



## RECOVERY FROM ECONOMIC RECESSION AND AGRIBUSINESS PRODUCTIVITY NEXUS IN NIGERIA

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### ABSTRACT

Nigeria has been experiencing a biting economic recession, recording negative GDP growth rates in several quarters consecutively. The current economic recession has been attributed to poor economic planning by the past government, wastages, corruption, lack of policy direction, among other causes. The fact that the current recession is also accompanied by inflation has made it a very difficult situation to tackle. This paper has argued the potency of Agribusiness as an antidote to Nigeria's economic recession. Agribusiness has the capacity to absorb a large percentage of the unemployed and the underemployed, leading to increased growth, a prerequisite for exiting recession.

**KEYWORDS:** Economic recession, Agribusiness, Nigeria

### Conceptual Review

The national Bureau of Economic Research (NBER) defined recession as a "significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in a real gross domestic product (GDP), real income, employment, industrial production and wholesale-retail sales." Economic recession can also be defined as a negative real GDP growth rate for two consecutive quarters.

Recession in English means a period of temporary economic decline during which trade and industrial activities are reduced, generally identified by a fall in gross domestic product (GDP) in two successive quarters (Ado, 2017). Wikipedia defines a recession as a business cycle contraction which results in a general slowdown in economic activity. Macroeconomic indicators such as GDP, investment spending, capacity utilization, household income and business profits, fall, while bankruptcies and unemployment rate rise. In the United Kingdom, recession is defined as a negative economic growth for two consecutive quarters. Thus recessions generally occur when there is a widespread drop in spending (an adverse demand shock). This may be triggered by various events, such as a financial crisis, an external trade shock, an adverse supply shock or the bursting of an economic bubble. Governments usually respond to recessions by adopting expansionary macroeconomic policies, such as increasing money supply, increasing government spending and decreasing taxation.

Agribusiness refers to the generic term for the various businesses involved in the food production chain, including farming (both subsistence and mechanized farming), seed supply, manure, fertilizers and agro-chemicals, farm machinery, distribution, wholesale and retail sales, processing, research and development, marketing and financing of the agro-allied industry (Pawa, 2013). Agribusiness also includes a range of activities and disciplines encompassed by modern food production, and denotes the nexus between, *inter alia*, natural resource management, tourism and hospitality, innovation, mechanization, manufacturing and processing activities to add value to raw materials or cash products as well as trade and distribution (Nina *et al.*, 2010).

Nigeria started experiencing economic recession currently, since her first and second quarters' growth in 2016 were -1.7% and -2.06%, respectively (Ahmed, 2017). Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. According to Ahmed (2017), causes of economic recession in Nigeria are poor economic planning by the past government. Absence of concrete implementation of the economic planning is the major cause of the current recession. No doubt the present government has taken some steps, like the elimination of dollar purchase privileges for importers of 40 items including rice, cement, toothpick, private planes, poultry, meat, margarine, wheelbarrows, textiles and soaps. However, there

is still poverty in the land. Some past policies had helped to widen the gap between the rich and the poor, thereby creating more economic hardship. On inflation, the current rate in Nigeria stands at 17% which is extremely high. Moreover, the interest rate is high between 26-27%. The extremely high rate discourages investments and the poor investments culminate into high rate of unemployment in the country. Finally, government charges high tax rates even in the economic recession.

### **Economic Recession: Theoretical Explanation**

Keynesian economics are the various theories about how in the short run, and especially during recessions, economic output is strongly influenced by aggregate demand (total spending in the economy). In the Keynesian view, aggregate demand does not necessarily equal the productive capacity of the economy; instead, it is influenced by a host of factors and sometimes behaves erratically, affecting production, employment, and inflation. (Wikipedia, 2015)

The theories forming the basis of Keynesian economics were first presented by the British economist John Maynard Keynes during the Great Depression in his 1936 book, *The General Theory of Employment, Interest and Money*. Keynes contrasted his approach to the aggregate supply-focused classical economics that preceded his book. The interpretations of Keynes that followed are contentious and several schools of economic thought claim his legacy.

Keynesian economists generally argue that, as aggregate demand is volatile and unstable, a market economy will often experience inefficient macroeconomic outcomes. These can be mitigated by active policy responses, in particular, monetary policy actions by the central bank and fiscal policy actions by the government, can help stabilize output over the business cycle. Keynesian economists often advocate an active role for government intervention during recessions.

Keynes argued that the solution to the Great Depression was to stimulate the country ("inducement to invest") through some combination of two approaches:

1. A reduction in interest rates (monetary policy), and
2. Government investment in infrastructure (fiscal policy).

If the interest rate at which businesses and consumers can borrow is decreased, investments which were previously uneconomic become profitable, and large consumer sales which are normally financed through debt (such as houses, automobiles, and, historically, even appliances like refrigerators) become more affordable. A principal function of central banks in countries which have them is to influence this interest rate through a variety of mechanisms which are collectively called *monetary policy*. This is how monetary policy which reduces interest rates is thought to stimulate economic activity, i.e. "grow the economy", and why it is called *expansionary* monetary policy.

