



Policy Brief

No. Xx ?

/December 2013 ?

Political Economy of Fertilizer Subsidy Implementation Process in Nigeria

Salman, Kabir Kayode

Agricultural Economics Department, University of Ibadan, Ibadan, Nigeria

Executive Statement

The objective of this policy brief is to inform the Nigeria Federal Ministry of Agriculture and Rural Development (FMARD) and Central Bank of Nigeria (CBN) that only a very few states (less than one-third) received more than 50% of the fertilizer subsidy in the last ten years (2001-2010). Fertilizer use per hectare is still below recommended amount among the farmers. Access to subsidized fertilizer among small scale farmers is also very low while large farmers and members of ruling political party are the major beneficiaries. The the large population of farmers in the rural area are also denied access to the input due to the presence of very few but organized urban farmers and other competitors.

Although the objective of the fertilizer subsidy is to make fertilizer affordable and available to small scale farmers, it has not no succeeded despite the huge budgetary allocation. The subsidy should therefore be phased out and replaced by a revitalized rural credit programme through establishment of rural banks. The credit programme, which should be administered among certified farmers' cooperative society, would not only improve farmers' purchasing power but also encourage the private sectors participation in the sales of the fertilizers and remove the bureaucratic bottle neck of government direct involvement.

Introduction

Small scale farmers have not been adequately supported and this has contributed to low agricultural productivity and persistent dwindling in the expected contribution of the sector in developing countries. In Nigeria, the farmers represent 95 percent of the total food crop farming units and produce about 90 percent of the total food output. The farmers lack basic inputs (including land, credit, fertilizers and other agrochemicals) and technology. These therefore lead to the characteristic poverty; low income and vulnerability to risk among the farmers (Okunmadewa, 2009). The attendant situations of land depletion, land tenure and teeming population have led to land shortage. Therefore practices like shifting cultivation bush fallowing, crop rotation are gradually fading away. This calls for increasing dependence on inorganic fertilizer in order to improve the fertility of the available land under use.

In response to this, fertilizer subsidy programme was introduced since 1970s. However, it has invariably witnessed inconsistencies and instabilities given the trend of successive government/leadership in the country. Literatures have shown that the policy implementation is still defective (Salimonu, 2007). Average fertilizer use in Nigeria is still low (Gregory and Bumb, 2006); while problems of availability, leakage and arbitrage are still lingering (Nagy and Edun 2002). The expected gains have been transferred to unintended beneficiaries at the expense of government treasury. Consequently, the target beneficiaries; farmers and other stakeholders are still confused of the whole policy implementation process. The problem becomes enlarged in that between 1990 and 1996, fertilizer subsidy expenditure consistently exceeded total capital on agriculture (Okoye, 2003; as cited in Ebohet *al* 2006).

In this study, the trend and determinants of fertilizer allocations to States over years, as well as factors that determine access to subsidized fertilizer among the farmers were investigated. The need for this study is however premised on the fact that the problem of fertilizer subsidy policy ineffectiveness still lingers; then, there is a great need to be on *solution search* through further research. Miss-specification of economic models as a result of non-consideration of political factors in some past studies will also lead to miss-specified results hence biased or wrong policy options.

Methodology

Nigeria was the study area. Data used in the study were from both secondary and primary sources. Data on annual allocations to agriculture, fertilizer subsidy (Naira) from 1976-2006 were obtained from Annual reports of Central Bank of Nigeria (CBN). Annual fertilizer quantity requested by States and quantity supplied (2001-2010) by federal government were obtained from Federal Fertilizer Department (FFD). Data of political affiliation of States were obtained from Independent National Electoral Commission (INEC) from 2001-2010. Other States covariates such as area planted, farmers' population (employment in Agriculture) and fertilizer consumed from 2001-2010 were sourced from National Bureau of Statistics. These were complemented with primary data from 493 food crop farmers in south-western geo-political zone using questionnaire. Data collected were socio-economic and demographic characteristics, participation in local level institutions, fertilizer issues such as; amount of subsidized fertilizer applied for and amount received, access to fertilizer at subsidized price, adequacy of the fertilizer and quality, timely availability, willingness to pay the subsidized price, coping

strategies employed when subsidized fertilizer are not available and perception of other known beneficiaries apart from farmers. Key informant interview with four stakeholders in the implementation process was also done.

