Dwindling fortune of sugar production in Nigeria: Perspective from Dangote Sugar Company

Aminu Bakari Buba
Department of History and Diplomatic Studies, Federal University of Kashere P.M.B 0182, Gombe State. bakariamin@gmail.com

ABSTRACT
Production of sugar has been a very tedious task of public companies in Nigeria. There are two major sugar companies operating in Nigeria; the Nigeria Sugar Company (NISUCO) Bacita and the Savannah Sugar Company Limited now Dangote Sugar. These two companies are not producing up to ten (10) percent of Nigeria’s sugar demand as a result of technical issues. The Savannah Sugar Company started sugar production in 1981, it took-off with back-lock of problems. This paper is aimed at discussing some of the major technical hitches that affects sugar production in the Company, the methodology adopted by the paper is streamlined on primary sources, derived through field survey of the company site and interview with first hand informants and some secondary sources. Some of the major technical findings of the research include; land development problem, poor management, agronomic problems, tip-toeing government policies and capacity under-utilisation, effects of macro-economic variables in the Nigerian economy and agro based firm related constraints during the Structural Adjustment Programme (SAP) which contributed to the decline in the productivity of the sugar industry. It was the combination of these teething difficulties that prompted the government with no option than to privatise the company in 2002. In order to solve some of these issues, the Federal Government should continue to innovate more avenues in the business of sugar production which is capital intensive and succeeds most in the hands of private investors, privatisation permits governments to concentrate resources on their core functions and responsibilities, while enforcing the “rules of the game” so that the markets can work efficiently for development, the 2012 sugar master plan should be reviewed. There should be constant monitoring of projects like this to ensure compliance and implementation.

Keywords. Capacity Utilisation, Import Substitution, Privatisation, Sugar.


Introduction

Dangote Sugar Company formerly known as Savannah Sugar Company Limited (SSCL) now is the largest integrated sugar company in Nigeria with a take-off design capacity of 100,000 metric tonnes of sugar per annum.\(^1\) It supports a large portion of the population in the countryside amounting to more than 7000 employees during the peak of the sugarcane harvest and production season.\(^2\) Its successes did help in preserving the prestige of the country during its hay days by sustaining the level of sugar supply for national consumption. The existence of the company opened up new avenues for people to secure employment and sustain their livelihood thus reducing social restiveness and insecurity. Apart from sugar, the primary product of the company, molasses, bagasse and filter cake are extracted during production.

A company with this huge capacity is capital intensive and requires the injection of resources to sustain it. This paper is aimed at discussing some of the critical difficulties that led to the privatisation of the company among which are; land development problems, sugar production and agronomic issues, poor funding for expansion programmes, old and obsolete machineries, capacity under-utilisation, effects of government policies on sugar imports which affects the company and bad rehabilitation management. These major delinquent issues bedevilled the company thus paving the way for its privatisation in 2002 to Dangote Group. The problems associated with state-owned enterprises and monopolies are not only peculiar to Nigeria, it is true; however, that many developing countries have overcome the problems through a well-designed and single-minded pursuit of privatisation programme. The rationale is that privatisation permits governments to concentrate resources on their core functions and responsibilities, while enforcing the “rules of the game” so that the markets can work efficiently, with provision of adequate security and basic infrastructure, as well as ensuring
access to key services like education, health and environmental protection for the development of the country.

**Establishment of the Savannah Sugar Company Limited**

In 1968 the Federal Government of Nigeria ventured into an agreement with the Commonwealth Development Corporation (CDC) to consider a suitable location for the establishment of a sugar company, after successful studies, Numan was earmarked as a possible area for the take-off site and the establishment of a sugarcane plantation. Pre-feasibility and feasibility studies were initiated in 1970 and completed in 1973. The study showed that sugarcane yield of 100 tonnes per hectare was possible in the area. Thus in 1973, following detailed soil surveys and analysis, the Savannah Sugar Company Limited was established. An area of 32,000 hectares was acquired for irrigated sugarcane cultivation twenty five (25) Kilometre North of Numan. A 100,000 tonne per annum take-off design capacity factory was built and sugar production commenced in 1980. The factory also has an installed processing capacity of 4,000 tonnes of sugar cane into granulated sugar per day. In the 1981 cropping season, 10,003 metric tonnes (MT) of granulated sugar was produced. The statutory function of the company as contained in its memorandum and Articles of Association are:

1. Carrying out the business of Sugarcane cultivation,
2. Milling and Production of sugar,
3. Refining, importing and exporting sugar and

The Company’s mission statement, which has been very challenging, is: To effectively cultivate and produce sugarcane, process and market granulated and refined sugar, its by-products and derivatives within the dictates of the Government’s National Sugar Policy.
Privatisation of the Savannah Sugar Company Limited

The problem of the company started during its take-off as a result of several managerial and technical issues which affects its output, this multiplier effect was carried over in the performance of the company for years, these problems include financial constraints, poor performance of the factory, agronomic issues, inability of the company to expand its operations and effects of industrial policies in the country.

