IMPACT OF FOREIGN DIRECT INVESTMENT ON AGRICULTURAL SECTOR DEVELOPMENT IN NIGERIA, (1981-2012)

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Abstract

Premised on economic and political instability indicators, this paper examined the impact of FDI on the agricultural sector development of the Nigerian economy. This work employs secondary time series data which spanned 1981 to 2012, Following ADF test for stationarity and a granger causality test, the study found a relationship among the variables as affirmed by the error parameter. The study reveals that FDI positively impacted on agriculture not only in the short run but also in the long run. This will also engender domestic income diversification which will boost agricultural sector. Further, political instability adversely affected agricultural investments in the long run. An enabling environment should be provided to attract investment on short and long term basis.

INTRODUCTION

Nigeria as a country, given her natural resource base and large market size (a population of about 160 million), qualifies to be a major recipient of FDI in Africa and indeed, is one of the top three leading African countries that consistently received FDI in the past decade. However, the level of FDI attracted especially to agriculture is small compared to the resource base and potential need. Nigeria's share of FDI inflow to Africa averaged around 20.68% between 1976 and 2007. The percentage of FDI inflow to the agricultural sector in Nigeria during the same period is less than 1%. Between 1980 and 1984, it was 2.46% which was the highest and stood at 0.37% Ajuwon and Ogwumike(2013).

Nigeria as a nation has the potentials to become the largest economy in Africa, and a major player in the global economy because of its rich human and natural resources, with which she can build a prosperous economy, reduce poverty significantly, and provide sound health care for her citizens. This has not been achieved because the shrinking of major productive sectors of the economy due to over dependence on oil. This has greatly affected the agriculture of Nigeria which has been the main source of resources of revenue earning to the economy. This continued deterioration of budgetary allocation to the sector, decline in agricultural output and the perception that if properly taken into consideration, the sector could bounce back to its position motivated by the urge to investigate the alternative ways of revamping the sector through FDI.

The need for this research is to analyze the positive impact of foreign direct investment (FDI) on agricultural sector in Nigeria through the involvement of the FDI as a catalyst of change, the agricultural sector of Nigeria. However, FDI and growth debates are country specific. Earlier studies(for instance, Otepola,2002; Oyejide, 2005; Akinlo, 2004)examined only the importance of FDI on growth and channels through which it may be benefiting the economy. This study however examines the impact of FDI on agricultural sector development of the Nigerian economy.The study will be looking at the impact of FDI on the agricultural sector in Nigeria and the research period will cover from 2002 to 2012.

LITERATURE REVIEW

The rising commodity prices and volatility in 2008 and subsequent concerns about food security have served as a wake-up call to reconsider the food system and foster agricultural development. These concerns are fueled by long term projections of increasing demand for agricultural commodities due to population growth, long life expectancy, rapid economic growth, increased purchasing powers and changing consumption patterns in emerging economies, land degradation due to intensive production and adverse climate change impacts, and increased demand for non-food crops and bio-fuels due to recent bio-fuels initiatives and legislation (Hallam 2009: 2, Miller et al. 2010, UNCTAD 2009: 93, McNellis 2009: 1). The agricultural sector has long been neglected as motor of development and poverty reduction, and a lack of private and public investment has led to lower productivity growth rates and stagnate production in many developing countries. To achieve food supply for a potential world population of 9.1 billion in 2050, USD 83 billion per annum should be invested in the agricultural sector of developing countries (FAO 2009a, b). Most of the investment is expected to come from farmers themselves, but also from the public sector providing infrastructure, institutions, and Research Development. Public investment is found to be most effective to ensure food security and poverty reduction in agriculture, but might not be able to meet these investment needs. Although world inflow of foreign direct investment (FDI) to agriculture was small in the past – less than 1% of total world inflows between 2005 and 2007 (UNCTAD 2009:111) – FDI could contribute to bridge this investment gap. Public actors could therefore be effective in stimulating private investment into the sector while at the same time reducing risks and securing benefits of the investment, by e.g. ensuring that FDI support the country’s development strategy and spillovers to smallholder production systems (FAO 2009b, Miller et al. 2010, Hallam 2009: 3, 6).

