The political economy of ‘scarcity’ in East Africa: a case study of sugar production, smuggling and trade in Tanzania

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Acronyms and abbreviations

CCM    Chama Cha Mapinduzi (political party)
CET    Common External Tariff
COMESA Common Market for Eastern and Southern Africa
CSA    Cane Supply Agreements
CTI    Confederation of Tanzanian Industries
DRS    Duty Remission Scheme
EAC    East African Community
EU     European Union
ha     hectare
HS     Harmonised System
IBRD   International Bank for Reconstruction and Development
KSCL   Kilombero Sugar Company Ltd
KSL    Kagera Sugar Ltd
MSE    Mtibwa Sugar Estate Ltd
MT     Metric tonne
NTB    Non-Tariff Barriers
PPRA   Public Procurement Regulatory Authority
SADC   Southern African Development Community
SBT    Sugar Board of Tanzania
SI     Sensitive Item
TASGA  Tanzania Sugarcane Growers Association
TPC    Tanganyika Planting Company
TRA    Tanzania Revenue Authority
TSPA   Tanzania Sugar Producers Association
Executive summary

Sugar scarcity is a widespread phenomenon across the African continent. National governments cover the so-called ‘sugar gap’ – the difference between domestically produced sugar and national consumption requirements – by managing imports of sugar from major world producers and exporters. Consequently, sugar production and trade are at the centre of the political economy of industrialisation across Africa and its sub-regions. Regulatory measures such as subsidies, import duties, and special licensing and tariff regimes operating at the domestic, bilateral and regional levels are major sources of rents and often result in rent-seeking behaviours and corruption both along the value chain and across the political spectrum.

To address such problems of corruption in the sugar industry in Tanzania and other developing countries, we argue that the ‘political logic of scarcity’ must be understood. With this concept we highlight that, first and foremost, the fundamental constraining processes and the major sources of corruption stem from the fact that rents are intrinsically linked to scarcity; second, that rent-seeking is both about exploiting the existing real scarcity as much as actively creating and reproducing both real and artificial scarcity. These three processes are commodity-industry specific. They can also operate in parallel and be contested by different powerful groups over time. More importantly, the micromanagement of these interrelated rent processes by powerful groups leads to extremely volatile domestic markets, which in turn makes domestic productive investments difficult. Without such productive investments, scarcity cannot be overcome, and corruption remains rampant.

The gap between the production and consumption of household plus industrial sugar is growing in Tanzania. It amounted to 363,000 metric tonnes (MT) in 2018. Starting from 2011, mirror statistics suggest that underreporting of raw sugar increased dramatically and peaked at over US$60 million in 2012 and 2015. Significant volumes of sugar above 100,000 MT per year were mislabelled, and sugar that was supposed to enter as industrial sugar was in fact introduced in Tanzania for sale in the final wholesale market for domestic use. Our analysis of over 3,000 transaction-based data reveals how, between 2013 and 2017, the total amount of sugar entering Tanzania was over 1.5 million MT. However, 700,000 MT was sugar in transit. While sugar imports peaked in 2013 and 2014, the quantities have reduced since then.

Businesses that import sugar are mainly run by large traders who have established relationships with Asian countries (e.g. Thailand, the United Arab Emirates, Saudi Arabia) as well as Egypt and South Africa, the two largest producers of sugar in Africa. In Tanzania, we find that around 10 players account for all the major imports of sugar above 1,000 MT between 2013 and 2017. We also find high levels of volatility in the reported prices – with cases in which the same sugar is priced tenfold – and evidence of a correlation between peaks in sugar importation and election years.

Starting from 2016, a number of government measures were introduced in Tanzania’s sugar sector, including price controls, reallocation of import licences, measures against sugar hoarding in warehouses and empowerment of the Sugar Board of Tanzania (SBT). Recent policy developments in the sugar industry and the emergence of a new political settlement for this sector have opened the way for a number of potential anti-corruption strategies. But a
feasible strategy needs to build on our evidence and identify enforceable pathways whereby capable domestic producers and potential new investors are incentivised to increase domestic capacity and reduce scarcity. In this paper we design and simulate an anti-corruption strategy whereby the sugar gap is allocated to existing domestic producers and new entrants in proportion to their capacity, and the import gap shares are pegged to increased annual production. We show how this is feasible and self-enforcing in the evolving political settlement.
1. Introduction

Across Africa there is renewed interest in industrial policies and a surge in aspirations to become developmental states. Yet staple commodities, including sugar, remain scarce and their production largely uncompetitive. Large segments of the rural population are involved in sugar production and they depend on them as cash crops. At the same time, powerful organisations and their clientelistic networks exploit scarcity among such commodities in order to capture rents along the value chain. In turn, this generates an intricate web of domestic and regional conflicts among powerful players that unfolds through complex, corrupt processes.

Scarcity is a major cause of poverty in Africa, but it is also a major source of power. This paper disentangles the political economy of scarcity, with a focus on sugar in Tanzania, and investigates the implications for the politics of industrialisation and anti-corruption in Africa. If the logic of industrialisation is about generating surplus, the logic of underdevelopment is intrinsically linked to creating and reproducing scarcity. Thus, understanding this logic of scarcity is key in identifying politically feasible industrialisation strategies for Africa.

In section 2 we set out the problem of sugar scarcity and explore what we call the ‘political logic of scarcity’. Within this, we highlight that the most fundamental constraining processes and the major sources of corruption stem from: 1) the intrinsic link between rents and scarcity; and 2) the fact that rent-seeking is both about exploiting existing scarcity as much as actively creating and reproducing both real and artificial scarcity. We argue that the political logic of scarcity makes the sugar industry particularly vulnerable to corrupt practices and resistant to policy changes.

Against this analytical framework and set of hypotheses, we analyse the political economy of Tanzania’s sugar industry in section 3. We provide detailed evidence of the evolving landscape and the main players within the domestic industry, with production, consumption, investment and trade figures to highlight the scale of scarcity and the sector’s vulnerabilities to corruption. In this respect, we also look at the ways in which the sugar industry has been regulated at regional levels and how these regulations have opened up opportunities for rent-seeking. Finally, within this section, we unpack the relationships between different players along the sugar value chain and discuss bottlenecks in the development of the domestic industry.

In section 4 we review the corruption evidence, deploying mirror statistics for the period 2001–2017 and unique transaction-based data for 2013–2017 covering over 3,000 observations. We identify several ‘political processes of scarcity’, including misreporting of sugar imports, different cross-border regional trade flows, sugar in transit, the shifting nature of smuggling and the powerful groups involved, and the political settlement that has emerged in Tanzania over the last five years. Building on this evidence, we advance an anti-corruption strategy for the sector in section 5. This takes into account recent developments in the industry and puts forward measures through which a potential coalition of interests could emerge over time to reduce the sugar gap in Tanzania.
The political logic of scarcity: exploiting, creating and reproducing real and artificial scarcity

Sugar scarcity is a widespread phenomenon across Africa. National governments cover the so-called ‘sugar gap’ – that is, the difference between domestically produced sugar and national consumption requirements – by managing imports from major world producers and exporters. Among them, countries like Thailand, India and Brazil have reported large and consistent production surpluses and, over the years, they have become major trading suppliers of sugar for African countries. Across Africa, only a few countries have established a significant domestic industry base. These are South Africa – with its large multinational company Illovo, the largest producer in the continent that operates several milling facilities in sub-Saharan Africa – Egypt, Mauritius, Mozambique and, more recently, Ethiopia. In Mozambique, sugar production has expanded by an annual average rate of 10% over the past decade, driven by investment in irrigation and price incentives offered by trade opportunities in the region and to the European Union (EU). Ethiopia has struggled to build up its sugar industry; however, by 2018, it experienced a significant boost in domestic production with six sugar mills operating in the country (FAO, 2019).

The sugar industry started in Tanzania in 1924 with the development of the Tanganyika Planting Company Limited in Moshi, followed by two other companies in Kilombero and Mtibwa in 1961 and 1962, respectively. Already in the late 1980s, Tanzania’s domestic consumption of sugar exceeded its domestic production. Since then – with the only exceptions being 1998 and 1999 – Tanzania has experienced an annual sugar gap, which has widened since 2010 (OECD-FAO, 2019; see also section 3). The broad use of sugar in fast growing sectors – such as food and beverages – also poses specific technical challenges in terms of the availability of refined sugar for industrial use.

Differently from raw and domestic sugar, industrial sugar is often identified by the Harmonised System (HS) code as ‘sucrose, chemically pure, containing (or not) added flavouring or colouring matter, in solid form’\(^1\). Countries that have large plantations of sugar cane have not necessarily developed a value chain that includes industrial sugar-refining infrastructures, alongside traditional sugar milling facilities. This is the case for the East African Community (EAC), where no country has developed these sugar-refining capabilities, and where no member is self-sufficient in sugar production.

The technical and production challenges associated with East Africa’s domestic and industrial sugar industry have been widely documented in the literature (for a classical study

\(^1\) For a description of the Harmonized Commodity Description and Coding Systems (HS) see: https://unstats.un.org/unsd/tradekb/Knowledgebase/50018/Harmonized-Commodity-Description-and-Coding-Systems-HS
in Ghana see Kaplinsky, 1983). Particular emphasis has been given to the relationship between sugar millers and sugar cane producers (Dubb et al., 2017) and how this relationship affects both productivity upstream (crop-growing) and capacity utilisation downstream (scale-intensive milling). Pricing along the value chain is central in this respect, as it determines the extent to which the industry can increase efficiency and generate sufficient supply and eventually a surplus (see Mpapalika (2019) for a recent review on regulation of the sugar market price in developing countries).

Given that sugar scarcity remains in the order of hundreds of thousands of metric tonnes (MT) in Tanzania and several other African countries, and that both direct demand (final consumption of sugar) and indirect demand (industrial use of sugar) are constantly growing, the sugar industry has been one of the most regulated industries, subjected to import duties, subsidies and quotas. At the country level, some of these measures have been driven by the twofold challenges of food security and industrialisation, and trade-offs between them. On the one hand, making sure that the sugar gap is filled and domestic demand is met is high on the political agenda across developing countries, especially when elections approach. In these instances, traders can help by securing large inflows of sugar. On the other hand, protecting the domestic industry and offering subsidies to industrialists in the hope of boosting domestic investments, export and employment along the value chain is a longstanding developmental ambition. Disciplining these rents can also be challenging and contested.

Furthermore, given the widespread diffusion of regional trade agreements – including free trade areas and custom unions – and bilateral trade arrangements across Africa and beyond (Andreoni et al., 2019), the use of regulatory measures can also be found at the bilateral and regional levels. At these levels, regulatory measures include import duty exemption regimes, export bans, preferential access or buying commitments. The management of these measures is widely contested across countries, often resulting in reciprocal accusations of misreporting of trade and production volumes as well as rules of origins. In some cases, these conflicts are unintended: they simply arise from the introduction of contradictory measures between overlapping trade arrangements. For example, Tanzania is both part of the free trade area of the Southern African Development Community (SADC) and the customs union of the EAC; similarly, Kenya is both part of the EAC and the Common Market for Eastern and Southern Africa (COMESA). Different arrangements within these overlapping blocs respond to conflicting interests at the national and regional levels. And, even when agreements are reached, the lack of capacity in implementation and the political economy challenges of enforcing measures can open the way for complex corruption processes.

Sugar production and trade is indeed at the centre of the political economy of industrialisation across Africa and its sub-regions. Regulatory measures such as subsidies, import duties, special licensing and tariff regimes operating at the domestic, bilateral and regional levels are major sources of rents. These often result in rent-seeking behaviours and corruption along the value chain and across the political spectrum. Looking at the sugar gap from this rents perspective highlights how the ‘politics’ of scarcity plays a critical role far beyond the more standard ‘economics’ of scarcity. The latter simply suggests a technical supply-side solution in Tanzania and – from a free-market perspective – the need for liberalisation of the sector. However, while the removal of subsidies, import duties, special
licensing and tariff regimes would remove important sources of rents, it would not address the problem of developing productive capabilities in these industries across developing countries.

In order to address the corruption problem in the sugar industry in Tanzania and other developing countries, we argue that the ‘political logic of scarcity’ needs to be understood. That is, anti-corruption efforts must recognise that the most fundamental constraining processes and the major sources of corruption are the fact that, first, rents are intrinsically linked to scarcity; and second, that rent-seeking is both about exploiting the existing real scarcity as much as actively creating and reproducing both real and artificial scarcity.

The sugar industry is particularly vulnerable to corrupt practices and resistant to policy changes. This is because powerful groups can extract huge rents thanks to scarcity and thus it is in their interest to make sure that nothing fundamentally changes and that scarcity is preserved. Moreover, they can invest in scarcity – by using the rents obtained from the existing real scarcity to actively create and reproduce both real and artificial scarcity. The political logic of scarcity is thus strikingly opposite to a logic of productive capabilities development and accumulation, whereby scarcity is reduced and power becomes more evenly distributed across several organisations.

We turn now to a description of the three processes that follow the political logic of scarcity.

First, **exploiting existing real scarcity** is perhaps the most obvious process. Whoever in a country has the power to decide who is going to import sugar and under what terms, will have rent-allocation power. Here, it is a government who is in charge of allocating import licences, imposing import bans and determining tariff schedules for a country (or negotiates them at regional levels). Within a government the authorities in charge of implementing and monitoring these measures – tax, standards and port authorities – might have some discretionary power, for example in assigning the right trade codes, checking product quality and stages of processing, avoiding misreporting and collecting the right duties. Other authorities are also in charge of monitoring smuggling within official and unofficial trade routes. Finally, special government departments at the central and regional levels are responsible for constantly monitoring food availability and for raising any food security alarms. Each of these processes is vulnerable to rent-seeking and corruption by powerful groups interested in exploiting the real scarcity in the country. These different corruption processes can operate at the same time, leading to negative impacts across the domestic economy, especially for domestic producers directly affected by smuggling.

