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SMALL AND MEDIUM ENTERPRISES: PROSPECTS AND CHALLENGES OF FOOD PROCESSING INDUSTRY IN NIGERIA

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ABSTRACT

This paper examines the current trends in the food processing industry, identifies the challenges or constraints and discusses the prospects of the food processing industry in Nigeria which is peculiar to most developing countries in Africa and other parts of the world. Food Processing Industry in Nigeria is booming due to an increase in consumption as a result of population growth, there are problems such as availability of raw materials, unavailability of labour, inadequate infrastructure and epileptic power supply. This paper discusses strategies used by Small and Medium Enterprises in the Food Processing Industry to overcome the challenges that impede the growth of the Food Processing Industry.

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1.0 Introduction

Small scale industry is very crucial or important in the development of a country's economy, especially in developing countries like Nigeria and India. (Osunde C. & Agboola G.M., 2012),

Small scale industries in Nigeria include food processing both in the rural and urban areas. According to Pawa Tersoo (2013), food processing agribusiness includes food and fruit juice canners; manufacturers of beer, soft drinks, cocoa drinks, coffee, and tea; producers of confectionary sugar sweets, chocolate, cakes, biscuits; tobacco processors and/or manufacturers; meat processors; food processors of cornflakes, jam, bread, butter, milk, margarine, and tomato puree; oils, soap, and toothpaste manufacturers, fishing companies, fish processors, packers and distributors.

Food and beverage Small and Medium Enterprises in Nigerian are thriving with about 14 companies already listed on the Nigerian Stock Exchange (NSE). The capacity utilisation in the food, beverage and tobacco subsector is now peaked at 50 percent, making it the most developed in the manufacturing sector.

In developing countries such as India, food and food products are the biggest category in India with spending on food accounting for nearly 21% of India's GDP with a market size of $181 billion. (Singh et al, 2012).

According to Marchet et al (2001), Agribusiness concerns in Nigeria constitute 70% of businesses operating in the country. In a survey, NISER (1999) observed that 41 percent of agro industries are sole proprietorships, while another 41 percent are private limited liability companies. About 4 percent are government owned, and 5 percent are of partnership nature while 8 percent are public liability companies. In

Nigeria agribusiness can be divided into four components; farming inputs supply companies; producing farm firms, processing agribusiness firms and food marketing and distribution.

Federal Government of Nigeria placed an import ban on a wide range of agricultural products to protect local industries and to conserve foreign exchange. The production profile may have also be buffeted by favourable market situation, as consumption did hit over 468.5 million litres of fruit juice so far as at December last year 2011. That figure arrived at is based on a yearly consumption increase of 10% since 2002.

Prior to the ban, approximately 80 percent (about 170million litres per year, valued at $255million) of Nigeria's demand for fruit juice was filled by imports. Interestingly, this growth in the juice market seemed to defy the poor performance indices the Nigerian economy has been recording.

In India, during 2000s, the growth rate in value of exports of rice, sugar, marine products, tea etc. Declined while high value exports (fruits and vegetables, floriculture, meat, processed fruit juices) grew by about 18% annually (Sharma and Jain, 2011; Ali, Singh and Muhammad, 2011).

2.0 Food Processing Industry in Nigeria: Challenges and Prospects

Olukunle O.T. (2013) states that challenges of food processing industry in Nigeria includes marketing problem, storage and processing, infrastructural inadequacies, unstable input and output prices, technical constraints, inadequacies in past policies and programmes and availability of labour.

Small business owners in the food processing industry should be educated or given training on how to effectively manage their businesses. The level of education of Small and Medium Enterprises business owners impacts on their ability to secure bank loans and sustain their businesses.

Government agencies should provide or support training programs for entrepreneurs through funding. Finance is vital for the sustainability of food processing industry in Nigeria. Despite the significant contribution of food processing industry in Nigeria to national development, food processing industry are confronted with challenges in Nigeria, India and developing countries such as poor funding or insufficient capital, poor infrastructure, poor infrastructure, poor managerial capability, difficulties in securing bank loans and other credit facilities (Agwu M.O & Emeri C.I., 2014).

