

## **Diversification of the Nigerian Economy through Agricultural Sector Transformation**

George Umeji

Department of Economics

Chukwuemeka Odumegwu Ojukwu University,

Anambra State, Nigeria

honypuu@gmail.com; +2348037029916

### **Abstract**

This study, diversification of the Nigerian economy through agricultural sector transformation, using descriptive research method, examined the role and challenges of the agricultural sector in the diversification of Nigerian economy. The findings showed that agriculture contributes to the economic development of a country as it increases domestic supply of food for consumption; releases labour for employment in the industrial sector, increases market size for industrial output, increases supply of domestic savings, and increases foreign exchange earnings. However, some of the challenges facing the agricultural sector in Nigeria are lack of high-yielding seedlings, poor extension services, lack of credit facility to the sector, lack of storage facilities and poor infrastructures in the country. It was concluded that it is difficult to project what revenue will be accruing to Nigeria from oil revenue due to the volatility of the global crude oil market and this has far-reaching consequences for Nigerian economic planning. It is the recommendation of this study that the government should place priority on the urgent funding of research in the Universities of Agriculture for the development of high yielding seedlings in the country.

**Keywords:** Diversification, Agriculture, Growth and Sustainability

### **Introduction**

The recent global financial crisis has necessitated the renewed call for the economic diversification of the economies of less-developed countries, especially mono-economies like Nigeria. Nigeria is the largest exporter of crude oil in Africa. Although, the oil sector contributes barely 9.61 per cent of Nigeria's total Gross Domestic Product (GDP), it is the highest contributor to its foreign exchange earnings, contributing about 87.7 per cent (Okpi, 2018). According to Okpi (2018), the fact that Nigeria produces so little processed products, such as manufactured items, means that our export is dominated by crude oil. The Nigerian economy is crude oil-driven, making it a monolithic economy, despite its enormous endowment in the agricultural sector and solid minerals. The Arab-Israeli crisis in the 1970s resulted to an increase in the global oil price making Nigeria to enjoy 'a bounteous oil windfall,' (Suberu, Ajala, Akande & Olure-Bank, 2014). The oil windfall resulted to the neglect by Nigeria of the agricultural sector and the solid minerals; hence, leading to rural-urban migration and Nigeria that was a major exporter of agricultural

products became a chief importer of food. Increased rate of unemployment and inflation became the order of the day; poverty level increased as the bulk of the revenue from the oil windfall was grossly mismanaged. The volatility in the global oil market has made the Nigerian economy susceptible to both internal and external shocks; hence the need for the diversification of its economy for a sustained growth and economic development.

The need for diversification was acknowledged by the President in an interview he granted to China Television in Beijing when he said that the increasing utilisation of shale gas and other alternative sources of energy by the United States and other advanced oil-importing nations of the world was a matter of concern for Nigeria. "That is why we have to increase the pace of diversifying our economy and move our country away from dependence on the oil and gas industry," the President said. "We must work towards greater industrialisation; add more value to our agricultural products; develop our solid minerals potentials and other sectors of our economy before the time comes when crude oil may no longer be dominant as a global source of energy," (Suberu, Ajala, Akande & Olure-Bank, 2015). Economic diversification is very vital for long-term growth; hence, any country that craves for a long term growth must pay serious attention to the diversification of its economy. Anyaehie & Areji (2015) noted that diversifying the economy has the propensity to meet the basic requirements for sustainable development. There is, therefore, an urgent need for the Nigerian economy to be diversified for sustained growth and to set it on the right path for development. This paper, therefore, seeks to examine the role and importance of the agricultural sector in diversifying the Nigerian economy. The focus on agriculture is in line with Okoroafor (2014) who argued that the agricultural sector is among the sectors that provide unequalled opportunities for Nigeria's speedy growth. It shares linkages with essentially all the sectors of the economy with demonstrated multiplier effect on Nigerian economy.

### **Statement of the Problem**

The Nigerian economy is dependent on crude oil as a major source of its revenue. Hence, the dwindling oil price in the international market has resulted in the consistent fall in revenue accruing to the Nigerian government. This has resulted to difficulty in the provision of basic infrastructure and the maintenance of the existing ones. The government has resorted to both internal and domestic borrowings in order to finance its budget leading to inflationary pressures on the economy and above all, major part of the dwindling revenue is used in debt servicing.

