CHALLENGES POSED BY COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA (COMESA) ON SUGAR MILLERS IN KENYA

By

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DECLARATION

This is my original work and has not been presented to any college or institution for any degree.

WASILWA TIMOTHY WANGILA
D61/P/7958/1998

Signed:.....Date.24.11.2008.....

This project has been submitted for examination with my approval as the university supervisor

DR. JOHN YABS

Signed:.....Date.25/11/2008.....

DEDICATION

I dedicate this project to my family for their support and prayers. Thank you for your encouraging words. I love you all.

ACKNOWLEDGEMENT

The MBA programme was a challenge and I thank my creator for having brought me this far. Certain individuals contributed to the completion of my thesis. I thank my family for their patience, prayers and encouragement.

I owe my lecturers many thanks for their contribution and endless insights and the knowledge they imparted to me while pursuing the degree. To my fellow students, thank you for your contributions, especially in class discussions and group presentations.

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ABBREVIATIONS AND ACRONYMS

AEC:	African Economic Community
AGOA:	African Growth and Opportunity Act
APEC:	Asia Pacific Economic Cooperation Forum
ASEAN:	Association of South East Asian Nations
CAP:	Common Agricultural Policy
CET:	Common External Tariffs
COMESA:	Common Market for Eastern and Southern Africa
EAC:	East African Community
ECOWAS:	Economic Community of West African States
EEA:	European Economic Area
EPZ:	Export Processing Zones
EU:	European Union
FDI:	Foreign Direct Investment
FTA:	Free Trade Area
FTTA:	Free Trade Area of the Americans
GATT:	General Agreements on Trade and Tariffs
ITC:	International Trade Centre
KESGA:	Kenya Sugarcane Growers Association
KESREF:	Kenya Sugar Research Foundation
KMA:	Kenya Manufacturers Association
KNTC:	Kenya National Trading Corporation
KSB:	Kenya Sugar Board

KSSCT:	Kenya Society of Sugarcane Technologists
LDCs	Less Developed Countries
NAFTA:	North American Free Trade Agreement
NIC:	Newly Industrialising Country
PTA:	Preferential Trade Area
RTA:	Regional Trading Arrangements
SACCOS:	Savings and Credit Cooperative Societies
SADC:	South African Development Community
SAP:	Structural Adjustment Program
SDF:	Sugar Development Fund
SSA:	Sub-Saharan Africa
TRQs:	Tariff-Rate Quotas
UNECA:	United Nations Economic Commission for Africa
WTO:	World Trade Organisation

ABSTRACT

The aims of the study presented here are to assess the challenges posed by COMESA on the sugar millers in Kenya. In particular, the focus was on the eight sugar millers in Kenya. This study report details findings that portray an industry going through difficulties borne out of adjustment, exposure to contraband products or an ill-regulated market. It also shows that sugar could offer fledgling economies in developing countries an opportunity to expand their earnings from exports. In conclusion, it lays out a number of possible measures, also sought from stakeholders, relevant to producers and policymakers to save the country's developing sugar millers from falling over the edge. The research design was a case study focusing on the sugar millers in Kenya. A population of eight (8) sugar millers was studied. Data collection method was by use of a questionnaire. Data was analysed using frequency distribution tables and percentages.

The findings indicated that there were associated costs of sugar production. Costs that were mentioned by a majority of the Millers included maintenance costs of plant and equipment, labour costs, land preparation costs and government taxes. Some of the internal factors that affected the sugar sector cost of effectiveness were high taxation and the high cost of inputs e.g. fertilisers, and low cane yield. To address these measures, firms undertook encompassed manpower training and motivation, tax review/reduction and more investment in research and development.

The challenges that faced the sugar Millers included excessive deductions and taxation of farmers' income; negative effects of regional trading systems; inadequate capital for operations and survival of the sugar Millers and its ability to sustain growth; poor and patronage-based management systems; and massive investment of cash and energy. Measures that firms took to address the challenges included emphasising on product quality and a constant need to manage cost; investing in new technology to get the high state of operations in order to monitor and have constant feedback; making acquisitions such as beet factories and more land to plant more stock to minimise the negative impact of trade arrangements and consumption trends.

CHAPTER ONE
INTRODUCTION

1.1 Trading Blocs

Regionalisation is an issue that has become increasingly popular during the last decades. Between 1948 and 1994, members of the General Agreements on Trade and Tariffs (GATT) reported a total of 108 Regional Integration Agreements relating to trade in goods, of which 38 were established in the five final years ending the GATT. Currently, economic regions like the Southern Common Market, North American Free Trade Agreement (NAFTA), European Union (EU) and Association of South East Asian Nations (ASEAN) dominate the global scene (Krugman, 1993). The formation of the majority of the world's economies into trading blocs may represent a significant blockage to globalisation since regional trade is often seen as antithetical to global trade.

There are several benefits and disadvantages of being a member of a trading bloc. The benefits include trade creation among the member states, increased competition and increased economies of scale. However, trading blocs too come with disadvantages. The formation of trading blocs is one of the major issues facing the world trade system. If not set up within the right framework of policies, trading blocs can diminish rather than enhance economic welfare. Secondly, they are not vehicles for liberalising trade in sectors on which parties outside the agreement have a major influence. Trading blocs also lead to trade diversion (Krueger, 1999).

In the 1990s, before liberalisation of the sugar industry, all sugar manufactured in the country was sold to Kenya National Trading Corporation (KNTC). KNTC was responsible for distribution of the sugar throughout the country. However, with the advent of liberalisation, millers are now free to sell their sugar through appointed distributors and wholesalers' agents and retailers. More than 5,000 private wholesalers buy sugar directly from the millers. For individual traders, they can buy directly from the millers.

Growth of the sugar sector is vital to the economic development of the country. This ensures increased incomes and employment to the rural population, especially small-scale producers who constitute 75% of Kenya's population. Efforts have been made to promote growth in this sector through a systematic process of tariff reduction and removal of price controls, thus freeing the market of most of the constraints and imposition of duties on sugar importation. The aim of these is to raise domestic production efficiency to be able to compete effectively with imported sugar.

Over the last 30 years or so, the world economy has been increasingly forming into a series of trade blocs, based on regional groupings of countries. In the past decade, world trade has been characterised by the move towards the creation and strengthening of regional trading blocs and agreements (Czinkota, 1994). Trading blocs are groups of countries that have established special preferential trading conditions amongst member states. Although the preferences given to fellow member states are often greater than those given to non-member states, the ultimate purpose of trading blocs is to encourage trade between member states.

A common market includes all the aspects of a customs union, but takes integration farther by permitting the free movement of goods and services, labour and capital among member nations. In January 1993, the EU moved closer to full common market status by implementing the Single European Act, which consists of provisions to remove some or all tariff and non-tariff barriers to trade in goods and services, labour and capital.
Finally, an economic union represents the most complete form of economic integration. Member nations' social, taxation, fiscal and monetary policies are harmonised or unified. Belgium and Luxembourg formed an economic union in the 1920s. This economic union has adopted regulations, creating a full economic union with common banking laws, coordinated macroeconomic policy, and a common EU currency by the year 2000 (Brief, 2001).

Nearly every country in the world is in a regional trading arrangement or considering joining one. Many are asking the World Bank to analyse the challenges of their own and

their neighbours' arrangements on their economies. Other countries are asking whether regional arrangements represent a stepping stone toward multilateral trade liberalisation—or a millstone around their neck. Regional economic arrangements such as free trade areas (FTAs), customs unions and currency blocs have become increasingly prevalent in the world economy. Both pervasive and controversial, regionalisation has some economists optimistic about the opportunities it creates and others fearful that it may corrupt fragile efforts to encourage global free trade. Including both empirical and theoretical studies, this study addresses important questions, namely: Why do developing countries adopt FTAs and other regional trading arrangements? To what extent have existing COMESA arrangements actually affected patterns of sugar trade in Kenya's economy? What are the economic challenges of such arrangements?
All these questions will be based on a case study of Kenya as a member country of COMESA, specifically the Kenyan sugar industry.

Kenya's membership in regional trading bodies such as COMESA, African Union and the East African Community indicates that there is a large potential market for the product. As a member of the COMESA Free Trade Area (FTA), Kenya is allowed duty-free exports of sugar to other COMESA FTA countries. Kenya also has an export quota for sugar to the European Union, thus offering potential investors a ready and accessible market for white sugar. Considerable efforts have been made to promote growth in the sugar sector through a systematic process of tariff reduction, remains of price controls and thus freeing the market of most of the constraints and imposition of duties on sugar importation.

1.2 Sugar Millers

Agriculture is a dominant sector in the Kenyan economy, accounting for 24% of the country's Gross Domestic Product. Through export earnings from tea, coffee and horticulture, the sector is the largest contributor of foreign exchange. The agriculture sector provides livelihood to an estimated 75% of the population either directly or indirectly (EPZ, 2005).

The establishment of the first sugar millers dates back to 1922. The development of the sugar industry in Kenya started with private investments at Miwani in 1922. The industry directly and indirectly supports 5 million Kenyans, representing about 16% of the entire Kenyan population. In addition, sugar cane growing is a major source of income to more than 150,000 shareholders. Sugar cane in Kenya is grown in the Western Nyanza and Coast provinces. And of the total cane supply, 85% is from small-scale growers whilst the remaining is from the nucleus estates of the sugar millers. Being an important sector, any changes in the sugar industry due to its dominance will translate into changes in the whole economy. Thus, further investment in the sector remains a priority.

The sugar millers in Kenya face a number of challenges such as poor management systems and lack of efficient management, in addition to huge industry debts, weak research and extension services, and ineffective out-grower institutions. Other problems facing the industry include inadequate capital for operations, millers' rehabilitation, and negative challenges of regional trading systems.

The Kenya Sugar Board, which is under the oversight of the Ministry of Agriculture, regulates the sugar sector in Kenya. The Board provides sector policy and regulatory guidance, forward planning, and monitors project pre-feasibility. It is also mandated to regulate, provide and promote a competitive environment in the sugar sector, encourage research and development as well as quality assurance, among others. The 13-member Board that is dominated by the producers is constituted thus: 7 farmers, 3 millers, 3 representatives from government and 1 ex-officio (the Chief Executive Officer of the Board).

Apart from the increasing demand for sugar in the country, Kenya has the opportunity to benefit from annual export quota to the European Union after being granted the status of an exporting member of the International Sugar Organization. There also exists a potential market in the COMESA and IGAD regions. The future of the sugar industry is thus potentially good given the unmet demand. Kenya can become self-sufficient in the production of sugar and even produce surplus for export. Potential markets exist in the

neighbouring countries of East African Community, COMESA and IGAD regions as well as the European Union under preferential market access arrangements.

