DAIRY PRODUCTION LANDSCAPE IN NIGERIA

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1. EXECUTIVE SUMMARY

The dairy industry in Nigeria while facing a lot of challenges to reach trade equilibrium, has the potential to be a major source of revenue considering the large size and demand potential of the market.

This report will take an in-depth look at the state of the dairy industry as it is today; highlighting market trends, the structure of the industry, the policy environment, key players in the industry, the challenges faced, and proffer recommendations to mitigate against the challenges.

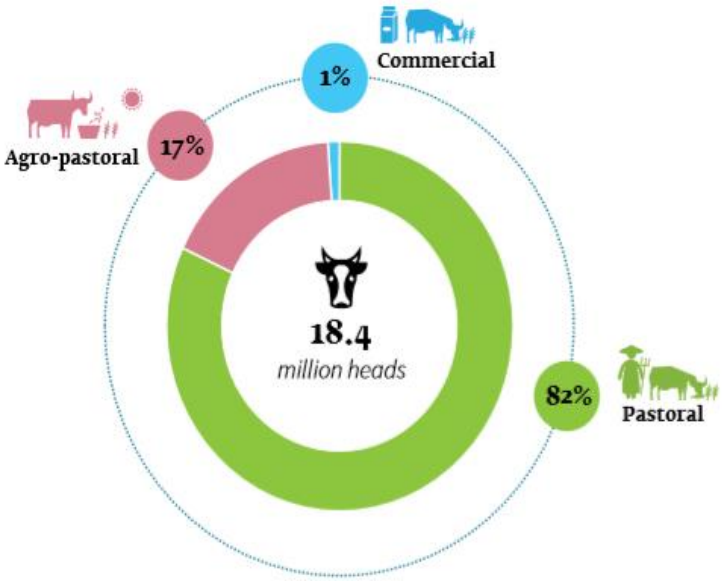
This will aim to give a holistic overview of the mechanisms of an industry which has been earmarked as a major revenue-generating opportunity for the country.

2. INDUSTRY ANALYSIS

Nigeria has over 180 million residents, consuming about 1.3 million tons of milk annually. Unfortunately, about 60% of the dairy products consumed are imported. According to the Central Bank of Nigeria (CBN), Nigeria spends $1.5 billion annually importing milk and dairy products.[1]

This is due to challenges that range from limited access to fodder, low yield of local breeds, limited access to inputs and credit, poor production practices, lack of organization and underdeveloped value chains amongst others.

The main production systems operated in Nigeria include; Pastoral systems, commercial system, semi-intensive/ Agro- Pastoral systems[2]



[1] Agrilinks. November 8, 2019. https://www.agrilinks.org/post/making-case-development-nigerian-dairy-sector

[2] FAO. 2019. The future of livestock in Nigeria. Opportunities and challenges in the face of uncertainty.

2.1 STRUCTURE OF THE NIGERIA DAIRY INDUSTRY

The three main operating systems in the industry currently are:

I. PASTORIALIST AND PERI URBAN FARMERS: These account for 95% of all domestic production. The main cattle breeds used by these groups are mainly White Fulani and Sokoto Gudai breeds which are low milk-producing breeds.
Women play a key role in the production, processing and sale of milk in this system through informal processing and marketing.

II. COMMERCIAL: These use a mix of indigenous and crossbreed cattle with improved milk yield. They mostly produce their fodder. They have typically integrated farmers who process their raw milk and mix with imported powder, they also source from pastoralists through collection centers.

III. IMPORTERS: These are by far the largest segment in the industry with over 60% of market share. They mostly import powdered milk and derivatives from Holland, Denmark, New Zealand, etc. Use mainly imported powdered milk for their products (97%) very few use locally sourced raw milk to complement their products[3]. They sell processed products formally.

2.2 POLICY ENVIRONMENT

The main policies of interest to the Dairy Industry in Nigeria include:

I. ECOWAS Common External Tariff (CET) 2013.
This was approved in 2016 and entails the reduction of import tariffs between member countries from 10% to 5%. This policy has resulted in reduced demand for local products, encouraging imports from neighboring countries with lower import tariffs than Nigeria. It has led to a negation of the gains from the Government's ban on foreign exchange for dairy imports.

II. Agricultural Promotion Policy (APP) 2016-2020.
The policy is based on a strategy to boost agricultural production and ensure food security in the country for the medium-term. It is the precursor to the more specifically detailed National Livestock Transformation Plan.

III. National Livestock Transformational Plan (NLTP). 2018-2027
Approved on January 17, 2019, under the direct supervision of the National Economic Council (NEC). The Policy aims to improve the livestock sector (Meat &Dairy) through partnerships between state governments and the Private sector, moving production from mainly pastoral to commercial ranching systems to improve output and access to value-added inputs. Pilot states under the plan include; Adamawa, Benue, Kaduna, Nassarawa, Plateau, Taraba, and Zamfara.

IV. National Grazing Reserves Bill.2016.

[3] The Nigerian Diary Sector. Sahel Consulting Newsletter, Vol 20, February 2019. Pg. 3-10.

This Bill which was passed by the National Assembly in 2016, seeks to establish cattle grazing reserves in each state of the federation. It is however yet to be approved by the Federal Government.

