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Agribusiness vs Economic Growth: Whither Nigeria?

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Abstract: *Before the discovery and exploration of petroleum, the Nigerian economy depended mainly from funds generated from agribusiness exports which was further used to develop other sectors. Nigeria, which once exported food, now relies on imports to sustain her population because agriculture has been unsuccessful in keeping pace with her rapid population growth. To correct this, the agricultural sector has to be developed. This can only take place, however, through an agrarian reform which can be achieved through a workable land reform strategy. In order to attain self-sufficiency in the agribusiness sector of the Nigerian economy and also achieve the vision 20-2020, which has food security and agriculture as one of its seven point agenda, the government has to enhance access to information for rural farmers in Nigeria. If agriculture is to provide a development path out of poverty, it is crucial that Nigeria fully integrate into global agribusiness. It is important to learn from the policy experience of emerging economies, where agribusiness development resulted from deliberate but targeted public policies and strategies, and from institutional support and development. Upgrading the competitiveness of farms and firms, irrespective of size, is also crucial.*

Key words: *Agribusiness, economic growth, Nigeria*

1. Introduction

Agriculture is the major occupation and the main source of livelihood for over 2.5 billion people globally. This includes about 1.3 billion small holders and landless workers. It is estimated that 75% of low income earners live in rural areas. Of this population, 86% rely on agriculture as a means of livelihood. Gross domestic product (GDP) originating in agriculture is about four times more effective in raising incomes of the very poor than GDP growth originating outside the sector (myfinancialintelligence, 2015). Therefore, the demand for food is expected to continue to grow as a result of both population growth and rising incomes.

Agriculture has remained the mainstead of the Nigerian economy and this has made it the focal point of any government that wants to fight unemployment, disease and poverty. In this review William Anaebonam takes a look at Agribusiness and the effort of FCMB to revolutionise the sector**.** Nigeria is blessed with favourable climatic conditions, vast arable land and fertile soils. It has never been in doubt the significant role agriculture plays in any nation's quest to achieve stainable development (Anaebonam, 2015). Aside ensuring food availability and therefore decimating hunger; agriculture, as attested to by empirical evidence, remains instrumental to effective jobs creation, value addition, wealth creation as well as in spurring economic development. In other words, countries could, through agriculture, create additional agricultural value chains on the line, while exploiting whatever other resource nature had blessed them with.

Of concern however is that as desirable as agribusiness is to economic well-being, many countries in the sub Saharan, Nigeria inclusive, are yet to maximize their potential. In the case of Nigeria, it is a combination of various factors some of which include the relegation of agriculture to subsistence farming; non-prioritisation of agribusiness at the different levels of governance; the lack of infrastructure such as poor storage facilities, poor state of research, poor extension and disjointed value chains as well as the distraction occasioned by the discovery of oil (Anaebonam, 2015).

Agribusiness is moving from farm to market centric, where effective activities anticipate and respond to customers, markets and systems in which they function (myfinancialintelligence, 2015). This evolution requires a broader conceptualisation and more accurate definition, to convey a more dynamic and integrative discipline which increasingly is committed to value creation and the sustainable orchestration of food, fiber and renewable resources.

Each of these factors has had a far-reaching impact on the development of agriculture in the country, but of much more impact was the relegation of agriculture the moment petroleum was discovered as a prime revenue earner (Anaebonam, 2015). Millions of productive men and women, especially the youth, headed to the cities to work in factories and refineries, or at administrative posts with dignified statuses.

As much as countries and governments realize this, and have demonstrated readiness to embrace agriculture and leverage all its potential, the point still remains that the sector is still fraught with some challenges including resource scarcity, technology and infrastructure inadequacies and climate change for Nigeria. What appears even much more gargantuan is the challenge of financial resources and credit for the agriculture sector, believed to contribute between 20 per cent and 30 per cent to the nation's Gross Domestic Product (GDP) (Anaebonam, 2015).