Land Development Problems

The CDC of Britain who were the technical partner in managing the company had some disagreement with the FGN for its failure to meet up with its contractual agreement, when the company was established, it was agreed that the CDC would develop irrigable sugarcane estates to 12,500 hectares in a span of ten-year period, however by 1982, almost ten years of the agreement only 2,500 hectares was achieved in the four major estates, Levee estate, Kem estate, Garin Isa estate and Bafiyo estate. FGN terminated the contract of CDC in 1983 production season and brought in management from the Ministry of Industries. A Director took over the company operation, his job did not yield a good result which led to the collapse of the operation. As a matter of fact, the company was only able to develop 6,404 hectares of the total cultivatable land area of 13,300 hectare selected for development. Out of the developed 6,404 hectares, only 5,200 hectares are actually under cultivation. By 1985, the company had projected about 8,000 hectares of land for development and cultivation but only 2,500 hectares of land were actually developed, even up to the privatisation of the company, the Company never achieved the set target of 12,500 hectares.

Sugar Production and Agronomic Issues

Sugarcane is propagated commercially by the vegetative method, which involves planting and covering sections of the stalk with moist soil. These sections are known as stem cuttings, setts or seed-pieces. Planting fields of sugarcane was a labour-intensive task, although in
other parts of the world, the process has now been mechanised. One planting, however, usually gives several crops. After the harvest of the first crop, known as the plant cane, the roots and lower part of the stalk with its buds remain in the ground. New shoots emerge from the buds to form another stool of cane. Each of the crops succeeding the plant cane is known as a ratoon crop, first ratoons, second ratoons and so forth. The number of ratoon crops allowed from a plant crop depends upon the sugarcane variety, incidence of disease, yield and local environmental conditions. Sugar yields from ratoon crops are usually lower than from the plant cane, Sugar production depends on the sugarcane yield, over the years, the company has used several varieties of sugarcane to increase sugar production output.

Some varieties are rich in sucrose content while others are low with large parts of its contents full of bagasse. The company over the years has been using several variety of sugarcane for production, each of the varieties has its own sucrose and bagasse content, the best variety that was proven excellent with high yield is the CO 997 followed by the SP71-6180 according to the company. The other varieties which have been in use over the years have a low yield which dwindled the expected tonnes of sugarcane harvested. In an attempt to improve the varietal base, multiplication and screening of some varieties imported from Barbados, India and Mauritius are in progress.

The company has experienced a number of problems since its inception. For example, no production took place in 1984 due to financial constraint while in 1985, there was low output due to poor sugarcane harvest. Similarly, the company has not been able to sustain its planned annual land development of 20%. Kiri Dam was constructed to serve as a source of irrigation and water supply for the company sugarcane fields so that all year-round production can take place, this has never been achieved. Field related problems like the low yields sugarcane and disease intolerant varieties all of which were imported affects the output of sugar.
Poor Rehabilitation Management

The constraint of funding affected expansion operations of the company due to inadequate funding thus leading to poor continuous operations of the company.\textsuperscript{14} Sugar recovery is always very low in the company. Since 1990, the factory required an upgrade to increase its performance, but could not be possible, most of the parts in the factory were becoming outmoded and could not process sugar at the required rate. This problem continued, by the time the rehabilitation took off in 1994 in conjunction with the FGN and the ADB, the factory and field operations degenerated.\textsuperscript{15} This problem persisted and affected the yields of sugarcane in the field which started declining, the factory becomes poor, procurement of machinery and equipment for the factory was made with replacement and maintenance within the factory, specific replacement made were boiler rehabilitation and centrifugal station apart from these, no major work has been carried out during project implementation between 1994 and 2001 others include piping, repair and maintenance jobs, no other additional equipment has been added to increase the capacity of the plant or improve production efficiency, plant maintenance was not consistent and also not been carried out properly and adequately due to absence of funds for a long period that resulted in frequent and serious breakdowns, despite most this rehabilitation, the company is still not getting the result required.\textsuperscript{16}

