**Case study Activity 6 task description**

**Entry points for ENV and CC in Sugar Sector Action Fiche**

By analysing the Action Fiche for a Sugar Sector project in Kenya the participants become aware of the many entry points for ENV and CC in Action Fiches.

Groups of 5 to 6 get together

* Read the Action Fiche for the Sugar Sector project in Kenya.
* *Note: The action fiche has been edited by the course managers to fit the purpose of this activity.*
* Discuss entry points for ENV and CC in the action fiche
* Give attention to the option of introducing co-generation of power to the sugar industry in Kenya
* Note down on cards relevant issues to be included in the action fiche – one card for each section of the fiche.
* Present to plenary

10’ for additional reading; 20’ for group discussion and cards; 15’ plenary review: allow 45 mins

***Note that this Action Fiche has been slightly edited by the course managers to fit the purpose of this exercise.***

1. **IDENTIFICATION**

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| **Title/Number** | **KENYA - Annual Action Programme 2012 in favour of Kenya under the Accompanying Measures for Sugar Protocol** | | |
| **Total Cost** | **EUR 6,754,000**  **EU (Budget) contribution** | | |
| **Aid method / Method of implementation** | **Project approach**  **Partially Decentralized Management** | | |
| **DAC-code** | **Primary: Secondary:** | **Sectors:** | **Agriculture and Rural Development (65%)**  **Roads Infrastructure (35%)** |

1. **RATIONALE**

**2.1. Sector context**

Sugarcane is a key crop in Kenya (524,000 tonnes) produced mostly by small outgrowers. Total consumption in 2010 was around 773,000 t creating a shortfall met by imports from COMESA (Common Market for Eastern and Southern Africa) countries (mainly Egypt, South Africa, and Saudi Arabia). Table sugar can be imported duty free from the COMESA countries up to a threshold of 340,000 t. Anything above that is charged duty at 100%, the same percentage as sugar imported from non-COMESA countries. The safeguard of maximum duty-free imports of 340,000 t will protect the local industry until February 2014.

Kenya has 9 sugar mills of which 5 are privately owned. A Memorandum with recommendations for implementation of the privatization of public mills is awaiting Parliament approval. It is expected that privatization of all mills will be finalized before the expiry of COMESA safeguards. Three new mills will be operational in 2012 and with a total of 12 mills, Kenya could become self sufficient in sugar. The millers are organized as the Kenya Sugar Millers Association (KESMA).

Outgrowers provide almost 90% of all cane delivered to the sugar mills. Outgrowers are organized in outgrowers’ organizations under an umbrella organization, the Kenya Sugar Growers Association (KESGA) but many organizations are weak. There are many challenges in the production chain due to the small plot sizes of the farmers. Lack of consolidation and dispersion of producers means long cane transport distances and low mechanization of operations. There are also low cane yields as a result of poor cane varieties (low sucrose and high fibre content), poor cane husbandry practices and a payment system for cane based on weight instead of sucrose. Bad infrastructure conditions results in high transport costs, and reduction in cane quality. As a consequence, the Kenyan sugar industry produces at high costs and there is threat of cheaper imports coming in from lower-cost producers in the COMESA region.

The sugar sector is regulated by the Kenya Sugar Board (KSB), under the responsibility of Ministry of Agriculture. The Kenya Sugar Research Foundation (KESREF) conducts for research on sugarcane production and sugar processing. The Kenya Rural Roads Authority (KeRRA) is supervising and coordinating the maintenance of rural roads.

The National Adaptation Strategy (NAS) and the EU Support Strategy 2007-13 are the basis of MIP1 (2007-10) and MIP2 (2011-13). The objective of both MIPs is to enhance the

competitiveness of the sugar sector through improvement of efficiencies and reduction of production costs. MIP1 included AAP 2007 and AAP 2009. AAP 2007 supported development of a sugar roads inventory study, training of labour-based contractors and capacity building of KSB. AAP 2009 supports; (i) cane development, (ii) outgrowers organizations, (iii) research, (iv) introduction of a sucrose-based cane payment system, (v) improvement of infrastructure, (vi) capacity development of KSB, (vii) environmental improvement, and (viii) HIV/AIDS interventions. MIP2 is a continuation of AAP 2007 and 2009 in order to consolidate and secure results achieved under MIP1.