The Sugar Development Fund (SDF) was established in 1992 to extend loans to the industry for factory rehabilitation and cane development. It also provides grants for operations of Kenya Sugar Board (KSB), Kenya Sugar Research Foundation (KESREF) and development of roads infrastructure in the cane growing areas. The fund is financed through a levy which is charged at 7% of value of both locally manufactured and imported sugar.

Prior to 1992, the government strictly controlled the marketing and distribution of sugar in the country through the Kenyan National Trading Corporation (KNTC). The government controlled the producer and consumer prices and distribution margins up to the retail level and undertook import and export of sugar.

The controlled pricing regime was abandoned in 1992 when the government adopted the liberalised policies under the Structural Adjustment Program (SAP). Initially, this found the sugar companies unprepared to deal with the marketing and distribution of the commodity in the country. However, under the current structure, the factories established their own distribution networks.

1.3 Statement of the Problem

The dramatic rise in the number of regional trading arrangements has led to an increase in the number of studies investigating whether RTAs are trade creating or diverting trade. A study conducted by Sserunkuma and Kimera (2005) assessed the impact of the European Union sugar trade in developing countries. In particular, the focus was on small farm holders and markets.

Research is starting to shed light on questions such as the effect of trading blocs on growth, on policy credibility, whether and how to harmonise standards or industrial policy and whether regional blocs are undermining the multi-lateral trading system.

Theoretical arguments and empirical findings on the contribution of regional trade arrangements on a country's economy are mixed. Vomvadis (1998) analysing EU, ASEAN, CACM and UDEAC blocs using a growth recession technique, found that only the EU had a positive effect on the growth rates of its members while for the rest of the impacts in terms of growth were not statistically significant. Rodrick (1995) stipulated that revenue losses arising from regional integration in developing countries can be compensated for growth of manufacturing encouraged by integration.

Sugar millers have attracted a lot of debate in the recent past, as sugar is an essential commodity and due to the fact that key political players have used it as an avenue for making quick money. The academic field has also not been left behind in terms of studies carried out. Studies have been carried out in the sugar sector and on issues relating to regionalisation. Luseno (2007) carried out a study on factors influencing communication among stakeholders in the integration process of the EAC; Obado (2005) on competitive strategies employed by the sugar manufacturing firms in Kenya; Odera (2005) on the perceived effect of East Africa Community customs union on the food and beverage manufacturing in Kenya; and Owiye (1999) on why the Kenyan sugar firms are failing to compete within the liberalised trading environment in Kenya: A case of government-owned sugar firms. It would therefore be of academic interest to establish the effect of regionalisation on the sugar millers in Kenya, as other studies have focused in other areas.

The sugar millers in Kenya suffer from myriad problems ranging from excessive deductions and taxation of farmers' income to negative challenges of regional trading systems. This study sought to fill this gap in knowledge identified by examining the impact of COMESA on the sugar millers in Kenya. This study answered the following questions:

1) What are the challenges posed by COMESA on the patterns of trade and on the sugar millers in Kenya?

2) What are the economic challenges of COMESA on the sugar millers in Kenya?

1.4 Objectives

The objective of the study was:

1) to determine the challenges posed by COMESA on the Kenyan Sugar Millers.
2) to establish ways the sugar millers have devised to overcome the challenges they face.

1.5 Importance of the study

The study will be of importance to the ministries of Trade and Industrialisation, who can use it to acquire knowledge on the challenges of free trade area on the patterns of trade in Kenya and the opportunities Kenya can take advantage of it in being a member country of COMESA. The study will further be of importance to research institutes and academicians who can use the research study as reference material when conducting a similar kind of study. In addition, if need be, these research institutes can take the study further and in more depth.

CHAPTER TWO

LITERATURE REVIEW

2.0 Challenges of Regional Trade Arrangements on Agricultural Produce

2.1 Introduction

In the Uruguay Round (UR) of trade negotiations, agriculture largely determined the pace and progress of the talks, and the unwillingness of the EU to make significant concessions on agriculture blocked agreement for a long time. The EU tried to defend its Common Agricultural Policy (CAP) as it had in previous discussions on the GATT, and to minimise any changes that might result from the UR agreements. For a long time the EU was not prepared to accept trade-related discipline on export subsidies in particular, and the 1990 Brussels ministerial meeting, which was expected to conclude the UR after four years of negotiations, broke down the EU's resistance to cut its agricultural export subsidies. It took another five years of talks to find agreement on agriculture. During that period, the EU implemented its first real reform to the CAP and thereby put itself in the position of being able to accept limits and reductions on export subsidies (Tangermann, 1999).

The various existing regimes of preferential trade differ in the extent to which they cover agricultural products. All include some agricultural products but the number and types of products included differ widely, as does the size of preference margins. For example, in 1992, the EU's scheme applied to 168 beneficiary countries and included 530 agricultural products while that of US applied to 133 developed countries and covered 467 agricultural products. Japan's applied to 151 beneficiary countries and covered 289 agricultural commodities. Some developed countries provide special and more favourable tariff preference to limited groups of developing countries usually linked to them through previous colonial ties and regional political relationships. Preference margins for select agricultural products under these regimes can be quite large. For example, the Lome Convention Sugar Protocol guarantees beneficiaries the same sugar price as EU producers receive (Tangermann, 1999).

Inside, the EU strong resistance was voiced against zero-duty treatment of some agricultural products. Under this initiative in particular, the EU's sugar and rice lobbies argued vigorously against it, fearing that it would fatally undermine the sustainability of the union's highly protective market regimes for sugar and rice. They were concerned that the LDCs might export in line with the rules of origin, the totality of their domestic sugar and rice production to the EU while importing their domestic consumption requirements from the world market. In addition, it was feared that the LDCs might import raw rice, process it and then export it back to the EU, adding sufficient value so as to meet the rules-of-origin requirements. That might then force the EU to liberalise its market regimes for these products.

Internal trade within and among the major economic groupings in Africa such as COMESA and SADC is increasing in significance due to deficits that exist in many developing countries with infant or stunted sugar industries. Due to the differing production environments by the various countries, lower cost production settings in Southern Africa now pose a major threat to their Eastern and Central African counterparts. With reduction in both tariff and non-tariff measures that made the traditional wall of protection crumble, the sugar industry in Africa is expected to be completely realigned in the near future, notwithstanding extra Africa market factors.

For some time, controversy has raged over the EU agriculture sector instrument, the Common Agriculture Policy (CAP), particularly with regard to the hefty domestic support (subsidies) it extends to farmers in the 25-member bloc. While the interventions are supposed to cushion farmers in the EU against market failures, they cause distortions that hurt developing countries, particularly the smallholder farmers who constitute the backbone of the vulnerable poor economies. Most instructive is the argument that subsidies have no place in free market economies. However, with the European Commission's reform proposal, EU exports are expected to decrease, which will open opportunities on the international market.

The EU is also amongst the largest importers; its imports come mostly from developing countries and are particularly important for the ACP countries, signatories to the Sugar Protocol. With the proposed reform, the EU could, in the long run, become a significant importer of sugar (Tangermann, 1999).

Increase in consumption is much more pronounced in developing countries than in others, and sugar imports are dependent on macro-economic factors. Sugar production is not necessarily responsive to world market prices but depends on other factors: the perennial nature of sugar cane; the long-time horizon for investments in sugar manufacture. Supply, though, is responsive to prices. However, the various policy instruments used by governments influence both supply and demand. That includes subsidies to farmers, which are said to affect global trade. The biggest losers are developing countries, particularly small farmers. Debate on the EU agricultural policies has highlighted their challenges on developing countries' strategies to fight poverty and promote economic growth and development programmes.

In June 2005, the European Commission proposed strong reforms to the Common Market Organisation of Sugar, in a set of sweeping changes intended to enhance the competitiveness and market-orientation of the EU sugar sector, guarantee it a viable long-term future and strengthen the union's negotiating position in the current round of world trade talks.

The reforms are intended to modernise the current system, which has remained largely unchanged for some 40 years. The new system will continue to offer preferential access to Europe's sugar market for developing countries at an attractive price well above the world market level. African, Caribbean and Pacific (ACP) countries, which traditionally export sugar to the EU, would benefit from an assistance programme. Also, adopted by the commission, reform proposals include a two-step cut of some 39% in the price of white sugar. Farmers would be compensated for 60% of the price cut through a decoupled payment. This would be linked to the respect of environmental and land management standards and added to the single farm payment, a voluntary restructuring scheme lasting four years to encourage less competitive producers to leave the sector; and

the abolition of intervention price. Some €40 million had been set aside to assist ACP countries in 2006 (Tangermann, 1999).

2.1.1 Overview of International Trade Arrangements

Preferential Trade Arrangements are the loosest type of arrangement is the granting of partial preferences to a set of trading partners. If preferences are less than 100 per cent, then the discrimination against non-members in general violates GATT Article XXIV. But such partial preferences are common, nonetheless. If the concessions are one-way, we term this a preferential trade arrangement. Where the concessions are granted by an industrialised country to less developed countries (LDCs), which is the usual case, they have been widely tolerated by the GATT. Examples include the Lomé preferences that European countries granted to African, Caribbean and Pacific countries and the United States' Caribbean Basin Initiative (CBI).

Free Trade Area: If the members of a preferential trade arrangement go so far as to eliminate all tariffs and quantitative import restrictions among themselves (100 per cent preferences), then they form a free trade area (FTA). Typically, they retain varying levels of tariffs and other barriers against the products of non-members. Uncompetitive industries in the more highly protected member countries may have sufficient clout to prevent their shields from being lowered to the same levels as in the less-protected member countries.

Customs Union: The next level of integration occurs when the members of an FTA go beyond removing trade barriers among themselves and set a common level of trade barriers vis-à-vis outsiders. A full customs union would also harmonise quantitative restrictions, export subsidies, and other trade distortions. Indeed, it would set all trade policy for its members as a unified whole. It would, for example, engage in any future trade negotiations with other countries with a single voice.

The distinction between trade creation and trade diversion is crucial to the classic theory of the welfare challenges of customs unions, while also applicable to other kinds of preferential trade arrangements. Despite the ubiquity of the terms, they do not have

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standard definitions that are entirely agreed upon. We will use the term trade creation to describe an increase in trade between members of a PTA that occurs as the result of the preferences and trade diversion to refer to the decrease in trade between members and non-members that occurs as the result of the preferences. Trade creation is good because a more efficient supplier is substituted for a higher-cost domestic supplier. Trade diversion may be bad because a less efficient supplier in another PTA member is substituted for a lower-cost, non-member supplier.