The nation is in this problem today because of the neglect of the agricultural sector, which was the main source of government revenue, at the discovery of crude oil in commercial quantity in Nigeria. In order to solve this problem, there is a need to diversify the economy so as to increase the source of revenue to the government. The focus must change to agriculture as an alternate source of revenue as there is an increasing demand for agricultural goods. This study, therefore, examined the role and importance of the agricultural sector in diversifying the Nigerian economy.

### **Objectives of the Study**

The objectives of the study were to:

1. Examine the need for diversifying the Nigerian economy.
2. Identify some of the challenges of the agricultural sector in Nigeria.

### **Review of Related Literature**

Economic diversification is the process of shifting an economy from a single income source toward multiple sources from a growing range of sectors and markets. It is being used traditionally as a means to induce progressive economic growth and development (UNFCCC, 2018). It could be referred to as a simultaneous investment in the different parts of the economy in order to expand the sources of revenue to the government and also to induce economic growth. According to Suberu, Ajala, Akande & Olure-Bank (2015), it implies movement into new fields and stimulation and expansion of existing traditional products. Diversification does not discourage specialisation, but requires that resources be channelled into the best alternative uses (Ayeni, 1987; Iniodu, 1995). Economic diversification can be categorised as horizontal or vertical. Horizontal diversification is a transformation in the primary export combination which indicates that the number of export areas has increased, on the other hand, vertical diversification involves arranging further uses for old and new innovative products by means of value-added projects such as processing and marketing, (Focus, 2017). Economic diversification holds several benefits for Nigeria to fully utilise her rich resource-base to improve the economy, exploit new prospects, and increase the living standard and confidence of its people for national reawakening (Okoroafor, 2014).

The global oil windfall in the 1970s resulted to the neglect of other areas of the economy in Nigeria, with all attention diverted to the oil sector. The search for office jobs led to rural-urban drift and the total neglect of the agricultural sector which hitherto was the highest contributor to the Nigerian GDP and highest foreign exchange earner. With the concentration of efforts and attention to the oil sector, Nigeria became a mono-economy as crude oil became the Nigerian major export and highest earner of foreign exchange. As the USA, which is the major importer of the Nigerian crude and other advanced nations turn to other alternate energy sources, the Nigerian economy faces a perilous condition. The over-concentration on oil as the only major source of government revenue has affected the Nigerian economy negatively. According to Anyaehie & Areji (2015), the neglect of other parts of the economy has created mass unemployment as only a marginal few can be absorbed by the oil industry. Everyone is struggling to reap from the oil windfall, both the skilled and unskilled labour are all drifting to the urban areas in search of greener pastures. The oil sector can only employ few skilled labours, hence creating a huge income inequality in the economy.

Again, the oil price drop in the international market has made it difficult for the Nigerian government to generate enough revenue for the execution of its budget and meet its other fiscal responsibilities. The Nigerian government relies on crude oil revenue for the finance of its budget. Hence, a decline in the global oil prices means a fall in the revenue to the Nigerian government available for budget financing. Furthermore, the

decline in global oil prices means that Nigeria will face scarcity of foreign exchange for the importation of consumer goods. Nigeria is a consumption nation and depends on importation to meet with its local demand for consumer goods. Itumo (2016) states that the declining revenue from crude oil accruing to Nigeria implies a fall in the amount of foreign exchange earnings from exportation of crude oil which hitherto stood at about 90 per cent. This will certainly adversely affect Nigerian indigenous businesses which rely heavily on foreign exchange for importation.

### Methodology

The researcher used descriptive statistical design to analyse the data. The data used for the study are secondary data and were obtained from [macro.trends.net](http://macro.trends.net), an online research platform and Central Bank of Nigeria 2018 Statistical bulletin.

### Analysis of Crude Oil Price Volatility

Table 1 below shows the trend in the world price of crude oil from 2011 to 2019. The price decreased from \$94.88 in 2011 to \$94.05 in 2012 before increasing to its peak of \$97.98 in 2013. It started decreasing in a fluctuating manner from \$93.17 in 2014 to \$56.88 in 2019.

