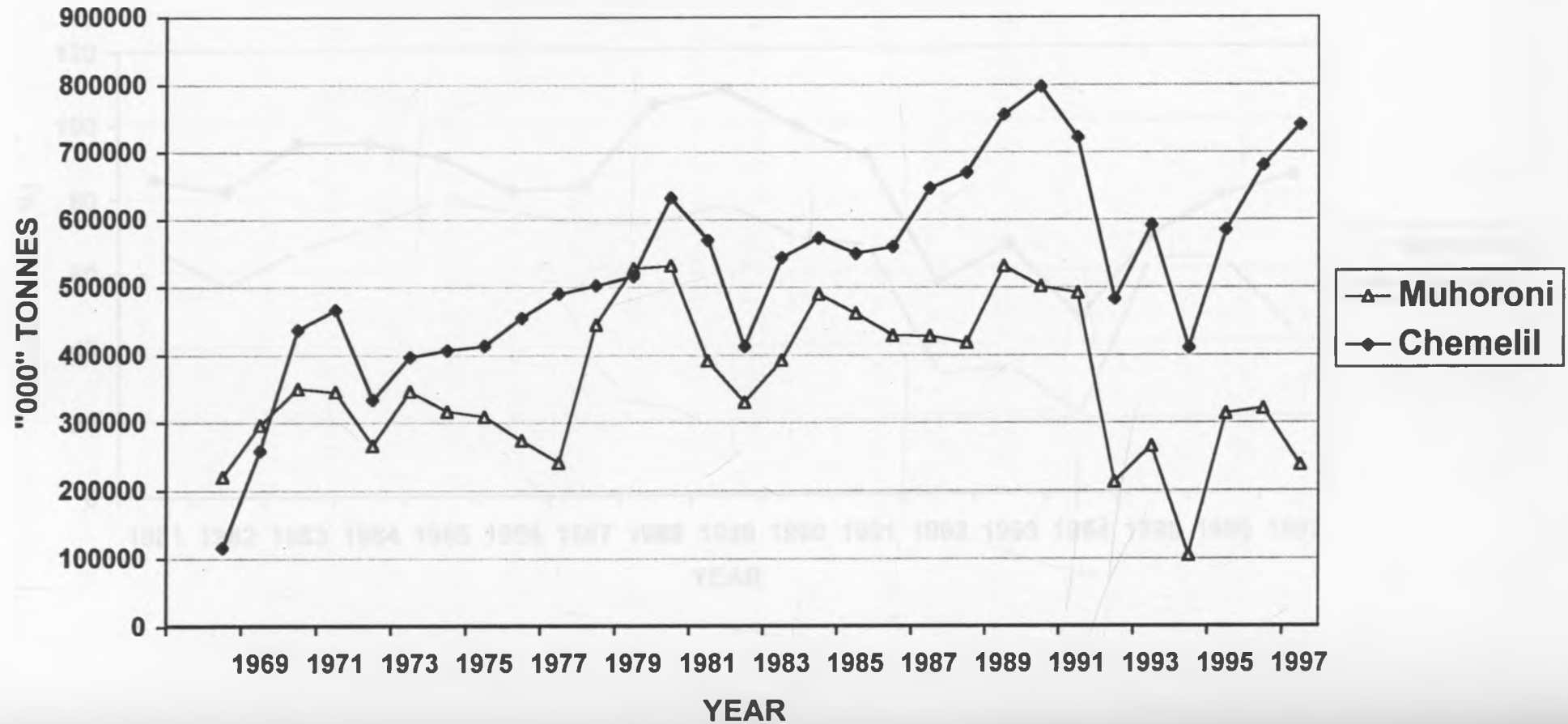
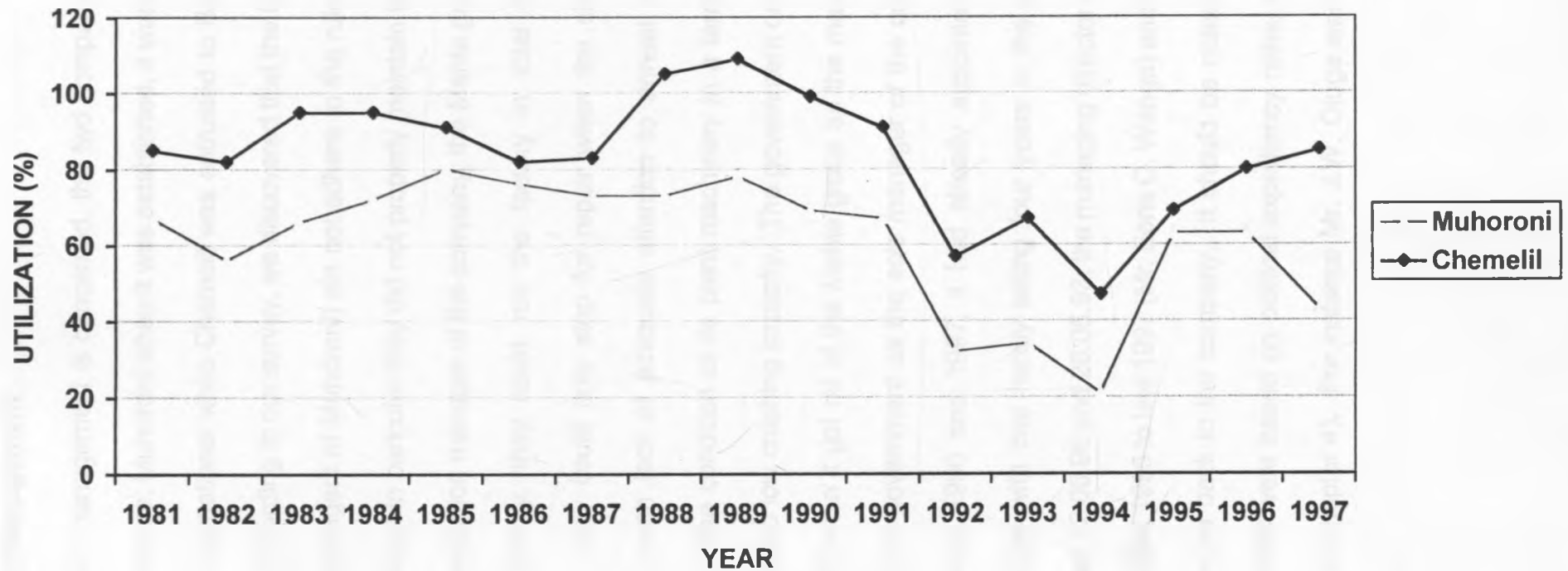


FIGURE 3

CAPACITY UTILIZATION OF MUHORONI AND CHEMELIL SUGAR COMPANIES FROM 1981 TO 1997 (%)



3.4.4. Factory Management

As far as management is concerned, the two companies exhibit some differences. For one, Muhoroni when it was established, it was entrusted to the Mehta Group International while Chemelil was entrusted to Bookers and Tate International. According to our survey, we discovered that the Mehta group (the former managing agent of Muhoroni) did not adhere to the rules governing the factory operations. In particular they did not properly maintain their plant and in the words of production manager of the company, the Mehta group were only interested in money, they could run the factory in total disregard to its maintenance. They could only stop for repair when the situation reached bottom. Thus such lack of adequate attention to annual maintenance in Muhoroni has put the condition of its plant machinery in a terrible state which invariably has led to low crushing capacity. The government only intervened in November 1990 when it got rid of the Mehta group as the managing agent of Muhoroni. But the government as the sole manager of the company was no better as between 1990 and 1997, it had already appointed four different managing directors with one hardly taking four years in the company. For example between 12.06.90 and 26.05.93, the managing director was Mr. Wena; 1993-95, Mr Oluga; 1995 to late 1997 (Mr. Eons O. Wanga) and finally Mr. J.W. Oluga was recycled back to the company. It should be noted however, that these appointments were based on political expediency rather than merit (we will look at this in chapter 4). For instance Mr. J.W. Oluga was a manager of

state owned National Bank and was removed from the bank to Muhoroni Sugar Company of which he had no agricultural background.

On the other hand, Chemelil which was entrusted to Bookers and Tate have adhered to proper annual maintenance of their factor and even after bookers left in 1985, the government appointed managing directors Messrs the late Mr. Ruto (1985-1994) and Tuikeng maintained the old tradition which has seen Chemelil realize high capacity utilization. This arguments is supported by statistics in Table 3.8 which reveals the number of hours lost by these factories as a result of factory breakdowns. In this table it is shown that Chemelil which has kept its factory plant in proper state has lost fewer hours as compared to Muhoroni which lost total of 21.71 hours from 1981 to 1997 while Chemelil lost a total 7496 hours from 1981 to 1997. Moreover, looking at the owns (see figure 4) advanced to these companies by the Kenya Sugar Authority it is noticed that the amount meant for factory repairs in Muhoroni was higher that that of Chemelil which further validates our argument that Muhoroni has been having a problem of factory maintenance.

Based on the foregoing, the factor efficiency becomes crucial in determining the amount sugar made. The efficiency of the factory operations influences sugar recovery, which is determined by mill extraction, boiling house recovery. This in turn depends upon the state of the plant machinery. The amount of sugar produced from a given quantity of cane crushed; say one tonne is the sugar recovery rate. Between 1981 and 1997, the recovery rates have varied from year to year and from factory to factory (see Table 3.9). An analysis

of the table shows that between 1981 and 1989 shows Chemelil and Muhoroni achieved 10.5% and 9.7% respectively. However, despite having had good recoveries between 1981 and 1989, both factories realized declining performance towards 1997 with Muhoroni recording a mean rate of 7.72% from 1990 to 1997 while Chemelil has a mean rate of 9.0%. These variations in sugar recovery rates can be explained by differences in milling efficiencies with which they transform inputs (cane) into outputs (sugar). And as we noted above, an effective milling efficiency is determined by proper maintenance of the factory plant.

