AN OVERVIEW OF THE NIGERIAN RICE ECONOMY

BY

PROF. 'TUNJI AKANDE
Director, Agriculture and Rural Development Department
The Nigerian Institute of Social and Economic Research (NISER),
P.M.B. 5, University Post Office.
Ibadan – Nigeria
e-mails: <akande@niser.or.ng>
Fax: 234-02-8101194

I. INTRODUCTION

Nigeria is the most populous country in Africa, with a population of over 130 million people. Its domestic economy is dominated by agriculture, which accounts for about 40% of the Gross Domestic Product (GDP) and two-thirds of the labour force. Agriculture supplies food, raw materials and generates household income for the majority of the people. The external sector is dominated by petroleum, which generates about 95% of Nigeria's foreign exchange earnings while agriculture contributes less than 5%. Trade imports are dominated by capital foods, raw materials and food. Nigeria is currently preoccupied with the challenge of diversifying the structure of its economy.

The food sub-sector of Nigerian agriculture parades a large array of staple crops, made possible by the diversity of agro-ecological production systems. The major food crops are:

- Cereals - sorghum, maize, millet, rice, wheat,
- tubers - yam, cassava
- legumes - groundnut, cowpeas
- others - vegetables

These are the commodities that are of considerable importance for food security, expenditures and incomes of households.

Of all the staple crops, rice has risen to a position of preheminence. Since the mid-1970s, rice consumption in Nigeria has risen tremendously, at about 10% per annum due to changing consumer preferences. Domestic production has never been able to meet the demand, leading to considerable imports which today stands at about 1,000,000 metric tons yearly. The imports are procured on the world market with Nigeria spending annually over US$300 million on rice imports alone.

The demand for rice has been increasing at a much faster rate in Nigeria than in other West African countries since the mid 1970s (see Table). For example, during the 1960's Nigeria had the lowest per-capita annual consumption of rice in the sub-region (average of 3 kg). Since then, Nigerian per-capita consumption levels have grown significantly at 7.3% per annum. Consequently, per-capita consumption during the 1980's averaged 18 kg and reached 22 kg in 1995-1999. Despite the catching up of per-capita consumption with the rest of West Africa, Nigerian consumption levels still lag the rest of the sub-region (34 kg in 1995-1999). Consequently, above average growth rates in Nigerian per capita rice consumption are likely to continue for some time.

Table 1: Rice Trends in Nigeria and the rest of West Africa

Indicators	Means 1961 – 75	Means 1976–83	Means 1984 – 95	Means 1996 – 99
Nigeria				
Production	332 800	806 222	2 306 794	3 189 833
Import	2 036	420 756	334 974	525 307
Self-reliance ratio	99%	54%	77%	79%
Total Consumption	178 199	833 640	1 599 609	2 248 113
Per capita consumption	3	12	18	22
West Africa without Nigeria				
Production	1 779 376	2 344 073	2 822 635	4 041 384
Import	416 183	894 073	1 760 884	2 107 146
Self-reliance ratio	65%	56%	42%	50%
Total Consumption	1 178 753	1 950 821	2 973 885	3 985 721
Per capita consumption	21	27	30	34

A combination of various factors seems to have triggered the structural increase in rice consumption. Like elsewhere in West Africa, urbanization appears to be the most important cause of the shift in consumer preferences towards rice in Nigeria. Rice is easy to prepare compared to other traditional cereals, thereby reducing the chore of food preparation and fitting more easily in the urban lifestyles of rich and poor alike. Rice indeed is no longer a luxury food in Nigeria and has become a major source of calories for the urban poor. For example, the poorest third of urban households obtain 33% of their cereal-based calories from rice, and rice purchases represent a major component of cash expenditures on cereals (World Bank, 1991). Rice availability and prices have become a major welfare determinant for the poorest segments of the countries' consumers who also are least food secure.

Thus, rice has, become a strategic commodity in the Nigerian economy. Consequently, the Nigerian government has interfered in the rice sector over the past few decades. Public policy in this respect has neither been consistent nor appropriate and domestic production has continued to lag behind demand. Given the current globalisation trend and an increasingly competitive world economy, Nigeria faces some strategic choices in relation to the rice economy.

