



# **FINANCIAL REFORMS AND AGRICULTURAL DEVELOPMENT IN NIGERIA**



**DEPARTMENT OF AGRICULTURAL ECONOMICS  
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## **AGRICULTURAL POLICY MAKING IN NIGERIA: AN UNSERIOUS BUSINESS OR A BUSINESS DONE UNSERIOUSLY?**

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### **Introduction**

Today, we are to listen to the first Department of Agricultural Economics and Extension, University of Uyo Public lecture. The lecture is entitled: **Bank Recapitalization and Agricultural Financing in Nigeria**. The topic, clearly, is within the policy domain, being one of the fall-outs of the current policy reforms of the present Obasanjo administration. But before we listen to the main discourse for today, I wish to discuss with you the business of policy making in Nigeria, particularly as they relate to agriculture.

Before the 1960s, agriculture played dominant role in the Nigerian economy. With little support from government, agriculture was able to grow at significant rate to play its traditional role of providing food for the teeming population, raw materials for building of the industrial sector, increasing public revenue and foreign exchange for government and employment opportunities for an expanding labour force. However, within parts of that decade, problems indicating eminent crises in the Nigerian agriculture had started to show up. There was food supply shortfalls, rising food imports and declining foreign exchange earnings from agricultural exports. The problem was thought to be temporary, therefore, not much national concern was shown.

The second decade of 1970 to 1979 witnessed a rapid deterioration in the country's agricultural situation. There were widening food supply-demand gaps; rising food import bills; rapid decline in government revenue from agricultural export and, decline in labour force required in agriculture. The situation was further compounded by the residual effects of government fiscal and monetary policies and an "oil boom" which created serious distortions in the economy and accelerated the rate of migration of labour from agriculture.

Government responded to these problems by initiating plethora of agricultural policies, programmes and projects, largely within the framework of national development plans, rolling plans, decrees and reforms programmes. Experience from these policies, programmes and projects has shown that there is no alternative to well designed, articulated and implemented agricultural policies as instruments for promoting agricultural growth and development in Nigeria. The failure of agriculture to regain its position and play its traditional role raises several questions. One of such pertinent questions is: Is agricultural policy making in Nigeria considered a serious business by policy makers? Or Is it a serious business that is done unseriously? Put the other way, is agricultural policy making in Nigeria done by unserious persons? These questions become pertinent because policies are known to work in other countries. Development and growth achieved by most developed countries of Europe and the Americas and the industrializing countries of Asia derive from well formulated and implemented policies!

This discourse will address the questions posed above. We will take a look at agricultural policy making at the various policy making era in the country. But before doing so it is important to conceptualize who policy makers are in Nigeria and what policy making is in order to put our discourse in proper perspective.

### **Who are Policy Makers? And what is Policy Making?**

Policy makers are typically senior bureaucrats or politicians who take a number of policy initiatives (Anyanwu, 1997). Policy making on the other hand is a complex and dynamic process used primarily by government to decide the major guidelines for action directed toward the future, and oriented toward what is in the public interest by the best possible means (see Dror, 1968 cited in Anyanwu op cit). Such could be to determine the allocation of resources, to distribute income and to promote growth. It involves manipulating a number of policy instruments in such a way as to achieve a set of predetermined targets.

The necessary steps in policy formulation include:

- i) Policy idea;
- ii) Policy formulation and articulation;
- iii) Stakeholders Consultation;
- iv) Refinement and modification of Policy (if necessary and depending on the outcome of consultation);

- v) Policy Trial (Pilot Testing)
- vi) Refinement based on the experience from the trial;
- vii) Policy Implementation;
- viii) Monitoring of policy Implementation;
- ix) Evaluation of Policy Impacts and,
- x) Continuous and regular monitoring to ensure policy does not deviate from original intentions and that policy is revised in line with emerging realities.

This process could be applied to the entire economy or a sector of the economy. Therefore, agricultural policy making can be viewed as the process of manipulating relevant policy instruments with the aim of enhancing the growth and development of the agricultural sector.

