PUBLIC-PRIVATE PARTNERSHIP IN COMMERCIAL AGRICULTURE: ISSUES, CONSTRAINTS AND PROSPECTS*

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1. Introduction

One of the objectives of the Millennium Development Goals is to significantly reduce hunger and poverty by the year 2015. Agriculture has been identified as not only a strategic sector but the dominant economic sector with greatest potentials for addressing the multiple challenges of achieving the broad-based objective of economic growth, wealth creation, poverty reduction, food security and employment towards realizing the Vision 2020:20. To this end, the federal government tries to promote large-scale commercial agriculture of between 500 to 30000 hectares farm sizes while targeting a total of between 6 to 10 million hectares over a four-year period. In Nigeria, the agriculture sector contributes averagely 42% to GDP, employs more than 60% of the active working population and capable of contributing more to poverty alleviation than any other sector. Nevertheless, the sector has the poorest capital accumulation and the lowest quality of private sector investment within the national economy. National statistics on capital formation shows that land development (proxy for agricultural capital formation) stagnated at between 12-14% of total capital formation in the 1990s. At present, agricultural production, processing, distribution and marketing are dominated by small-scale farmers, processors and market operators which are scattered throughout the country. It is estimated that smallholder farmers produce not less than 95% of the agricultural output and cultivate about 85% of the total agricultural land. The structure of agricultural production is predominantly low-productivity traditional systems relying on simple hoe and cutlass technologies. Production is characterized by low levels of inputs use, low rates of investments in soil and infrastructure improvements, high risks and uncertainties and low resource-use efficiency. The outcome of low agricultural investment is low return on investment (especially when compared with industry and commerce) coupled with the unattractiveness of the agricultural sector for high quality human capital, entrepreneurship and financial investments. Some of these attributes are due to poor investment climate. The real value of cumulative foreign investment in agriculture declined persistently from 1981-2000. Agriculture's share of total stock of foreign investment declined from about 2% in the 1981-85 to less than 1% in the 1996-2000 periods (Eboh, 2005). The situation has not changed till now.

Agriculture is often misrepresented as the occupation of last resort for unemployed labor, an economic activity for the illiterate and financially disadvantaged, a profession that is outdated (not modern) and unattractive to the youth. It is even taken for granted that agriculture and its productive base would continue to supply food and raw materials without substantial public and private investments to improve sustainable production and resource. The low shares of agriculture in the inflow of foreign investments, total domestic public investments (represented by federal capital budget) and investments by organized private sector suggest that the bulk of agricultural investments is made by small-scale farmers and private entrepreneurs who invest own savings as well as small loans from informal financial sector. The banks don't

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invest in agriculture for a number of reasons ranging from perceived high risk to lack of knowledge about agriculture and inability to appraise agriculture-related investment proposals.

Private sector participation in agricultural sector has over the years been negatively affected by the distorting influence of the direct public sector involvement in agriculture. This was evident in the Green Revolution Scheme which promoted massive involvement of the River Basin Development Authorities in direct agricultural production, the establishment of state-owned agricultural production and marketing companies, the key role of government in input distribution and marketing (through subsidies). Experience has shown that the approaches did not produce desired results, but were counterproductive as they diminished the incentives for private sector participation. The quality of private sector investments in agricultural sector is virtually the lowest among all economic sectors. Yet, Nigeria requires high quality agricultural investments to break the cycle of low productivity, low efficiency and low returns to resources. Such investments include human, material, financial and institutional capital. Increased productivity cannot be achieved without more efficient technologies and inputs, market systems that encourage production, institutions that guarantee favorable investment climate for agriculture and enterprise management systems that are dynamic and are geared towards commercial and profit-oriented goals. Central to these imperatives is a modern, highly-skilled and dynamic agricultural labor force to undertake critical management and entrepreneurial functions. Nigeria needs new kinds of agricultural entrepreneurs, agricultural labor force and private sector investors to transform the agricultural sector into a modern economic system. This is a major objective of the transformation agenda of the current federal government of Nigeria under President Goodluck Jonathan.