II. RICE PRODUCTION

Rice is cultivated in virtually all the agro-ecological zones in Nigeria. Despite this, the area cultivated to rice still appears small. In 2000, out of about 25 million hectares of land cultivated to various food crops, only about 6.37% was cultivated to rice. During this period, the average national yield was 1.47 tons per hectare (see Figure 2). Significant improvement in rice production in Nigeria occurred in 1980 when output increased to 1 million tons while area cultivated and yield rose to 550 thousand hectares and 1.98 tons per hectare respectively. Throughout the 1980s, rice output and yield increased. But in the 1990s, while rice output increased, the yield of rice declined, suggesting extensive rice cultivation.

Figure 1: Area Cultivated and Rice Output in Nigeria

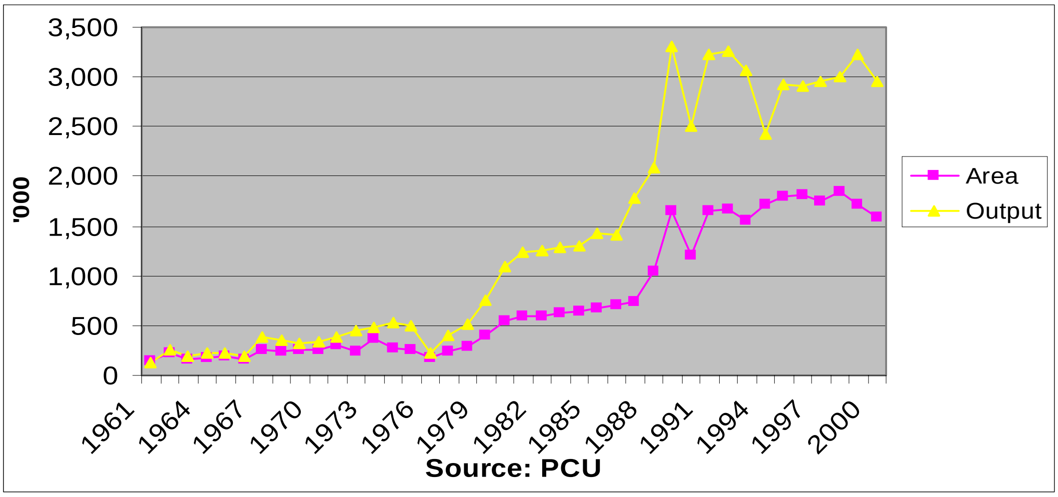
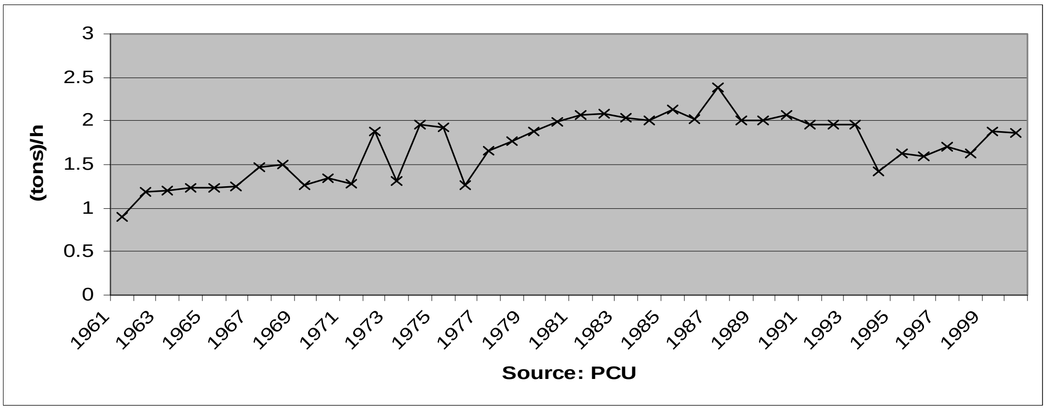


