Nzoia Sugar Company

Nzoia Sugar Company (NSC), located between Webuye and Bungoma Towns of Western Province was commissioned in 1978 with an initial rated capacity of 2,000 TCD, which was later expanded to 3,000 TCD.

Outgrower companies supply 80% of the cane it crushes while it harvests 10% from its nucleus estate.

Sugar cane worth Sh600 million from the Nzoia sugar belt is to be milled by Mumias Sugar Company over the next three months.

Nzoia Sugar Company chief executive, Francis Oyatsi, and his Mumias counterpart, Evans Kidero, signed the agreement on the new milling arrangement targeting overgrown cane in the Nzoia belt.

About 300,000 metric tonnes of cane is targeted under the agreement signed on Monday afternoon, Nation established yesterday.

The move is aimed at harvesting and processing over-mature cane of between 24 and 48 months, which Nzoia Sugar Company - with a crushing capacity of 3,000 metric tonnes per day - has been unable to cope with, during the last one year.

A recent survey by a sugar cane farmers' task force chaired by Mr Wilson Webi Misiko, states that between 4,000 to 6,000 hectares of over-mature cane was not harvested three months ago.

The new harvesting programme, expected to begin immediately, will target cane fields in Mwikhupo, Namwacha, South Kanduyi, Kabula, North Mateka, West Sang’alo, Kibuke, North Myanga, Sitikho and Namasanda.

Under the arrangement, farmers will be paid Sh2,200 per tonne for their deliveries, whereas extra-haulage charges will be met by Mumias Sugar, whose crushing capacity stands at 10,000 metric tonnes per day.

Mumias will make weekly payments to Nzoia whose management will in turn pay farmers.

The growers are expected to suffer deductions for the extra haulage charges of their cane to Mumias.

The exercise is aimed at ensuring that all cane that is over-mature in the belt is harvested.

Last week Mr Oyatsi said that work boycotts and breakdowns at the factory at Nzoia caused a dip in the firm's profits.
Old loans

He added that the company milled 53,576 bags of sugar and recorded a profit of Sh366 million down from Sh420 million the previous financial year, "excluding interest and finance charges on old loans due to international lenders.

If we are to put those old loans into consideration, then Nzoia Sugar Company will never make a profit," he said, but declined to state Nzoia's exact loans portfolio.

The managing director explained that the sugar mill, with an installed capacity to crush 3,000 metric tonnes of cane per day, processed 561,000 tonnes during the 2006/07 financial year that ended in June.

Mr Oyatsi added that the management plans to make new investments in factory equipment and upgrade boiler to maximise efficiency, given the high yields of 90 tonnes of cane per hectare in the Nzoia sugar belt, compared to between 55 and 65 tonnes per hectare in the Mumias sugar belt.

He said the board of directors has given the nod to management to engage a consultant to evaluate spares bought for the stalled expansion programme in the early 1990's and determine their role in a new envisaged expansion programme to increase the factory's crushing capacity.

Mill's profitability

"The planned feasibility study by consultants would explore areas of diversification like power generation to improve on the mill's profitability and determine how much the planned expansion would cost, taking into account the increased area under cane," he said.

Meanwhile, sugar cane farmers in Busia and Teso District have asked Mumias Sugar Company to speed up the setting up of a proposed weighbridge at Kisoko trading centre in Nambale division in Busia District.

Kenya Sugar Cane Grower's association official Mr Ibrahim Juma, said it had taken long for the company to set up the weighbridge, yet land had already been acquired.

Speaking to sugar cane farmers in Nambale, Mr Juma said the association had given the millers a one month ultimatum to set up the weighbridge, failure to which farmers will refuse to transport cane to Mumias factory.

Mr Juma observed that farmers had been left to bear the cost of cane transportation as well as incur losses due to spillage of cane while on transit to the Mumias sugar factory which is more than 52 kilometres away.
"More than 10,000 sugar cane farmers are incurring huge loses due to cane spillage and we have to immediately get a solution to the problem," said the KESGA official.

The farmers also decried the poor cane prices and asked millers to consider increasing prices to help farmers alleviate poverty.

Nzoia Sugar Company Limited is located in Bungoma District, Western province and is within Kenya’s sugar belt. It was formed under Companies Act Cap 486 Laws of Kenya with Memorandum of Articles of Association and issued a certificate of incorporation.

**History**

From a noble idea conceived under the April 22 1976 financial protocols signed in Paris between Kenya and the French government, Nzoia Sugar Company started crushing at 2000 tonnes of cane per day on October 20th 1978. Fives Cail Babcock of France had on 7/8/78 signed a contract to start a turnkey sugar factory in Kenya which by 3/3/77 had proudly erected the structures with water tests being carried out on 3rd May the same year. By July 1978, cane transport fleets were already on site to deliver this sweet commodity.

Initial objectives for the inception of sugar were to: - increase the country’s GDP through exports; open rural industrialization development; curb rural-urban migration and create employment; create social-economic enhancement; improve rural infrastructure and communication systems; and attain self-sufficiency in sugar production. These objectives had a more social than economic orientation and with global trends the latter had to be given prominence.

In 1989 the factory was rehabilitated and expanded to 3000 TCD by Arkel International of USA. Currently the company has a mean crushing capacity of 2,600 TCD. This is due to some bottlenecks that are being experienced.