2.1 Previous Researches

S.P. Singh et al (2012) defines food processing industry as companies that transform livestock and agricultural products into products used for intermediate or final consumption. Processed foods are products in which a raw commodity is transformed into a processed product of whether the amount of processing is minor, such as canned fruit, or more complex, such as snack foods. According to S.P. Singh et al (2012), problems of the food processing industry in India as follows: traditional methods of farming which inhibits production, low use of technology, low levels of mechanisation, low use of hybrids and biotechnology, unavailability of funds, high interest rate on loans, dominance of informal sector and competitions from Multinational Companies (MNC).

Akkerman R. And Van Donk describes the food processing industry as part of the process industries, which is defined as 'firms that add value by mixing, forming or chemical reactions' (Cox and Blackstone 2002).

Echiegu, I and J.T. Liberty (2013) identifies one of the problems that face food processing industries as one of the causes of environmental pollution.

3.0 Analysis of Prospects and Challenges of Food Processing Industry in Nigeria

The primary objective of this current research is to examine the prospects and challenges of food processing industry in Nigeria. The author used information and data from secondary sources such as materials from FAO Corporate Food Repository.

Food and Agricultural Organisation (FAO) of the United Nations' Corporate Food Repository provides details of two SMEs in Nigeria involved in the food processing industry namely Abakili Rice Processors and Sorghum Outgrower Scheme with Guinness Plc. The two SMEs case studies provided by Food and Agricultural Organisation provide information concerning the growth, challenges and prospects of food Processing Industry in Anambra State, Nigeria.

4.0 Abakili Rice Processors

The demand for rice has increased at a much faster rate in Nigeria than in most other West African countries. Between 1960 and 1970, Nigeria had the lowest per capita annual consumption (average of 3kg) of rice in West Africa. Since then, Nigerian per capita consumption levels of the crop have grown at 7.3 percent per annum. Per capita consumption in the 1980s averaged 18kg and reached 22kg in the 1995 to 1999 period. A combination of factors seems to have started this increase in the demand for rice consumption. The first is urbanization and urban lifestyles, which encouraged easy-to-prepare foods such as rice.

Rice production has also increased (9.3 percent p.a.) during the 1960 to 1999 period especially as a result of vast increases in area cultivated (8 percent p.a.) and to some extent through increases in yield (1.4 percent p.a.). Production increase has however not matched consumption increase so that imports had to make up the shortfall in demand.

The Nigerian government has actively interfered in the Nigerian rice economy over the last 30 years. Government policy had been inconsistent, oscillating between import tariffs and import restrictions. This oscillation has affected domestic rice production in such a way that during periods of ban, domestic rice production picked up to meet the challenge in domestic demand and during periods of reduced tariffs, domestic production and prices of local rice plummeted. In February 2002, the government again increased tariffs for imported rice to 100 percent.

Abakiliki, the capital of Ebonyi State, emerged primarily as a rice-producing town in the early 1960s. Presently, it has the largest concentration of rice mills in Nigeria with about 400 rice-processing mills located in the town. These small rice mills are all privately owned with about 96 percent owned by individual entrepreneurs. The remaining 4 percent are cooperatively owned. Most of these mills were established as early as 1960. Presently, the mills are governed by the byelaws of the Association of Rice Mill Owners at Abakiliki. The Association supervises processing operations at the mills, maintains quality control and monitors standards and measures. Individual processing mills obtain their own stock of paddy but joint processing with other mills may arise in the case of large purchases by rice merchants. Government support to the mills is non-existent but the local council collects taxes and market tolls from processors and traders.