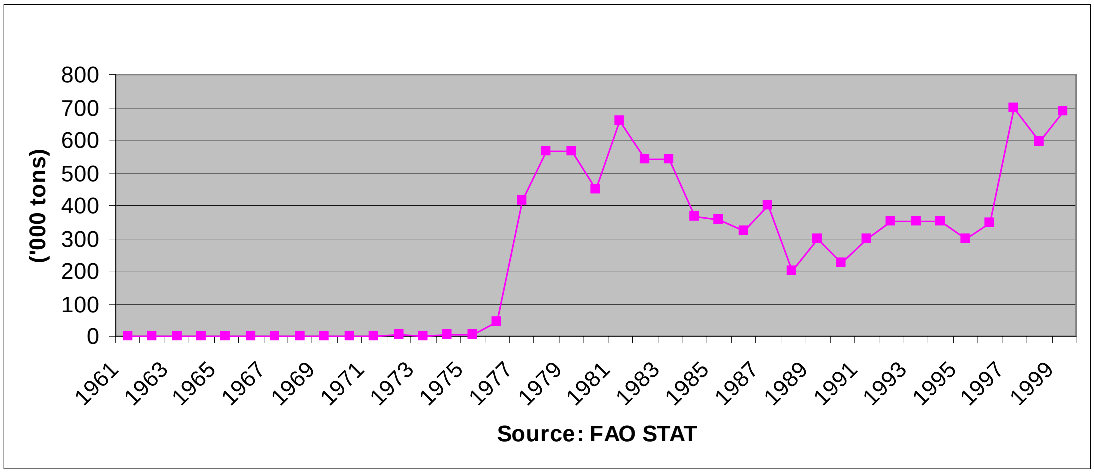
Figure 2: Yield of rice in Nigeria



III. RICE IMPORTS

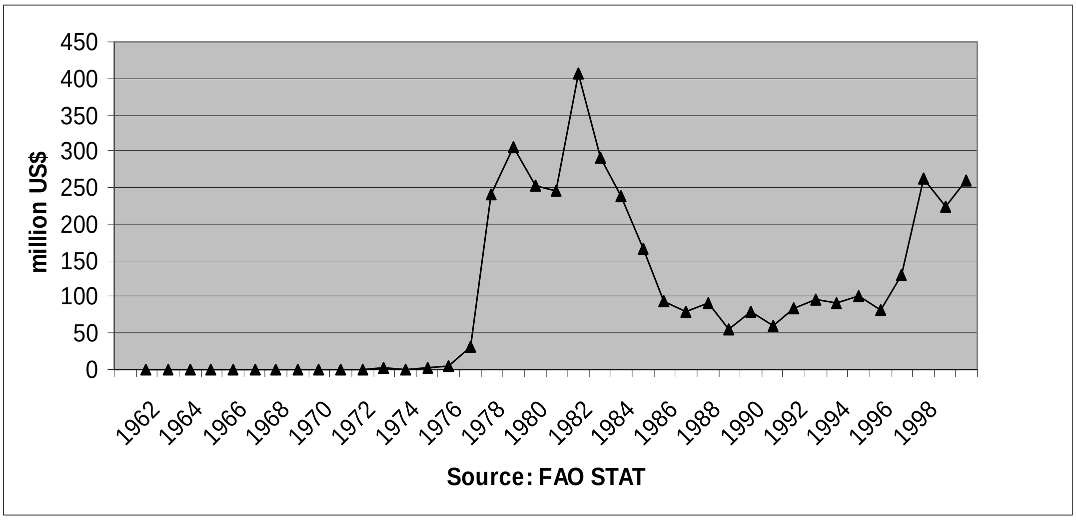
Though rice contributes a significant proportion of the food requirements of the population, production capacity is far below the national requirements. In order to meet the increasing demand, Nigeria has had to resort to importation of milled rice to bridge the gap between domestic demand and supply. Figure 3 gives an indication of rice importation by Nigeria. The figure reveals rice import was very insignificant in the 1960s and early 1970s. However, there was a phenomenal rise in imports since the mid 1970s. However, rice imports began to decline in 1981 as a result of measures put in place to check the importation of the commodity. Even then, the quantity imported on an annual basis was over 300 thousand tons. Imports dropped significantly from 1985 when an embargo was instituted.