Three most important units involved in policy making are the executive, the government bureaucrats and the legislature. In dictatorships or military governments, the legislature exerts almost no influence on policy making. Nigeria is presently under democratic dispensation and therefore the three vital players identified above are expected to be involved in agricultural making. However, from 1970 to 1999, policies were made by the Armed Forces Ruling Councils and Supreme Military Councils through military fiat, decrees and with "immediate effect". It was the executive that made policy with little or no inputs from the bureaucrats.

Mr. Chairman, policy making, to my mind, is a very serious business. Substantial evidences abound to show that countries that have developed have achieved such feat through rigorous, far sighted and sustained policy formulation and implementation. Ladies and gentlemen, in the year 2002, I attended the Salzburg Seminar on "Politics of Fresh Water: Addressing Fresh Water Scarcity" in Salzburg, Austria. The seminar provided me and other participants the opportunity to inspect major water works in Salzburg. One of the water works consisted of spring water harvesting from the top of a mountain and channelling the water to a reservoir and distributing such to households. On enquiry on the duration of the construction of what could easily be regarded as engineering feat, we were told that it took 15 years of consultation and 5 years of actual construction work to complete the project. This is one case of spending quality time to formulate project ideas before implementation. The water works stand as an evidence of good policy/project formulation and implementation. The United States

of America, Britain, France and other developed countries are known to take the business of policy making serious. The benefit of this is the status of developed and industrialized nations which they have attained today. What has been Nigeria's and Nigerians attitude to agricultural policy making?

### **Pre Independence or Colonial Agricultural Policy Making (Before 1960)**

There are scanty information on pre independence agricultural policy making in Nigeria. Nonetheless, some insight can be gained into the process through the writings and reports of colonial consultants on agriculture and economic development, Some of the outstanding policy advisers of that time include Arthur Lewis and Wolfgang Stoppler. Arthur Lewis was popular for his hypothesis of economic development with unlimited supply of labour hypothesis. In the original Lewisian model, industry, via capital accumulation provides the "engine of growth" To Lewis, agricultural sector was important but plays a supportive and passive role, in the growth sense, by merely providing a pool of unlimited cheap unskilled labour for use in the industry. Agriculture also supplies cheap food to urban industrial dwellers. Lewis model of growth influenced and has continued to influenced attitude Nigerian policy makers and planners. The Lewis (1954) model of growth (or development) perceived agricultural development as a transformation or transition of subsistence (small scale non-capitalist) agriculture to large scale (plantation) agriculture and industry with the common claim that the marginal productivity of labour in subsistence agriculture is zero or almost zero. That mentality has guided agricultural policy making and planning efforts of many African countries, especially Nigeria. This attitude is a significant contributor to African and indeed Nigerian agricultural underdevelopment (Dittoh, 1994). We must not forget that the overriding interest of the colonial authorities was tailored towards meeting the needs of colonial economies. Many of the policy making therefore would have taken place in London and merely imposed on Nigeria with little or no input from Nigerians.

### **Post independence Agricultural policy making (1960-1969)**

Much of agricultural policy making during the immediate post independence period was spearheaded by foreign consultants with little

collaboration and input from Nigerian experts. This was an era of "planning without facts". From roughly the date of independence on 1 October 1960, until late 1963, the Ford Foundation sponsored an international group of economists as advisers to the planning organizations of the Nigerian Federal Government and two of the then three regional governments. This was an attempt to transplant to Nigeria a type of technical assistance which was found to be making an increasingly useful contribution in Pakistan. To foreign observers (some of whom were direct beneficiaries of the arrangement), this was the first instance in which a group of professional economists from overseas, cooperating with the available local experts, sought to promote the growth of a Nigeria by applying the tools of the trade in an integrated macro-micro planning exercise requiring many man-years of effort. However, Gray (1968) observed that several of the policy proposals came from consortia which consisted wholly of firms seeking to sell goods and services. He concluded: "I have yet to see anywhere else as large a collection of high pressure salesmen posing as development entrepreneurs as converged in Nigeria..." To some national observers (Oni, 1972; Olayemi, 1989; Okunmadewa, 1993) this was a period of laissez faire. The only government agricultural policy worthy of note during the era is the farm settlement scheme policy of the then Western Regional Government under which young school leavers were provided with employment, to increase the production of export crops. Records show that agricultural sector did well during this period. This, to my mind, was not due to particular progressive policy, but the generally good and favourable socio economic climate which encouraged farmers to produce food and cash crops.

