2 A Bitter Pill to Swallow: The Effects of Tariff Reductions on Sugar in Kenya

Yves Conze with Mariama Williams

'The people making these rules should come to the ground and see how we live. We are very bitter. We are sad and we are stranded because we don't know what tomorrow will have for us. Will they come to help us when we are dead?'

Co-founder, Kenyan Women Sugar Cane Farmers Network

Background

Kenya has been East Africa's most industrialised country since its independence from Britain in 1961. It has also developed the reputation of being the regional hub for trade and finance as a consequence of a conscious and proactive development agenda. It is a member of the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA) and a partner in the Lomé Convention/Cotonou Agreement (2000) with the EU.

Kenya's gross domestic product (GDP) is estimated at US$31.42 billion and its per capita GDP at US$1,600 (2008).[2] The economy grew on average by 3.2 per cent a year between 1975 and 2001, although growth has slowed in the last few years. The structure of the economy is such that services were estimated in 2007 to generate 59.5 per cent of GDP, followed by 23.8 per cent for agriculture and 16.7 per cent for industry. Agriculture, despite its relative low output, still employed 75 per cent of the population of 85 million and was the largest contributor of foreign exchange to the balance of payments.

Change in trade policy

Trade has played an important role in the economy, although the country initially embarked on import substitution by erecting tariff walls in order to protect its infant industry. This policy has been in reverse since the 1980s, when Kenya introduced structural adjustment measures such as de-control of prices and removal of subsidies on fertilisers, transport and fuel. The country has moved from import substitution to trade liberalisation with its Sixth Development Plan (1989–93). Further liberalisation occurred with the

implementation of commitments under the WTO (1995), EAC (1996 and 2000) and COMESA. Kenya also signed up to the African Growth and Opportunity Act and the Cotonou Agreement.[3] The net results have been complete price deregulation on major products, the elimination or lowering of a number of tariff bands, the unrestricted import and export of goods, deregulation of crops overseen by the marketing boards, the removal of subsidies and currency devaluation. Over time, Kenya has experienced economic stagnation, a worsening poverty index and a breakdown of the socio-economic structure.

The strongest impact of import liberalisation has been on the sugar sector. Following a joint complaint from Australia, Brazil and Thailand, the WTO ruled in 2005 that the EU sugar regime was in breach of WTO regulations (Poulton and Tyler, 2007). With unlimited import of goods, Kenya experienced a 50 per cent increase in imports of sugar between 1995 and 2001, resulting in shrinkage of the local sector by 79 per cent and lay-offs totalling over 32,000 workers (ActionAid Kenya, 2005).

ActionAid Kenya research shows that both producers and consumers have suffered from high prices and loss of income due to trade liberalisation. This finding contradicts the popular belief that such liberalisation brings benefits to consumers in the form of cheap prices. Instead, even in periods of high spikes of import surges, consumers paid almost 50 per cent more for sugar than previously. However, the economic and social status of the various players allowed them to take different defensive and offensive actions in order to mitigate the negative impacts of trade liberalisation. For example, as noted in the ActionAid Kenya study, millers were able to take a more proactive stance to try to ensure market share. They undertook more branding of their sugar and were also able to diversify into different products. Farmers and communities living in the sugar belt, however, had very few ways to cope effectively with import surges.

The sugar sector in Kenya

The production of sugar plays an important role in Kenyan society. It serves as a cash crop for many small farmers, especially in the western and Nyanza regions. Sugar production is labour intensive and offers employment to many of the over 8 million people (28 per cent of the population) who live in these areas. Providing a higher mean income than other sectors, sugar production also helps to promote regional and rural economic development.

Aside from its impacts on farmers, the decrease in sugar production has affected a number of other sectors with which sugar is interlinked, such as input supply, manual weeding, cane and sugar transport, sugar milling

factories, agro-chemical industries (Kisumu Molasses Plant and the Agro-Chemical and Food Company), equipment suppliers and molasses distribution. This web of interconnection of economic livelihood sources contributes to sugar's role as a stabilising variable in both the regional and national economy.

Kenya has 'six operational sugar-milling factories … and over 200 jaggaries with capacities ranging from 1 ton to 30 tonnes of sugarcane per day', the latter producing jaggery sugar which is used in the production of white rum (ActionAid Kenya, 2005). Liberalisation of sugar has led to one mill closing and two others (Muhoroni and Miwani) going into receivership. The net impact is the dislocation of over 60,000 households, with the likely impact extending to over 150,000 households (ActionAid Kenya, 2005). The industry is suffering greatly. Between 1995 and 2004, the sector experienced a decline in employment and wages of over 70 per cent.