Figure 3: Quantity of Nigeria's Rice Imports



Nigeria's rice import is paid for in foreign currency. Given the precarious balance of payment position of the country especially in the late 1980s, rice import became a major source of concern. Figure 4 shows that whereas Nigeria spent about $0.1 million on rice importation in 1970, by 1999, the value of import was $259 million. This implies that between 1961 and 1999, Nigeria had spent $4 billion on rice importation alone, an average annual import value of $102 million.

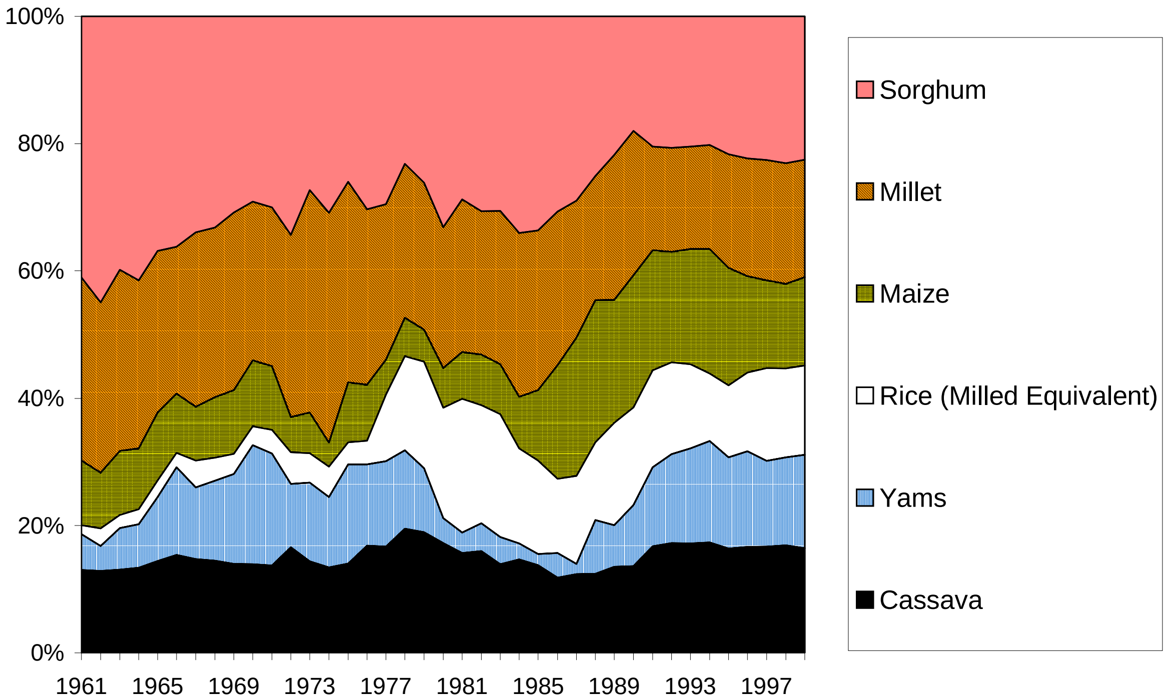
Figure 4: Value of Nigeria's Rice Import



IV. RICE DEMAND

The demand for rice in Nigeria has been soaring. Rising demand was partly the result of increasing population growth, increased income levels, rapid urbanization and associated changes in family occupational structures. The average Nigerian now consumes 24.8 kg of rice per year, representing 9% of total caloric intake (Rice Web, 2001). Figure 5 shows the evolution of the share of the main staples in Nigerian average food consumption in calories terms over time – and highlights the increasing importance of rice.

Figure 5: Evolution of the share of the main staples in Nigerian average food consumption in calories terms.



Source: computed from FAO-Agraostat.

V. PROFITABILITY

Profitability may be examined in at least three main ways:

1) profitability across rice-based production systems;
2) profitability in relation to other crops; and
3) profitability in terms of technology adoption by rice farmers

In all these, rice production has been found to be quite profitable in Nigeria. The data of table 7 give profitability profile across crops. However, domestic rice is not as profitable as it would have been if there were no stiff competitions from imported rice.