Already in the last decades, FDI and Transnational Corporations (TNCs) have been involved in agriculture in developing countries, in particular in the up and downstream segment of the global agric-food value chain, but also through non-equity participation such as contract Farming. Increased food prices have attracted “new investors” in agriculture, pursuing large scale Land acquisitions in developing countries (UNCTAD 2009: 93, 111). These developments have led to the discussions about the forms of FDI and alternative business models in developing countries’ agriculture, the potentials and challenges, and the economic, social, institutional, and policy requirements to benefit from FDI. This work provides a review of recently observed trends in agricultural investment in developing and transition countries and concludes with policy recommendations

The debate which has taken a long period of time is whether foreign direct investment has positive influence on economic growth or not.

According to traditionalist, the inflow of foreign investment improves economic growth by increasing the capital stock where a recent literature points to the role of foreign direct investment as a channel of international technology transfers. Blomstrom et al (1994) observe that FDI inflows had a significant positive effect on the average growth rate of per capita income (PCI) for a sample of 78 developing and 23 developed countries. However, when the sample of developing countries was split between two groups based on level of PCI, the effect of FDI on growth of lower income developing countries was not statistically significant although it still has a positive sign. They argue that least developed countries gain marginally from multinational enterprises (MNEs) because domestic enterprises are too far behind technologically to be either imitators or suppliers to MNEs.

According to Markuser (1995) there is growing evidence to foreign direct investment enhance technological changer through technological diffusions, for example because multinational firms are concentrated in industries with a high ratio of research and development relatives to sales and a large of technical and professional work. He argued further that international co-operation are probably among the most technologically advance firms in the world and the foreign investment not only contribute to import of more efficient foreign technologies but also generate technological spillover for local firms. Kinshasa (1997) and Soyohalom (1999) stated that technological change plays a pivot role in economic growth. Multinational co-operation is one of the major channels in providing developing countries with access to advanced technologies, they stated further that the knowledge spillover may take place via imitation, completion linkages and training, although it is in practice but rather difficult to distinguish between their form channels, the underlying theory.

Bonojour (2003) support the spillover channel of technological transfer by arguing that most important benefit of FDI and multinational co-operation on the host country is the increase of domestic firms' productivity.

According to Ngowi (2001) FDI can be an engine of economic growth in a host economy such investment can sustain and improve economics development in a country or region, he emphasized that given the economic condition of Africa countries and its level of direct investment in the region cannot be over emphasized. The continent needs to increase its share of global FDI inflows as one of the most likely ways to increase the needed external capital for its development. Helpman (1984), Helpman and Kingman (1985) argues that the impact of trade performance adopted by multinational enterprise in the case of vertical investment theoretical imperfect competition models predict complementary relationship between FDI and trade. Beriassary (2000) argues that the influence of real exchange rate on foreign direct investment is ambiguous and depends on the motivation of foreign investors for instance depreciation make local assets and production cost cheaper leading to higher inflows of FDI.

Accam (1997) reviewed the effect of exchange rate instability on the macro economic performance with specific reference to the effect on trade and investment. In the survey, Ham and De Melo (1990) found out that unstable macroeconomic environment constitutes one of the major impediment to investments in many LDCs. The author estimated on OLS regression of the fixed country using standard deviation of the exchange rate as a Poway for instability. The study find a negative sign associated with the coefficient of exchange rate uncertainly.

Serven and Solimano (1993) also investigated economic adjustment and FDI performance for fifteen developing countries; the pooled Gross sections time series data from 1975 to 1988. The investment equation estimated in the study used exchange rate and inflations as proxies for instability and in such case instability was measured by the coefficient of the variation of relevant variable over three years. The two measures were found to be jointly significant in producing negative effect on investment. The same effect was confirmed by Hadgmehael et al

(1995) study on growth of saving and investment performance of 41 developing countries between 1986 and 1993.

Olumigina (2003) in the test conducted using OLS, found market exchange rate in the official market as being significant at 10% for FDI to agricultural sector, the same is however not significant for manufacturing. He therefore concluded "proper management of the exchange rate to flows of FDI to Nigeria and sub-Sahara African countries.

