



**MARKET
DEVELOPMENT
IN THE NIGER DELTA**



AGENDA FOR REFORMS IN NIGERIA'S OIL PALM SUB- SECTOR

An Advocacy Brief

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Rationale for the Report

Palm Oil production in Nigeria has experienced decline from the 1960's when the country was producing 45% of the global output to a current output that represents 1.7% of the global palm oil output. Local production of palm oil has stagnated at a little less than a million metric tons since 2012, creating an estimated annual deficit of about a million metric tons worth approximately \$770 million.

Since 2013, Market Development in the Niger Delta (MADE) and Partnership Initiative in Niger Delta (PIND) have worked in the palm oil sector driven by a strategy to increase the productivity of farmers and processors in the Niger Delta region towards world standards thus leading to increased profitability and driving more substantial investments to meet demands for household and industrial palm oil and increase income for farmers

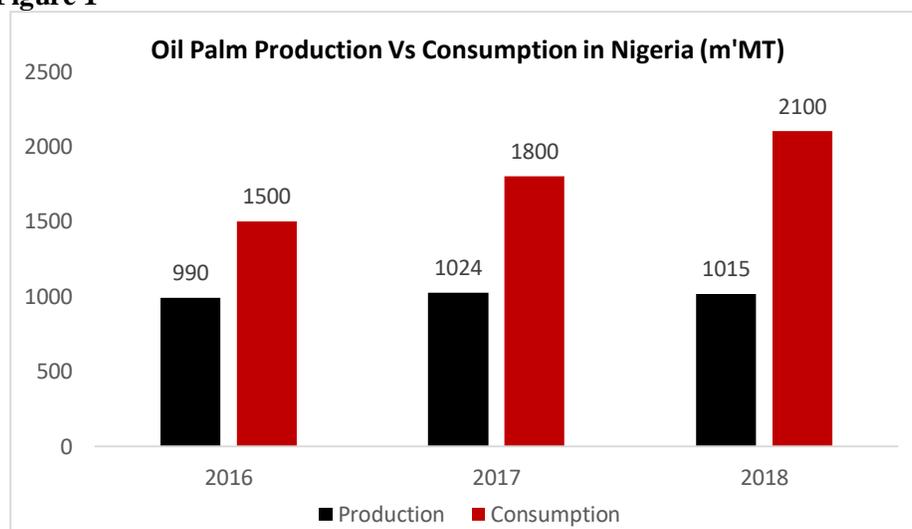
Despite the success achieved, evidence from studies and interactions with smallholder farmers reveal several factors affecting the business environment at the policy, legal and regulatory frameworks, administration and governance systems levels, capable of retarding progress and requiring a more cohesive demand for reform.

This report identifies some of the key issues around the structure of the industry, key constraints at the production, processing and government policy levels. It serves as an advocacy tool for sensitizing industry operators and continuing engagement with key policy makers on the rationale and urgency of inclusive reforms in the oil palm sector with special focus on smallholder farmers.

Contextual Background

Palm oil is of strategic importance as it is used in the production of more than half of the products sold in supermarkets globally. Nigeria is the largest consumer of palm oil in Africa with a population of 197 million people (World Bank, 2018). The nation consumed approximately 3 million MT of fats and oils in 2018, with palm oil accounting for 70% or 2.1 million MT. In the same period, local production stagnated at 1.02 million MT resulting to supply shortfall of 1.1 million MT. Figure 1 shows the gap between oil palm production and consumption volumes in Nigeria.

