

AFRICAN DEVELOPMENT BANK GROUP



**SUGAR SUB-SECTOR EXPERIENCE STUDY
PRESENTATION NOTE**

**OPERATIONS EVALUATION DEPARTMENT
(OPEV)**

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I. Introduction

1.1 Since 1971, the Bank has committed UA 407 million (US\$ 565 million) in support of sugar sub-sector in fifteen African countries. The importance of the sugar sub-sector derives from its potential contribution to foreign exchange earnings, employment generation and food self-sufficiency. Bank Group intervention has thus been driven by this perceived importance of the sub-sector. Partly in response to the changing role of governments in the management of national economies, and partly in response to the increasing role of the private sector, many governments have, in the last decade or so, reduced their participation in the sugar industry, and an increasing number of projects, if not privately owned, now enjoy extensive managerial autonomy.

1.2 The changing role of government in these enterprises as well as the changing nature of the international market for sugar require that the Bank evaluate its experience with a view to developing fresh approaches to its future intervention in the sector. This was the rationale behind the Bank study of its experience in the sugar sub-sector.

II. The Study: Methodology and Findings

2.1 The Study covers seven sugar estates and one smallholder scheme financed by the Bank. The total number of loans to these projects amounted to UA 300 million (US\$ 416 million) or 73% of total Bank lending to the sector. Five projects concerned the rehabilitation of existing sugar complexes (Bacita and Savannah in Nigeria, Lugazi and Kakira in Uganda and Mafambisse in Mozambique); two projects involved the development of new sugar complexes (Simunye in Swaziland and Finchaa in Ethiopia), while one project was for the development of a nucleus estate together with a smallholders project (Kaleya in Zambia). Three of the projects (Simunye, Kaleya and Lugazi) were financed in the early 1980s, while the rest were financed about a decade later. The production base for all the estates is irrigated cane, with the exception of Kakira and Lugazi in Uganda, which are principally rain-fed estates. All the estates produce for the domestic market, except for Simunye, which exports a sizeable amount of its production outside the South African Currency Union (SACU) area. The Bank also financed studies, development, rehabilitation and expansion of sugar projects in nine other African countries to the tune of UA 107 million.

2.2 The present study concerns Bank intervention in six countries as listed above. The choice of these countries was determined by the whether or not the project is completed, availability of data on the project and availability of PCR. The study was conducted in two phases – the first phase consisted of a desk review at Bank headquarters, while the second phase involved field missions and the preparation of six country reports and a Synthesis report. The country reports were reviewed by all operational departments at an interdepartmental working group meeting. They also attended a workshop on the draft Synthesis report.

2.3 One feature common to all the projects was the delay in the start-up and implementation of the projects. These delays were due among others things, to the problems of arrears with the Bank, late fulfilment of loan conditions and revisions to project designs. Cost overruns, which were largely caused by currency depreciation, were also common.

2.4 In terms of outcome, the Simunye sugar estates in Swaziland and the Kaleya smallholder's scheme in Zambia can be described as good projects. They produce more sugar and have higher rates of return than was anticipated at appraisal. They are also adjudged to be sustainable. Unfortunately, the other projects cannot be so described. Output is low – usually less than 30% of targets. Partly as a result of low capacity utilisation and high debt service charges (the consequence of depreciation of local currency), these projects are all in great financial difficulty. Their long-term sustainability is therefore open to question.

2.5 The projects that were successful exhibited the following characteristics—they operated in environments where the policy stance of the government was conducive to project implementation; the projects were run on strict profitability criterion; and initial project preparation was adequate.- Concerning environmental aspects, all the projects which have been confronted with the negative environmental effects of the Sugar production, were taking measures to mitigate theses effects, including construction, and water treatment plants, reforestation, installation of new boilers etc. But the lack of funds was often a bottleneck in the implementation of environmental improvements. .

III. Prospects for African Sugar Producers

The prospects for the sugar market are mixed. In the short term, the outlook in the world market is not encouraging, as the demand for (dollar-traded) sugar in emerging markets is falling as a result of economic slow-downs and currency depreciation. In the long run however, the outlook is brighter, for the following reasons. First, sugar consumption in Africa is expected to increase as a result of population growth and rising per capita

consumption. Second, African countries will probably maintain their privileged position on the EU and US markets. This is because the EU sugar quotas under Lomé Convention and quotas in the US are not affected by the Uruguay Round and are expected to remain unchanged during the next round of trade negotiations. Finally, there might even be less competition in the free world market as a result of decreasing sugar exports by the EU.