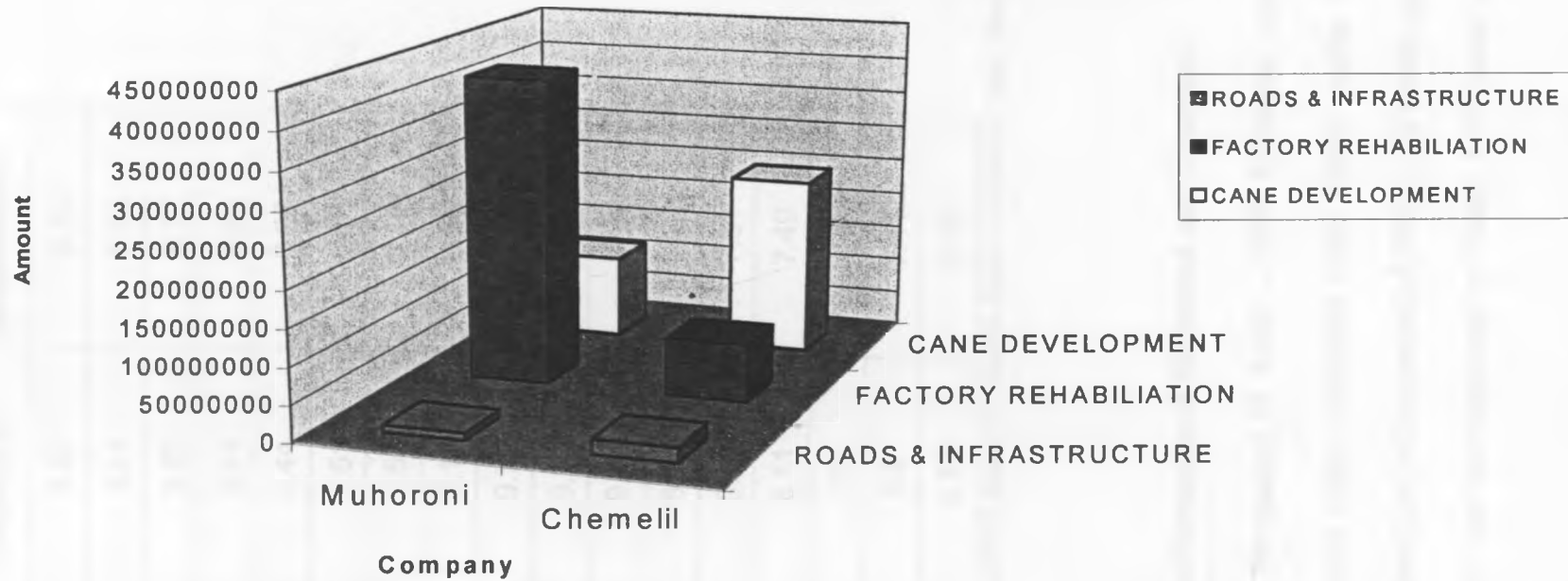
TABLE 3.8 STOPPAGE DUE TO MECHANICAL FAILURE IN MUHORONI AND CHEMELIL FROM (FIGURES IN HOURS)

YEAR	MUHORONI	CHEMELIL
1981	528	752
1982	430	768
1983	671	718
1984	902	564
1985	1146	333
1986	1237	196
1987	955	324
1988	1283	593
1989	1554	109
1990	1436	99
1991	991	184
1992	810	84
1993	3033	358
1994	903	267
1995	1006	464
1996	2281	856

Source: Author's calculations based on Kenya Sugar Authority's Statistical Year Book of 1990, 1996 and 1997.

Figure 4

**SDF LOAN ADVANCED TO MUHORONI & CHEMELIL AS AT
FEBRUARY 1998 IN KSHS. "000"**



Source: Author's calculation based on Muhoroni and Chemelil data

TABLE 3.9 SUGAR RECOVERY RATES (%) 1981 – 1997

YEAR	CHEMELIL	MUHORONI
1981	8.97	9.10
1982	8.64	8.83
1983	9.25	8.77
1984	9.94	8.64
1985	9.44	8.29
1986	9.51	8.18
1987	9.52	8.14
1988	9.14	8.56
1989	9.70	8.71
1990	9.70	8.67
1991	9.64	8.71
1992	8.98	7.22
1993	9.11	7.31
1994	8.11	7.49
1995	8.9	8.2
1996	8.2	7.41
1997	8.72	6.75

Source: Author's calculations based on Kenya Sugar Authority's Year Book of 1991 1996 and 1997.

3.4.5 Financial performance of Muhoroni and Chemelil

Throughout the period of 1990 – 1997 Muhoroni company reported losses while Chemelil sugar company have made profits fairly constantly albeit with some down turn in the period of 1990 – 93 which was followed by a healthy recovery as can be observed in Table 3.10 there is a connection

between factory efficiency and financial performance of sugar firms. In the proceeding section, we identified Muhoroni as having experienced problems with its factory efficiency. Thus, we can say that efficient operation of the factories is a necessary condition for sound financial performance. This because low capacity utilization leads to high processing costs.

TABLE 3.10 FINANCIAL PERFORMANCE PROFIT/LOSS AFTER TAX OF MUHORONI AND CHEMELIL 1988-1997 IN KSHS '000'

Company	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/1997
Chemelil	16,.645	4,470	99,284	46,745	17,544	56,116	62,807	122,714	216,561
Muhoroni	(60,468)	(69,551)	(32,419)	(132,331)	(142,335)	N.A	(180,588)	(384,398)	NA

Source: Muhoroni and Chemelil Sugar Companies' Chief Accountant's Reports

N.B Figures in parenthesis are negative denoting losses

N.A. = Not available

The poor financial performance of Muhoroni is not only explained by its factory inefficiency but also that fact that 1981 Chemelil sugar company annexed about 2500 hectares of standing cane. And in 1984, the tarmaking of Tinderet –Songhor Chemelil Road caused further unauthorized diversion of about 45,000 to 50,000 tonnes of cane per year (TCY) from Mtetei and Songhor area neighbouring Chemelil sugar company as the area happen to be equidistant to both sugar factories. These diversions/ rezoning caused Muhoroni to loss 124,04 millions from outgrower operations during the period from 1981 to 1987/88.⁹¹

⁹¹ Interview with Agricultural Manager, Muhoroni Sugar Co. August 1997.

3.5 Performance of five state-owned sugar firms in comparative perspective

Basic data and Broad Trends

The performance of sugar industry as gauged by the production and consumption parameters has had a rocky history. According to our survey, total sugar production rose by 70% between 1978 and 1997. Between 1978 and 1991, Kenya achieved a growth rate of 84%. But afterwards, the sector witnessed a decline rate of 7.4 between 1991 and 1997.

On the other hand, sugar demand measured in terms of sugar consumption consistently increased between 1978 and 1997 wherein the rate of sugar consumption was 131%. This has been due to two principal factors. One is the increasing Kenyan population, which according to 1989 census was 24 million. The other is the increase in number of industries, which uses sugar as their raw material. Figure 5 reveals the production and consumption patterns over the year from 1978 to 1997. As can be seen from the graph, the production of mill white sugar in 1979 was 296,586 tonnes and consumption was 253,413 tonnes of sugar. Consumption was therefore lower than production and this trend continued up to 1981 when the production and consumption stood at 368,970 and 324,054 tonnes of sugar respectively and as a result Kenya attained its long term desired goal of self-sufficiency in sugar production and was able to export a total volume of 191,792 tonnes of sugar between 1979 and 1984. However, this trend changed from 1985 to 1994 when demand outstripped supply. To satisfy domestic demand, production deficits

have been bridged by increasing levels of sugar imports. The country has therefore been compelled to use its scarce foreign exchange which would otherwise be saved and spent on imports of goods and services that cannot be produced locally. Table 3.11 shows the volume of imports and exports of sugar from 1978 to 1997.

It is important to note here that the production of sugar by the different sugar firms has varied. The pie-chart shows the percentage sugar production per factory. From the pie-chart on the following page, it is revealed that Mumias has the highest percentage share in total sugar production in 1997 by 48.4% followed by Sony with 15% Chemelil 14.6%, Muhoroni 4%, Nzoia 10.6% West Kenya sugar having 3.9% and Miwani tailing with 3.5%.