The presumption that trade creation and trade diversion can be identified with the good and bad effect of PTAs, respectively, is oversimplified for a number of reasons. Trade diversion can, under certain circumstances, be beneficial. This can happen, for example, when fellow members introduce imports into the domestic market that reduce distortions in consumers' patterns of consumption (Meade 1955; Gehrels 1956; Lipsey 1957). It can also happen when economies of scale allow producers to operate at lower cost (Corden 1972; Venables 1987). Or when the new competition reduces the market power of inefficient domestic monopolies. Some economists have defined trade diversion so as to rule out such beneficial challenges, but others reasonably point out that this flirtation with tautology would make the terms less useful (R. Wonnacott 1994, 1996). The distinction between trade diversion and trade creation also omits other important challenges, particularly those on the terms of trade—that is, the relative prices of countries' exports. This effect is beneficial for members of the PTA, but harmful to non-members (Mundell, 1964).

Common Market: Each of the stages considered so far—PTA, FTA and customs union—falls within a range that the Brookings Institution has recently characterised as shallow integration. The direct challenges of such arrangements lie exclusively within the realm of international trade. More advanced stages, which we now consider, constitute deep integration (Lawrence 1995; Lawrence, Bressand, and Ito, 1995).

Beyond the free exchange of goods and services among members, a common market entails the free movement of factors of production: labour and capital. The dividing line is, admittedly, sometimes blurred between the free exchange of services and the free

movement of factors. Labour includes services such as construction or consulting, and capital includes banking and other financial services. The free movement of capital applies to portfolio capital as well as to foreign direct investment (FDI), which is the purchase and sale across national boundaries of real estate, plant and equipment. This is deep integration in that it affects some laws and institutions that could have been preserved as domestic prerogatives even with a high level of trade integration. Examples include policies governing the licensing of providers of professional services, such as doctors, lawyers and architects, and antitrust or competition policy. Migration is, of course, an especially difficult and sensitive subject in many countries.

Economic Union: Going beyond the free movement of goods, services and factors, economic union involves harmonising national economic policies including, typically, taxes and a common currency. For example, Belgium and Luxembourg formed an economic union in 1921. The decision of the European Community to change its name to the European Union in 1994 represented a determination to proceed to this higher stage of integration. The full unification of economic policies would typically require political federation.

Political Federation: Federalism is the political philosophy that underlies a system of government in which sovereignty is constitutionally divided between a central governing authority and constituent political units such as states creating what is called a federation. Federation entails the surrender of some powers by federating units to the centre, and vice versa. Where a federation is constructed of states that are already sovereign (as is the case for Uganda, Tanzania and Kenya) it requires them to surrender some of their sovereignty. Federalism is a political system under which every citizen is subordinated to at least two state organisations (institutions) and is in immediate connection with each of them.

2.1.2 Trading Blocs around the World

The world is increasingly dividing into trade blocs. The world's two most powerful economies, the United States and the European Union, have each sought to forge links to

neighbouring countries and deny access to rivals. Other major trading countries, such as the fast growing exporters on the Pacific Rim and the big agricultural exporting nations, have also sought to create looser trade groupings to foster their interests. The formation of free trade zones and trade blocs is one of the major issues facing the world trading system – whether it will lead to increased protectionism, or whether the trade blocs will promote trade liberalisation. The main trade blocs are European Union, North American Free Trade Agreement (NAFTA), European Economic Area (EEA), Economic Community of West African States (ECOWAS), Free Trade Area in the Americas (FTAA), Association of South East Asian Nations (ASEANS) and Common Market for Eastern and Southern Africa (COMESA).

COMESA exists as an organisation of free. Independent, sovereign states that have agreed to cooperate in developing their natural and human resources for the good of all their peoples. With its 20-member states and population of 385 million, it forms a major integrated trading bloc (Muuka, Harrison and McCoy, 1998). COMESA was established in 1994 to replace the Preferential Trade Area for Eastern and Southern Africa (PTA), which had been in existence since 1981. The PTA was established within the framework of the OAU's Lagos Plan of Action (LPA) and the Final Act of Lagos (FAL). Both the LPA and the FAL envisaged an evolutionary process in the economic integration of the continent in which regional economic communities would constitute building blocks upon which the creation of an African Economic Community (AEC) would ultimately be erected. The PTA, and hence COMESA, was established to take advantage of a larger market size to share the region's common heritage and destiny and to allow greater social and economic cooperation with the ultimate objective of creating an economic community.

COMESA claims almost half the total number of countries in Africa. Member states of COMESA are Angola, Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Somalia, Sudan, Swaziland, Egypt, Uganda, Democratic Republic of Congo, Zambia and Zimbabwe. The treaty establishing the COMESA was signed in Kampala, Uganda, on November 5, 1993 by the member states

of the Preferential Trade Area for Eastern and Southern Africa States (PTA). The COMESA treaty entered into force on December 8, 1994 upon its ratification by 11 signatory states. The PTA was formally dissolved on that date and replaced by COMESA.

COMESA strongly emphasises the distinction between *trade creation* and *trade diversion. Trade creation* refers to a situation in which the production of particular goods in country A, which does not have a comparative advantage in that area, is replaced by the purchase of cheaper goods from country B, which does. *Trade diversion,* on the other hand, takes place if country A turns from lower cost suppliers from lower cost suppliers in country C to what are in reality higher cost suppliers in country B, now enjoying an artificial advantage because of a preferential tariff arrangement (Krafchik, 1999). Under the trade integration paradigm, economic integration is held to be desirable in cases where the trade creation challenges are greater than trade diversion.

The 1990s saw recognition that a more outward oriented approach to international trade would enable the full benefits of the regional agreement. The member countries hoped that the development of COMESA as a free trade area by the beginning of the year 2000 and the future prospect of evolution into a common market and an economic union would lead to sustainable economic development and political stability in the region.

COMESA is strongly in favour of trade liberalisation and advocates the following measures: elimination of tariff and non-tariff barriers to trade; the free movement of capital, labour, goods; standardised technical specifications; and elimination of restrictions on the movement of goods and individuals.

COMESA also advocates standardised tax rates (including value added tax and excise duties), promotion of the adoption of a single currency and the establishment of a monetary union as well as the adoption of a Common External Tariff (CET). In the short term, the success of COMESA following this new, outward-oriented approach might be measured in the extent to which trade within the regional agreement is increased.

In the long term, the benefits of regional cooperation should result in increased economic development.

The East African countries have already implemented significant tariff reductions within the COMESA framework, with Kenya having already reduced them by 80%. Kenya has provided the agreed preferential tariff discount to its COMESA trading partners at 80% of the tariff applied to third countries. Thus, in 1997/98, the mean tariff rate on imports from COMESA was 13%, compared with 15% for all imports. The three East African countries, though committed to these COMESA tariff preferences, having acted in contrast. Thus, in July 1996, Uganda introduced a 10% excise duty on many imports from Kenya. Tanzania suspended the preference during the 1997/98 fiscal year (although it withdrew its membership in 2000). Kenya increased the rate of suspended duties on agricultural products that could be imported from the region (Rajaram et al, 1999). In addition, non-tariff barriers are still used to control regional trade.

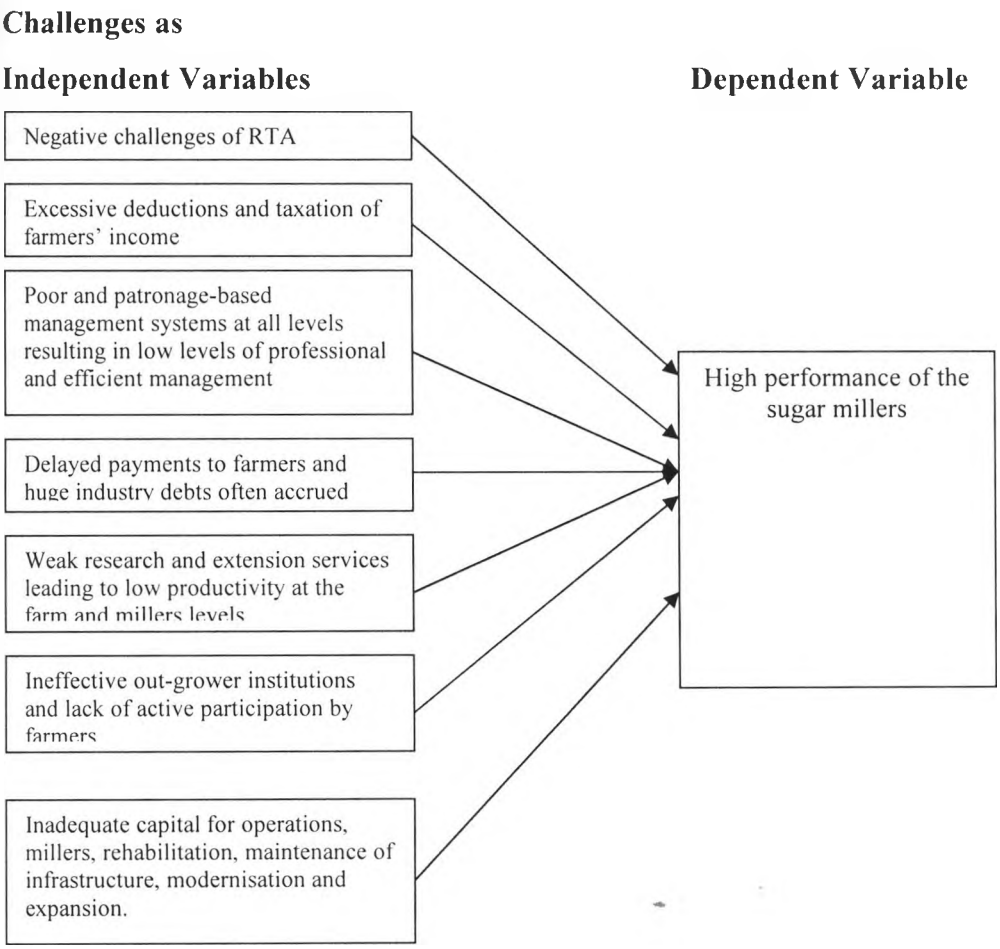
Because of these problems intra-COMESA trade remains very low as a percentage of total trade flows for the member countries. This percentage grew from 5.74% in 1980 to 6.81% only in 1996. Moreover, only a few members, notably Kenya, Zimbabwe and Tanzania, dominate this trade. In the 1990s, however, Mauritius and Zambia joined these countries in dominating the trade. Another characteristic of the intra-COMESA trade is that the member countries are, in general, exporters of similar primary commodities and importers of similar manufactured goods, indicative of the non-complementary nature of intra-COMESA trade.