Liberalisation under COMESA and the WTO allowed import volume to grow from 65,816 metric tonnes to 171,308 metric tonnes in just two years between 1996 and 1998, and this quadrupled to 249,336 metric tonnes in 2001. No industry can be expected to survive this onslaught. The local producers were also victims of their own inefficiency in terms of production costs. According to experts, it costs US$450–600 to produce a tonne of sugar in Kenya, but only US$250 per tonne in other COMESA countries such as Malawi, Mauritius and Sudan. In addition, Kenyan sugar competes against the world number one and two producers, Brazil and Thailand. The struggling Kenyan sugar industry has been exposed to intense competition as EU sugar reform led to sugar normally bound for the EU being diverted to the Kenyan market instead.

The increase in imports led to a drastic fall in domestic prices and in the income of small farmers, thus reducing the availability of cash for school and other discretionary expenses. Consequently, the region suffered from both direct and indirect effects. As noted in the ActionAid Kenya (2005) report:

> Western and Nyanza region farmers grow beans, maize and vegetables for subsistence. Income from sugarcane gives them the economic power to buy food when the subsistence crops fail. In addition, income from sugarcane is also used for buying more quality food for nutritional purposes. In the long run, lack of timely payment for sugarcane therefore leads to nutritional problems as well as food inaccessibility.

The cash value of sugar in the region extends far beyond the immediate needs of the small farmer. Any monoculture region or society is subject to the full repercussions of a collapse in price resulting from exogenous shock.

This is reflected in the severity of the collapse of the social structure in the sugar belt. Since sugarcane farming is a sort of 'social collateral' in the provisioning of schools and hospitals, decline in the sector is felt in those areas as well. According to NGOs such as ActionAid, schools, hospitals and individuals used to extend credit on the premise that repayment would come with the harvesting of the cane. However, with the contraction in the sugar industry, the entire credit system came to a halt.

The regional and national governmental apparatus is also heavily dependent on sugar for revenue. When the sector contracted, there was a twofold hit on government revenue: loss of domestic taxes and loss of foreign exchange. This in turn negatively affects social service provisioning in the region.

ActionAid Kenya (2005) notes that:

> In the case of Kenya, the sugar milling factories served a larger function; they acted as quasi government and private social security by providing certain services such as health services and support education services. Miwani sugar factory before its collapse supported 3 primary schools, a secondary school, and a hospital with a capacity 110 beds. Also Mumias sugar factory supports a primary school, a secondary school and a health centre. This is common with all milling factories as shown in the study findings. Therefore, the domino impact is clearly greater than originally anticipated ….

The collapse of the sugar sector has other repercussions, as the remaining mills tend to discriminate more openly in favour of contract farmers, who together account for about 88 per cent of the total area farmed for sugarcane. Mill owners have facilitated the Outgrowers Association of contract farmers by helping to finance the crop and taking payment later (SUCAM, 2008 cited in CI Network, 2009). Small cane farmers argue that the millers' actions cause delay in the harvesting of their own crops, thus contributing to crop loss and lower profit margins. They also complain that the millers exploit them by charging high prices for fertilisers and other services, making cane growing unprofitable (IATP, 2005).

Associated with the collapse of sugar are school drop-outs, increased prostitution, crime, HIV and AIDS and poverty (IATP, 2005). According to Persis Koskei of the Kenyan Sugar Cane Growers Network, 'children have dropped out of school and many now work in the sugar fields, while the nursing home that used to serve the community, an essential facility in an environment as harsh as sugar farming, has also subsequently closed' (quoted in Geneen, 2006). The growing HIV and AIDS prevalence rates complicate the social distress in the sugar belt. The National AIDS and Sexually Transmitted Diseases Control Programme reports 40–50 per cent

prevalence of HIV infection among adults around Kisumu, compared to a national average of 8 per cent (Ambwer, 1999).

Gender dynamics in the sugar belt

Women in the sugar belt in Kenya are more likely to be poor than men. This is largely due to their lack of rights and control over productive resources and their lack of legal protection. As elsewhere in sub-Saharan Africa, women have low levels of asset ownership and poor access to credit and are highly concentrated in agriculture. The majority of subsistence farmers are women (69 per cent), and this is the group whose members are most likely to be poor in Kenya (Omiti *et al.*, 2002).

Ruth Oniango of Kenya's Rural Outreach Programme argues that women in the rural areas operate in a 'a culture where men own assets and control investment, government training programmes [are] run by and for men, and even international aid assumes farm labour will be done by men' (Alsop, 2008). Moreover,

> The women and children would be the ones tilling and toiling away and then the men go and collect the money … The challenge is that, given our own socio-cultural traditional setup, women don't own the land. They depend on the men … Give a woman 20 shillings. If you go home with her the following day, you will find what the 20 shillings did. But if you give it to a man and you go to his home, it will be like he never met you.