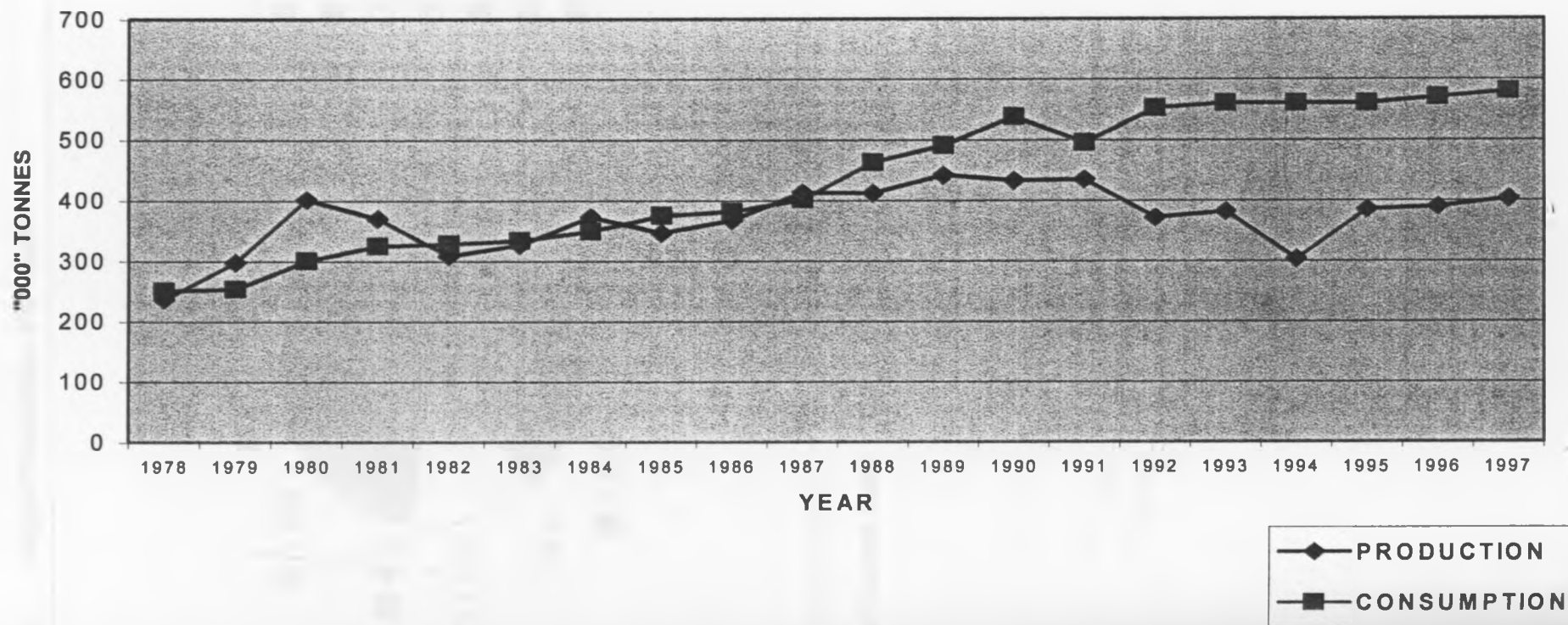
The above statistical picture of the sugar industry as far as sugar production is concerned is not impressive. There is need therefore above, the country achieved self-sufficiency in sugar production from 1979 to 1981 followed by 1984 and 1987 respectively. The main explanation for the production performance of 1979 to 1981 is the fact that the late 1960s and 1970s, the government of Kenya pursued a vigorous policy of investments in the sugar sector by establishing new sugar factories viz Muhoroni 1966, Chemelil in 1968, Mumias in 1973, Nzoia in 1978 and Sony in 1979. Another contributing factor was the positive response of the cane farmers to plant more cane having been induced by credit incentives from Agricultural Finance Cooperation in the first decade of independence (1963-1973). The effect of this investment was reflected in a steady growth in production levels until mid 1980s. After the mid

TABLE 3.11 IMPORTS AND EXPORTS OF SUGAR FROM 1978-1997 IN TONNES

YEAR	IMPORTS	EXPORTS
1978	44,495	-
1979	10,983	1,983
1980	1,482	94,674
1981	-	69,054
1982	-	18,200
1983	-	3,880
1984	4,000	4,001
1985	33,000	-
1986	142,500	-
1987	11,500	-
1988	42,000	-
1989	80,000	-
1990	64,050	-
1991	21,288	-
1992	124,463	-
1993	65,217	-
1994	174,049	-
1995	24,440	17,200
1996	65,826	24,478
1997	52,372	25,050

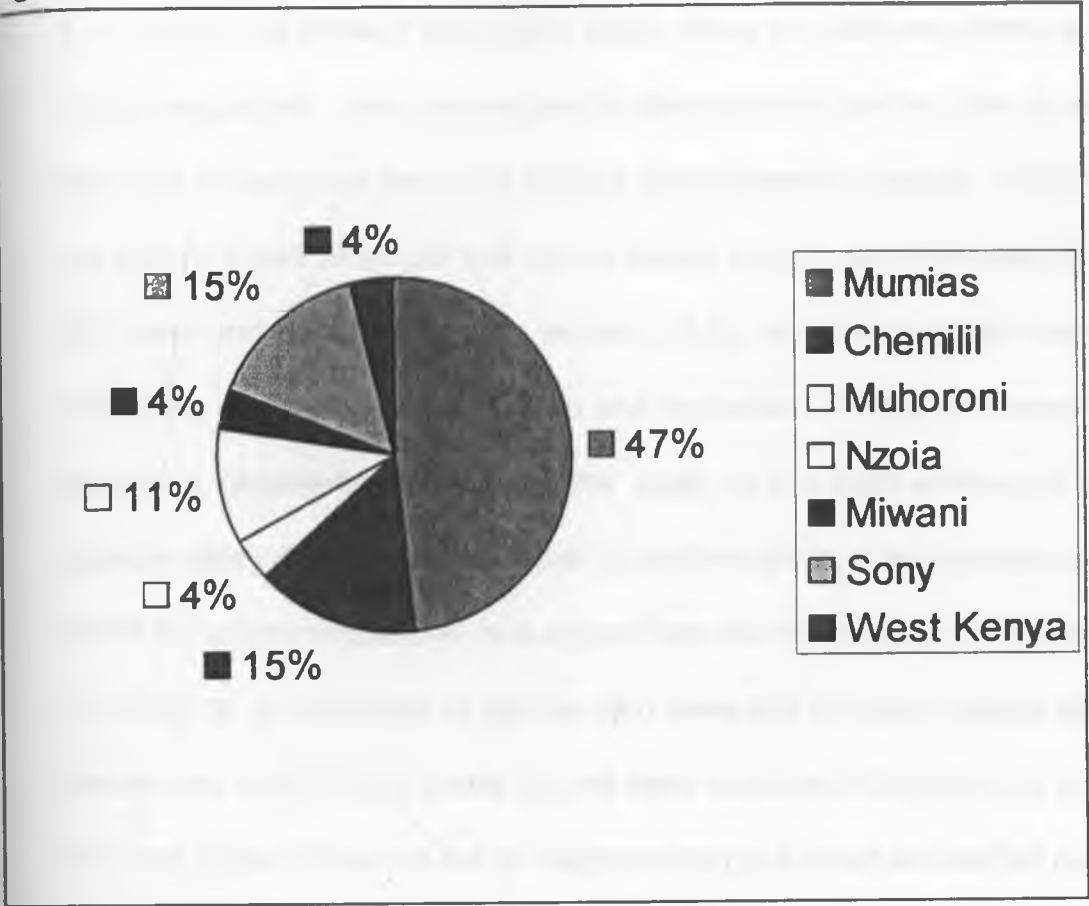
Source: Kenya Sugar Authority, Statistical Year Book of 1984, 1990, 1996 and 1997.

Figure 5 SUGAR PRODUCTION AND CONSUMPTION FROM 1978 TO 1997



Source: Author's Calculation based on Kenya Sugar Authority's Statistical Year Books

Figure 6: Sugar Production Pie-chart



Source: Survey data

The first of these is poor price incentives for cane growers. In section 3.4.2 above we showed how cane prices have not favoured farmers in the Nyando sugar belt. Here we are going to demonstrate how the price structure in the sugar industry has been bias against cane growers in general. According to our survey, it was found out that before pricing system was liberalised in 1992, both cane and sugar prices were worked out by an inter-ministerial committee comprising of the Ministry of Finance and Agriculture. While the Kenya Sugar Authority's recommendation forms the basis of the price reviews, the final decision rests with the inter-ministerial committee which at times rejects some of the KSA's recommendations. It is argued here that by leaving the final decision on pricing to a committee of people who were not in close contact with the farmers and who in most cases did not have sufficient information on costs of cane and sugar production led to inappropriate price structure that left profit for the cane farmers and millers.

For example, looking at the 1986 breakdown of sugar retail price in Table 3.12 it is noticed that the farmers and the millers used to get margins amounting to 41.4% of the retail value of the sugar with farmer getting 11.5% and latter getting 29.9%. The other 58.6% went to suppliers of farm inputs; the state (exercise tax, roadcess) and distribution of sugar (Kenya National Trading Corporation) KNTC), the wholesalers, retailers. The net effect of this was that this margin was higher than the farmer's net margins.⁹² To this end, the price structure in the sugar industry was biased against cane farmers. This problem

⁹² Odada, J.E.O. op.cit p.59.

was acknowledge by the government in its budget document for 1993/94 which stated in part...it is a fact that the marketing and pricing systems that have been mostly controlled by government and hence the government' primary policy response will be accelerated by the liberalization of marketing system and price decontrol.⁹³

TABLE 3.12 BREAKDOWN OF THE 1986 SUGAR RETAIL PRICES

PRICE MARGIN	KSHS	% SHARE
Cost of cane production	2,170	28.70
Farmer's net margin	870	11.50
Price of cane to millers	3,000	-
Miller' margin	2,263	29.90
Ex-factory price of sugar	5,263	-
Exercise duty	1,000	13.20
Ramisi subsidy	13	0.10
Ministry of Commerce and Industry	470	6.00
Price to KNTC	6,746	-
KNTC margin	123	1.60
Price to wholesalers	6,869	-
Wholesalers margin	115	1.50
Price to Retailers	6,984	-
Retailers margin	566	7.50
Retail price of sugar	7,55	100.00

Source: Coughlin, Peter et al 1986 p.63.