Problems of COMESA

The economic performance of COMESA countries since 1970s has been disappointing. Most of the countries, including Zambia, opted for inward-oriented government interventionist policies of industrial import substitution and agricultural self-sufficiency behind protectionist barriers. These have resulted in low levels of domestic investment, limited foreign investment and accumulating foreign debt. In addition, political instability and strife and droughts have plagued in the region (Davies, 1999).

Conceptual framework

Figure 1.0: Challenges facing the sugar industry in Kenya, which the study seeks to establish.



Source: Researcher's own

Negative challenges of regional trading systems: Even though tariff rates within COMESA have been lowered to some extent, non-tariff barriers have emerged to replace them. Such non-tariff barriers include administrative delays, lack or delays of or at getting information at border points, pre-shipment requirements, technical and standardisation requirements. This will affect the sugar industry resulting in a low performance.

Excessive deductions and taxation of farmers' income: This will affect the morale of the farmers since they may feel they are being ripped off for their hard work.
Poor and patronage-based management systems at all levels will result in low levels of professional and efficient management thus affecting negatively the performance of the sugar industry.

Delayed payments to farmers and huge industry debts often accrued through mismanagement: The sugar sector has not been supported in terms of tax breaks, subsidies, infrastructure and incentives like other Kenyan agricultural sectors such as coffee, dairy, tea and livestock. Also, when the sector was liberalised/privatised, it was not recapitalised as expected, leaving companies with a debt burden. Further, there can be a low sugar produce as a result of lack of funds for the farmers to maintain their farms.

Weak research and extension services: This will lead to low productivity at the farm and millers levels resulting to a negative effect on the performance of the sugar industry.

Ineffective out-grower institutions and lack of active participation by farmers: The sugar millers cannot be efficient if the out-grower institutions such as societies and unions are ineffective and further if the farmers are not participating actively. The performance will definitely decline.

Inadequate capital for operations, millers, rehabilitation, maintenance of infrastructure, modernisation and expansion: Lack of capital will affect the operations of the sugar millers in Kenya, leading to a decline in performance. Further, inadequate millers will result in a delay in processing of the sugar, thus leading to inefficiency.
Poor infrastructure will affect the delivery of the sugar, resulting to unnecessary delays. If Kenya solves these elements, then the sugar industry will perform well.

2.2 Performance of and Constraints Facing Regional Trade Arrangements

Performance of regional integration schemes in Africa has been dismal. Thus, empirical literature reviews by Alemayehu and Kibret (2000) reach the general conclusion that regional integration in the continent has failed to achieve its objective of expanding intra-regional trade and policy coordination. None of the regional groupings has achieved the eventual objective—formation of a common market—or even the formation of well functioning customs unions. Even though tariff rates within COMESA have been lowered to some extent, non-tariff barriers have emerged to replace them. Such non-tariff barriers include administrative delays, lack of or delays at getting information at border points, pre-shipment requirements, technical and standardisation requirements, and bureaucratic administration of rules of origin, among others. Moreover, many member countries joined regional integration schemes while still pursuing inward-looking import substitution growth strategies that conflict with the objectives of the schemes.

2.2.1 Weaknesses of Africa's Integration blocs

i)Uncoordinated fragmentation of the sub-regional and regional market space

The creation or existence of smaller groupings within a larger integration bloc is characteristic of the African integration process. For example, EAC is within COMESA. Smaller groups exist side by side by the larger bloc and operate completely independent and autonomous bodies and virtually as if the larger bloc does not exist and vice versa. Several economic and integration institutions in Africa are concurrently operating within the same sub-regional spaces, in most cases they have the same member states and overlapping programmes or mutually exclusive or incompatible trade liberalisation schemes (Blumberg, 1997).

ii) Problems with some of the trade instruments being applied

Overly restrictive rules of origin, especially in terms of limiting preferential treatment to some products by companies predominantly owned by nationals, can be counter-

productive to the liberalisation process by ruling out a significant number of products traded within the region and therefore rendering the scheme pointless (Blumberg, 1997).

iii) Impact of SAPs and liberalisation of foreign trade and investments

Growth in the external indebtedness of member states and debt service obligations coupled with a severe lack of foreign exchange are some of the key underpinnings of structural adjustment and reform programmes in Africa. In this context, the need for member states to reduce or restrict imports irrespective of their sources of supply – in order to save foreign exchange and to promote exports in world markets to earn hard currency – has affected the degree to which member states adhere to rules of the trade liberalisation scheme that they have established (Krafchik, 1996).

2.3 Arguments Surrounding Regional Trade Arrangements

A number of arguments surround economic integration and they centre on:

1) trade creation and trade diversion;

2) the challenges of integration on import prices, competition, economies of scale and factor productivity; and

3) the benefits of regionalism versus nationalism.

2.3.1 The Challenges of Integration on Import Prices

According to Czinkota (1994), when a small country imposes a tariff on imports, the prices of the goods will typically rise because sellers will increase prices to cover the cost of the tariff. This increase in return will result in lower demand for the imported goods. If a bloc of countries imposes the tariff, however, the fall in demand for the imported goods will be substantial and the exporting country may be forced to reduce the price of the goods. Thus, the possibility of lower prices for imports result from the greater market power of the bloc relative to that of a single country. The result may be an improvement in the trade position of the bloc countries. A deteriorating trade position for the exporting country offset any gain in the trade position of the bloc members. Unlike the win-win situation resulting from free trade, the scenario involving a trade bloc is instead win-lose.

2.3.2 The Challenges of Integration on Import Prices, Competition and Economies of Scale

Integration increases market size and may, therefore, result in a lower degree of monopoly in the production of certain goods and services, the reason being that a larger market will tend to increase the number of competing firms, resulting in greater efficiency and lower prices for consumers. Besides, less energetic and productive economies may be spurred into action by competition from the more industrious bloc members (Czinkota, 1994).

In order to obtain economies of scale, many industries such as steel and automobile require large-scale production. Certain industries may not be economically viable in smaller, trade protected countries. However, the formation of the trading blocs enlarges the market so that large-scale production is justified and the lower per-unit costs resulting from economies of scale may then be obtained. These lower production costs resulting from greater production for an enlarged market are called internal economies of scale. In a common market, the external economies of scale may also be present. Because a common market allows factors of production to flow freely across borders, the firm may now have access to cheaper capital, more highly skilled labour or superior technology. These factors will improve the quality of the firm's product or service or will lower costs or both.

2.3.3 The Challenges of Integration on Higher Factor Productivity

The wealth of the common market countries will likely increase when the factors of production are freely mobile (Czinkota, 1994). The theory behind this contention is that factor mobility will lead to the movement of labour and capital from areas of low productivity to areas of high productivity. The free movement of labour fosters a higher level of communication across cultures, and this leads to a higher degree of cross-cultural understanding, as people move their ideas, skills and ethnicity.

2.4 Expectations of Regional African Trade arrangements: Some Empirical Evidence

"Sub-Saharan Africa must adopt appropriate trade and structural adjustment policies to become more competitive internationally and to capitalise on opportunities in foreign markets. The exchange of regional preferences alone cannot reverse Africa's unfavourable export trends. A far more promising policy approach would be broad-based reductions in African trade barriers, on a most-favoured-nation basis." (Yeats, 1998)

For over three decades, Sub-Saharan African countries have had an interest in regional integration initiatives to accelerate their industrialisation and growth. With the help of a more comprehensive database on intra-African trade than was previously available, Yeats (1998) examines a proposal to exchange trade preferences among Sub-Saharan African countries. The data suggest that problems with African regional trade arrangements are more daunting than is generally recognised.

Africa's non-oil exports are concentrated in a few products, none of them important regional imports. There is relatively little intra-African trade and the non-complementarily problem in African trade cannot be resolved quickly. Moreover, intra-African trade is highly concentrated, geographically, with almost no trade between East and West Africa.

This finding makes less compelling the arguments that regional trade can help overcome problems of small domestic markets. The range of processed products African countries export competitively is extremely narrow and many have a comparative advantage in the same items. Excluding refined petroleum, one or more African countries have a comparative advantage in products that account for about 5% of regional imports. In short, regional trade arrangements seem to present Africa with a lose-lose situation.

If Africa does not develop export capacity in key machinery and transport equipment, the region will continue to depend heavily on Third World countries for those exports.

Dependence on non-African suppliers would seemingly reduce the likelihood of regional arrangements succeeding. However, machinery and transport equipment are normally manufactured using capital-extensive production techniques, and Africa has no comparative advantage in those goods. If Africa tries to develop an export capacity in this sector, the goods will be relatively high in cost and probably less reliable than similar products from "efficient" suppliers. Attempts to use such equipment would undercut the competitive position of Sub-Saharan African exporters in global markets. Trade reform in a most-favoured-nation basis is a more promising option. Evidence shows a strong positive association between lower trade barriers and economic growth.

2.5 Kenya's Policy on Regional Integration

In the current industrialisation strategy, aimed at turning Kenya into a newly industrialising country (NIC) by the year 2020, pursuance of regional trade arrangements is a key element of trade policy alongside export subsidisation and promotion and further trade liberalisation. Regional integration is also seen as a vehicle for achieving poverty alleviation and employment generation (GOK, 1999). Regional integration is expected to facilitate exploitation of economies of scale, attract local and foreign investment, improve resource allocation and technology transfer. Within the broad regional integration strategy, the GOK has the objectives of pushing for the rationalisation of the regional arrangements or groupings and supporting trade relations with other trading blocs such as South-East Asia, further encouraging the domestic manufacturing sector to exploit regional industrial support services and improving the negotiation skills and capability of Kenyans to maximise the benefits the country receives from multilateral negotiations.

As a reflection of Kenya's commitment to these policies, the country is not only a member of the WTO but also a member of numerous regional groupings. The country is committed to the principle of free trade through multilateral negotiations, under the World Trade Organisation (WTO) framework. Even though the country is committed to this principle, one aspect of its industrialisation strategy is to raise tariffs for a period up to around 2007 to protect intermediate and capital goods industries (Republic of Kenya, 1997). Nevertheless, the country remains committed to tariff elimination and a common

external tariff (CET) both for EAC and COMESA (Republic of Kenya, 1999). However, the current policy of the government is to adjust COMESA preferential rates on a reciprocal basis and apply the rules of origin stringently (Republic of Kenya, 2000).