Expansionary fiscal policy consists of increasing net public spending, which the government can effect by a) taxing less, b) spending more, or c) both. Investment and consumption by government raises demand for businesses' products and for employment, reversing the effects of the aforementioned imbalance. If desired spending exceeds revenue, the government finances the difference by borrowing from capital markets by issuing government bonds. This is called deficit spending. Two points are important to note at this point. First, deficits are not required for expansionary fiscal policy, and second, it is only *change* in net spending that can stimulate or depress the economy. For example, if a government ran a deficit of 10% both last year and this year, this would represent neutral fiscal policy. In fact, if it ran a deficit of 10% last year and 5% this year, this would actually be contractionary. On the other hand, if the government ran a surplus of 10% of GDP last year and 5% this year, that would be expansionary fiscal policy, despite never running a deficit at all.

In the price mechanism of neoclassical economics, it is predicted that, in a competitive market, if demand for a particular good or service falls, that would immediately cause the price for that good or service to fall, which in turn would decrease supply and increase demand, thereby bringing them back to equilibrium. A central conclusion of Keynesian economics, in strong contrast to the previously dominant models of neoclassical synthesis, is that there are some situations in which a depressed

economy would not quickly self-correct towards full employment and potential output, but could remain trapped indefinitely with both high unemployment and mothballed factories. To the observation that these were, in fact, the prevailing conditions throughout the industrialized world for many years during the Great Depression, classical models could only conclude that it was a temporary aberration. The purpose of Keynes' theory was to show such conditions could, without intervention, persist in a stable, though dismal, equilibrium.

Nigeria being an economy that majorly depends on oil for her revenue was seriously hit by the fall in international price of oil. Over the years, the surplus the country was able to accumulate during the periods of high prices have not been judiciously used in developing other sectors of the economy. Nigeria needs to move from being just a consuming nation to a producing nation. The agribusiness sector can do this if the government will do the needful. The sector has the capacity to employ a large percentage of the teeming unemployed youth productively. The entire value chain (with the sectors shown in figure 1) needs to be looked at. The Anchor Borrower's programme of the current administration is a step in the right direction in this regard. Of course, one of our major problems is the fact that our programmes are not continued for a period long enough for us to reap the benefits of such laudable programmes

### General causes of economic recession

The major cause of economic recession in any economy (lesson from great depression, 1981, 19991, 2004, 2008-2009 global economic recession) may include:

- High inflation, a general rise in price of goods and services – leading to low purchasing power.
- Accumulation of debt servicing especially foreign debts.
- High-interest rate – discouraging investor

### Agriculture in Nigeria

Nigerian Agricultural policy regime aims at promoting food security, import substitution for the massive import of wheat, rice and fish, job creation for youth and enhancing economic diversification as contained in the Agriculture Promotion Policy (Anonymous, 2016) of the current administration. The guiding principles are running agriculture as a business by focusing the policy instruments in a government enabled private-sector led engagement as the main growth driver. The commercialization of agriculture includes technologies, financial services, input supply chains and market linkages that directly engage rural farmers since rural economic growth will play a critical role in the country's successful job creation, economic diversity, improved security and sustainable economic growth. This will lead the country to move out of recession.

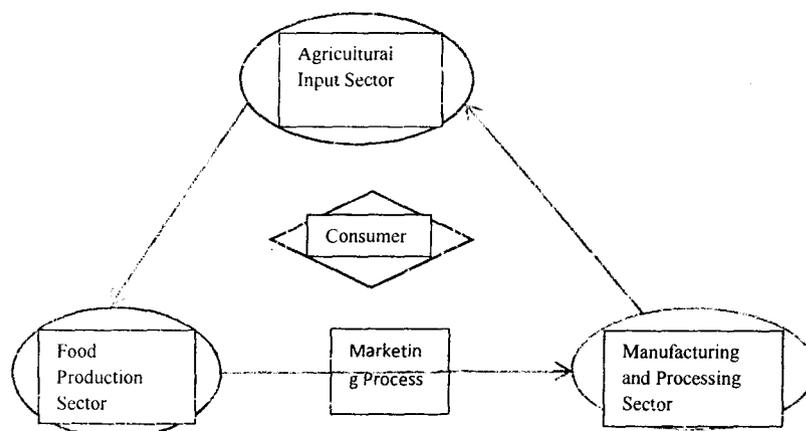


Figure 1: Sectors of Agribusiness; adapted from Munonye *et al*, 2017  
**Agriculture as Panacea to Economic Recession**