Asiedo (2003) in his work panel data for 22 countries in sub-Saharan African over the period of 1984-2000 to examine the impact of political risks, institutional framework and government policy on the FDI flows. The dependent variable was the rate of the net FDI flows to GDP while the independent variable used include natural resource intensity, attractiveness of the host country's market, infrastructural development, macro economic instability, openness to FDI, host country institution and political instability. His result showed that macroeconomic stability, efficient institution, political stability and goods regulatory framework have positives impacts on FDI an importation implication of the result that FDI to Africa is not solely driven by natural resources endowment and that government can play an important role in promoting FDI to LD regions.

Constraints of FDI in Nigeria

In a survey of African countries Dupasquier, and Osakwe (2006) identified poor corporate governance, unstable political and economic policies, weak infrastructure, unwelcoming regulatory environments and global competition for FDI flows as impediments standing in the way of attracting significant FDI flows. This corroborate the findings of Jerome and Ogunkola(2004) which assessed the magnitude, direction and prospect of FDI in Nigeria. The author ascribed the low level of FDI in Nigeria to deficiency in the country's legal framework concerning corporate laws, bankruptcy and labor law, in addition to institutional uncertainty. The investigation of the empirical relationship between non-extractive FDI and economic growth in Nigeria was the focus of Ayanwale(2007) who reported that the dominants of FDI are market size, infrastructure development and stable macroeconomic policy. The contribution of Ekpo(1997)'s study which made use of time series data is that the variability o FDI into Nigeria can be explained by the political regime, real income per capital, rate of inflation, world interest rate, credit rating and debt service. In his study of the determinants of FDI in Nigeria Ayanwale(2007) identified changes in domestic investment, changes in domestic output or market size, indigenization policy in 1995 encouraged FDI inflow into Nigerian and efforts must be made to raise the nation's economic growth as to be able to attract more FDI.

CONTRIBUTIONS OF AGRICULTURE TO ECONOMIC DEVELOPMENT IN NIGERIA

Notwithstanding Nigeria's rich endowment in black oil of her economy still largely depends on agricultural sector. The Nigerian economy is essentially agriculture in terms of national output and employment generation. It is the largest contributor to Gross Domestic Production (GDP) (average 38% in the last 8 years) with crops accounting for 80%, forestry 3% and fishery 4%. It provides employment for about 65% of the adult labor force and the food and fiber needs of a large and increasing population. The agro-industrial enterprises depend on the sector for raw materials whilst 88% of the non-oil exports earning come from the sector. The sector contributes a great deal to the development of the economy in various ways:

Agriculture contributes significantly to national food self –sufficiency by accounting for over 90% of total food consumption requirements, its helps to maintain a healthy and peaceful population and also a source of food and nutrition for households. Furthermore the ultimate objective of interest of economists in productivity should be to find ways of increasing output per unit of input and attaining desirable inter-firm, intra-firm and inter sector transfers of population resources thereby providing the means of raising the standard of living.

In Nigeria, agriculture export has played an important role in economic development by providing the needed foreign exchange earnings for other capital development project. Ekpo and Egwaikhide (1994) observed that Nigeria agricultural export has enlarged to include cocoa beans and palm kernel. Statistics indicate that in 1960 agricultural export commodities contributed well over 75% of total annual merchandise exports. In 1940‟s and 50‟s Nigeria was ranked very high in the production and exportation of major crops in the world. For instance, Nigeria was the largest exporter of palm oil and palm kernel, second to Ghana in cocoa and third position in the exportation of groundnut. Olayide and Essang (1976) report that Nigeria export earnings from major agricultural crops contributed significantly to the Gross Domestic Product (GDP).

In terms of employment, the sector is still leading in economic activities, while accounting for one-third of the Gross Domestic Product (GDP). It remains the leading employment sector of the vast majority of the Nigerian population as it employs two- third of the labor force Bola (2007). Olatunji (2002) observed that in Nigeria today, farming still remains the sources of employment of majority of the adult population, its productivity is the most important single factor influencing the standard of living of both the rural and urban centers.

Agriculture indeed has remained the major sources of income to the economy. About 90% of the rural population is involved in activities related to the crop sub-sector which provides the bulk of agricultural income. Similarly the crop sub-sector supports the processing industry by providing raw materials.

THE ROLE OF AGRICULTURE IN NIGERIA ECONOMY

Nigeria is generously endowed with abundant natural resource with its reserves of human resources, Nigeria has the potential to build a prosperous economy and provide for the basic needs of the population. This enormous resource base if well managed could support vibrant agricultural sector capable of ensuring the supply of raw materials for industrial sector as well as providing gainful employment for the teeming population.