As a high priority economic sector, the government has provided comprehensive direction to enhance development of the sector and raise domestic production efficiency for effective competition with imported sugar. These include setting up of importation quotas and punitive customs duty on imported sugar so as to help safeguard the local sugar industry. It has also written off loans to farmers and assisted sugar companies to settle pending payments to farmers. In addition, improvement of infrastructure in the sugar belts, systematic tariff reduction on raw materials and capital inputs and removal of price controls, thus freeing the market.

In order to implement a programme to enable locally made sugar attain price competitiveness, Kenya applied for and was granted a four-year safeguard period starting March 2004 under the COMESA Trade Agreement. In order to realise competitiveness, the policy measures that will be employed encompass government divestiture from industry institutions and provision of appropriate tax incentives. Other policy measures include financial and management restructuring of industry institutions and strict implementation of the provisions of the regional and multilateral trade agreements.

In order to address constraints on marketing, the strategies that will be implemented are short and long-term investment plans aimed at realising efficiency and competitiveness in the sugar industry, provision of targeted tax incentives to reduce the cost of cane and sugar production, e.g. removal of VAT on SDL. Further institutionalisation of stringent measures to curb illegal import of sugar and enforce the rules of origin, brand and aggressively market Kenyan sugar to enhance domestic consumer loyalty. In addition, maintain up-to-date information on global sugar production trends and trade for the purpose of benchmarking and actively participate in regional and multilateral trade negotiations for the benefit of the sugar industry. Ultimately maintain a sufficient supply of quality sugar to satisfy local consumption requirements at all times

Challenges of Trade Arrangements on the Sugar Millers

The Common Market for Eastern and Southern Africa (COMESA) extended Kenya's sugar importation quota by another four years but with a condition to aggressively improve local production capacity. The importation would continue to operate as a Tariff Rate Quota (TRQ) and is to be consolidated without distinction between white sugar intended for industrial use and brown sugar for domestic use.

The quota would also be enlarged by 40,000 metric tonnes in each successive year of application while the tariff applied on import quantities above the quota will be reduced by 30% in each successive year of application of the safeguard.

At a meeting of the Council of Ministers at the COMESA Secretariat in Lusaka Zambia, the ministers also agreed to extend the safeguard on wheat flour that Kenya has enjoyed since 2001 by another year. The safeguard will continue to be administered through the imposition of 60% duty on all wheat flour imports.

The then Kenya's Trade and Industry permanent secretary, David Nalo, said the government would speed up privatisation of the sugar industry to realise competitiveness and reduce dependence on imports. "Only a privatised sugar industry can achieve the required reforms aimed at increasing productivity and competitiveness. The government must act fast towards this," Nalo said. Already, the government is in the process of privatising the sugar mills to bridge an estimated 200,000-tonne local deficit.

The shortage would also be addressed with the decision by leading sugar miller, Mumias Sugar Company, to construct a subsidiary milling plant in Kenya's coastal region. The company has been cleared by local environmental authorities to carry on with its plan to construct a giant subsidiary in Tana Delta. The planned facility is estimated to cost KSh24 billion (US$35.2 million) and it is touted to be among the leading mills in the country. The new miller complements the company's diversification programme that has also seen it invest in electric power generation. This project will be Kenya's answer to Brazil in terms of efficiency in sugar growing and manufacturing and is also expected to

bridge the local sugar deficit in Kenya's industry," said chief executive, Evans Kidero. (*The EastAfrican* newspaper: 'Kenya: COMESA Extends Sugar Imports Quota', April 2007)

2.6 Summary

The literature gave an overview of regional trade arrangements and trading blocs around the world. Performance of and constraints facing regional trade arrangements were reviewed. Arguments surrounding regional trade arrangements were highlighted as well as expectations of regional African trade arrangements with some empirical evidence. Further reviewed was Kenya's policy on regional integration.

CHAPTER THREE
RESEARCH METHODOLOGY

The method involves the research design, population and sample size, data collection and data analysis techniques.

3.1 Research Design

The type of research design was a survey on the sugar industry in Kenya. The rationale behind the use of a case study is that it allowed the researcher to get the background of the problem under study and its current status and hence gave recommendations that were specific and relevant.

3.2 Population of the Study

The respondents targeted in the study were the sugar millers, Miwani, Muhoroni, Chemelil, Mumias, Nzoia, South Nyanza, West Kenya Sugar and Kibos Sugar Company.

3.3 Data Collection

Primary date was mainly used. It was collected using self-administered questionnaires distributed to the targeted population. Information for the literature review was collected from published financial statements and reports from the sugar manufacturing companies and EPZ, Kenya's COMESA office based in Nairobi, the Ministry of Trade and Industry and the Institute of Economic Affairs. Secondary information was gathered from library material (books, journals) newspapers, various web sites, COMESA journals and publications.

The data mainly covered economic variables such as:

i) Tax rates—standardised tax rates (including value added tax and excise duties)—improved resource allocation; a more rational exploitation of natural resources; advantages derived from economies of scale, etc.

ii) Competition: advantages from increased competition within an enlarged market; a wide harmonised and more competitive market;

iii) Trade creation effect; comparative advantages implying more effective use of resources; Factor mobility and income redistribution; free trade permits exports of commodities, which are produced cheaply in one country and thus raises the returns to abundant labour factors in their production. This will tend to raise the low incomes of what might otherwise be surplus labour;

iv) Technology transfers: does regional integration facilities technology transfers; Access to foreign capital: more harmonised monetary, banking and financial policies; does Kenya as a member country of COMESA have adequate access to foreign capital;

v) Trade development: the primary instrument for achieving trade development is trade liberalisation and the freeing of market forces;

vi) Levels of infrastructure: more reliable transport and communications infrastructure. Does the regional trading agreements facilitate physical and communication infrastructure in Kenya?

3.4 Data Analysis Techniques

Data derived from primary sources was analysed using descriptive statistics. Presentations were made using frequency distribution tables and percentages. In this paper, we reassessed the trade creation result by refining the measures used to define membership in a regional trading arrangement. Using primary-source documents we created measures that incorporated phase-in dates of the regional trading arrangements and thus better captured the current stage of development of each arrangement. Next, we included these new measures of regional trading arrangement membership into a gravity model equation to estimate the amount of trade creation and diversion. By comparing these estimates to those obtaining using the conventional measure, we can then answer the question of the importance of the measures of regional trading arrangements in obtaining the trade creation result.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 General Information

To analyse the general information of the firms, the research identified the acreage and production capacity of the firms. Also identified was the number of men and women employees in the employment categories, namely, professional staff, skilled staff, unskilled staff and casual labourers. This section further identified community/social amenities offered by the firms.

Table 4.1 (1): Acreage of Sugar Estate

COMPANY	ACREAGE (HA)
1	11,590
2	3,400
3	76,033
4	20, 741

Results for table 4.1 (1) show that the highest number of acreage is 76,033 while the lowest is 3,400. Other firms reported acreage of 11,590 and 20,741. The mean acreage of sugar estate is 2,7941ha.

Table 4.1 (2): Production Capacity

COMPANY	PRODUCTION CAPACITY
1	400
2	3,000
3	2,500
4	3,000
5	821
6	1,250

Results from table 4.1 (2) indicate that the highest production capacity (tonnes) of one company is 3,000 while the lowest production capacity is 400. The average production capacity of the Millers is 1,828.5.

Table 4.1 (3): Employment

COMPANY	PROFESSIONAL STAFF		SKILLED STAFF		UNSKILLED STAFF		CASUAL LABOURERS	
	MEN	WOMEN	MEN	WOMEN	MEN	WOMEN	MEN	WOME
1	3	1	15	2	169	0	44	0
2	199	66	514	25	151	22	462	53
3	45	5	120	18	200	8	400	12
4	56	9	350	50	420	90	3,800	200
5	TE 17,501	-	-	-	-	-	-	-
6	106	2	94	2	102	40	-	-

The findings from table 4.1 (3) indicate that all the companies had more men than women as their professional staff. The highest number of men in the professional category was 199 while the lowest was 3. With regard to women, the highest number of professional staff was 66 while the lowest was 1. In the skilled staff category, all the companies had more men than women employees. A similar scenario can be seen in the unskilled staff category, where there are more men than women. In the casual labourers category, all the firms had more men than women employees as well.

Table 4.1 (4) Community Service or Social Amenities by the Companies

COMPANY	COMMUNITY SERVICE
1	The company offers free clean water to surrounding communities
2	The firm offers health services, and has built schools and church
3	The firm has dug water wells, and built nursery, primary and secondary schools and a football field
4	The firm has a CSR policy in place. Social amenities include 3 primary schools, 1 secondary school and a health centre, an MCH/FP clinic, sports complex, supermarket, police station, post office, Courtesy buses and banking facilities

The findings from table 4.1 (4) indicate that majority of the companies have community service programmes that they had implemented. These ranged from building schools and health centres to providing banking facilities.

4.2 Economic Effects

This section sought to analyse the economic effects in terms of how firms rate the sugar sector in terms of economic growth, associated cost of production and how they affect the sugar sector competitiveness and profitability. The internal and external factors that affect the sugar firms and ways to address them to make the sector competitive were identified. The research also found out how firms have been affected by sugar dumping and the viable economic activities in the sugar sector in order of priority. Further, the research identified the firms' programmes to promote sustainable natural resources and sought to find out if there is a formula of format approach to division of proceeds from sugar produced. Finally, the research identified the breakdown of the proceeds in terms of proportions to the respective beneficiaries.

Table 4.2 (1): Rating of the Sugar Sector

CO	RATING OF THE SUGAR SECTOR
1	The sector contributes 7% of GDP and supports 6m Kenyans, including 250,000 farmers who depend directly/indirectly on the sector. Current sugar production is 520,000 tonnes/yr and current consumption is about 740,000 tonnes/yr.
2	Very high potential for sustainable growth.
3	- Tax on sugar is high - High cost of production
4	The sugar sector contributes to job creation, improved infrastructure and poverty alleviation. The country's economy is dependent on this sector.
5	There are internal and external constraints which in turn have made it difficult for any meaningful economic growth.

The findings from table 4.2 (1) show that the firms responses on the sugar sector rating differed. A certain firm stated that the sector contributes to 7% while another firm mentioned that it had high potential for sustainable growth. One firm was of the opinion that tax on sugar and the cost of production were high. That the sector contributes to job creation among other benefits and that the country's economy is dependent on this sector was also evident. One of the firms was of the opinion that there were internal and external constraints that have made it difficult for any meaningful economic growth.

