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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org

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THE ESTABLISHMENT OF A PIONEER INTEGRATED POULTRY INDUSTRY: THE CASE OF OKE-AFA FARMS LIMITED, NIGERIA 1/

by

Chief E.O. Ashamu*

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* Chairman, Oke-Afa Farms Limited, Nigeria.

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I feel greatly honoured to have been invited to participate in this meeting of top-level industrialists to discuss the problems of factory establishment in developing countries. For those of us from those areas of the world where technological and industrial development is still inadequate, it is very encouraging to know that UNIDO - which had hitherto been known to be actively concerned with Governments of the developing countries - is also very concerned about the fact that countries like mine are faced with gigantic problems in the public and private sectors in their attempts to further develop the industrial sectors of their economies. Furthermore, it is very significant and reassuring that UNIDO actively continues to seek ways through which these problems can be alleviated.

Having realised, and fully appreciated the need for and the benefits derivable from the further development of industry, it is not surprising that both private individuals and governments of the less technologically advanced countries have seriously embarked upon a wide variety of new industrial projects. Unfortunately, it cannot be claimed that a large percentage of these projects have been successful. In cases of failure, it is only in retrospect that causes of failure have been identified. Even then, such identified causes of failure have not necessarily been useful in formulating means of averting future failures. In a relatively few and isolated cases, industrial projects have managed to survive a multiplicity of complex problems during the conception and implementation stages to evolve into viable projects. In cases such as these, not only have lessons been learned, but also valuable experience has been gained. However, lessons learned and experiences gained have not yet been enough to eliminate the more complex fundamental problems tending to limit the rate of healthy growth of industrialisation in developing countries. It is hoped that this meeting of seasoned industrialists will go some way in providing further solutions or means to the attainment of solutions to these problems. I shall now endeavour to make a small contribution by sharing with you some of my experiences gained in the establishment and initial operation of Oke-Afa Farms.

Before I go further into the discussion, I should mention that the implementation of this poultry industrial project was the first venture I had been fully involved in as a private Nigerian citizen and entrepreneur. I had previously, since pre-independence times, gained experience in Nigeria in general trading and distribution as well as being partly involved in the establishment and operation of a pharmaceutical products factory. So, although I had some experience, I was really new to the business of total industrialisation.

The idea of setting up an integrated poultry complex came up rather accidentally. I had a substantial area of land at my disposal, but with the condition that it would only be utilised for an agro-based industry. In a way, that condition proved to be a challenge and until I visited Denmark in 1965, on the invitation of a Danish friend, I did not quite know how to face the challenge.

I had started poultry as a kind of hobby, but the visit to Denmark opened my eyes as to the huge potential that poultry industry had in Nigeria. With the large population of Nigeria and many other conditions that seemed to favour the establishment of poultry industries (conditions are even better today, see Appendix 1) I decided to have a feasibility study carried out by Danish experts who knew a lot about the industry. The results of their study firmed my feelings, but these were later going to prove to be the basis of a lot of difficulties in the implementation of the project. The general object of the poultry project was to set up a substantial unit for production and sales of broiler meat and eggs, producing everything needed in Nigeria from hatcheries to slaughter-houses and cold stores. I will list the facilities later in the story.

The first major problem I would like to mention was that arising from capital requirements. The study carried out had forecast an initial capital requirement of about £50,000 (fifty thousand pounds sterling). This turned out to be a gross under-estimate of the actual requirements. In fact, too many assumptions had been incorporated in the study. Many of these were later found untenable as a result of the fact that the data base used were either totally wrong, or wrong assumptions used. Also, many factors unique to the Nigerian environment were not even considered. In any case, we found out that we were not in the position to provide the capital required - and capital was almost impossible to get in Nigeria!

Until fairly recently, medium to long-term financing was essentially unavailable to Nigerians in the country. Coupled to this undesirable situation, the higher-level expatriate personnel of foreign-dominated banking institutions were not only unsympathetic to indigenous businessmen and entrepreneurs, but they also seemed antagonistic toward the implementation of any modern industrial venture by Nigerians. They even sometimes used to distort the presentation as a means to kill such ideas. We do not grudge them for protecting the economic interests of their mother country of course. In our case, these institutions thought that we were over-ambitious. I guess their conception of Nigerians was one of a people without ambition. We therefore had to look outwards for assistance.