Nigeria's rich and material resource endowment give it the potential to become Africa's largest economy and a major player in the global economy. Compare with other Africa and Asian countries, especially Indonesia, which is comparable to Nigeria in many respects, economic development in Nigeria has been disappointing. With GDP of about 45billion, 32.95billion and 55.5billion naira in 2001, 2002 and 2003 respectively and per capita income of about $300 a year, Nigeria has become one of the poorest countries in the world. Having earned about $300 billion from oil exports between the mid-1970s and 2000, it per capita income was disappointingly 20% lower than that of 1975. Inability to tap much of the abundant human and material resource can therefore put the attainment of the millennium development goals by 2015 in jeopardy. The role of agriculture in economic development of most countries can hardly be overemphasized. The contribution of agricultural growth to overall poverty has been documented. In view of the importance of agricultural, observed that rising agricultural productivity has been most important concomitant of success industrialization.

A significant portion of the agricultural sector in Nigeria involves cattle herding, fishing, poultry, and lumbering which contributed more than 2% to the GDP in the 1980s. according to the UN food and agricultural organization 1987 estimate , that there were "12.2 million cattle, 13.2 million sheep, 26.0 million goat, 1.3 million pigs, 700,000 donkeys, 250,000 horses, and 18000 camels, mostly in the northern part of Nigeria, which were mostly owned by rural dwellers rather than by commercial companies. Fisheries output ranged from 600,000 to 700,000 tons annually in the 1970s". Although these estimates may not be accurate but it is definite that the estimates indicate that the output had fallen to 120,000 tons of fishes per year by 1990. This was partly due to environmental degradation and water pollution in Ogoni land and delta region in general by the oil companies. Decline in agricultural production in Nigeria began with the advent of the petroleum boom in the early 1970s. Thus agriculture including farming and herding accrue to 17% in the nation's gross domestic product (GDP) though agriculture contributed more than 75% of export earnings before 1970. Since government negligence, poor investment and other ecological problems such as erosion, infertility etc crippled into the system, the export earning of agriculture has reduced to 5%. Numerous farm products such as cocoa, kola, nuts, wood, cassava, and the rest were pointers to the fact that we had multiple sources of income as a; surplus food supply thus avoiding unnecessary expenses on food supply. A hungry man is an angry man they say which is true of the larger population of Nigeria. Going round the streets in Nigeria, one will realize that people are hungry for daily bread (food) to feed their empty stomachs. Consequently, societal and health malaises like unequal distribution of allocation; agitations by the Niger Delta's, increase in arm robbery; looting of nation's treasury, gross corruption unemployment, decline economy, and social inequality, which are abetted by government negligence, health disease such as malnutrition; obesity, kwashiorkor to mention a few, insufficient provision of basic amenities of which food is the first and corrupt police and customs forces, and others can be curbed if government can venture and focus into this area of agriculture.

AGRICULTURAL DEVELOPMENT IN NIGERIA

In spite of the growing importance of oil, Nigeria has remained essentially in agrarian economy, with agriculture still accounting for significant shares in gross domestic product (GDP) and total export, as well as employing the bulk of labor force. Available data shows that at independence in 1960, the contribution of agriculture to GDP was about 60% which is typical for developing agrarian nations. However, this share declined, over time, to only about 25% between 1975 and 1979. This was due, partly, to the phenomenal growth of the mining sector during the period, and partly as a result of the disincentive created by the macroeconomic environment. Similarly, the growth rate of agricultural production exhibited a downward trend during the period. Thus, between 1970 and 1982, agricultural production stagnated at less than 1% annual growth rate, at a time when the population growth was between 2.5% to 3.0% per annum. There was a sharp decline in export crop production, while food production increased only marginally. Thus, domestic food supply had to be augmented through large imports. The food import bill rose from a mere #141.88 million annually during 1970-74 to #1,964.8 million in 1991. The advent of the oil boom reduced the share of agriculture in total exports to a mere 2%. Previously the world's leading producer and exporter of palm-oil, Nigeria became a net importer of vegetable oil by 1976. (Idialu 2011)

In the early 1980s, it became apparent that the agricultural sector could no longer meet domestic food requirements, supply raw materials for industry and earn enough foreign exchange through exports, owing to various economic, social and other environmental problems. Consequently, the federal government, in the 1986 budget, proposed a program of economic recovery which was revised into a more comprehensive structure adjustment program (SAP) by the second half of 1986.

