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APPRAISAL OF INFORMAL ECONOMIC ACTIVITIES IN THE AGRICULTURAL SECTOR
BY

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Introduction

Before appraising the informal economic activities in the agricultural sector it may be necessary first to decipher what constitutes an informal economic activity. This can be inferred from the definition of the informal sector although there does not seem to be a consensus yet on the exact definition of the term. Perhaps, the pioneering work of Hart (1973) which defines an informal sector as where income is derived from self employment could be a good basis. According to Obadan et. al. (1996), the works of Sethurama (1976, 1990), Hugan (1971), Charmes (1990), Bromey (1979), Macgraffey and Windsperger (1990) and others have adopted variants of employment/income based classification that are similar to that of Hart. However, the most frequently adopted definition is that from the International Labour Organisation (ILO) (1976); which defines informal enterprises as those that employ a handful of workers, who earn low income, utilize rudimentary or subsistence technology and operate largely outside the boundaries of government regulations governing businesses in general. This definition by the ILO aptly describes most of the activities in the agricultural sector in Nigeria, which is still largely peasantry, relaying on rudimentary technology, employing mainly family labour and operated on small scale.

Identification of Informal Economic Activities in the Agricultural Sector

Activities in the agricultural sector could be divided into primary production of crops, livestock, fishery and forestry products; processing transportation, warehousing and marketing/exporting of agricultural produce (Ukpong et al 1995).

Perhaps an intemisation of the characteristics of the informal sector coined from the ILO's definition of the sector will help to delineate the informal economic activities in the agricultural sector to some extent.

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Characteristics of the Informal Sector

As alluded to by the Central Bank of Nigeria Research Department's Study Group on Nigeria's Informal Sector, (1993), despite the problem of definition, the informal sector is characterized by certain features which distinguished it from the formal sector. It is apparent from its nomenclature that activities in the sector are carried out or initiated without formalities or cumbersome procedures which characterise the establishment of formal institutions. The following are the characteristics of the informal sector derived from the ILO's definition which distinguishes it from the formal sector (CBN Study Group, 1993, Obadan et. al., 1996).

1. easy entry into and exit from the economic activities;
2. small scale of operation and relatively small capital base;
3. reliance on indigenous resources - finance and materials;
4. it is majorly family-owned enterprises;
5. labour intensive - depending mainly on family labour, and adopted technology;
6. low receipts of income;
7. skills to operate the business are acquired outside the formal school system of education and training (rather mostly through apprenticeship scheme);
8. there exist an unregulated and competitive markets;
9. they may operate with or without some class of government regulations such as simple licenses, permits, registered business names and registered premises; and
10. operate outside the boundaries of government laws and regulations governing, businesses in general.

From the foregoing virtually all the economic activities in the agricultural sector can be characterized as informal going by the structure/characteristics of the Nigerian agricultural sector.

Structure/Characteristics of the Nigerian Agricultural Sector

The structure of the agricultural economy in Nigeria has been changing particularly since the mid-1970s with widespread government intervention in agricultural production, input supply and marketing, in addition to adopting credit control and other allocative policies in favour of agriculture (Ojo et. al. 1993). Consequently, large scale mechanized and integrated farming enterprises sprang up, first as government parastatals and lately mainly as private enterprises. But by and large, agriculture is still largely small-scale in Nigeria, employing the greater majority of Nigerians who together produce the bulk of the food consumed in the country, crops for export and raw materials for local industries. Results of the Federal Office of Statistics (FOS) 1993/94 National Agricultural Sample Census (NASC) revealed that 72 per cent of Nigerian households were engaged in agriculture.

Characteristics of Primary Agricultural Production

The following excerpts from the FOS/NASC report reveal that the primary production activity in the agricultural sector is largely informal judging from the characteristics of the informal sector listed earlier.

The average size of holding was 2.82 hectares (note the smallness of scale of operation). The ownership structure was such that 95 per cent was under sole ownership while 5 per cent were jointly owned with members of the same household. Furthermore, the holder constituted 21 per cent of the work force on the farm while 31 per cent were unpaid family members.

The NASC result also showed that the technology employed is still low as only 32 per cent reported the use of chemical fertilizers, 11 per cent used improved seedlings, 9 per cent used pesticides or insecticides and only 1 per cent, 4 per cent and 5 percent used vaccines, drugs, and supplementary feeds respectively in their livestock enterprises.