Presently, the primary agricultural sector (arable crop, tree crop and livestock production) is very poorly represented at the Nigerian Stock Exchange. Out of about 150 companies quoted on the Nigerian Stock Exchange, only 5 are primary agricultural companies as at August 2005. The situation is even worse now that the capital market has suffered serious downturn due to the global economic recession. The quoted companies were Ellah Lakes Plc, Grommac Industries Plc, Livestock Feeds Plc, Okitipupa Oil Palm Plc, Okomu Oil Palm Plc, Presco Plc. This indicates that agriculture sector suffers acute shortage of mainstream private sector venture capital. This is ironical in view of the priority status defined for agriculture in national economic policy documents and the economic reform strategy – NEEDS I & II. Underlying the poor quality of private sector participation in agriculture is the fact that agriculture sector is the tenth most capitalized sector in the Nigerian Stock Exchange. Yet, agriculture is proclaimed as first priority sector in the economic growth and poverty reduction. As at April 2005, the most capitalized agricultural company on the Stock Exchange was Presco PLC with total capital of about ₦6 billion compared to Union Bank PLC with capitalization at more than ₦111 billion. Obviously, the state of private sector investments in agriculture does not reflect the picture that agriculture is the priority economic sector in the country. This is the critical policy and legislative challenge confronting all the tiers of governments.

2. Major Issues in the Commercialization of Agriculture

The major issues militating against the commercialization of Nigerian agriculture can be discussed under the following

- Limited government investments and detrimental policies. For example between 2005 and 2007 only 4% of government budget was spent on agriculture as against CADP prescription of 10%. Unfavorable policies that restrict competition include high import duties, select import bans, land tenure, etc.

- Challenging business environment – Incidence of multiple taxation, bureaucracy, corruption, difficulty in obtaining approvals, permits and licenses.

- Lack of irrigation/bulk water and limited adoption of modern technology. For example, less than 10% of irrigable land is under irrigation, poor mechanization, dearth of improved seeds, etc

- Inefficient markets – existence of trader cartels, high taxation, absence of standards and measures, poor market information system

- Poor infrastructure and support system – poor road network, expensive transport, power, inadequate storage and preservation.

- Access to credit is poor, costly and short-term in duration discouraging fixed assets acquisition.

- Research and development both inappropriate and not properly funded.

- Weak public institutions – especially extension system and other services delivery in the public domain.

- Risk and uncertainties – absence of weather-based crop insurance and risk-mitigating measures. The National Agricultural Insurance Company is a monopoly and public parastatal.

- Low supply of skilled manpower to drive the agricultural sector especially young entrepreneurs that studied agriculture.

- Absence of price stabilization policies and guaranteed minimum prices makes farmers and their businesses exposed to price volatility and highly vulnerable.

- The supply of production inputs such as fertilizers, improved seeds, farm machinery, etc are either heavily controlled or driven by the public sector with the attendant bureaucracy and rent-seeking behaviors.

3. Past Experiences of Private Sector Investments in Commercial Agriculture

Nigeria's oil boom of the 1970s shifted economic focus from primary (agricultural) sector to secondary industries and manufacturing or processing plants based predominantly on imported raw materials. The balance of payment challenges of the early eighties made the economic fortunes of Nigeria to change for the worse by the mid-1980s thus necessitating the structural adjustment program imposed by International Monetary Funds. Consequently, the government enunciated coping measures and policies to stimulate local production of basic agricultural produce for direct consumption and processing. One of the measures was import bans or restrictions (by Government regulated import license allocation) of non-essential items and items that could be sourced locally such as *cotton, vegetable oil, rice, sugar, wheat and malting barley,* therefore protecting national markets for local producers. As part of the measures, government stipulated criteria for international and national companies to qualify for foreign exchange allocations at defined government rates. The Federal and State Governments cooperated by instituting a number of measures and incentives including: offering long-term tax breaks for investors in agriculture, full foreign exchange earnings through product export were permitted to be retained by the investor; allocating large parcels of land on long-term leases (60-99 years depending on requirements to develop the land, i.e. clearing, infrastructure development etc); the leasing of land developed under State Agricultural Development Programs or River Basin Development Authorities which were not in use. These were considered to be prime agricultural land and in certain areas, with irrigation facilities with priority power connection to the national grid.

