Chapter 10

Financial Allocation in Agricultural Sector in Nigeria

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Concept of Financial Allocation in Agriculture the Sector

Agricultural finance is basically related to agricultural development. It is based on the economic belief that agricultural development is a process that involves adoption by farmers of new production practices and the acquisition of new input materials. Unfortunately, the rural capital market cannot supply the needed funds to finance such innovations. As a result, agricultural development in Nigeria as in similar developing nations is stunted. The problem of agricultural finance then becomes that of finding adequate fund for agricultural development, identifying the right farmers who could benefit from such fund, extending such fund to the right section are the Nigerian farm credit corporation and the new programmes. The Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB) has been restructured and is being recapitalized for greater efficiency and to provide credits to individual farmers, cooperative societies/bodies for all classes of agricultural projects. The bank is also concentrating on the promotion of its popular "group lending scheme" whereby a much higher proportion of the active farming population is being reached by its retail outlets across its six zonal offices.

The Bank Management is supporting the new policy orientation of the present administration regarding poverty alleviation by emphasizing micro credit. The bank is now strongly committed to the promotion of grass roots based, small and medium farming activities in the country. The on-going injection of N50 billion equity shares into NACRBD by the Federal Government is to empower the bank to meet the challenges of poverty alleviation and food production through timely disbursement of credits. The bank is also supporting the promotion of Animal Traction and Hand Tool Technology. It has instituted several credits and savings schemes for farmers and rural dwellers that constituted about 70% of the nation's population.

According to Akande et al. (2009), National budgets play a prominent role in modern economic management. They are used for allocating resources and planning as well as forecasting revenue inflow and expenditure. Increasingly, national budgets are becoming a pivot instrument of economic management." The importance of National budgets is not only in its presentation to the populace but rather in the structure, patterns, inter-sectoral links as well as the allocation to sectors in accordance to national priority of the government. Basically, Agricultural allocation has a way of bringing desired effect in other sectors such as industry through inter-sectoral linkage. The underdeveloped state of many markets in developing countries like Nigeria makes government involvement in agricultural investment necessary. Spending on agriculture in Nigeria is exceedingly low. Less than 4% of total federal expenditure was allotted to agriculture during 1980 to 2011, far lower than spending in other key sectors such as education, health, and water.

According to Mogues et al. (2008) in 2000, Nigeria's agricultural public spending expressed as a share of total public spending was lower than that of all other African countries for which data were available, and it was also substantially lower than the regional averages for Asia and Latin America. In prior decades, Nigeria's ranking was only somewhat better. This spending contrasts dramatically with the sector's importance in the Nigerian economy and the policy emphasis on diversifying away from oil, and falls well below the 10% goal set by African leaders in the 2003 Maputo agreement. Nigeria also falls far behind in agricultural expenditure by international standards (FAO Percent Recommendation is 25%) even when accounting for the relationship between agricultural expenditures and national income. The expenditure on agriculture was highest in 1983 (12.6%) and lowest in 1992 (1%).

Having realized the declining role of agriculture to economic development, the government over the years has put in place certain policy measures and programmes with a view of increasing the contribution of agriculture to economic development; however, a peep into the federal government capital expenditure on agriculture as a ratio of the total federal government capital expenditure portraits a gloomy future for the sector's development in the country.

A Review of Federal Government Agricultural Expenditure and Agricultural Output

Food and Agricultural organization (FAO) recommended that 25 percent of government capital budget allocation be assigned to the agricultural development capital budget. In Nigeria, this has not been achieved by the government, thereby affecting government programmes and policies for the sector. In terms of capital allocation to agriculture, it was average of 4.74 percent from 1970-1980. But, from 1980-2000, it rose to 7.00 percent and 10 percent from 2001-2007 though revealing an increase, but still falls short of FAO recommendation of 25 percent.