The key players in the rice staple food sector are small-scale farmers and rice processors or millers. The small and medium scale processors initiated the relationship between rice farmers and processors in the 1960s. This relationship was basically informal and relied heavily on trust between the two parties. Initially, millers who generally were migrants from outside Abakiliki town and environs, encouraged farmers who were indigenes and owned the land, to produce rice for their mills. The millers provided inputs, rice and fertilizer, and other non-cash gifts such as goats and drinks. Later these non-cash benefits were converted into cash, but the millers/processors continued to provide credit to the farmers to enable them pay for fertilizer, labour and parboiling costs. The millers later purchased 75 percent of the total (parboiled) rice output from the farmers at harvest, when prices were lowest, and milled for the market. The balance of 25 percent was left with the farmers to sell, especially during the off-season, when prices were highest, to offset their household obligations. This informal arrangement existed and served the purpose of both parties because the confidence level between farmers and millers then was very high.

However, in the recent past this arrangement has collapsed completely due to several related reasons. First, farmers became unreliable and were no longer honouring the informal agreements. Secondly, it became more difficult to produce rice due to gall midge problems resulting in low yields. However, the most important factor that led to collapse of this farm agribusiness linkage was the high cost of labour for rice production. Labour for rice production became expensive because the active labour left the rural areas in very large numbers aided by the new political freedom/democratization. The attraction to the cities is due to the discovery of a new lucrative enterprise and alternative off farm employment-motorbike taxis-popularly called ''Okada'' in Nigeria. The increase in labour costs coupled with increased rice imports eroded the profit margin of farmers and made it difficult for them to meet obligations and commitments with processors.

This situation has given rise to a very critical problem in Abakiliki area. Migration of labour to the major cities in Nigeria implies that the rice production enterprise, which actually opened up the town of Abakiliki, is declining. However, the millers have not relocated. So how do they survive? Six years ago rice processors sourced 70 percent of their rice from within Abakiliki and environs. Today, rice millers source 80 percent of their rice from outside Abakiliki to keep their mills working. The major sources of paddy rice are from the production zones of Adamawa, Benue, Nasarawa, and Taraba. This has increased competition for paddy rice, as other processors from other States especially Nasarawa and Taraba States have to compete with Abakiliki processors for paddy rice from these production zones.

One critical aspect that is lacking in the rice production sector is the absence of a pressure group at the national level. The rice millers associations in the country are localised in different towns and there is little effort to influence the emergence of an enabling policy environment that would make the rice crop sector competitive in the regional market.

4.1 Sorghum Outgrower Scheme with Guinness Plc.

Sorghum is a very important staple crop produced mostly by small farmers and consumed as food in northern Nigeria. In 1984, the crop suddenly became an industrial raw material for breweries. The government imposed a policy of backward integration in which agro-industries including breweries were required to source their raw materials within the country. In addition, breweries were required to establish farms as a prerequisite for import licence allocations from government. With the anticipated complete ban of barley and maize imports by 1988, the breweries had no choice but to look inwards. Sorghum was found to have good malting qualities and it suddenly changed from a major household staple to a cash crop, a case of necessity becoming the mother of invention. But production still remained in the hands of small, uneducated farmers scattered in different parts of the country. The breweries were compelled to compete for this limited commodity and obviously many folded or were bought up by bigger and stronger breweries. From 34 breweries in Nigeria in 1984 the number was reduced to 16 by 2002. One of the largest breweries, Guinness Nigeria Plc survived this onslaught in the Nigerian business environment.

Guinness Nigeria Plc is a multinational company that has been in the brewing business in Nigeria since 1950. Its products include Guinness extra stout, Harp Lager beer and Malta Guinness. In 1984, the brewery acquired a 3000 hectares of farmland in Mokwa for the production of maize but this is not the reason why the brewery was included in this study. In fact, the farm at Mokwa has already been sold as the company found it cheaper to purchase maize in the open market than to produce. Between 1995 and 1998, the company had established an Outgrower scheme primarily for the promotion of ICSV 400, a particular sorghum variety among farmers in Nigeria. The variety made it cheaper to process sorghum for malting than other varieties. Other important factors that pushed the company into investing in the scheme were that profit margins were generally high with local raw materials and there was no foreign exchange risk using local raw materials. Guinness Nigeria Plc was the only company of this multinational that sources its raw material locally.