Through our determination and persistence, and through the help of sympathetic people in well-placed positions, we were able to secure an initial loan of fifty thousand pounds. At this point, I would like to pay tribute to a British lady, Miss M.E.R. Sanders (of blessed memory), Area Director of Balfour Williamson & Company Limited, Merchant Bankers of Roman House, Wood Street, London E.C.2.

She was not only sympathetic to our cause but also believed strongly in giving support and assistance to African entrepreneurs involved in development projects. She was very instrumental in making this loan possible and through her help we were also able to obtain approval for a further loan of one hundred thousand pounds from a British Government sponsored financing institution operating in Nigeria. However, the supervisory conditions of this further loan were far from being desirable. Although the loan was approved in 1967, payment was not made until 1970 because of unduly protracted negotiations and unreasonable delays. In addition, the financing institution insisted on their right to approve every major decision that had to be taken. They even seemed to want to run the operation entirely by themselves just because they had provided less than 15% of the investment capital.

The situation, in itself, might not have been intolerable if the person seconded to us had been, at least, cooperative and sympathetic toward the project. Unfortunately, the man sent down to represent them was not only absolutely incompetent but he seemed to be only interested in wine, women and song. And, it was on the basis of the occasional reports of this expert that decisions were taken! We therefore decided to repay - and did in fact repay - the loan some seven years before it matured.

Another occasion of significant help and deliberate support by Miss Sanders was when another foreign bank operating in Nigeria - out of a plan to dampen our enthusiasm and courage - demanded from us the guarantee of a first class foreign bank to enable that bank to grant us facility for carrying on our poultry project in Nigeria. It should be mentioned here that the bank did not lack knowledge of the Foreign Exchange Regulations in Nigeria which made it impossible for repatriation of either capital or profit without specific Government approval. Such approval could never be obtained for this kind of transaction. We had a temporary set-back. The Manager of this particular bank asked Miss Sanders why she should be helping Africans so much. Notwithstanding all these insinuations, Miss Sanders came all out in our support and got the Board of her bank to give the guarantee. She had thought that the bank in Nigeria would go back on their word so that it could be established further what a high degree of man-made obstacles were often placed in the way of the progress of developing countries.

The actual process of project implementation presented a wide variety of problems. We initially did not appreciate the complex requirements of the poultry industry which, like most other industries, needs a very high level of technical competence based on know-how and experience. The degree of sophistication involved in production and handling techniques is much more than most people realise. Since we are dealing with a living commodity, the quality requirements for the finished product are much more exacting and specific. One must have a full grasp of the concept of quality in poultry to be really appreciative of the precautions to be taken and the methodology involved.

We had assumed that infrastructural requirements would be adequate or could be easily acquired because we were located relatively close to the city of Lagos. Although Oke-Afa is only some eleven kilometers from the centre of Lagos, electricity and water supplies proved extremely difficult and expensive to acquire. In addition, we had to build and maintain, at our own expense, an access road almost eight kilometers long, through swamps, to connect with the main highway to Lagos and other parts of the country. These were not costed in the initial study.

Being a pioneer project, the first of its kind in West Africa, we encountered a number of technical problems, essentially resulting from the lack of flexibility in the thinking of our foreign technical advisers and equipment manufacturers. It has been suggested, and perhaps quite rightly, that they only wanted to sell their equipment without caring about after sales service and the attendant consequences. Some of the equipment recommended and purchased was unsuitable for use in tropical areas of the world. Certain simple items of equipment and machinery, such as nuts, bolts and control panels, were not sent along with our orders apparently on the assumption that these would be easily available locally. Some electrical equipment sent to us had ratings that did not match the local electricity supply. Water requirements were grossly underestimated. Illumination was also a problem because we had no data to determine its necessity and specifications. In addition, our local technicians had not been sufficiently exposed to the imported technology. In many cases, we had to undergo series of expensive trials in order to solve some of these problems. We learned a lot in a short time but it was very expensive - and sometimes frustrating.

These difficulties illustrate the situation in which, too often, only the third rate organisations in the developed countries, rather than those of a higher calibre, seem to have any interest in projects in developing countries. This may be a reason for the high rate of failure of many attempts at improving the state of industrialisation in these countries.