Results

- i. Allocation to fertilizer subsidy was high though dwindling over years. Amount of subsidy as a percentage of allocation to agriculture had a very high coefficient of variation of 1.79. This implies volatility in the annual allocation to fertilizer subsidy in relation to agriculture budget as a whole.
- ii. Biannual analysis of quantity of fertilizer supplied to the states in the federation between 2001 and 2010 by federal government showed that more than 50% of the total fertilizer subsidy went to only 12 (one third) States¹ of the federation in period 2001/2002. This reduced to eleven states in 2003/2004, nine in 2007/2008 and only eight in 2009/2010 periods. Niger, Kano, Kogi, Bauchi, Adamawa, Gombe, Jigawa and Benue were always among these States at one time or the other for all periods. National average of only 18.86kg/ha and 14.72kg/farmer of supplied subsidized fertilizer to States was also estimated which is lower than the recommended rate of 200kg/ha by Food and Agriculture Organization (FAO). Also, 15 and 21 States of the federation even had less than the very low national average for fertilizer supplied per hectare and per farmer respectively.
- iii. Fertilizer supplied in previous year has a positive influence on fertilizer supplied to States. That is, a state that received more fertilizer last year would also receive more this year regardless of area planted and farmers' population. Statutory allocations to State however, negatively influence fertilizer supply. Quantity of subsidized fertilizer requested by a State from the federal government also exhibited a positive influence.
- iv. Aged farmers had low chance of getting access to fertilizer. Male farmers had better advantage in having access to fertilizer. Worthy to note as revealed in this study is that membership of ruling political party has significant influence on access to fertilizer at the local level. Farmers with large farm size and income as well as those that had regular contact with extension agents had opportunity to get larger quantity of subsidized fertilizer. Hence the programme is not small-scale farmers focus as intended.
- v. Most farmers disagreed on the timeliness, regularity and adequate availability of subsidized fertilizer. More political influence was also experienced during civilian than during military rule as officials in the implementation process are always under pressure to fulfill some political goal of the politicians against their professional ethics. The existence of parallel *Elite* (urban) farmers' groups and other competitors also denied rural farmers of adequate access to the subsidized fertilizer.

Policy Implications and Recommendations

Low fertilizer usage on available land would lead to low crop productivity since farmers are constrained as a result of land shortage due to increasing population. This is also bound to continue over years if nothing is done to rescue the situation. The universal fertilizer subsidy and the voucher have not also been successful all the while. This thus leads to food shortage

¹ See Salman, K.K (2013): Political Economy of Fertilizer Subsidy Implementation Process in Nigeria. Final Report presented at the Biannual AERC workshop held between 1 and 6th December, 2013 in Nairobi, Kenya

and resultant increasing food prices. Since inability to afford the commodity is part of what drives the subsidy option, then the purchasing power of the farmers could be enhanced with a virile rural credit programme through rural banks. The subsidy should therefore be faced off. The fertilizer credit could be channeled through a well-organized and certified farmers' group and cooperative societies. Production/procurement and distribution of the commodity should then be achieved through private sector (agrodealers) and not by the government any longer. This would go a long way in tapping the resources of the private sectors hence the huge amount incurred yearly by the government could be a relief. The timeliness and availability would also be guaranteed through establishment of fertilizer stores/sales outlets at designated various rural localities by the private sectors. Smaller packs than the usual 50Kg pack could also be introduced as trials in order to encourage the new farmers. The government only monitors and evaluates the exercise vis-à-vis quality control, periodic feedback from farmers, and sustainability of the credit programme.

References

- Dorward, A. and Chirwa, E. 2011. The Malawi agricultural input subsidy programme: 2005/06 to 2008/09, *International Journal of Agricultural Sustainability*, 9:1, 232-247
- Eboh, E. C., Ujah O. C. and Amaechina E. C. 2006. Do Government Fertilizer Subsidies Benefit Rural Poor Farmers in Nigeria? Making Sense of Existing Data: A Paper Presented during the 5th PEP Research Network General Meeting June 18-22, 2006. Addis - Ababa, Ethiopia.
- Gregory, D.I. and Bumb, B.L. 2006. Factors Affecting Supply of Fertilizer in Sub-Saharan Africa, *Agriculture and Rural Development Discussion Paper 24*, The International Bank for Reconstruction and Development / The World Bank Washington, DC 20433.
- Nagy, J. G. and Edun, O. 2002. Assessment of Nigerian government Fertilizer policy and suggested alternative market - friendly policies. <http://www.usaid.gov/ng/downloads/reforms/assessmentofFertilizerpolicy.pdf>
- Okoye, C. U. 2003. Analysis of Agricultural Input Subsidy Policies in Nigeria. Study Report Submitted to the World Bank Country Office, Abuja
- Okunmadewa, F. 2009. Unlock the Farm Gate. An Invited Paper Delivered at Faculty of Agricultural Sciences, LadokeAkintola University of Technology (LAUTECH), Ogbomoso, Nigeria
- Salimonu, K. K. 2007. Attitude to Risk in Resource Allocation among Food Crop Farmers in Osun State, Nigeria. PhDthesis, Agricultural EconomicsDepartment, University of Ibadan, Ibadan.