2. Factors Affecting Agribusiness in Nigeria

Several factors have pushed the boundaries of agribusiness from primarily farm-centered production endeavor to more customer and market centered activities. Some of these factors are (myfinancialintelligence, 2015):

i. The systematic nature of value chains and each firm's or entrepreneur's position and contribution to those chains
ii. Multiple stakeholders of increasingly diffuse and complex agribusiness value chains
iii. Naturally scarce resources and their prudent management
iv. New technologies and their appropriate application
v. Globalisation, including myriad opportunities and threats that arise accordingly
vi. Sustainable differential advantage or more precise sources and sustenance –example are branding and brand equity – in an increasingly competitive and dynamic world

3. Developed Economies Taking the Lead

In much of the developed world, there has been increased attention towards multi-crop or polyculture farming operations and organic produce. This trend is largely due to environmental and sustainability concerns. In spite of traditionally higher organic product costs, demand has continued to outstrip the United States supply (myfinancialintelligence, 2015). While organics represent just 3% of the total market, large growers are beginning to pursue organic growing practices in order to take advantage of higher margins for those products. The level of government involvement in the Agribusiness sector is a clear indicator of its importance to national security.

With regard to the Agribusiness sector, most governments of the developed economies have embarked on domestic food security and safety, and to promote and protect the viability of the sector both domestically and abroad. To sustain this, developed economies have made provision for (myfinancialintelligence, 2015):

i. Stability of food prices
ii. Access to nutritious food for all citizens (through education and welfare programs)
iii. The safety of food (from both intentional and unintentional acts)

4. Agribusiness: Value Added (% of GDP) to BRICS Economies

Agribusiness has contributed a lot to emerging economies. Using India as a case study –As India's economy transcends its $1 trillion benchmark, agriculture is moving towards agribusiness (myfinancialintelligence, 2015). The commercialisation of agriculture into agribusiness is supported by both the fast growing domestic market and the increasing acceptability of Indian food products in the international market. With a population of over 1.2 billion, growing at 1.6% per annum, India is a large and growing market for food products.

Compelling evidence was found that market oriented agricultural policy reform leads to higher rural incomes, increased agricultural productivity and reduced rural poverty; with countries such as Brazil and China leading the way in achieving those outcomes. While agricultural assistance in most of the BRICS' economies is at moderate levels, it focuses on input and output prices for import – competing commodities are highly distortionary. Reform of domestic food grain self-sufficiency policies in countries with high rural population such as China and India in particular, is therefore a priority if fundamental social issues are to be addressed. Brazil and China stand out as having achieved steady annual gain in agricultural output with further notable production and trade development within the BRIC economies being:

i. Brazil is the world's fourth largest exporter of agricultural commodities and its export of sugar, poultry and oilseeds dominate world market
ii. Russia is the world fifth largest exporter of grains, but the world's largest importer of agricultural commodities –importing much of its meat and vegetables
iii. India is the world's largest exporter of cottons; and
iv. China is a major importer of cotton for its textile industry

5. Environmental Challenges Hindering Economic Growth of Agribusiness in Nigeria

5.1. Government/Political/Legal Factors

These entail the extent and process of government direct or indirect intervention and influence on businesses in an economy (Obiwuru, Oluwalaiye, and Okwu, 2011). Specifically, political factors include such areas as tax policy, labor law, environmental law, trade restrictions, tariffs, incentives, other encouragements and political stability. The Nigerian Government is also trying to encourage and support agribusinesses in areas of capacity building, training, meeting market requirements and institutional personal training. Governments have great influence on the infrastructure of a nation. An organization's political-legal environment includes government regulation of business and the relationship between business and government. It is important for three basic reasons. First, the legal system partially defines what an organization can and cannot do. The government and the laws, regulations and edicts of a country affect how businesses are operated in that country (Ottih, 2008). The dimensions of government/political/legal factor include:

i. The Stability of Government

The stability of government creates an enabling environment for business operations and attracts additional domestic and foreign investments; the stability of government and the smooth change or political leadership makes it possible for business to predict and adapt to government policy shifts (Ottih, 2008). The instability of government is a serious threat to business and can drive away prospective local and foreign investments. The various changes in government which is a common feature in Nigeria are risks to the capacity to the utilization of capacity by farmers; a stable policy must be ensured (Adedeji, and Okocha, 2012). The instability of government is a serious threat and contributes to the failure of catfish agribusiness enterprises. This can drive away prospective local and foreign investments and even hinder the availability of resource inputs.