2.3 CHALLENGES OF THE INDUSTRY

Through every stage from inputs, Production, Processing, Distribution and Sale to the final consumer, various challenges are facing the industry. Some of these include:

- Low yield of local breeds; with an average yield of 1litre per cow (compared to 10litres in Kenya), the milk yield of most indigenous cattle breeds in very low, averaging 213litres per cow annually[4].
- Limited access to quality Feed and Fodder
- Limited access to inputs such as veterinary services, extension services, vaccines and drugs.
- Outdated production practices and techniques such as hand milking and pastoral farming.
- Limited Access to credit
- Unfavorable competition from imports which are cheaper due to production costs and supply limitations of raw milk.
- Lack of Organization, which affects sourcing and value-added incentives negatively.
- Absence of cold chain infrastructure needed for storage and collection.
- Unaffordability of dairy products to Bottom of the Pyramid (BoP) consumers who make up a large proportion of the populace.

2.4 KEY DOMESTIC DAIRY COMPANIES

The formal Nigerian dairy market is primarily controlled by multinationals owned by European dairy cooperatives such as FrieslandCampina WAMCO (FCW) and Arla, and corporations such as PZ Wilmar (Nutricima), Fan Milk, Promasidor and CHI who rely on milk imports as raw materials. FCW is the only multinational currently sourcing raw milk locally. Few indigenous formal processors such as Integrated Dairy Limited, L&Z Integrated Farms, and Nagari Farms, use raw milk sourced from their cows, and/or sourced from pastoralists and peri-urban farmers.

2.5 RECENT DEVELOPMENTS/TRENDS

With the launch of government initiatives such as the National Livestock Transformation Program (NLTP), there have been some key developments that portend greater growth potential for the Nigerian dairy Industry. Key amongst these are;

I. Nigerian Dairy Development Program.

[4] Makun, H. 2018. Dairy production systems in Nigeria. Presentation delivered at the Technical meeting of Africa Sustainable Livestock 2050, April 2018, Abuja

This is spearheaded by Sahel Consulting, which worked with dairy companies in Oyo and Kano to inseminate over 3,000 cows with semen from improved, Friesian, Holstein and Jersey breeds. They also integrated 2000 dairy households with access to extension services and production inputs including milk cans, solar-powered boreholes and feed. While this program has proved the potential of the intervention, there is a critical need for an entire value chain of veterinary doctors, artificial insemination inputs and service providers, technical experts, and consultants to scale this process and ensure the successful genetic improvement of indigenous cows.[5]

II. The Central Bank of Nigeria (CBN) recently announced that under in Livestock Development Initiative, four dairy product manufacturers have been incentivized to commence local milk production. They include; Freisland CampinaWAMCO, Neon Agro, Irish Diary and Chi industries. The companies are to operate on 31,000 hectares at the Bobi grazing reserve in Niger State.
Arla group has also invested N12billion in milk production in Damau, Kaduna State. Other investments by indigenous milk producers are expected in Plateau and Abuja in 2020.[6]

3. RECOMMENDATIONS

With the population of Nigeria expected to be 400million and domestic consumption of dairy products expected to increase by 158% to 4.2 million tons annually by 2050.[7] There is ample opportunity for growth in domestic production if highlighted challenges are remedied. Some remedies proffered to reach domestic sustainability include;

- Fiscal and Monetary Policy Incentives: Tariffs on imports should be up to help and gradually increased as domestic production rises, albeit systematically with earnings invested in research and development of domesticized technology and practices.
- Organize Farmers: Clusters and cooperatives should be encouraged to improve sourcing and standardization. This will also enable impactful value-added incentives.
- Improve Inputs: Insemination to improve high yield hybrid cattle, improved feed and fodder systems, water access, extension services and milking technology should be prioritized.
- Value Chain Incentives: Cold chain infrastructure for aggregation, collection and evacuation should be incentivized by removing tariffs on dairy equipment. Concessional loans should also be availed to investors in the industry to improve local production.
- Asset-Based Credit: Access to credit can be improved by providing asset-based credit to farmers, negating the risk aversion of financial institutions. This can be done by providing loans for the purchase of dairy cows which are insured, and their value used as collateral[8]

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[5] Businessday. November 7, 2019. https://businessday.ng/agriculture/article/tackling-the-challenges-faced-by-the-nigerian-dairy-sector-lessons-from-kenya/

[6] Premium times. 20 September 2019. https://allafrica.com/stories/201909200140.html

[7] FAO. 2019. The future of livestock in Nigeria. Opportunities and challenges in the face of uncertainty.

[8] Hong, David, and Stephanie Hanson. 2016. "Scaling up agricultural credit in Africa," Frontier Issues Brief submitted to the Brookings Institution's Ending Rural Hunger project (https://www.endingruralhunger.org/)

- Private/ Public partnerships: This should be encouraged as the most sustainable means to achieve maximum domestic production in line with the National Livestock Transformation Plan (NLTP).
- Increase Demand for Local Milk: Consumers should be educated on the benefits of consuming local milk instead of powdered imports. Prices also need to be lowered as economies of scale in production take hold. Smaller unit packages to target the bottom of the pyramid (BoP) consumers should also be considered.

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