By 1997, the company started a contract grower scheme with farmers in Kano, Kaduna, Katsina and Taraba States. The objective of the company's contract grower's scheme was to create awareness about the improved variety and consequently get a large group of farmers to adopt and grow the crop. In other words, the company's intention was not to continue with the scheme over a long time. In the four years that the company ran the scheme, they provided seed, basal and top dressing fertiliser to farmers in the four States. Farmers were required by formal contract to produce a field of pure ICSV 400 sorghum variety. At first, farmers were sceptical about the intentions of the company but by the following year participation increased and farmers grew the crop in an area ranging from 2 to 75 ha per farm household.

Farmers under the scheme were closely monitored four times during planting, thinning, top dressing, and during harvest. Company staffs were provided with vehicles and drivers to criss-cross the country on monitoring missions. Following increased participation of farmers, the company pulled out of the scheme in 1998. There were other reasons for the termination of the scheme. The level of commitment by farmers was not encouraging. In some cases, farmers did not honour the contracts and some diverted the fertilizers provided to alternative crops such as vegetable production. Farmers also did not follow the technical advice and suggested planting dates.

Presently, the company uses agents to purchase grains or trusted suppliers who had earlier bought from producers/farmers at prevailing market prices. This too requires a formal contract. First, the company will receive applications or letters of intent from prospective suppliers. This is followed up by a local purchase order (LPO) to the buying agent to supply grains within a specified number of days to any of the company's buying centres at Kaduna, Zaria, Kano, Agbede, Ewu, and Sapele. The LPO specifies quality requirements such as percentage of insect damage, weather damage and foreign matter content. The price paid for grain to the buying agent is based on market information but will usually cover the market price of grain, market charges, transport to buying centre, handling charges at buying centre, and a premium. Grain purchases are done at specific times of the year.

While this option tends to meet with its grain requirements, the company would have preferred a farm-gate alternative where it would be able to bulk grain directly from farmers without getting to the market to avoid taxes and grain merchants who normally raise prices. However farmers are scattered all over the country and bulking logistics are very expensive.

5.0 Managerial Implications

1. Managers engaged in the food processing industry should be innovative and seek opportunities to improve on the quality and quantity of their products and services rendered.

2. Research is vital if Small and Medium Enterprises engaged in the food processing industry must succeed and sustain their businesses in the long term despite completion from multinational companies (MNCs).

3. Small and Medium Enterprises engaged in the food processing industry should cooperate in the area of production and processing of raw materials which is helpful to enhance quality, price and continuity in the production of raw materials.

4. Managers of Small and Medium Enterprises business owners should consider purchasing machines and equipments in bulk to reduce the dependence on labour and traditional methods of food processing industry which is prevalent in developing countries such as Nigeria and India.

5. Business owners or managers in the food processing industry in Nigeria should form active and viable trade associations to discuss with the Government and other stakeholders concerning the challenges that confront businesses and personnel in the food processing industry. Trade associations for Small and Medium Enterprises engaged in the food processing industry would enable business owners to be able to access credit facilities, buy equipments and machineries in bulk at cheaper rates and organise training, seminars and workshops for members.

6. Government should concerning harmonising the various tax and tariff regime or policies to alleviate the burden of taxation of small and medium enterprises engaged in the food processing industry.

7 Training and retraining of personnel in the food processing industry is important if the businesses will succeed given the difficult business environment in Nigeria and developing countries.

5.1 Conclusion

Food processing industry in Nigeria has enormous prospects, there are challenges or constraints that hinder the growth of the food processing industry. Government should support the Food Processing Industry through tax incentives; training programmes and provision of infrastructure such as roads, storage facilities, improved power supply both in the urban and rural areas. This paper shows that Small and Medium Enterprises in the Food Processing Industry can overcome the constraints that impede the growth of the Food Processing Industry through innovation and seeking cooperation with other business owners in the Food

Processing Industry to enhance their productivity by forming trade associations which is vital for the sustainability of the Food Processing Industry.

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