⁹³ Republic of Kenya, *Budget Speech 1993/94*, Government Printer, Nairobi, p.26.

The second principal actor was identified as stiff competition between the locally produced sugar and the imported sugar since 1992 to 1997.⁹⁴ It is argued that since government adopted trade liberalization policy on sugar industry, the effect of this has exposed sugar factories to stiff competition from imported sugar, which sells artificially low prices compared to the locally produced sugar. The effect of such a competition led to stock piling of sugar in most sugar companies and hence could not crush more cane as the market was flooded with cheap imported sugar. It is also important to note that the amount that is imported is not easy to quantify because some of such quantities that find their way into the local market are destined for neighbouring countries (NB. The politics of such diversion of transit sugar will be discussed in chapter 4).

Another factor that has influenced sugar production is the factory efficiencies which is critical in ensuring continued cane production by farmers. In looking at factory efficiencies in the sugar industry, we will zero in on capacity utilization of the sugar factories.

3.5.1 Capacity Utilization

The six factories, Mumias, Chemelil, Nzoia, Sony, Muhoroni and Miwani have a capacity to produce 530,000 tonnes of sugar annually but this output has never been attained. Instead the average output was 335,663 tonnes from 1978 to 1986. It went up to an average of 425,000 tonnes from 1987 to 1991 and declined to an average of 371,775 tonnes from 1992 to 1997. Overall, the

⁹⁴ Republic of Kenya, *Economic Survey*, 1997, Government Printer, Nairobi.

capacity utilization of sugar factories has been 68.2% on average from 1981 to 1996. This figure shows that the capacity of the sugar industry has been underutilized and this then explains the reason for low production of sugar in the country.

A part from Mumias and Chemelil which have shown high rates of capacity utilization, the rest of sugar factories have experienced low capacity utilization either chronically like Muhoroni, Miwani and Ramisi (before it was closed down) or periodically like Sony and Nzoia. The reasons for capacity underutilization include old plant machinery as that found in Muhoroni, poor factory maintenance which result in frequent mechanical problems, poor factory management as was witnessed in Sony and Muhoroni under the management of the Mehta Group.

It should be stressed here that as far as factory management is concerned, there has been a big discrepancy between the management agents of the Mehta group and Bookers and Tate International. As can be seen from Table 3.13 the capacity utilization of Sony was low until 1986 when the management changed hands and Bookers and Tate took control of managing the factory. This also changed its financial performance outlook as will be shown in the next section. The same applies to Muhoroni which used to be under the Mehta group. It is argued that the Mehta group were not keen in factory maintenance as opposed to their counterparts of Bookers and Tate in Mumias and formerly in Chemelil until 1985. The effect of low capacity underutilization has led to a backlog of over mature cane, with some stretching

to 40 months as opposed to the normal 18 months, which invariably frustrate cane farmers.

It is also argued that cane shortage has also affected capacity utilization of the sugar factories. This point should be treated as an exception rather than the case because the only years when cane shortage was realized were in 1982, 1992 and 1994. The rest of the years under review saw the amount of cane delivered to the factories increase and hence the major important factor in capacity utilization in the sugar industry is the nature of the factory's plant machineries.

TABLE 3.13: CAPACITY UTILIZATION OF SUGAR FACTORIES FROM 1981 TO 1997

YEAR	OVERALL CAPACITY UTILIZATION %	MUMIAS	CHEMELIL	SONY	NZOIA	MUHORONI	MIWANI	RAMISI	WEST KENYA
1981	63.31	77.9	85.03	52.64	76.73	67.0	28.4	55.5	-
1982	63.47	72.8	81.79	46.70	79.8	56	55.2	51.8	-
1983	66.29	88.6	94.8	48.90	50.5	65.5	53.8	61.9	-
1984	63.94	90.5	94.9	59.00	60.5	71.7	32.3	38.8	-
1985	63.26	91.10	90.6	35.20	56.5	79.7	34.9	54.0	-
1986	68.16	88.22	81.7	59.48	68.9	76.27	46.2	56.3	-
1987	71.16	91.33	82.8	70	78.1	73.41	54.6	49.9	-
1988	78.07	91.8	105.1	73	84.38	72.75	75.4	44.5	-
1989	90.35	92.47	108.5	83	89.62	78.2	-		-
1990	78.13	80.96	99.3	82	51.93	68.8	-		-
1991	78.26	89.28	90.9	83	60.6	67.3	-		-
1992	56.16	86.09	56.9	79	54.41	31.5	28.8		-
1993	62.2	88.4	66.9	78	46	34.4	59.8		-
1994	51.9	75	47	73	48.7	20.9	-		-
1995	67.7	89.5	69.3	83	53.7	63.0	47.5		74.2
1996	68.4	89.7	80.1	84	47.6	62.9	40.7		
1997	63.1	59.8	84.6	87.4	59.3	43.2	51.8	-	N.A

Source: Kenya Sugar Authority, *Statistical Year book*, 1990, 1996 and 1997.

3.5.2 Financial Performance of the Sugar Factories

The sugar firms have not performed well due to their financial operating losses. Figure 5 shows sugar firms, which have lost large sums on aggregate since 1990. Throughout the period 1990-1997 the three firms, Nzoia, Sony and Muhoroni for which data was available reported losses. However, the table also shows that while the overall financial results were negative, it would be inaccurate to conclude that sugar firms do not make profits. The profits of Mumias and Chemelil sugar companies have grown fairly consistently with some down turn in the period 1993-1997 for Mumias and 1990 - 1993 for Chemelil followed by a healthy recovery. Sony on the other hand recovered in 1992 and made profits consistently until 1996. One thing worth noting here is the management styles of these companies. Muhoroni and Sony have all along been under the Mehta group and both have been making losses save for Sony when Bookers took over in 1985. It is argued here that Bookers and Tate's good management have enabled Mumias, Chemelil and lately Sony to perform better in terms of profits as opposed to the Mehta Group (we will return to this later in the next chapter).

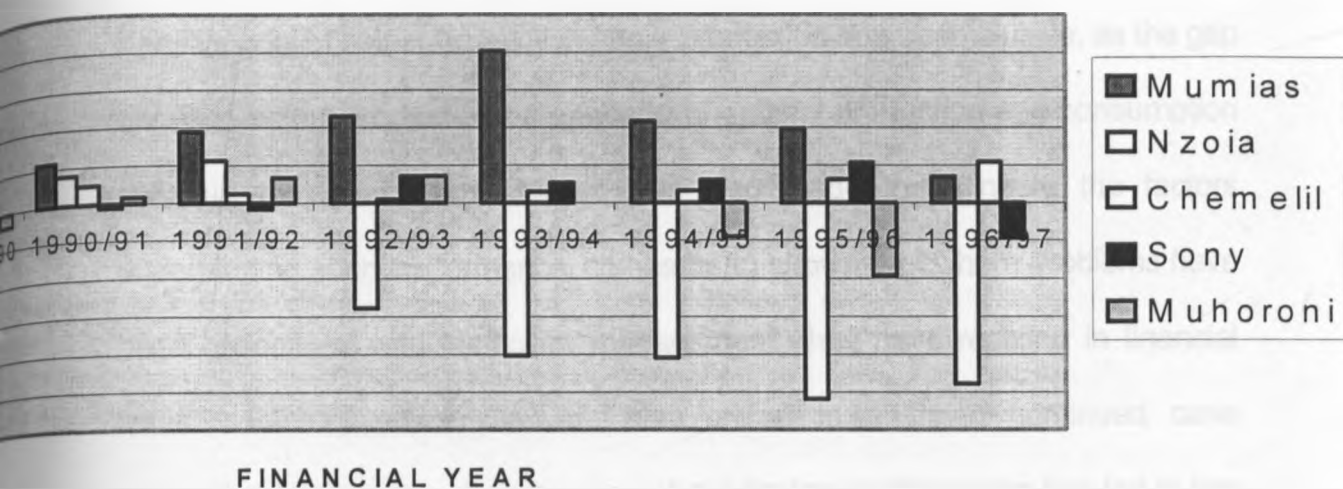
There is a strong connection between factory efficiency and financial performance of the sugar firms.⁹⁵ In the preceding section, we identified the sugar firms, which experienced problems with their factory efficiencies. Thus, we can say that efficient operation of the factories is a necessary condition for

⁹⁵ Barbara Grash, "Performance of Agricultural Public Enterprises in Kenya: Lessons from the first two decades of Independence" in *Eastern African Economic Review* Vol. 3 No. 1, 1987, p. 57.

sound financial performance. Such a conclusion would be consistent with evidence in Table 4.3, which suggest that the troubled firms experienced low capacity utilization, which consequently led to high processing margins. For example Nzoia has an average capacity utilization of 59.3% and has made losses consistently as revealed in Figure 5. Muhoroni has an average of 61.8% and has also made losses consistently.