As regards to field operations and machinery during the rehabilitation exercise, the equipment were procured for transportation and workshop almost simultaneously without considering when they would be used. Many of the equipment for agriculture are not in use, also the equipment meant for the Agricultural Workshop is not installed because the workshop building itself is not complete. The combination of this factors seriously affected sugar production process thus affecting the rehabilitation target as clearly seen in the sugar production statistics of the company below.
Table 1.0 Showing Sugar Production Statistics in SSCL

<table>
<thead>
<tr>
<th>S/NO</th>
<th>YEAR</th>
<th>TONNES OF SUGAR PRODUCED</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1981</td>
<td>10003</td>
</tr>
<tr>
<td>2.</td>
<td>1982</td>
<td>11958</td>
</tr>
<tr>
<td>3.</td>
<td>1983</td>
<td>11127</td>
</tr>
<tr>
<td>4.</td>
<td>1984</td>
<td>0</td>
</tr>
<tr>
<td>5.</td>
<td>1985</td>
<td>6923</td>
</tr>
<tr>
<td>6.</td>
<td>1986</td>
<td>15892</td>
</tr>
<tr>
<td>7.</td>
<td>1987</td>
<td>21011</td>
</tr>
<tr>
<td>8.</td>
<td>1988</td>
<td>15235</td>
</tr>
<tr>
<td>9.</td>
<td>1989</td>
<td>19602</td>
</tr>
<tr>
<td>10.</td>
<td>1990</td>
<td>20017</td>
</tr>
<tr>
<td>11.</td>
<td>1991</td>
<td>16366</td>
</tr>
<tr>
<td>12.</td>
<td>1992</td>
<td>21580</td>
</tr>
<tr>
<td>13.</td>
<td>1993</td>
<td>18109</td>
</tr>
<tr>
<td>14.</td>
<td>1994</td>
<td>18316</td>
</tr>
<tr>
<td>15.</td>
<td>1995</td>
<td>14532</td>
</tr>
<tr>
<td>16.</td>
<td>1996</td>
<td>7874</td>
</tr>
<tr>
<td>17.</td>
<td>1997</td>
<td>5198</td>
</tr>
<tr>
<td>18.</td>
<td>1998</td>
<td>0</td>
</tr>
<tr>
<td>19.</td>
<td>1999</td>
<td>3183</td>
</tr>
<tr>
<td>20.</td>
<td>2000</td>
<td>4666</td>
</tr>
<tr>
<td>21.</td>
<td>2001</td>
<td>6281</td>
</tr>
<tr>
<td>22.</td>
<td>2002</td>
<td>1040</td>
</tr>
</tbody>
</table>


As indicated from the table the major difficulty faced by the company was during its take-off the termination of CDC contract in 1983 affected sugar production leading to the inability of the company to produce sugar in 1984. Sugar production continued smoothly since 1985 but was affected by the poor rehabilitation exercise that commenced in 1994, operations started dwindling despite the ongoing company upgrade up to the time the company was privatised in 2002 with only 1040 tonnes of sugar produced.

**Tiptoeing Government Policies**

The Nigerian Sugar industry was adversely affected due to a laxity in part of the government on enforcing its policies to proffer a smooth atmosphere for sugar production. Before the flag off of the National Sugar Master plan in 2012, the Federal Government policy on imported
Sugar was so liberal that it continued to constitute a threat to local sugar companies like compared to the era of import substitution in the country as indicated in the table below.

**Table 1.1**: Sugar Industrial Sector Performance in Nigeria 1970-2014

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Import Substitution Era</th>
<th>Liberalisation Era</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sugar</td>
<td>NA</td>
<td>59.59</td>
</tr>
</tbody>
</table>

*Source*: Data from the Central Bank of Nigeria Statistical Bulletin.

The general performance of the sugar industry was fair in the early 1970s as indicated in the table due to government commitment and funding. During this period, the sugar industry had fully integrated its backward integration operations through its direct involvement in sugarcane cultivation and sourcing of other raw materials locally.\(^{17}\) Towards the middle of 1980s and the late 1990s, the performance of the sector started to decline. The index of sugar production declined from 117.8% in the period 1986-1990 to 47.7%.\(^{18}\) The agro based industries generally witnessed decline in productivity during the Structural Adjustment Programme (SAP) period. The average technology based capacity utilization rate of the sugar confectionery industry stood at 40% in 1986 and declined to 36% during the early SAP period. The instability in some macroeconomic variables in the Nigerian economy and agro based firm related constraints during the SAP period probably contributed to the decline in the productivity of the sugar industry. The decline in the sub sector productivity might have manifested through the influence of rising inflation rate, low external reserves which constrained importation of sugar industry’s equipment, deteriorating value of naira as well as demand and other production constraints imposed by low real Gross Domestic Product GDP per capita during the period.\(^{19}\)
In the early period of the 1990s, the Nigerian sugar industry was still largely underdeveloped with untapped resources and potentialities. The four (4) existing companies were completely government owned and were characterized by low productivity occasioned by managerial, financial, infrastructural and technological constraints. The awfully low production by the existing sugar companies could only satisfy about 5% of the nation’s requirement and the wide gap between sugar demand and supply was filled through importation with huge amount of foreign exchange requirement. With the dwindling fortune of the federal government resources in the early 1990s, the existing sugar companies were wallowed in low productivity due to inadequate finance for both recurrent and capital expenditure. This situation further deepened the fortune of local sugar production since all sugar companies were government owned. In an attempt to accelerate the domestic sugar production, the National Sugar Development Council (NSDC) was established by decree 88 of 1988.

