The effects of government budgetary allocation to agricultural output in Nigeria

Adofu I.*, Abula M. and Agama J. E.

Department of Economics, Kogi State University, Anyigba, Nigeria.

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The study, “Government Budgetary Allocation to the agricultural sector and its effect on agricultural output in Nigeria”, is an attempt at highlighting the quantity and quality of national commitment (through public expenditure/budgetary allocation) to agricultural development over the years. Using government budgetary allocation to the agricultural sector and commercial bank credit to the agricultural sector as our explanatory variables, we examine the effect of government budgetary allocation to the agricultural sector on the output of the agricultural sector. Data were obtained from CBN’s Statistical Bulletin and NBS’s Annual Abstract of Statistics. Employing the OLS regression technique, our results revealed that budgetary allocation to agricultural sector has significant effect on agricultural production in Nigeria and that the relationship between them is strong, positive and significant. Thus, the study recommends that budgetary allocation to the agricultural sector should be increased and monitored, to guarantee food security, employment and overall economic growth and development in Nigeria.

Key words: Government, budgetary allocation, agricultural sector, credit, food security and employment.

INTRODUCTION

Budgeting is a tool for planning and controlling finances by both private individuals/establishment and government. In the process, there is a wise selection of essential activities to be executed. It is also the process by which scarce resources are allocated in the most efficient manner to address most important needs and problems. Budgets are formulated to achieve certain prime objectives such as to reduce inflationary pressures, to sustain growth and development, increase employment opportunities, reduce poverty and to meet individual set goals. It could also be aimed at developing a specific subsector (or sector), or a certain group of subsectors, or indeed an aspect of the economy, to achieve a specific goal.

Nigeria, like the government of most less developed countries, have come up with different policies and budget that aimed at enhancing the standard of living of the populace. Every Federal Government budget covers all the various sectors of the economy irrespective of whether it is a servicing, manufacturing, or production outfit. However, much emphasis are usually laid on one or some sectors than others depending on the exigency of the situation at hand or in the nation/economy. Successive government in Nigeria have made concerted efforts at enhancing the quality of life of the populace over the years but often with little achievement to show for it.

In Nigeria, the importance government places on some sectors like health, agriculture and some others has led to the development of some related institution in the country with the aim that this efforts would enhance growth in these sectors. However, in most cases, the efforts on these sectors (e.g. agriculture) do not produce the desired results. Question often asked is that does government budgetary allocation to these sectors have any positive impact or significance on their performance?

Since 1960 when Nigeria achieved independence, the performance of the nation’s agricultural sector has been inconsistent. Between the 1960s and the late 1980s, real
agricultural growth per capital fluctuated between -19% and +15% per year (International Food Policy Research Institute, 2008).

As a tool for planning and controlling finances, budgets are formulated to achieve certain prime objectives such as to reduce inflationary pressures, to sustain growth and development, increase employment opportunities, reduce poverty, etc. It could also be aimed at developing a specific sector, or a certain group of subsectors, or indeed an aspect of the economy, to achieve a specific goal.

According to Matthew (2008), the Nigeria agricultural sector provides to meet the Nigeria’s food requirement and also made significant contribution to raw material supply. Thus, it can be seen that agriculture holds the potential for tackling unemployment in Nigeria, at least in the short run. But despite the significance of agriculture in Nigeria’s economy, the sector is clearly the least productive when compared with other sectors as at 2007. The productivity of the sector in 2007 was ₦ 0.66 million per worker, while the productivity for the mining and quarrying sector was ₦ 254.89 million per worker, also in 2007, (Ujah and Dom, 2009).

The reason for the very low productivity in Nigeria’s agricultural sector cannot be farfetched. Approximately 70% of the Nigeria’s population engages in agricultural production at subsistence level, while agricultural holdings are generally small and scattered (FGN, 2008). Small holder farmers constitute 81% of all farm holdings and their production system is inefficient. Small scale (0.1 - 5.9 hectares), medium scale (6.0 to 9.9 hectares) and large scale (above 10 hectares) are the three broad categories of farm holdings in Nigeria, with the small-scale farm holdings predominating the country’s agriculture and accounting for about 81% of the total farm area and 95% agricultural output (Shaib et al., 1997; FGN, 2008). The estimated average operational holding is 2 hectares per farm family. To this end, it can be concluded that agriculture in Nigeria needs to be given some attention which would facilitate the overall performance of the sector. Therefore budgetary allocation to the agricultural sector and its effects in enhancing agricultural output is imperative and in fact is the case that this present study wants to address.

OBJECTIVE

The objective of this study is to analyze the effect of government budgetary allocation on agricultural output in Nigeria. The study is attempt at exposing the contribution of government budgetary allocation to the agricultural sector on the output of farmers in Nigeria.