Finally, only 1 per cent of the farmers (who used credit for their farm work) obtained credit through the formal banking and cooperative society system. Thus informal credit systems such as "Esusu", friends and relatives and to a lesser extent money lenders were said had provided the bulk of the credit for farming activities (another characteristics of the informal sector).

The Structure/Characteristics of the Transportation, Processing, Storage, and Marketing Components of the Agricultural Sector

Although, firm statistics are not available, but a qualitative assessment vividly indicates that the transportation, processing, storage and marketing components of the agricultural sector can be conveniently classified under informal economic activities as they possess the characteristics enumerated earlier.

But for some processing of agricultural commodities carried out by large scale formal industries, like the textile, brewing and oil milling enterprises as well as the export crop marketing by the commodity boards (the public sector) until 1986, all other activities in this sub-group are privately owned and carried out on small scale basis with unsophisticated technology.

All modes of transportation of agricultural inputs and products are privately owned and unsophisticated, as we do not have for example, refrigerated trucks for perishable agricultural produce like fruits and vegetables which are transported through long distances at the end of which at least half is lost. For this same reason livestock is transported life rather than processed, to hedge against losses.

As indicated earlier processing and storage is still largely privately done and mostly with indigenous technology but for the few formal enterprises which however account for a small proportion of food consumed. As regards marketing, it is primarily informal particularly for food items, because as mentioned above before the abolition of the commodity boards in July, 1986, only cash crops were marketed by the government. Consequently, all marketing activities in the agricultural sector as at now are purely privately owned. Most activities in the sector are also carried out outside any government regulation or control.

Growth of the Informal Economic Activities in the Agricultural Sector

In this section an attempt is made to evaluate the performance of the agricultural sector with respect to the level of production using the Gross Domestic Product contribution approach, exports and imports contributions.

As virtually all the activities in the agricultural sector can be characterized as informal, an appraisal of the performance of the agricultural sector could be used as a proxy for the appraisal of the informal economic activities in the sector. The performance of the agro-industrial sector which covers agricultural input production and commodity processing is expected to be inferred from the appraisal of the manufacturing sub-sector of the industrial sector. Activities such as transportation, marketing and credit delivery are expected to be captured under their various sub-headings in the Gross Domestic Product (GDP).

Performance of Primary Agricultural Production

Nigeria has remained an agrarian economy with Agriculture still accounting for significant shares in Gross Domestic Product. Available data in various CBN publications, showed that at independence in 1960, the contribution of agriculture to GDP was about 60 per cent. This share, however, declined over time and reached its lowest levels ever of 25.1 per cent between 1975 - 79. It picked up in the 1980s and averaged 41.3 per cent between 1985 - 89 and has stabilized at 38.4 per cent in the 1990s.

Similarly, agricultural output stagnated at less than 1 per cent annual growth rate between 1970 and 1982 whereas population was growing at about 2.5 and 3.0 per cent per annum. A sharp decline was also observed in export crop production, while food output increased only marginally during this period too. Consequently, food supply had to be augmented with large volumes of imports (Ojo et. al. 1993; Ukpong et. al., 1995), while the share of agriculture in total exports was reduced considerably. In fact, Nigeria which was previously the worlds leading producer and exporter of palm-oil, became a net importer of vegetable oils by 1976. However, this poor trend was reversed in the late 1980s with the commencement of the Structural Adjustment Programme (SAP) in July 1986. Average annual growth rate of agricultural production was over 5 per cent between 1986 and 1995. Domestic food supply and agricultural exports also recorded remarkable improvements during this period. Indeed, apart from the rise in the share of traditional export crops (such as cocoa, palm kernel and rubber) in the total volume of agricultural exports during SAP, new commodities, including staple foods, entered the export basket. This trend was traced mainly to price incentives as farmers received more favourable prices following the abolition of the commodity boards and the realignment of the exchange rate which liberalised exports and encouraged backward integration by local industries (Ojo et. al. 1993, 1996; Evbuomwan, 1996).

Performance of Agro-allied Industries

Activities of the various agro-industries, both big and small, private and publicly owned, are largely captured under the manufacturing sub-sector of industrial production in the national accounts. Available data showed that the contribution of the manufacturing sub-sector to GDP grew from 5.5 per cent in 1975-79 to 7.5 per cent in 1991 - 1995. On the other hand the agro-allied manufacturing sub-groups such as sugar/confectionary, cotton, and footwear, which recorded average growth rates of 19.1, 1.25 and 2.4 per cent, respectively in 1970-74, largely exhibited respective declining rates of growth of 51.0, 41.9 and 57.4 per cent in 1991-95. Similarly, the contribution of manufactured agricultural exports to total exports is still very negligible (less than 1 per cent) while most modern inputs are still imported. This shows that there is not much linkage between primary agricultural production and agro-industries which is not ideal.