Table 4.2 (2) Associated Costs of Sugar Production

CO	ASSOCIATED COSTS OF SUGAR PRODUCTION
1	- Cost of Cane production currently estimated at KSh125,000/ha - Cost of cane transport and machinery, cane harvesting, cost of extension/technology transport to the farmers, cost of land development - Labour costs and taxation - Handling of bagasse, shortage of cane, increment weather (heavy rains, etc) - Government policies for import of sugar
2	- Land preparation, farm inputs, cane weed and disease control, harvesting and transport costs - Factory plan installation and maintenance, processing chemicals, energy costs, waste management costs - Labour and professional costs
3	- Maintenance costs (plant and machinery) and the farms - Cost of cane transport - Maintenance of feeder roads and costs of fertiliser, pesticides and chemicals used in the production process
4	- Cost of sugar machinery spares - Electricity, labour - Government taxes
5	- Costs of labour, cane, fuel, power, spares and taxation
6	- Land preparation costs and farm inputs - Harvesting and transport costs - Purchase and maintenance of equipment - Marketing costs

Results from table 4.2 (2) show that there are associated costs of sugar production. Costs that were mentioned by a majority of the firms included maintenance costs of plant and equipment, labour costs, land preparation costs and government taxes.

Table 4.2 (3) How Costs Affect Sugar Sector Competitiveness and Profitability

CO	EFFECTS OF COSTS ON THE SUGAR SECTOR
1	- The high cost of cane production, harvesting and transport directly contribute to the high price of sugar cane currently standing at KSh2,500 per tonne. This translated to approximately KSh26,250 per tonne of sugar made (at an average cane: sugar ratio of 10:50). - Due to rains and bad roads, the transportation is affected, which ultimately affects the recovery and hence the profitability. - Bagasse handling is direct cost. - Sugar imports reduce internal sales, so heavy stocks affecting money circulation, adding bank interests.
2	- Cost of cane farming is very high due to the small farm plots owned by most farmers. - The poor roads make cost of transport very high. - Mechanisation is not possible in these conditions.
3	- Makes the cost of production expensive and hence the final cost of sugar increases, therefore it cannot compete with imported sugar, which is cheaply produced.
4	- The costs are high and result in prices of sugar exceeding that of the imported sugar, which is normally lower
5	- High input costs in the local sugar sector increase the cost of production, thus making the local product uncompetitive in terms of price. This causes accumulation of sugar stocks, which in turn cause off-loading of sugar at prices below cost. Losses accumulated in this way affect cash flow. Investment in new machinery and regular maintenance is reduced, thus increasing inefficiencies. Companies are then forced to borrow in order to finance operations, therefore increasing the cost of production through financing.
6	- 60% of production costs have to do with cane development, harvesting and transport. Western Kenya is a rain-fed scheme and due to the high altitude, cane takes longer to mature –16-24 months.

The findings from table 4.2 (3) indicate that all the firms stated costs affected the sugar sector competitiveness and profitability. Generally, firms felt that poor infrastructure resulted to high sugar cane transportation costs. Due to the high costs of production, prices of local sugar exceed that of imported sugar. This makes the local product uncompetitive in terms of price. Due to rains and bad roads, the transportation is affected, which ultimately affects the recovery, and hence the profitability.

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Table 4.2 (4) Internal Factors Affecting the Sugar Sector Cost of Effectiveness

CO	FACTORS AFFECTING SUGAR SECTOR COST OF EFFECTIVENESS
1	- Inefficiency of mills due to old/obsolete/aged equipment and poor maintenance resulting in low sugar recoveries - High cost of petroleum products - High taxation - Inadequate agronomic and milling research - Government ownership of mills and inherent bureaucracy and corruption - High cost of inputs e.g. fertilisers, and low cane yield - Production of sugar below the rated capacity
2	- Due to high debts, the factories are not able to invest in new and improved technology - Unprofessional boards and management sometimes chosen for their political rather than professional abilities - Low, uneconomical capacities in most of the factories
3	- Mismanagement of the industry - Poor road network within the sugar belt - Paying for the raw materials in terms of cost instead of quality
4	- Inefficiency, low productivity - Weak management
5	- Factory age and technological obsolescence, which reduces efficiency and utilisation - Unclear corporate structure – reporting to parent ministry, Treasury, Inspectorate of State Corporations slows down decision making - Management politics within the firm - The large capital outlay required to modernise the factories
6	- Land size due to constant subdivision - Farmer/miller/farmer organisation relationships not so good - Poor infrastructure resulting in delayed transport, cane spillage, high staleness index

The findings from table 4.2 (4) shows that all firms mentioned internal factors affecting the sugar sector cost of effectiveness. Among the internal factors mentioned are high taxation and the high cost of inputs, e.g. fertilisers, and low cane yield. Others are production of sugar below the rated capacity, mismanagement of the industry and factory age and technological obsolescence, which reduces efficiency and utilisation.

Table 4.2 (5) Measures to Address Internal Factors Affecting the Sugar Sector Cost of Effectiveness

CO	MEASURES TO ADDRESS
1	- Invest adequately in mills modernisation and maintenance - Adequate manpower training and motivation - Tax review/reduction - More investment in research and development including variety development - Investment in cane irrigation - Improvement of roads/drainage infrastructure - Sufficient supply of cane and scheduled preventative maintenance
2	- Avoid poor patronage-based management and adopt a high level of professionalism and efficient management in the industry - Privatisation of state-owned companies and rehabilitation of non-performing institutions
3	- Government-owned entities should be delinked from the government to enable proactive planning in terms of financing, marketing and staff - Boards of directors should be educated to appreciate their role and they should be professionals not secondments from the parent ministry - Recruitment of top management should be professionally done
4	- Government should review legislation on fuel levy and cess, money which millers are charged for purposes of maintaining roads. The millers spend a lot to maintain roads and bridges in order to transport cane

According to table 4.2 (5) firms had put certain measures in place to address internal factors that affect the sugar sector cost of effectiveness. These measures encompass adequate manpower training and motivation, tax review/reduction and more investment in research and development, including variety development. They also include privatisation of state-owned companies and rehabilitation of non-performing institutions.

Table 4.2 (6) External Factors Affecting the Sugar Sector Cost of Effectiveness

CO	FACTORS AFFECTING SUGAR SECTOR COST OF EFFECTIVENESS
1	- Dumping of cheap sugar - Rising cost of petroleum products - High cost of fertilisers, herbicides and other agrochemicals - High cost of machinery and spare parts - Government policies on sugar import - Development of road infrastructure - Government policies on development of cane
2	- Cheap imports from countries that subsidise production - Sugar smuggled into the country without paying duties
3	- High tax rate by the government - Unfair competition from cheap imported sugar - High cost of farm inputs, e.g. machinery, fertiliser - Politics
4	- Importation of cheap sugar from COMESA countries and dumping of sugar by unscrupulous traders
5	- Increase in input prices - Dumping of sugar from other countries - High financing costs - Political appointments and political setting of cane prices - A punitive tax regime - Collapsed infrastructure
6	- Poor government legislation and policies - Regional and international treaties unfavourable to operations - Availability of sufficient unskilled labour. Number of cane cutters now on the decline - Unpredictable weather conditions - Escalating costs of services and materials

The findings from table 4.2 (6) reflect the external factors affecting the sugar sector cost of effectiveness. These encompass high cost of machinery and spare parts, government policies on sugar import, development of road infrastructure. Others are importation of cheap sugar from COMESA countries and dumping of sugar by unscrupulous traders, and escalating costs of services and materials.

Table 4.2 (7) Measures to Address External Factors Affecting the Sugar Sector Cost of Effectiveness

CO	MEASURES TO ADDRESS
1	- Better control and policing to eliminate dumping - Reduce taxations on petroleum products - Introduce direct bulk importation of agro-chemicals and fertilisers by the industry - Reduce cartels in machinery importation and franchise dealings through the Ministry of Agriculture
2	- Control imports and tax
3	- The government should reduce the tax rate on sugar - Avoid external interference and rely purely on professionalism - The government should give subsidies on farm inputs so that local sugar production becomes competitive
4	- Formation of policies with the stakeholders to curb the excessive importation of cheap sugar - Create a level playing field for both local manufacturers and importers
5	- Charge countervailing taxes on sugar originating from countries that subsidise their products - Reduce political influences - Charge taxes that encourage investment and operations-no double taxation - Revamp infrastructure
6	- Review policies to make them more friendly to investors in the sugar sector - Reduce taxation on sugar which is the single most highly taxed commodity

Measures firms undertake to address the external factors affecting the sugar sector cost of effectiveness include introducing direct bulk importation of agro-chemicals and fertilisers by the industry, reducing cartels in machinery importation and franchise dealings through the Ministry of Agriculture and formulation of policies with the stakeholders to curb the excessive importation of cheap sugar.

Table 4.2 (8) Firms Affected by Sugar Dumping

Frequency	(F)	Percentage (%)
Yes	5	100%
No	0	-

The findings from table 4.2 (8) show that all the firms confirmed that they were affected by sugar dumping.

Table 4.2 (9) Position to Join Stakeholders to Curb Sugar Dumping

Frequency	(F)	Percentage (%)
Yes	5	100%
No	0	-

Results from table 4.2 (9) indicate that all the firms were in a position to join other stakeholders to address the issue of sugar dumping.

Table 4.2 (10) Other Alternatives Explored

CO	OTHER ALTERNATIVES EXPLORED
1	- Would like to invest in co-generation and distillation utilising its by-products but we are limited by funds
2	- Power co-generation - Production of spirits from molasses - Bailing of bagasse for sale to other industries as a source of fuel - Power alcohol production - Intercropping of sugar with crops such as potatoes/beans that can be sold in large scale - Expanding workshops to fabricate items for sale - Use of bagasse to be mixed with molasses for cattle feed
3	- Exploring co-generation
4	- Co-generation and use of more cane products, e.g. boards from bagasse, sweets and power alcohol from molasses and organic fertiliser from cane heads
5	- Diversify into energy production - Diversify into ethanol production - Diversify into production of spirits, animal feeds using molasses and bagasse

Table 4.2 (10) shows the other alternatives explored by firms encompass diversification into energy production; bailing of bagasse for sale to other industries as a source of fuel; power alcohol production; intercropping of sugar with crops such as potatoes/beans that can be sold in large scale.

Table 4.2 (11) Other Viable Economic Activities in the Sugar Sector

CO	VIABLE ECONOMIC ACTIVITIES
1	- Power export to grid - Medium density board - Distillation plant for ethanol and liquor - Steel plants, etc.
2	- Electric power generation - Distillation - Sale of carbon credits
3	- Power generation
4	- Co-generation - Power mill - Distillery for processing molasses
5	- Co-generation - Power alcohol - Boards - Organic manure
6	- Maize production - Livestock - Horticulture

The findings from table 4.2 (11) show other viable economic activities in the sugar sector. Majority of the firms mentioned electric power generation, distillation and power alcohol production.