Large-scale companies such as breweries, textile and sugar producers pursued agro-investment strategy based on four key areas including; establishment of the processing facilities; establishment of large-scale mechanized nucleus farm/plantation on leased government owned land; establishment of out-growers/contract farming scheme based on crop volume; and establishment of procurement network to buy in the open market as supplement to production. While the investors were involved in establishing processing facilities and nucleus farms, the scale and design of out-growers' programs varied. After five years of operating concessionary access to foreign exchange, the government changed the policy on foreign exchange availability to the auction system only. The policy change became necessary because of massive corruption and directly impacted on the viability of the agro-processing companies by significantly increasing their production and processing costs. Companies were forced to restructure or close down their operations. Experiences of private companies that invested in commercial agricultural sectors at that time reveal some common challenges as follow:

- Shortage of requisite experience in primary agricultural and agro-allied sector. Their previous experience and knowledge related mostly to manufacturing and other sectors (e g Oil and Gas)
- Red-tape, low level of transparency and poor coordination of incentives between government ministries, departments and agencies
- Lack of adequate community consultation in the acquisition of land and natural assets by investing companies, leading to community resistance and insecurity
- Politicization of land allocation by the government
- Unsustainable reliance on importation of processing equipment, agricultural machinery, crop inputs and spare parts;
- Lack of research and development into crop varieties suitable for production that would produce significant yields within the diverse production areas of Nigeria;

• Lack of skilled staff at all levels and availability of casual labor during peak periods;
• Low capacity of small-scale producers to meet the needs and quality standards of investing companies
• Narrow investments in processing specific crops rather than in technologies that would diversify the processing capability of the unit, e.g. processing mangoes and tomatoes in the same unit and thus enhance the units' capacity;
• High cost of doing business due to inadequate and unreliable infrastructure – transport, storage and processing utilities, market information

4. **Models of Private Sector Investments in Commercial Agriculture**

There are three common models upon which private sector investments in commercial agriculture can be promoted in Ekiti State and indeed in Nigeria.

- Large-scale farming
- Nucleus estate farm initiative
- Out-growers/contract-growers schemes

Commercial farming can be defined in terms of various indicators. Land area is the most commonly used measure of large-scale commercial agriculture; large farm sizes, large amounts of inputs and large amount of outputs. Additional characteristics of large-scale agriculture are that they are usually profit-oriented and technology-based involving the use of modern mechanical, chemical and biological inputs. Large-scale farming does not equate the total sum of farms scattered in different locations as practiced under traditional land tenure systems that do not lend them to easy mechanization. Large-scale farms development in Ekiti State should be pursued in phases and cumulative in nature. The first phase should be to promote the consolidation of existing farm holdings through gradual evolutionary system championed by farmers' organizations and supported/enabled by state institutions. There is large scope for new dynamic modern entrepreneurs nurtured for large scale farming investments. There should be definite and well-designed policy strategies channeling the growing domestic private sector capacities towards large-scale farming and agro-based investments. While commercial farming creates an opportunity for improving and modernizing agriculture, it should not be forced down. It can only be an investment response to enabling policies as proved in Kenya and South Africa. In countries of Eastern and Southern Africa where large scale farming has been effective, domestic policies have for a reasonable time favored large farms through subsidies, taxes and interventions in land markets, output and input markets, labor markets, and in the public provision of services, such as transportation, extension and research. Such policies and institutions greatly elicited massive private sector commercial agricultural investments and the economic potentials of large farms. Current policy shifts to support large-scale agriculture in some states of the federation (for example Kwara State) testify to the indispensable role of enabling environment in securing large-scale foreign and domestic investments in agriculture. Definitely, there will be rough edges in the PPP experiment in Shonga, but such are being smoothened as the relationship with the Zimbabwean farmers grows. It was interesting listening to their representative sharing their experiences with the participants at an ARMTI-organised seminar recently! There were useful lessons learnt that can be very useful for state governments contemplating going the same route. Reliable information has it that Rivers, Ogun and Ekiti States have opened discussion with some Zambian farmers' missions to Nigeria. According to the farmers, the four major challenges they had to surmount were access to land, infrastructure, market and access to finance. The development of a commercial agriculture entails simultaneous roles and responsibilities for the public and private sectors to perform.