The ratio of agricultural budget expenditure to total government expenditure from 1970-1980 was on average of 2.66 percent. It rose to 8.34 percent from 1981-1984; however by 2000, it nosedived to a ridiculous value of approximately 2 percent and was 2.10 percent in 2007. This fell short of the Maputo resolution that government of member states of African Union (AU) to allocate at lead 10 percent of national budgeting resources for the implementation of the comprehensive Africa Agricultural Development programme (CAADP) which Nigeria is a signatory.

The result of the unstable expenditure in the agricultural sector by the government over the years was the dismal performance of the sector. The performance of agricultural output could be measured by its contribution to Gross Domestic Products (GDP), until the Nigerian civil war of 1967-70, agriculture dominated Nigerian's economy contributing some 53 percent to GDP in 1965. By 1984 it percentage share had almost halved.

Prior to independence, especially, in 1929, contribution of agriculture GDP stood at 57 percent. Oil palm products alone accounted for between 85-90 percent of the total volume exports. In the periods 1960-64 and 1965-69, agricultural output accounting for 63 and 54 percents of GDP. From Table 1, we can see this declined significantly from the 1970s from an annual average value of 58.8 percent for the period 1960-69, it dropped to 33.2 percent for the period 1970-74. It marked an epoch in Nigeria economic history through the 1973-74 (crude oil price shocks). It further went down to 30.2 percent for the period of 1975-79. On an annual average, its contributions to GDP from 1997-2008 is 41 percent.

Table 2.2: Value of agricultural output and its determinants, 1970-2008

OBS	TGE	GEA	FIV	CAG	VAO	CPI	AAR
1980	14968.50	468.10	1437.50	30.20	340.10	42.30	260.00
1981	11413.70	809.00	1819.60	32.80	178.40	51.20	256.00
1982	11923.20	106920	1642.30	58.80	198.60	55.10	346.00
1983	9636.500	1214.50	1761.10	33.20	259.00	67.90	315.00
1984	9927.600	285.50	1349.70	35.30	208.00	94.80	372.00
1985	10041.10	1018.10	1199.00	40.30	192.10	100.00	420.00
1986	16223.70	925.40	801.90	42.70	407.40	105.40	395.00
1987	2201.700	394.30	1873.30	41.50	1588.40	105.40	294.00
1988	27749.50	650.00	1891.60	41.50	2558.20	116.10	467.00
1989	41028.30	1062.60	2108.90	40.00	2131.00	181.20	398.00
1990	60268.20	1966.60	3474.50	39.00	2429.30	272.70	442.00
1991	665864.4	672.30	3045.70	39.00	3425.00	293.20	470.00
1992	92797.40	924.50	12840.20	38.30	3054.90	330.90	352.00
1993	191228.9	2835.30	13953.40	37.80	3437.30	478.40	295.00
1994	160893.2	3719.10	13837.10	37.30	3818.80	751.90	193.00
1995	248768.1	6927.70	88349.90	34.00	15512.00	1180.70	286.00
1996	337217.6	5574.00	75392.00	39.00	17202.00	2040.40	241.00
1997	428215.2	7929.60	10078.3	39.40	19826.00	2638.10	250.00
1998	487113.4	11840.40	102165.1	40.40	16338.90	2863.30	306.00
1999	358103.2	10047.30	103489.8	41.00	18954.70	3149.23	430.00
2000	664457.7	10596.40	113630.5	41.00	17865.80	3590.50	367.00
2001	1018026.	64943.90	160209.1	40.30	17202.60	4268.00	1279.00
2002	1188735.	44803.80	144297.6	41.20	19826.10	4897.00	1282.00
2003	1225957.	16045.20	201648.3	40.30	20897.00	5493.00	1286.00
2004	1384001	49926.40	178747.4	40.90	37532.60	6347.00	1376.00
2005	17432240	76656.70	171817.1	41.100	44395.50	7454.00	1345.00
2006	1842588.	107463.9	174229.0	41.80	50498.90	7468.00	1436.00
2007	1885924.	38833.60	278561.9	40.30	50965.70	78654.0	1654.00
2008	1896578.	39457.50	324567.7	41.40	51458.80	76587.2	1687.00

Source: CBN Statistical Bulletin, 2008

Note*:* VOA =Value of Agric, Output (#m), GEA=Govt. Total Exp. On Agric. (#m), CPI= COMP. Cons. Price index (1985 =100), TCA = Total Comm. Bank Credit to Agric (#m). AAR= Average Annual Rainfall (vol), FIV= Food Import Value (#m), PGR = Population Growth Rate (%).