VI. ENVIRONMENTAL ISSUES

Nigeria has a national policy on environment aimed at attaining sustainable development. However, there is no direct mention of the problem associated with the production and processing of agricultural commodities. Rice producers are aware of the environmental concerns through the extension agents who provide guidelines on the use of fertilizers and pesticides. Also, there is the general prohibition of the practice of bush burning as a method of clearing farmland for cultivation. In general, most Nigerian rice growers use little improved varieties for which demand for fertilizers, and other agrochemicals are high and which requires high level of management. Rice cultivation in the country is not more intensive than other crops.

VII. POLICY ENVIRONMENT

Changes and sequence in the policy environment

From an historical perspective, Nigeria's rice policy can be discussed in reference to three important periods. These are the pre-ban, ban and post-ban periods. The pre-ban period is the era prior to the introduction of absolute quantitative restriction on rice imports (i.e., 1971-1985). This epoch can also be classified in two – the pre-crisis (1971-1980) and the crisis period (1981-1985). The pre-crisis period was largely characterized by liberal policies on rice imports though ad hoc policies were put in place during times of interim shortages. During the crisis period, more stringent policies were instituted, though outright ban was not a major feature.

In the ban period (i.e., 1986-1995), it was illegal to import rice into the country though illegal importation of the commodity through the country's porous borders thrived during this period. In the post-ban period (1995 – date), quantitative restrictions on rice importation were lifted while the country generally adopted a more liberal trade policy towards rice.

During the pre-ban period (i.e., before 1986), government policies had artificially lowered domestic rice and fertilizer prices relative to the world price level. This was achieved through:

- Massive importation of rice between 1975 and 1985 resulting in low price of domestically produced rice.

- Government involvement in the distribution, marketing of the imported rice with non-transfer of actual costs of marketing to consumers but rather absorbed by government.
- Protection of elite urban consumers at the expense of farmers leading to depressed farm gate prices

- Protection of producers through input subsidies such that actual input costs were not translated into production decision-making process.

The ban on rice importation came into effect in 1985. It was anticipated to stimulate domestic production through increases in the price of the commodity. The introduction of the Structural Adjustment Program (SAP) in 1986 reinforced the ban already placed on rice import. Under SAP, various trade policies were put in place. This was in addition to the depreciation of the naira arising from exchange rate deregulation. The overvalued exchange rate had served as an implicit tax on rice producers as it cheapened imported rice relatively.

Trade Policy

Nigeria has employed various trade policy instruments such as tariff, import restrictions, and outright ban on rice import at various times (see **Table 1**). During the 1970s and early 1980s, increased export earnings coupled with the highly over valued naira exchange rate made it possible for Nigeria to finance huge food imports. The high naira exchange rate cheapened food imports and consequently helped to depress domestic prices. Large importation of food items especially rice was allowed into the country at relatively cheap prices. This eroded the competitiveness of domestically produced rice and served as major disincentive to rice farmers.

Table 1: A Taxonomy of Nigeria's Trade Policy on Rice

Period	Policy Measures
Prior to April 1974	66.6% tariff
April 1974-April 1975	20%
April 1975-April 1978	10%
April 1978-June 1978	20%
June 1978-October 1978	19%
October 1978-April 1979	Imports in containers under 50kg were banned
April 1979	Imports under restricted license only Government Agencies
September 1979	6 month ban on all rice imports
January 1980	Import license issued for 200,000 tones of rice
October 1980	Rice under general import license with no quantitative restrictions
December 1980	Presidential Task Force (PTF) on rice was created and it used the Nigerian National Supply Company to issue allocations to customers and traders
May 1982	PTF commenced issuing of allocations directly to customers and traders in addition to those issued by NNSC
January 1984	PTF disbanded. Rice importation placed under general license restrictions
October 1985	Importation of rice (and maize) banned
July 1986	Introduction of SAP and the abolition of Commodity Boards to provide production incentives to farmers through increased producer prices
1995	100%
1996	50%
1998	50%
1999	50%
2000	50%
2001	85%

