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SAHEL

Sahel Capital (Mauritius) Limited

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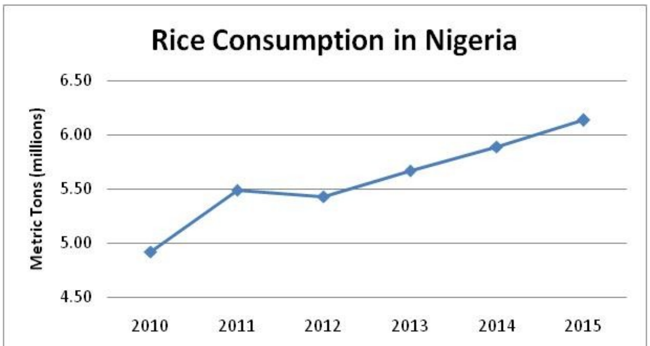
Creating Value, Building Businesses, Transforming Communities...

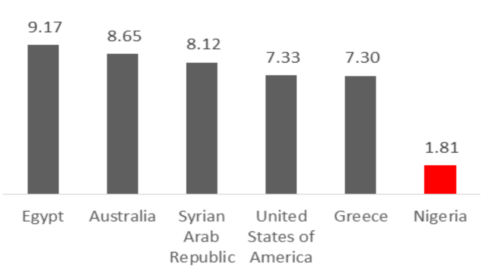
Rice in Nigeria: Industry Dynamics

Rice is one of the most important food commodities in West Africa. Studies conducted in Nigeria reveal that rice constitutes over 20% of total food expenditure among urban and rural households. The demand for rice has grown significantly over the last 40 years due to changing consumer dietary patterns and population growth. In 2014, the annual rice demand in Nigeria was estimated at 5.9 million MT. However, only an estimated 2.7 million MT of milled rice was produced locally, leading to a demand-supply deficit that was filled by imports. In 2014, Nigeria imported 2.4 million MT of milled rice from countries including Thailand and India.

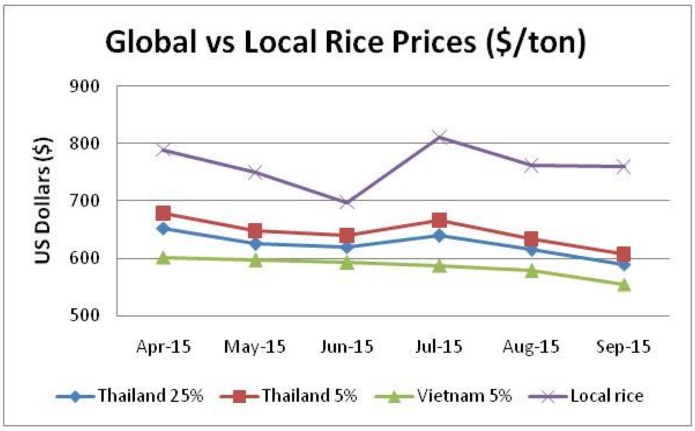


Source: OECD Data, 2014

Nigeria is the largest producer of rice in West Africa and produced 4.3 million MT of rice paddy last year. The average yield in the country is 1.8 MT per hectare, which is significantly lower than best practice yields of 9.2 MT per hectare generated in Egypt. Although the crop grows well across Nigeria, the main areas of cultivation are the middle belt and northern states of Benue, Kaduna, Niger and Taraba, as well as the south eastern states of Enugu, Cross River and Ebonyi.



Source: FAO Statistics Division 2015



Source: World Bank Commodity Prices September 2015 (Pink Sheet), Local rice processor. Global landed prices are inclusive of a 70% tariff

Paddy production is dominated by smallholder farmers, who use poor agronomic practices. Rice can be grown all year round in Nigeria, with the use of irrigation, which is an increasingly popular practice in the north. It requires wet conditions to grow, so it is planted during the rainy season (March-October) in the absence of irrigation. Yields depend on the ecological zone that the rice is planted in as well as the production system. 77% of the farmed area of rice in Nigeria is rain-fed, of which 47% is lowland and 30% is upland. Although rain-fed production systems are the most widely adopted in Nigeria, irrigated production systems are the highest yielding.

Locally produced rice is more expensive than imported rice, due to the high cost of production relative to the low yields in the country.

Nigerian Rice Importation Policies

Historically, Nigeria's rice importation policies have been inconsistent. This has increased the risks faced by key stakeholders and limited long term investments in the sector. In 2014, the Federal government introduced an importation policy that aimed to encourage the gradual growth of local production, while allowing rice importation, to meet domestic demand. The policy classifies rice importers into traders, who have no rice processing facilities and simply import rice to be resold in the country, and investors, who have processing facilities with rice farms. Under this policy, investors pay lower import tariffs than traders. The amount of rice that can be imported into the country is limited to the estimated domestic supply gap, and the import quota is determined on an annual basis by the federal government. The current import quota is 1.3 million MT, which is lower than the 1.5 million MT quota in 2014. Investors have been assigned 1 million MT of the current quota while 300,000 MT has been set aside for traders. Importers face penalties for exceeding these quotas.

The Nigeria Customs Service (NCS) has recently lifted restrictions on the collection of rice duties at land borders. This is part of the NCS's strategy to address rice smuggling. The current sea port tariff regime will be applied to rice imported by land.