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**2.2. Lessons learnt**

At the start of the EU Support Program, the main risk was that the slow pace of privatization and consequently the damage or even collapse of the sugar industry. The privatization process has indeed been slow and has been delayed due to the political turmoil of end 2007-beginning of 2008, and the priority given by Parliament to approve the acts for the new Constitution in 2010.

In 2011 Kenya asked for an extension of the safeguard till 2014. The COMESA evaluation concluded that there is good progress in the sector, except for privatization, and approved the safeguard extension. In the coming two years the privatization process is expected to be finalized. Existing private companies are confident that they can lower production costs. Installed capacities are being extended and privatization will clean up the balance sheets of the government mills and make them more attractive to investors. There is great interest to take over the factories and start new factories. Sugar consumption in Kenya is growing and there is scope to increase production.

The government has signed an energy bill which allows co-generation by the mills selling additional power to the national grid. This, among other interventions allows more diversification of the sector eventually lowering the costs of production. KESREF has also continued to release early maturing varieties expected to increase productivity per unit time and land.

The assessment of the AMSP concluded that the measures included in the NAS, improving productivity along the sugar production chain, and restructuring the ailing sugar companies, are still relevant. The change to a cane payment system based on sucrose content is approved and included in the Sugar Act. Instalment of the equipment is in process and the local labour-based road contractors are trained and are now able to participate in the upcoming tenders for the works.

**2.3. Complementary actions**

Donors active in the Roads 2000 maintenance programme are KfW, AFD, AfDB, SIDA, DANIDA and the EU. The Programme focuses on rehabilitation and improvement of bottleneck sections of rural access roads ensuring network accessibility and carrying out routine maintenance. The Programme prioritises labour-based techniques for employment maximisation, supplemented by tractor-towed graders and trailers. The EU has been financing Roads 2000 maintenance through Stabex with further funding support in the 10th EDF. The complementarities of the AAP 2012 with the latter will be ensured by KeRRA, which acts as their common supervising body. The SIDA funded project is implemented in Nyanza, whereas KfW will work in Western Province. Finland has recently also launched a rural development programme in Western Kenya which will be complementary to the EU sugar support. In research the Common Fund for Commodities is supporting KESREF in areas of variety adaptation and training.

**2.4. Donor coordination**

There is a strong agricultural donor co-ordination whose action plans are co-ordinated by ASCU, a unit composed of all agricultural sector ministries. There is also intensive donor co-ordination in the road sector, especially through the Roads 2000 programme.

**3. DESCRIPTION**

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**3.1. Objectives**

**Overall objective**

The overall objective of the EU response programme is to enhance the competitiveness of the sugar sector through improvement of efficiencies and reduction of production costs.

**Specific objectives (SO)**

The three specific objectives of the AAP 2012 are:

1. to support improvement of rural sugar access roads to achieve lower transport costs and higher revenues for the farmers;
2. to support cane development and research to achieve higher yields and better quality cane;
3. to support capacity building of KESREF and Outgrowers’ Organizations provide more effective support to the farmers, and capacity building of KSB in view of its future role as an effective regulator of a privatized sugar industry and fund manager.

**3.2. Expected results and main activities**

**3.2.1 Strategy**

The strategy to alleviate the problems in the sugar sector focuses on three critical interventions:

1. improvement of the road infrastructure in the cane areas. This should result in shorter transport distances and reduced cane spillages. Consequently outgrowers will have lower transport costs and higher revenues. With the cane payment system based on sucrose and the shorter time between harvesting and delivering the cane to the factory,farmers will benefit from the higher sucrose percentage of the cane at delivery. An identification study (2008) drew up a list of roads for rehabilitation and the estimated cost. The Road consultancy undertaken under AAP 2009 will up date the study and prepare tender dossiers. Part of the AAP 2012 road component budget will be used for design and supervision.
2. yield and quality improvement of outgrowers’ cane through improved cane husbandry and use of better performing cane varieties with higher yields, high sucrose content, early maturity, low fibre content and higher disease tolerance. The introduction of the new cane payment system based on quality will be an important incentive for farmers.
3. strengthening of KSB, KESREF and Outgrowers’ Organizations. KSB will be supported in its role to coordinate the restructuring of the industry as well as to increase its capacities as an effective fund manager. KESREF will be supported to improve its functions of research and extension services to farmers. Outgrowers’ Organizations will be supported to provide better services to the farmers and to be effective representatives of the farmers towards the mills.

Research and extension service providers are related through activities and missions which provide mutual support and feedback information. KESREF Technology Transfer department generates research technologies, disseminated to the farmers, millers, outgrowers’ and extension services provide feedback to the researchers.