Figure 1



Source: USDA

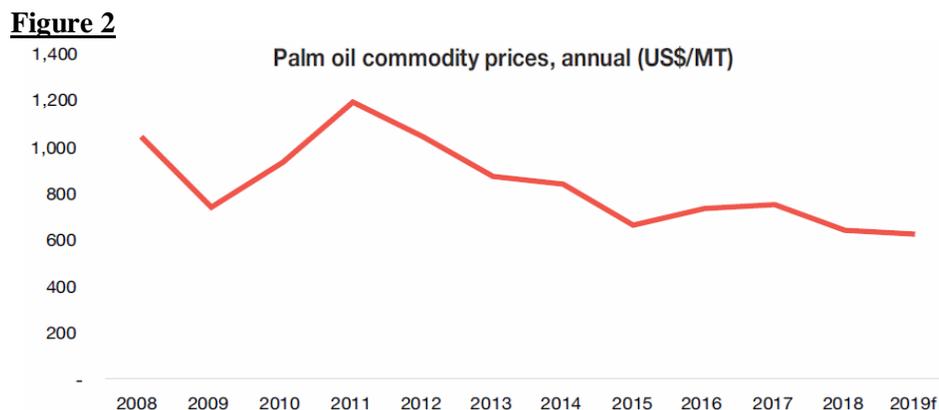


To meet this supply gap, the country has depended on importation over the years with hundreds of thousands of tons of Crude Palm Oil (CPO) imported legally for large industries and another 500,000 mt entering the country informally from neighboring countries in West Africa. A duty charge of 35% was applied on imported CPO to protect local production while in 2016, the Central Bank of Nigeria (CBN), published a list of 41 items, including palm oil, as ineligible for forex through the Nigerian interbank market, effectively increasing the cost of imported palm oil, to manage foreign reserves. While this seems good in government's effort at promoting local production of palm oil, it did not reflect the industry's ability to respond. The impact on local manufacturers include:

- Shortage of crude palm oil for further refining or use in production by local manufacturers, thereby resulting to idle capacity utilization; and
- Increased cost of legally imported crude palm oil, compared to informally imported crude palm oil, leading to reduced competitiveness in prices of locally produced refined vegetable oil due to the activities of smugglers of refined vegetable oil into the country.

→ Oil Palm Projections

Illegal cross-border inflows of CPO and other oil palm by-products are suppressing prices with attendant adverse implications on local producers and refiners (but benefits for consumers). This is due to low productivity compared to countries where imports are sourced. Moreover, industry stakeholders confirm that the recent (since July 2019) closure of land borders have helped to moderate the illegal import volumes leading to higher price offered for locally produced palm oil over the last few months. Notwithstanding, World Bank oil palm monitor shows that the prices in the international market remained dampened as evidenced in figure 2 below.



Source: World Bank Oil Price Monitor

Fragmented Local Production Structure

The Nigerian palm oil industry is highly fragmented, which limits its ability to coherently respond to emerging opportunities from time to time. Smallholder farmers (SHF) dominate local production and account for approximately 80% of local production of palm oil (largely Technical Palm Oil TPO with Free Fatty Acid content higher than threshold for industrial usage), while established plantations account for less than 20% of the total market (producing Special Palm Oil – SPO used largely for industrial purposes after refining). The Niger Delta region of the country accounts for 54% of local production by SHF involving an estimated one million value chain actors – farmers, processors and traders. The dominance of SHF in the palm oil market has resulted in low output production systems, reducing Nigeria's actual production compared to the country's potential considering low Fresh Fruit Bunches (FFBs) and CPO yields per hectare of land.

It is acknowledged that the country's large and rapidly growing population will continue to be a major driver of demand. According to the CBN, the country currently spends \$500 million on oil palm importation annually. Our analysis shows that Oil Palm Vs Oil & Gas sector employment multiple for Nigeria is put at ratio 11:1 (i.e, 2.1 million: 200,000 direct and indirect jobs) in 2018. This indicates an interesting macroeconomic potential in the oil palm sector. Maximising this potential will require increasing the overall competitiveness of local production and this involves upgrading all functional levels of the value chain from production through processing and marketing. Since small holders currently account for 80% of production,

incentives to upgrade both their production and processing to meet market demand must be at the forefront of policy dialogue.

Smallholder Production Channels

The SHF production channels, highlighted in the PIND (2011) and MADE (2014) value chain studies highlighted the root causes of the poor functioning of the value chain:

- The SHF channels, producing TPO, were dominated by inefficient processing technologies, leading to large losses of oil extracted from the fruit. Capturing so little oil from the fruit had reduced the value of the fruit (Free Fruit Bunches – FFB) to the point where farmers had little incentive to invest in production of FFB, or even to harvest all the FFB available.
- Much of the available FFB was not harvested due to the cost of harvesting, compared to the price of the fruit. Harvesting of FFB was very expensive and inefficient due to use of traditional tree climbers who were in increasingly short supply leading to high cost per FFB harvested.
- At the same time, with low value of the FFB, farmers had little incentive to invest in improved production practices to grow more fruit, leaving them with option of simply harvesting fruit from existing trees and plantations, with less focus on planting new higher quality trees. Yields had dropped to 1/5th of normal, as trees aged and existing plantations were not well managed.