LITERATURE

In Keynes’ General Theory of Employment, Interest and Money in 1936, the Keynesian model or ideas were developed. A simple Keynesian argument is that high level of government consumption will increase employment and also profitability and investment via multiple effects on aggregate demand, hence increase in output too.

Keynes concluded that both increased government purchases and lower taxes can be used to raise output and employment. Thus, the Keynesian Aggregate Demand-Aggregate Supply (AD-AS) framework will be the main theoretical basis or framework of this research.

Also, some researchers have also formed some empirical findings and conclusions which would also be considered. Some researchers have concluded that larger government revenue in GNP enhances economic growth mostly in poorer developing countries (Rubinson, 1977). Ram (1988) has found positive relationships between government spending and economic growth. The work of Grossman(1988) utilized a simultaneous equation model making allowance for a non-linear relationship between growth in government spending and total economic growth, while that of Ram (1986) was based on a production function approach.

Blejer and Khan (1984) maintained that public investment which has some bearing on infrastructure and provision of public goods can be complementary to private investment. They show for a group of developing countries that a longer term infrastructural expenditures rather than short term public investment positively induce private investment capital.

Ihimodu (2007), opined that agriculture remains the mainstay of the Nigerian economy. It contributes 40% of the nation’s gross domestic product (GDP) and over 60% of employment, this is in spite of the dominant role that the oil sector has been playing since about two-and-half decades now. Agriculture provides most of the food needs of the citizens as well as raw materials required in the domestic industries especially the agro allied ones. Ihimodu (2007) observe also that in spite these advantages of the agricultural sector on the Nigerian economy, in review of the sector’s performance, mixed feelings were observed. Some of these constraining factors to agricultural performance during the period of 1988 agricultural policy includes: Non-conducive enabling macro-economic environment under the policy operated, inconsistency and instability of macroeconomic policies that discourages medium and long term investment, poor state of infrastructures, especially in the rural areas, poor funding of agricultural development activities and inadequate availability of inputs, including credit and poor targeting of beneficiaries.

Eboh et al. (2009) on their own part observed that the contemporary economic significance of agricultural sector is even more remarkable. They opined that in the past half a decade, the impressive growth rate of the nation’s economy has been driven by the non-oil sector, particularly the agricultural sector. This, in other words,
Table 1. Trends of budgetary allocation to the agricultural sector and agricultural output (1995 - 2009).

<table>
<thead>
<tr>
<th>Years</th>
<th>Real G.D.P OF agricultural sector (N In Millions.) proxy for agricultural output (AGOUT)</th>
<th>Budgetary allocation to agricultural sector (BAAS), N In Millions.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>96220.7</td>
<td>6927.7</td>
</tr>
<tr>
<td>1996</td>
<td>100216.2</td>
<td>5574</td>
</tr>
<tr>
<td>1997</td>
<td>104514</td>
<td>7929.6</td>
</tr>
<tr>
<td>1998</td>
<td>108814.1</td>
<td>11840.4</td>
</tr>
<tr>
<td>1999</td>
<td>114570.7</td>
<td>10047.3</td>
</tr>
<tr>
<td>2000</td>
<td>117945.1</td>
<td>10596.4</td>
</tr>
<tr>
<td>2001</td>
<td>122522.3</td>
<td>64943.9</td>
</tr>
<tr>
<td>2002</td>
<td>190133.4</td>
<td>44803.8</td>
</tr>
<tr>
<td>2003</td>
<td>203409.9</td>
<td>16045.2</td>
</tr>
<tr>
<td>2004</td>
<td>216208.5</td>
<td>49926.4</td>
</tr>
<tr>
<td>2005</td>
<td>231463.6</td>
<td>76636.7</td>
</tr>
<tr>
<td>2006</td>
<td>248559</td>
<td>107463.9</td>
</tr>
<tr>
<td>2007</td>
<td>266477.2</td>
<td>126600</td>
</tr>
<tr>
<td>2008</td>
<td>283175.4</td>
<td>171400</td>
</tr>
<tr>
<td>2009</td>
<td>299996.9</td>
<td>184500</td>
</tr>
</tbody>
</table>


According to them means the growth rate of the overall economy is to a large extent dependent on the growth rate in agricultural GDP.

They further showed that there are, however doubts about the sustainability of the current growth rate. According to Mogues et al. (2008) and Eboh et al. (2006), the recent upsurge in agricultural growth rate has been driven mainly by production increase resulting from the expansion in area planted to staple crops, while productivity have actually declined over the past two decades.