Table 4.2 (12) Importance of Environmental Aspects to Stakeholders

Frequency (F)		Percentage (%)
Yes	5	100%
No	0	-

Results from table 4.2 (12) show that all the respondents were of the opinion that environmental aspects were of importance to stakeholders. Some of the firms mentioned measures they take with regard to environmental aspects. This encompassed system of disposal of waste materials, which were well controlled, and no dumping of waste materials such as bagasse. Efficient treatment was done well, as one firm stated.

To conserve the environment one of the firms indicated that:

- effluent from the factory is treated before release to the rivers;
- it planted water conserving trees along rivers;
- it had water channels to ease soil erosion; and
- it had formulated a policy on waste disposal that is environmental friendly.

Table 4.2 (13) Programmes to Promote Sustainable Natural Resource

Frequency	**(F)**	**Percentage (%)**
Yes	5	93%
No	1	17%

The findings from table 4.2 (13) show that majority of the firms (93%) stated that they had programmes to promote sustainable natural resources. Of the total respondents, only one firm mentioned it did not have a programme to sustain natural resources.

One firm mentioned that it has been involved in tree planting in conjunction with government bodies. To promote sustainable natural resource vis-a-vis sugar production, one firm stated that it had the following programmes in place:

- planting of indigenous trees,
- discouraging use of land for cane planting on a continuous basis and encouraging rotation with animal keeping (in out-grower zone).

Another firm mentioned that it is involved in conservation efforts such as the Nzoia River Basin Management Initiative and Internal Green Teams such as MSC Green Revolution. This has led to MSC winning the Company of the Year Award in Environmental Management for the third year running.

Table 4.2 (14) Formula of Format Approach to Division of Proceeds from Sugar

Frequency	(F)	Percentage (%)
Yes	1	17%
No	5	93%

Results from table 4.2 (14) indicate that majority (93%) of the respondents stated that they did not have a formula of format approach to division of proceeds from sugar. Only one firm mentioned it had an approach. The firm indicated that their format approach was administered by farmer out-grower companies.

Table 4.2 (15) Breakdown to the Respective Beneficiaries

Company	Breakdown			
1	N/A			
2	N/A			
3	N/A			
4	Factory 49.1%	Farmer 51.1% of sugar considering 10.1% sugar recovery of cane milled		
5	Cane 50%,	Staff 20%	Factory improvements 20%	Running costs 10%

The findings from table 4.2 (15) shows that a majority of the respondents did not have a breakdown of the division of proceeds to the respective beneficiaries. Of the total respondents, only two firms had a breakdown that included factory, farmer, cane, staff and running costs.

4.3 Challenges Facing the Sugar Millers in Kenya

This section sought to identify the challenges facing the sugar millers in Kenya. This was based on a Likert Scale ranging from 1) to no extent and 5) to a very large extent. The research also identified other challenges faced by the sugar millers. The research further identified measures that sugar millers take to address the challenges the face.

Table 4.3 (1) Challenges Faced by Sugar Millers									
Challenges Faced by Sugar Millers	**To no extent**		**To a small extent**		**To a medium extent**		**To a large extent**		**To a very large extent**	
	F	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**
Negative effects of regional trading systems	-	-	2	25%	2	25%	3	50%	-	-
Excessive deductions and taxation of farmers' income	-	-	3	42%	2	29%	-	-	11	29%
Poor and patronage-based management systems	2	29%	11	29%	-	-	3	42%	-	-
Delayed payments	2	25%	2	25%	2	25%	2	25%	-	-
Weak research and extension services	-	-	3	50%	-	-	3	50%	-	-
Ineffective out grower institutions	-	-	-	-	-	-	4	67%	2	28%
Inadequate capital for operations	2	33%	11	33%	-	-	11	33%	-	-
Subsidised sugar products	3	42%	-	-	-	-	4	57%	-	-
Core product challenges	4	67%	11	33%	-	-	-	-	-	-
Alternative sweeteners	5	10%	-	-	-	-	-	-	-	-
Threatening of critical mass	3	42%	-	-	2	28%	-	-	-	-
Price levels against changing demand	-	-	-	-	3	42%	-	-	-	-
Availability of reasonably cheap water	3	37%	-	-	3	37%	-	-	2	25%
Survival of the sugar millers	-	-	2	25%	2	25%	2	25%	2	25%
Massive investment of cash and energy	2	29%	3	42%	2	29%	-	-	-	-
Land reform challenges	3	42%	-	-	-	-	2	29%	2	29%

The findings from table 4.3 (1) indicate the challenges faced by sugar millers. The challenges that were experienced to a very large extent were: excessive deductions and taxation of farmers' income. To a large extent, firms stated the challenges that affected them, namely: negative effects of regional trading systems; inadequate capital for operations and survival of the sugar millers and its ability to sustain growth. To a small extent, firms mentioned poor and patronage-based management systems and massive investment of cash and energy.

Table 4.3 (2): Other Challenges that Face the Sugar Millers

CO	CHALLENGES FACING SUGAR MILLERS
1	- Lack of access to affordable credit for development
2	- High costs of fuel affects operation in farms, lubrication of machines/plants in the factory - Cheap sugar from other countries will kill the industry - Cost of production is high
3	- Government policies that do not address the plight of sugar millers - Unilateral decision-making by government bodies - Whereas government imposes taxes and levies, they have failed to address infrastructure in the sugar sub-sector - Spare parts and machinery are imported and the same attract high rate of duty and taxes
4	- The smallness of the factories, therefore the product volumes are low, thus may not be offered to a wide clientele - High altitude — the growth of sugar cane to maturity is fairly low - Changing lifestyles — reduction of sugar from diets - Changing weather patterns — reduced rains have recently affected yields
5	- Cane poaching - Declining cane yields - Awareness among farmers of their rights is high - Cane fires - Adoption of new technology

Table 4.3 (2) show other challenges faced by the sugar millers namely government policies that do not address the plight of sugar millers; unilateral decision making by government bodies; changing lifestyles-reduction of sugar from diets; changing weather patterns-reduced rains in the recent past have affected yields; awareness among farmers of their rights is high; cane fires and adoption of new technology.

Table 4.3 (3): Measures Taken to Address the Challenges Faced by Sugar Millers

MEASURES	**F**	**%**
Making acquisitions	1	17%
Working with shareholders and training them	4	67%
Investing time, energy, effort to store beets well	0	-
Balancing the sugar recovery and factor through slice rates	0	-
Investing in new technology	3	50%
Emphasising on product quality	5	83%
A constant need to manage cost	5	83%

Results from table 4.3 (3) show the measure respondents take to address the challenges they face. A majority (83%) of the respondents emphasised on product quality and saw a constant need to manage cost. A further 67% of the respondents stated that they worked with shareholders and trained them to understand how to grow the best crop while 50% of the firms mentioned they invested in new technology to get the high state of operations in order to monitor and have constant feedback. Of the total respondents, 17% stated that their measures encompassed making acquisitions such as beet factories and more land to plant more stock to minimise the negative impact of trade arrangements and consumption trends.

Table 4.3 (4) Other Measures Taken to Address Challenges Faced by Sugar Millers

CO	MEASURES
1	- Have put into motion steps to first optimise operations and then gradually change from the outdated open pan technology to vacuum pan technology
2	- Diversification, e.g. power generation and alcohol production - Expansion of production capacity - Improving farming methods to ensure higher yields - Talking to the Ministry of Agriculture to help them engage AFC to provide loans to help revamp the industry by acquiring new technology - Revisit the issue of State Corporations Act to give the industry autonomy, i.e. manage its affairs
3	- Efforts are being made to have a legal body to represent the millers - Undertaking a cane development programme to increase acreage and production - Factory production to improve efficiency and production by installing modern technology
4	- Sugar millers to import fertiliser as one unit to help negotiate prices downwards - Outsourcing of non-core services - Holding talk shows for stakeholders to understand the firms' working style - Educating the farmers in agri-business - Packaging small-to-reach people with low budgets or one-off consumption - Staff training to attain excellence in sugar growing and factory operations
5	- Diversification - Green fields acquisitions, e.g. TARDA - Education programmes to enlighten farmers on the challenges

Table 4.3 (4) shows other measures that respondents take to address the challenges they face. These measures encompass diversification, e.g. power generation and alcohol production; expansion of production capacity; improving farming methods to ensure higher yields; outsourcing of non-core services; holding talk shows for stakeholders to understand the firms' working style and educating the farmer in agri-business.

CHAPTER FIVE
SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section provides a discussion on the findings of the study, the conclusions derived from the findings and recommendations for improvement and further research.

5.2 Summary

The purpose of the study was to identify the challenges posed by Common Market for Eastern and Southern Africa (COMESA) on the sugar millers in Kenya. The type of research design was a case study. The population consisted of senior management staff. Of the chosen sample size of 8, 6 respondents replied. Data was collected by use of questionnaires, which were hand delivered to the respondents. Data analysis was by use of frequency distribution tables and percentages. The objectives of the study were to determine the challenges posed by COMESA on the Kenyan sugar millers and to establish the ways the sugar millers have devised to overcome the challenges they face. The major findings of the study were as follows:

5.2.1 Economic Effects of the Sugar Sector

Firms' responses on the sugar sector rating differed. Some mentioned that it had high potential for sustainable growth while others were of the opinion that tax on sugar was high, as was the cost of production. It was felt that the sector contributed to job creation. One of the firms was of the opinion that there were internal and external constraints that have made it difficult for any meaningful economic growth. According to Czinkota (1994) when a country imposes a tariff on imports, the prices of the goods will typically rise because sellers will increase prices to cover the cost of the tariff.

Results showed that there were associated costs of sugar production. Costs that were mentioned by a majority of the firms included maintenance costs of plant and equipment, labour costs, land preparation costs and government taxes. According to Czinkota (1994), a common market allows factors of production to flow freely across borders; the firm may now have access to cheaper capital, more highly skilled labour or superior technology.

All the firms stated that costs affected the sugar sector competitiveness and profitability. Generally, firms felt that poor infrastructure resulted in high sugar cane transportation costs. Due to the high costs of production, prices of local sugar exceed that of imported sugar. This made the local product uncompetitive in terms of price. Due to rains and bad roads the transportation was affected which ultimately affected the recovery and hence the profitability. Internal factors that affected the sugar sector cost of effectiveness were high taxation and the high cost of inputs, e.g. fertiliser, and low cane yield. Further, production of sugar below the rated capacity, mismanagement of the industry and factory age and technological obsolescence reduced efficiency and utilisation. According to Czinkota (1994), less energetic and productive economies may be spurred into action by competition from the more industrious bloc members.

