



NATIONAL COMPETITIVENESS COMMISSION

*"Enhancing Zimbabwe's Global Competitiveness"*

# SUGAR VALUE CHAIN

## COMPETITIVENESS PROGRESS REPORT

**JUNE 2023**

## 1. BACKGROUND

1.1 The National Competitiveness Commission produced Sugar Value Chain Competitiveness Report in 2021. The Sugar Value Chain Competitiveness Report was produced in line with one of the Commission’s functions of facilitating the development of sustainable evidence-based value chains, which is key in enhancing the country’s global competitiveness and domestication of existing value chains as espoused in the National Development Strategy 1 (NDS1).



1.2 The report analysed the country’s sugar production and evaluated local competitiveness relative to other comparator countries such as Eswatini, South Africa and Brazil, among others. Furthermore, the Commission conducted an international benchmarking visit to Brazil, in March 2022, which is one of the top sugar producers in the world. The Report also proffered evidence-based recommendations thereof, which are critical to enhance competitiveness in the value chain.

1.3 Following the launch of the report in February 2022, the Commission engaged relevant authorities to work towards implementation of the recommendations from the Report, and a total of eight (8) recommendations were taken on board by the Government, through the Ministry of Lands, Agriculture, Fisheries, Water and Rural Development (MoLAFWRD). There are continued quarterly progress reviews at Ministerial level through the MoLAFWRD, on the implementation of adopted recommendations.

#### **Sugar Value Chain Competitiveness Lab**

1.4 Furthermore, the Commission has also been focusing on emerging issues through the Sugar Competitiveness Lab and this Progress Report gives an update on recommendations that were adopted and outlines emerging issues in the value chain.



1.5 Table 1 below shows an update on progress made on implementation of the recommendations.

**Table 1: Update on Implementation of the Recommendations**

RECOMMENDATION	ADOPTION STATUS	IMPLEMENTATION PROGRESS
<b>Amendment of the Sugar Production Control Act of 1964, to reflect current developments in the Sugar industry</b>	<b>Adopted</b>	<p>Amendment of the Act is in progress and the draft was shared with the farmers who are currently working on it. However, there have been concerns from the farmers regarding the slow progress at which the drafting of the amendment is being conducted.</p> <p>This process will also help address the sugar industry structure, which was identified as a monopoly.</p>
<b>Amendment of the land tenure and issuance of 99-year leases or title to A2 sugarcane farmers</b>	<b>Adopted</b>	<p>Farmers and MoLAFWRD are frequently working on the issue.</p> <p>The process of obtaining the 99-year leases was simplified and is now linked to production records of each individual farmer.</p> <p>Farmers completed production records, which are now under consideration by the Agricultural and Rural Development Authority (ARDA). About 500 sugarcane farmers are set to be issued with 99 year-leases in August 2023.</p>
<b>Establishment of Mkwesine Sugar Mill</b>	<b>Adopted</b>	<p>Commission undertook a benchmarking visit to Brazil and managed to link Mkwesine Management Committee (MMC) with DEDINI (milling manufacturer in Brazil).</p>

RECOMMENDATION	ADOPTION STATUS	IMPLEMENTATION PROGRESS
		<p>MMC submitted all the required photographs and documents to Dedini, in order for the company to come up with a conceptual design of the plant and costings and is awaiting feedback.</p> <p>Furthermore, a meeting has been tentatively scheduled between DEDINI and out-growers, during the Brazil study tour to be undertaken in September 2023.</p>
<b>Review of the Division of Proceeds (DOP) ratio to a level acceptable to both out-growers and millers</b>	<b>Adopted</b>	<p>Review of the DOP is now at the arbitration stage and the Ministry of Industry and Commerce facilitated the process.</p> <p>A panel with members from both the sugarcane out-growers and farmer-cum-millers was set up. The first draft of the review was shared with the panel and is under consideration.</p>
<b>Review of the Water Act</b>	<b>Adopted</b>	The Act is currently being reviewed and is now under the Attorney General's Office.
<b>Irrigation – rehabilitation and monitoring of irrigation infrastructure</b>	<b>Adopted</b>	<p>ZINWA is working on the production of water measuring devices, which each farmer should acquire as provided under SI 206 of 2001.</p> <p>ZINWA is facing a challenge of water shortage due to expansion of sugarcane fields on existing water infrastructure and illegal extraction of water. Further, ZINWA is looking at the possibility of using drones to monitor water canals.</p>
<b>Provision of ZWL fuel to sugarcane farmers</b>	<b>Adopted</b>	Framework for the provision of fuel in ZWL is now in place and is being administered by the Agricultural Marketing Authority (AMA). Farmers

RECOMMENDATION	ADOPTION STATUS	IMPLEMENTATION PROGRESS
		were to submit their fuel requirements to AMA through Tongaat Hulett, however, no applications for Z\$ fuel from farmers' associations were submitted to Tongaat Hulett.
<b>Prioritise capacitation of Zimbabwe Sugar Association Experiment Station (ZSAES) to become a National Project</b>	<b>Adopted</b>	Adopted in 2023 under the National Development Strategy 1 (NDS1) Mid-Term review.  Capitalisation of the ZSAES will enable the Station to produce local sugarcane seed that meets the local soil conditions and climate.