According to Idachaba (2000), the small scale farmer will continue to be the back bone of Nigerian agriculture for the next 25 years. This implies Nigeria’s agricultural policy thrust in the next decade and beyond should have small scale farmers as its centre piece. However, Eboh et al. (2004) stated that average age of farmers in the country is high and increasing, thus reflecting low inflow of younger entrepreneurial labour force into agriculture and signifying the urgent need for the renewal of the farming population by making agriculture very attractive and qualitative.

Public spending (e.g. Budget) is one of the most direct effective instruments used by governments to promote agricultural growth and poverty reduction. Public spending at the Federal level and sub-National level follows a basic structure-recurrent spending and capital spending. This spending structure is characterized by different expenditure categories depending on the ministry, department or agency.

According to Ujah and Dom (2009), federal budget increased nominally by 63.5% from 2000 to 2008, total federal recurrent budget increased by 427.2% and total federal capital budget increased by 150.3%. For the agriculture and water resources sector, within the same period, total recurrent budget increased by 317.5%. In real terms, total agriculture capital expenditure increased to an all time high of approximately N0.06 billion (in 2001) from N0.02 billion in the year 2000 before unstably declining to N0.03billion in 2008. Moreover, the total federal agriculture budget (recurrent plus capital) in 2008, represented only 4.6% of total federal budget. This is below the CAADP’s(Comprehensive Africa Agriculture Development Programme) recommended thresh hold of 10% of Budgetary spending on agriculture.

Fan et al. (2009) noted that in recent years, many sub-Saharan African countries have pledged to increase government support to agriculture in order to achieve the goal of 6% annual agricultural growth set by the New Partnership for Africa’s Development (NEPAD) through CAADP. As part of the Maputo Declaration of 2003, Africa heads of state and governments have agreed to allocate 10% of their national budget to agriculture. Few countries in Africa including Burkina Faso, Ethiopia, Malawi and Mali have surpassed this threshold.

From Table 1 below, both the budgetary allocation and the output of the agricultural sector increased steadily between 1995 and 2009. In 1995, the allocation was N6927.7 million while the worth of the agricultural output
was N96220.7 million. In 2003, the allocation was N16045.2 million while the worth of the agricultural output was N203409.9 million. The terminal date of this study, 2009, recorded the highest in terms of allocation and output. The allocation was N184500 million while the output was N299996.9 million. The trend shows a positive relationship between budgetary allocation to the agricultural sector and output of agricultural product.

**RESULTS AND DISCUSSION**

\[ \text{AGOUT} = 116036.083 + 1.077 \text{BAAS} + 0.432 \text{CRAGS} + e \]

Where: AGOUT = Agricultural output  
BAAS = Budgetary Allocation to Agricultural Sector  
CRAGS = Credit to the Agricultural Sector  
\( b_0, b_1, \text{ and } b_2 = \text{parameters} \)  
\( e = \text{Stochastic error term.} \)

Note: Agricultural contribution to Real GDP (GDP deflated by the consumer price index at constant factor cost) is used as a proxy for Agricultural Output.

**SUMMARY OF FINDINGS**

The study exposed that, the percentage, degree or amount of Budgetary Allocation to Agricultural Sector has a positive relationship with the total agricultural production in the country. This implies that the more the public spending on agricultural sector, the more the improvements in the performance of the agricultural sector.
sector. Also, a large degree of change in agricultural output is accounted for by change in budgetary allocation to agricultural sector. Thus, budgetary allocation to agriculture has a large impact on agricultural output.

CONCLUSION AND RECOMMENDATION

The inevitable relevance of agriculture to meaningful national development has been exposed by this study. Agriculture accounts largely for the food needs of the country, and its contribution to employment is overwhelming as it account for over 60% of employment opportunities in the country), and yet, the sector suffers neglect, which is expressed in terms of the fluctuating and low percentage allocation to the sector from the national budget. Thus, in the light of this, it becomes very obvious that agriculture needs to be further strengthened in terms of increased budgetary allocation in order to enhance the quantity and quality of agricultural output, thus, enhancing and improving national development as a whole. The study specifically recommend thus:

Agriculture should be placed on government top priority list such that its position within the sectoral allocation could be substantially enhanced. Conscious effort should be made by government at all levels towards increasing budgetary allocation to the agricultural sector. In addition government should put in place a monitoring mechanism to ensure that the allocation to the Agricultural sector are applied to what it is intended for to guaranty good result.

Government should provide an enabling environment that will encourage young school leavers (products of secondary and tertiary institutions) to embrace farming as a lucrative profession. This can be achieved through the provision of social amenities in the rural areas where most of the farming activities take place to reduce the rural - urban and also through the provision of incentives that will make farming business (agro-business) attractive.

We can therefore conclude that, increased budgetary allocation to the agricultural sector and the budget’s adequate monitoring, is one of the sure and effective ways or instruments of achieving improvement in agricultural productivity which has remain an important challenge to government in Nigeria.

REFERENCES