IV. Modalities for Future Bank Interventions

4.1 Future Bank intervention in this sub-sector must be anchored on the experiences of the past and this experience shows that the followings are critical for successful operations:

(a) ***Policy Environment.*** The domestic policy environment must be conducive for any form of intervention. There must be no domestic distortions and market forces must play a dominant role in resource allocation. Specifically in the case of the sugar sub-sector, import parity prices should be the basis for the determination of sugar prices, and there should be no government monopoly in sugar imports and domestic marketing.

(b) Project Preparation. The quality of the underlying feasibility study is critical to the outcome of any project. In the case of sugar projects, site selection, appropriate design of field (especially the irrigation system) and factory, determine to a great extent, the final results.

(c) Management. The calibre of the management team is vital to the outcome of the project. Profitability and efficiency should be the guiding principles of such a management. Complete private ownership is not a basic requirement, but government interference in the day-to-day management should be avoided.

4.2 With these as preconditions, Bank interventions can take any or a combination of the followings:

- rehabilitation/extension of existing sugar estates, and development of new sugar complexes through direct loans and equity participation;
- assistance in the privatisation of sugar complexes;
- financing of out-growers projects;
- agricultural sector investment programmes.

4.3 The Study also defined three rules of thumb relating to productivity, scale and pricing of:

- (a) field: yields of at least 100 t/ha for irrigated cane and 60 – 70 t/ha for rain-fed cane are required;
- (b) factory: total sugar production should be over 100,000 tonnes per year;
- (c) sugar costs per tonne should not be more than US\$ 300 – 350 (and preferably less).

4.4 As observed in the Bank's agricultural sector policy document, the newly established Private Sector Department will have to play an important role in the Bank's future involvement in the sugar sector in the provision of debt and equity financing for privatisation projects and the mobilisation of financing from other sources.

SUGAR SUB-SECTOR PROJECTS AND STUDIES FINANCED**BY ADB/ADF**

Country	Project	Date of Approval	Source of Finance		Total (UA million)
			ADB	ADF	
Burundi	Projet Sucrier de Mosso	16/02/82	10.00		10.00
Ethiopia	Finchaa Sugar Project Finchaa II	16/02/82	5.00		5.00
		24/04/79	80.00	15.70	95.70
Guinea	Etude Realisation Projet Sucrier à Koba	29/12/81	0.78		0.78
Kenya	South Nyanza Sugar: Phase II	18/08/77	5.00		5.00
Madagascar	Analaiva Sugar Project: Phase II	16/03/83	16.73		16.73
Malawi	Smallholder Sugarcane Study	18/12/90		1.14	1.14
Mauritius	Rose-Belle Sugar Rehabilitation	17/06/91	6.30		6.30
Mozambique	Mafambisse Sugar Rehabilitation	23/08/88	13.06	23.87	36.93
Nigeria	Sugar Expansion Programm	22/03/71	1.60		1.60
	Bacita Sugar Expansion	21/11/89	67.48		67.48
	Savannah Sugar Rehabilitation	23/09/91	45.80	7.00	52.80
Sudan	Kenana Sugar Expansion	17/12/90	18.61	15.00	33.61
Swaziland	Sugar Project	06/04/77	5.00		5.00
Tanzania	Kagera Sugar Rehabilitation	10/07/93		0.61	0.61
Uganda	Lugazi Sugar Project	06/09/82	15.00		15.00
	Kakira Sugar Rehabilitation	04/12/87	6.86	7.97	14.83
Zaire	Complexe Sucrier de Kiliba	08/11/83	19.52		33.27
	Complexe Sucrier de Kiliba (Suppl.)	30/10/86	13.75		
Zambia	Nakambala Sugar Project	27/03/80		8.00	8.00
TOTAL			330.49	79.29	409.78
US\$ Equivalent			458.38	109.97	568.32

* UA 1.00 = US\$ 1.38689