

# ASSESSMENT OF THE NIGERIAN AGRICULTURAL POLICY (ANAP)

## EXECUTIVE SUMMARY

1. The USAID/Nigeria Mission contracted the International Institute Tropical Agriculture (IITA) to conduct a study on the assessment of the Nigerian agricultural policy (ANAP). IITA teamed up with the University of Ibadan and the International Food Policy Research Institute (IFPRI) to implement the study. The primary purpose of the ANAP study was to provide USAID/Nigeria with the analytical basis for the Mission to design its new Agricultural Policy Strategy that contributes to unlocking constraints to commercialisation and investment in the Nigerian agricultural sector for a sustained economic growth; enhanced food security; increased competitiveness of products in the domestic, regional, and international markets; sustainable environmental management; and poverty alleviation.

2. The key issue in the study was the identification of constraints to investment in the agriculture sector and the evolution of strategies and priority areas for intervention by USAID/Nigeria, other donors, the home governments and private sectors for the purpose of providing catalytic support for the flow of investment into the agricultural sector.

3. The ANAP study is in line with both IEHA line with the strategic five pillars (science and technology, improved agricultural trade and market systems, building human capital, infrastructure and institutional capacity, promoting sustainable environmental management, and supporting community organizations) of the US President Initiative to End Hunger in Africa (IEHA) and the long-term USAID/Nigeria new strategic directions for a sustainable agricultural and diversified economic growth.

4. The country was divided in six development domains on the basis of differences in agro-ecology, population density, market opportunities, farming systems, and geo-political division of the country.

5. In this study, *investment* is defined as additions to stock of capital that are the sources of future income streams, while *commercialization* should be understood to be the movement from a subsistence production system to a market-based system. The importance of investment derives from the fact that agricultural growth requires increasing doses of investible fund. This fund translates into capital, which, in turn, transforms various developmental variables to create the ultimate impact, which is economic growth and development (see Figures 2.1 and 2.2. for schematic representations of the conceptual framework).

6. The focus of analysis in the study was on constraints taxonomy, constraints domain characterization, constraints cause identification, constraints function transformation, constraints range characterization, constraints impact analysis, constraints persistence analysis, identification of gainers and losers from constraint persistence, policies, regulations and institutions analysis, investment priority determination, comparative advantage analysis, recommendation of new policies, regulations and institutions for

enhancing comparative advantage and for improving investment climate, determination of strategic options for supporting IEHA interventions in Nigeria, and identification of areas of intervention to promote priority commodities in different zones of the country.

7. With respect to sources of data and methods of collection and analysis, both primary and secondary data were used in this study. Primary data were collected from selected respondents, using prepared questionnaires. Secondary data were collected from local and international publications and reports. The methods adopted in the collection of primary data involved the use of two survey instruments (questionnaires), one addressed to policy makers and implementers and the other addressed to the private sector and other stakeholders in agriculture, like associations and individual investors.

8. The defined development domains plus Abuja Federal Capital Territory (FCT) were adopted as the primary frame for data collection. Two states were then selected per domain for the survey, in addition to the Abuja FCT. The respondents were purposively selected to cover a wide range of stakeholders in each zone. The combination of field survey methods employed included in-depth interviews, focus group discussions, individual completion of questionnaires and taped interviews. Methods of analysis included descriptive statistical analysis, constraints mapping, development domain mapping, regression analysis, and partial equilibrium models.

9. The assessment of agricultural policy and investment in Nigeria presented in this study covers an assessment of the performance of Nigeria's agriculture sector, a review of past policies affecting agriculture, an assessment of investment processes in Nigerian agriculture, an analysis of constraints to private sector investment in Nigerian agriculture, and an evaluation of investment options.

10. The results of performance analysis show a mixed performance. The share of agriculture in both aggregate GDP and non-oil GDP increased only marginally in the 1981-2000 period covered. The share of total bank credit going into the agricultural sector first increased rapidly between the 1981-85 and 1991-95 sub-periods and then declined in the 1996-2000 period. The share of federal government's total capital expenditure going to the agricultural sector declined almost persistently over the period. Finally, the share of total labor force employed in the agricultural sector also declined over the period. Generally, there was a lack of consistency in the growth performance of the agricultural sector in the 1981 to 2000 period, with some evidence of unstable or fluctuating trends, probably due to policy instability and inconsistencies in policies and policy implementation.

11. Factors constraining agricultural performance in the country include those relating to technical constraints, resource constraints, socio-economic constraints and organizational constraints.

12. A review of past government policies in agriculture shows that in the pre-structural adjustment period, sector-specific agricultural policies were designed to facilitate agricultural marketing, reduce agricultural production cost and enhance agricultural

product prices as incentives for increased agricultural production. Major policy instruments included those targeted to agricultural commodity marketing and pricing, input supply and distribution, input price subsidy, land resources use, agricultural research, agricultural extension and technology transfer, agricultural mechanization, agricultural cooperatives, and agricultural water resource and irrigation development.