**Table 1: Average Crude Oil price from 2011 - 2019**

Year	Average Crude Oil Closing Price USD
2011	94.88
2012	94.05
2013	97.98
2014	93.17
2015	48.72
2016	43.58
2017	50.84
2018	64.90
2019	56.88

Source: [macro.trends.net](http://macro.trends.net), <http://www.macro.trends.net/2516/wti-crude-oil-prices-10-year-daily-chart>

From table 1 above, it is evident that the world oil price is highly volatile and gradually collapsing, hence the need to diversify the Nigerian economy through agricultural sector transformation given the sector's contribution to the Nigerian GDP.

### Analysis of the Contribution of Agriculture to Nigerian GDP

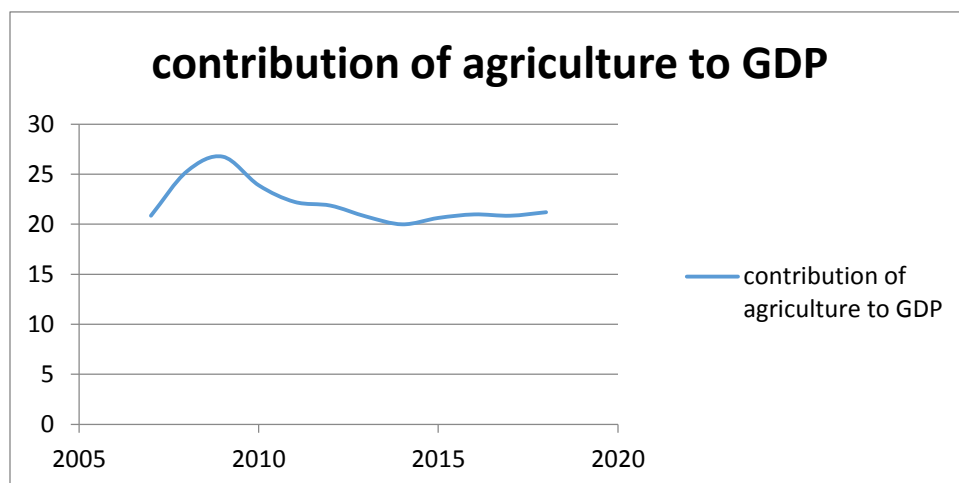
Table 2 and Figure 1 below show the contribution of agriculture to the Nigerian GDP from 2007 to 2018. The contribution of agriculture to GDP increased from 20.85% in 2007 to 25.28% in 2008. It peaked at 26.75% in 2009 and dropped to 23.89% in 2010. It decreased to its lowest level of 19.99% in 2014 and gradually increased till 2018 at

21.20%. From the above analysis, if the agricultural sector is given the desired attention by transforming it, its contribution to the GDP will increase substantially.

**Table 2: Agriculture Contribution to Nigerian GDP**

Year	Agriculture Contribution to GDP (%)
2007	20.85
2008	25.28
2009	26.75
2010	23.89
2011	22.23
2012	21.86
2013	20.76
2014	19.99
2015	20.63
2016	20.98
2017	20.85
2018	21.20

Source: [www.statista.com](http://www.statista.com)



**Figure 1: Contribution of Agriculture to Nigerian GDP**

Source: Author's compilation using data from 2018 CBN Statistical Bulletin.

### **The Need to Diversify the Nigerian Economy through Agriculture**

Nigeria is on its way to modern development. Despite having a high poverty rate, it still has a higher GDP when compared with other countries of Africa. The country is rich in natural resources and taking appropriate measures can speed up its economic development. For a sustained growth of the Nigerian economy and its development, Nigeria needs to focus on agricultural development as it is one of the sectors that offer

unrivalled prospects for accelerated growth. If the agricultural sector is transformed, Nigeria will reduce the poverty level in the country. The agricultural sector is very effective for poverty reduction as a major percentage of the nation's population live in the rural areas. Besides, the sector provides greater employment opportunities for the poor and unskilled labour unlike the petroleum oil sector. The transformation of the sector will offer employment to the large population of Nigerians especially the youths.