Secondly, powerful groups can **actively create both real and artificial scarcity**. Creating real scarcity means either exporting illegally to increase profits or hoarding supplies to make sure that the price of the commodity remains high, even when large inflows of sugar are imported. Exporting illegally in violation of export bans is common when the price of the commodity is highly volatile and there are opportunities for larger mark-ups, especially across regional trade areas like the EAC. The fact that some land-locked countries have to import sugar through Tanzania and Kenya makes the sugar in-transit business very vulnerable to corruption. Hoarding – thus, creating artificial scarcity – is a well-documented
process and is something that has been witnessed in Tanzania over several decades (see Tarimo and Takamura, 1998, for example). These processes affect consumers who pay a high price despite large stocks of sugar available in the country.

Third, reproducing real and artificial scarcity is about actively investing in acquiring and retaining control over scarcity and the rents associated with it. First, powerful groups can actively invest in buying both warehouses and tracks to control the stocks and flows of a scarce commodity. In fact, across many pre-industrial premature de-industrialisers, factories have been bought and turned into warehouses to support unproductive rent-capture activities like hoarding. Investments in some cases are also strategically linked to investments in the distribution and retail chains. For domestic producers, access to these chains is critical to reach consumers. Powerful groups that control these chains can block flows of sugar from domestic producers to the market if they are themselves involved in trading and can extract higher mark-ups by selling imported sugar. By undermining domestic producers, powerful groups can, over time, cause and reproduce real scarcity. Finally, reproducing artificial scarcity can be also achieved by fuelling a fear of scarcity and food insecurity. Given that it is very difficult to know with certainty if a country has enough (or not) stocks of specific commodities, creating a perception of scarcity can result in a looser import licence regime and large inflows of commodities. In some cases, politicians might also turn this perception in their favour. Rents from sugar imports can be channelled into the political arena along different clientelistic networks in a quid-pro-quo exchange of favours.

These three processes are commodity-industry specific. They can also operate in parallel and be contested by different powerful groups over time. More importantly, the micromanagement of these interrelated rent processes by powerful groups leads to extremely volatile domestic markets, which in turn make domestic productive investments difficult. Without such productive investments, scarcity cannot be overcome and corruption remains rampant. We turn now to analysis of the political economy of the sugar sector in Tanzania to identify feasible anti-corruption strategies.
3. The political economy of the sugar sector in Tanzania

In this section we analyse different evidence to understand the key characteristics of Tanzania’s sugar industry and that of the EAC more broadly. An emphasis on both production and trade-related data allow us to put the scarcity problem in context. It also allows a shift in analysis from production to the politics of scarcity, and to formulate a number of hypotheses around the processes of rent-seeking (which are assessed in section 4).

3.1. The ‘sugar gap’ in Tanzania: production, consumption and investments

No member of the EAC is self-sufficient in sugar. As demand grows due to urbanisation and rising incomes, imports of household sugar are increasing (Rabobank, 2013). Moreover, no industrial sugar is produced by EAC member countries – presumably because country demands are too small to achieve production economies of scale in a global market with surplus and falling prices (Eggleston and Lima, 2015; FAO, 2019). All sugar for industrial use is therefore imported, and consequently sugar import volumes for both household and industrial sugar into the EAC have grown over time.

Sugar scarcity in Tanzania is therefore real. Moreover, the gap between the production and consumption of household plus industrial sugar is growing, as shown in Figure 1, and amounted to 363,000 MT in 2018. Available production data from the Sugar Board of Tanzania (SBT) for the 2006–2015 period are similar to those of the Organisation for Economic Cooperation and Development (OECD) and Food and Agriculture Organization (FAO) shown in Figure 1 (however, SBT does not provide consumption data). The shortfall for this ten-year period was, on average, around 80,000 MT/year for household sugar and around 95,000 MT/year for industrial sugar based on available SBT figures.

Figure 1 also indicates that annual sugar production in Tanzania has increased since 2013, although with some variation. By February 2019, for example, the national annual production was estimated at 300,000 MT of household sugar against a demand for 515,000 MT (a 40% gap). The industrial sugar demand was 155,000 MT (Namkwahe, 2019). The

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2 The exception is Uganda, which is now close to self-sufficiency in household sugar. See East African Business Council (2018: 7) and the World Bank (2018: 33), the latter of which writes that Ugandan ‘sugar and sugar confectionary now represent the second largest non-traditional agricultural export, [at] around $100 million’. Moreover, following controversies about Uganda’s sugar exports to the region, a verification mission undertaken by the Kenyan government in 2016 confirmed that Uganda had a surplus of sugar in 2014 and 2015 (see Ministry of Trade, Industry and Cooperatives, 2016). More recently, Uganda has been designated as a ‘sugar-surplus’ country, with exports to the Democratic Republic of Congo, South Sudan and Zambia. As we see later, the extent to which all sugar exported from Uganda is produced in the country remains contested and has been the cause of several export bans (see Lichenstein, 2020).

3 Attempts have been made to build industrial sugar refining capacity in Kenya for the EAC region, including a special trade regime to make the business viable, but concrete progress has not materialised so far (see Anyanzwa, 2018).
closest country comparator in the EAC is Kenya, which presents similar figures in terms of its sugar gap. In 2019, sugar consumption in Kenya was approximately 1 million MT/year while the country imported between 350,000 MT and 400,000 MT (Wagaki, 2020).

**Figure 1: Sugar production, consumption and the gap in Tanzania**

![Graph of Sugar Production, Consumption and the Gap in Tanzania](https://stats.oecd.org/index.aspx?queryid=71240)

Currently, four privately owned sugar companies operate in Tanzania (Table 1), following the government’s move to privatisation in 1997. In 2014, the latest year for which complete factory production data are available, these firms produced a total of around 300,000 MT – some 75% of the total demand for household sugar in Tanzania. Since 2014, the capacity of these plants has not changed significantly; however, two major new investments are underway. Three of the four estates – Kilombero Sugar Company Ltd (KSCL), Mtibwa Sugar Estate (MSE) and Kagera Sugar Ltd (KSL) – work with some 18,500 small-scale cane growers, cultivating some 27,000 hectares of land and producing some 710,000 MT of cane at an average yield of 27 MT per hectare (ha) (Cambridge Economic Policy Associates, 2016: 16). The Tanganyika Planting Company (TPC) estate grows its own cane. Directly and indirectly, the sugar sector employs some 75,000 people (compared to some 250,000 in Kenya).
The political economy of ‘scarcity’ in East Africa: a case study of sugar production, smuggling and trade in Tanzania

Table 1: Sugar manufacturers in Tanzania – output and ownership

<table>
<thead>
<tr>
<th>Company</th>
<th>Output 2014 (x1,000 tonnes)</th>
<th>Output share (%)</th>
<th>Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>KSCL (Morogoro region, ‘Bwana Sukari’ brand name)</td>
<td>117(^5)</td>
<td>40</td>
<td>Illovo holds 55% of the issued share capital in KSCL, with 20% held by ED&amp;F Man, a London-based commodities group, and 25% by the Government of Tanzania.(^6)</td>
</tr>
<tr>
<td>TPC (Arusha region, Moshi based)</td>
<td>101(^7)</td>
<td>33</td>
<td>The government owns 25% stakes at TPC Ltd, and entered into partnership with Sukari Investment Limited (SIL) from Mauritius in 2000 that has 75% shares. SIL is owned by two companies including Alteo Limited from Mauritius (60%) and GQF Teros of Réunion (40%).(^8)</td>
</tr>
<tr>
<td>KSL</td>
<td>50</td>
<td>17</td>
<td>Local 100% (Superdoll)(^9)</td>
</tr>
<tr>
<td>MSE</td>
<td>27</td>
<td>9</td>
<td>Local (Superdoll), government,(^10) foreign(^11)</td>
</tr>
<tr>
<td>Zanzibar Sugar Factory Limited, Mahonda</td>
<td>4(^12)</td>
<td>1</td>
<td>Foreign (India) and local (perhaps Export Trading Group).(^13) Expansion plans in 2015.(^14)</td>
</tr>
<tr>
<td>Mkulazi Holding Company(^15) (100 when fully completed)</td>
<td>na</td>
<td></td>
<td>Local 100%; National Social Security Fund (NSSF), Parastatal Pensi Fund (PPF)(^16) and Tanzania Prison Department</td>
</tr>
<tr>
<td>Bagamoyo Sugar Ltd (production to start in 2020)</td>
<td>n/a</td>
<td></td>
<td>Local 100%; The Said Salim Bakhresa Company(^17)</td>
</tr>
<tr>
<td>TOTAL (2014)(^18)</td>
<td>299</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Sources: The authors from interviews and the sources cited.

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\(^4\) Source: SBT (2014). Cambridge Economic Policy Associates (2016: Figure 8.2) shows factory production trends from 2002 to 2014. They differ slightly from the SBT data (see Table D.1.).

\(^5\) 126,000 MT in 2017 (see Tairo, 2018).

\(^6\) See https://www.illovosugafrica.com/About-us/Tanzania

\(^7\) 94,000 MT in 2017 according to the 2017/18 annual report; in 2020 the company declared plans to expand production to 120,000 MT (allafrica.com, 2020).

\(^8\) See allafrica.com (2020).

\(^9\) In 2017 the Chief Executive Officer claimed that production had increased to 68,000 MT (Daily News, 2017).

\(^10\) SADC Sugar Digest 2020, page 9. Superdoll also runs a major transport business, manufacturing of trailers, etc.

\(^11\) OECD (2013: 231) claims that Mtibwa Sugar has been sold to Mauritian investors.

\(^12\) Malanga (2018).

\(^13\) Based on interviews.

\(^14\) Plans to expand production to 19,000 MT/year were announced in 2015 (see FMO, 2015).

\(^15\) The Controller and Auditor General (2018: 164–166) provides a critical analysis of the protect.


\(^17\) See Lugongo (2017).

\(^18\) Large investments in a sugar estate in the Rufiji basin by Indian and local entrepreneurs were reported in the media according to Rabobank (2013), but the estate has not materialised.
Detailed information about the profitability of these factories is not easily available although indications are that profits can be high. For example, the Ministry of Industry wrote that the ‘sugar sub-sector industries recorded highest returns on industrial investment’ in 2005 and 2006 (United Republic of Tanzania, 2007: Table 22). According to the African Competition Forum (2014) the margin for millers was approximately 60% or higher. Positive assessments have also been made by the sugar companies themselves. The Alteo group, for example, owner of the TPC as well as factories in other African countries, reported that a strong financial performance by TPC was a major reason for Alteo’s improved performance in 2015 compared to the year before (Alteo, 2015). Performance was even better in 2016 compared to 2015 (Alteo, 2017).

For sugar cane outgrowers, the picture is mixed. Their payment by factories depends on the sucrose content of canes. Ideally, sugar cane must be processed within 30 minutes of cutting to prevent natural sucrose depletion – after 24 hours the cane goes stale. When a production area expands, sugar cane takes longer to reach the factory, which results in declining sucrose levels. Nevertheless, SBT has resisted licensing second mills within an 80 km radius of an existing mill (IBRD, 2018), which is a disincentive for outgrowers. Moreover, according to Sulle (2016: 1), large-scale outgrowers ‘have rapidly captured the most lucrative business opportunities and the land they require, marginalising smaller outgrowers’ in the competition among farmers for harvest quotas.

Significant overall declines in sugar cane yields from 2004 to 2013 highlight a major efficiency problem in the sugar sector (Cambridge Economic Policy Associates, 2016). Yields for outgrowers of sugar cane are about half the yields of plantations (Mmari, 2015; Poulton, 2017). Moreover, outgrowers suffer when payment of their sugar cane is delayed – as some factories frequently do (Bank of Tanzania, 2016). In 2011, this may have led to a 25% decline in sugar production according to an FAO report, which also notes that the officially stated reason for the production decline was drought (Nkonya and Barreiro-Hurle, 2012). In 2014, the Bank of Tanzania (2016) found that real incomes of sugar cane outgrowers around Kilombero had declined after they entered contract farming.

As shown in Figure 2, sugar cane yields range from 30 MT/ha to 60 MT/ha (see also African Competition Forum, 2014). However, productivity performances are heterogeneous among outgrowers and highly dependent on investments. For example, TPC produces sugar cane at an average of 140 MT/ha, which is the highest rate in Africa and third in the world (allafrica.com, 2020). The company itself assigns these important results to significant investments in modern irrigation and farming systems and high-tech factory equipment, including high-tech computerised machines to apply fertilisers with accurate measures.

19 These authors also find that small-holders grow around 20% of total production in MSE. In KSCL it was 45% in 2014 (Illovo Sugar, 2014). They do not square with (confusing) figures from the SBT (2014), nor with the 80% figure claimed by the African Competition Forum (2014). Yields range from 30 MT/ha to 60 MT/ha.