We had purchased some equipment from Spain. Technicians had been sent down to us to install and commission it as well as to train our technicians to operate and maintain it. Unfortunately, these Spanish technicians could not speak a word of English or of any other language we could understand. We were, however, fortunate in that our local technicians were extremely willing to learn and were completely dedicated. By dint of hard work, a lot of these difficulties were eventually overcome. But really a situation whereby the primordial means of communication is by signs and lip reading, is hardly conducive to the transfer of modern technology and industrial development.

One of the sad assumptions made in the initial study was that we would have no problem in the acquisition of raw materials, especially feeds based on corn. This assumption was reinforced by an FAO (Food and Agricultural Organisation of the United Nations) report in which the forecast of an abundance of grain (including corn) in Nigeria for the following 15 or so years had been made. Unfortunately it was the forecast that was noted by all concerned rather than the recommendations for the attainment of the projections.

At the time of the study in 1966, the prevailing local price of corn was twenty-four naira (or twelve sterling pounds at that time) per metric ton. Less than a year later, in 1967, the price of corn had more than doubled and when you could find it at all, you had to pay about sixty naira for a ton. To make matters worse, the government, at that time, imposed a 40% ad valorem tax on imported corn in order to encourage local production. Unfortunately, this tariff measure was a failure because simultaneous financing was not provided for agricultural growth. For us, it became too expensive to import corn and it was extremely difficult to obtain adequate supplies locally. We therefore had to go into the production of corn ourselves after trying various unsuccessful means of encouraging increased production by the local farmers. This has turned out to be a good decision because the situation is even worse today. Corn is now about three hundred naira a ton, and is even more difficult to obtain locally.

Product marketing presented a big problem at the outset because of the attitude of the entire population toward meat supplied from cold stores. Our people believed that unless blood was spilt on the ground, an animal is not considered suitable for eating. In addition, religious constraints made broiler production a fairly difficult venture. However, we have helped to dampen these negative notions by ensuring that the slaughtering of our chickens is carried out by an Imam or a Moslem. Our labels carry Arabic inscriptions guaranteeing that our birds are properly slaughtered according to "Sheria" before being sold. Today, we have no problem marketing our products. In fact, demand has increased so much that a twenty-fold increase in production will not satisfy it.

We are quite happy that Oke-Afa Farms has grown from very humble and problematic beginnings into the largest and most successful venture of its kind in West Africa. The industry now consists of several sub-industries which include:-

1. Parent stock rearing for the production of hatching eggs;
2. Hatcheries for pullets and broilers;
3. Rearing facilities for layers and broilers;
4. Egg production;
5. Maize production;
6. Feedmill complex;
7. Egg packing plant;
8. Slaughter and cold storage facilities; and
9. Distribution system.

The parent stock population is regularly at a level of some 25,000. There is a similar population of broilers. The egg-laying unit is 250,000 strong and the broiler population is at the rate of about 750,000 per annum. At any given time the farm accommodates 500,000 chickens of all sizes and types. The capacity of our feedmill plant is now such that about 25% of total production at full capacity goes to farmers other than our own.

The labour strength on the farm (including grain production) is about one thousand five hundred. We are actively considering further expansion.

As I hope you have seen, we have been able to overcome the formidable problems of implementing a pioneer industrial project in a developing country even to the point where we were forced to integrate backwards into agriculture. We have learned a lot of lessons, and we hope we shall not - in the future - make the types of mistakes we have made in the past.

In conclusion, I would like to present a few proposals for your consideration. These proposals, as you will note, arise largely from my experiences in the implementation of the Oke-Afa project.

In the first place, I would like to suggest that UNIDO and other similar international organisations should make significant efforts to educate and convince international capital sources foreign to developing countries, to re-orientate their thinking more positively toward entrepreneurs in developing countries. We understand that capital investment involves a certain element of risk. What these institutions do not seem to understand and accept is that <u>their</u> risk considerations are based on <u>their</u> poor knowledge and understanding of the social patterns in our countries.

