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Will the Sarrai mogul flame Mumias again? The Mumias Leases and Revival saga

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ABSTRACT

Mumias Sugar Company is a household name in the sugar sector in Kenya and regionally. The company has historically been an economic power house by directly employing company workers and providing thousands of employment opportunities in Kenya while supporting the livelihoods of numerous farmers in the western Kenya region. The collapse of the company spelled doom for many of the western Kenya residence and families with regional economic hubs like Shibale and Ekero slipping into oblivion. Lives of thousands of families were turned upside down with Mumias Sugar Company grinding to a halt. The plan to privatize the company through equity in company failed and saw the company place under receivership. This paved way for the revival plan of the company, a leal to the people of western Kenya. The company was to be pleased under a leasehold contract for revival. The lease of Mumias Sugar Company has, however, been shrouded in mystery and circus which has delayed and derailed the process. Finally, the leasehold has been awarded to the Sarrai which is an amalgam of seasoned and experienced companies in their areas of interest. The intersectionality of the companies in Mumias Sugar Company is in their areas of production which together alleviate the burden of toiling for nil while defraying the subsistence versus commercial land allocation conflict in the area. This article examines the potentials that the Sarrai conglomerate can exploit to her advance while benefitting the people of western Kenya. Moreover, it explores the areas to be exploited in incorporating the locals in the rival plan while cautions on the potentials to be exploited by the Sarrai to the detriment of Mumias Sugar Company and the disenfranchisement of the locals of western Kenya. The article expounds on how the sugar taskforce recommendation can be infused in the eventual revival of Mumias Sugar Company.

KEYWORDS: Mumias Sugar Company, Sarrai, Out-grower farmers & Sugar Taskforce Report

1. INTRODUCTION

Sarrai Group is a conglomerate of diverse but intertwined agro-manufacturing companies spanning East Africa to Southern Africa. The Group with over 17,000 employees in its areas of operation directly lays the economic foundation of numerous households and family while sparring “quasi” industrialization in her countries of operation, contributing to the continental economy through tax obligations, creation of employment, foreign exchange earnings from exports and improving the balance of trade. The consortium is the owner of multiple companies, in Uganda, Kenya and Malawi, with the largest businesses are the plywoods currently operating in the three countries with medium density fibre boards tabbed Nile boards, launched in 2016 in Uganda, being the first of its kind.

In 2006, Sarrai group acquired 70% of Kinyara Sugar Limited in Uganda, producing 57,000 metric tons annually from over 18,000 hectares of sugarcane. The company employs over 8,000 people directly supporting over 30,000 families and multiple auxiliary business. The company is the second largest sugar producer in Uganda with a market share of over 30%. In 2008, Kinyara was voted in among East Africa’s Super brands and the best quality sugar on the Ugandan market in 2009 as certified by the Uganda National Bureau of Standards. The company was awarded the “People’s Choice Awards” for best sugar on the different occasions, the latest coming in 2018. In 2011, Kinyara Sugar was among the top ten taxpayers in Uganda having paid 19.90 million US Dollars in taxes. In terms of value addition, Kinyara sugar limited internally generates electricity for self-consumption and trades the surplus production to the national grid. Electricity generation increased from 1.8 Megawatts annually in 2006 to 14.5 Megawatts annually presently, contributing over 6 Mega watts to the national grid.

Hoima Sugar Limited, is an expansive green field sugar factory full-fledged with a distillery commissioned in 2015 to the North-western part of Uganda.

The Sugar complex is located at Kizranfumbi in Hoima District and it is the largest sugar producer in Uganda. Hoima Sugar Limited is a sugar production complex includes an over 10,000-hectare nucleus estate and a sugarcane crushing capacity of 1500 ton capacity per day which the capacity to increase the crushing capacity per day to 4000. The company has a power generation plant with capacity of 5 Megawatts expandable to 12 Megawatts with a mega operational distillery plant with capacity of 20 kiloliters per day. The company is managed by the Sarrai group and employs over 2,600 people directly.

Sarrai group has been leased to run Mumias Sugar Company, Kenya's biggest state owned but infirm sugar miller. Sarrai secured a 20-year lease for the Mumias Sugar Company assets as reflected in the authority to revive and operate the collapsed miller. Ponangipali Rao, the Mumias Sugar Company's administrator noted that the lease to Sarrai is in the interest of the western sugar stakeholders and in conformity with the November 19^{th} 2021Court ruling. According to Ponangipali, the lease came after four months of a rigorous bidding but, it excludes the ethanol and company power generating plants which are run by Kenya Commercial Bank and a French development financier, Proparco.