20 The results – based on questionnaire surveys in three districts around KSCL – should be interpreted with caution as the methodology used is not quite clear.
Between 1998 and 2013, according to the Tanzania Sugar Producers Association (TSPA) (African Competition Forum, 2014), sugar companies invested more than US$500 million. Despite that, production has increased only modestly over the years (see Figure 1 above), and recent investments have been quite modest too – and far below targets. From the point of view of sugar factories, the constant flux of regulatory frameworks for sugar imports and exports makes investments in capacity expansion risky (Illovo Sugar, 2014). Profitability is sensitive to changes in the trade regime and can drop significantly as it did in 2012/13 ‘due to the flooding of the domestic market with cheap sugar imports and the resultant accumulation of unsold stocks’ (ibid: 11). Some analysts also claim that not all producers are benefiting from the existing trade regime. Specifically, outgrowers do not benefit from Tanzania’s import tariff protection policy on sugar, while suffering economically from the above mentioned inefficiencies in the sugar factories (FAO, 2013).

For the 2013–2018 period, Tanzania’s production capacity was planned to increase by 406% – by far the biggest expansion within the EAC (Agriconsulting Europe S.A., 2015: Table 15). But this did not happen. Moreover, increased sugarcane production (including outgrower schemes) is a key component in the Southern Agricultural Growth Corridor of Tanzania (SAGCOT) initiative. The government has also promoted large-scale investments in sugar under the ‘Big Results Now’ (BRN) initiative, which prioritises food security and import substitution. New greenfield projects in sugar have, for example, been planned in Kilombero district under both of these projects. However, despite these developments and the introduction of a five-year industry development plan in 2010/11, ‘there is perceived to be weakly organised government support for the sector including limited capital provided’ (Cambridge Economic Policy Associates, 2016: 16–17).
3.2. Efforts to fill the ‘sugar gap’

As shown above and in Figure 3, Tanzania has reported an increasingly large sugar gap from 2007 (Figure 1). Since then, the gap has been filled by rising imports, as reported by the Tanzanian authorities. Figure 3 shows how this has largely matched the domestic sugar gap since 2001, with the exception of 2011 when a large over importation of sugar was recorded, which exceeded 300,000 MT above the domestic sugar gap.\(^\text{21}\) As we see in section 4, however, the official import figures reported by Tanzania are not necessarily the same as those reported by the exporting countries. This suggests that there is some misreporting, specifically underreporting of the overall volume of imported sugar, and potential mis-invoicing of imported goods (type of good, quality, etc.). Given that the import of sugar is a multi-million dollar business, these activities can be extremely lucrative.

**Figure 3: Sugar gap: imports and ending stocks (2001–2018)**

Although Tanzania had recorded ‘ending stocks’ of sugar since 2001, with a cumulative stock available by 2010 of 416,000 MT, by the end of 2011 the ending stocks doubled and reached a massive 754,000 pick. The ending stocks of sugar in Tanzania has remained high since then, despite reductions in the period 2014–2017. This massive increase in sugar imports has mainly involved refined sugar. By 2012, refined sugar imported in the country amounted to around 200,000 MT, and remained at this high level even in the following year.

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\(^{21}\) Tanzania’s sugar import data differ significantly between the two available data sources (OECD/FAO and SBT). According to SBT, domestic sugar imports are more than five times bigger than the OECD-FAO figures for the period 2006–2015 where both sources provide data. On Industrial sugar imports it is the reverse: SBT import figures are half of OECD-FAO’s.
As documented by Illovo Sugar (2014: 14–15), one of the two biggest sugar producers in Tanzania, ‘[t]he domestic market was flooded with more than 200,000 MT of licensed sugar imports in 2012/13, far exceeding the 80,000 MT gap between domestic supply and demand. With export markets hit by falling prices and a Kenyan trade ban, sugar producers in Tanzania had a huge accumulation of unsold sugar stocks.’ Paradoxically, this situation pushed some of the domestic producers to look for foreign export markets, searching for demand and better prices. KSCL, for example, sold 79% of its sugar in the domestic Tanzanian market in 2012/13, generating revenues of 554 million South African Rand (ZAR), and exported an equivalent of ZAR 146 million (ibid.).

The incentive to import (and export) sugar is strongly affected by price differences between domestic and international prices. The larger the gap, the bigger the incentive. However, domestic prices are also affected by the extent to which those who have produced or imported sugar are or are not willing to release their commodity into the market. The timing of the release of the sugar stock, both domestically produced and imported, is a key decision that determines domestic price fluctuations as well as variance in the availability and price of sugar across the country. Typically, prices on the domestic sugar market are relatively volatile throughout the year, with prices increasing towards the end of year (November and December) following releases of stock by factories and traders into the market earlier in the year. The prices tend to drop in the first four months of the year, or immediately after new supply is available.

Furthermore, as part of the EAC, Tanzania always has more than one market to look at for a better price. As shown in Figure 4, price differences across the region remained significant until 2012. But in that year, for example, the price of sugar in Kenya was significantly higher than in Tanzania. Indeed, in Tanzania ‘sugar milling companies ... exported sugar to East African markets as an attempt to compete in regional markets and to ease temporary cash flow problems caused by high volumes of sugar imports. Sugar exports in 2012/13 amounted to 59,000 metric tonnes’ (Mmari, 2015: 52).

**Figure 4: Ex-factory and world sugar prices (US$/MT)**

Source: African Competition Forum (2014)
However, the world sugar price was significantly lower than in any country in the region until 2012. But at that time things changed, at least in Tanzania, because of a significant devaluation of its currency. The Tanzanian shilling (Tsh) exchanged with the dollar at 1,582.00 on 30 December 2013. By July 2015, one dollar exchanged at 2,165.00 Tsh – a drop of 37%. The devaluation of the domestic currency makes imports automatically more expensive, and thus potentially favours national producers who are now competing with imported sugar at relatively higher prices than before the devaluation. Figure 5 reports the average price in Tsh for 1 kg of sugar in the Tanzanian domestic market between 2007 and 2017.

Figure 5: Average sugar price in Tanzania (Tsh per 1 kg)

![Average sugar price in Tanzania](https://stats.oecd.org/index.aspx?queryid=71240)

Finally, given that Tanzania is part of the EAC customs union, the price of sugar is determined by the specific trade regime under which sugar is imported in the region. All the other countries in the region are equally affected by the respective reciprocal commitments under the customs protocol in terms of import quotas and duties. In general, the imposition of import duties (or quotas) increases the price (or quantity) of imported sugar in the region, while offering protection to domestic producers in case their domestic production cost is higher. The allocation of this rent is supposed to support relatively less competitive companies, and encourage their investments in sugar cane production and refining capabilities to meet international production efficiency, standards and prices. If, however, the domestic companies are already capable of producing at a relatively competitive cost, the price of the imported sugar creates a minimum price at which sugar will be sold in the country. To the extent that this price is higher than the production cost for the domestic company, there is scope for a surplus. Of course, this surplus is at the expense of domestic consumers who could potentially consume more and cheaper sugar without such import duties.

### 3.3. Trade exemptions, retaliations and divergence

Imports and exports of sugar are regulated by the EAC as well as by each member country, some of which are also members of the COMESA (e.g. Kenya) or the SADC (Tanzania) trade

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22 Except the newest member, Southern Sudan.
areas. As a result, and because of conflicting inter- and intra-country interests, the trade regulations are volatile, sometimes contradictory and often lack transparency. These vulnerabilities in the trade regime create lucrative smuggling opportunities and cause conflicts among EAC members and political factions within them. Indeed, the political economy of the EAC region has been dramatically affected by continuous bilateral accusations of countries undercutting one another’s sugar industries through violations of import quotas, rules of origin and import duties for different categories of sugar. In 2016, for example, Tanzania introduced a ban on sugar imports from Uganda, on the grounds that the sugar had been imported from Kenya and repackaged in Uganda. This resulted in an initial imposition of an extra 25% tax on imported sugar from Uganda, and by 2018 the Tanzanian government halted the issuance of permits, essentially banning sugar imports from Uganda. While these intra-regional trade wars have not been limited to sugar, it is perhaps one of the most contested commodities in the region.

A major problem is that accurate information is not readily available about the regulatory framework for sugar at specific points in time for a particular country, either from official EAC or member government sources (Vitale et al., 2013). Consequently, information from various sources must be used: the EAC Gazettes, annual National Budget Speeches, specific studies, newspapers and other media sources. To search across multiple sources to find the applicable information on a duty rate is difficult. Even experts from the World Trade Organization (WTO) make mistakes when they report on the trade regime for sugar. Unavoidably, therefore, the following analyses of the sugar trade regime over time are partial (but more comprehensive than those found in other publications). Our analysis focuses on tariffs, licenses, and import and export bans. The administrative procedures of trade are not discussed.

3.3.1. The EAC customs protocol

All EAC decisions on tariffs and trade regulations are intergovernmental and made by consensus by the EAC’s Council of Ministers – or sometimes even by the Heads of States. The EAC Secretariat conducts all technical preparations. A Common External Tariff (CET) on imported sugar into the EAC was established by Kenya, Tanzania and Uganda when the EAC Customs Union was established in 2005, which was agreed to by new members, Burundi and Rwanda, when they joined the EAC in 2009. In principle, the CET on sugar is 100% because sugar is designated as a ‘Sensitive Item’ (SI) requiring special protection. However, if a member state can prove scarcity of a specific product within the country or that an industry needs specific protection, it can request a derogation from external tariffs.

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23 This ban was lifted only in 2020 (Lichenstein, 2020).
24 Neither the Tanzania Revenue Authority’s (TRA) website nor its annual publication on Taxes and Duties provide comprehensive information on the sugar trade regime in force for the year.
25 According to a recent WTO report (2019a) on the EAC, the Common External Tariff (CET) on sugar is 100%. But in practice it varies substantially across member states and over time, as shown in Table 2.
26 To import food, for example, takes 33 steps, involves 8 different organisations, and requires 38 documents; see https://trade.business.go.tz/procedure/540?l=en (accessed January 2020).
The consensus-based decision-making encourages a member to block decisions if it does not get its will. And the CET negotiations are rarely based on evidence but on a quid pro quo of national exemptions. Consequently, derogations are ‘usually granted, no matter if the criteria are fulfilled’ (Bünder, 2018: 4 and 9–11). Table 2 records 16 deviations from the CET during the 2007–2018 period. Country differences in tariff rates open the doors for smuggling of sugar from an EAC country with a low import tariff to a country with a high import rate, especially because rules-of-origin monitoring and compliance is weak.

Table 2: Overview of CET changes for household and industrial sugar by country (2007–2018)

<table>
<thead>
<tr>
<th>EAC country</th>
<th>Unilateral stay of application</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>2017</td>
</tr>
<tr>
<td>Tanzania</td>
<td>2011, 2015, 2018</td>
</tr>
<tr>
<td>Uganda</td>
<td>2013, 2018</td>
</tr>
</tbody>
</table>

Sources: The authors based on EAC Gazette (https://www.eac.int/documents/category/gazette).

However, this is not the full picture for the prevailing trade regime in sugar. The EAC also operates a Duty Remission Scheme (DRS) under which food-processing industries (mainly) are permitted to import industrial sugar at a lower rate – usually 10% – than the prevailing CET. Consequently, actual imports do not face the EAC CET rates (WTO, 2019b). The quarterly approved amount of sugar and the name of each company benefiting from this arrangement are published annually in the EAC Gazette. These provide a true picture of this import channel according to TRA officials.

In 2016 the EAC decided to gradually increase the duty rate on sugar under the DRS from 10% to 25% over three years, but this change was not implemented and was abolished in 2018. Because industrial sugar can also be used as household sugar (some of which is imported at a higher duty rate), significant rent-seeking opportunities exist under this arrangement. Differences in duty rates under a DRS can encourage various forms of mis-invoicing when the highly taxed type of imported sugar is deliberately invoiced as one with a relatively favourable import duty and remission regime.

To complicate matters, most EAC member countries are members of other customs areas as well. Tanzania is a member of the SADC, while Burundi, Kenya, Rwanda and Uganda are members of COMESA (Hove, 2018). For example, a 15-year-old COMESA agreement obliges Kenya to import a large amount of sugar duty-free from other members. This arrangement – under which Kenya has imported 350,000 MT/year in recent years (Argent and Begazo, 2015)

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27 Industrial sugar is not produced in the EAC: all of it is therefore imported, as noted earlier. The DRS is governed by the provisions of the EAC Customs Management Act, 2004, and the EAC Customs Management (Duty Remission) Regulations, 2008. This has created some confusion in the actual administration of the DRS because duty remission can also be obtained under article 25 in the EAC Customs Union Protocol, which only caters for ‘Export Promotion Schemes’ (East African Business Council, 2018).

28 Zanzibar has a different system.
– has just been extended to 2021 (USDA Foreign Agricultural Services, 2019). Smuggling some of this duty-free imported sugar to Tanzania generates substantial rents and results in conflicts about rules of origin. Indeed, such conflicts between EAC member states are among the most prevalent Non-Trade Barriers (NTBs) and sugar is a key target. For example, Tanzania imposed tariffs on Kenya’s sugar while Kenya retaliated by banning the importation of rice from Tanzania. Other member state conflicts also directly concern sugar (World Bank and East African Community Secretariat, 2016: Table 6 and country tables).

Over the last couple of years, EAC member countries have worked to reform the CET including tariffs on SI commodities such as sugar. However, so far, no agreement has been reached.

### 3.3.2. Tanzania and the Zanzibar route

The information provided by the EAC Gazette about regulations for sugar trade in and out of Tanzania is incomplete: it does not (and cannot) capture Tanzania’s non-compliance with the CET rates. Temporary suspensions of the announced CET rates on sugar have been introduced in recent years according to interviews with TRA staff in late 2019 – it is now 25% instead of 100%. Such unilateral decisions on the regulation of trade in sugar typically involve export and import bans, issuing of import licenses to specific traders, changes in administrative procedures and taxation, etc. Table 3 summarises some of these changes in Tanzania’s imports regime for sugar over a 10-year period to 2018.