Production of cane with higher yields and lower fibre content, improved roads’ infrastructure, efficiency improvements in the factories as a result of privatisation together with well-organised Outgrowers´ Organisations will lead to more and better cane delivered to the mills, increased sugar production and lower total costs per tonne sugar produced.

**3.2.2 Expected results (ER)**

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The activities to be implemented are expected to yield the following results:

1. Road infrastructure in the cane areas improved;
2. Outgrower cane improved in yield and quality;
3. Capacities of Outgrowers’ Organisations, KSB and KESREF strengthened.

**3.2.3 Activities (A)**

Activities linked to ER1: **A1.1:** Construction of bridges and culverts in sugar areas;

**A1.2:** Rehabilitation of key feeder roads in sugar areas.

Activities linked to ER2**: A2.1:** Promotion of seed cane multiplication;

**A2.2:** Improvement of sugarcane management practices;

**A2.3:** Extension and outreach programs for farmers, millers and officers

**A2.4:** Improvement of infrastructure facilities of KESREF;

**A2.5:** Establishment of a Cane Testing Service, including equipment,

capacity building and training of staff.

Activities linked to ER3: **A3.1:** Training and capacity building of agricultural and extension

officers of the sugar mills and KESREF;

**A3.2:** Training and capacity building of extension officers and

management of Outgrowers’ Organisations;

**A3.3:** Training of KSB staff and policy support.

**3.3. Risks and assumptions**

The main risks are (i) the time frame foreseen for privatisation of the government mills and (ii) the funding gap foreseen for the infrastructure improvement project.

Privatisation is taking longer than envisaged and consequently the expected efficiency improvements in the factories have not yet been achieved. The privatisation of the mills and the tabling of a Sessional Paper in Parliament to write off the excess debt owned by the companies have been approved by the Cabinet but the pertaining laws are still awaiting approval. Production costs remain high and thereby the threat of an increase in imports from other COMESA countries if privatisation and rehabilitation has not been implemented before the safeguard has expired.

However, it is assumed that Parliament will soon approve the decisions of the Cabinet on privatisation and that immediately thereafter rehabilitation of the privatised mills will be undertaken. Although privatisation has still not been implemented fully - there is a rise in the percentage of sugar produced by private mills. With the three new factories coming on stream in 2011-2012 already around 70% of the total production would come from private mills.

The threat from imports from other COMESA countries is less than often assumed. Most surrounding countries have deficits and the low-cost producers which are exporting such as Swaziland and Malawi have long-term contracts with European customers.

Total cost of the roads improvement project is estimated at EUR 127,000,000. Total available funds from the various financing sources (Road Maintenance Levy Fund, Local Authority Transfer Fund and Constituency Development Trust Fund) amount to an estimated EUR 80,000,000, leaving a gap of EUR 47,000,000. Continuing gaps in sugar roads improvements will undermine the productivity and the competitiveness of the overall sector. However, it is assumed that EU support, complemented with funds from a number of other donors will contribute to cover the gap. In addition, positive impacts is expected from the privatisation process (increase of levies allocated to roads).

The long-term sustainability of the Kenyan sugar industry seems positive. The new sugar mills already established and the great interest of investors to start more mills, as shown by the number

of applications, plus the great scope for further expansion both in the West and the Coast indicate that production will go up in the coming years, thereby diminishing sugar imports.

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**3.4. Cross-cutting Issues**

Environment

The impact of all initiatives should be considered before implementation.

**3.5. Stakeholders**

The main stakeholders are the outgrowers, KSB, KESREF, KeRRA, MoA, the sugar mills, cane transporters and the small labour-based road contractors. All stakeholders have been involved in the planning of the programme and play an important role in the execution of the activities.

Outgrowers’ Organisations reduce the burden on mills to deal with many small farmers. However, they often lack management skills and are left with large debts and depreciated equipment, forcing the sugar companies to take over responsibilities. They will be strengthened to be able to provide better services to their members.An earlier institutional assessment of KSB will be reviewed in particular regarding staff capacities and human resources. Capacity building (trainings, consultancies, technical assistance) will assist KSB to deliver their mandate as implementation body and sugar industry regulator. KESREF will continue to receive support on new technologies, better varietiesand extension KeRRA has the responsibility for maintenance of rural roads shared

with local authorities for access roads by using the crop access funds collected from the millers. Some millers have signed MoUs with KeRRA and local authorities to share the costs of roads rehabilitations, where KeRRA expertise is used to supervise the works carried out.