Table 2.3: Budgetary Allocation to Agriculture (# billion) 1990-2002

Years	Total budget	Allocation to Agric sector.	% of agriculture
1990	39.76	1.96	4.95
1991	38.66	0.67	1.74
1992	52.03	0.92	1.78
1993	112.10	2.83	2.53
1994	110.20	3.71	3.37
1995	153.49	6.92	4.51
1996	337.21	5.71	1.69
1997	427.21	8.66	2.07
1998	487.11	9.04	1.86
1999	947.69	12.15	1.28
2000	701.05	13.60	1.94
2001	1,018.02	64.94	6.38
2002	1,018.15	44.80	4.40

Source: CBN Statistical Bulletin and Annual Report (Various Issues)

The table of budgetary allocations and actual expenditures for the period covered showed that though the government put up ambitious policies their financial commitment and consideration has been inadequate. It is therefore not surprising that these policies have not achieved the food sufficiency, self reliance, reduction in poverty and rural development goal. The Nigeria Agriculture Public Expenditure Review (NAGPER), a collaborative study carried out by a research team from the International Food Policy Research Institute (IFPRI) and the World Bank (2007), showed that public spending on agriculture in Nigeria is less than 2 percent of total federal expenditure during 2001 to 2005.

This spending contrasts dramatically with the sector's importance in the Nigerian economy, which ranged from 20% to 30% of total Gross Domestic Product between 1996 to 2000 and ranged between 41 to 42.30 between 2001 to 2007 (Tewodaj, et al 2008; CBN, 2007); and falls below the 10 per cent goals set by African leaders in the 2003 Maputo agreement. Nearly 60 percent of total capital spending goes to government purchase of fertilizer and buyer of last resort grain purchases. Public funds implementation approaches differ significantly from those described in policy documents, such very low funds are available for activities considered vital for promoting agricultural productivity gains leading to pre-poor growth, such as basic and applied agricultural research, agricultural extension and capacity building, agricultural credit, irrigation development and agribusiness development.

Table 2.4: Contribution of Agriculture to Gross Domestic Product from 2001-2007

Years	Total GDP (#billions)	Agricultural share Of GDP.	% Share of Agriculture in total GDP
2001	*431.78*	182.66	42.30
2002	*451.71*	190.01	42.14
2003	*495.07*	203.01	41.01
2004	*527.58*	216.21	40.98
2005	*361.83*	231.46	41.19
2006	*595.82*	248.60	41.72
2007	*63286*	267.06	42.20

Source: CBN (2007) GDP is at 1990 constant price

The agricultural performance is not quite in doubt based on the aggregation of the performance of the small holder farmers scattered across the nation

The National Agricultural Policy

In an attempt to tackle the problems facing the Agricultural Sector in Nigeria, Government has put in place the National Agricultural Policy, which was jointly formulated by the national stakeholders and International Development Partners and approved by the Federal Government in 2002. The major components of the national Agricultural Policy, is the "National Economic Empowerment and Development Strategy (NEEDS)" document. Specifically, the National Agricultural Policy assigns supportive roles to the government, vehicle investments in the sector are left to the private sector initiative. The broad objectives of the National Agricultural Policy include; Promotion of self-sufficiency in food and raw materials for industries; recognition that agriculture is business, hence a private sector concern where the role of government is to facilitate and support private sector initiatives; promoting reliance on local resources ; diversification of the sources of foreign exchange earnings through increased agricultural exports arising from adoption of appropriate technologies in food production and distribution, which specifically responds to the needs of women, bearing in mind that they constitute over 50% of the labour force in agriculture.