The changes listed in Table 3 are normally decided by the relevant ministers (typically finance, agriculture, trade) but the decisions also sometimes involve the Prime Minister’s or the President’s Office – and even sometimes the President himself (see Annex 1). Information about such domestic decisions is often provided in annual budget speeches – but not consistently so. To keep informed, it is therefore also necessary to read newspapers and other sources. Some information may not even be available to the public, as noted by Vitale et al. (2013).

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29 Due to non-tariff barriers (NTBs) that allow discretionary blocking of sugar imports, it is reported that Kenya’s COMESA quota has generally been underutilised (Argent and Begazo, 2015).

30 These unilateral NTBs violate the EAC Customs Union Protocol and are illegal. Across all products, Tanzania has raised most NTBs, has the highest number of unresolved ones, and is also slow in resolving them (World Bank and East African Community Secretariat, 2016). Moreover, Kenya has doubled the use of NTBs from 10 in 2014 to 23 in 2016. Tanzania has more than tripled its NTBs from 7 to 24 (United Nations Economic Commission for Africa, 2018). The number of unresolved conflicts is growing, and they take longer to resolve. The enactment of the EAC Elimination of Non-Tariff Barriers Act in 2017 may help to reduce the problem but evidence is not yet available (WTO, 2019a).

31 The sources used here to collate information for Box 1 and Annex 1 are: FAO (2013); IBRD (2018); Ernst and Young (2018); USDA Foreign Agricultural Services (2019).
The political economy of ‘scarcity’ in East Africa: a case study of sugar production, smuggling and trade in Tanzania

### Table 3: Changes in Tanzania’s sugar imports regime (2008–2018)

<table>
<thead>
<tr>
<th>Source</th>
<th>Product</th>
<th>Quantity (MT)</th>
<th>Tariff (%)</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>EAC/15/2008</td>
<td>Sugar for industrial use (1701.99)</td>
<td>73,000</td>
<td>10%</td>
<td>One year from 1 July 2008</td>
</tr>
<tr>
<td>EAC/13/2009</td>
<td>Sugar for industrial use (1701.99)</td>
<td></td>
<td>10%</td>
<td>One year from 1 July 2009</td>
</tr>
<tr>
<td>EAC/7/2010</td>
<td>Sugar for industrial use (1701.11, 1701.12, 1701.91, 1701.99)</td>
<td>65,000</td>
<td>25%</td>
<td>Three months from 30 March 2010 to 30 June 2010</td>
</tr>
<tr>
<td>EAC/9/2010</td>
<td>Sugar for industrial use (1701.99)</td>
<td>30,550</td>
<td>10%</td>
<td>Six months from 30 March 2010</td>
</tr>
<tr>
<td>EAC/23/2010</td>
<td>Sugar for industrial use (1701.99)</td>
<td>120,060</td>
<td>10%</td>
<td>One year from 1 July 2010</td>
</tr>
<tr>
<td>EAC/10/2011</td>
<td>Sugar for industrial use (1701.11, 1701.12, 1701.91, 1701.99)</td>
<td>40,000</td>
<td>0%</td>
<td>Six months from 1 January 2011</td>
</tr>
<tr>
<td>EAC/20/2011</td>
<td>Sugar for industrial use (1701.99)</td>
<td>110,571</td>
<td>10%</td>
<td>One year from 1 June 2011</td>
</tr>
<tr>
<td>EAC/6/2011</td>
<td>Sugar for industrial use (1701.11.90, 1701.12.90, 1201.91.00, 1701.99.90)</td>
<td>40,000</td>
<td>0%</td>
<td>Six months from 1 January to 30 June 2011</td>
</tr>
<tr>
<td>EAC/9/2015</td>
<td>Sugar for industrial use (1701.99.90, 1701.12.90, 1701.13.90)</td>
<td>100,000</td>
<td>50%</td>
<td>April to June 2015</td>
</tr>
<tr>
<td>EAC/5/2016</td>
<td>Sugar for industrial use (1701.99.10)</td>
<td>Reduced remitted levels</td>
<td>2016/2017: -85% and apply import duty rate of 15%</td>
<td>Implementation of remitted levels started in 2017/2018</td>
</tr>
</tbody>
</table>

2017/2018: -80% and apply import duty rate of 20%

2018/2019: -75% and apply import duty rate of 25%

Source: The authors based on EAC Gazette.

The information in Box 1 summarises the more detailed information on regulatory changes in Tanzania that is presented in Annex 1. However, given the complexities discussed above, this summary in fact underestimates the real (but unknown) number of changes during the 2010–2018 period. Nevertheless, it clearly illustrates an important point: sugar trade regulations are subject to frequent changes that affect the availability, price, production and rent-seeking potential of this particular commodity.
Box 1: Changes in sugar trade regulations with a focus on Tanzania (2010 to 2018)

- Five bans (on either export or import)
- Five decisions on trade regulations specifically addressing sugar scarcity (not counting bans)
- Eight cases of permission to import sugar duty free
- Twenty-nine changes in total over the eight-year period (more than three changes per year on average)
- Only a limited number of these changes were announced through official channels (e.g. the EAC Gazette or national budget speeches).

Source: The authors based on interviews and multiple sources. See Annex 1, which also explains certain limitations in the methodology used.

Interviews and analyses by the Confederation of Tanzanian Industries (CTI) indicate the most problematic regulations in Tanzania. First, in order to curb smuggling, Tanzania has introduced a 15% refundable surcharge on imported industrial sugar. This adds to the production cost, and the government is very slow in issuing refunds. No other EAC member applies a similar surcharge, which is not based on any Tanzanian legislation either (CTI, n.d. and 2018). All else being equal, this measure may add to the incentive to smuggle sugar into the country. Second, the issuing of import licenses at a low or zero rate to specific companies is another problem raised by the CTI, although this practice seems to have declined in recent years. Third, sugar in transit to neighbouring countries but imported through Tanzanian harbours is a more significant source of rent-seeking (ibid.). This sugar is often dumped in the Tanzanian market without paying import duty from the approved Transit Sheds where it is stored on route to its final destination.

The CTI also identifies smuggling through the so-called ‘Zanzibar route’ as a major problem. The regulations of sugar trade through Zanzibar provide significant rent-seeking possibilities because the import duty on household sugar imported to Zanzibar has generally been lower than that of mainland Tanzania – varying between 0% and 25% since 2005 – and typically lowered before Ramadan. Zanzibar also operates a DRS on sugar, ‘so actual imports do not face the EAC CET tariff rates’ (WTO, 2019b: 295). Consequently, the rent potential is substantial by off-loaded sugar imported through Zanzibar to the mainland (ibid.).

The complexity of the sugar trade regime is further compounded by there being 21 different HS customs codes for sugar. Variation in duty rates across these many types of sugar is high – ranging from 10% to 100% (WTO, 2019a) – therefore the risk of accidental or deliberate misclassification and undervaluation of sugar in customs is considerable (KAM, n.d.). This issue is discussed in detail in Chapter 4.

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32 In 2014 the Zanzibar import duty on both domestic and industrial sugar was 10% according to Policy Forum (2016).
3.4. Powerful groups and rent capture in the sugar value chain

As explained in previously, sugar cane is produced by estates and outgrowers and sold to sugar factories in the eastern, northern and north-western parts of Tanzania. Local wholesalers buy sugar from the mills and market it to retailers. Sugar is also imported from foreign countries because locally produced sugar is insufficient to meet the domestic demand for household and industrial consumption. A small amount of it is exported.

The pricing and supply of sugar in the domestic market strongly depends on relationships between sugar milling companies, outgrowers and the government, as well as the control that companies have over investment patterns in the industry and their market power – whether held by a single firm or through tacit coordination among a group of firms (Chisanga et al., 2016). Some of these relationships are shown in the simplified sugar value chain in Figure 6. This illustrates that the value chain extends beyond Tanzania’s borders (import and exports) and that it involves many different groups, several of which are not shown, although they do influence how the value chain works and who benefits. Important relationships and issues are described in turn in the remainder of this chapter.

Figure 6: The sugar sector value chain in Tanzania

Source: African Competition Forum (2014: Figure 1).

33 The figure does not show the government authorities involved. Among them are the SBT, the TRA, the Ministry of Agriculture, the Prime Minister’s Office and the President’s Office. Nor does it show the various interested organisations such as the TSPA, the Tanzania Sugarcane Growers Association (TASGA), the CTI and the Tanzania Private Sector Foundation (TPSF).
3.4.1. Outgrowers and millers

Some of Tanzania’s 18,000+ sugar cane outgrowers increase their incomes by growing this crop (Sulle, 2016), although there was a downward trend in this prior to 2014 (Sulle et al., 2014). Outgrowers tend to be at the receiving end when dealing with the millers who buy their product. This is shown in several analyses – including case studies on cane outgrowers in Kilombero and Mtibwa. There are several reasons for this asymmetry.

Most outgrowers are generally small – the majority cultivate no more than 2 ha of cane and less than 3% cultivate above 50 ha (Mmari, 2015). Government regulations compel outgrowers to join a cane growers’ association and register with the SBT (Sulle et al., 2014). On the one hand, this gives outgrowers some holding power to negotiate contracts with millers. But, on the other hand, conflicts among the outgrower associations have weaken their negotiation position.

Another government regulation also weakens their position: The SBT does not license second mills within an 80 km radius of an existing mill (IBRD, 2018). This effectively creates a monopsony, as outgrowers must sell to a nearby mill (Mmari, 2015). It also strengthens the millers’ oligopolistic position as it shields them from competition when buying sugar cane (Africa Competition Forum, 2014).

The outgrower associations’ main activities are to negotiate the terms of business between outgrowers and millers – resulting in Cane Supply Agreements (CSA) – and to provide essential agricultural services to their members. A CSA typically specifies how outgrowers are paid for the weight and sucrose content of their delivered cane, minus the costs of harvesting, transport, processing, marketing and distribution. It also stipulates how the proceeds of the sale of sugar are to be divided between the miller and the growers. The price per MT paid to farmers is estimated at the start of the season and then adjusted at the season’s end based on actual sale prices for sugar and molasses (Sulle et al., 2014). Outgrowers’ main complaints about these arrangements concern delays in payments for sugar cane, unreliable measurement of sucrose content, and problems controlling the costs for private transporters (Nkonya and Barreiro-Hurle, 2012; Sulle et al., 2014; Mmari, 2015).

34 The owner of KSCL has reported on the benefits of this for Tanzania and the outgrowers (Illovo Sugar, 2014).
35 Only case studies of these two factories are available. TPC grows its own sugar cane.
36 TASGA is a legally appointed member of the SBT’s Board of Directors.
37 In Kilombero the number of associations increased from 2 to 13 in the early 2010s; in Mtibwa, each of the 2 intermediaries signed separate Cane Supply Agreements (CSAs) with the miller under different terms and conditions (Mmari, 2015). Isager et al. (2016) also contend that the government legislation forcing outgrowers to join Farmers’ Association has led to exploitation of members and capital accumulation by local elites.
38 Cane becomes stale and loses sucrose when it remains unprocessed within 24 hours of being cut, therefore distance and demand are important factors.
Some CSAs stipulate that the proceeds from sugar production and sales are divided 60:40 between growers and millers. Currently only one miller applies this method,\(^{39}\) and so this ratio has never really been achieved. It currently stands at around 55% for growers in Tanzania. This is significantly lower than in South Africa, where the ratio is about 63:37 in favour of growers, and in Zambia at 59:41 in favour of growers (Africa Competitive Forum, 2014). In a report for the Food and Agriculture Organization (FAO), Nkonya and Barreiro-Hurle (2012: 3) conclude that ‘sugar farmers are heavily taxed … this taxation is mainly due to inefficiencies in the sugar milling industry and/or excessive power by the sugar mills’. In a similar vein, the International Bank for Reconstruction and Development (IBRD, 2018a: 76) concludes: ‘Inefficiencies in the milling industry along with the political influence of the millers have … enabled these firms to pass on the high processing costs to consumers with little competition or pressure to undertake much needed investments’. We discuss this further at the end of the paper.

### 3.4.2. Millers and wholesalers in domestic sugar markets

The power of millers is amplified by the vertical relationship they establish with distributors and wholesalers in each of their geographical zones. Consequently, there is limited direct competition between domestic producers in the distribution of sugar. This enables some millers to operate costly four- or five-level distribution systems (Senkondo et al., 2013). TPC, for example, owns the only mill located in the north-eastern part of Tanzania. It distributes sugar through agents on contracts, which forbid them from trading with competing sugar brands and requires agents to sell at specified locations only. Contract compliance is closely monitored by the TPC to facilitate control over the supply and market price. KSCL handles all its sugar marketing activities through the Kilombero Sugar Distributor Company (KSDC). It sells more than 80% of its sugar to two private dealers. These millers largely determine the amount and therefore the market price for a large part of the country, including Dar es Salaam. The remaining 20% of KSCL’s sugar production is sold directly to big wholesalers. The prices offered to them by KSDC are higher than the price offered to the two main dealers. Consequently, substantial market power is vested in these two dealers at the distribution level (Africa Competitive Forum, 2014).