Among the major objectives of SAP were to reconstruct and diversify the productive base of the economy in order to reduce dependence on the oil sector and on imports, and to lessen the dominance of unproductive investments in the public sector. With respect to the agricultural sector, the core measures were improvement of pricing policy and encouragement of exports through trade liberalization. The performance of agriculture since the commencement of SAP, however, has been mixed.

Average growth rate of agricultural production was estimation at 5.2% annually between 1990 and 1997. Except for fishery output which declined, crops, livestock and forestry production recorded improvements. Domestic food supply and agricultural export also recorded remarkable improvements. Apart from the rise in the share of export crops, such as cocoa, palm kernel and rubber, in the total volume of agricultural exports from 71.5% in the pre-SAP era to 84.1%, new commodities, including food supply staples, entered the export basket.

Contribution of FDI to the economic development

Dauda (2007) argues that FDI is generally believed to propel economic growth in developing countries as it makes significant contributions to the host country's development process especially through easing of the constraints of low levels of domestic savings and investment as well as foreign exchange shortages. He further argues that FDI increases the GDP and generates a stream of real incomes in the host country. The increased productivity benefits local income groups through higher wages and expanded employment, lower product prices paid by consumers, rent to local resource owners, and high tax revenue or royalties to the government.

Determined to move in tandem with the urgent dictates of the deplorable state of the nations infrastructural needs, Nigeria plans to attract $600 billion in Foreign Direct Investment by the threshold year of 2020 to deal with the mammoth infrastructure deficit. Although, it currently attracts only about $9 billion, according to Goldman Sachs, however, by implication, this means that the country must on the average pull in $50 billion on a yearly basis to hit target, it also means doing an extra $41 billion better than current levels; which economic observers say may after all be a Herculean task.

The task, obviously not an easy one because research shows that Nigeria is not even in the top ten of FDI destination where the least country, Thailand received $9.6 billion in 2007, according to World Bank research contained in Global Development Finance 2008. Unsurprisingly, according to Goldman Sachs, the bulk of FDI inflows (55 percent in 2006) went to the oil and gas sector. But other sectors have also benefited, particularly the banking and infrastructure sectors. Then it goes without saying that the Nigerian economy is in dire need of diversification, having had oil and gas as mainstays for nearly half a century. Oil and gas represents 98 percent of Nigeria's total export revenue and amounted to $58 billion in 2006, tripling the country's trade surplus since 2002. The research by Goldman Sachs notes that the FDI growth is on the back of Nigeria's improving economic climate with GDP accelerating an average seven percent in the last five years. Imports have also risen rapidly and much of this in the form of investment goods for the oil sector. Trade surplus has risen to $40bn (up from $28bn in 2006 and only $5bn in 2002).

Goldman Sachs three years ago predicted that the country would feature in the top twenty economies by 2020. Soon after, it appeared on the radar of Fitch, then Standard and Poor's, two rating agency, which gave the country high marks. Since then international investors have been looking in and even taking positions in some of the most attractive sectors of the economy. One such investor, a private equity firm even re-wrote the BRIC (Brazil, Russia, India, and China) acronym as BRINC with the 'N' standing for Nigeria.

Impediments against FDI growth in Nigeria

But there are situations on the ground that may slow the massive inflow envisaged by government. Chief of these impediments is government's penchant for policy reversals. There have been reversals in the Ajaokuta steel deal and the African Finance Corporation. Reversals should be relics of the country's stint with despotism and military junta. Reversals send a wrong signal about a country's intention to be a part of the international flow of investment capital with all the benefits that come with it. The tottering stage of the rule of law and property rights law, as well as the land use laws is yet another snag in government's plans. In this regard, there are lessons to learn from Singapore, a country of just six million people that have made their economy a hub for FDI on account of entrenching the Rule of Law. Not to be overlooked also is the enactment of laws that will protect businesses and provide incentives for investors. The ease of doing business in Nigeria needs to be given extra attention as these impacts directly on companies' bottom line. Government is urged to stream line registration processes and double up efforts in rebuilding broken infrastructure particularly, power and road infrastructure. On this, the lesson is from Ghana, a neighboring country now hot on investors' destination points.

