Enhancing the Sugar Industry Regulatory Framework of Tanzania

The strengthening of the business environment in the sugar sector is of vital importance to maximize its contribution to national income and rural livelihoods through trade and services. The Sugar Act of 2001 has supported several positive changes and growth within the sector. Unfortunately, regulatory inadequacy still exists in issues related to out growers' benefits and institutional framework governance.
Sugar importation and distribution negatively affects out-growers and other stakeholders.

Facts

- Tanzania is a sugar deficit country, producing only 57.6% of the total raw sugar demand. The demand gap of 43.4% is met by imports from countries like Brazil and India.
- Tanzania spends approximately USD 132 million annually on sugar importation. The market is not protected enough against imported sugar; Tanzania importation tariff is 0-10%, whereas the East Africa Community external tariff is 25%-100%.
- The four main sugar companies run their processing plants at below capacity level.
- Sugarcane farmers are highly taxed due to inefficiencies in the sugar milling industry and/or excessive power by the sugar mills cause by poor and/or lack of regulations. Consumers are heavily taxed as low tariff don't translate into low consumer prices.
- The sugarcane sector is an important agro-based industry with positive impacts to more than 100,000 farmers.
- Sugarcane out-growers earned more than TZS 45 billion in 2012, although they only had a 40% market share against 60% of estate farms.
- The sector contributed more than TZS 12 billion annually through government revenue.

Main Challenges for Stakeholders

- Inadequately regulated and un-harmonized practices on rendiment determination, definition of tradable products from sugarcane and price setting.
- Uncoordinated institutional framework governing sugar importation and distribution system that culminate into increased cost of doing business, and consequently low prices for sugar cane producers and high prices for consumers.
- Limited processing capacity, inefficiency cost Excessive processing costs in the four factories calls for investments in sugar mills to ensure lower processing costs and eventually lower domestic prices for consumers or higher farm gate prices for cane producers.

Inadequate Regulatory Situation

- There are 3 approaches used for rendiment determination.
- Two different methods used to determine tradable products.
- Three different approaches are used for sugarcane price setting.
- There are two varying sugar distribution systems.
- There is overprotection of the processing factories by the 40 km radius cane reservation area.
- Centralized collection and distribution point for locally produced sugar by few major distributors who are also major sugar importers.

Foregone opportunities due to poor regulatory environment

- The silence gaps in the current regulation and inadequacy in the existing regime has caused some factories to operate at only 56% factory capacity resulting into huge losses over the past 10 years including:-
  - Loss of Government Revenue (VAT): TZS 40.676 billion from the sector.
  - Loss to out-growers revenues TZS 40.3 billion
  - Loss to millers estates TZS 49.3 billion
  - Loss in Cess TZS 171.7 billion
  - Loss in Skills development levy (SDL) TZS 750 million
- Further in the past 10 years the industry has lost an opportunity for cost reduction of TZS 257.07 billion through the current expensive institutional arrangement and implementation and governance of the sugar distribution services.
- The factories have lost the opportunity for improved cash flow of TZS 76 billion due to poor coordination of sugar importation and distribution.