ii. Regulatory laws

Included in this component are discrimination law, consumer law, antitrust law, employment law, and health and safety law. These factors can affect how a company operates, its costs, and the demand for its products (Obiwuru, Oluwalaiye and Okwu, 2011). There are laws enacted to protect indigenous agribusiness firms so as to achieve self sufficiency. In some of these cases, the importation of agricultural raw materials may be banned or high tariffs imposed on them in order to place agribusiness enterprises on a good pedestal for growth and competition. Tariffs, quotas and hurdles are imposed on foreign businesses to raise revenue for the government and to protect domestic agribusinesses (Ball, McCulloch, Frantz, Geringer, and Minor, 2002). If agribusiness firms are not protected by consumer protection laws, through quotas, tariffs and other trade obstacles against foreign agribusiness firms, the cost of running agribusiness in Nigeria will surely increase.

iii. Collaboration

Power politics enters into a new business in the way that it does in forming a new government. Money brings power. A founder's ideas, however, can also create political power (McClure, 2001). Whether they do or not depends on how easily others can exploit these ideas themselves. You want those with natural access to power and resources to be the right ones to grow the business. More than just power politics is at work in the political frame – collaboration. Power politics marginalizes the great gains achievable through mutual understanding and collaboration. Collaboration or partnership can be defined as structures for joint action in which complementary resources can be tapped and different interests can be balanced while the parties involved retain full independence (UNIDO, A staff working paper, 2009). Bedford Fubara has in recent developments in organization theory, shown how power blocks external and internal to organizations, influence organization processes (Ottih, 2006a). From this perspective, the agribusiness firm can acquire power from its domain consensus and maintain harmony within by collaborating with essential elements in that environment. For example, an agribusiness firm can induct the chief of the region in which it does business, into its editorial board. This strategy can bring power to the agribusiness firm. The chief in question will normally mention any challenges encountered by the agribusiness firm to the state or federal government, whenever the opportunity arises, because of the benefits he stands to gain.

5.2. Economic Factors

The economic dimensions can provide useful information to management; it also signifies that changes may be required in production processes. An organization's economic environment is the overall health of the economic system in which the organization operates. These variables or indicators include the rate of increase of the economy of the nation as measured by the Gross Domestic Product (Ottih, 2008). These include economic growth, interest rates, unemployment, demand, supply, exchange rates and the inflation rate. These factors have major impacts on how businesses operate and make decisions.

i. Interest rates

For example, interest rates affect a firm's cost of capital and therefore the extent to which a business grows and expands. A company pays more for resources and must raise its prices to cover the higher costs. When interest rates are high, consumers are less willing to borrow money and the company itself must pay more when it borrows money (Van Fleet, Van Fleet, and Seperich, 2014). When the lending rate to business firms is high, the high interest rate discourages borrowing, bulk purchase of inputs and economic expansion, but when the interest rate is low, existing firms can borrow for expansion purposes, buy large amount of inputs and many new businesses can be founded.

ii. Exchange rates

Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy.

iii. Unemployment

When unemployment is high, the company can be selective about whom it hires, but consumer buying may decline. Economic policies that enable importation of agricultural finished goods have contributed to the dearth of smaller and medium agribusinesses in Nigeria. In order to revive the agribusiness sector, agricultural policies must be re-visited for an increased employment rate.

iv. Fluctuations in the Business Cycle

Fluctuations are usually experienced in the economies of nations. They fluctuate from periods of prosperity or boom to recessions or depression and to recovery and back to a boom or a recession (Ottih, 2008). These invariably affect such business decisions as whether or not to invest, expand or diversify the catfish enterprise, etc., and consumer decisions about what inputs resources to buy and how much to buy comes into consideration.

v. Taxes

Taxes definitely influence business decisions and activities of agribusinesses. A similar effect is experienced in the case of corporate tax rates. High rates discourage new investments and business expansion, and low rates encourage them. If individual tax rates are high, the purchasing power of consumers for products will slump and patronage will be reduced.