Figure 6

COMPARATIVE FINANCIAL PERFORMANCE OF STATE-OWNED SUGAR COMPANIES, 1988-1997 (PROFIT/LOSS AFTER TAX)



Source: Kenya Sugar Authority, Statistical annual Reports
 Note: Figures in negative denote losses

3.5.3 Conclusion

This chapter has endeavoured to present the statistical picture of the performance of the sugar industry. As has been evidenced by these statistics, Kenya's goal of self-sufficiency in sugar production has been elusive, as the gap between actual production as opposed to optimal production and consumption continue to widen. An attempt was also made to delineate the factors underpinning such performance. It has been shown that where problems have been associated with inefficient management, they have resulted in financial losses. Factory efficiencies are also critical in ensuring continued cane production by farmers. As was seen above factory inefficiencies has led to low levels of capacity utilization which translate into high unit costs for locally produced sugar; inadequate provision of credit to cane growers as well as low cane prices have acted as disincentive to farmers; and finally the present trade liberalization policy has exposed sugar factories to stiff competition from imported sugar which has highlighted the competitive disadvantage imposed on local factories.

But by just enumerating these problems, we will not have solved anything. An identification and analysis of such obstacles in the sugar industry is a valuable exercise per se. There is need therefore to go beyond this and ask why these obstacles have all along persisted. Hence an examination of problems connected to the removal of such obstacles necessitates an analysis of social and political factors. Thus the next chapter will proceed to show why the industry performs the way it does by linking economics and politics.

CHAPTER FOUR

4.0 AGRICULTURAL POLICY AND THE LIMITS OF THE DEVELOPMENT OF THE SUGAR INDUSTRY: AN EXPOSITION

4.1 INTRODUCTION

This chapter addresses two central issues, in section, we zero in on state actions in the sugar industry and in doing so we will look at price regulation, the role of economic institutions (Kenya Sugar Authority and Kenya National Trading Corporation), a comparison of Sugar and Tea Industry, cane growers' organizations and finally the impact of Structural Adjustment Programmes on the sugar industry. In section two, we will look at the role of governance in policy making process within the context of sugar industry.

In this agro-subsector, there are five stakeholders that we have identified: producers (farmers benefit by receiving attractive prices for their produce; consumers benefit from buying the produce at low prices; state benefit by capturing revenue streams in the form of profits taxes etcetra; employees benefit by getting income in the form of wages and salaries and finally businessmen/middlemen benefit by engaging in the trade of sugar.

There have been during the period under review of a number of cases that illustrate the weakness and political disruptive and harmful effects of state activity in the sugar industry. The fact that the state has played a pivotal role in the sugar industry is not a matter of argument. Rather what is contested is whose interests the Kenyan state serves with its policies; the cane producers,

the businessmen or the political class. To understand this requires an examination of the manner in which the state intervenes in the sugar industry through which agencies and the stakeholders affected of state action.

4.2 State actions in the sugar industry

Since the state took full control of the sugar industry in the post-independence period, its policies have focused on four main principles. First, the state has been active in establishing sugar producing companies which in our case Muhoroni and Chemelil. It has been active also in setting cane and sugar prices, and provision of credit; second, the state has used parastatal marketing agency in form KNTC thereby creating monopolistic conditions for purchase and distribution of sugar Third, the state has relied upon taxation of cane and sugar to provide domestic capital; and fourth, land control and allocation still remains under the orbit of the state.

4.2.1 Price regulation

The overall theme of this sub-section is to survey the role of price incentives in the failure of sugar industry. In Kenya, the prices of various agricultural products before economic liberalization was effected were determined by the government. The overall goal was to meet the dual requirements of having food prices low enough for consumers to afford and high enough to provide economic incentives to producers, processors and

distributors. The specific objectives in this regard were then seen to include the achievement of self-sufficiency in the main foods; to conserve the use of scarce foreign exchange in food imports; food security and food accessibility to the whole population⁹⁶. These objectives provided a background for the government to regulate and control the prices of foodstuffs. In our case study, before 1992 when pricing in the sugar industry was liberalized, the state through the Ministry of Agriculture used to undertake annual price reviews on the basis of which the government was to fix prices for cane. The Ministry of Agriculture in consultation with the Treasury and the Office of the President reviewed prices on the basis of import and export parity taking into consideration production costs and returns as a guideline for setting producer prices. In 1972 the interministerial price review committee introduced a differential system making cane grown in Ramisi Sugar Scheme command lower prices because of its low sucrose content. This system was later abolished in 1977 for lack of clear basis for determining the differential price. Looking at Table 3.7 (see chapter 3) it is shown that no price reviews for cane occurred from 1977 to 1980. The price reviews started again in 1981 and continued until 1992. It is here that we find two flows with pricing system. First, the pricing system did not take cognizance of the differential production costs in the various sugar belt zones. For instance, we demonstrated in the previous chapter the high cane production costs Muhoroni and Chemelil compared to their counterparts in the Western sugar

⁹⁶ Bwisa, E.N. et al. "Kenya Agricultural Marketing and Pricing" in World Bank *Agricultural Marketing Policy: Country papers*, World Bank, Washington, D.C. 1987 pg 93.

belt. It is our argument that the interministerial committee could have introduced a differential pricing system as basis for determining cane prices. If this could have been done then cane producers in Muhoroni and Chemelil could have benefited from their cane production. This is because plant crop production and maintenance costs on outgrower farms in the Nyando sugar belt zone lead as high cost cane producers (see Table 3.6 in the previous chapter). In this zone farmers spend about Kshs. 1228 per tonne of cane.

The main explanation for costs variation is that the western sugar belt has light soils compared to black cotton soils in the Nyanza sugar belt. This is besides widespread use of herbicides for weed control on both Nuclear estates and outgrower farms. Since the sugar industry is one and the tier zonal pricing is not practicable, it follows that the industry's cane price has been the same and this implies that the prices over the years have been unfavourable to farmers in the Nyando Sugar Belt zone. Second flaw is the inconsistency in reviewing cane prices. The inter-ministerial committee was to undertake annual price reviews but their stoppage of price reviews between 1977 and 1981 reveals an inconsistency which indicates that the government has not treated the sugar industry with seriousness it deserves.

4.3 Parastatal corporations in the sugar industry

The principal means African governments have used for regulating and administering their agricultural sectors has been the creation of a system of

official agricultural marketing boards. The crucial role of the marketing system in agricultural development hardly needs stressing, suffice it to say that as agriculture develops, more specialization take place, more purchased inputs are used, wider markets are sought and the marketing system becomes increasingly vital. The marketing boards are normally conferred upon, a legalized monopoly powers over acquiring, processing and vending stipulated agricultural commodities. This high dependence on marketing agencies originated in the colonial period when European farmers engaged in monopolistic marketing policies through centralized marketing bodies. This degree of centralized control was extended in the post-independence period and Kenya now has a plethora of marketing boards and other statutory authorities dealing with agricultural products. The nature of the organization and control varies between agricultural products. The post colonial state chose the use of parastatals in the agricultural sector for reasons that were important in socio-economic and political stability. These included stabilization of food supply; maintenance of strategic food reserve; prevention of exploitation of smallholders and price and income stabilization. The agencies responsible for the sugar industry has been Kenya National Trading corporation (KNTC) and the Kenya Sugar Authority. It is important to emphasize here that the effect of these organizations on the sugar companies can only be understood when we look at their roles in the sugar industry as a whole.

Before marketing of sugar was liberalized in 1992, the Ministry of Commerce and Industry though KNTC was given responsibility for marketing

and distributing importation and/or exportation of sugar. The Ministry of Commerce and Industry used to purchase sugar from the factories and sell the bulk of it to KNTC at the nearest railhead after retaining small quantities for strategic reserves. For this function, the Ministry used to charge a commission of KShs. 470 per tonne of sugar. The KNTC in turn moved the sugar to its depots located in strategic places throughout the country for sale to wholesalers. Again for this function, KNTC charged a commission of Kshs. 123 per tonne of sugar. For a full description of these commission to distribution agents from the Ministry of Commerce down to retailers see Table 3.7 in the preceding chapter. In 1992, it costed KNTC KShs 1,106 or 8.5% of the ex-factory price to distribute one tonne of sugar in the country. For the purposes of this chapter, given that KNTC used to have some of its depots just next to the sugar factories, what was the distinction between what KNTC used to do and that of the Ministry of Commerce and Industry? Who between the two actually used to move sugar from the factories and nearby KNTC depots to the more distant KNTC depots like those in the North Eastern Province? We want to argue here that it is these functional overlaps between the two that used to inflate the costs of distribution. To this end we would like pose: Why did the state allow this deliberate inflation of the costs of distributing sugar in the country? Secondly, who used to pocket the difference? In an attempt to answer these puzzling question, we will make a retreat to our political economy perspective on the political use of such economic inefficiency. In this perspective, the above price distortion is a reminiscent of a form of power and politics internal to the market whereby

participants in the market act to alter the operations of the market to favour their idiosyncratic interests and hence their capacity to pursue them. To the extent that the actions of the participants results in the creation of established rules of the game, or institutionalised practices within the market, this form of politics can result in what Gordon White refer to as endogenous regulation.⁹⁷ At its roots, this represents a situation in which the bureaucratic delivery based upon state enforced monopoly powers becomes an arena for constellation of conflicting interests. In the context of sugar industry, the bureaucratic officials of the Ministry of Commerce and KNTC, developed vested interests in sustaining the price distortions which allowed them to accrue the no competitive rents for their own consumption. The end result from this was that the parastatals' operating margins (8.5% of the ex-factory price) was ruinously high leaving little income with which to make payments to cane producers. Viewed from this perspective, we can deduce that state intervention in the sugar industry through the above agencies was designed as a mechanism for primitive accumulation by the political and the bureaucratic class.