According to the International Monetary Fund, for Nigeria to attain total economic recovery, it needs to create 40 million jobs for its youth before 2030. That is an average of about 3.1 million annually. This is because Nigeria is adding more young people to the job market than any other African Country. Many countries that came out of recession quickly use what their people produce with their hands. Thus the more creative we are, the more money each person can make and the better for our people and the country. Agricultural productivity, entrepreneurship, and value addition result in wealth creation in rural areas. Developing effective clusters in form of cooperatives and commodity associations that can add value to unprocessed raw materials, and promoting value chains across diverse agricultural sectors such as horticulture, food processing and packaging, food storage and transportation, food safety, distribution systems, and exports, are all central to moving out of the economic recession in Nigeria. Because the agricultural sector in Nigeria is the largest employer of labour, its growth has a large impact on poverty reduction. Agricultural growth creates income opportunities for the poor in both the farms and nonfarm economy while lowering food prices for both rural and urban poor consumers. Agriculture has a high multiplier effect through generation of high economic and social returns and enhanced economic diversification as well as social development (Ado, 2013). Recession sees local rice becoming Nigeria's darling. More and more Nigerians are opting for locally grown and processed rice in their various communities. The talks on plastic rice on social media also make local rice more preferable. One trillion capital was released for various projects including the commencement of the construction of a dual standard railway line that would link Lagos and Kano, rehabilitation of roads, expanding irrigation facilities to boost agriculture and the upgrading of aviation infrastructure throughout the Country. The capital releases have made impact on the Nigerian economy by creating jobs, stimulating economic activities in communities and upgrading infrastructure thereby improving the wellbeing of Nigerians.

Government policy on rice has led to huge increase in local production in the last season. The Central Bank of Nigeria (CBN) Anchor Borrowers' Programme (ABP) for rice farmers resulted in bumper harvest across the country. Nigeria will achieve self-sufficiency soon and conserve foreign exchange from importation of rice. The ABP allows small holder farmers to access credit to produce rice at 9% interest rate. Under the programme, farmers are also linked with off takers who will buy-off their products. ABP looks at the entire value chain, from farm to table.

Rice ABP in Katsina State developing rice value chain by supplying credit for improved seeds, pesticides, herbicides and fertilizers. The Government also guarantees minimum price for the purchase of the paddy rice. Other crops to support are cotton, sorghum, maize, tomatoes and wheat. Bio data of all farmers and the surface area of their farms were taken to facilitate easy access to agricultural support programmes. The bio data will be linked to Bank Verification Number (BVN) data so that genuine farmers alone benefit from the programmes.

Rice farmers Association of Nigeria (RIFAN) cited constraints to rice production to include unavailability of machines like tractors and quality seed. Rice companies come to buy the paddies directly from the farm to process and package. Lake Rice is cultivated in Kebbi, milled and bagged in Imota, Lagos. Lake Rice provided good alternative to imported expired rice. The Lagos-Kebbi food production and supply template could be a model for other states to emulate and improve the economic well-being of their citizens (Abu, 2017).

West African Cotton's (WACOT's) N10 billion rice mill located in Argungun has a production capacity of 100,000 tons annually. When completed, it will have silos for storing 18,000 tons of paddy and a warehouse for storing additional 12,000 tons of paddy. When operational, it is expected to generate direct and indirect employment for 3,500 people and its procurement will reach out to 50,000 farmers. The rice mill will be completed within 16 months and when completed, it would be bigger than any rice mill in the country. Last year, a target of one million metric tons of rice was achieved in Kebbi State. Nigeria consumes an average of five million tons of rice per year. WACOT has the capacity to produce world class rice that could be compared with those produced in Thailand and India.

At secondary production level, agro industries with some investment potential include cassava processing (imagine *Gari* imported from India!), vegetable oil processing, fruit processing and flour milling. Composite flour can be produced from a suitable combination of different commodities.

Tanning is specific to the north while rubber processing is common to the southeast and south-south (Manyong *et al.*, 2005).

Value chain approach focuses on enterprise commodity value chains for the development of crops, livestock and fisheries thereby creating much more wealth in agricultural production. Federal Government has prioritized rice, wheat, maize, soya beans, and tomatoes for 2016-2018 for domestic consumption. For export crops, the initial focus will be on cocoa, cassava, oil palm, sesame, and gum Arabic. From 2018 onwards, the export focuses add bananas, avocado, mango, fish, and cashew nuts (Anonymous, 2016). Other agriculture related exports include *tafasa* seed, roselle calyx (*zobo*), *etc.*

## CONCLUSION

For the country to come out of its current economic doldrums, there must be a total shift from oil money, which has contributed to total neglect of agriculture. With the frittering away of the nation's resources by the immediate past government and the drastic reduction of crude oil price at the international market, the country's economy just went into recession. To come out of this economic logjam, we need to embark on massive agricultural practice. Agriculture used to be our economic mainstay during and shortly after independence. The discovery of oil in commercial quantity shifted our attention from agriculture to petrodollars. That abandonment of agriculture and the pursuit of oil money and profligacy of certain regimes in the political evolution of the country brought us to the present state of economy hardship. The cumulative effects of abandonment of agriculture and the culture of waste are what we are witnessing today. To get out of this economic hardship, we must retrace our steps back to agriculture

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