5.3. Market Factors

The market factor refers to all those forces and institutions that bear on, and influence the size of markets for goods and services, and the level and intensity of competition among firms in the industry. The market for products develops as a company achieves new levels of credibility in the eyes of customers (McClure, 2001). Agribusinesses are sometimes forced to sell their products to avoid preservation problems. The market is the place where competition for competitive goods intensifies.

i. Increased consumption

Income or wealth distribution in the population has powerful influence on consumption. If wealth is disproportionately distributed among the economic classes, for example a nation has a small stupendously rich wealthy-class, and the rest of the population is poor and beggarly, businesses will have difficulty selling their goods and services; when on the other hand, a nation has a large and virile middle class and wealth distribution gaps are not conspicuous, businesses will have a larger market for their goods and services (Ottih, 2008). Agribusiness managers will have a high demand for their products if income is evenly distributed in the population; thus improving the value chain. For example, fish are sold at a fixed price per kg; fish producers in Nigeria are unable to meet demand for fish, leaving Nigeria to rely heavily on imports to help meet demand. Imports contribute between 650,000 to 700,000t/yr (56% of consumption); Nigerians consume about 1.2 million tones of fish per year (UNIDO, Draft Report, 2010).

ii. Market linkages

Competition affects business decisions, activities and results. When competition in an industry is high, more money is spent on such matters as formulated feeds, labor, experienced managerial consultants, research and development, advertising, market research, publicity and customer satisfaction. Competition for resource inputs among agribusinesses in the market raises the costs of input resources. Market linkages are important for agribusinesses to acquire inputs at minimum prices. An effective linkage with markets can ease complications and trade implications at both regional and international levels.

iii. Market Standards

Market standards can be classified into three broad categories: mandatory, voluntary and private. Mandatory standards are set by governments in the form of regulation (i.e. technical requirements, testing, certification and labeling). This type of standard is regulated by bodies such as: NAFDAC, SON, etc. In any given market, participants can seek voluntary standards and go through the formal certification process. Consumers or NGO's might also request these voluntary standards in the agribusiness sector in developing countries. Voluntary standards are verified through third-party auditing, as is the case of ISO (International Standard Organization).

There is currently no standard and accreditation system for the inland artisanal fishery and small-scale fish farming, however, the Fisheries Society of Nigeria is participating in training course to enable them to undertake setting standards and providing accreditation (UNIDO, Draft Report, 2010). Fish producers participating in global value chains are increasingly required to conform to a number of standards (Kaplinsky, 2004). These standards can be set by international bodies (i.e. ISO9000, ISO14000, SA8000 and HACCP) or private sector lead firms. Reardon point out that in developing countries, these changes have tended to exclude small producers from participating in market growth, because of the implied investments (Reardon, Cordon, Busch, Bingen and Harris, 2001). The necessary enforcement of increasingly important standards leads to learning processes along the chain (Humphrey, 2005). For developing countries above all, learning processes in the area of backward linkages are important in this connection. In the case regarding access of fish farmers to international markets, the Federal Government of Nigeria has tried to publish standards for the nation's fish and fish feed that would be globally competitive.

iv. Market Information

Adequate information on demand, supply and price conditions is necessary in a form that is easily understood by traders, processors, consumers and farmers if agribusiness products are to be distributed effectively. Supportive educational and training programs are also needed to make market information services fully effective (Abdulai, 2006). A stable market will boost the development of the agribusiness industry through a number of variable roles e.g. market services (i.e. information, intelligence reports, promotions, etc.) so as to ensure sustained and increased inflow of investments and input resources.

6. Conclusion

In Nigeria, the agriculture, forestry, and fishing sector constitutes about 38.5 % of gross domestic product and employs over 50 % of the workforce. The agribusiness sector has been invaluable in supporting economic growth and development since 1960. Before the discovery and exploration of petroleum, the Nigerian economy depended mainly from funds generated from agribusiness exports which was further used to develop other sectors.

Nigeria, which once exported food, now relies on imports to sustain her population because agriculture has been unsuccessful in keeping pace with her rapid population growth. To correct this, the agricultural sector has to be developed. This can only take place, however, through an agrarian reform which can be achieved through a workable land reform strategy. In order to attain self-sufficiency in the agribusiness sector of the Nigerian economy and also achieve the vision 20-2020, which has food security and agriculture as one of its seven point agenda, the government has to enhance access to information for rural farmers in Nigeria.

Usually, several factors can be said to be responsible for the poor performance of the Nigerian agribusiness but prominent among these factor is the macroeconomic environment. The Nigerian macroeconomic and environmental policies comprise of fiscal, monetary policies, income and other policies used to generate productive activities in the economy, including agribusiness sector. The Nigerian macroeconomic policies, like other developing countries, view the agribusiness sector as a high priority sector. In recent years, most macroeconomic and environment policies have made significant steps forward ensuring macroeconomic stability.