The company’s shareholding structure is as follows: - government of Kenya (97.93%), Fives Cail Babcock (FCB) – 1.13% and Industrial Development Bank (0.93%). The company occupies a total surface area of 4600 ha situated in Western Province of Kenya, 20km from Bungoma Town, and five kilometers off the Bungoma / Webuye highway. The factory serves over 30, 000 farmers within Bungoma, Kakamega and Lugari.

The Nucleus Estate whose total area is 4,629 Ha, supplies 20% of sugarcane requirement. Currently, the area under cane is 3,500 ha with an average plant crop yield of 124 TCH (Tonnes of Cane per Hectare) and Ratoon crop yield of 93 TCH.

The Out growers section whose total area stands at 16, 500 ha supplies 80% ha of the annual sugarcane requirement. Currently, the average yield is 70 TCH. Major cane
varieties cultivated include N14, CO421 and CO 945 which are renowned for their high sucrose content.

**Way forward**
Nzoia Sugar Company (NSC) is undertaking efforts aimed at increasing its competitiveness before the implementation of the new agreement between the Common Market for East and Southern Africa (COMESA) and Preferential Trade Area Agreement come March 2008. In order to avoid being traded out of the sugar business, the sugar company is exploring ways to improve efficiency and reduce costs.

Towards this end, feasibility studies for the factory expansion to 7000 TCD are being undertaken and expansion will commence once all preparations are done. This will include installation of cane preparation equipment, automation and the installation of a standby power generating station. In addition, a diversification programme which will include co-generation, paper manufacturing, animal feeds, spirits and sugar refining is being put in place to ensure proper utilization of by-products and improvement of the company revenue base.

According to the 2005-2010 Company Strategic Plan, the factory intends to expand its sugar production capacity from 67,000 to 180,000 tonnes of sugar by the year 2011 to secure a competitive edge and remain profitable. In agriculture, plans are underway to increase cane yields by developing seeds with a shorter maturity period. Currently, the company’s Nucleus Estate totals 4629 Ha. The company is now competing favourably by giving farmers good service; prompt payment and the best cane prices. Training seminars for stakeholders in the sugar industry are being held to educate farmers in the area. The company is also investing heavily in computerization as several departments are still operating manually. Computerization will be essential especially as Nona is in the process of training staff in readiness for ISO 9001 certification.

Development of the company information communication and telecommunication system has been boosted with the installation of VSAT (Very Small Aperture Terminal) in October 2005. This will go a long way towards enabling Nzoia Sugar advertise its products in the world market and communicate efficiently with its stakeholders worldwide.

**Achievements**
Nzoia Sugar Company has realized considerable improvements in terms of improved factory performance and reduced cost of production which has in turn led to increased profit by 19% in 2005/2006. Key areas being addressed include cane preparation index, boiler automation, process automation and milling automation. These improvements are ongoing and completion is expected within the financial year 2006/2007.

In agriculture, the most significant achievement has been attainment of the target to pay farmers within 30 days upon delivery within the financial year 2005/2006. The current target is to pay farmers within three weeks upon sugarcane delivery in this
Staff mobility has also been improved which in turn has upgraded the Extension Education Services and technologies. In addition, high caliber extension staff have been recruited and the surface under cane in the out growers region successfully increased from 12,000 ha to 17,500 ha. Lastly there has been continuous marked improvement in sugarcane yields per hectare in the out growers region from 65 tones TCH (Tonnes of Cane per Hectare) to 70 TCH currently due to resumption of fertilizer supply to farmers.

In the Nucleus Estate, there has also been an appreciable increase in yields. Currently yields stand at an average of 124 TCH for plant crop, an improvement from an average of 87 TCH in previous years. In the ratoon crop current yields stand at 93 TCH, also an improvement from an average of 35 TCH in previous years.

**Challenges**

The company is currently undergoing challenges in terms of over establishment and lack of adequate training specific to the sugar industry. Towards this end, a staff rationalization and manpower development programme is being drawn up. Outsourcing of non-core business services is also being planned. Currently, the company is working towards acquisition of an ISO certification.

Other challenges being faced include inadequate capital and heavy taxation in the industry. A substantial amount of capital is tied up in stalled factory expansion equipment and procurement regulations which are still not commercially oriented. Main challenges affecting cane growing and delivery include diminishing cane plot sizes, erratic weather patterns, poor road infrastructure, inadequate extension services and cane poaching.

**Achievements**

Nzoia Sugar Company has marked several milestones. In July 2005, Managing Director, Mr. Josaphat Akoyo received a Gold Medal Award for excellence in Business Practice from the Foundation of Excellence in Business Practice (FEBP) in Geneva, Switzerland on behalf of the firm. This award has no monetary value attached to it and is awarded on an international basis focusing on excellence in business practice, economic performance and issues touching on corporate governance of institutions. The awarding body carries out extensive, impartial and objective observations research based on information gathered from NGO’s, embassies, high commissions and governments to identify receiving awardees.

In 2004, the company was also awarded the Commissioner General’s Commendation – a taxpayer’s award from Kenya Revenue Authority (KRA). This award is given in recognition of the company’s improvement in terms of payment of taxes, as this in past years has been poor.

**Future**
Nzoia Sugar Company is bracing itself for privatization in order to avoid the risk of becoming obsolete in today’s market driven economy. With privatization, the company will be able to get qualified professional personnel with adequate knowledge of the sugar sub sector unlike in the past. Key objectives in the privatization of the company include reduction of costs, increase in efficiency through staff rationalization, factory expansion and phasing out of non-core business practices.