The Sarrai group is associated with a renown Kenyan businessman Sarbi Singh Rai, gave the third-highest lease bid of $102.5 million, after the highest bid of $246.01 million by Julius Mwale, a renown local Kenyan businessman. Kruman Finances placed the second highest bid of $175.59 million. Mr. Ponangipali maintained that a private treaty was the best compared to public tendering for it was less expensive, expeditious and enabled the receiver manager to conclude the technical validation and financial assessments of the bidders in the shortest period. The Sarrai group chairman, Mr Rai indicated that the group's immediate focus is rehabilitating and revitalizing the Mumias machinery. To achieve this, the company aims at convincing the Mumias out growers, transporters, suppliers and the general Mumias workforce to ensure effective collaboration and efficient workings at the factory on revival course.

In the amalgam of companies that form Sarrai, the sugar sector experience outside Kenya is characterized by Kinyara Sugar, Hoima Sugar and Kiryandongo Sugar, with a total daily production capacity of 19,000 tonnes and averagely 170,000 tonnes of sugar annually. The addition of Mumias to the production chain is anticipated to compound the quantities produced both daily and annually. Therefore, the Mumias lease effectively puts the multibillion sugar industry both in Kenya and Uganda under the giant Rai family business empire.

The Rai family firms exemplified by West Kenya, Sukari Industries and Olepito have already taken the sugar market previously held by the grabbling giant Mumias Sugar with their Kabras brand. At its peak, Mumias held more than 60 percent market share of the sugar industry in Kenya. Mumias Sugar Company was the most respected sugar company in Kenya and the entire region. However, the company was placed under receivership in September 2019 by KCB Group in the interest of the assets and the maintenance of its operations. The company shares were then suspended from the Nairobi Stock Exchange, with the State at 20 percent stake and creditors who are owed more than $98.04 million watching every move of the lease.

The revival of Mumias Sugar Company Limited will enhance the standards of living of the local community and catalyze economic growth in the area. The local community hopes to see the original glory of Mumias sugar company back. Mumias was Kenya's leading sugar producer at more than 250,000 tonnes per year but, was beset by poor management, heavy debts, and years of mounting losses, prompting its closure. Kenya Commercial Banke was, however, barred from auctioning the plant to secure assets used as security for other loans, prompting it to turn to the lease option.

The Kenya sugar sub-sector plays a vital role in the agricultural sector and the western Kenya economy. The industry contributed to food security, employment creation, regional development and improved livelihoods for million people in region. It was a source of income for numerous small-scale out grower farmers who supplied over 90% of the milled cane by Mumias sugar company. Western Kenya is comparatively a high-cost sugar producer which is attributed to inefficiencies across the entire sugar value chain. This not only rendered the company uncompetitive but made Mumias an attractive destination for sugar repackaging imports from the region and globally.

Mumias is currently facing unprecedented challenges which have drastically affected cane crushing and the sugar production capacity. These include; the high cost of sugarcane production in the western region, acute sugarcane shortage, low productivity per acreage, inefficiencies across the sugar value chain, weak sugar regulatory framework, high company indebtedness, weak extension services support systems, limited value addition initiatives, uncontrolled and illegal sugar imports, poor management and governance systems and regimes, ageing equipment, obsolete technology, and delayed payment to out grower sugarcane farmers.

The company has historically experienced a massive decline in the total area under sugarcane production from 223,605 hectares in 2015 to 191,215 hectares in 2018, with a corresponding decline in yield from 66 tons per hectare to 55 tons per hectare and currently lower. The deterioration was largely attributed to out grower sugarcane farmer's withdrawal from sugarcane farming as a result of low farm returns and delayed harvesting, delayed payments, high cost of input and services, poor quality seed and limited access to credit facilities for sugarcane development, following the scrapping of Sugar Development Levy. This low sugarcane supply had led to milling underage cane of low sucrose content by alternate millers in the regional. This also exacerbates the situation for Mumias which disadvantaged by ageing and obsolete equipment coupled with poor management.

The National Sugar Taskforce In The Revival Of Mumias Sugar Company: The taskforce was established under the Gazette Notice No. 11711 of 9th November 2018 whose Terms of Reference were to address all other issues that may revitalize the Mumias Sugar Company among others. The key recommendations of the taskforce aimed at transforming Mumias sugar company to a competitive, efficient and a well-managed company. To enhance milling efficiency and competitiveness, the reduction of the cost of production at factory level, to cost cutting strategy along the entire value chain, to reduce the cost of production and increase efficiency; and invest more in value addition to widen the company's revenue base while reducing the overall cost of production. Ban harvesting of immature cane in the Rules and Regulations; Develop and implement an inter-mill cane transfer mechanism to stabilize the cane supply cycles.