Besides the Kenya National Trading Corporation as a state agency in the sugar industry, there is also the Kenya Sugar Authority which as we saw in chapter two was legally instituted as an advisory body of the industry under the legal notice 32/72 under the agriculture act chapter 318 to advise on rules and regulations necessary to enable the effective and efficient functioning and development of the sugar industry. We will look at this role and performance of

⁹⁷ Gordon White, "The political analysis of Markets" in *Ids Bulletin* vol. 24 no.3, 1993. p. 1-7.

the Kenya Sugar Authority (KSA), and in doing so we will compare it with the Kenya Tea Development Authority (KTDA) with a view to discern the factors that underlie their differential performance.

4.4 The Case of Sugar and Tea Industries

The board responsible for coordinating the smallholder tea schemes in Kenya was the Special crops Development Authority (SCDA) which became Kenya Tea Development Authority (KTDA) after independence in 1963. According to Nicola Swainson, KTDA has been hailed as one of the most successful examples of institutional development in contemporary Africa.⁹⁸ Though with some problems, the KTDA record has been very good by comparison with the KSA: Geoffrey Lamb and Linda Muller argued that the institutional features of KTDA have played an important role in the success of tea production in Kenya.⁹⁹ These include an efficient management structure that has encouraged tea farmers to participate in both policy making and implementation. This is made possible by the existence of farmers tea committees through which they are represented on KTDA's Board. This farmer representative in the KTDA board has provided formal channels for advising and transmitting KTDA policy grievances. On the contrary, cane farmers are not

⁹⁸ Nicola Swainson, "Public Policy in the development of export crops: Pineapples and Tea in Kenya" in *Ids Bulletin*, vol. 17 no. 1 Sussex, 1986 p. 42

⁹⁹ Lamb, Geoffrey and Linda Muller, "Control, Accountability and Incentives in a successful Development Institution: The Case of KTDA" *World Bank Staff Working Paper*, no. 550, Washington D.C., 1982.

effectively represented in KSA board and as such farmers operate under rigid decisions arrived at by the KSA board.

Another factor identified is the operational and technical autonomy of the KTDA which has enabled it to have high degree of centralized control over the conditions of production and distribution of Tea. This enabling environment has been made possible by the establishment of the Tea Act chapter 343 of the agricultural acts of Kenya. This act availed powers to the authority for regulating and controlling the production, manufacture and export of tea. This autonomy accorded to KTDA is absent in the KSA, this is because the legal notice that underpinned its establishment in 1973 did not give it adequate powers to harmonise the whole sugar industry from farmers to consumers. Such powers can only be increased if the sugar Act is amended in parliament. To this end a draft legislation – sugar bill in question which is intended to expand the role of KSA from advisory to executive status in the sugar industry has been in parliament since 1980s and by 1998 has not been passed. But the delay and failure of passing the Sugar Bill has to be sought in the lack of interest group representation in parliament. In this case we want to argue that the members of parliament who represent the sugar-belt zones have never formed a sugar parliamentary committee to oversee the interest of the industry in parliament. This is because their counterparts from Tea growing zones have Tea parliamentary committee through which they discuss the problems and possible remedies of the tea industry. Hence, it is this lack of the industry's interest representation in parliament that also explains why policies which are inimical to

the industry have been there for long.

Elsewhere David Glover and Ken Kunsterer argue that the success of KTDA lie in the fact that as an autonomous agricultural enterprise, it has benefited from finances that has come from non-governmental sources.¹⁰⁰ Its first and largest source of capital was CDC though the World Bank, the West German government and other agencies have also provided loans. The agency's operating costs are covered by a levy or 'cess' deducted from tea payments to growers. Thus the external finance and the cess provide most of the organizations revenues. In the sugar industry, on the other hand, it was only recently 1992 when such levy was implemented and since then the revenue base of the Kenya Sugar Authority has since expanded expansion. This development has seen the Authority's ability to provide loans to sugar companies for cane development, factory rehabilitation, roads and infrastructure and research activities. The following table shows the total amount of money advanced to the sugar firms since the inception of the Sugar Development Fund (SDF).

TABLE 4.4: TOTAL LOANS ADVANCED TO SUGAR COMPANIES AND OUTGROWER COMPANIES AS AT FEBRUARY 1998

Cane development	1,817,255,014.00
Factory Rehabilitation	1,275,171,359.70
Roads and Infrastructure	45,000,000.00
Research Activities	173,712,733.19
Total	3,311,139,106.89

¹⁰⁰ David Glover and Ken Kusterer, *Small farmers, Big Business: Contract farming and Rural Development*, The Macmillan Press Ltd., London, 1990 p. 105.

Source: Developed from the interview with financial controller, KSA

But why did it take the KSA management all that long from 1973 to 1992 to have the above levy? It is for this that we are arguing that the Kenya Sugar Authority's problem is related to policy and institutional framework, which has led to lack of decision-making autonomy. The implication of this is that it has not performed its roles effectively and efficiently. In order for it to be efficient, it should be accorded an operational autonomy like that of KTDA. This then leads us to posit that the organization of Tea and sugar production in Kenya have taken different routes.

4.5 Cane growers' organizations

Some recent analysis subscribe to the view that the most likely way in which agriculture in sub-saharan Africa will get more favourable prices and investment from governments is for rural class formation to proceed to the point of creating a strong rural producers as class.¹⁰¹ The basic argument is that rural producers are fragmented and politically weak. We want to take this argument to examine the way cane farmers are organized.

In the sugar industry, cane farmers are organized in cooperatives and outgrower companies. The sugar cooperatives exist in the Nyando sugarbelt (Miwani, Chemelil and Muhoroni). The preponderance of this kind of grower

¹⁰¹ Hart, Keith, *The Political Economy of West African Agriculture*, Cambridge University Press, Cambridge,

organization should be located in the broader framework of cooperative movement in Kenya with the enactment of cooperative societies act of 1966. Underlying the promulgation of this legislation was the perception by the Kenya Policy makers that cooperatives could provide feasible instrument for integrating smallholders with the modern economy. In this role, they would offer a service network in rural areas which combined first stage processing and marketing with supply of credit and inputs. Realization of these aspirations required a rational and orderly development of the cooperative sector. But given the perceived lack of knowledge and organizational capacity in rural areas, it was therefore seen as axiomatic that the government would have to be the *modus operandi* in designing and directing this process. Hence an acceptable level of effectiveness could be ensured only with the support of the power resources and organization of the state. At the policy level, it was made clear that the government defined the basic activity pattern cooperatives would have to accept to operate within a prescribed range of marketing activities.

In Muhoroni and Chemelil, the cooperatives have a two-tier structure. Individual farmers are registered as members of the primary cooperative societies in their locations. These primary cooperatives are in turn members of larger cooperatives. The main function of these primary cooperative societies is to arrange, on behalf of the farmers, for sugar companies to supply farm inputs, harvesting and cane-transport services. Cane from a group of farmers is

1982 and Robert Bastes, *Markets and States in tropical Africa: The Political Basis of Agricultural policies*, University of California Press, Berkeley, 1981.

delivered to the factories in their cooperative's name, and is paid less the cost of services that the sugar companies rendered those farmers.

On the other hand, in Mumias, Nzoia and Sony, there are outgrower organizations that represent farmers, which were formed at the initiative of the companies not the growers. These companies saw the advantage in the formation of such organizations to mediate between management and outgrowers. According to Goldberg and McGinty, these outgrower organizations were formed to: promote and represent the growers of sugarcane supplied to these companies; to provide financial credits for the production of cane; concern themselves with farmer's accounts and credit and investigate growers' complaints.¹⁰² In the Nyando sugar belt these are the Muhoroni outgrower company and Chemelil outgrowers company.

Our main concern here with these two parallel cane grower organizations is their efficiency in performing their tasks and whether they have the ability, as grower's representatives, to have a collective action in championing the interests of farmers. A part from Chemelil Outgrowers Company (COC) which is was formed in early 1997, the cooperative societies and outgrower company in Muhoroni have not performed to the expectations of the farmers. The problems that confront the cooperative societies and the outgrower companies are the same. The deliberate misuse of funds by the organization's officials is the most problem cited by the cane growers. The reason for the high incidence of funds misappropriation lie in the competing goals within these organizations. In this

¹⁰² Goldberg, Ray and R. McGinty, *Agribusiness Management for developing countries*, Booker Agriculture

context, elected officials use the organization's as a platform to further their individual accumulation. More often than not they act with their personal interests in mind disregarding what is best for the organization. The problem is further exacerbated by illiteracy among the officials which breeds incompetency and poor book-keeping. The effect of this practice have led to apathy among the members. They show no interest in the affairs of their organisations and as a result the officials get even more opportunities to mismanage their organizations.

Another factor that also tends to accentuate the inefficiency of these organizations is the nature of peasant society itself. Carl Gosta Widstrand argue that the rural face to face group that ordinary lives and works together is too small to form the basis of a modern cooperatives. When incorporated into a larger structure, together with other similar groups, it proves its basic inflexibility.¹⁰³ Inside these organizations, these often self-contained social units become involved in factional warfare over the control of organizations resources and their distribution. This means parochial relations contained by social networks at the local level tend to permeate and jeopardize the management and democratic control of these organizations.

However, the role or management and local social environment with respect to inherent 'traditional forces' are not enough in explicating the problem of these cane growers organizations. As pointed out by Peter Worsely, "When

International, Ballinger, 1979 P. 557-8.