It is a notion amongst Western bankers that when money is loaned to people in developing countries, because of their social patterns they choose more wives. I have heard the view expressed that this is where the money goes, rather than to the investment. The true story is quite different. First of all you must appreciate that an extra wife in Africa is an asset to the general activity because she helps her husband. She does not, therefore, represent a drain on the finances as claimed. In comparison with the cost of maintaining these simple innocents, one Western wife costs ruinously more. Unless you understand such niceties, and others - for example that a family name is as good a guarantee in most developing countries as a collateral - you are not really in a good position to start considering extending credit facilities.

Foreign banking and financial institutions also tend to think that they exist primarily to assist industrialised countries in the exploitation of opportunities in the developing countries, rather than to assist the citizens and governments of the countries in which they operate. UNIDO, being an international organisation, should help dispel unfounded fears by publishing and making available to these institutions rational analyses of actual conditions prevailing in developing countries, especially as these may relate to industrialisation. In relation to this, I would like to suggest that a screening agency should be set up to assist potential industrialists to investigate the authenticity of proposed foreign technical and financial partners.

Deliberate efforts should be made to persuade international investors and funding organisations to use more of their funds for the development of raw material production in developing countries through the formation of joint ventures with indigenous private entrepreneurs.

National independence, self determination and near self sufficiency can only be achieved and reinforced by encouraging and assisting individual initiative through collaboration with international investors and funding organisations in such endeavours. Collaborative efforts with governments are usually slow to realise because of inertia within Governments due to inherent administrative and bureaucratic constraints and possibly abuse of funds. It is not unknown that there have been situations in which funds earmarked for industrial development projects have been diverted for use in the propagation of ideologies leading to the deprivation of human liberty and the inhibition of individual initiative. This type of action inevitably results in a retardation of the growth of industrialisation. Experience has proved that the success of joint investment with governments, cannot be guaranteed.

UNIDO should make efforts to persuade governments of developing countries not only to permit, but also to encourage borrowing by individual entrepreneurs from the international capital and money markets in order to allow such entrepreneurs access to a larger capital market for industrial development purposes. It must be cautioned, however, that this might be difficult to achieve, partly because of the paucity of foreign exchange reserves of many developing countries. In addition, there is the danger of the use of such funds by unscrupulous individuals for political purposes. Also, international organisations should not becom servile to funding (or aid-providing) governments or organisations just because a minimum level of amicability has to be maintained.

Being an agency of the United Nations Organisation, UNIDO should help to seek and implement some structural changes in the parent body itself. The changes required should be designed to attenuate or eliminate those forces tending to hamper the healthy growth of industrialisation in developing countries. Sensitive political issues like apartheid, racialism, colour discrimination and other such human traits, are repugnant to the international confidence which is much needed to reconcile developing and advanced countries. The agencies of the United Nations should devote more effort to eradicate these factors. Decisions taken in the United Nations are sometimes detrimental to industrial growth in developing countries because of the use of certain veto powers vested in some powerful governments with strong international economic and political interests.

Next I would like to propose that training services provided by such organisations as UNIDO should be diversified increasingly and made available not only to governments but also to private individuals and private commercial and industrial organisations.

While it is understood that UNIDO already serves to disseminate information relevant to industrialisation, I would like to suggest that UNIDO strengthens its information dissemination base by preparing industry profiles on the establishment of specific industries in specific locations, and making these available to entrepreneurs at low cost. In addition, UNIDO should encourage the countries of the developing world to set up institutions for the generation, acquisition and effective dissemination of information relevant to industrial development.

It should be recognised that some advanced countries are anxiously looking into ways and means of bringing about rapid industrialisation in developing countries. And here I would like to mention the efforts of the Federal Republic of Germany, as recorded by Consul J. Ritter, President of Planungsgruppe Ritter, in his paper entitled "Technology Transfer from Advanced to Developing Countries", which is quoted in part in Appendix 2. Other advanced countries, not yet actively engaged in such an exercise, should borrow a leaf from their book.

Finally, Mr. Chairman, Ladies and Gentlemen, I would like to commend the efforts being made by such organisations as UNIDO, FAO and UNESCO to provide statistical information useful in the planning of new industrial projects. At the same time, I would like to suggest to these organisations not to limit their collaboration with respect to data acquisition to governments and their agencies, but also to seek - as you have now done by inviting all of us here to participate - more information from private organisations and individuals, in order that the resulting publications may be more reliable and meaningful.