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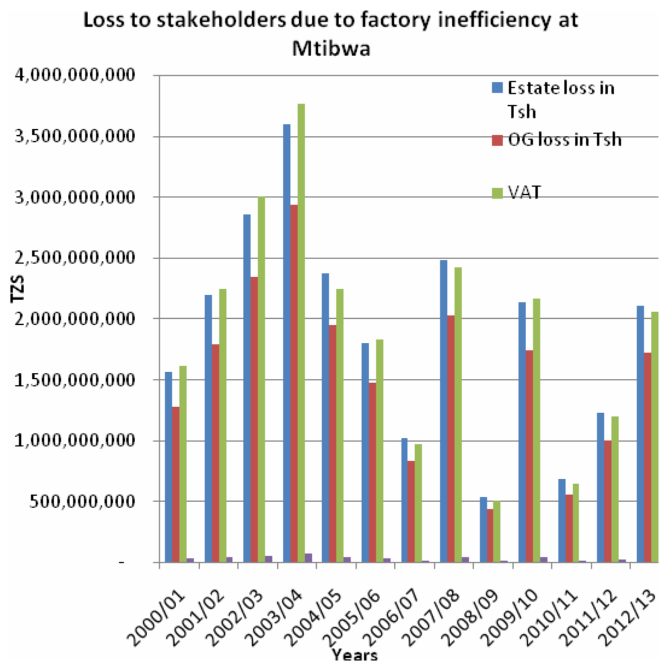
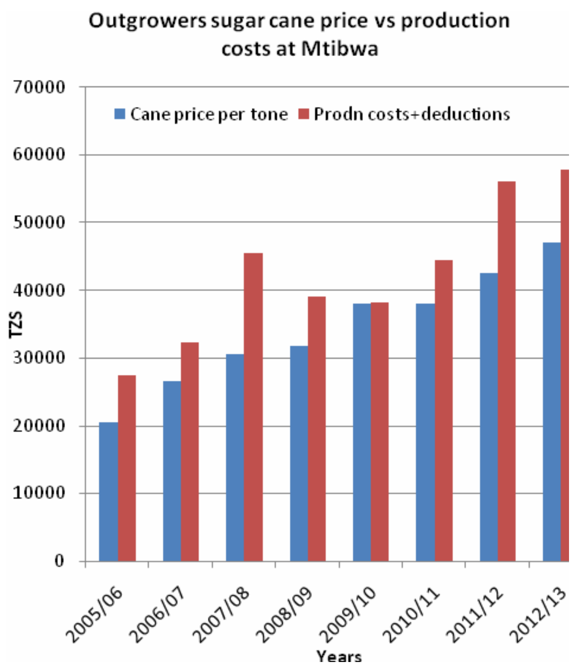
Costs of lack and poor regulation in the Sugar Industry

The cost of inadequately regulated and un-harmonized practices observed in the sugar cane value chain is enormous; in the past 10 years,

- Price difference and cane wasted has contributed to a total revenue loss of around TZS 20.95 billion to out-growers.
- A total loss of TZS 176 billion has occurred to sugar value chain actors due to factory inefficiency accelerated by lack of factory competitiveness due to over protection offered by the current regulation of 40 km radius cane reservation area.
- Out-growers have lost TZS 5.64 billion from decreased cane planted area by 3,000 hectares in 2009-2012 at the Mtibwa area mainly due to competition from the company estates present in the area.





Suggested Plan of Action

In order to improve the regulatory framework in the sugar industry for strengthening the business environment in the sector, the following are proposed:-

- Development of rules and procedure harmonizing sugar cane rendement determination with mandatory inclusion in the cane purchase agreement.
- Declare and implement use of core sampler as mandatory in sugar industry of Tanzania.
- Sugarcane and its derivatives (tradable products) be defined in the Sugar Industry Regulations and their value be shared between factories and out-growers – to be specified in the cane purchase agreement.
- Revise down the 40km cane reservation radius to economically justifiable cane reservation area in respect to current needs to avoid cane wastage and reduce over protection offered by the current regulation to factories.
- Allow farmers to enter into a purchase agreement with any factory around the area.
- Set minimum efficiency to be complied by all factories to avoid unnecessary inefficiencies.
- Establishment of sugar importation control and distribution services (SICDS-Authority). This can be established in the arrangement of the Private–Public Partnership. This can be focused and specifically responsible for implementing and /or be a facilitating mechanism for the following;
  - Bulk sugar importation;
  - Control of timely procurement that does not affect producers, consumers and the factories;
  - Intervention on the dishonest business arrangements in sugar distribution that tend to create artificial scarcity; and
  - Monitoring efficiency of the sugar distribution services.

Information in this Brief was compiled from a research report on enhancing the Sugar Regulatory Framework of Tanzania, conducted by SUGECO and TASGA.
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