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**4. IMPLEMENTATION ISSUES**

**4.1. Method of implementation**

The programme continues to be implemented through partially decentralised management through the signature of a Financing Agreement with the Government of Kenya (NAO) in accordance with 53c and 56 of the Financial Regulation who will delegate the implementation of the project to the Ministry of Agriculture. This Ministry will then conclude delegation agreements with KSB and KESREF, which are the two public bodies that will foresee implementation through Public Indirect Decentralised Operations (programme estimates).

The Commission controls ex ante all the procurement procedures except in cases where programmes estimates are applied, under which the Commission applies ex ante control for procurement contracts > EUR 50,000 and may apply ex post for procurement contracts *<* EUR 50,000. The Commission controls ex ante the contracting procedures for all grant contracts.

Payments are executed by the Commission except in cases where programmes estimates are applied, under which payments are executed by the beneficiary country for operating costs and contracts up to the ceilings indicated in the table below.

The responsible Authorising Officer ensures that, by using the model of financing agreement for decentralised management, the segregation of duties between the authorising officer and the accounting officer or of the equivalent functions within the delegated entity will be effective, so that the decentralisation of the payments can be carried out for contracts up to the ceilings specified below.

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| **Works** | **Supplies** | **Services** | **Grants** |
| < EUR 300,000 | < EUR 150,000 | < EUR 200,000 | *<* EUR 100,000 |

Monitoring, evaluations, and audits, are to be contracted centrally under specific commitments.

The change of management mode constitutes a substantial change except where the Commission "re-centralises" or reduces the level of tasks previously delegated to the beneficiary country, international organisation or delegatee body under, respectively, decentralised, joint or indirect centralised management.

**4.2. Procurement and grant award procedures / programme estimates**

1. **Contracts**

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question. Technical details and specifications will be finalised in liaison with the KSB, KESREF and the technical teams from the sugar mills.

**4.3. Budget and calendar**

Total project cost is estimated at EUR 6,754,000 which will be entirely financed from the general budget of the European Union. The remaining part of the overall amount of EUR 356,000,000 for the whole programme will come from the Kenyan government at national and local level and the private sector. The foreseen operational duration for the project is 60 months as from signature of Financing Agreement.

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| **Activities** | **Management Type** | **Contract type** | **EU**  **contribution** EUR |
| SO1:Support to improvement of rural access roads | PDM | PE\* (with Services Works) | 2,196,000 |
| 1. Support to cane development and research | PDM | PE (with Services -Supplies) | 2,425,000 |
| 1. Support to capacity building of Outgrowers’ organisations, KSB and KESREF | PDM | PE (with Services /Supplies) | 1,122,000 |
| Cross-cutting issues (environment, climate change, HIV/AIDS, good governance and gender) | PDM | PE (with Services) | 160,000 |
| Project management and co-ordination | PDM | PE (with Services /Supplies) | 424,000 |
| External evaluations | DCM | Services | 100,000 |
| Audit | DCM | Services | 60,000 |
| Visibility Activities | PDM | PE (Service) | 20,000 |
| Contingencies |  |  | 247,000 |
| **TOTAL** |  |  | **6,754,000** |

\* PE = activity implemented through the use of programme estimates

**4.4. Performance monitoring**

Performance monitoring is carried out by a Programme Steering Committee (PSC) and two Technical Committees (TC).The TCs prepare information on progress of implementation to the PSC.

Performance indicators will be total sugar production and average production costs per tonne of sugar. The final aim is to enhance the competitiveness of the industry through improvement of efficiencies and reduction of production costs. EU support only is not enough to reach this objective, thus the programme will be judged in combination with efforts of the government on privatisation and investments in renovation and expansion carried out by the companies.

**4.5. Evaluation and audit**

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External evaluations will be carried out as follows:

* mid-term evaluation mission in 2016;
* final evaluation during the closing phase in 2018.

Yearly audits and/or expenditure verifications of the programme components will be carried out and contracted by the Commission. The Commission shall appoint, in accordance with EU procurement rules, a reputable external auditor/accountant (i.e. international firm member of an internationally recognised auditing body).

**4.6. Communication and visibility**

Communication and visibility activities will be regularly undertaken during the operation of the programme. Community and visibility activities will be implemented in accordance with the "Communication and Visibility Manual for European Union External Actions". Efforts will be made to ensure that media coverage generated by the project will acknowledge support from the Government and the European Union.