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Nigeria's Shea Butter Market

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Trends in the international market for shea nuts and shea butter signal opportunities for industry expansion among shea-producing countries, including Nigeria. Most importantly, there are attractive social impact investment opportunities given the significant involvement of women in the industry¹.

INTRODUCTION

Nigeria is one of the largest producers of shea butter in the world. It is estimated that around 70-80% of the shea butter produced in the world comes from West Africa, with about 39% of that total coming from Nigeria alone². Shea nuts are found in abundance in the savannah areas of the country, and the production of shea butter has been a significant source of income and livelihood for many people in rural communities. In addition, shea butter is widely used in cooking, cosmetics, and traditional African medicine. Due to its numerous health advantages, such as its capacity to protect and moisturize the skin, heal cracked lips, lessen inflammation, and aid in the treatment of skin disorders like eczema and psoriasis, it is a highly valued item in Nigeria³. Shea butter can be used to delay the effects of aging and acts as a natural sunscreen. Women in rural communities in Nigeria produce shea butter the old-fashioned way. These women gather the nuts, shell them, and boil, mash, and roast them to extract the shea butter⁴. Although this technique is time- and labor-intensive, the high-quality product it generates is in high demand. The industry has also created a sense of empowerment and economic stability for many rural women in the country. This is especially important in a country like Nigeria, where women are traditionally underrepresented in the workforce.

The shea butter industry in Nigeria also has very promising potential for social impact investing. It has been shown to improve living conditions in rural communities⁵. Women in shea-producing communities report increased access to education, health care, and other essential services. Additionally, the industry has helped to reduce poverty, improve food security, and create jobs.

Despite these positive impacts, the shea industry in Nigeria faces many challenges. The most pressing of these is the increasing demand for shea butter, which has led to the overharvesting of nuts from wild trees. This has resulted in a decline in the number of wild trees, which in turn has threatened the industry's sustainability. Other challenges include the lack of access to modern technology and machinery, as well as inadequate access to capital for smallholder farmers.

In spite of these challenges, the shea industry in Nigeria has continued to grow and provides an important source of income for many rural women. With increased access to modern technology, capital, and support from the government, the industry has the potential to continue to make a positive impact on the lives of the women involved in its production.

¹ Abstract in an Invited paper presented at the 6th African Conference of Agricultural Economists, September 23-26, 2019, Abuja, Nigeria, by Patrick L. Hatzenbuehler -

<https://ageconsearch.umn.edu/record/295672/files/42.%20The%20shea%20industry%20in%20Nigeria.pdf>

² The European Market Potential for Shea Butter -

<https://www.cbi.eu/market-information/natural-ingredients-cosmetics/she-a-butter/market-potential>

³ Agripreneurial drive among women shea butter processors in Kwara State, Nigeria: motivating factors and efficiency by Abraham Falola, Ridwan Mukaila, Sheu-Usman Oladipo Akanbi, Sheu Ahmad Olohungbebe, and Oluwatobiloba Christianah Adeyeye - <https://www.jarts.info/index.php/jarts/article/download/202210116962/1071>

⁴ Assessment of indigenous methods of shea butter processing among rural women in Borgu Local Government Area of Niger State, Nigeria, by Ibrahim Sani and Musa Masud - <https://www.plantsciencejournal.com/articles/jpsp-aid1088.pdf>

⁵ Abstract in an Invited paper presented at the 6th African Conference of Agricultural Economists, September 23-26, 2019, Abuja, Nigeria, by Patrick L. Hatzenbuehler

DATA POINTS

The Nigeria Agribusiness Register Network estimates that the country's shea butter market has an annual revenue potential of roughly \$2 billion, but this is only an estimation of market potential. According to a Future Market Insights shea butter market outlook for 2022-2032, the global shea butter market is currently valued at \$2.6 billion, with compound annual growth rate projections estimated at 7.7% between 2022-2032. A more conservative estimate, however, is from the Nigeria Incentive-Based Risk Sharing System for Agriculture (NIRSAL), which puts Nigeria's shea butter market value potential at \$320 million. Currently, Nigeria produces 342,460 metric tonnes of shea kernels (as of 2021, according to FAO data), grown mainly in Kwara, Niger, Kebbi, and Oyo states. However, Nigeria only exports about 10% of it due to high shea kernel smuggling to its West African neighbors, poor processing infrastructure, and supply chain issues - unlike its West African contemporary, Ghana, which is a major shea butter processing and exporting hub in the global shea butter market.