5. Constraints of Public-Private Partnership in Commercial Agriculture

Public-Private Partnership (PPP) in agriculture relates to perceptions and practices affecting public-private sector relationships in ensuring national/global food security, development and well-being of the society, and the conceptual aspects of such relationships, including the role of the key players in collaborating to make the partnership either successful or otherwise. Many factors are responsible for the low quality of private sector involvement in Nigerian agriculture. They include the high risks and uncertainties associated with agricultural production, low effective demand, poor infrastructure, lack of clear property rights and land security, low market development and high cost of agribusiness. Furthermore, the policy environment has not been clear, stable and favorable. It is also important to point that many private sector concerns lack adequate capacity and knowledge for agricultural sector investments. There is acute shortage of capacity and experiences about agricultural investments among the private sector entrepreneurs. This is the resultant effect of long years of industrialization strategy focused on import substitution, enclave manufacturing sector, dependence on imported raw materials and poor linkages between industry and agriculture.

Critical private sector investments are also constrained by the inadequate supply of highly-skilled and motivated agricultural enterprise managers due to the poor quality of graduates from the agricultural training and educational institutions. Land tenure and property rights problems hinder private sector investments in agriculture. The prevalent system embodies disincentives for moving agriculture from subsistence to market-oriented production. The access to land problem is worse in the south, where land is usually owned by the family, and the inheritance system perpetuates fragmentation of holdings. Population pressure in the south amplifies these restrictions and does become a binding constraint. In the north, the lack of ownership rights (land belongs to the community) creates a disincentive for long-term investment. Land acquisition is complicated, creating a poor climate for investment. The government owns extensive land, and bureaucracy over land issues is excessive. Titles to land are hard to obtain, and in some cases multiple titles exist. However, the government appears to be seriously addressing this problem through the Mabogunje-led land reform committee recently established to proffer appropriate remedy.

The effect of public sector involvement in direct agricultural production has led to the `crowding out' of the private sector, distorted market (incentives) and discouraged potential entrepreneurs and investors from getting involved in the agricultural sector. Even the public sector investments essentially funded through budgetary provisions are inefficiently utilized through corrupt practices. Examples of such inefficient public investments include cases of unintended beneficiaries in fertilizer subsidy schemes. This rent-seeking behavior of public control cannot continue if agriculture in Nigeria is to be commercialized. Experience of the telecommunication sector is a testimony to the type of revolution that can take place in agriculture if PPP is allow to work by the prospective `losers' even though the majority will be `winners' if the transformation agenda succeeds. We are all witnesses to the on-going resistance in the privatization of electricity, as well as the capacity of entrenched and rent-seeking civil servants to scuttle the reform.