The oligopolistic position of the sugar factories, combined with the vertical linkages between millers and the downstream distribution market, may account for the relatively high sugar prices observed in Tanzania (Africa Competitive Forum, 2014). This may also help to explain why, at the end of 2014, the Minister of Agriculture, Crisper Chiza, asked: ‘How is it possible to have sugar in excess in some regions while in others like Mbeya there is serious scarcity?… Why aren’t producers distributing sugar to areas of scarcity?’ (quoted in Rweyemamu, 2014).

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\(^{39}\) This information is from 2013 and earlier. We have had no access to newer data.
3.4.3. **Millers to wholesalers in imports**\(^{40}\)

In principle, ‘all imports and export of sugar must be licenced by the Sugar Board. Furthermore, food security and price sensitive items, such as sugar, is controlled and subject to permission. Zanzibar also applies price control on sugar’ (WTO, 2019: 283, Table 3.5 and Table 3.6). In practice, substantial amounts of sugar are imported illegally, as explained in section 4.

Permission to import and export should – again in principle – be based on information about future demand and supply. In practice, Tanzania lacks a reliable system to link market prices, data on stored stocks in warehouses and domestic production. This results in ‘misleading import and export policy decisions’: excesses due to misguided import licences and shortages when import bans are wrongly imposed (Ministry of Agriculture, 2016: 16). A 2016 proposal for a more centralised and coordinated market intelligence system has not yet been implemented.

In the absence of ‘hard facts’, decisions to permit imports or exports is more open to influence by important players: millers, wholesalers, interested organisations, public authorities and politicians. The latter have been increasingly involved in the process in recent years. Available evidence also suggests that millers are less influential than wholesalers – although the power of millers may have increased somewhat following the priority given to industrialisation when President Magufuli took office in 2016.

\(^{40}\) Only small amounts of sugar are exported – mainly to the European Union. Exports are therefore not included in the analyses.
4. The political processes of scarcity: sugar trade and production in Tanzania

The political economy of the sugar sector is a complex and contested one, where scarcity plays an important role in shaping the politics of rents allocation and the incentive structure for businesses, at both national and regional levels. As shown in section 3, from a simple production perspective, sugar scarcity is real in Tanzania: domestic production cannot satisfy domestic demand. Thus, sugar imports are necessary. However, this simple fact triggers several political processes, which open the way to rent-seeking, corruption and rent-capture by the most powerful along the sectoral value chain. In turn, these political processes of scarcity become so nested in the broader political settlement of the country that scarcity itself becomes difficult to overcome.

Against the background and set of vulnerabilities identified in section 3, we present here compelling new evidence of the extent of rent-seeking and corruption vulnerabilities in the sector. This evidence points to potential pathways for feasible anti-corruption strategies that could result in the development of the sugar sector. We start by reviewing the extent of misreporting and mis-invoicing by focusing both on mirror statistics for the period 2001–2017, and on anonymised transaction-based data for the period 2013–2017. The latter allow us to describe in detail the changes that have occurred in the sector over recent years and their impact. Some of this information points to a number of potential positive developments; however, it also shows the shortcomings of partial initiatives. Our analysis of the distribution of organised power among different players in the value chain identify new coalitions of interests, which could be capitalised on in an effective anti-corruption strategy.

4.1. Trade mis-invoicing and the effective volumes of sugar imports

Trade mis-invoicing and the resulting tax evasion are profoundly intertwined with the political economy of corruption and the development trajectory of Tanzania (Andreoni, 2017; Andreoni and Tasciotti, 2019; Andreoni and Sial, 2020). Since the 1990s – the so called Ruksa ('opening up') period – and then with the establishment of the EAC Customs Union since 2005, the management of trade, tariff schedules and smuggling have opened up several new opportunities for rent-capture, rent-seeking and illicit financial flows. Trade mis-invoicing can take different forms, the main ones relating to the under-reporting of commodity flows to avoid the payment of tariffs set for imported goods, and over-reporting as a way of moving capital out of the country.41

41 A number of studies, for example, have found that the exports to Tanzania being reported by supply countries are about twice as large as the imports reported by Tanzania (Argent and Begazo, 2015; Tanzania SERA Project, 2016).
The most recent analysis for Tanzania (Andreoni and Tasciotti, 2019) found that, between 2013 and 2017, the cumulative value of trade under-reporting amounted to over US$10 billion. This study also found that, since 2005, the EAC arrangement has been associated with increasing trade mis-invoicing in Tanzania – the regional customs union tariff regimes have opened up further opportunities for rent-seeking. Finally, Andreoni and Tasciotti (2019) find econometric evidence that trade under-reporting is more prevalent with increases in import tariffs. Goods such as sugar listed under the SI scheme within the EAC Customs Protocol are among the most problematic commodities as they are extremely elastic to import tariff variations.

Figure 7 presents mirror statistics for refined sugar (identified as industrial sugar or white pure sugar with HS code 170199) and for raw sugar (sugar that has gone through a single crystallisation process, and requires further granulation, HS code 17011). In the period 2001–2017, we find that mis-invoicing was limited until 2011. Annual levels of mis-invoicing exceeded 50,000 MT only in 2007 and never accounted for more than US$20 million value. However, by 2011, we observe how misreporting of raw and refined sugar changed. The amount of underreporting of raw sugar increased dramatically at this time, adding to the already significant expansion in legal import licences. This means that the increase in imports of raw sugar was in fact higher than what is suggested by official statistics (as discussed in section 3.1). This misreporting lasted until 2017, when it turns to zero, having peaked at over US$60 million in 2012 and 2015.

**Figure 7: Mis-invoicing of raw and refined sugar imports (2001–2017)**
If we look at the mirror statistics for volume and value of refined sugar, it becomes clear that the underreporting of raw sugar was partially due to mislabelling of the different types of sugar. As we discuss in section 3.3, this form of mislabelling is not accidental. It reflects attempts to apply to the imported commodity the lowest potential import duty, and thus reduce the overall tax due. Given the development of the trade regime discussed in Chapter 3, this evidence is not surprising. Significant volumes of sugar above 100,000 MT/year were mislabelled, and sugar that was supposed to enter Tanzania as industrial sugar was in fact introduced for sale in the final wholesale market for domestic use. This finding corroborates conflicts between domestic producers and traders of sugar, the former accusing the latter of ‘dumping’ the domestic market with smuggled sugar, and in some cases releasing the sugar gradually to keep prices high. In other cases, over-reporting is also part of potential illicit financial flows, specifically outflows of money from the country through trade (Khan et al., 2018; Andreoni and Tasciotti, 2019).

Figures 8 and 9 present the same mirror statistics but separated out for the two types of sugar. This provides evidence of the enormous volumes involved, as well as the multi-million-dollar business around sugar imports in Tanzania. Depending on the year and the specific import duty, tax revenue losses from mis-invoicing can be in the order of millions of dollars. Having said that, given the nature of mis-invoicing, these calculations cannot capture the exact magnitude of underestimation, especially when deliberate mislabelling takes place. It must be noted too that this problem has been highlighted in other sectors like edible oil, where importers also profit on the mislabelling of refined and semi-refined edible oils.42

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42 In 2020 the demand for edible oil in Tanzania stands at 570,000 MT/year, while production stands at 205,000 MT. The deficit, which is about 64%, is filled by imports, which costs the country huge amounts of forex. In 2018, for example, a government investigation into consignments of edible oil totalling 90,000 MT revealed that some importers had mislabelled their products. The shipment contained crude edible oil, while in fact the cargo contained refined and semi-refined edible oil. In this case, the refined oil attracts higher import duties as it is for final consumption.
Figure 8: Mis-invoicing of refined sugar imports (HS code 170199) (2001–2017)

Source: The authors based on UNCOMTRADE Data (6 digits product code data): https://comtrade.un.org/
Figure 9: Mis-invoicing of raw sugar imports (HS code 170111) (2001–2017)

Furthermore, the most reliable source of data on imports is reports by exporting countries. These data represent more exact volumes (and values) of extra inflows of sugar into Tanzania. These are called ‘extra’, as they are above the official import data reported by Tanzania and presented in section 3.1. In the case of refined sugar, since 2010 the country received extra refined sugar of between 100,000 MT/year and 150,000 MT per year with values going from 80 to 40 Million US$. This trend has shown a marked decrease since 2016.
If we look at raw sugar, we find that exporters reported two peaks in extra inflows of sugar, one in 2012 at 150,000 MT and one in 2015 at 200,000 MT.

What is striking is that even these figures can underestimate the true scale of smuggling. The mirror statistics analyses referred to above are based on data on large-scale imports shipped through major seaports. Other routes of illegal imports are not recoded, such as imports across porous land borders with neighbouring countries, unrecorded imports through established border posts, imports by small dhows from countries with lower tariffs, and transit goods that remain in country (Tanzania SERA Project, 2016). In 2018, for example, the Tanzanian Port Authority (TPA) found 134 illegal ports and 58 unregistered airstrips across the country, used for smuggling contraband goods, causing a huge loss to the government in revenue. Among the most smuggled commodities through the illicit entry points, they found sugar, cooking oil, cement, timber, minerals.

4.2. ‘Sugar in transit’ and cross-border trade: evidence from transaction-based data

Even highly disaggregated mirror statistics – as the one presented in section 4.1 – are affected by a number of limitations and are prone to potential misrepresentation of the scale and forms of smuggling. In this sub-section, we address one of them by looking at the problems associated with sugar in transit. As discussed above, section 3.3, the sugar import is not simply a national business. It is a regional one involving cross-border trade and commodities in transit towards another country. Kenya and Tanzania with their major ports are the two main entry doors to the EAC land locked countries and, more in general, central African countries. Figure 10 provides a visual representation of the different potential trade channels whereby sugar is imported in Tanzania. The dotted arrow represents the sugar in transit, that is, sugar entering Tanzania but destined to other countries.

**Figure 10: Cross-border trade and sugar in transit**

Source: Authors
The transaction-based data for a total of 3128 transactions presented in Table 4 shed light on a key phase of development in the sugar industry in Tanzania. As discussed in section 4.1, this is a period when smuggling increased dramatically before reducing over time towards 2017. This trend happened alongside new measures introduced by the Tanzanian government and a shift in patterns of sugar imports (see also section 4.3).

First, Table 4 shows how, between 2013 and 2017, the total amount of sugar entering Tanzania was over 1.5 million MT (1,632,756 MT). However, around 900,000 MT was destined to Tanzania and the remaining 700,000 MT was sugar in transit. This means that, over these four fiscal years (2013–14 until 2016–17), an average of around 175,000 MT/year of sugar was destined for other countries. When we look at aggregate trade statistics, however, those for Tanzanian exports of sugar (which is the correct classification of sugar in transit through Tanzania) are very limited and it is therefore difficult to check if the sugar supposed to reach a land-locked country actually did so.

Second, if we compare the average rate of protection applicable to the overall sugar imported to Tanzania with the rate applicable to sugar destined for Tanzania only, the rate is higher for the latter (especially for transactions above 1,000 MT). This means that imported sugar with Tanzania as the final destination is generally taxed at a higher rate, thus creating an incentive to misreport it as sugar in transit. This higher level of taxation is also reflected in the final price average (although this is calculated as unit value).

Third, transactions above 1,000 MT represent more than half of all transactions for Tanzania (59.6%). This means that the import of sugar is a business mainly run by large traders who have established trade relationships with Asian countries (Thailand, the United Arab Emirates, Saudi Arabia – with the latter two also being major re-exporting hubs) and the two largest producers of sugar in Africa, that is, Egypt and South Africa. These are the five countries from which most sugar is imported, especially when large amounts are considered (other countries are India and Brazil).
### Table 4: Sugar in transit and cross-border trade: transaction-based data analysis (2013–2017)

<table>
<thead>
<tr>
<th>N</th>
<th>Sugar Q13-17</th>
<th>MT</th>
<th>Import value</th>
<th>Import duty</th>
<th>VAT</th>
<th>Unit price</th>
<th>Import duty unit</th>
<th>VAT unit</th>
<th>Final price average</th>
<th>Average tax (import duty plus VAT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3128</td>
<td>TOT</td>
<td>1627356.049</td>
<td>T2S</td>
<td>718,378,992,298.27</td>
<td>T2S</td>
<td>292,194,831,466.58</td>
<td>T2S</td>
<td>177,577,782,806.89</td>
<td>T2S</td>
<td>439,979.38</td>
</tr>
<tr>
<td>668</td>
<td>TOT&gt;1K</td>
<td>856819.8094</td>
<td>T2S</td>
<td>333,456,823,628.28</td>
<td>T2S</td>
<td>115,014,510,579.40</td>
<td>T2S</td>
<td>79,114,944,526.70</td>
<td>T2S</td>
<td>450.87</td>
</tr>
<tr>
<td>2079</td>
<td>TOT &gt; 0.5K</td>
<td>1428735.404</td>
<td>T2S</td>
<td>566,356,602,614.49</td>
<td>T2S</td>
<td>211,748,408,225.11</td>
<td>T2S</td>
<td>137,078,364,864.94</td>
<td>T2S</td>
<td>443.19</td>
</tr>
<tr>
<td></td>
<td>average TOT</td>
<td>521.9808341</td>
<td>T2S</td>
<td>229,660,803.16</td>
<td>T2S</td>
<td>93,412,669.91</td>
<td>T2S</td>
<td>56,770,390.92</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Average &gt;1K</td>
<td>1282.664385</td>
<td>T2S</td>
<td>499,186,861.72</td>
<td>T2S</td>
<td>172,177,411.05</td>
<td>T2S</td>
<td>118,435,545.70</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Average &gt;0.5K</td>
<td>687.2224164</td>
<td>T2S</td>
<td>272,417,798.28</td>
<td>T2S</td>
<td>101,851,086.21</td>
<td>T2S</td>
<td>65,934,759.43</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Sugar import transactions, excluding sugar in transit - from 2013 to 2017