Performance of the Services Component of the Agricultural Sector

The transport, marketing and agricultural finance components of the agricultural sector can be grouped together as the services component of the sector. As mentioned earlier most of the activities in this sub-group are informal and may not be adequately captured in the national accounts. But a trend analysis of these sub-components can be excised from the trend analysis of the broad sub-headings under which they belong in the national accounts.

Available statistics showed that the Transport, Wholesale and Retail Trade and the Finance and Insurance sub-sectors contributed 4.8, 13.4 and 3.9 per cent of GDP in 1981-85 compared with 3.2, 12.5 and 8.9 per cent during 1991-95 respectively. Although the share of the transport and the wholesale and retail trade components of the GDP declined in 1981-85 compared with the period 1991-95, their average annual growth rates on the other hand improved from -22.9 and 1.9 per cent between 1981-85 to 2.7 and 1.5 per cent in 1991-95, respectively. The finance and insurance component whose contribution to GDP has improved considerably between the period 1981-85 and 1991-95 also recorded an increased annual growth rate of 3.7 per cent during 1991-95 compared with 2.1 per cent in 1981-85. The inference therefore is that the services component of the agricultural sector has been growing over the years, but that the rate of growth is far below expectation considering the enormous human and natural resource base of the nation since there are still a lot of gaps. This less than satisfactory performance may be due to7 the lingering structural and economic constraints.

Major Constraints on Growth

Nigerian agriculture (and consequently, the informal economic activities in the agricultural sector) has a high potential, but actualising it will depend on incentives, availability of technology and inputs, infrastructure as well as forging the ideal linkage between agriculture and industry. As stated earlier, primary agricultural production is largely carried out with low technology which does not allow for optimal yields. Although agricultural production improved during the wake of SAP, available data indicate that the sectors growth rate has decelerated in recent years. This state of affairs is not unconnected with the poor linkage between agriculture and industry as they are really meant to complement each other. That the agricultural and industrial sectors are not complementing each other is the product of poor economic policies and inadequate technology and infrastructure.

Problems Associated with Macroeconomic/Sectoral Policies

Macro/sectoral - economic policies management in Nigeria prior to the policy reforms in the mid-1980s was characterised by distortionary tendencies. It was generally based on an interventionist approach to development which though not a wrong concept but was poorly implemented. Domestic prices including the exchange and interest rates were administered, while quantitative controls were imposed on trade and foreign exchange transactions. In the agricultural sector, the interventionist policies involved government participation in the direct supply of major farm inputs and the marketing and processing of agricultural commodities. The effects on agricultural performance were adverse as administered prices and quantitative controls resulted in inefficient use of land, labour and other resources. Institutions that provided services were inefficient and provided such services at high cost which tended to reduce rural incomes.

In the industrial sector on the other hand, the import substitution strategy of government did not take cognisance of the importance of the linkage between domestic agriculture and industry. Thus rather than complementing each other and growing, they both sank with the advent of the oil crisis. These anomalies were the focus of the macro-economic policy reforms under the SAP initiated in 1986. But unfortunately, SAP has not been able to achieve the much desired stability upon which growth and development depends. This is manifested in sharp increases in production costs resulting from unstable exchange rate and high lending rates thus stifling the activities of the productive sectors (agriculture and industry).

Available information has revealed astronomical increases in the cost of most agricultural and industrial inputs particularly imported ones since the economy was deregulated as a result of the sharp depreciation in the naira exchange rate and shortage of foreign exchange. Also, the high interest rates which increased the cost of working capital obtained from banks and the gradual withdrawal of subsidies particularly on essential inputs/products such as fertilizers and petroleum products have raised the cost of production considerably. Consequently, in both the agricultural and industrial sectors there has been marked reduction in the scale of operation. This is manifested in the declining trend in agricultural and manufacturing growth rates in the 1990s.