Nigeria has been importing huge amount of its food from the international market despite having the resources to produce its own food (Falayi, 2019). Such importation has made Nigeria economically and politically unstable as it imports inflation which has resulted to a declining standard of living for its rural and urban households that spend a better part of their earnings on food items. Transforming the agricultural sector will set the nation on the path of food sufficiency, as productivity will increase, imported inflation will be curbed, increased foreign exchange savings; hence, economic stability. Food sufficiency will lead to the establishment of agro-allied industries for value addition to the agricultural produce for exports. This will not only add value to raw materials, but will also create large scale employment and foreign exchange earnings. This will also set the pace for industrialisation. When this happens, the agricultural sector will supply the labour requirement of the industries. Moreover, as most people are found in the rural agricultural sector, a major part of the domestic consumption takes place there. With increased income, this population provides a large market for the industrial output.

The above submission is in line with Johnston & Mellor (1991), cited in Krongkaew (1995) who argued that agriculture contributes to the economic development of a country in five ways. First, it increases the domestic food supply for consumption. Second, it releases labour for industrial employment. Third, it enlarges the size of market for industrial output. Fourth, it increases supply of domestic savings. And fifth, it earns foreign exchange.

### **Challenges of the Agricultural Sector in Nigeria**

The Nigerian agricultural sector is enamoured with numerous challenges. In this paper we shall be discussing but a few. First, lack of high yielding variety seedlings (HYVS). This has resulted to declining food production and the nation's incapability to feed its growing population. Hence, reliance on food imports to supplement local production, thereby depleting the already low foreign exchange. Besides, lack of agricultural raw materials for the industrial sector is a consequence of low agricultural yield. A clear indication of the failure of the agricultural sector in this regard is manifested in the increasing agro-industrial capacity under-utilisation and the consequent high production cost (Njoku, 2000). According to the Food and Agriculture Organisation (FAO), Nigeria has lost an estimated USD 10 billion in annual export prospects from groundnut, palm oil, cocoa and cotton alone resulting from a continuous fall in the production of those products.

Second, limited access to land for cultivation is another big challenge facing agriculture in Nigeria and one of the reasons productivity is very low. The Nigerian agricultural sector consists of mostly smallholder land owners due to the archaic land tenure system in the country. Lawry (2015) opines that in Africa particularly, a lot of farming - up to 90 per cent- is done on land held under customary tenure regimes, where

land rights are not certified formally. Under customary tenure, people gain access to land as a social right, granted by virtue of their membership in a community. The study went further to state that African agriculture will not take off unless people have clear tenure security, and there's an underlying assumption that this is delivered through land rights certification or titling, as in Latin America and part of Asia, (Lawry, 2015). More so, the production of biofuels, crude oil extraction externalities, desertification, climate changes and the use of land for residential purposes due to growing population have reduced the available land for agricultural cultivation in Nigeria.

Thirdly, poor storage facility is another concern of the agricultural sector in Nigeria. Consequently, farmers sell their products during harvest at ridiculously low prices as the products are surplus in the market. So much farm products are lost and wasted due to lack of or poor storage facilities in the country. Ufiobor (2017) reiterated this in his study where he said that storage is a problem for Nigeria as a large quantity of food produce perishes because of lack of storage and processing facilities. More than one third of agricultural products are lost or wasted in after-harvest operations. Reducing after harvest losses, especially in less developed countries could be a long term solution to increasing available food, reduction of pressure on available natural resources, reduction of hunger and advance famers' livelihoods (Kumar & Kalita, 2017).

Fourth is inadequate infrastructure, especially a network of feeder roads that will facilitate the distribution of farm produce from rural areas, the production centres, to the urban areas, the consumption centres. This has also caused postharvest losses and wastes. The situation is so critical that some rural areas are not accessible during rainy seasons. In addition, lack of irrigation facilities is another constraint faced by the agricultural sector. This makes agriculture in Nigeria a seasonal occupation as famers depend mostly on rainfall for farming. According to Njoku (2000), the instability in production caused by extreme variability in weather conditions has been the cause of poor planning and loss of incomes by famers. Fifth, inadequate or complete lack of credit facilities to famers impedes agricultural development in Nigeria. This has made it difficult if not impossible for smallholders of land to acquire vast expanse of land for cultivation just as farmers are unable to acquire machineries for mechanised farming. In situations where credit facilities are available, the cost of the funds to the farmer is usually very high or stringent conditions are required to access the credit. In a broad sense, the greatest challenge faced by Nigerian agriculture as we enter the 21<sup>st</sup> century is the transformation of agriculture into a modern, commercial-oriented and remuneration sector (Njoku, 2000).