The NSDC was mandated to develop strategies that would promote the local production of sugar such that 70% of the country’s sugar requirement could be met by domestic production. Based on the government policy of direct participation and investment in the sugar industry, NSDC strategies were the expansion and rehabilitation of the four (4) government owned sugar industries, establishment of five (5) medium scale and several mini sugar plants in the country as well as the establishment of the Sugarcane Research Development and Training Centre (SRDTC). The Council however recorded some successes in implementing some of its strategies but could not still upsurge local production of sugar in the country. Following the government reform programme on privatization and commercialization between 1999-2003, the company was privatised. The aim was to promote efficiency in resource utilization, increase productive capacity and increase the role of the private sector in the sugar industry.
Despite this lofty attempt by the government to strengthen the productive capacity of the sugar sector in the economy, the productivity of the sector continued to decline. The average index of production in the sugar industry was - 17.9% in the period 1970 to 2005.\textsuperscript{25} During the post SAP era, growth in the sugar industry in Nigeria was hindered due to increase in manufacturing cost.\textsuperscript{24} The average capacity utilization for the sugar confectionery sector during post SAP period as published by official sources in Nigeria was below 30%.\textsuperscript{26}

In the sugar industry, some specific policies were employed over the years to boost sugar production in the country, which include 50% tariff on the importation of white sugar, 5% levy on imported raw sugar, free exercise duties on sugar production, reduction of import duties on sugar industry machineries, 5–year tax holiday to sugar refineries and privatization of the major sugar firms in the country, as well as, the sugar expansion programme in collaboration with the African Development Bank (ADB) and African Development Fund (ADF) 1989 and 1991 respectively, the intervention did not help in funding the expansion programme due to the laxity of the Government at some time in paying its counterpart funding to the project in the company which has persisted up to 1999. These measures were meant to stimulate the local production and hence increase the productivity and capacity utilization in the sector. In spite of these measures, Nigeria still imports more than 90% of its sugar. Nigeria is the largest consumer of sugar in the West African sub-region and second in Africa.\textsuperscript{27} The country also has a large area of cultivable land, suitable for the growing of industrial sugarcane.\textsuperscript{28} Despite the favourable agro-climatic and edaphic conditions for the production of sugarcane in addition to the long period of existence of sugar mills; sugar requirements of the country remain largely unmet from domestic sources.\textsuperscript{29}

**Privatisation of the Savannah Sugar Company Limited**

Privatization is the conversion of businesses from government ownership to private property. It also involves the denationalization of industry as well as allowing the private sector to
provide what had been considered government services. According to the Nigerian Privatisation Act of 1999; full privatisation means divestment by the federal government of all its ordinary shareholding in a designated enterprise. Partial privatisation means divestment by the Federal Government of part of its ordinary shareholding in a designated enterprise.

Privatisation and commercialisation of companies was a defining chapter in the opening decade of the 21st century in Nigeria. The administration of Chief Olusegun Obasanjo had in 2000 began the sale of government enterprise to pave the way for the private sector to takeover those companies that are considered to be ineffective and unproductive to the economy. Most of those companies over the years, have been a conduit pipe for draining resources from the government coffers and the failure of such government corporation to operate at full capacity affected the economy. These lead to loss of lives of people whose survival depended on the companies and consumers of such products thereby causing pain and hardship to people through inadequate or lack of such products.

Therefore, SSCL happens to be one of the companies slated for privatisation in that period under the Nigeria sugar industry. It is estimated that successive Nigerian Governments have invested up to 800 billion naira in public owned enterprises before the year 2000. Annual returns on this huge investment have been well below 10 percent. These inefficiencies and, in many cases huge losses are charged against the public treasury. State own enterprises suffer from fundamental problems of defective capital structure, excessive bureaucratic control or intervention, inappropriate technology, gross incompetence, mismanagement, blatant corruption and crippling complacency which monopoly engenders.