Agricultural Credit Support Scheme (ACSS

The Federal Government and the Central Bank of Nigeria have initiated the establishment of an Agricultural Credit Support Scheme (ACSS), with the active support and participation of the Bankers' Committee. The Scheme had a fund of N50.00 billion (Fifty Billion Naira) contributed by the following participants:

i. N30 Billion (N1 Billion each) from the Universal Banks. N5 Billion additionally from the 5 big banks i.e. First Bank, Union Bank, UBA, Zenith and GTB;

ii. N6 Billion from SMEEIS;
iii. N% Billion from NACRDB;
iv. N2.5 Billion from ACGSF;
v. N0.7 Billion from debt relief (MDG);
vi. N200 million each from the State Governments. (7.2 Billion).

The purpose of the ACSS is to develop the agricultural sector of the Nigerian economy by providing credit facilities to famers at single digit interest rate. This is to enable farmers exploit the untapped potentials of the sector with a view to reducing the cost of agricultural production, and increase output on a sustainable basis. These efforts are expected to lead to fall in prices of agricultural produce, especially food items, thereby leading to reduction in inflation rate, generate surplus for export, diversify the revenue base and increased foreign exchange earnings for the country.

The willingness of deposit money banks to dedicate part of their loan able funds to participate in indicative of their readiness to actively promote the growth and development of the real sector of the economy. As custodians of shareholders/ depositors funds, participating banks are expected to exhibit high degree of due diligence in appraising credit requests under the ACSS as is applicable in their normal course of business. Public expenditure analysis in Nigeria is complicated by the country's federal system of government, under which responsibility for the provision of public goods and services is spread across three tiers of government.

The roles and responsibilities assigned to the federal, state, and local governments regarding the provision of public goods and services in agriculture are defined principally in the 1999 constitution, the 2001 New Agricultural Policy Thrust, and 2004 National Empowerment and Economic Development Strategy. The 1999 constitution specifies, under the exclusive list, the areas in which the federal government has exclusive powers to make laws (through the National Assembly) The constitution also specifies, under the concurrent list, the areas in which the federal and state governments both can make laws (the latter through their house of assembly). In addition, the constitution identifies the activities for which local government is primarily responsible and it describes the areas in which local governments are empowered to participate alongside the state governments.

In 2001, the government of Nigeria formulated a national agricultural development policy, which was articulate in the New Agricultural Policy Thrust (NAP) document. The goals of the national agricultural development policy as stated in NAP included:

a. Improving the macroeconomic environment for private sector investment in agriculture
b. Clarifying the roles of each tier of government in the sector
c. Improving the institution framework for government interventions
d. Prioritizing integrated rural development
e. Increasing public spending to agriculture
f. Using trade policy measures to improve fiscal incentives in agriculture and
g. Increasing the use of agricultural machinery and modern inputs (IFPRI)

National Prorgammes on Agriculture

a. National Accelerated Food Production Programme (NAFPP), 1972.

According to Eze (2010), this was part of the Second National Development Plan (1970-74).The plan itself has no clear statement on rural development, although N1,353 million was voted for it (FGN, 2004). It targeted self sufficiency in the production of rice, maize, sorghum, millet and wheat. It was a joint programme of Federal Government and USAID. Its objectives include accelerating and increasing food production through the adoption of improved packages of production technology, speedy up the transfer of research results to farmers, pursuing intensive and extensive cultivation of crops and linking research to production agencies through extension services.

b. Agricultural Development Programme (ADP), 1975.

It is jointly funded by the World Bank, Federal and States, in Nigeria aimed at provision of rural roads, farm service centers, agricultural extension services, credit etc towards achieving food production. Extension activities implemented by ADPs included establishing demonstration farms, identifying lead farmers, providing information to lead farmers on improved farming practices, facilitating access to improved technology and inputs and helping lead farmers teach others Eze (2010).

c. Operation Feed the Nation (OFN), 1976.