<table>
<thead>
<tr>
<th>N</th>
<th>Sugar Q13-17</th>
<th>MT</th>
<th>Import value</th>
<th>Import duty</th>
<th>VAT</th>
<th>Unit price</th>
<th>Import duty unit</th>
<th>VAT unit</th>
<th>Final price average</th>
<th>Average tax (import duty plus VAT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1516</td>
<td>TOT</td>
<td>909815.0608</td>
<td>T2S</td>
<td>536,162,244,410.33</td>
<td>T2S</td>
<td>134,042,235,398.80</td>
<td>T2S</td>
<td>118,705,186,877.98</td>
<td>T2S</td>
<td>589,892.57</td>
</tr>
<tr>
<td>429</td>
<td>TOT&gt;1K</td>
<td>542346.0515</td>
<td>T2S</td>
<td>285,342,561,497.10</td>
<td>T2S</td>
<td>73,479,949,109.40</td>
<td>T2S</td>
<td>63,762,010,838.20</td>
<td>T2S</td>
<td>181.93</td>
</tr>
<tr>
<td>1103</td>
<td>TOT &gt; 0.5K</td>
<td>812253.177</td>
<td>T2S</td>
<td>446,679,632,089.42</td>
<td>T2S</td>
<td>108,630,217,316.79</td>
<td>T2S</td>
<td>98,510,793,695.33</td>
<td>T2S</td>
<td>70.74</td>
</tr>
<tr>
<td></td>
<td>average TOT</td>
<td>599.5481931</td>
<td>T2S</td>
<td>353,669,025.34</td>
<td>T2S</td>
<td>88,418,361.08</td>
<td>T2S</td>
<td>78,301,574.46</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Average &gt;1K</td>
<td>1263.97681</td>
<td>T2S</td>
<td>665,134,175.98</td>
<td>T2S</td>
<td>171,281,932.66</td>
<td>T2S</td>
<td>148,629,395.89</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Average &gt;0.5K</td>
<td>736.403056</td>
<td>T2S</td>
<td>404,967,925.74</td>
<td>T2S</td>
<td>98,486,144.44</td>
<td>T2S</td>
<td>89,311,689.66</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Sugar import transactions from regional major producers (South Africa, Zambia, Malawi and Mozambique) - from 2013 to 2017

<table>
<thead>
<tr>
<th>N</th>
<th>Sugar Q13-17</th>
<th>MT</th>
<th>Import value</th>
<th>Import duty</th>
<th>VAT</th>
<th>Unit price</th>
<th>Import duty unit</th>
<th>VAT unit</th>
<th>Final price average</th>
<th>Average tax (import duty plus VAT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>174</td>
<td>TOT</td>
<td>104898.1892</td>
<td>T2S</td>
<td>51,508,471,513.41</td>
<td>T2S</td>
<td>9,945,685,888.40</td>
<td>T2S</td>
<td>10,315,693,828.20</td>
<td>T2S</td>
<td>491,032.99</td>
</tr>
<tr>
<td>41</td>
<td>TOT&gt;1K</td>
<td>101678.1892</td>
<td>T2S</td>
<td>48,151,405,129.41</td>
<td>T2S</td>
<td>9,106,419,292.40</td>
<td>T2S</td>
<td>9,560,353,895.20</td>
<td>T2S</td>
<td>167.73</td>
</tr>
<tr>
<td>129</td>
<td>TOT &gt; 0.5K</td>
<td>99578.18917</td>
<td>T2S</td>
<td>45,414,629,610.66</td>
<td>T2S</td>
<td>8,422,225,412.40</td>
<td>T2S</td>
<td>8,934,622,127.20</td>
<td>T2S</td>
<td>141.35</td>
</tr>
<tr>
<td></td>
<td>average TOT</td>
<td>602.8631561</td>
<td>T2S</td>
<td>296,025,698.35</td>
<td>T2S</td>
<td>57,159,114.30</td>
<td>T2S</td>
<td>59,285,596.71</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Average &gt;1K</td>
<td>2479.955833</td>
<td>T2S</td>
<td>1,174,424,515.35</td>
<td>T2S</td>
<td>222,107,787.62</td>
<td>T2S</td>
<td>233,179,363.20</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Average &gt;0.5K</td>
<td>771.9239471</td>
<td>T2S</td>
<td>352,051,392.33</td>
<td>T2S</td>
<td>65,288,569.09</td>
<td>T2S</td>
<td>69,260,636.64</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Imports of sugar from Kenya and Uganda combined are less than 4,000 MT.

Source: The authors based on anonymised transaction-based data collected from the TRA.
Fourth, if we compare the prices at which sugar is imported (calculated as the unit value of imported sugar), we can estimate the degree of mis-invoicing for selected transactions. In fact, given that importers buy in the international market and it is this market that tends to set the commodity price at competitive terms, we would expect a relatively low level of volatility in the prices reported in transaction data. The higher the level of volatility, the higher the chances that reported quantities or total values of imported sugar have been misreported. Figure 11 shows a high level of volatility in the reported prices, with cases in which the same sugar is priced more than tenfold. There are few outliers that indicate countries where levels of misreporting are low.

Figure 11: Price volatility (unit value of 1kg sugar in Tsh)

Fifth, if we control cross-border regional trade imports, we find that transactions from Kenya and Uganda are very small in volume. This can be both a sign of more porous borders, as much as a case of small trade transactions that are not picked up at all by TRA transaction data. However, imports from major southern neighbouring countries are significant. Sugar imports from South Africa, Zambia, Malawi and Mozambique are recorded in 174 out of 1,516 transactions for the period considered, and account for over 100,000 MT of sugar. This result is significant as it reflects how the sugar industry value chain has developed in the SADC region, especially thanks to major players like Illovo. As shown in Figure 12, Illovo owns several factories across southern bordering countries and levels of productivity and cost structures are different between them. Zambia, for example, is reported to have some of the lowest production costs in the region (Das Nair et al., 2017). Illovo’s investment will reflect these incentives and the country’s specific cost structure, and, given large-scale economies in the sugar sector, the company is expected to use a strategic regional approach to supply markets and invest in them.
4.3. Shifting patterns of sugar imports

Mirror statistics do not allow measurement of the exact amounts of sugar in transit. We have used transaction-based data to capture this in the previous section. Mirror statistics also do not capture the volume of sugar reported by importing countries to their tax authorities in terms of the different categories of transaction (small, medium and large), as well as the types of importers. Of course, due to misreporting and smuggling, a number of transactions will not appear in the TRA data but will be captured by mirroring official data from the importer with the exporter country. Only by triangulating these different datasets is it possible to generate the required evidence around the scale of misreporting and smuggling of sugar in Tanzania. In this section, we move one step forward to identify shifting patterns of sugar imports and how the fight against smuggling has developed in Tanzania.

In Table 5 we perform a longitudinal analysis of the transaction-based data to identify shifting patterns in import volumes, types of importers, prices and average rates of protection.

We find evidence of a significant concentration of transactions in 2013–14 and 2014–15. In fact, in the year before the 2015 election, imports of sugar in Tanzania (including sugar destined for other countries) reached almost 700,000 MT, of which 290,000 MT was officially destined for Tanzania as the final market. Since 2015, sugar imports to Tanzania (including sugar destined for other countries) have remained below 200,000 MT, with sugar destined for Tanzania reaching around 150,000 MT for 2015 and 2016 and 80,000 MT in 2017. This dramatic shift has been driven mainly by a decline in sugar in transit.
### Table 5: Sugar imported into Tanzania (including sugar in transit): transaction-based data analysis (2013–2017)

<table>
<thead>
<tr>
<th>Sugar</th>
<th>Average rate of protection</th>
<th>Average tax (import duty plus VAT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>N Sugar 2013 Q</td>
<td></td>
<td></td>
</tr>
<tr>
<td>929 TOT</td>
<td>509255.1701</td>
<td>TZS 109,775,467,933.10</td>
</tr>
<tr>
<td>185 TOT &gt; 1K</td>
<td>241318.5834</td>
<td>TZS 34,532,423,231.10</td>
</tr>
<tr>
<td>553 TOT &gt; 0.5K</td>
<td>469593.7877</td>
<td>TZS 84,025,154,300.20</td>
</tr>
<tr>
<td>Average TOT</td>
<td>543869.3935</td>
<td>TZS 118,165,196.91</td>
</tr>
<tr>
<td>Average &gt; 1K</td>
<td>1304427.75</td>
<td>TZS 186,661,747.20</td>
</tr>
<tr>
<td>Average &gt; 0.5K</td>
<td>833549.4345</td>
<td>TZS 151,944,221.16</td>
</tr>
<tr>
<td>N Sugar 2014 Q</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1077 TOT</td>
<td>690086.7937</td>
<td>TZS 146,601,176,371.50</td>
</tr>
<tr>
<td>293 TOT &gt; 1K</td>
<td>368739.2194</td>
<td>TZS 60,851,652,877.40</td>
</tr>
<tr>
<td>855 TOT &gt; 0.5K</td>
<td>587980.2453</td>
<td>TZS 112,720,552,980.42</td>
</tr>
<tr>
<td>Average TOT</td>
<td>641676.7612</td>
<td>TZS 136,119,940.92</td>
</tr>
<tr>
<td>Average &gt; 1K</td>
<td>1258495.629</td>
<td>TZS 207,684,822.11</td>
</tr>
<tr>
<td>Average &gt; 0.5K</td>
<td>897679.6039</td>
<td>TZS 172,092,447.30</td>
</tr>
<tr>
<td>N Sugar 2015 Q</td>
<td></td>
<td></td>
</tr>
<tr>
<td>425 TOT</td>
<td>193745.4318</td>
<td>TZS 182,480,283,516.46</td>
</tr>
<tr>
<td>73 TOT &gt; 1K</td>
<td>97970.8766</td>
<td>TZS 87,432,726,033.41</td>
</tr>
<tr>
<td>173 TOT &gt; 0.5K</td>
<td>157899.9155</td>
<td>TZS 146,386,845,968.94</td>
</tr>
<tr>
<td>Average TOT</td>
<td>455871.5723</td>
<td>TZS 429,365,372.98</td>
</tr>
<tr>
<td>Average &gt; 1K</td>
<td>1342066.804</td>
<td>TZS 1,197,708,575.80</td>
</tr>
<tr>
<td>Average &gt; 0.5K</td>
<td>912716.2743</td>
<td>TZS 846,166,739.70</td>
</tr>
<tr>
<td>N Sugar 2016 Q</td>
<td></td>
<td></td>
</tr>
<tr>
<td>311 TOT</td>
<td>154183.7199</td>
<td>TZS 107,702,039,968.19</td>
</tr>
<tr>
<td>72 TOT &gt; 1K</td>
<td>93818.1178</td>
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<td>128 TOT &gt; 0.5K</td>
<td>130249.3027</td>
<td>TZS 146,627,418,730.83</td>
</tr>
<tr>
<td>Average TOT</td>
<td>465811.8425</td>
<td>TZS 536,879,217.43</td>
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<td>Average &gt; 1K</td>
<td>1300251.656</td>
<td>TZS 1,428,344,023.06</td>
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<tr>
<td>Average &gt; 0.5K</td>
<td>1017574.242</td>
<td>TZS 1,465,526,708.83</td>
</tr>
<tr>
<td>N Sugar 2017 Q</td>
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<tr>
<td>366 TOT</td>
<td>88484.9470</td>
<td>TZS 101,815,043,509.02</td>
</tr>
<tr>
<td>33 TOT &gt; 1K</td>
<td>43144.2122</td>
<td>TZS 47,628,286,393.06</td>
</tr>
<tr>
<td>74 TOT &gt; 0.5K</td>
<td>67766.0207</td>
<td>TZS 76,215,020,022.70</td>
</tr>
<tr>
<td>Average TOT</td>
<td>138740.0387</td>
<td>TZS 1,443,281,405.85</td>
</tr>
<tr>
<td>Average &gt; 1K</td>
<td>931756.3854</td>
<td>TZS 1,029,932,703.01</td>
</tr>
</tbody>
</table>

Source: The authors based on anonymised transaction-data collected from the TRA
The increase in the amount of sugar imported in pre-election years does not seem to be a coincidence. If we follow Andreoni and Tasciotti (2019) and extend our longitudinal analysis by relying on mirror statistics, we can see how, since 2005, effective imports of sugar increased (measured by officially reported volumes and misreported sugar) in pre-election years. In Figure 13, we find signs of this correlation. In general, governments in the region are concerned with avoiding shortages of key commodities like sugar, rice and edible oil pre-election. In some cases, this can potentially lead to very relaxed controls on imports in election years, which can also lead to potential political financing.

Figure 13: Correlation between underreporting of sugar and election years

Source: The authors based on Andreoni and Tasciotti (2019).

There is also evidence that the average rate of protection declined to around 30% by 2016, while the average tax collected increased. This is because the unit price per MT of sugar increased dramatically. This is partially due to depreciation of the Tanzanian Shilling against the US dollar (see section 3.1); it can also be due to a reduction in misreporting of the value of imported sugar (after 2015 the quantity has declined in comparison to 2013 and 2014). This result is consistent with the increasing pressure that the Tanzanian government has put on the TRA since 2015 to increase tax collection. Before 2015, Tanzania had one of the lowest tax collection records in the region as a percentage of gross domestic product (GDP) (Andreoni, 2017).