2013 Importation Policy	2014 Importation Policy
Aimed to discourage importation of rice and force local production to meet domestic demand	Aims to encourage gradual growth of local production by allowing investors to import limited amounts of rice at a lower cost than traders
Placed a 110% import tariff (100% duty and 10% levy) on imported brown and polished rice	Places a 30% import tariff (10% duty and 20% levy) on rice for investors, and a 70% tariff (10% duty and 60% levy) for rice traders
Fostered significant inflow of smuggled rice as costs of formal importation were deemed too high	Has had limited success in encouraging local production. External factors such as granting of duty waivers to importers, and prohibitive costs of buying and processing local paddy have hindered the effectiveness of the policy . Retroactive penalties on exceeded importation quotas have also increased the costs for some importers

Opportunities for Growth in the Rice Sector

Nigeria's population is expected to grow by 49% to 273 million over the next 15 years, and this has given rise to several opportunities across the rice value chain:

Inputs: Small holder farmers are responsible for 80-90% of domestic rice production, so access to good inputs such as seeds, fertilizer and credit, could significantly increase productivity, and raise average yields above 1.8 MT per hectare. The Growth Enhancement Scheme ("GES") has helped provide farmers with fertilizer and seeds, but yields still remain relatively low due to poor agronomic practices.

Production: Only 40% of the 84 million hectares of available arable land is being cultivated in Nigeria. In order to meet future demand for foods such as rice, more of this land will need to be cultivated. It is also necessary to introduce low-cost technology into rice farming to improve efficiency for small holder farmers. In Cambodia, Oxfam International has worked with small scale farmers to introduce locally fabricated rice weeding machines, which have helped cut down weeding times from days to hours.

Milling/Processing: Majority of the rice produced by smallholder farmers is processed by cottage mills, which do not produce high quality milled rice. To bridge the demand-supply gap, more integrated rice mills will need to be established in Nigeria. However, investments will also need to be made in the appropriate infrastructure and inputs to ensure that these mills have enough paddy supply to operate at close to full capacity.

Challenges in the Rice Sector

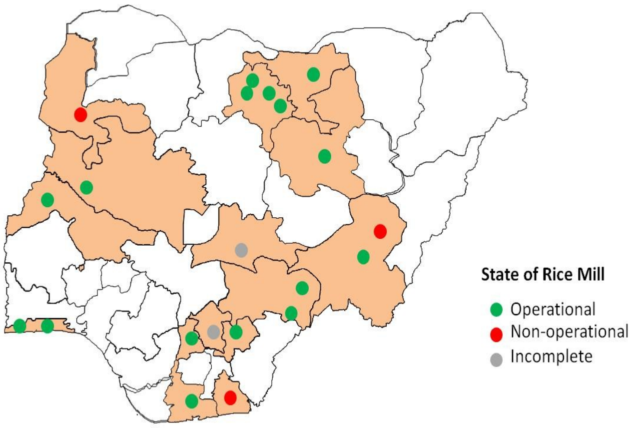
Challenge	Description and Effect	
	Processor	**End Consumer**
Low yields and high production costs	Lack of rural infrastructure such as irrigation facilities, feeder roads, power supply, and limited mechanized and commercial farming have resulted in very low rice yields and high production costs. FARO 44 is the most common rice variety in Nigeria distributed through GES. It has an expected yield of 7-10 MT per hectare in ideal conditions. However, poor agronomic practices have prevented small-holder farmers from achieving these yields.	High production costs and low yields translate to high market prices for locally produced rice, which reduces consumer demand.
Under-utilized rice mills	Low yields have resulted in insufficient paddy supply for local processing and several large mills being under-utilized.	
Limited standardization, false labelling and branding	There is limited standardization for local rice, and poor harvesting and post harvest practices result in the presence of impurities. This led to the perception that locally grown and processed rice is inferior (except niche brands such as Ofada rice). Traders often package high grade Nigerian rice into branded sacks linked to popular imported brand names to drive demand.	Locally produced rice is perceived to be inferior to foreign rice because of its association with impurities. Consumers in urban areas tend to prefer foreign brands. The lack of standards creates distrust among consumers who are unsure of the quality of rice that they purchase.
Uncertain policy environment	Frequent changes in rice policies and the opaque quota systems have fostered uncertainty in the sector. This has deterred investments into the sector and caused a few players to exit.	The frequent changes in the importation policies and lack of proper enforcement has increased the levels of smuggled rice in the country.

Geographical Distribution of Commercial Rice Mills in Nigeria

Commercial rice millers are spread across Nigeria with high concentration in the north. The map shows the number of integrated rice mills in Nigeria as at April 2014.

There were 21 integrated rice mills in the country at this time, with a combined annual capacity of over 1 million MT. Two of these mills were in construction, and three others were non-operational.

Currently, the major challenges facing rice mills in Nigeria are the shortage of paddy supply and the uncompetitive prices of domestic rice.



Source: USIAD and FMARD Paddy Aggregation Feasibility Study, 2014, Desk Research

Sahel Speaks...

CEO Forum on Children's Rights

Ndidi Nwuneli, Partner at Sahel Capital, was a panellist in the 3rd annual CEO Forum, held on October 7, 2015. Mrs. Nwuneli spoke about the importance of agriculture in addressing youth unemployment in Nigeria.

21st Nigerian Economic Summit

Mrs. Nwuneli was a moderator at the summit, held on October 14, 2015. She moderated a panel that discussed strategic policy options needed to sustain the positive outcomes of the Agriculture Transformation Agenda.

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