Table1. SUGGESTED ROLES IN DEVELOPING COMMERCIAL AGRICULTURE

Role domain	Private sector	Public sector (Government)
Land	Land acquisition and development	Guarantee easy access, tenure and security
Capital	Backward integration, contract farming, SMIEIS approach	Support through NACRDB, ACGSF; strong regulatory and stimulatory regimes
Management	Transmit skills and competencies from outside the agric sector	Adopt investment incentives and friendly overarching business climate
Extension	Share costs of extension; create effective demand for extension services	Reform extension strategy to enhance technology dissemination and farmer training
Inputs	Produce and market inputs	Liberalize input markets, well-targeted and effective public subsidies
Markets and Prices	Deepen domestic and export markets; innovate links between production and markets.	Price supports, export subsidies, tariff protection, standardization and grading
Farming area infrastructure	Partner with public sector	Increase effective spending on public farm services and facilities
Policy	Advocacy and Monitoring	Policy reforms establishing clear strategy on large scale farming –in terms of target crops, target markets, target investors; Measures to make relative returns to agric investments compare well with other economic sectors Shield infant large-scale farming from undue international competition but promote domestic competition
Research and Training	Funding; commercialization of proven research-generated technologies; internalize links with agricultural education/training	Increase funding of research; make research functional and relevant to needs; provide incentives to private entities funding research (e.g matching grants, tax breaks, etc)
Agricultural education and training	Transmit skill needs to agric education and training institutions	Reform the agricultural education curricula to align with industry needs; foster links between agricultural education/training and large scale farming

Source: Eboh E (2005)

6. Transformation Agenda and Ekiti State Agriculture Sector

The Federal Ministry of Agriculture under the President Goodluck Jonathan has put together a transformation agenda for Nigeria's agriculture sector. It is in the interest of Ekiti State to leverage on the initiatives under the transformation agenda in order to derive maximum benefit.

The value chain approach is also being adopted around five commodities namely rice, cassava, cocoa, sorghum and cotton to achieve stakeholders buy-in and mobilization. Concurrently, the formulation of appropriate policy framework and legislations to free the agriculture sector in order to attract private sector investments are also being worked upon. It is the seriousness and speed with which these are pursued that determines the level of seriousness of government to go the route of private sector–led commercial agriculture. Some of the deliberate policies will have to include

- Liberalize foundation seed policy to allow greater participation of private sector in production and distribution of commercialize seeds
- Eliminate government distribution of fertilizers and replace with private sector distribution through the adoption of e-wallet and agro-dealership system. Move away from a flat fertilizer price subsidy to targeted support to small holder farmers
- Introduce incentives to engage young commercial farmers for farming as a business
- Create institutions to support the agricultural transformation agenda such as
    - Marketing Corporations, to replace the defunct marketing boards
    - Transform the Agricultural Research Council (ARCN) to a National Agricultural Transformation Agency like EMPRAPA that transformed Brazilian agriculture
- Guaranteed minimum price for food crops to sustain production and stabilize price.
- Revise the Land Use Act to enable easier access to land for investors in agriculture
- Rapid expansion in irrigation facilities and revamping of existing ones

Financial Service Policies will include

- Access of farmers to insurance especially weather index insurance to adapt to climate change. This is to be driven by incentives.
- Remove the current monopoly on agricultural insurance by the National Agricultural Insurance Company and liberalize to allow private sector insurance companies

Industrial Policies that will support the agenda will include

- Move gradually away from fertilizer consumption subsidies to support for local fertilizer manufacturing leveraging the gas industrialization policy (e.g., Nagajuna 1.4 mil MT plant)

Market development requires the following enabling legislative acts to boost demand.

- Cassava Flour substitution at 10% for bread wheat flour

- Blending 10% of ethanol with petrol.