#### **Post war agricultural policy making (1970 1985)**

From 1966 to 1970, Nigeria was embroiled in a civil war which made serious development policy making difficult. Efforts were generally geared towards prosecuting the war. The post war years were associated with more agricultural policies than any other period preceding it. Understandably, this would have been to regain the lost years of the civil war. Both macro and micro economic policies were instituted. Some of them impacted negatively on agriculture while others were quite helpful to the sector. Interest rate (monetary policy) on agricultural loans was pegged at a maximum of 6% per annum in 1980. Interest rate in other

sectors stood at 15% per annum. The Nigerian Agricultural and Cooperative Bank (NACB) was established in 1973 while the Agricultural Credit Guarantee Scheme and the rural banking scheme were launched in 1977. The policies and schemes were aimed at greater flow of credit to the agricultural sector. Conversely, import liberalization policy adopted during this period had a deleterious effect on agriculture. It led to the import and sell of all sorts of agricultural items at prices lower than the unit costs of locally produced agricultural items. There were also the wage policies which were outcomes of committees recommendations Adebayo Interim Wage and Salary awards of 1970, Udoji Wage and salary Awards of 1974 and Shagari Awards of 1979. As mentioned earlier, many of these policies were based on reports of committees whose recommendations were not derived from rigorous time tested policy making processes and procedures. I have every reason to doubt if information provided through memoranda and other sources were actually subjected to rigorous statistical/econometric modelling to be able to predict the possible impacts of the proposed policy, and the sectors that would receive such impacts or effects. Indeed, these wage awards reduced agricultural development in Nigeria (Okunmadewa, 1993). These Awards widened rural urban wage differentials and accelerated rural-urban migration. The resultant effect has been acute shortage of agricultural labour and decline in agricultural production.

#### **Structural Adjustment Programme Policy Era (1986 2003)**

The adoption of the World Bank/IMF inspired Structural Adjustment is said to have been informed by the structural distortions in the Nigerian economy. The process leading to the adoption of the SAP provides clear evidence of pretences and hypocrisy of Nigerian policy makers. Pretending to be a democrat in military uniform the Babangida administration called for and actually caused country-wide consultation on whether to take or not to take the IMF loan facility whose conditionalities included adoption of the SAP policies. There was overwhelming rejection and opposition to acceptance of the loan facility. Alternatives to SAP were offered and the kiss of IMF was described as the "kiss of death". The opposition and rejection notwithstanding, the government of the day went ahead to obtain the loan with its conditionalities. It further went ahead to implement the SAP policies! Policies not cultivated from within, but imposed on the country by external forces.

The Structural Adjustment Programme as related to agriculture was designed to reverse the agricultural development philosophy of the earlier era. The SAP philosophy was that agriculture is essentially a private sector business. Government was to play the role of a facilitator and supporter, the market forces was to be allowed to play a dominant role in directing the economy. The basic objectives of SAP were to:

- Restructure the economy by diversifying the productive base.
- Rationalize consumption patterns and reducing the economy's dependence on petroleum exports and commodity imports
- Expand non oil exports
- Reduce the import content of locally produced goods
- Attain self sufficiency in food and raw materials production within the shortest time possible
- Rationalize the country's fiscal and monetary policies, and
- Liberalize the country's trade and payment system.

To achieve the SAP objectives both fiscal, monetary, trade and exchange rate policy instruments as well as institutional policy instruments were used. Specifically, these categories of policy instruments employed include:

#### **Fiscal Policy Instrument:**

- a five year tax free period for profits of companies engaged in agricultural production and processing;
- increase in capital expenditure by the government in spite of generally tight fiscal policy

#### **Monetary Instrument:**

- interest rate deregulation
- liberalization of agricultural loan terms so that small scale farmers can obtain loans of up to N5,000 without collaterals.
- Increase of grace period for the repayment of commercial bank loans and advances.
- Increase from 40% to 45% in the minimum share of total deposits generated by rural banks which must be given as loans and advances in the rural localities

#### **Trade and Exchange Rate Policy instrument:**

- Naira devaluation through the foreign exchange market.