MADE and PIND had invested (between 2013 and 2018) in stimulating the adoption of improved processing and harvesting technologies to greatly increase the profitability of palm oil processing for small scale processors combined with improved access to information on Oil Palm Best Management Practices (BMP) and quality inputs for small holder farmers to increase their productivity . With the adoption of hundreds of units of the Small Scale Processing Equipment (SSPE), profitability of small scale processing is being transformed with steadily increasing oil yields leading to higher prices for fruit, and increased supply of fruit harvested, and investments in production.

Large Plantation Production Channels

Meanwhile, the formal estate production of palm oil (SPO) had lagged for decades based on the comparatively low cost of imports compared to the high cost of manufacturing in Nigeria due to poorly managed government owned plantations and processing facilities, making the Nigerian palm oil uncompetitive with imports of similar quality. Nigerian government policy had already started to address this with the privatization of some of the largest plantations, by 2011-12, and the currency devaluation of 2016-17 which stimulated a resurgence in the demand for industrially produced Nigerian palm oil (SPO). However, one major concern that remains is the shortage of palm fruits that meets the standards of the industrial processors (i.e, fruits that contain less than 5% Fatty Foods Acids (FFA) content which requires delivery to the industrial mills within 24-48 hours after harvest).

A second complication which affects the industrial processors is the adherence to the standards of the Roundtable on Sustainable Palm Oil (RSPO) focused on environmental protection. RSPO certification is important for the large refineries to be able to supply the highest end manufacturing companies who require RSPO certification.



The monitoring requirements for fresh Fruit Bunch has made it impossible for the large industrial processors or refining operators to source either Fresh Fruit Bunches or Crude Palm Oil from smallholders and maintain their RSPO certification. This limits the ability of small holder farmers to integrate into the formal higher value processing channel.

Suggestions and Action Plan

From the foregoing, it is evident that Nigeria's palm oil sector is bedeviled by several challenges that require policy attention. This report highlights some of the top issues which if addressed through enabling policy actions, significant positive impact will be triggered.

- **The Nigerian palm oil industry is highly fragmented, which limits the ability of players in the sub-sector especially the SHF to coherently respond to emerging opportunities at any point in time.**

It is widely suggested by stakeholders for the FG to consider establishing a National Oil Palm Council in a bid to strengthen collaboration among value chain actors and promote shared vision for the sector. Membership should be constituted across the value chain such as Federal Ministry of Agriculture, National Assembly, Plantation Owners Forum of Nigeria (POFON), National Palm Produce Association of Nigeria (NPPAN) and Oil Palm Growers Association of Nigeria (OPGAN). Mandates of the council will include strengthening coordination between value chain players and encouraging healthy commercial relationships between small holder farmers and industrial processors for improved sectoral productivity. This would resolve the constraints of low FFB yields due to poor management; low oil yields due to poor extraction at the small scale mills and limited access to market channels, particularly SPO which is in high demand. In addition, the coordination functions of the council would provide inputs into formation of policies relevant to increasing productivity of local production with inclusion of small holders

- **Oil Palm Seed/Seedling policy to drive Supply of Quality and Certified Seeds/Seedlings to the Industry: Limited supply of seedlings and absence of Seed/Seedlings certification has encouraged proliferation of counterfeit and poor-quality seedlings.**

NIFOR has been the major source of Oil palm seeds/seedlings to small holders in the Niger Delta. While the large plantations rely mostly on imported seeds to ensure quality and guaranteed returns on investment, small holders on the other hand can only access NIFOR seeds/seedlings. Counterfeiting of Oil palm seedlings has been possible for quack operators due to the absence of strong legislation to protect seed supply, as NIFOR itself has no distribution channels making adulteration easy. Many seedlings supplied to farmers with claims to be from NIFOR are actually not NIFOR products. Although the institute is taking measures to improve its seed procurement process in a bid to eliminate adulteration, it is observed by industry players that the seed needs of Nigeria requires a commercialized market driven seed supply system. MADE and PIND have worked on an intervention to improve supply of improved seeds to small holders through a private sector driven approach, recognising that Private Nursery Operators are enterprises that must be strengthened and linked to