NIGERIA'S SHEA NUT PRODUCTION (2017-2021)



Figure 1: Nigeria's Shea Nut Production - Source: FAO, 2022⁷

BENCHMARK

Diversifying Nigeria's revenue sources is something the Federal Government of Nigeria is actively pursuing. The Nigerian Export-Import (NEXIM) Bank, in collaboration with the Central Bank of Nigeria, through a sectoral intervention, has a 500 billion intervention loan and an export stimulation facility for key export commodities like shea butter. The "Production, Add-Value and Export" (PAVE) initiative was established as a result of this. It concentrates on 12 strategic commodities, including shea nuts in particular since they are an export-resilient product that significantly boosts Nigeria's export revenues. This is a fantastic benchmark for the federal government's objective of fostering Nigeria's shea butter industry, which will benefit the nation financially and economically while incentivizing the industry to be competitive for teeming investors.

⁶ Agripreneurial drive among women shea butter processors in Kwara State, Nigeria: motivating factors and efficiency by Abraham Falola, Ridwan Mukaila, Sheu-Usman Oladipo Akanbi, Sheu Ahmad Olohunbebe, and Oluwatobiloba Christianah Adeyeye - <https://www.jarts.info/index.php/jarts/article/download/202210116962/1071>

⁷ Food and Agriculture Organization of the United Nations Databank, 2022.

Subnational governments in Nigeria are also making frantic efforts to help extend and expand the value-added segment of the country's promising shea butter industry. Nigeria's largest shea butter-producing state, Kwara, has seen its government expend 1 billion for the construction of an industrial park and 2.59 billion for the construction of a 50-ton shea nut processing plant in the state. It is important to note that currently, Ghana is taking a huge segment of the West African shea butter market due to its processing advantage - a market trend that Nigeria could buck once critical investments are made in the forms of human capital upskilling, supply-chain value addition, and processing infrastructure. Already, a tripartite agreement between the Kwara state government, the World Trade Organization (WTO), and the Nigerian Export Promotion Council (NEPC) has since seen a new shea butter processing facility come to fruition in Wozibe, Kaiama local government area of the state. Similar investments have been made in neighboring Oyo State, financed by CocaCola.

Overall, a number of actions have been made by the major stakeholders in Nigeria to develop the shea butter market there. The sector is currently expanding and emerging as a more competitive segment of the international shea butter market thanks to these initiatives. It is anticipated that as the industry grows, it will be able to produce more economic advantages for the nation and support the expansion of the Nigerian economy as a whole.

CHALLENGES

One of the significant challenges is the need for more access to modern processing infrastructure. Many rural communities lack the necessary resources and infrastructure to adequately process the shea nuts and produce quality shea butter. This lack of infrastructure has resulted in a lower-quality product and has contributed to a decrease in the market share of Nigerian shea butter in the global market. In addition, Nigeria's shea butter industry is highly fragmented, with a large number of small-scale producers. This fragmentation has resulted in a lack of standardization of production practices, as well as a lack of access to markets and capital. This has made it difficult for Nigerian producers to compete in the global shea butter market. Finally, Nigeria's shea butter industry has been adversely impacted by the COVID-19 pandemic. The pandemic has significantly impacted the global shea butter market, with demand for the product dropping significantly. This has further impacted the profitability of Nigerian producers and made it even more difficult for them to compete in the global market. A market rebound has since occurred. The grid needs to be upgraded to be able to handle the power generated by a nuclear power plant.