Some commentators were of the opinion that the success of SAP depended largely on agriculture as most of the objectives were closely related to agriculture. However, events in the immediate post SAP years were enough to inform government of the inherent problems with SAP. The boom that seemed to have greeted Nigerian farmers at the advent of SAP has disappeared. The situation, described as “fallacy of composition” was partly as a result of farmers buying farm inputs at pre SAP costs (which was low) and selling their produce at SAP prices (which was high). Government saw reasons to modify SAP in 1992 in what was described as “guided deregulation” by introducing two exchange rate and dropping some other components of the programme. The voice of people, they say, is the voice of God. Probably, if government had taken into account stakeholders' views, they may have made a success of SAP.

#### **The Reform Era (2004 - )**

Between 1999 and 2000, the civilian government under the leadership of President Obasanjo had the following agricultural policies:

- Restoration of fertilizer subsidies at 25%;
- Establishment of Department of Fertilizer;
- Restoration of Producer Price Support Scheme for Grains;
- Food Security and Poverty Alleviation Programme.

The formulation of these policies and programmes followed the traditional “top down” approach of the military era. The policy makers, as ever, were optimistic that the policy will work. We are still waiting to see their outcome.

Nonetheless, an encouraging chapter in Nigeria's annals in policy making was opened in 2004. This came with the introduction of economic reforms christened National Economic Empowerment and Development Strategy (NEEDS). On March 15, 2004, a nation-wide consultation on NEEDS was launched by the President. This was followed by consultation workshops in the 6 geopolitical zones in the country. This was intended to give Nigerians and stakeholders the opportunity to contribute their ideas to the development and finalization of the NEEDS draft document. Participants at the workshop included the State Governors, Commissioners, members of Houses of Assembly, Secretaries to State Governments, Commissioners, other top members of Government and Civil Society.

**NEEDS rests on four key strategies namely:**

- i) Reforming the way government works and its institutions;
- ii) Growing the private sector (including the financial sector); the first of these being is bank recapitalization
- iii) Implementing a social charter for the people; and
- iv) Re-orientating the people with enduring African value system.

Concerning agriculture, government intends within the NEEDS strategy, to pursue privatization and liberalization with renewed vigour. Infrastructural development is to be embarked upon with the hope that this will support agricultural sector. Improved productivity of farmers is also a key element and priority of the agricultural sector reforms. Investment in water resources is also a priority aimed at providing irrigation for increased agricultural productivity.

Mr. Chairman, while the approach of consulting with stakeholders adopted for the reform programme is a welcome departure from the past, enthusiastic and wholesale economy-wide implementation of the reforms policies without trial clearly shows that we have learnt nothing from the past. The usual optimism that the policy will work is here being assumed. Is there any guarantee?

**Conclusion**

Mr. Chairman, ladies and gentlemen, it seems from the foregoing, that all is not well with agricultural policy making in Nigeria. Nigeria agricultural policy makers are in large part, not guided by the needs of Nigerian but by the demand of foreign market or the direction dictated by developed countries. Reversal of many past policies is but indication of the realization of the past mistakes which to my mind would have been avoided if the right things were done rightly. Many scholars (e.g. Dittoh, 1994; Eskor Toyo, 1997) have observed that Nigerian economic policy making has been in part passive hypocrisy (and deception) and part leap in the dark. Toyo contends that policy making since 1960 has basically served parasitism and has been borne in a vehicle of misguided theories and prescriptions misguided when judged from standpoints of basic social and national interests and authentic social science. Dittoh maintains that the Nigerian agricultural sector has been bedevilled by lack of seriousness on the part of almost all actors in the sector (except small farmers, traders and food marketers, because they have no choice but to be serious to survive). Politicians, (soldiers and civilians), policy makers, planners, researchers, extension workers, agro-industrialists, agricultural produce exporters as well as local and

foreign consultants and agricultural financiers such as the commercial banks, development banks, the World Bank and others have all not been serious with agriculture in the country since the 1970s.

Bank recapitalization is a current financial sector reform programme which is hoped to produce mega bank that can contribute meaningfully to economic development, including the development of the agricultural sector. I have taken you through some unique features of agricultural policy making in the country. Given the experience of the past, can the current bank recapitalization policy really enhance the growth and development of agriculture? It is our hope that our lecture today will shed more light on this important issue, which could give the true farmer and the nation hope for the future.

Thank you.

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