13. Macro and institutional policies as well as legal frameworks complemented sector-specific policies. The structural adjustment period was governed largely by structural adjustment policies. Broadly, structural adjustment policies in Nigeria covered public expenditure-reducing or demand management policies, expenditure switching policies, market liberalization policies and institutional or structural policies. Like in the pre-structural adjustment period, there were microeconomic, macroeconomic, institutional and legal framework policy instruments put in place to address these issues. But, there was much more emphasis on macroeconomic and institutional policies in this latter period than before.

14. Constraints to agricultural policy effectiveness are identified to include those of policy instability, policy inconsistencies, narrow base of policy formulation, poor policy implementation and weak institutional framework for policy coordination.

15. The objectives of the new agricultural policy are (i) the achievement of food self-sufficiency and food security, (ii) increased production of raw materials for industries, (iii) increased production and processing of export crops, (iv) generation of gainful employment, (v) rational utilization of agricultural resources, (vi) promotion of increased application of agricultural technology, and (viii) improvement in the quality of rural life.

16. The key features of the new policy include (i) the evolution of strategies for achieving food self-sufficiency and improved technical and economic efficiency in food production, (iii) reduction of risks and uncertainties in agriculture, (iii) a unified national agricultural extension system under the ADPs, (iv) promotion of agro-allied industries, and (v) provision of agricultural incentives.

17. The new policy direction involves (i) creating a conducive macro-environment for private sector investment in agriculture, (ii) rationalizing the roles of tiers of government and the private sector, (iii) reorganizing the institutional framework in the agricultural sector, (iv) implementing integrated rural development programs, (v) increasing budgetary allocation to agriculture, and (vi) rectifying import tariff anomalies in respect of agricultural products.

18. The policy instruments cover (i) agricultural resources, (ii) crops, livestock, fisheries and agro-forestry production, (iii) pest control, (iv) mechanization, (v) water resources and irrigation, (vi) rural infrastructure, (vii) agricultural extension and technology transfer, (viii) research and development (ix) agricultural commodity storage, processing and marketing, (x) credit supply, (xi) insurance, (xii) agricultural cooperatives, (xiii) training and manpower development, and (xiv) agricultural statistics and information management (see Table 3.5).

19. The new policy spells out definitive roles and responsibilities for federal, state and local governments as well as the private sector. A summary of complementary macro-economic and institutional policies as well as the legal framework that are expected to affect agricultural investment is presented in an appendix to the report. Similarly, environmental policies that are expected to impact significantly on agricultural investment are summarized in an appendix.

18. Agricultural commercialization calls for increased investment and capital formation for more intensive production. Hence, the level of commercialization and the size of investment are positively correlated. A review of past investment trends in the Nigerian economy reveals that both domestic and foreign flow of private investment into the Nigerian economy as a whole suffered a declining trend between 1970 and 1985. Gross investment in the economy expressed as a percentage of the GDP first increased from about 17 percent in 1970 to about 26 percent in 1975, but declined to about 24 percent in 1980 and to 12 percent in 1985. The patterns of domestic and foreign private investment over this period were highly correlated with the changing states of political and policy instability.

19. In the post-1985 period, gross domestic investment increased consistently between 1987 and 1997, but declined in 1998 and 1999. Similarly, cumulative foreign investment increased consistently between 1990 and 1998, but declined in 1999. Real foreign net private investment flow into the Nigerian agriculture sector increased between 1981-85 and 1991-95 sub-periods and then declined in the 1996-2000 sub-period. However, agriculture's share of total foreign net private investment was very low, being on the average, less than of 4 percent in the entire 1981 to 2000 period. There were negative flows (i.e. actual outflow) of foreign investment into agriculture in 1980, 1995, 1987 and 1994.

20. Agriculture's share of cumulative foreign investment declined almost consistently in the 1981-2000 period, from about 2 percent in the 1981-85 sub-period to about 1 percent in the 1996-2000 sub-period. The pattern of both domestic and foreign investment in Nigeria in the period under review tended to be volatile, displaying highly variable growth rates and high degrees of instability. This pattern was a direct reflection of the generally unstable investment climate in the country in the period. A comprehensive summary of the economic, social, political, institutional, legal/regulatory and external environmental determinants of private investment flow into the agricultural sector is provided in the report.

21. Levels and trends of investment in Nigerian agriculture show that gross fixed capital formation was used as a proxy for gross domestic investment. In this regard, gross fixed capital formation's share of the gross domestic product declined consistently over the 1981-2000 period. However, agricultural sector's share of aggregate gross fixed capital formation increased consistently over the 1981-2000 period, implying that the sector performed better than the economy as a whole in terms of gross fixed capital formation.

22. Thirteen categories of constraints to investment in the agriculture sector are identified from both literature search and stakeholders' perspectives. Infrastructural constraints (bad or poor state of roads, poor processing facilities and marketing outlets, epileptic power supply, poor state of telecommunication facilities, etc.) were ranked first by more than 90% of respondents throughout the Federation. It was followed, in decreasing order of importance, by financial, technical, and economic constraints (>80% of respondents); macro-economic policy and socio-cultural constraints (>70%); labour, environmental, and political constraints (>50%); micro-economic policy, institutional, health, and land tenure constraints (<50%).