sources of genuine seeds to enable them function effectively in raising vigorous genuine seedlings and supplying to farmers in their location. This indicates that two levels of market actors (Seed producers/Sprouted Nut Producers and Private Nursery Operators) must be integrated into a policy framework for guaranteed seed supply which is the foundation for meeting the demand for palm oil in Nigeria. It is suggested that the National Assembly should consider the commercialization of seed production arm of NIFOR to the private sector while the institute should focus on research, training and certification of nursery operators. In doing this, other private oil palm seeds nursery enterprises should be encouraged through fiscal and other enabling incentives. For instance, it has been discovered that free seeds distributed to farmers in government projects has not encouraged the growth of private nursery enterprises and has created channels for adulteration as traceability becomes challenging, especially as nurseries try to meet the large bulk orders from government. In addition to commercialisation of the seed producing arm of NIFOR, certification of all Oil palm seeds and seedlings supplied to the market must be mandatory through policy to guarantee sustainable palm oil supply to meet Nigeria's demand. It should be noted also, that seed/seedling certification protects the environment as less land is required if certified improved seedlings are planted, hence less risk of deforestation, land disputes and other conservation concerns. A seed certification policy would enhance small holder integration into the Round Table on Sustainable Palm Oil (RSPO), providing benefits of funding, wider adoption of Best Management Practices (BMP) and access to industrial marketing channel. It is believed that a well-regulated private sector participation in the production and supply of improved oil palm seedlings, would promote investment in Oil palm production and increase productivity and competitiveness of locally produced palm oil.

- **Land ownership for small holder oil palm development and integration of smallholder farms to industrial processors.**

Small holders are often faced with the challenge of poorly documented land ownership/titles. This has excluded them from accessing the industrial market as the large-scale processors cannot operate without land titles as required by RSPO. Also, funding for Oil palm development becomes challenging due to the communal land tenure systems which limits farmers interested in investing through personal funds or credit to access suitable farmlands. The policy being advocated should consider exiting land ownership systems among small holders and work out suitable documentation that would support integration of small holders in the supply chain. For existing Oil palm farms and small holdings, the state governments, in collaboration with the associations (such as NPPAN and OPGAN), the proposed National Oil Palm Council and Local Government Authorities (LGAs) should register the small holder farmers, geo-reference their farms and engage the farming communities to be able to organize them into oil palm production and processing clusters. To address risks such as the rising spate of fire outbreak in oil- palm plantations leading to huge production losses, there is need to activate relevant farm/ plantation insurance measures and adopt a well-coordinated security surveillance working with local

vigilante in the clusters respectively. For development of new plantations, state governments should include provisions for small holders in their schemes.

To integrate smallholder farms to industrial processors and ensure adherence to the standards of the Roundtable on Sustainable Palm Oil (RSPO) in the supply of right quality and traceable fruits, there is need for LGAs to reactivate extension service schemes that will support farmers with land mapping and documentation in addition to on-the-site training, monitoring and other support for farmers to meet the set standards.

- **Addressing the palm oil trade policy: palm oil importation and the attendant low pricing of local palm oil inhibiting small holders from adopting innovations and technologies.**

We recommend that the FG should sustain its ongoing policies such as CBN's restriction of oil palm importers from accessing forex from the official window, closure of land borders and high duty (35% or above) for imported Crude Palm Oil (CPO) over short to medium term period. To absolve poor consumers from the attendant consequence of higher prices, improve local competitiveness and boost supply, incentives to upgrade both the production and processing of SHF who currently account for 80% of the industry should be explored. Thus, added to the reform measures outlined above, machineries and other critical input for oil palm production/processing that are not locally available should enjoy minimal duty charge or outright duty waiver. These will largely moderate the rate of illegal importation of Palm oil into Nigeria from other countries which puts small holder local production at disadvantaged position.

In addition, partnership between governments of Nigeria and countries identified as the main sources of illegal importation such as Malaysia and Republic of Benin should be explored in addressing the influx of imported crude palm oil into the country. This will create a platform to work out mutually benefiting terms between the countries on strict compliance with the established rule of origin in order to restrain importers who land the product in Republic of Benin and gain entry to Nigeria leveraging the 10% West Africa Trade tariff policy. These measures are essential building block to ensure that the Nigerian oil palm sector will not lose out from the Africa Continental Free Trade Agreement (AfCFTA) and ECOWAS Trade Liberalisation Scheme (ETLS). Finally, the levies accrued from palm oil importation should be declared from time to time by CBN and invested into Oil palm sector.



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STAKEHOLDERS INTERVIEWED

Organisations	Location
Plantation Owners Forum of Nigeria (POFON)	Lagos
Oil Palm Growers Association of Nigeria (OPGAN)	Imo State
National Palm Producers Association of Nigeria (NPPAN)	Lagos
National Palm Producers Association of Nigeria (NPPAN)	Owo, Ondo State
Oil Palm Growers Association of Nigeria (OPGAN)	Cross River State
Farmers and Producers Multipurpose society	Akwa Ibom