¹⁰³ Carl Wildstrand, "Problems of efficiency in the performance of cooperatives" in Carl Gosta Wildstrand (ed) *African cooperatives and efficiency*, Scandinavian Institute of African Studies Uppsala, 1972, P. 18.

we begin to list the factors which make for or inhibit success (of cooperatives) we begin to realize that to concentrate simply on the question of pre-existing social bonds is wrongly to isolate only an aspect of the problem".¹⁰⁴ As argued here, the poor record of cane grower organizations may not be due to so much to the social organization of local communities as to a more fundamental inability of the national superstructure to establish the prerequisites for the management of these organizations. Thus to understand the pattern and behaviour of these grower organizations, it is imperative to shift the focus within a wider set of institutionalized power. In a spatial context, Friedman has defined the concept of power as "the ability of organizational and institutional actors.... to mobilize and allocate resources in geographical space (manpower, capital and information) and intentionally to structure the decision field of others (i.e to constrain the decisions of others by policies, rules and commands... Both kinds of power (governmental and private economic)...have the capacity to influence the decisions of cooperatives."¹⁰⁵ To this end, the malpractices of the cane grower organization lies with the state which through the Ministry of Cooperative development should ensure that all the regulations pertaining to the operations of the cooperatives are strictly adhered to by the elected officials. The failure of cooperatives then becomes the failure of the state. We would like to add here that the existence of the parallel producer organizations in the sugar industry negates the very principle of collective action by the peasants. The fact that

¹⁰⁴ Peter Worsely (ed), *Two Blades of Grass: Rural Cooperatives in Agricultural Modernization*, Manchester University Press, 1971, P. 37.

there are so many cooperative societies in the sugar industry which operate parallel to the company's initiated organizations only act to perpetuate the division among the cane outgrowers. This lack of unity among cane producers then explains conspicuous absence of spontaneous collective action by cane farmers. In this process some fraction of the rural petit bourgeoisie make substantial gains and translate them into immense wealth, but at the expense of economic coherence of the industry. Being atomised politically and disorganized economically, cane farmers have been unable to respond to these problems through the creation of a body capable of representing their interests and enforcing changes of priorities at the centre.

4.6 Structural Adjustment Programmes and the Sugar Industry

This section is a discussion of the political theory and practice of the market oriented economic reforms, commonly known as Structural Adjustment Programs currently implemented by the state. As we saw in chapter two, the Kenyan state has undertaken, since 1986, Structural Adjustment Programmes in a determined effort to relaunch the stalled process of development. These programmes have sought, *inter alia*, to cut the scope of state activities, price and import liberalization, institutional reform and a greater reliance on market forces. The thawing of these programmes has heralded in certain basic assumptions and theses about the positive and negative effects of these economic policies

on the different sectors of the economy. For the purposes of this section, our focus is on the import regime, which as we found out in the preceding chapter has not been conducive to the development of the sugar industry.

One item that has thrown the issue of Kenya's sugar industry into the sharp glare of the public limelight is the sugar importation. The country has imported sugar over the years to meet the gap between production and consumption but the import policy has been at the centre of controversy for many years. Before liberalization of the sugar industry, the Ministry of Commerce and Industry was by law (Chapter 329 of the laws of Kenya responsible for importing sugar. This was done using the Sugar Equalization Fund through the Kenya National Trading Corporation. This fund was established to finance the purchase of all sugar produced in the country, importing whenever shortages were anticipated and exporting it when there was a surplus. This law which gave the KNTC the monopoly of importing sugar was however flawed and private individuals or companies were allowed to import sugar. For example, in 1986, sugar imports by a few private companies created a controversy which forced the Minister for Commerce and Industry, Jonathan Ng'eno to explain to parliament why this was done. The reason given was that KNTC lacked adequate funds to import sugar.¹⁰⁶ But we want to posit that the move by the state to allow private companies to import sugar was aimed at giving a few individuals an opportunity to reap huge profits from importing sugar and selling it at a high domestic prices. Such actions by the state to favour

¹⁰⁶ Republic of Kenya, *Parliament Proceedings*, 1986.

sugar imports **at the** expense of local production for the sake of a few importers is most **certainly not** in the interest of the industry.

When **the** state liberalized the importation of sugar anybody interested in importing can **do so**. The state put in place measures to protect the industry from dumping of cheap imports. These import policies included 6 % (Value Added Tax), 7 % sugar Development Levy and a variable Import Duty at 9.6%. The Import duty is calculated as the difference between the local reference price and import reference price. The basis for the local reference price for imports makes the wholesale price for imported sugar well above the ex-factory price of local sugar. This was meant to make the imported sugar sell at the higher prices than the locally produced sugar. However, despite the existence of these import policies cheap sugar imports have found their way into the local market without payments of the above levies which allowed them to sell their sugar at lower prices compared to the locally produced sugar.

In responding to this problem of cheap sugar imports the state sent mixed signals on the issue. In April, 1995, the then Ministry for Agriculture Hon. Simon Nyachae suspended sugar imports but the suspension was lifted two months later.¹⁰⁷ On February 23rd, The minister announced a total ban on private sugar imports and decreed that all imported sugar be stored in warehouses. These measures according to the minister were aimed at helping local companies that found it difficult to sell their stock of sugar. One day later,

¹⁰⁷ *Daily Nation*, March 13, 1996.

the president quashed the ban and emphasized that the state would be vigilance on tax evasion to ensure that such corrupt practices are curbed. The lifting of the ban on sugar importation by the President barely a day after the importation had been suspended was received with lots of apprehension by members of parliament. They petitioned the head of state to review his stand on sugar importation arguing that allowing the importation was against the interests of the Kenyan Sugar cane farmers and sugar factories.¹⁰⁸ The hullabaloo that greeted the contradiction of the Agriculture Minister by the president over the importation ban confirmed the conflict between the vested interests and the national interest as will be demonstrated herein below.

The announcement made by the minister was not a flash in the pan inspiration. It must have been discussed and endorsed at the cabinet level. For it therefore to be rescinded so quickly only meant that there was cabal of extremely powerful interests which were directly threatened by the measures the minister announced to address the crisis in the sugar industry. Those interests must have had direct and close access to the presidency seeing that they would influence the issuance of the reverse order. To this end, it is not far fetched to assert that there exist a potentially hegemonic clique that relies on the state in protecting their idiosyncratic interests at the expense of the national interest. The existence of this class with vested interests is brought out clearly if we examine the corrupt practices and mismanagement at the Kenya Revenue Authority. It is argued that the Private Sugar Importers were not paying import

¹⁰⁸ *East African Standard*, February 26th 1996.

duties under the pretext that the sugar in question was destined to the neighbouring countries. To this end, the then Finance Minister Hon. Musalia Mudavadi confirmed that the tax and duty evasion by these unscrupulous traders led to the loss of hundreds of million of Kenya shillings. He estimated that the exchequer might have lost upto Kshs. 400 million in duty evasion in 1997 alone.¹⁰⁹

The removal of Samuel Chebii from the post of commission of customs and exercise was believed to be his apparent heroic crime to insist that the imported sugar under the pretence of being in transit ought to be provided with tangible evidence that they were indeed on transit. This was to ensure that they were not dumped in the local market thus illegally avoiding the relevant excise duties and making subsequent windfall profits for the relevant importers. The action of Mr. Samuel Chebii therefore inevitably brought him into direct conflict with powerful vested interests that are locked in vicious cut-throat competition. For instance the "politically correct" businessmen whom have protection from the state led to the removal of Mr. Chebii. Documented by the local dailies is that a Mr Rashid Majid business man cum politician through his company, Fehmi and C. Ltd. Imported 6,000 tonnes of sugar which according to transit documents, was destined for Mwanza, Tanzania. But this sugar was eventually dumped in the local market.¹¹⁰ It is important to note at this juncture that Mr. Sajjad should be viewed both as a businessman and KANU nominated MP, a

¹⁰⁹ *The people*, Nov - 7-13, 1997 - (An interview).

¹¹⁰ *Sunday Nation*, August, 3rd, 1997; *The Economic Review* June, 30-July 6, 1997.

combination which explains his use of state power to achieve his vested interests. He has been active in the politics of Coast province where he campaigned for the ruling party KANU in the run up to 1992 general elections. After this election which KANU won, he was nominated to parliament by President Moi. This then put him close to state power.

Hence, when Mr. Samuel Chebii attempted to cancel the transit bond issued for the imported sugar by an insurance firm, Trident Insurance Company Ltd, he was advised by commissioner general of the Kenya Revenue Authority Dr. Yusuf Nzibo not to execute the bond issued by the Insurance Company as the matter was being handled by the office of the President. A note from Nzibo to Chebii on June 5th 1999 confirmed this. It said "Since this issue is being dealt at OP (office of the president). Let us leave out Tinderet Insurance and not follow them. This then explains that it was due to Sajjad's political connections that led to the government's interference to ensure that the importation ban was rescinded and that he did not pay duty on his imported sugar. This was the election time and his contribution by way of financing KANU elections must have done the trick in his favour.