23. The severity of constraints was found to be varied among development domains except for infrastructural constraints. For example the technical constraints were assessed very high (>75% of respondents) in the far northern zones while environmental constraints were very high in Southeast Domain. The intensity of the economic constraints (high cost of production, low returns to investments, or low income, etc.) was very high in Northeast Domain. Socio-cultural constraints were found everywhere such as corruption, insecurity, high crime rates, and ethnic stifes/crisis. Religious strife for northern domains and availability of mineral resources especially oil crude were found to be elements of ethnic strife.

24. The causes and source of constraints were investigated for each constraint. For example poor credit policy coupled with ineffective policy implementation, high rate of interest and unstable exchange rate were the main causes of the persistence of financial constraints to investment in agriculture. Poor leadership, political instability, poor governance, and non-participatory governance were sources of political constraints. An example of technical constraints is on inconsistencies in agricultural input policies that constrained producers, including small-scale farmers to acquire modern farm inputs.

25. Gainers and nature of gains from the persistence of constraints were identified. Within Nigeria, gainers include government officials (political appointees, policy makers, policy implementers, and lower cadre civil servants). They derive benefits ranging from hard currency, receipt of financial kickbacks from suppliers and contractors. At the foreign level, the main gainers from the persistence of above constraints in Nigeria are some of the foreign investors, technical partners, and foreigners who take advantage of the precarious situation. This group of gainers imports all sorts of goods to derive/make non-deserved maximum benefits.

26. Losers include a long range of stakeholders. Entrepreneurs, marketers and processors are affected in the area of low capacity utilization, high cost of power generation, and reduced output. Bnakers, lenders are also affected by the persistence of financial constraints. The nature of these losses includes high transaction costs, low investment, lack of investible capital, and loss of employment. Farmers and women are among the vulnerable groups of the society. Farmers' losses include low access to modern inputs, reduced outputs, low income, and high poverty incidence.

27. About 33 types of effects of constraints to commercialization were identified along the food chain.

28. There are 13 areas in which investors (foreign and domestic investors) are willing to put their money in attractive enterprises. These are: input production and supply enterprises, livestock production, fisheries, forestry, and commodity processing and storage enterprises. Others are commodity marketing, agro-industry manufacturing, agricultural commodity export, and agricultural support services. The general inference is that agricultural enterprises in Nigeria are fairly attractive to domestic investors while they are less attractive to foreign investors. Nine out of the thirteen enterprises are hardly attractive to foreign investors while three were fairly attractive.

29. The ANAP study identified 32 commodities in which the Development Domains are perceived to have a comparative advantage in the domestic, regional, or world market. The identified commodities were grouped into five categories namely staple crops (9 commodities), industrial crops (12 commodities), livestock (5 commodities), fishery (3), and forestry (5). Reasons for the attractiveness to private sector investment were given for each commodity.

30. Ex-ante evaluation of returns to investment was completed for 26 commodities for which data were readily available (for example all the forestry commodities did not enter the partial equilibrium DREAM model because of lack of data). Given the current level of the technology portfolio available for each commodity, cassava emerged as commodity 1 to invest on for estimated gross returns of \$570 m per year over the period of 17 years from 1999 to 2015. The next nine ranked commodities are yam, maize, millet, groundnut, rice, sorghum, poultry, leafy vegetables, and cowpea. The second group of priority commodities includes pepper, beef, oil palm, fish, melon, tomato, soybean, onion, rubber, and cocoa. The lower ranked commodities include ginger, pork, goat, mutton, benniseed, and cashew nut. The above results compare favourably with results from a similar analysis by IFPRI in West Africa. The first ten ranked commodities were yams, rice, cassava, vegetables, beef, millet, groundnut, sorghum, cotton, and maize in decreasing order of importance.

31. Major regional differences were recorded in the returns to investments. For root and tubers, cassava gives highest returns in North-central, South-south, South-east, and Southwest in decreasing order of returns. Yams stand high in North-central, followed by South-south. Patterns are uneven for cereals: rice is exclusive in North-central, maize is better promoted in Northwest, North-central, and South-west. Millet is profitable only in Northwest and Northeast. Sorghum and benniseed are crops for the three northern Domains. Grain legumes (groundnut, soybean, and cowpea) give high returns in the three northern Domains. The patterns for grain legumes were observed for the group of vegetables except for leafy vegetables that grow well throughout the country. As expected, tree crops such as oil palm (South-south and Southeast), cocoa (Southwest), and rubber (South-south) produce better in the humid domains of the country. In contrast, cashew nut and ginger are commodities for North-central and Northwest. Livestock also indicates a specialization across Development Domains. Ruminants

(cattle, mutton, and sheep) are important in the three northern Domains though goat has a smaller but significant presence in the southern Domains. Pork and fish are important in South-south. As expected poultry are found everyw