

KAMALIA SUGAR MILLS, PAKISTAN

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The Project

The Kamalia Sugar Mills (KSM) project was designed to increase Pakistan's domestic production of white sugar. It was also intended to increase incomes for local small farmers via increased cane yields. It involved construction of a sugar factory and the organisation of cane supplies from independent growers. ODA provided £9m of capital aid plus technical cooperation.

The Evaluation

The evaluation was carried out in UK and Pakistan by an ODA Economic Adviser, an ODA Economic Assistant, and consultants in social anthropology and agriculture. This was the first ODA evaluation to include a social impact study.

Overall Conclusions

The project was *successful* but because of Pakistan's lack of comparative advantage in sugarcane production it has not achieved economic viability. However, it has achieved its principal objective of white sugar production. The second objective of increasing incomes for small farmers was not met consistently.

The Main Findings

- KSM has more than achieved its sugar production targets to meet rising domestic consumption. This reflects the relatively high cane procurement price set by the Government, and also good management and good plant. However, there has not been a consistent increase in incomes for small farmers. At first the benefits were widely spread, but now the larger farmers have reasserted their traditional position and take most of the benefits.
- The spread of the cash economy and the modernisation of agriculture contributed to by KSM have had both positive and negative effects on the poor, the latter through a decline in the number of tenants and permanent labourers. The social impact study showed that benefits have been distributed reasonably equitably within households.
- Despite the successful introduction of improved cane varieties, there has been no significant increase in yield because of a shortage of canal water during the growing season and the nature of the procurement system for sugarcane.

- Pakistan does not have comparative advantage in sugar cane production. While the project has performed well financially, it has not achieved an acceptable economic rate-of-return.
- The project appraisal was inadequate in not properly considering Pakistan's lack of comparative advantage in sugarcane production. It did not adequately cover all agricultural, economic and social aspects.
- Despite delays, a high quality plant was constructed and the contractors performed well.
- Project monitoring was weak on socio-economic aspects. Project conditions were not enforced or fulfilled. Consultancies were provided without a clear understanding of the project and their recommendations were not followed up.

Lessons

- Where there are doubts about a country's comparative advantage in a particular crop, the implications for the economic viability of the project should be carefully set out.
- Project design should be sensitive to a potential conflict of interest between project objectives to raise incomes of small farmers, and the desire for operational efficiency or profit maximisation at the collection and processing stages.
- Project design should seek ways of encouraging participation by the local community, particularly small farmers. Outreach schemes of informal adult education might help small growers in their dealings with extension services and processing units, thus decreasing their dependence on the traditional hierarchy.
- The appraisal and monitoring of projects to increase incomes of small farmers should be multi-disciplinary, with sufficient emphasis on socio-economic issues. All training inputs should be appraised to ensure they are wholly relevant.
- Alternative cropping patterns should be thoroughly investigated before a decision is made to expand a single cash crop.
- The adequacy of the water supply for irrigation should be investigated in detail at the appraisal stage and an assessment made of the impact any additional use of water may have on other uses and the environment.
- At the appraisal stage consideration should be given to undertaking baseline studies on yields, tenure, farming systems and household budgets to facilitate impact evaluation if such an evaluation is likely.
- To ensure the coordination of civil works and the supply of equipment there should be a project implementation plan linked with monitoring arrangements which alert the project management and donor agency to delays. Potential delays and local storage facilities should be taken into account when specifying packaging for equipment.
- Agreed project conditions should be limited to those required for project success. They need to be monitored jointly during implementation.

- The evolving social impact of this type of project should be monitored during implementation and subsequent operation. Because of the complicated nature of the social dynamics involved in raising the incomes of small farmers, it may not be possible to obtain a full understanding of the impact of the project through short visits or consultancies. Forms of monitoring of social issues which entail longer visits or a continuing presence on site should be considered.