The problems associated with state-owned enterprises and monopolies are not only peculiar to Nigeria, it is true; however, that many developing countries have overcome the problems through a well-designed and single-minded pursuit of privatisation programme. The rationale
is that privatisation permits governments to concentrate resources on their core functions and responsibilities, while enforcing the “rules of the game” so that the markets can work efficiently, with provision of adequate security and basic infrastructure, as well as ensuring access to key services like education, health and environmental protection. The objective is to assist in restructuring the public sector in a manner that will affect a new synergy between a leaner and more efficient government and a revitalised, efficient and service-oriented private sector.34

**Objectives of the 1999 Privatisation Act**

The primary aim of the privatisation programme in Nigeria is to brand the private sector as the leading engine of economic growth in Nigeria. The government intends to reintegrate Nigeria into the fast globalising world as a motive to attract foreign direct investment in a transparent, fair and open market, by this Nigeria plans to be a force to reckon with on the global stage. Some of the objectives of the privatisation Act of 1999 are;

A) To send a clear message to the local and international community that a new transparent Nigeria is now open for business.

B) To restructure and rationalize the public sector in order to substantially reduce the dominance of unproductive government investment in the sector.

C) To change the orientation of all public enterprises engaged in economic activities towards a new horizon of performance improvement viability and overall efficiency.

D) To raise funds for financing socially-oriented programmes such areas as poverty eradication, health, education and infrastructure.

E) To ensure positive returns on public sector investments in commercialized enterprises, through more efficient private sector-oriented management.
F) To check the present absolute dependence on the treasury for funding by otherwise commercially oriented parastatals and so, encourage their approach to Nigerian and international capital markets to meet their funding needs.

G) To initiate the process of gradual cession to the private sector of public enterprises which are better operated by the private sector.

H) To create jobs, acquire new knowledge, skills and technology, and expose Nigeria to international competition.35

These are some of the sacrosanct objectives of the privatisation Act of 1999 in Nigeria which paved the way for the takeover of public enterprises by the private sector to reinvigorate, revitalise, rejuvenate and recreate the Nigeria economic system. In fact, these objectives are some of the pivotal reasons that the government wants to achieve which the public enterprises have failed in several ways over the years. In the period under consideration, all Nigeria public sugar industry were slated for full privatisation in which SSCL is among.

Dangote industries limited (DIL) emerged the preferred bidder for SSCL. DIL took over from the government after a series of bidding exercise organised by the Bureau for Public Enterprises (BPE) in December, 2002. BPE sold the company to Dangote at the cost of NGN1.35 Billion, representing a 75.4% of the issued share capital of the company. Other Shareholders in SSCL include Nigeria Agricultural and Rural Development Bank (NARDB) 2.4%, Nigeria Industrial Development Bank (NIDB) 0.3%, Borno State Investment Company 5.8%, Adamawa State Government 5.2%, Bauchi State Government 5.3% and Commonwealth Development Corporation Nigeria Limited 5.6%.36
Conclusion

This paper has discussed the establishment and constraint faced by SSCL since its commencement of production in 1981 several issues which ultimately led to its privatisation by the Federal Government of Nigeria. Some of the reasons behind the establishment have been realised to some extent while some have been difficult due to a number of lacklustre by the government. One of the significant findings of this paper is that, SSCL since inception has not operated in its full designed capacity up to its privatisation. The company’s factory design is 100,000 metric tonnes of refined sugar at full capacity but the highest the company has ever attained was 21,580 tonnes of sugar which is 35 percent of the installed capacity in 1991. Also the company’s earmarked land for sugarcane cultivation was 32,000 hectares of land, out of which 5200 hectares have been achieved for sugarcane cultivation revealing less than 20% percent. Capacity utilisation of the company is not fully exploited. The sugar by-products are not fully harnessed. If more sugarcane will be produced and milled, then more of the benefits that can be obtained from sugar production will be derived thus increasing the income of the company. Therefore, the problem of agronomy, sugar production, funding and rehabilitation management, government policies and capacity underutilisation which affects the performance of the company led to its privatisation to Dangote Group. Dangote took over the company in 2002 and is presently repositioning it. In order to reposition the company, the government needs to review its National Sugar Master Plan of 2012 as the existing one is not realising much of which have been envisaged, serious monitoring of Nigeria’s border should be done to avoid smuggling of sugar products which affects local industries. Government needs to invest in the development of science and technology in the country to enhance production of local spare parts for machineries in the country so as to reduce the demand of foreign exchange which is not stable considering the nature of Nigeria economy. Increase funding of local industries through loans with single digit interest rate should be encouraged.
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