In addition, the Taskforce recommended developing farmer miller contracts that correspond to the requisite cane supply; Penalties against the miller for occasioning loss to farmer/industry be computed based on consequential loss calculation for harvesting immature cane; Establish regional cane catchment areas whereby two or more mills are clustered within a defined geographical region to facilitate synchrony in planning production, cane supplies and resource mobilization. Farmers shall have an enforceable contract with a mill of their choice within the region.

Why Sarrai was the best bid in the Mumias lease fiasco: Questions have been asked as to why Sarrai stood better chances in the bid and what the receiver managers and the board considered while awarding the lease. The answer is in the sugar report that the private investor must be able to attract investments which are targeted at product diversification and value addition into refined sugar, cogeneration, Ethanol, Paper, Board manufacture, Briquette and Pharmaceuticals. In Uganda, Sarrai has promote the use of Ethanol and created adequate demand for the same, while adopting Bio-ethanol production with its economic advantage. Therefore, with the potential investment in Mumias Sugar Company, Sarrai will promote investments in ethanol production. Sarrai being a conglomerate of companies which have vast experiences in all the sectors that a sugar company can diversify into, Sarrai was the definite choice for the board and the receiver manager in the lease. The ten (10) companies that form Sarrai all the areas of diversification enumerated in the sugar taskforce report are covered and with special experienced experts in each section coming to revive their section and jointly revive Mumias Sugar Company. The ten companies are: Kinyara Sugar Limited, Hoima Sugar Limited, Nile Plywoods (U) Limited, Nile Fibreboard Limited, Comply Industries Limited, Raiply Malawi Limited, Tasco Industries Limited, Engaano Millers Limited, Vitaform Limited and Rai Cement Limited.

With the revival of Mumias Sugar Company, the Sarrai amalgam is supposed to negotiate with Kenya Electricity Transmission Company (KETRACO) to develop the requisite infrastructure for transfer of cogenerated electricity from Mumias Sugar Company to the nearest Kenya Power and Lighting Company sub-stations. With Hoima sugar and Kinyara sugar limited having heavily invested in the infrastructure that generates power and having negotiated and transferred the generated power to the Uganda national grid, Sarrai will transfer the technology that will boost the cogeneration in Mumias as a way of diversifying the Mumias Sugar's output base. With this experience and expertise, Sarrai is best palace compared to the two highest bidders to run Mumias Sugar Company.

Potential Pricing Mechanism that incorporates out-grower farmers: The government is called upon to establish a Sugarcane Pricing Committee whose obligation will be to provide a mechanism that remunerates sugarcane farmers for the other products produced from the processing of sugarcane. The anticipation is that the committee will be actively involved in the market pricing of sugarcane and related products while securing the interests of the sugarcane farmer whose payments will be dependent on the products.

The pricing formula will include an index that takes into consideration delayed harvesting. The out-grower farmers are envisaged to be directly represented on this committee so that the indexing can be a matrix of the producers of the raw materials.

Subsequently, the scope of the Sugar Cane Pricing Formula will be extended to include pricing mechanisms for all other sugarcane related charges paid by/to the out-grower farmer, including cost of transport, cost of credit, extension service among others at market rate at the time of accessing the facilities and services. This will then foresee the transition to payment based on quality away from payment based on quantity tonnage. This way the out-grower farmers will directly be involved in the determination of the quality of their sugarcane before harvesting. The out-grower institutions/Cooperatives must be strengthened for effective representation and better bargaining power on behalf of the farmer.

For the placement of Mumias Sugar Company on a firm revival footing, the enforcement of the provisions of the out-grower farmer-miller contract that requires sugarcane farmers be paid within seven days of harvesting will restore confidence in the farmers. As stipulated in the contract, failure to fulfill this obligation by the company, the company shall be penalized in line with the provisions in the regulations. This has, however, happened over the ages and left the farmers agonizing, yet no interventions by the relevant regulations enforcing authorities. As envisaged in the Mumias Sugar Company revival plan, the out-grower farmer-company contract will provide for an exit clause that provides for an exit upon breach of contract by either party; the out-grower farmer or the Mumias Sugar Company. The only dilemma is if Mumias Sugar company will exploit the exit clause to run away from her obligations and responsibilities while subjecting the out-grower farmers to servitude. The company will be compelled as provided for in the regulations to be liable to pay interest on delayed payment and delayed harvesting at market rate.