1.6 As shown in Table 1 above, strides have been made in ensuring that the recommendations that were adopted are implemented. However, there are some emerging issues, which are weighing on competitiveness of the sector.

## 2. EMERGING ISSUES AND INTERVENTIONS BY THE COMMISSION

2.1 The sugar sector's production capacity target for the 2022/23 farming season was 414 000MT against an actual performance of 396 541MT. This represents a 4% variance below the target. The sector failed to meet the set target due to a plethora of challenges, which include the following:

- The cost of borrowing has remained very high despite interventions of reducing interest per annum from 200% in 2022 to 150% in 2023 to avoid speculative tendencies;
- Exchange rate distortions are continuously affecting the sector. Government has undertaken critical measures to address the local currency volatility, such as refining the auction system to follow Dutch Auction tenets and also authorised financial dealers are now allowed to bid for forex for onward selling to clients and there is no ceiling on the margin;
- Poor quality of sugarcane, which was caused by unreliable supply of utilities;
- Attack of the sugarcane crop by pests negatively affected yield. To mitigate against huge losses, out-growers resorted to the use of knapsacks, however, they are efforts to use drones in the application of pesticides;
- High cost of electricity and water; farmers are being encouraged to purchase water meters and be calibrated by Zimbabwe National Water Authority (ZINWA);
- Sector is facing competition from the non-fortified sugar imports, where permits to import approximately 23000t of sugar were issued. This will have a negative impact on yield and investment in the next farming season; and
- Frequent breakdown of the mills.

2.2 The challenges necessitated the industry to continuously increase the price of sugar to US\$632(Import Parity) and its related products compared to comparator countries such as Zambia, with an average price of US\$632 per tonne.

## Commission/Competitiveness Lab Interventions

- 2.3 The Commission, through the Sugar Value Chain Competitiveness Lab, has been engaging stakeholders on the review of the sector’s industry specific competitiveness challenges and opportunities.
- 2.4 Table 2 below shows a summary of emerging issues and interventions being made by the Commission through the Competitiveness Lab, since the launch of the Report:

**Table 2: Summary of Emerging Issues and Interventions by the Commission**

ISSUE	DESCRIPTION	NCC INTERVENTIONS	TIMELINE
<b>Price increases emanating from high-cost base and exchange rate distortions</b>	<p>Raw sugar price increases resulted in Goldstar, which is a sugar refiner, having to temporarily close its Harare Refinery on 13 February 2023.</p> <p>THZ effected a 17% raw sugar price increase on 9 February 2023 from US\$504/t to match the import parity of US\$632/t (ex-Zambia).</p> <p>The increase rendered sugar and its related products uncompetitive.</p>	<p>Meetings were held with the Sugarcane Farmers, Zimbabwe Sugar Sales Pricing Committee Chairperson and Goldstar refinery.</p> <p>Furthermore, the Commission analyzed the effects of temporary closure of Goldstar on the market. It was noted that the country is generally perceived to be a high-cost base country in the region, compared to countries such as Zambia and Malawi. This has generally made goods and services uncompetitive, with sugar among them.</p> <p>The Commission, through the Lab played its role of facilitating dialogue by engaging all stakeholders in one meeting to establish the weak link of the value chain.</p> <p>This intervention helped to address the ‘silo’ operating mentality, thereby ensuring that information asymmetry is avoided, and in turn aided in the reopening of the Harare Refinery.</p>	2023 1 <sup>st</sup> Quarter
<b>Sugarcane production</b>	<p>Out-growers are producing at an average of 80t/ha of sugarcane. The farmers failed to meet the 2022/2023 sugarcane production target</p>	<p>Meetings were held with the farming node and a virtual competitiveness seminar was held to this effect, during the 2023 first quarter.</p>	2023 3 <sup>rd</sup> Quarter



ISSUE	DESCRIPTION	NCC INTERVENTIONS	TIMELINE
	of 414 000mt by 4%, and this was caused by a plethora of challenges such as high cost & erratic water and power supply, costly agrochemicals, noxious pests and diseases such as yellow sugar aphid, among others.	From the engagements, it was agreed that the Commission conduct a productivity audit scheduled for 3 <sup>rd</sup> Quarter 2023.  The Commission is set to engage farmers during the 2023 third quarter so as to establish gaps, which relate productivity inefficiencies.	
<b>Milling</b>	The 2022/23 milling season started on 6 and 20 April 2022 for Triangle & Hippo Mill respectively producing 396 491MT against a 421 000MT forecast of sugar in 2022/23 milling season. In terms of overall recoveries for 2022/23 milling season, the milling node was around 84% as opposed to a target of 85%. Failure to achieve the target was due to various factors such as quality of the cane, mill efficiency and frequent breakdowns.	The Commission is set to engage millers, to establish emerging challenges affecting the milling node.	2023 3 <sup>rd</sup> Quarter
<b>Refinery</b>	The node targeted to refine 135,000 tons of refined sugar in 2022/23 but has achieved 110 000tons of refined sugar. Gold Star has a contribution of 74% of the output while 26% was coming from Triangle (Pvt) Ltd.*	NCC engaged the Refiner and conducted a factory tour to establish evidence-based challenges being encountered in the refinery node.  The Commission noted that some of the challenges being experienced emanate from milling and farmers, thus NCC will engage millers and farmers to identify production efficiency challenges.	2023 3 <sup>rd</sup> Quarter