Mr. Chairman, distinguished Ladies and Gentlemen, I would, once again, like to express my gratitude for being given the opportunity to participate in this very important meeting.

APPENDIX 1

NIGERIA: A STATISTICAL SUMMARY & EASY REFERENCE GUIDE TO BASIC ECONOMIC FACTS

(All data are in millions of U.S. dollars unless otherwise noted)

Population (millions)	79.76
Percent urban	24
Area (thousand square miles)	357
Population density (persons per square mile)	218
Fiscal Year	1 April to 31 March
Petroleum reserves (billion barrels, 1973)	20
Natural gas reserves (trillion cubic meters)	1.13
Coal reserves (million metric tons)	350
Gross Domestic Product (1973/74)	12,000
Origin of GDP 1972/73 (per cent):	
Agriculture	37
Petroleum	17
Manufacturing & construction	18
Commerce	12
Other	18
Manufacturing sector (1973 estimates):	
Number of plants	1,000+
Gross sales	1,717
Employment (thousands of persons)	172
Labour force (thousands)	31,506
Urban (%)	21
Non-agricultural (%)	31
Railroad mileage	2,200
Road mileage	55,000
Paved road mileage	16,000
Passenger cars 1974 (est.) (thousands)	290
Trucks & Buses 1974 (est.) (thousands)	95
Electric power output, 1973, million kwh	2,825

Nigeria: A Statistical Summary & Easy Reference Guide to Basic Economic Facts (Cont'd)

Demand: Expenditure on GNP, 1973/74 percentages of GNP:	
Consumption	77
Investment	19
Exports	57
Less Imports	-31
Less Factor payment & transfers to foreigners	-22
Consumer Demand, 1973/74 estimates:	
"Modern" sector:	
Number of persons (thousands)	3,030
Total income	4,145
Average purchasing power per person ($)	1,370
Other sectors:	
Number of persons (thousands)	76,729
Total income	3,420
Average purchasing power per person ($)	45
Central Government Budget, 1974/75:	
Revenues	4,745
Financing from loans/reserves	209
Current expenditures	1,512
Capital spending	2,491
Transfers to states	951
Balance of payments (1973, preliminary data):	
Trade balance	1,077
Service balance	-1,030
Current account balance	8
Capital account balance	100
Over-all balance	79
Foreign trade, 1973 (Customs data)	
Exports	3,384
Imports	1,876
Balance	1,508
Petroleum exports	2,799
Imports of Consumer goods	1,236
Capital goods	598

Nigeria: A Statistical Summary & Easy Reference Guide to Basic Economic Facts (Cont'd)

1973 markets (% of exports)	
Industrial countries	87
LDC's	13
United States	24
United Kingdom	19
Netherlands	13
France	13
1973 import suppliers (% of imports)	
Industrial countries	91
LDC's	9
United Kingdom	27
West Germany	15
United States	10
Japan	9
France	7

APPENDIX 2

1. In consideration of the increasingly threatening dimensions of unemployment in the countries of the Third World, the strengthening of the international division of labour is claiming prime attention, especially in the domain of industry. Diversification of production in the developing countries and the opening of the markets of the industrial countries must become the focus of all efforts in developmental policy so as to enable the former to participate more effectively in economical and social progress.

... ...

2. All endeavour in developmental policies, therefore, should be directed in the first instance at the promotion of Technological Transfer of such production processes as can be expected to permit the creation of a maximum of work places for unskilled and semi-skilled labour, i.e. with a minimum of cost per work place and with fair prospects of turnover both in the producing country and in the export field. Nevertheless, it is evident that in the economic development of a country there is room also for capital intensive production processes. Often, the latter can induce a high rate of employment on account of their forward and backward lineages. The deciding criterion in the transfer of technology, therefore, cannot be the intensity of labour in a production process alone, but the point of view should predominate to make use of such production processes as are bound to induce a high rate of employment altogether.

Extracted in part, from: 'TECHNOLOGY TRANSFER ADVANCED TO DEVELOPING COUNTRIES'

Contributed by: Consul J. Ritter
President of Planungsgruppe Ritter
Konigstein/Taunus, Federal Republic of Germany

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