4.7 The role of governance in policymaking process

It would be very difficult to account for the course of macro-economic management in Kenya's Sugar Industry without taking into consideration the

issue of governance. This is because in order to fathom the effects of politics on the development of the sugar industry, it is all the more imperative to examine the special political constraints within which the Kenya's political regime operate its macro-economic policies. The personal convictions and political calculations of the father of the nation ("Baba wa Taifa") may also have much to do with the choice of economic policy. The instance of this is where the economy is run as if it were the personal property of the ruler and his immediate circle. The case of Muhoroni and Chemelil will attest to this. In chapter three it was shown that the government controls the management of these two sugar firms. As for the case of Muhoroni, the state has been using it as a platform to reward those loyal to it. In this regard, the state has allocated a total of 556.5 hectares of the company's nucleus estates land. The beneficiaries of this land have been politicians, judges and academicians. The late Hezekiah Oyugi who was a former permanent secretary in the office of the president was given 85 hectares; former cabinet ministers Ndolo Ayah, Dalmas Otieno, Oloo Aringo, Kipkalias Kones and the late Okiki Amayo were each given 193027.5, 120 and 83 hectares respectively. Professors S. Keah and Simon Ominde got 23 and 84 hectares¹¹¹ respectively. Justice J. Osiemo was given 85 hectares.¹¹² It is important to emphasize here that the beneficiaries could be allocated the land with already planted cane developed by the company. The effect of this has been a great loss to the company as it tended to aggravate their financial position. For instance, it could have benefited the company were it sold to the beneficiaries at a commercial

¹¹¹ Interview with Head of land survey Muhoroni sugar company, department of land survey.

rate as well as obliging them to refund the company the amount it had used to develop the cane.

However, this practice of land acquisition by political elites is not new. Elsewhere it has been documented that it is the government, which has supported the idea. For example, in its official report on the terms and conditions of governmental service, it states that that "...it state there ought to be no objection to the ownership of property or investment in business by members of the public service to a point where their wealth is augmented perhaps substantially by such activities.¹¹³ The report therefore meant to encourage private accumulation by the elites was based on political expediency as an instrument of accumulation and not in the economic interest of the sugar company.

It is such practices that led Robert Bates to argue that African governments are dominated by people whose survival in power depend on their ability to use state organizations to buy off support.¹¹⁴ In this scenario, macroeconomic policy can be grossly distorted by political consideration since there is a sharp disjunction between the public interest criteria that are supposed to shape economic policy making and the private accumulation motives that are actually dominant in the minds of the key power holders.

Based on the foregoing, it is apparent that the economic policy process has reflected the political parameters. In our case, it is not farfetched to argue

¹¹³ Republic of Kenya, *Report of the commission of inquiry on public service structure and remuneration*, Nairobi, Government printer, 1971.

that the Kenya's political regime has been characterised by lack of much political participation. In this scenario, the policy circle is dominated by the president. Kenya has the usual governmental structure: the core economic ministries (in our case the Ministry of Agriculture), and the Kenya Sugar Authority. It also has the inter-ministerial machinery of coordination of which the cabinet is the most important. All these institutions exist, but they seldom function because the president remains the final arbiter on matters of national policy. There is no open public debate on policy issues and little tolerance for dissent and definitely not within the cabinet. This case is illustrated by the president's reversal of the ban on sugar importation made by the Agriculture minister in 1996. We are arguing that in order for sugar policies to be effective, they need to be clearly thought out and effectively pursued. They should be part and parcel of a long-term project with a definite set of people interested in the outcome. This has been lacking in the sugar industry. The policies and institutions affecting the development of the sugar industry have more often than not evolved disjointedly, often in response to a crisis. Thus, it is clear that Kenya does not have a systematic comprehensive policy to govern and guide the sustainable development of the sugar industry. All depend on the economic interests of the political class.

4.8 Conclusion

This chapter has attempted to offer an exposition of the political factors that act to limit the sustainable development of the sugar industry. We have demonstrated the relationship between class, state and the development of the sugar industry. It is clear from our discussion that the problems in the sugar industry are mainly due to state policies and political interferences which only serves specific vested interests and consequently do not favour efficient performance of the industry. The fact that cane farmers are disorganized have also meant that they do not have say through adequate representation) in the policy decision-making process. With all these policy factors in mind, the next chapter will in summary form offer some recommendations for the way ahead of the sugar industry.

CHAPTER 5

5.0 SUMMARY AND RECOMMENDATIONS: TOWARDS A POLICY FRAMEWORK FOR SUSTAINABLE DEVELOPMENT OF THE SUGAR INDUSTRY

5.1 INTRODUCTION

The experience of Kenya relating to the sugar industry's development during the period covered by the study has highlighted a number of policy issues. In this final chapter we give a thematic summary of the study on state and Agriculture in Kenya and suggest policy lessons learned from these experiences. The themes in this thesis encompass: The postcolonial state and the development of sugar industry; An assessment of the performance of sugar industry; and the Agricultural policy and the limits of the development of the sugar industry.

5.2 SUMMARY

From our study certain salient findings can be pointed out by way of summary. To begin with this thesis has indicated why and how the state can take part in the development of Kenya's sugar industry. It has indeed showed that in the post independence period the state initiated changes in the sugar sub-sector that represented significant departures from pre-independence period. The factors which provided, impetus for the post-colonial state's active involvement included inter alia, the recognition of the importance of sugar

industry in the Kenyan economy; the fragility of institutional structures; and hence the need for an active role of the state in directing development of sugar industry. To this end, the state is the major shareholder of the five state owned sugar firms viz Chemelil, Muhoroni, Mumias, Sony and Nzoia, through the management is in the hands of foreign companies, especially the multinationals. The establishment of Kenya National Trading Corporation and the Kenya Sugar Authority acted as coordinating mechanisms of the state to control the industry.

The state also used to set cane and sugar prices until the decontrol was effected in 1992 and prices were left to the forces of the market. The essence of the patterns of looking at state intervention in the sugar industry in chapter two was to act as a prelude to chapter three, which showed the statistical picture of the performance of the industry. We have indicated the various dimensions of the performance as measured by inter-alia the production-consumption trend and factories capacity utilization. An attempt was made to delineate the factors which underpin such performance. We showed that the long-term growth prospects of the sugar industry depend crucially on reform of the numerous interventions that constrain the performance of the industry. The three major sources of distortions have been the prevalence of price control until 1992; mismanagement of factories and distorted import regime. These distortions have been creating severe inefficiencies in the capacity utilization of sugar factories.

The absence of well-organised and conscious mass of peasant farmers contributes to their failure to protect their interest in the sugar industry. When

such farmers were able to articulate their demands from Miwani the political decision makers ordered delivery of their cane to Muhoroni and Chemelil. Our findings have also shown that the problems in the sugar industry has political roots. The particular mix of policies and politics in the sugar industry is closely bound up with the emergence class elements that closely interact with and extract favours from the state. We demonstrated that certain tendencies in policy are part and parcel of that process. The significant examples of this have been where the state initiate policies which are propelled by vested interests; state \monopoly over sugar marketing and political interference in the management of sugar factories. The political economy framework which was used to capture the dynamics of these distortions showed that privatising the sugar industry alone will not yield better results. On the other hand, a flexible policy environment in which most of the sources of these distortions will have been removed will lead the sector to a higher growth path.

5.3 RECOMMENDATIONS: TOWARDS A POLICY FRAMEWORK FOR SUSTAINABLE DEVELOPMENT OF THE SUGAR INDUSTRY

The objective of this section is to propose remedial measures that will lead to improved performance of the sugar industry. It is hoped that the policies and strategies suggested here can be applied to the entire sugar industry in Kenya, and may elsewhere.

If there is one recommendation arising from this study, it is that the state has to change the manner of its participation and moderate regulation of the

industry. It **must** innovate new and open methods to encourage the development of sugar industry at an early stage through appropriate institutions and policies, **including** the following.

- (i) The state should open up and create opportunities for increased cane production through research, more efficient technology use and better organised cane and sugar production free from political manipulation. In this regard, the sugar development fund resources should be effectively utilized in supporting aggressive research programmes, farmers training, development of better production methods, aimed at higher yielding cane varieties. The fund should be directed at developing ways of reducing cost of cane production especially in the Nyando sugar belt. This way cane farmers in Muhoroni and Chemelil areas for example will be able to get good returns for their produce.
- (ii) Muhoroni sugar company has been accumulating losses and is now technically insolvent. This needs a comprehensive rehabilitation programme incorporating the restructuring of the company's capital base as well as a total overhaul of the plant machinery. It is recommended that well known competitive agents be contracted to run Muhoroni.
- (iii) Improve cane farmer's awareness, outgrower's organisations and farmers' cooperative management through increased training, and

incorporation of participation accountability and transparency as key ingredients of sugar industry development process.

- (iv) The farmers themselves should be directly involved in deciding how and where the road cess which goes to the local authorities is to be utilized. They should be in charge of monitoring/implementation, which should be carried out by the local companies and individuals.
- (v) There is need to check cheap imports through the application of tariffs and taxes. Such tariff and tax structure should protect domestic sugar producers while at the same time allowing some importation to meet supply deficits.
- (vi) Chemelil Sugar Company should be made to pay Muhoroni for the land it annexed from its zones and the politicians given free land in nucleus estate should pay the company/albeit at a commercial rate. This if implemented will improve the financial position of the company. Expansion and establishment of sugar schemes has relied on rainfed conditions, yet such areas are becoming exhausted and serious consideration has to be given to irrigation potential. Irrigation projects are capital-intensive and would not be attractive to private investors.

- (vii) Good performance of sugar industry will be dependent largely on reduced political interference in the operations of the industry. The role of state should be facilitative not control or direct participation in appointment of directors or price regulation. The state should facilitate training and empowerment of peasant cane farmers to produce adequate volume of cane and participate in management decisions of the factory companies.
- (viii) The Kenya Sugar Authority as established under the Agriculture Act (Cap. 318) as an advisory body to government on the production of sugar should be changed because it is too limited to be positively useful. The sugar Bill in parliament should be improved immediately to provide KSA the powers to promote expanded production and marketing of sugar in the domestic and external markets. To do this, the cane farmers should constitute the majority membership of KSA board in their capacity as the primary stakeholders in the industry.

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