With Hoima and Kinyara rearing their production capacity in Kenya through Sarrai's lease of Mumias Sugar Company, Sarrai should be banned from importing sugar as a finished product into Kenya. The revival of Mumias sugar company stares the danger of the company being turned into a repacking zone of Hoima and Kinyara's produced and refined sugar. In addition, the sourcing of the raw materials across the Ugandan border due to inadequate supply will be obvious in the initial stages and this ought to be checked if the out-grower sugarcane farmers are to earn commensurately from their production. Without putting checks and balances to the importation of both the raw materials and the finished commodities, the western Kenya sugarcane farmers will still be producing sugar to buy hunger while subsistence versus commercial land allocation conflict will persist in western Kenya. To tame such importation, sugarcane and sugar from the external market should attract 100% duty as a deterrence measure.

The Mumias revival and the compliance with the COMESA Safeguards: Further, the Sugar taskforce report of 2019 recommended that in compliance with COMESA safeguard conditions as enshrined in Article 10 and Article 28, the government was to commence privatization process of public owned milling companies like Mumias Sugar company by June 2019. By this time, Mumias Sugar company was already under receivership. The placement of Mumias Sugar under receivership was, therefore, to ensure the commencement of the privatization process. The Mumias out grower farmers were to be paid based not on the quantity of tonnage produced but on the quality of sucrose content produced by the farmer. The payment was to commence by 2021, yet as at now, January 2022, this is yet to be realized even by other sugar companies like West Kenya Sugar and Butali Sugar.

Re-introduction of the Sugar Development Levy at the rate of 7% to support the Sugar sector with special utility to sugarcane development, infrastructure development, factory rehabilitation and administration. The re-habilitation of Mumias Sugar Company therefore is at the farmers' cost same to the company administration. With a mandatory sugar levy deduction at the rate of 7%, the farmers who will be paying the company administration will neither determine the company administrators nor be involved in the administration of the company. Further, it is not explicit if the 7% percent sugar levy deduction will be on the gross income or the net income of the farmers. With the sugar levy deducted and the farmers not being part of the company management, there are no provisions on how the farmers will hold the company to account to ensure for instance the road infrastructure network in the area is maintained.

The Taskforce report called for verification and subsequent write off of all the debts to the farmers. While this may signify a new start for the company, the farmers on their part who toiled for nil for all the debts that Mumias sugar owes the out-grower farmers goes down the drain yet they are then conditioned by the contract to continue producing for the company that did pay them.

The farmers the will takeoff from a disadvantaged position as the inputs for their initial sugarcane plant may lack critical inputs especially fertilizer which will culminate in both small sugarcane quantities and poor quality of sugarcane and if the farmers are to be paid based on any of these, then their returns will be minimum or even debit notes that shall enslave sugarcane farmers in and around Mumias for ages.

Revitalization of Mumias Sugar Company: The Republic of Kenya recommended the conversation of additional government and Kenya Sugar Board debts by Mumias Sugar Company from July 2009 to 2019, to additional government equity in the companies; this was the burden of privatization which saw the private sugarcane farmers in the western region languish in poverty. The equity of a company is the disposable difference left when a company's total assets are traded-off with the company's total liabilities. For Mumias Sugar Company, the amount of money left over for farmers and shareholders if all the company assets were liquidated and all debts repaid would have been nil. In reality terms, Mumias Sugar Company's are more than the company assets and this explains why liquidation of the company was stopped. Technically, the government shareholding was relinquished with the call for equity in company of their shares.

In cognizance of the fact that Mumias Sugar Company was no longer a public mill, the taskforce recommended the formation of a revitalization committee to work with the Board, County Governments and other key stakeholders in identifying and implementing an effective and efficient Mumias Sugar restructuring plan. Moreover, the conclusion of the receivership process was expedited as called for by the taskforce.

Upon privatization, a restriction to be entered in the grant and lease document to specify land use purpose (cane growing and related activities); Mumias Sugar Company is to maintain land used for sugarcane growing and related activities in both categories of nucleus land ownership as a county develops a land use plan in the area for purposes of balanced agrarian engagements on the land within the county.

2. CONCLUSION

The revival of Mumias Sugar company has been ridden with political, economic and personal rivalry. However, the award of the company to the Sarrai group of companies might see the company revived as specific companies that specialize in specific production of the value addition on the production chain will maximize on the production. These is as per the recommendations of the National Sugar Taskforce recommendations that emphasized that the backbone of Mumias Sugar Company's revival was in value addition and diversification of products. All these, are under the armpits of the Sarrai group of companies. However, the excess of Sarrai must be checked if the Mumias Out grower farmers are to benefit from the revival plan.

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