By tracking anonymised transactions, with importers’ names coded, we can also assess the extent to which imports of sugar involve a small or relatively large number of traders. By
looking at this parameter, we observe two main trends. A very small number of importers are responsible for large volumes of serial imports from the same countries. Among them we can expect to find both traders and industrialists – for example bottling companies – who use industrial sugars in their manufacturing process. Around 10 players account for all the major imports of sugar above 1,000 MT. However, we also find that a number of large importers who accounted for large transactions in 2013 and 2014 are not recorded with as having high transactions in the following years. This suggests a shift of power in the sugar import business. Some of those businesses who controlled sugar imports before 2015 seem to have lost their dominant position in the years that followed.

Finally, the price of sugar increased between 2014 and 2016, but then remained fairly stable after that. The average price of imported sugar reached 1,150 Tsh per kg (measured as unit value pre-tax) and around 1,700 Tsh after import duty and value added tax (VAT). This pattern finds support among major domestic producers. According to Alteo, this was due to the effective control of illicit sugar by the Government of Tanzania. With reference to 2017, Alteo stated that ‘Sugar prices improved during the financial year as a result of the continued effective control of illicit sugar imports by the Government, including the granting of gap sugar import licenses to the sugar producers. The average sugar price achieved by TPC increased by 9% compared to last year. However, this did not fully negate the effect of the drop in sales of locally produced sugar’ (Alteo, 2018: 47).

4.4. A new political settlement for the sugar sector?

Since 2016, a number of measures have been introduced in Tanzania’s sugar sector. These include price controls, measures against sugar hoarding in warehouses and increasing empowerment of the SBT. Price controls were applied a few weeks after the government imposed strict restrictions on sugar imports. Furthermore, the Minister of Industry, Charles Mwijage, denounced sugar hoarding openly: ‘Some traders are hoarding sugar in warehouses to create an artificial shortage and justify price increases’. As evidence, the Minister claimed that sugar prices soared just one day after the government virtually banned imports.

Throughout several parliamentary debates in 2016 and 2017, the government reiterated their stance about the sugar industry and took the side of domestic producers. According to the government, there was enough sugar in the country; there was no scarcity, as such, if cumulated stocks of sugar were accounted for. In fact, there was so much sugar that domestic producers were unable to sell their produce. Despite this – and given the existence of collusion and cartels among sugar importers – the price was remaining relatively high and powerful groups, especially large wholesalers, were profiting from the situation.

Numerous factors contributed to this political settlement in the sugar industry over several decades. Due to the economies of scale inherent in importing large quantities of sugar, big wholesalers – during periods with low-tariffs or tariff-free sugar – have typically been best positioned to exploit the benefits of buying big. As we have seen in section 4.3, buying big

means controlling both imports of sugar for Tanzania and neighbouring countries (sugar in transit). Small variations in prices can result in multi-million-dollar rents. These rents are later reinvested in further rounds of sugar imports and other similar commodities, creating large liquidity in the hands of a few. Furthermore, as discussed above, buying big also means being better positioned to exploit the differentiated regime for different types of sugar (see section 3.3.1 on the DRS for industrial sugar).

Large wholesalers with access to substantial liquidity have also been able to invest in building their trading infrastructure. This involves buying and building warehouse storage capacity where imported sugar can be stored during periods when prices are low. Investments have been made too in distribution chains and trucks to reach different regions of the country and to manage the sugar in transit business directly. Control over these assets can be used to create artificial sugar shortages, which, in turn, may be used to argue for new import permits (Senkondo et al., 2013). The IBRD (2018a: 129) concurs: ‘Large traders aim to maximize the price at which they sell into the domestic market and have resorted to withholding sugar in warehouses in order to drive up prices.’

The position of food security high on the political agenda has also influenced Tanzania’s sugar industry. The country’s market intelligence system is weak, and it is vulnerable to changes in perceptions of scarcity across the country, especially when powerful groups can influence the collection of information. The SERA Project (2016: 16) denounced how the ‘lack of a system to link the market price and data on stored stocks in warehouses and homes, for sensitive commodities such as sugar and rice, has resulted in misleading import and export policy decisions, leading to market gluts (when misguided to order imports as was the case of rice in 2014/15) or shortages (when misguided to prevent imports as was the case in 2016)’. While there is awareness of this challenge, the proposed establishment of a Marketing Intelligence Unit (MIU) has not progressed (Mtema, 2019).

Furthermore, it is public knowledge that substantial amounts of sugar are smuggled into Tanzania. Newspapers regularly write about it (without mentioning names). The CTI (2017), for example, published a report explaining that Zanzibar is a main smuggling route and provided information about the gender composition of the few smugglers involved. The CTI also identified the offloading of sugar in transit to neighbouring countries as a major smuggling problem. Yet, the traffic is not stopped – an indication that the power of large traders is substantial when initiatives are to be translated into effective political actions.

Finally, as shown, large traders and ruling elites have mutual interests, and sugar has been an important source of policy money (see section 4.3). The remarkable cyclical between sugar smuggling and elections indicates a degree of collusion between importers and the ruling elite who are eager to keep sugar prices down in the run-up to elections. No wonder that sugar imports proved to be a divisive political issue during the run up to the October 2015 elections, when the government allowed the import of 100,000 MT of domestic sugar between March and May. Depending on the actual tariff paid, the rents generated could be between US$32 million and US$50 million. ‘These orders of magnitude constitute enormous incentives for deal-making politicians and traders, including smugglers’ (Policy Forum, 2016: 64). Tax exemptions to private companies and individuals show a similar cyclical around
election years. Therkildsen and Bak (2019) argue that some tax exemptions are made in exchange for campaign finance contributions. The money involved is so large that bigger companies must be among the main sources of political financing (Khisa et al., forthcoming). Such traders are among the larger domestic companies in Tanzania and some of them have close links with the ruling party.44

Yet there are signs of a real shift in the political settlement of the sugar industry from 2016, which was reinforced at several turning points in November 2017, early 2019 and 2020.

Firstly, new public-led investments which were announced in 2016 started progressing. The Parastatal Pensions Fund (PPF) and the National Social Security Fund (NSSF) invested some US$184 million – starting in 2016 – in the Mkulazi sugar factory project, and in the development of the Mbigiri farm for sugar cane production with the Tanzania Prison Service (Controller and Auditor General, 2018). Furthermore, in 2018, President Magufuli offered 10,000 ha of farmland in Bagamoyo district to the Bakhresa Groups to implement a Tsh 669 billion Bagamoyo sugar project, with an annual production capacity of about 30,000 MT of sugar. Production is expected to start by 2020 (The Citizen). Later, in 2018, KSCL announced plans to invest between US$250 million and US$300 million to expand its production capacity. According to the KSCL board chairman, this decision was made because of a significantly improved investment climate resulting from President Magufuli’s push for industrialisation and his ‘steadfast’ curbing of ‘arbitrary importation of sugar’ (The Citizen, 2019). In another interview, the chairman said that the company has come a long way since privatisation and their fears of closing down in the 2012/2013 season: ‘We are grateful to President Magufuli’s tireless efforts to protect the local sugar industry by controlling the modus operandi of sugar importation in the country, it is through his efforts that our business managed to pick up and we are now at a point of working towards expansion’ (The Guardian, 2020). Following these initiatives, in 2019, the Minister of Agriculture optimistically declared that the production of household sugar is set to double by 2022 (Kakuri, 2019).

Second, in November 2017, President Magufuli announced that Tanzanian sugar producers had been allocated a licence to import sugar to meet the 2018 gap (the deficit of consumption over production). Licences were issued in February 2018. TPC Ltd, like the other three main producers (see Table 1), received an import license for 32,500 MT of sugar at a duty rate of 25% (Alteo, 2018). This represented a significant shift in the process of rents allocation. The idea of allocating an import licence to producers had two aims: first, to allocate a rent to producers to support expansion of their domestic production capacity; and second, to reduce the amount of imported sugar by traders by allocating import licences to industrialists who had – at least theoretically – no incentive to import more than had been allocated to them by the government. Indeed, sugar producers have lobbied the government and convinced it that domestic producers would be able to expand production if only excess imports were reduced. While TPC Ltd directly imported the allocated amount of sugar, several interviews showed that

44 The largest domestically owned Tanzanian company is also a major wholesaler. The owner is an active member of the Chama Cha Mapinduzi (CCM) party and an important donor to the party. In 2016, President Magufuli gave another major trader-cum-business agglomerate free access to 10,000 ha of land for growing sugar cane. This company has contributed significant funds to CCM (the information on political financing is from an extensive interview with a party insider on 29 August 2018).
some other domestic producers sold back their licences to sugar traders. This suggests that the measure introduced by the government, while potentially going in the right direction, fell short in re-aligning incentives in the sector and taking into account differences between domestic producers. This is partially surprising as government ministers have highlighted different incentives among domestic producers since 2014.  

Third, in April 2019, the SBT decided to explore a bulk procurement system for imports of sugar and to emulate the experience of the Petroleum Bulk Procurement Agency’s (PBPA) importation system (PPRA, 2019). This initiative is part of continuous efforts to enforce the sugar import ban, and, in early 2020, the government’s position had not changed. With specific reference to the situation in Zanzibar (see Figure 14), the Prime Minister reiterated that the government position was to protect local sugar producers and that this commitment was a key part of the CCM manifesto.

**Figure 14: Tanzania import ban persists**

![Image](image-url)

> Source: Mbashiru (2020).

As reported in the media (Rweyemamu, 2014), the Minister for Food Security and Cooperatives, Chrispher Chiza said there was a real possibility of bad elements creating artificial ‘sugar floods’ and sugar scarcity. The Minister queried: ‘Why does the problem of “sugar floods” only occur at Mtibwa, Kilombero and Kagera factories, and not TPC?’ Chiza said that sometimes problems arise because of conflicts between sugar cane farmers and sugar producers, and not the market. ‘Some local producers own sugar industries outside the country and they could well be the ones importing the commodity. What’s worse is that they too complain about the prevailing situation,’ he said. ‘How is it possible to have sugar in excess in some regions while in others like Mbeya there is serious scarcity?’ (ibid.).

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45 As reported in the media (Rweyemamu, 2014), the Minister for Food Security and Cooperatives, Chrispher Chiza said there was a real possibility of bad elements creating artificial ‘sugar floods’ and sugar scarcity. The Minister queried: ‘Why does the problem of “sugar floods” only occur at Mtibwa, Kilombero and Kagera factories, and not TPC?’ Chiza said that sometimes problems arise because of conflicts between sugar cane farmers and sugar producers, and not the market. ‘Some local producers own sugar industries outside the country and they could well be the ones importing the commodity. What’s worse is that they too complain about the prevailing situation,’ he said. ‘How is it possible to have sugar in excess in some regions while in others like Mbeya there is serious scarcity?’ (ibid.).
5. A feasible anti-corruption strategy for Tanzania’s sugar sector: designing for differences and aligning incentives

The recent policy developments in Tanzania’s sugar industry and the emergence of a new political settlement for this sector have opened the way for a number of potential anti-corruption strategies. As discussed in section 2, rents are intrinsically linked to scarcity and the existence of a sugar gap. Furthermore, rent-seeking is both about exploiting the existing real scarcity as much as actively creating and reproducing both real and artificial scarcity.

The evidence presented in this paper shows how the political logic of scarcity has translated into complex corruption processes in the country. The design of a feasible anti-corruption strategy, therefore, needs to start from this evidence and identify enforceable pathways whereby capable domestic producers and potential new investors are incentivised to increase domestic capacity and reduce scarcity. Once scarcity is reduced and domestic competition has come close to international standards, rents for imports of sugar will reduce and with this rent-seeking in the industry.

As mentioned, the government has already allocated import licences to domestic producers, but with limited success. The four main domestic producers were allocated equal import licences (32,500 MT at a duty rate of 25%) to fill the annual sugar gap for one year (2018) and more stringent measures were enforced to reduce smuggled sugar into the country. Shifting the rent associated with the import licence from traders to producers should have resulted in potential commitment to new investments for expanding domestic production capacity. The fact that this did not happen, however, despite some new entrants and company announcements, is due to two main factors. First, no long-term commitment was provided, thus the shift in rents did not really re-align the interests of domestic producers. Secondly, the strategy did not take into account large differences between domestic producers and thereby missed the opportunity to build a compulsion mechanism for capacity expansion into the incentives. ‘Designing for differences means in this case making sure that domestic producers are incentivised according to their existing production capacity and in relation to their commitment in expanding it.

Despite these shortcomings, a new political settlement is emerging in the sector and new capable entrants who have been also allocated large rents towards increasing domestic production can initiate a competitive and productive rents seeking race. An anti-corruption strategy whereby the sugar gap was allocated to the existing producers and new entrants in proportion to their capacity, and the import gap shares were pegged to increased annual production would trigger three parallel processes.

46 For a comparative analysis of alternative anti-corruption strategies see Khan et al., 2009.
First, existing domestic producers will be incentivised to reinvest the rent allocated in the expansion of their production capacity, and will, in turn, capture future rents through import licence allocations. In practice, the more a company invests in expanding production, the more it can import. If, on the contrary, domestic producers do not increase production, the rents will be given back to the government to buy sugar in bulk and to distribute it through traders. This ex-post incentive would be enforceable and aligned to the different interests and capabilities of producers, given the divisions it would generate between domestic producers and between producers and traders. Table 6 shows simulated scenarios, using data in Table 1 as a base line — that is, the most recent public figures on production output.