Firms had put certain measures in place to address internal factors that affected the sugar sector cost of effectiveness. Measures included adequate manpower training and motivation, tax review/reduction and more investment in research and development, privatisation of state-owned companies and rehabilitation of non-performing institutions.

The external factors that affected the sugar sector cost of effectiveness were the high cost of machinery and spare parts, government policies on sugar import, and development of road infrastructure. Others were importation of cheap sugar from COMESA countries and dumping of sugar by unscrupulous traders, and escalating costs of services and materials.

Measures firms undertook to address the external factors that affected the sugar sector cost of effectiveness included introduction direct bulk importation of agro-chemicals and

fertilisers by the industry; reducing cartels in machinery importation and franchise dealings through the Ministry of Agriculture; and formation of policies with the stakeholders to curb the excessive importation of cheap sugar.

5.2.2 Challenges Facing the Sugar Millers in Kenya

Most firms experienced challenges to a certain extent. The challenge that was experienced to a very large extent was excessive deductions and taxation of farmers' income. Other challenges experienced were negative effects of regional trading systems; inadequate capital for operations and survival of the sugar millers and its ability to sustain growth; poor and patronage-based management systems and massive investment of cash and energy.

There were other challenges that were faced by the sugar millers, namely government policies that did not address the plight of sugar millers; unilateral decision-making by government bodies; changing lifestyles such as reduction of sugar from diets; changing weather patterns in form of reduced rains which, have affected yields; high awareness among farmers of their rights; cane fires and adoption of new technology. According to *The EastAfrican* newspaper (2007) COMESA extended Kenya's sugar importation quota by four years but with a condition to aggressively improve local production capacity.

Firms took measures to address the challenges they faced. Most firms emphasised on product quality and saw a constant need to manage cost. They also worked with shareholders and trained them to understand how to grow the best crop. Firms also invested in new technology to get the high state of operations in order to monitor and have constant feedback. Other measures encompassed making acquisitions such as beet factories and more land to plant more stock to minimise the negative impact of trade arrangements and consumption trends.

In addressing their challenges firms also diversified, for instance, power generation and alcohol production; expansion of production capacity; improving farming methods to

ensure higher yields; outsourcing of non-core services; holding talk shows for stakeholders to understand the firms' working style and educating the farmers in agri-business. According to Yeast (1998), a far more promising policy approach would be broad-based reductions in African trade barriers on a most-favoured-nation basis.

5.3 Conclusion and Recommendations

The purpose of the study was to assess the challenges posed by COMESA on the sugar millers in Kenya. The conclusions are based on the findings and discussions. Conclusions are derived from views that emerged and main lessons learned from the study.

Overall, there is optimism, albeit cautious, among stakeholders that there is a lot of potential for expansion and development of the sugar industry in Kenya. The expansion is premised on the expectation that the development would ensure that factories within the region enjoy economies of scale and reduce production costs, which would make the sugar industry competitive regionally and globally. According to the sugar millers, local production that covers the demand deficit should help reduce the need for imports. This is a short-term view, as safeguards in place would have to be lifted to open the market to imports.

Measures to Address Sugar Importation Bottlenecks

Reports of smuggling, dumping and illegal importation are associated with uncoordinated importation of sugar. These imports are procured at world market prices, many times below the cost of locally (regional) made sugar. Developing countries markets attract good prices in the open market. Industry stakeholders were of the view that some measures should be put in place to address the problems, including strict control measures on importation under a transparent system to be controlled by government; safeguard measures such as application of uniform tariffs and duty in the region; monitoring of raw sugar imports for use in the respective sectors.

Existence of a regulatory framework in Kenya would result in very significant changes in the sugar industry. The prevailing systems in the region are structured in favour of importers, distribution agents and brokers at the expense of millers and farmers. The sugar millers want a single-desk marketing system that involves vesting powers in a marketing entity to export sugar and import the deficit quantity, and share proceeds among the industry stakeholders.

Regional Level Safeguards

Recognising that the economic integration process in the region has had positive effect on some sectors but negative effects on others, the industry was of the view that during implementation of the COMESA FTA, some fairly longer-term safeguard measures should be extended to the sugar sub-sector while waiting for it to fully adjust to the changes.

Improve border control measures

With the reality that the region's borders are porous, there is need for increased cooperation to ensure that the sub-sector is not harmed by dumping and unfair competition. Alongside this is the need for the development of a surveillance mechanism that ensures that there are proper controls both within individual countries and within the region for adequate enforcement of regulations that should support and protect the industry.

Lack of transparency in the sub-sector

Ongoing reforms have been considerably affected by the lack of vital production-related information that conclusions on, for example, cost of production, are normally made relying on assumptions and incomplete data. Importation (including illegal imports) is also shrouded in considerable information gaps. Kenya has measures in place to monitor importation. Nevertheless, the East African region still needs to take additional measures, including collaboration, to address import bottlenecks.

Empowerment of sugar millers

Sugar millers' voices need to be strengthened through empowerment. Although out-grower entities exist, they have been able to amplify the voice of smallholder farmers but not to explore ways and means of ensuring social and economic insurance to the vulnerable households.

Increase local production capacity

Overall there is a lot of potential for expansion and development of the sugar industry in Kenya. The expansion and development will ensure that the factories within the region enjoy economies of scale and reduce production costs, which will make the sugar industry competitive regionally and globally. This calls for investment capital into the industry.

De-politicisation of the sugar industry

It needs to be said, however, that some traditional exporters have found in the COMESA reform a convenient explanation for their inability to maintain an efficient and well-run sugar sector, which, despite the preferential agreement with the COMESA, has been run-down by government policies and heavy political interference.

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APPENDICES

APPENDIX 1: COVER LETTER

Timothy Wasilwa,
School of Business,
University of Nairobi,
NAIROBI.

Dear Respondent,

I am a postgraduate student at the School of Business, University of Nairobi. I am carrying out a research to determine the Challenges posed by COMESA on the Kenyan Sugar Millers. This is in partial fulfilment of the requirement for a Masters in Business Administration at the University of Nairobi.

You/Your firm/Company/Association have/has been identified for this study. I would be grateful if you could spare some time to provide the information in the attached questionnaire.

Thank you very much for your participation in this research.

Yours Faithfully,

Timothy Wasilwa
(MBA Student)

APPENDIX II: QUESTIONNAIRE

Instructions;

Please read the questions below and respond as honestly as possible by ticking or writing the responses as appropriate.

QUESTIONNAIRE FOR SUGAR MILLERS

1. General Information

1. What is the profile of your sugar company?

a) acreage of sugar estate _____

b) production capacity _____

c) employment

i) professional staff: men.....and women.....

ii) skilled staff: men.....and women.....

iii) unskilled: men.....and women.....

iv) casual labourers: men.....and women.....

d) community service or social amenities by the company

2. Economic Effects

1. How do you rate the sugar sector in terms of economic growth and sustainable development?

_____

_____

2. What are the associated costs of production of sugar?

_____

_____

3. How do they affect the sugar sector competitiveness and profitability?

_____

_____

4. What are the major internal factors affecting the cost effectiveness of the sugar sector?

5. How can they be addressed to make the sector competitive and more profitable?

6. What are the major external factors affecting the cost effectiveness of the sugar sector?

7. How can they be addressed to make the sector competitive?

8. Has your company been affected by sugar dumping? **YES** ☐ **NO** ☐
If so how?

9. Are you in a position to join other sugar stakeholders to address the effects of sugar dumping? ☐ **YES** ☐ **NO**

10. Dependency on single output (sugar) and limited value addition have been noted to curtail growth of the local sugar millers. Have you explored other alternatives/options?

11. What are the other viable economic activities in the sugar sector in order of priority?

    a)

    b)

    c)

    d)

12. Sustainable development is key to the sugar sector. Are environmental aspects of importance to you as a major stakeholder?

_____

_____

13. Do you have programs to promote sustainable natural resource use restoration vis-à-vis sugar production?

_____

_____

14. Do you have a formula of format approach to division of proceeds from sugar produced at your factory?

_____

_____

15. What is the breakdown in terms of proportions to the respective beneficiaries?

_____

_____

3. Challenges Facing the Sugar Millers in Kenya

16. Please indicate by circling the extent to which the following factors affect you

    1. **To no extent**
    2. **To a small extent**
    3. **To a medium extent**

4. **To a large extent**
5. **To a very large extent**

i)	Negative effects of regional trading systems	1	2	3	4	5
ii)	Excessive deductions and taxation of farmers' income	1	2	3	4	5
iii)	Poor and patronage based management systems at all levels resulting in low levels of professional and efficient management	1	2	3	4	5
iv)	Delayed payments to farmers and huge millers debts often accrued through mismanagement	1	2	3	4	5
v)	Weak research and extension services leading to low productivity at the farm and factory levels	1	2	3	4	5
vi)	Ineffective out grower institutions and lack of active participation by farmers	1	2	3	4	5
vii)	Inadequate capital for operations, factory, rehabilitation, maintenance of infrastructure, modernisation and expansion.	1	2	3	4	5
viii)	Subsidised sugar products that flood the market	1	2	3	4	5
ix)	Core Product Challenges (reduction in sugar consumption)	1	2	3	4	5
x)	Alternative sweeteners (High intensity sweeteners which substitute sugar)	1	2	3	4	5
xi)	Threatening of critical mass (e.g. fixed assets) because of reduction of production levels	1	2	3	4	5
xii)	The challenge of price levels against changing demands in world trade	1	2	3	4	5
xiii)	The availability of reasonably cheap water	1	2	3	4	5
xiv)	Survival of the sugar millers and its ability to sustain growth	1	2	3	4	5
xv)	Massive investment of cash and energy that is not not been complemented with productivity by the management concerned	1	2	3	4	5
xvi)	Land reform challenges (willing buyer-willing seller arrangements)	1	2	3	4	5

What other challenges face the sugar millers?

_____

_____

_____

_____

_____

17. Which measures below have you taken to address the challenges that you face as sugar millers? Tick the ones appropriate

a) making acquisitions e.g. of beet factories and more land to plant more stock to minimise the negative impact of trade agreements and consumption trends
b) working with shareholders and doing training for them to understand how to grow the best crop
c) investing time, energy and effort to be able to store beets well
d) balancing the sugar recovery and factor through slice rates (not running the factories too fast because the sugar recovery goes down; too slow you end up with the beets deteriorating in piles
e) investing in new technology to get the high state of operations in order to monitor and have constant feedback
f) emphasising on product quality
g) a constant need to manage cost

18. What other measures have you taken to address the challenges that you face as sugar millers?

_____

_____

_____

_____

_____

_____

_____