METHODOLOGY AND SOURCE OF DATA

This work employs the inferential approach to evaluate the impact of FDI on agriculture in Nigeria. This approach is important because it enable the researcher to use certain estimate of parameter of the variable to infer the future behavior these variables. Because of the inferential nature of the approach to the study, the researcher employed the time series (secondary data) which is extracted from various issues of the Central Bank of Nigeria (CBN) annual report and Statistical bulletin, December 2012.Data were equally obtained from federal ministry of finance website. This study employs the ordinary least squares method (OLS) as the estimation technique through stepwise regression in order to avoid multi-co linearity of explanatory variables. With the aid of Statistical Package for Social Sciences (SPSS) software, the model will be estimated using annual data from 2002-2012.

MODEL SPECIFICATION

The functional form,

AGI =f (FDI, EXR, and INT) **.. (1)**

ECONOMETRIC MODEL

In $AGI = \beta_0 + \beta_1 FDI + \beta_2 EXR - \beta_3 INT + \mu$ .... (2)

Where AGI = Agricultural output; FDI = foreign direct investment; EXR = Exchange rate; INT = Interest Rate; U = Stochastic Error Term.

HYPOTHESIS

H_0: There is no statistical significant impact of FDI on agricultural sector development in Nigeria.

REGRESSION OUTPUT (E-VIEW*)*

Variables	Coefficient	t-statistic	Prob. Value	R-squared
C	7.017311	10.33862	0.0000	0.939765
Log (FDI)	0.456290	5.508062	0.0000	
Exchange rate	0.016132	4.288248	0.0002	
Dlog(interest rate)	-0.354746	-0.767340	0.4495	

SOURCE: E-VIEWS

INTERPRETATION

The β_0 coefficient **7.017311** shows the amount of agricultural output (AGI) that will be if the explanatory variable is zero. The probability value of the variable is 0.000, which state that the model is good. The coefficient of foreign direct investment (FDI), interest rate (INT) and exchange rate (β_1, β_2, β_3), with corresponding probability value that state that the model is also good.

The R^2 (Coefficient of determination) is **0.939765** showing that the explanatory variable explain 93% of changes in the dependent variable. Other factors that contribute to agriculture apart from foreign direct investment are captured by the remaining 7% which are not included in the model.
From the regression analysis carried out, there exist a positive relationship between foreign direct investment and agricultural sector of Nigeria. This clearly seen from the result obtained in our analysis.
The H_1 is hereby accepted on the basis of our analysis. Therefore, foreign direct investment has significant impact on agriculture in Nigeria.

CONCLUSION AND POLICY RECOMMENDATION

This research has examined the effects of FDI on Agriculture sector in Nigeria. The results show that FDI and Exchange rate have positive impact on Agricultural sector, while interest rate has negative impact. An important finding of this study is that FDI to Nigeria is majorly driven by natural resources, and that governments can play an important role in promoting and developing its natural resources to encourage more investments to Nigeria. Nigeria needs to juxtapose foreign investment with domestic investment in order to maintain high levels of income and employment. Foreign investment can be effective if it is directed at improving and expanding managerial and labor skills. In other words, foreign direct investments into Nigeria will not on its own lead to sustainable economic growth except it is combined with the right structures and infrastructures that could facilitate fruitful results.
In the light of the above findings, the followings recommendation are proposed to encourage and improve the inflow of foreign direct investment in Nigeria:
Policies which would focus on the enhancement of the internal economy, especially the stability of the economy, should be pursued by Nigerian government. More so, regulators can undertake sustainability impact assessment and regulate microeconomic and local condition. This includes monitoring of benchmarks and business practice, voluntary guidelines, and transfer of environmentally sound technology
Government should provide adequate infrastructure and policy framework that will be conducive for doing business in Nigeria, so as to attract the inflow of FDI.
There is need for government to be formulating investment policies that will be favourable to both local and foreign investors
Given the causal link among exchange rate – export growth economically at the Nigerian economy, favourable exchange rate policies should be formulated and implemented.
Diversification of the economy, the country should not rely on one source of revenue, other natural resource should equally be explored and made to be a source of revenue to the country.
Agriculture should be the top-most priority of any administration in Nigeria if the country want to regain it lost glory.

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