Fiscal Policies necessary to drive the reform agenda include

- Zero tariffs (custom, excise and value added) for import of agricultural equipment and agro-processing equipment
- Tax holidays for investors putting processing plants in staple crop processing zones
- Increase levy on any commodities that Nigeria can produce (starch, sugar and wheat)
- Current policy on import levy of 5% for brown rice and 30% for polished milled rice, and 5% on raw sugar and 10% on starches should be increased and revenue used to support domestic production
- Supportive incentives for investors establishing blending plants for ethanol

7. Conclusion

The language of business for every investor whether small, medium or large farmer is profit. Therefore any attempt or effort being made to encourage their participation without the right incentives will not work. The private sector also tries to avoid risks, rather weigh the risks against the returns before taking investment decisions. The role of government here is to try and mitigate the risk to a large extent and provide attractive investments leading to profit. The prospect of public-private partnership in commercial agriculture in Nigeria has been tested and proven by the Shonga farms in Kwara State and similar case studies across Africa. From the Golden Exotic Banana farms in Kpong area of Ghana to the Nakambala Sugar Estate in Zambia, the model definitely works. What is required is for the various governments to implement the needful to attract venture funds, private sector entrepreneurs and investors to focus on agriculture. This is doable given the right policies, incentives and provision of public goods that are supposed to be provided by the government. It is this model that can attract the young Nigerian graduates into the business of agriculture that will leverage on their education to adopt modern techniques of farming.

Finally, in order to achieve a sustainable PPP and ensure the most effective, productive, compassionate, result-oriented, and efficient use of resources, it is imperative that the members or subscribers to the partnership must adopt a single framework of action that provides the basis for co-coordinating the work of all partners. It is also necessary to put in place and maximally utilize a single national or community coordinating body with a mandate from various sectors or stakeholders. There should also be agreement on the monitoring and evaluation (M & E) mechanism to ascertain and maintain accepted standards. Such an arrangement will enhance the coming together of several stakeholders such as federal, state and local governments; profit-oriented businesses and not-for-profit organizations, community development associations, UN and other transnational agencies, civil society groups and faith-based organizations; to work towards sustainable development and poverty reduction within the state and country.

7. References

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Such arrangements are called public private partnerships (PPPs). Contracting out differs from PPPs in that the latter usually entail a combination of services (for example, design, construction and maintenance) whereas contracting out is usually for one or relatively simple services. Key features of infrastructure PPPs include: â€¢ the private sector invests in infrastructure and provides related services to the government.Â The private sector sees the lack of accounting standards, transaction costs and taxation issuesâ€"especially the so-called leasing sectionsâ€"51AD and Division 16Dâ€"of the Income Tax Assessment Act 1936 as barriers to the greater use of PPPs. In certain situations, these sections deny to the private owner of an asset certain tax deductions related to the asset. Clarification of the concept of â€œpublic-private partnershipâ€ is extremely important for a common understanding of the content, mechanisms, tools and practical application. According to the Russian law, PPP is traditionally considered as an effective interaction between the state and business in various forms by combining their resources to achieve the common goals of socio-economic development.Â These issues include the scientific justification for the use of public-private partnership in the agricultural sector as a mechanism for the accelerated development of the agro-industrial complex, which contributes to the increase of the level of food security in the country. 3. E3S Web of Conferences 175, 13016 (2020) INTERAGROMASH 2020. Part of the Politics series on. Neoliberalism. Capitalism portal. Economics portal. Politics portal. v. t. e. A publicâ€"private partnership (PPP, 3P, or P3) is a cooperative arrangement between two or more public and private sectors, typically of a long-term nature. In other words, it involves government(s) and business(es) that work together to complete a project and/or to provide services to the population. They are an example of multistakeholder governance which is a key target of United Nations Public Private Partnerships. PPPs allow real estate and construction stakeholders to assume part of the expenses associated with the construction of physical infrastructure and social housing in an area. From: International Encyclopedia of Housing and Home, 2012. Related termsÂ PPP policies, laws and standardised contracts address the issue of what is needed and why, but they often do not address in the detail required how to go about preparing and procuring a project as a PPP. Many governments have developed handbooks and guidance for their programmes addressing issues such as how to conduct a VfM assessment (cf. Â§Â Public-private partnerships (PPPâ€™s) have begun to be applied in Peru, with promising results and will surely continue to improve over time.