According to ActionAid Kenya (2005), female-headed households are actively involved in sugarcane production. The study notes that female producers enjoy less favourable terms due to cultural and ethnic practices that place women at a disadvantage. The report goes on to point out that most women producers had no legal title to their parcels of land and therefore most of the grower and miller institutions still do not recognise their ownership. Many women are also denied credit and their representation in grower institutions is marginalised. Furthermore, the gender division of labour in the sector means that women normally do the physically demanding work of planting cane, weeding and applying fertilisers (ActionAid Kenya, 2005).

A study of the gender patterns in sugarcane-producing and non-sugarcane producing households in Kenya by Kennedy and Coghill (1988) found that though household incomes are significantly higher in the former, the percentage of female-controlled income is significantly lower. Further, it was noted that the childcare patterns of women from sugarcane- and non-sugarcane-producing households do not differ significantly, because sugarcane-producing households tend to use more hired labour (ibid.). However, this

does not mean that the women in the sugar belt have a lot of leisure time. They have less than their counterparts in the Philippines, for example. According to Kennedy and Garcia (1992), sugarcane farmers in Kenya and the Philippines share at least three common features: the shift from maize to sugar cane production; the significantly higher mean income of sugarcane farmers than that of non-cane producers; and 'in both cases, the largest share of the work day for women is accounted for by home production activities – getting water, fuel-wood, cleaning, etc.'. Nonetheless, unlike the Philippines, data from Kenya show a low response of the body mass index of women to increasing income. A likely explanation for this is that in the Philippines women have better access to basic services, whereas in Kenya, 'time allocation data reflects the poorer overall infrastructure and the implications this has for women's time' (Kennedy and Garcia, 1992). Kenyan women must devote a significant amount of time to fetching water and fuel-wood. Because of these factors women in Kenya spend twice as much time on home production as do women in the Philippines.

Given their marginal position both in society and cane production – and their multiple roles as workers, service suppliers, and household and community managers – women faced a difficult situation as a result of the import surge in the sugar sector. A number of reports argue that women have also suffered disproportionately from the surge in food imports as a result of trade liberalisation.

With the closing of sugar companies such as Miwani, 'farmers now face the rising costs of taking their harvest further afield' (Geneen, 2006). Reaching the state-owned Chemelil Sugar Company takes over three times as long as it used to take to get to Miwani. Researchers noted that some farmers, especially women, cut their cane only for it to dry on the field due to lack of transport and roads to the nearest mill (Koskei, cited in Geneen, 2006).

Measures taken to help women cope with or take advantage of policy change

Attempts to introduce measures, policies and projects to reverse the decline in the sugar sector and to protect livelihoods have been undertaken at multiple levels.

Local NGOs and private sector organisations

Women have organised themselves into the Kenya Sugarcane Growers (KSG) Network and the Kenya Women Sugarcane Farmers Association (KWSFA) to undertake advocacy on their issues. The KSG Network has

appealed to the government and the private sector to help revive the sugar industry by providing incentives to local farmers, reducing taxes imposed on sugar and reviving collapsed companies such as Miwani. It has also taken on board wider issues that are critical to women's empowerment. For example, it is lobbying for support to ensure that the constraints posed by lack of education in their community are dealt with. This point is reinforced by Persis Koskei, a 53-year-old woman sugar farmer, who argues that 'We need to educate ourselves about our market, to know what the people want so that we should be able to diversify our farming' (cited in Geneen, 2006).

KWSFA, which is allied with the Sugar Campaign for Change (SUCAM) and ActionAid, focuses on addressing equality issues. These organisations promote the education of women in the sector, both generally and with specific regard to marketing conditions. They are also lobbying the government to stop the dumping of imported sugar and to offer financial support for better roads and improved access to water for irrigation and household use.

At the level of the broader civil society, SUCAM was launched in 2001, with the support of ActionAid, as an independent lobby and advocacy coalition to advocate for the rights of sugarcane farmers. It also advocates for gender and food security. In addition, the organisation promotes the idea that because population growth has drastically reduced the space for growing cane, sugarcane farmers should embrace block farming and allow space for food crop production. It calls for women and youth to be involved in decision-making in the industry (CI Network, 2007)

There have been a number of consultations under the auspices of the National Consultative Workshop on Sugar on import surges. These brought together a cross-section of key stakeholders in the sugar industry, including producers, farmers' associations, sugarcane farmers' unions, research institutions, the media, academia, sugar importers, industrial users of sugar, sugar millers, Kenya Sugar Board officials, NGOs and suppliers of equipment to the sugar sector (ActionAid Kenya, 2005). There was no specific mention of women's organisations.