### **Conclusion and Recommendations**

Sustainable development requires serious planning and no serious planning can be hinged on a volatile revenue source. It is difficult to project what revenue will be accruing to Nigeria from oil revenue due to the volatility of the global crude oil market; this has far-reaching consequences for Nigerian economic planning. The federal government should urgently embark on policies aimed at the transformation of the agricultural sector. It should also fund research in the Universities of Agriculture for the development of high yielding variety seedlings (HYVS) in the country, mandate the financial institutions to

ensure that a certain percentage of their total loan facility go to the agricultural sector. Provision of infrastructures should also be the government's priority.

## References

- Alleyne, D. (2017). Diversification and industrial policy: Some conceptual considerations and a way forward for the Caribbean. *Focus*, pp. 4-5.
- Anyahie, M. C. & Areji, A. C. (2015). Economic diversification for sustainable development in Nigeria. *Open Journal of Political Science*, 5, 87-94.
- Central Bank of Nigeria. (2018). Statistical Bulletin.
- Falayi, K. (2019). Why Nigeria has restricted food imports. Retrieved from [www.bbc.com](http://www.bbc.com)
- Food and Agriculture Organisation. (2019). Nigeria at a glance. Retrieved from [www.fao.org](http://www.fao.org)
- Itumo, V. N. (2016). Nigeria's mono-cultural Economy: Impact assessment and prospects. *European Journal of Interdisciplinary Studies*, 8 (2). 20-31.
- Krongkaew, M. (1995). Contributions of agriculture to industrialisation. In M. Krongkaew (Ed.), *Thailand's Industrialisation and its Consequences* (pp. 33-65). London: Macmillan.
- Kumar, D. & Kalita, P. (2017). Reducing post-harvest losses during storage of grain crops to strengthen food security in developing countries. Retrieved from [www.ncbi.nlm.nih.gov](http://www.ncbi.nlm.nih.gov)
- Lawry, S. (2015). How does land tenure affect agricultural productivity? A systemic review. Retrieved from [www.forestsnews.cifor.org](http://www.forestsnews.cifor.org)
- Nigeria Agriculture, value added (% of GDP). Retrieved from [www.Africacheck.com](http://www.Africacheck.com)
- Nigeria: Distribution of Gross Domestic Product (GDP) across economic sectors from 2008 – 2018. Retrieved from [www.statista.com](http://www.statista.com)
- Njoku, P. C. (2000). Nigerian agriculture and the challenges of the 21<sup>st</sup> Century. *Agro-Science Journal of Tropical Agriculture, Food, Environment and Extension*, 1(1), 1 -28.
- Ogujiuba, K., Ehigiamusoe, U. K. & Udefuna, P. (2013). The challenges and implications of sustainable development in Africa: Policy options for Nigeria. *Journal of Economic Cooperation and Development*, 34(4), 77-112.
- Okoroafor, J. (2014). Diversifying the Nigerian economy: Pathway to achieving economic stability. Retrieved from [www.opinionnigeria.com](http://www.opinionnigeria.com)
- Okpi, A. (2018). Nigerian economy: Services drive GDP, but oil still dominates exports. Retrieved from [www.africacheck.com](http://www.africacheck.com)
- Suberu O. J., Ajala O. A., Akande M. O. & Olure-Bank, A. (2015). Diversification of the Nigerian economy towards a sustainable growth and economic development. *International Journal of Economics, Finance and Management Sciences*, 3(2), 107-114.
- Ufabor, K. A. (2017). Nigeria agriculture and sustainability: Problems and solutions. Retrieved from [www.google.com](http://www.google.com)
- United Nations Framework Convention on Climate Change. (2018). Nairobi Work Programme 12<sup>th</sup> Focal Point Forum on economic diversification and adaption. Retrieved from [www.unfccc.int](http://www.unfccc.int)