Table 6: Simulations: import-licensing of sugar gap pegged to domestic production

<table>
<thead>
<tr>
<th>Company</th>
<th>Output 2014 (x1,000 MT)</th>
<th>Import licence share (T1)</th>
<th>New output capacity (T2)</th>
<th>New output capacity (T3)</th>
<th>Import licence share (T2)</th>
<th>Import licence share (T3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>KSCL</td>
<td>117</td>
<td>39%</td>
<td>130 (+13)</td>
<td>135 (+5)</td>
<td>32%</td>
<td>29%</td>
</tr>
<tr>
<td>TPC</td>
<td>101</td>
<td>34%</td>
<td>110 (+9)</td>
<td>120 (0)</td>
<td>27%</td>
<td>26%</td>
</tr>
<tr>
<td>KSL</td>
<td>50</td>
<td>17%</td>
<td>70 (+20)</td>
<td>80 (+10)</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>MSE</td>
<td>27</td>
<td>9%</td>
<td>40 (+13)</td>
<td>50 (+10)</td>
<td>10%</td>
<td>11%</td>
</tr>
<tr>
<td>Zanzibar Sugar Factory Limited, Mahonda</td>
<td>4</td>
<td>1%</td>
<td>4 (0)</td>
<td>10 (+6)</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>Mikulazi Holding Company</td>
<td>New entrant</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bagamoyo Sugar Ltd</td>
<td>New entrant</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL (2014)</td>
<td>299</td>
<td>100%</td>
<td>404</td>
<td>100%</td>
<td>465</td>
<td>100%</td>
</tr>
</tbody>
</table>

Note: The table shows two hypothetical simulations of allocations of import licences in future years (T2 and T3). These are to continue until the sugar gap is closed.

Source: The authors, drawing on the various sources noted.

Second, traders who are no longer allocated such import rents will recognise that domestic producers are in fact reinvesting their rents in production and are not simply extracting rents from imports. This is very important, as some domestic producers could themselves be tempted by the opportunities offered by importing and become traders themselves. The fact that some producers are already more capable and keener than others to invest should also discourage the emergence of a potential cartel among producers. A pegged system will create competition among producers.

47 SBT (2014: Table D.1). Cambridge Economic Policy Associates (2016: Figure 8.2) shows factory production trends from 2002 to 2014. They differ slightly from the SBT data.
Third, by pegging imports of sugar to increasing domestic production, the sugar gap will shrink over the years. The increasing domestic demand for sugar will also keep moving the bar over the years, however, which will potentially secure a relatively long period of investments in increased domestic capacity. Over this period, rents will be used productively, instead of fuelling unproductive rent-seeking and corruption. With increasing production, prices will also decrease, and, given the limited number of producers, it becomes simpler to control hoarding and other similar practices.

Table 6 simply provides a set of simulations for a feasible and self-enforcing model based on import-licensing of the sugar gap that is pegged to domestic production. Adoption of this model is relatively simple and the approach is less vulnerable to corruption as it is aligned dynamically to the interests of powerful producers while also taking into account their different capabilities. These capabilities can evolve over time and can open the space for new entrants. The model is also enforceable because other powerful groups – the traders – will compete to regain access to the rents if and when producers are not increasing their capacity. This form of horizontal enforcement promises to be more effective than vertical enforcement. The political dividend of such a model is also significant at a time when the Tanzanian government enters its second term under the re-elected President Magufuli and internal party coalitions have been largely realigned to the main government agenda.
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## Appendices

### Annex 1: Changes in regulations for international trade in sugar with a focus on Tanzania (2010–2018)

<table>
<thead>
<tr>
<th>Time</th>
<th>EAC Gazette**</th>
<th>Tanzania budget speech</th>
<th>Newspapers or other sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 2018</td>
<td></td>
<td>‘Rampant smuggling’ of sugar into Tanzania discussed in Parliament. Sugar companies unable to sell their products. Imported sugar said to be repackaged as locally produced sugar.</td>
<td></td>
</tr>
<tr>
<td>June 2018</td>
<td></td>
<td>Tanzania denies duty-free import of sugar from Uganda claiming that it is imported from Kenya and Brazil. Excise duty of 25% imposed. Issue discussed at presidential level.</td>
<td></td>
</tr>
<tr>
<td>FY 2018/19</td>
<td>‘... impose import duty of 35 percent on sugar (consumption sugar) this is imported under specific arrangements to cover the shortage in the domestic market. Currently an import duty of 25 percent is imposed on sugar’</td>
<td>Increase import duty from 25% to 35% on ‘consumption’ sugar and sugar confectionary – (sweets) instead of 100% to cover shortages. To be imported under special arrangements. ‘The move will protect local sugar millers against cheap imports.’</td>
<td></td>
</tr>
<tr>
<td>May 2018</td>
<td></td>
<td>Ban on exports lifted.</td>
<td></td>
</tr>
<tr>
<td>March 2018</td>
<td></td>
<td>Import ban announced, effective from 1 July (to protect local manufacturers)</td>
<td></td>
</tr>
<tr>
<td>Early 2018</td>
<td></td>
<td>Tanzania and Uganda impose a 25% duty on confectionary produced in Kenya as it is produced using imported sugar. Kenya threatens retaliatory measures if the stand-off persists as of 1 July. This disagreement persisted at least until June 2019.</td>
<td></td>
</tr>
<tr>
<td>October 2017</td>
<td></td>
<td>Kenya extends 31 August deadline for duty-free imports from outside COMESA to the end of 2017 due to shortage and increasing sugar prices. Some 545,000 MT imported – equivalent to Kenya’s annual production – [presumably] including imports from non-COMESA countries (e.g. Brazil). Also imports from the EU considered. Domestic production failed due to drought, etc.</td>
<td></td>
</tr>
<tr>
<td>August 2017</td>
<td></td>
<td>Import of sugar from SADC to Tanzania to be taxed during three-year period. After that Tanzania expected to be self-sufficient in sugar.</td>
<td></td>
</tr>
<tr>
<td>May 2017</td>
<td></td>
<td>Kenya waives duty on all imported sugar from outside COMESA until 31 August to protect consumers from a surge in retail prices</td>
<td></td>
</tr>
<tr>
<td>FY 2017/18</td>
<td>‘Grant stay of application on the reduction of remission level on sugar for industrial use under HS Code 1701.99.10 and apply duty rate of 10 percent.’</td>
<td>Establish an Escrow Account to ease the refund of additional import duty of 15% of Free on Board (F.O.B) value paid by importers of sugar for industrial use and ensure that the refund is paid on time.</td>
<td></td>
</tr>
<tr>
<td>Time</td>
<td>EAC Gazette**</td>
<td>Tanzania budget speech</td>
<td>Newspapers or other sources</td>
</tr>
<tr>
<td>--------------</td>
<td>--------------</td>
<td>------------------------</td>
<td>----------------------------</td>
</tr>
<tr>
<td>FY 2016/17</td>
<td>EAC partner states agree to ‘progressively increase duty levels for import of industrial sugar over next three years’.</td>
<td>EAC partner states agree to ‘reduce progressively the import duty remission levels from 90 percent to 75 percent so that the import duty rate moves from 10 percent to 25 percent for the period of three years’. However, the EAC partner states did not implement this measure. Hence Tanzania stopped implementation of this in FY 2017/18 (as shown)</td>
<td>COMESA extends duty-free sugar quota import arrangement for Kenya until 2019.</td>
</tr>
<tr>
<td>October 2016</td>
<td>Tight restrictions on imports (IBDR, 2018)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mid 2016</td>
<td>Crackdown on alleged hoarding said to involve large traders. The Preventing and Combating of Corruption Bureau (PCCB) and police seize sugar. Opposition blames sugar shortage on the President</td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 2016</td>
<td>Government controls sugar price. Sets it at Tsh 1,800/kg (market price Tsh 2,000/kg) after public protests in March towards Ramadan.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>April 2016</td>
<td>Government itself imports 70,000 MT sugar to meet shortfall in supply and imposes tight restrictions on imports to encourage local production to fill the gap (IBDR, 2018). The President assumes personal responsibility for issuing sugar import licences. In March newspapers report that sugar prices are ‘shooting up’. Causes public debate up to Ramadan. Opposition sparks accusations that sugar crisis is caused by government interventions.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>December 2015</td>
<td>Maximum quota for duty-free import of sugar to Kenya from COMESA extended until 2017. Fear that this sugar may be re-exported/smuggled to neighbouring countries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>September 2015</td>
<td>Kenya and Uganda begin joint collection of duties on imported sugar in transit from Mombasa to Uganda so as to reduce dumping in regional markets by ‘cartels’.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 2015-2016</td>
<td>‘Increase import duty rate for sugar from United States dollars 200 per metric ton or 100 percent of the CIF value, whichever is higher; to United States dollars 460 per metric ton or 100 percent of the CIF value, whichever is higher.’ Industrial sugar import duty of 50% with refund of 40% after verification and confirmation by the TRA that imported industrial sugar was properly utilised in the production of envisaged industrial products. This measure is intended to control and curb abuse in the utilisation of industrial sugar for normal consumption sugar (Ernst and Young, 2018). Newspapers report on repeated conflicts over alleged dumping of duty-free imported sugar.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>April-June 2015</td>
<td>Import 100,000 MT at 50% duty rate (instead of 100%). EAC Gazette 2015, no 9.</td>
<td>Kenya extends arrangement for duty-free imports of sugar – max 350,000 MT – from COMESA for one year (as it has done since 2003) but subject to conditions, fx privatisation of five Kenyan sugar companies.</td>
<td></td>
</tr>
<tr>
<td>April 2014</td>
<td>Illegal import of 100,000 MT despite ban. Local sugar factories stuck with unsold sugar.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January 2014</td>
<td>Ban on imports.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January 2013</td>
<td>Ministry of Agriculture issues import licence for 35,000 MT of sugar – but later allowed 85,000 MT to be imported. This drove prices down (IBDR, 2018).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time</td>
<td>EAC Gazette**</td>
<td>Tanzania budget speech</td>
<td>Newspapers or other sources</td>
</tr>
<tr>
<td>--------------</td>
<td>---------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>FY 2013/14</td>
<td></td>
<td>Impose a duty rate of 25% on sugar instead of 100% when imported to cover the gap in the local market. Sugar is ‘currently imported at a reduced import duty rate of 10 percent when there is a shortage of supply in the domestic market, hence the Government allows importation of specific quantities in a given period after obtaining the approval from the EAC Council of Ministers for stay of application of the CET rate’.</td>
<td>Permission given to import 200,000 MT of sugar without paying import duty in order to address the shortage of sugar and price increases. This far exceeds the 80,000 MT gap between domestic supply and demand according to Kilombero Sugar Company (Jilovo, 2014). Moreover, ‘profitability has decreased markedly in the last year due to the flooding of the domestic market with cheap sugar imports and the resultant accumulation of unsold stocks’ (ibid: 11).</td>
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<tr>
<td>November 2012</td>
<td></td>
<td>Two factories allowed to export sugar (19,500 MT to the EU, Uganda and Southern Sudan) due to poor domestic demand and large unsold stocks by Kilombero and Kagera Sugar companies.</td>
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<tr>
<td>FY 2012/13</td>
<td></td>
<td>Budget speech: importation of 200,000 MT of sugar without paying import duty in order to address the shortage of sugar and price increases.</td>
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<tr>
<td>August 2011</td>
<td></td>
<td>Tanzania requires cash bonds for transportation of sugar to Rwanda so as to reduce dumping of sugar in transit. Conflict resolved in March 2012.</td>
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<tr>
<td>Jan-June 2011</td>
<td>Import 40,000 MT duty free (EAC Gazette, no 6, 2011)</td>
<td>During 2011, Uganda was allowed duty-free import of sugar by EAC due to production shortfall (which caused riots). Suspicion was, however, that this led to re-export to neighbouring EAC countries. Illegal exports of sugar to neighbouring countries led the Tanzanian government to engage security services to enforce export ban because acute shortages were pushing sugar prices to extraordinarily high block levels (FAO, 2013).</td>
<td></td>
</tr>
<tr>
<td>FY 2010/11</td>
<td></td>
<td>Budget speech: VAT exemption for transport of sugar cane from farm to processing factory.</td>
<td></td>
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</tbody>
</table>
About the Anti-Corruption Evidence (ACE) Research Consortium:

ACE takes an innovative approach to anti-corruption policy and practice. Funded by UK aid, ACE is responding to the serious challenges facing people and economies affected by corruption by generating evidence that makes anti-corruption real, and using those findings to help policymakers, business and civil society adopt new, feasible, high-impact strategies to tackle corruption.

ACE is a partnership of highly experienced research and policy institutes based in Bangladesh, Nigeria, Tanzania, the United Kingdom and the USA. The lead institution is SOAS University of London. Other consortium partners are:

- BRAC Institute of Governance and Development (BIGD)
- BRAC James P. Grant School of Public Health (JPGSPH)
- Centre for Democracy and Development (CDD)
- Danish Institute for International Studies (DIIS)
- Economic and Social Research Foundation (ESRF)
- Health Policy Research Group (HPRG), University of Nigeria Nsukka (UNN)
- Ifakara Health Institute (IHI)
- London School of Hygiene and Tropical Medicine (LSHTM)
- Palladium
- REPOA
- Transparency International Bangladesh (TIB)
- University of Birmingham

ACE also has a well established network of leading research collaborators and policy/uptake experts.