The participants at the meetings determined that:

> … sugar must be treated as a special product (SP) and accorded higher status and level of protection due to its special and multiple attributes as an industrial ingredient in the manufacture of many other products, a major source of food for the Kenyan population, source of energy both new and renewable, environmentally friendly features when compared to fossil energy, contributes greatly to the rural development and cultural social economy through provision of hospital, education, sporting infrastructure in Kenya.

Activists also argue that the Government must endeavour to guarantee loans to cane farmers at affordable interest rates and, where necessary, write off their debts. They advocate that reforms must include improving the efficiency of the sugar extraction process in factories, as well as consideration of the life and food needs of the over 6 million people who are so dependent on sugarcane for their livelihoods.

The Outgrowers' Association calls for tax cuts on fertilisers, chemicals and farm machinery to increase growers' profits.

National

The immediate response of the Government, as it sought to deal with complaints from the major stakeholders, was to seek the intervention of COMESA for safeguard measures to stop the import surges. This was granted initially for a period of one year and later extended for a further four years with a scheduled expiry date of 2012. The Government also sought a remedy under the WTO safeguard framework. There was no specific gendered approach to this issue at the policy level.

Ultimately, due to a number of inherent problems with the administration of safeguard provisions and the problem of illicit imports of sugar, none of these solutions provided an effective remedy to the problem of the import surge in the sugar sector. Currently, the COMESA safeguard protection is administered by the government-led Sugar Safeguard Committee, which is mandated to facilitate sector reforms. It is responsible for providing leadership with respect to privatisation of state-owned firms, adoption of bio-energy, and research on varieties and sugarcane prices based on quality, infrastructure development and poverty reduction initiatives (CI Network, 2007).

In 2008, the Cabinet approved the privatisation of five state-owned sugar companies, and identification of the consultant for this is ongoing.

Regional

Regionally, although this is not gender-specific, COMESA, under its safeguard clause, allowed Kenya to impose a quantitative restriction on sugar coming into its market as follows:

(a) A quota of 200,000 tonnes annually on sugar imported from COMESA countries. This is to meet the shortfall between domestic production and local consumption. Of the quota, 89,000 tonnes is for domestic white sugar and 111,000 tonnes is for industrial refined sugar.

(b) Application of a maximum tariff of 123 per cent, made up of 100 per cent

tariff, 16 per cent value added tax (VAT) and 7 per cent Sugar Development Levy (ActionAid Kenya, 2005).

The problem with the tariff is that it is linked to the value of the imported sugar, which may be determined by the cost of production in the exporting country or the price at the place of purchase of the imported sugar. Whatever the cost or price, in most cases it is lower than the one prevailing on the domestic scene.

International

KWSFA officials argue that 'the World Trade Organization should also be involving farmers from the grassroots, especially women in the trade negotiations as the agreements usually cause us more harm than good' (IATP, 2005). There is therefore need for an effective WTO safeguard rule that advocates that sugar should be treated as sensitive. Kenyan civil society advocacy with the Government is seeking protection for the sugar sector by identifying it as a special product in negotiations on agricultural liberalisation.

In the context of existing WTO agreements, there is a specific safeguard for agriculture and a set of three more prominent General Agreement on Tariffs and Trade (GATT) safeguards: anti-dumping, countervailing and emergency safeguards. However, these are not friendly to developing countries such as Kenya. The special safeguard mechanism under the Agreement on Agriculture (which is the simplest to use) is only available to 36 countries and for a limited number of commodities.

Two general GATT safeguards (anti-dumping and countervailing measures) involve overcoming a challenging hurdle of procedural requirements. Their domestic implementation requires significant financial and human resources. A few developing countries are just beginning to establish national institutional frameworks. The emergency safeguard is easy to administer but requires financial compensation for the trading partner affected by actions taken by a country to protect its economy. This makes it almost impossible for poor developing countries to make use of the safeguard.

Lessons learned

The key lessons emerging from the sugar sector experience for national level stakeholders and policy-makers are at least fourfold. First, it is important to diversify economic activities as much as possible in order to end the over-dependence of a majority of the population on one critical sector. As noted by SUCAM, diversification is crucial to broadening the income bases of farmers. Second, the capacity of citizens needs to be built through education

in order to enable them to adapt to economic change. Third, it is extremely important to provide and maintain basic social services such as education, health care, roads, water and sanitation. The existence of free compulsory basic and elementary education would have been of great help to the families so negatively impacted by the crisis in the food sector. Government should also develop basic social safety nets that can support citizens in times of upheaval. Fourth, food security must be the driving force behind economic and trade policy.

There is a need for better institutional and administrative mechanisms at government level to deal with issues of imports and their potential injury to the domestic economy. Further, better safeguards (simple to use and effective mechanisms) are needed within both COMESA and the WTO framework. The Government, civil society and international organisations should also pay attention to the underlying gender dynamics in the economy in the design and implementation of poverty reduction strategies and trade agendas.

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