Problems Associated with Technological/Infrastructural Inadequacies

The huge depreciation of the naira and reduction/outright elimination of subsidies on all agricultural machinery like tractors, harvesters, planters and harrows following deregulation has reduced the pace of adoption of technological innovations in agricultural activities. This has compelled continued application of traditional technologies. Even the tractor hiring units run by State governments are not of little relevance as tractors are either obsolete or in a state of disrepair. Whatever, may be the technical disadvantages of ploughs and tractors such as the familiar criticism of soil degradation, the use of these technologies has the advantage of minimising the drudgery which characterises farming activities in most developing countries and thus enhancing productivity. Furthermore, the pace of development of local technology is very low. Our research institutes have not been able to come up with sufficient indigenous drudgery saving devices as well as processing and storage equipment that are attractive to the local entrepreneurs and boost output considerably.

As indicated earlier, the industrial sector is saddled with machines whose spare parts and maintenance are import dependent. This has been unsustainable since SAP. That infrastructural facilities are inadequate cannot be over emphasised. Basic infrastructure like water, electricity, and good motorable roads which will facilitate both primary agricultural production and agro-industries are yet to reach the nook and corners of the country and particularly the rural areas where most agricultural activities are carried out. Consequently, transportation, processing, storage and marketing activities which are expected to add value to and boost primary agricultural production are very rudimentary and dominated by the informal sector.

Another major constraint is inadequate working and investment capital due to poor income and savings hence scale of operation cannot be increased neither can improved technology be adopted (a viscious cycle of poverty).

Policy Agenda for Promoting the Growth of the Informal Economic Activities in the Agricultural Sector

The sector faces a number of problems crucial among them being poor macro-economic/sectoral policies, inadequate technology and infrastructure and low capital base. Despite these problems, the prospects for the sector, remain potentially large particularly in terms of the large reservoir of natural and human resources the country is endowed with. Exploiting these resources to the full depends on effective strategies that must seek to attain the objectives of an increased integration of the sector into the mainstream of the national economy, and enhance the capacity of the sector to grow optimally.

(i) First and foremost there is the need to come up with a perspective plan that will focus on agriculture as the basis for development in view of the country's enormous agricultural resource base. Nigeria is endowed with a large arable land, all season rivers and a climate that supports all forms of agriculture (Evbuomwan, 1996). Consequently, both the macro-economic and other sectoral policies should be a follow-up to the perspective development plan of the agricultural sector.

For instance, it is not enough to devalue the local currency with the hope of earning incremental foreign exchange receipts (from so called "now more attractive export prices") when the capacity to produce the anticipated incremental output for export is constrained by the resulting increase in the cost of imported inputs. Similarly, tight monetary policies may not by in consonance with output expansion in a capital deficient production system like the Nigerian agricultural sector. Consequently there is need to realign our macro/sectoral policies.

(ii) Research holds the key to the realization of the contributions of the various sources of agricultural growth. Research of relevance to agricultural development can be classified into production enhancing research, production maintenance research, value enhancing research and socio-economic research. Intensification of all these aspects of research is paramount if the informal economic activities in the agricultural sector must grow and be integrated into the national economy.

(iii) Strengthening the Infrastructural base will assist the sector to function efficiently. Especially in the area of processing, storage and marketing that adds value to primary production.

Improvement in agricultural extension and increased access to credit with which to adopt the improved innovation taught to farmers by the extension agents will promote growth in the sector as well.

(v) Finally, intersectoral linkages particularly that between agriculture and industry should be strengthened. It does not make much sense to begin with an industrial strategy that imports wheat for processing when all the fruits and vegetables produced in the country in abundance are rottening away. We really need to start from the basis for sustained growth and development.

Summary and Conclusion

Several benefits provide strong arguments for the promotion of the informal sector. In Nigeria, this sector is large, resilient and dynamic and it carries out a number of important functions that can enhance development. It however, appears to be neglected and left almost to its efforts to evolve naturally. It urgently requires government intervention on its behalf. In this paper, we have highlighted the conceptual framework of the informal sector and, tried to use it to identify the informal economic activities in the agricultural sector. The performance of the agricultural sector has also been traced from independence to date. It is apparent that the agricultural sector has not been able to operate at optimal levels due to a number of structural and economic constraints prominent among which are poor macro/sectoral economic policies management and inadequate technological/ infrastructural development. The paper therefore suggested some strategies that will integrate the informal economic activities in the agricultural sector into the mainstream of the national economy and enable it explore to the fullest the reservoir of resources (natural and human) at its disposal.

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