The OFN was part of the Third National Development Plan (1975-80) which was voted N2, 050.738 million (Okeke, 2001; Eze, 2010). Like the earlier plan, there was no categorical strategy for rural development, except some N500 million for rural regrouping (Olayiwola & Adeleye, 2005). However, it had objectives to mobilize the people to embrace agriculture, eliminate the traditional disdain for agriculture by the educated, enhance food production on a large scale, create jobs and income and utilize all available land resources in the country.

d. Green Revolution Programme- 1980.

The civilian regime initiated this programme aimed at wiping away hunger through credit supply to farmers, encourage and intensify cooperative education, mobilizing the local people to actively participate in agriculture, application of research on food and fibre to enhance abundance in staple food production, processing and distribution in Nigeria.

e. Community Banking Programme, 1991 to 2007.

The programme provided for the establishment of community banks with a focus on rural banking operations. The National Board for Community Banks (NBCB) was the regulator of these banks until 2002 when this function was transferred to the CBN Eze (2010). It was intended to serve communities that were able to establish one based on personal recognition, character and credit worthiness of the borrower.

f. Root and Tuber Expansion Programme-2000.

It was established to commercialize root and tuber crop production and improve living conditions, income, food security and nutritional health of the poorest small holder households.

g. National FADAMA Development Programme aimed at increasing income of beneficiaries by at least 20%.

The programme was designed in 1993 to promote simple and low cost improved irrigation technology under World Bank financing (Eze, 2010). FADAMA is a Hausa word for low lying flood plains usually with easily accessible shallow groundwater. It is a major instrument for achieving the government's poverty reduction objective in rural areas of

Nigeria. The beneficiaries are meant to come as a group known as FADAMA Community Association to the National FADAMA Development Programme. The programme empowers the association with resources, training, and technical assistance support to properly manage and control the resources for their own development. FADAMA adopts a socially inclusive and participatory process in which all FADAMA users will collectively identify their development goals and pursue it when assisted. The programme is in its third phase currently due to its success in the states that adopted it.

h. Family Economic Advancement Programme (FEAP), 1997 to 2001.

This was established to serve the credit needs of the family in their daily economic activities through input supplies, loan in form of cash, and capacity building.

i. National Poverty Eradication Programme (NAPEP), 1999 to date.

Like FEAP, NAPEP was established by the federal government. The mode of operation is tailored towards directed (subsidized) credit to farmers. The programme consists of four schemes namely, Youth employment scheme which involves capacity acquisition, mandatory attachment, and credit delivery; Rural Infrastructures Development scheme which involves the provision of portable water, rural electrification, transportation and communication development. Social Welfare Services Scheme which is involved with qualitative education, primary health care, farmers employment and provision of social services, provision of agricultural input and credit delivery to rural farmers.; and Natural Resources Development and Conservation Scheme which contains programmes for environmental protection through conservation of land and space, development of agricultural resources, solid minerals and waters resources.

j. Microfinance, 2005 to date.

Microfinance bring financial services such as savings, deposit, payments, transfers, micro insurance and micro leasing to the active (or productive) poor and low income people, who would otherwise have no access to such services. The Microfinance Policy outlines the principles and guidelines for the practice of microfinance in Nigeria, including provision for the establishment of private sector driven microfinance banks with market-centered operations; veritable source of loan able funds for microfinance bank is the Micro Credit Fund, integration of microfinance institutions into the formal banking system. The specific objectives of the Nigerian microfinance policy are to make financial services accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services, promote synergy and mainstreaming of the informal subsector into the national financial system, enhance service delivery by Microfinance institutions to micro, small, and medium entrepreneurs, contribute to rural transformation and promote linkage programmes between universal and development banks, specialized institutions and microfinance banks. The micro finance banks are of two types; those licensed to operate as a unit bank with capital base of # 20 million (88,890 Euros) and those licensed to operate in a state with capital base # 1 billion (444, 500 Euros) Eze (2010:10).

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