7. Recommendations

i. **Enhancing Agricultural Supply for Value Addition**

   according to myfinancialintelligence.com, if agriculture is to provide a development path out of poverty, it is crucial that Nigeria fully integrate into global agribusiness. It is important to learn from the policy experience of emerging economies, where agribusiness development resulted from deliberate but targeted public policies and strategies, and from institutional support and development. Factors contributing to market failures must be well understood and speedily addressed by key stakeholders such as national and local policymakers, as well as development partners. African countries must also de-emphasise low input agriculture as a panacea for ending hunger in Africa in the 21st century. African countries must embrace new farming approaches, like the “sustainable intensification” proposed in foresight. This will require enlisting all modern technologies, agro-industrial inputs, mechanisation, genetically modified crops and livestock in order to increase productivity (myfinancialintelligence, 2015).

ii. Upgrading Value Chains

Upgrading the competitiveness of farms and firms, irrespective of size, is also crucial. According to myfinancialintelligence.com, African countries need to invest in competitive value chains, taking into consideration local, regional and international market demands and requirements. Value chain participant councils could play a crucial role in coordinating the functions and activities of producers and other key stakeholders. This would require the promotion and development of efficient agri-input value chains, mechanisation, processing, and related agro-industries (myfinancialintelligence, 2015).

iii. Exploiting Local, Regional and International Demand

Many African countries are yet to gain greater access to dynamic global agribusiness markets due to lack of competitiveness and inability to adjust supply to changing market opportunities. In this regard, aid for trade can play a crucial role in building capacity to trade, overcoming supply-side rigidities to market opportunities and strengthening standards and compliance systems. It is also crucial to promote agribusiness cooperation by reducing intra-African tariff and non-tariff barriers, negotiating the reduction in such barriers with the South and the North (myfinancialintelligence, 2015). A fresh approach will be required in order to foster agro-industrial cooperation within the South in the field of value chain participation, technology transfer and foreign direct investment, as well as to align Africa’s commodity processing priority with the resource needs of major trading partners such as China.

iv. Strengthening Technological Efforts and Capabilities

There is an urgent need to strengthen Science, Technology and Innovation (STI) policies, with an emphasis on improving the coordination mechanism for learning and innovation, promoting national and regional innovation systems, strengthening human resource development, and generally improving STI infrastructure (myfinancialintelligence, 2015). It is essential to enhance the link between knowledge created by universities, exploited by laboratories, and commercialised by private enterprises.

v. Promoting Effective and Innovative Financing

Traditional financing mechanisms comprising domestic resource mobilisation, sovereign wealth funds, funds from diasporas, development finance institutions, leasing and collateralisation, must be explored with renewed vigour. Some of the more innovative financing tools, such as risk mitigation for bank lending through insurance schemes, finance through large lead firms in value chains, equity, venture and hybrid capital, have proven to be workable and should be explored (myfinancialintelligence, 2015). Here, it is important that the enabling conditions for local resource mobilisation and utilisation are created to permit the “crowding in” of private investment in agribusiness.

vi. Creating a Favorable Business Environment

The creation of an overall enabling environment for developing and promoting private agri-enterprises requires a favourable business environment –macroeconomic stability, favourable exchange rates, efficient financial systems and institutions, political and social stability, good governance, transparent land tenure arrangements, a climate for business, etc (myfinancialintelligence, 2015).

vii. Improving Infrastructure and Energy Access

It is essential that agribusiness expansion be promoted in areas where the required infrastructure and energy services are available and which are linked to transport and highway corridors. In this regard, public-private partnerships will be particularly necessary. A focus on clean, renewable, efficient, low-carbon and sustainable energy services, as well as a reduction in greenhouse gas emissions, will be important parts of the strategy (myfinancialintelligence, 2015). The promotion of information and communication technologies is also a precondition for participation in value chains. Finally, the clean development mechanism, which promotes projects that reduce greenhouse gas emissions in developing countries, could be a future driver of technology diffusion processes in Africa and assist with the creation of green jobs and investment opportunities (myfinancialintelligence, 2015).

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