ISSUE	DESCRIPTION	NCC INTERVENTIONS	TIMELINE
<b>Seed Varieties</b>	<p>The Zimbabwe Sugar Association Experiment Station (ZSAES) released 14 sugarcane varieties for commercial purposes with another 19 varieties pending release after they are tested for their milling abilities in the past 50 years. This indicates that progress on sugarcane crop improvement is very slow compared to other sugarcane breeding programs that release on average a variety every 5 – 8 years.</p> <p>To this end, the Experiment Station has to date conducted 2 tests of the 19 in 2018 &amp; 2022 in South Africa and at ZSAES respectively, which will be launched during the 2023 3<sup>rd</sup> quarter.</p>	<p>The Commission produced a concept note to the TAZEPA for potential ZSAES support. This is because support and recapitalisation of the Zimbabwe Sugar Association Experiment Station (ZSAES) will enable the Station to produce local sugarcane seed timeously that meets the local soil conditions and climate.</p> <p>The Commission is going to follow up with TAZEPA on progress regarding potential support.</p> <p>The TAZEPA program is set to end in August 2023. It is the Commission’s hope that this will be extended.</p>	2023 3 <sup>rd</sup> Quarter

\*The Refinery node faces the following challenges:

- *Quality:* Customers are demanding sugar product with low colour units below 45IU and this is an additional cost to production.
- *Pricing:* Sugar prices, once established, are limited to official rates whilst the input costs are driven by market rates which are volatile. This narrows operational margins and erodes viability.
- *Trading Terms:* the company is currently on a 14-day credit facility which it deemed to be short considering delays that may occur on loading and transportation of the raw materials from Chiredzi to Harare.

- *Dual Currency/Controlled Exchange Rates*: Disparities between official and alternative market rates create arbitrage/distortions resulting in a run-on product in formal to informal markets.
- *Influx of Imports*: Influx of sugar from Malawi, South Africa and Zambia, thereby threatening viability of the sector.
- *Power*: the company is subjected to frequent and long power shedding forcing resorting to use of a generator, to circumvent load-shedding, the Refiner has erected a dedicated power line paying US\$70 000/month.
- *Transport*: Raw sugar is currently being transported by road from Chiredzi to Harare and is being charged US\$54 per tonne, thereby impacting negatively on the final price of sugar. Rail is characterised by high inefficiencies and theft. On average, rail takes an average of 3 weeks to transport raw sugar from Chiredzi to Harare.

### 3. CONCLUSION AND WAY FORWARD

3.1 Enhancing competitiveness of the value chain requires collaborative effort among stakeholders, hence the Commission is going to continuously engage players in the value chain, with particular focus on the farming node. Farmers/out-growers denote the first node of the value chain and addressing its competitiveness gaps is critical as this will cascade into the entire value chain.

3.2 Table 3 below, shows areas of intervention that the Commission will be focusing on in an effort to help ensure that the value chain’s competitiveness is enhanced.

3.3 **Table 3: NCC Focus Areas**

FOCUS AREA	NCC INTERVENTION	TIMELINE
<b>Sugarcane Productivity</b>	The Commission will focus on facilitating potential collaboration between out-growers, ZSAES and local universities to design and tailor make equipment suited for the sugar value chain such as spraying drones that cater for large tracts of land.	December 2023
<b>Enhancing Production Efficiency and learning from International practice</b>	The Commission is going to facilitate a study tour in Brazil, in September 2023, for the value chain players to have an appreciation of international best practice, since Brazil is one of the top sugar producing countries. The study tour will mainly focus on how to improve production efficiency, farming practices, research on new varieties, funding along the value chain, small scale production of sugar, marketing structure & strategies applied by the industry, building of regional & international coalition and networks. The study tour will be centred on the following objectives: <ul style="list-style-type: none"> <li>• build a network with sugarcane farmers, research institute and marketing board and suppliers of milling plants;</li> <li>• create sustainable partnerships that with result in information sharing and technology transfers;</li> <li>• share insights on how Zimbabwe can enhance its competitiveness in the sugar value chain; and</li> <li>• Appreciate the extent of backward and forward linkages in the sugar value chain.</li> </ul>	2023 3 <sup>rd</sup> Quarter



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