STEPS TO TAKE

In order to position Nigeria's shea butter market for global competitiveness, it is important to focus on improving access to modern processing infrastructure and standardizing production practices. Additionally, there should be structural support for small-scale producers through access to capital and markets, as well as training and extension services. Finally, the government (both the federal and respective state governments) should also focus on promoting the shea butter industry in the global market through trade promotion and marketing initiatives. With these measures in place, Nigeria's shea butter industry can become more competitive in the global market and further its place as the leading producer of shea butter in the world. Other measures should include

1. Investing in quality control and certification of shea butter produce to ensure consistent quality and safety.
2. Investing in packaging and labeling of shea butter products to increase their appeal to foreign buyers.
3. Developing international partnerships to increase the visibility of Nigerian shea butter in the global market, such as working with international organizations or companies to promote and export Nigerian shea butter.
4. Establishing a network of international buyers to help increase sales of Nigerian shea butter abroad.
5. Increasing educational and training opportunities for shea butter producers throughout Nigeria to help them gain knowledge and skills to improve the quality and production of their products.
6. Providing incentives for shea butter producers to use sustainable harvesting and production practices.
7. Working with local and international organizations to create fair trade initiatives for shea butter producers.
8. Encouraging and supporting the development of new and innovative products derived from shea butter, such as soaps and cosmetics, to increase the global demand for Nigerian shea butter.

INVESTMENT CASE: SHEA BUTTER PROCESSING IN NIGERIA

Shea butter processing in Nigeria presents a compelling and profitable investment opportunity. Nigeria is one of the top shea butter producers in the world, and as demand from global markets rises, so does production there. Investors now have the chance to benefit from the expanding demand for shea butter-based goods in the local Nigerian market as well as the growing global trend toward natural and organic shea butter products. A more attractive option in shea butter processing in Nigeria is if the business model is designed to serve the EU markets. This is solely because shea butter is becoming more popular in the European cosmetics market. Because of its qualities, shea butter is primarily utilized in skincare and haircare products. Consumer desire for natural cosmetics and growing consumer knowledge of shea butter are the main drivers of this increase throughout the European Union. Shea butter is a preferred option for cosmetic makers because of its distinctive qualities and expanding availability. Statistics corroborate this demand for West African (Nigerian) shea butter from Europe - The Global Shea Alliance estimates that in 2020, shea nut imports into Europe were about 300,000 metric tonnes. Furthermore, most of these imports are unrefined/unprocessed as importers prefer importing the shea nuts to Europe and then processing them there. However, investors stand a profitable chance of attaining multi-cycle growth from value-added business activities like processing shea nuts in Nigeria into other composite shea butter products for onward exports to a ready market in Europe.

There are many other important benefits to investing in the shea butter processing industry in Nigeria. For instance, a full shea butter value chain in Nigeria poses opportunities for multi-cycle revenue channels for investors. The development of the value chain enables the efficient and effective production, refinement, export, distribution, and sale of multiple shea butter products like beauty/skincare products that use refined shea butter, hair care products that use refined shea butter, lip care products, and healthy cooking products, allowing investors to capitalize on this growing market. In addition, the development of the value chain would create employment opportunities for those involved in production, refinement, export, and distribution, allowing investors to contribute to the economic development of Nigeria. Nigeria's sizable shea nut tree population also offers a plentiful supply of raw materials to satisfy

local and global markets' demands. Additionally, Nigeria's strategic location makes it simple for businesses to access global markets, allowing them to increase their share of the shea butter industry globally. Additionally, the nation is a prime location for the export of goods made with shea butter due to its logistical proximity to Europe and North America. For these reasons, investing in shea butter processing in Nigeria is a sound and profitable venture. With the help of favorable government policies to incentivize private investments and the abundance of raw materials and favorable market conditions, investors can capitalize on the growing trend of natural and organic shea butter products and cash in on the lucrative shea butter industry.

CONCLUSION

Shea butter processing in Nigeria is a prime investment opportunity for investors looking to benefit from multi-cycle profitability due to an all-season demand for the by-products across the world most especially in the booming cosmetics industry in Europe. Despite the EU's high-level food safety regulations, shea butter processors in Nigeria can play a pivotal market supply role in Europe if standardization efforts are upheld. Most importantly, the shea butter industry in Nigeria as a whole has had a positive impact on rural communities, increasing access to education, healthcare, and other services. It has also helped to reduce poverty and create jobs. Thus, there is significant potential for social impact investing in the shea butter industry in Nigeria. Additionally, trends in the international market for shea butter signal opportunities for industry expansion, particularly in the EU market, where consumer demand is increasing. To conclude, if the several challenges bedeviling Nigeria's shea butter industry, including a lack of access to modern processing facilities, fragmentation of production, and difficulty competing in the global market, are sorted, Nigeria's dominance in the global shea butter industry will be entrenched, thus providing multi-cycle profitability and low overhead costs to processors (investors).