



# THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

**A. M. E. C. E. A**

**MAIN EXAMINATION**

P.O. Box 62157  
00200 Nairobi - KENYA  
Telephone: 891601-6  
Fax: 254-20-891084  
E-mail: academics@cuea.edu

**AUGUST - DECEMBER 2016 TRIMESTER**

**FACULTY OF COMMERCE**

**MBA EVENING PROGRAMME**

**CEN 619: CASES IN ENTREPRENEURSHIP**

**Date: DECEMBER 2016**

**Duration: 3 Hours**

**INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions**

**MIDDLEMEN COLLUDE WITH SOME MILLERS TO EXPLOIT SMALL GROWERS.**

**BY EDWIN OKOTH**

The one vibrant Muhoroni town no longer glows. It is today a collection of huts and shanties that huddle together for economic comfort. The railway station, long abandoned, is a reminder of the good old days when the town rose from the sugarcane plantations where Indians braved mosquitoes to clear swamps in the 1920s.

Apart from two-storeyed structures, complete with modern finishes, there is nothing to erase the shanty image. Towards the Muhoroni Sugar Company premises, commissioned in 1966, we came across a mansion, which is a reference point for any visitor. It is built with proceeds from the sugar industry, perhaps an indicator of the wealth that is in this industry. It is apparent that those who know how to navigate the value chain are immensely rich.

When Ms Susan Ouko's first harvest payment was delayed by a miller, she was advised to sell her second harvest to a broker.

"I was told there is someone who could buy it from the farm and then sell it to the miller. I did not think twice. We arrived at a quick deal, which was heavily to my disadvantage" she told the *Daily Nation*. "I ended up with money that could hardly have covered the expenses to grow the cane but what other option did I have?"

The mother of four is one of the many farmers who opt to sell their cane for a fraction of its value to brokers. Like other poor farmers, she has urgent financial needs to meet and the cash comes in handy.

Briefcase farmers transverse the sugar belt in suits and powerful off-road vehicles, waiting for the next poor farmer with a bad experience of heavy deductions and delayed payments at the government millers.

Residents in Muhoroni, Koru, Fort-Ternan, Chemelil and Miwani know the trade so well that it is nothing strange for farmers to sell cane only a few months to maturity to these brokers.

Mrs Ouko's two-acre sugarcane farm at Tonde in Muhoroni was already ripe for harvesting when her first born son needed fees to join a college.

When a broker arrived, the cane was not weighed. They simply sent agents to walk around the farm, estimate the value and set the price. Cash was given instantly and the crop changed ownership. The broker then delivered the cane to a miller of his choice – and for a good price.

The Nation found some of the brokers stationed at the weighbridges set up by a private miller in the region. Here, a place strategically set between Muhoroni and Chemelil Sugar Companies (near Awasi), the briefcase-wielding brokers wait for farmers' deliveries and immediately transfer cane ownership before the produce heads to the mill.

Hostile crew kept us at bay as negotiations continued and we witnessed trucks leave loaded with sugarcane delivered there by old tractors. We were informed that farmers are paid cash – usually 25 – 30 per cent less than the real value. With a signature on a form, the farmer transfers the cane ownership in exchange for the money.

A milling company which owns the weighbridge and three other similar ones in separate locations denied reports that their centres were brokers' paradise despite the claims by the farmers.

A cartel has mushroomed in the sugar belt and is involved in harvests, transport and delivery of inputs. Farmers, who spoke on condition of anonymity for fear of reprisals, said that some millers frustrate them by engineering delayed harvests, transport and payments to trap farmers into accepting cheap buy-out deals.

At times, millers have had their cane torched by the cartels eager to get harvest contracts.

“When out growers have no cane to be harvested, nuclear farms experience a wave of arson instigated by the cartel to create business,” claimed a farmer.

- Q1. a) Having read the above case 1, analyze the entrepreneurial issues arising from the case. **(5 marks)**
- b) What alternative course of action would you advise a small entrepreneur to take in such a situation. **( 5marks)**
- c) Using your case study skills, enumerate alternative strategies that could be used in entrepreneurship to shield small growers from exploitation by middlemen. **(5 marks)**
- d) How does an entrepreneurial study help in making the business environment better? **(5 marks)**

## **AN EXPERIMENT THAT WENT WRONG**

**BY GERALD ANDAE**

Chemelil was the first experiment on smallholder sugar production in Kenya, starting operations in 1965.

Records show that after only six years, officials knew it was a flop. The proposed sugar cooperatives had failed, triggering a war of words between Cabinet ministers Jeremiah Nyagah and Masinde Muliro in 1971 – at about the time Mumias was being mooted.

Cooperatives that were to be used in the production chain were abandoned, resulting in chaos. Institutions set up as the link between farmers and the millers collapsed.

In July 1972, the government made a decision to form the giant Mumias outgrowers Company (Moco) owned by it, out growers, and Mumias Sugar Company.

Moco collapsed in 2008, leaving farmers with no voice at the factory level. What is not known is that Moco's collapse was a result of a bitter war between the cooperatives and Agriculture ministries on the kind of institution required for the sector. “Moco was a great way of communicating with farmers. For me it was easy to pick up the phone and call the chairman and say, come and have a meeting with me because we have this and

that problem. Now, if there is a problem, who do I call?” asks Mumias chief executive Errol Johnston.

Its work, like the Kenya Tea Development Authority, was to offer farmers inputs at subsidised rates and organise cane planting and harvesting. Today, this lack of organisation has left sugar factories grappling with problems of lack of cane and spoilt or overgrown cane.

For instance, Muhoroni, now in receivership, receives 90 per cent of its cane from smallholder farmers who are always grappling with transport problems, overgrown and poor quality cane.

In receivership

This is the same story at Mumias, Chemelil, Sony, Nzoia and Miwani, which is also in receivership. In 2014, these five factories produced 321,000 tonnes compared with Malawi's sole producer Illovo Sugar, formerly owned by Lornho, whose two factories produced 289,000 tonnes. Zambia's single factory produced 450,000 tonnes, while Kenya's 11 factories produced 592,668 tonnes last year.

These figures are a good indicator of the economics of sugar production and how they favour larger farms.

It now appears that this chaotic situation was foreseen as far back as 1971, even before farmers were enticed to grow cane. “Without collective discipline, the cane supply will be sporadic – either too little, resulting in idle time at the mill and, therefore, high production costs, or too much (where) the mill will not be able to handle, (leading to) cane spoils, high costs and recurring losses,” warned sugar farming consultant, B C J Warnes.

Q2. a) Having read the (case 2) analyse the entrepreneurial external environmental issues arising from the case. **(5 marks)**

b) What are the events that led to the experiment going wrong in this case? **(10 marks)**

c) What alternative business strategies could be employed to improve the situation? **(5 marks)**

Q3. Enumerate the different types of case studies and briefly give a description of each type giving relevant examples. **(20 marks)**

Q4. a) What are the main stages in preparing case analysis? **(10 marks)**

- b) What are the steps in analysing the issues? **(5 marks)**
- Q5. a) Explain how case studies equip MBA students in their analysis of business environment. **(10 marks)**
- b) What are the steps in exploring alternative solutions in case study? **(10 marks)**

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