Sources: Sutcliffe and Ayomike, 1986; Federal Government Budgets, 1984-1986, 1995-2000 SAP and the Nigerian Economy, 1987; http://oryza.com/africa/nigeria/index.shtml

Exchange Rate Policy

Before the introduction of SAP, exchange rate and foreign exchange allocation policies acted as a major source of price distortion and disincentive towards farming enterprises. Previous Nigerian governments had pursued exchange rate policies that kept nominal exchange rate constant, even in the face of widening gap and divergence between rising domestic inflation and relatively stable international price level. The extent of over-valuation of the local currency was put at 100% between 1970 and 1975; 200% between 1976 and 1979 and about 700-900% during the 1980-85 period (CBN/NISER, 1992). The over-valued exchange rates altered the competitiveness and profitability of farm business in favor of other activities. With regards to imports (including rice), exchange rate over-valuation helped to cheapen imports of competing food items. For example, it was cheaper to import rice for domestic consumption than grow it locally. The situation was exacerbated by the liberal food imports policy, especially during the 1970-77 period when there was little or no tariff on imported food items.

Fiscal Policy

Public spending for agricultural development in Nigeria is undertaken mainly by the Federal and State governments. The range of public sector efforts directed at promoting agricultural development can be classified into (a) direct expenditures of both tiers of government, (b) provision of credit for investment through public agencies, (c) direct credit by the Central Bank of Nigeria, and (d) a wide range of financial incentives and related assistance.

Fertilizer Policy

Nigeria has been largely an importer of fertilizer. Domestic production of fertilizer on a significant scale did not begin until 1987. Subsidy on fertilizer was introduced in 1976. By this, fertilizer which was largely imported by the federal government, was distributed to farmers at prices below the cost of importation.

Subsidy on fertilizer was completely removed in 1997 before the inauguration of the democratic government in May 1999. After the inauguration, however, the federal government re-introduced fertilizer subsidy to the tune of 25%. After six months in February 2000, government completely liberalized procurement, trade and distribution of agricultural inputs including fertilizer. By this policy, the authority to import agricultural inputs including fertilizer became vested in the hands of private individuals and firms.

National Seed Policy and Seed Development Plan

A policy that stresses the importance of ensuring adequate supply of good quality seeds at affordable prices is currently in place. The major objective of this policy is to provide a framework for future development of the seed sub-sector through:

- Establishment and governmental support of varietal improvement, registration, release and multiplication of released varieties;
- Re-organisation of both the public and private sectors involved in the seed industry; and,
- Encouragement of the private sector participation and take-over by the seed industry.

Land Policy

In Nigeria, land provides the source of livelihood to about 90 percent of its population. This explains why the first law of society was land law.

Prior to the promulgation of the land use decree of 1978, different land law operated among the regions of the federation. In the Northern region, the land belongs to the state. The emirs and chief supervised the use of land and issued out certificates of occupancy. The people have the right to use the land but not to own it. But in the Eastern region there were individually owned small pieces of land. Also, the communal lands were owned by the village, town or clan. The ownership of land in the Western region was a bit similar to that of the East. There were the communal (held on tribal, village, clan or family basis), collective (a group of people buy and share lands) and individual ownership. On the agricultural scene, millions of independent peasant farmers control their land and cultivate crops such as rice and a host of others.

The land use decree was promulgated in 1978. The decree did not alter the Northern region traditional land tenure system but changed the system that operated in the East and Western regions. The ownership of land in each state was vested in the state governments in trust for the people of the state.

INTERNATIONAL TRADE POLICIES AFFECTING THE NIGERIAN DOMESTIC RICE PRODUCTION

There is virtually none. Nigeria is an importing country and may be affected by international trade policies only to the extent that such policies affect countries from which Nigeria imports rice.

Nigeria does not have the ‘Agreement on Agriculture’ reduction commitments. She does not have either regional or bilateral trade agreement that affects rice trade and production. But as stated earlier, the structural adjustment programme tended to have restored Nigeria’s ability to produce rice, having created an environment that made local production somewhat profitable but not fully competitive with imports.