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Research Paper

The Effect of Foreign Direct Investment: A Critical Evaluation of Nigeria Agricultural Sector

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This study focused on foreign direct investment FDI in Nigerian agricultural sector with a view to find out the effect of (FDI) on the agricultural sector. Time series data obtained from Central Bank of Nigeria and National Bureau of Statistics on foreign direct investment and capital importation in Nigeria from 2015 – 2018 were used. Descriptive analysis was used in analyzing the data. The results obtained showed there was 94% increase in foreign direct investment inflow in July 2015 and 53% increase in July 2016. Annual inflow of foreign direct investment was between $694.58 million to $1146.10 million from 2015 – 2018. Results for foreign capital importation revealed that shares dominated in the sectors with $14,694.86 million (54.43%), followed by banking $2,783.16 million (10.31%). During the period under review the agricultural sector received total foreign capital investment of $279.86 million with the highest foreign capital investment made in 2017 ($159.06 million), while the fishing sector received a total sum of $106.44 million with its highest allocation of $100.43 million in 2017. These foreign capital importations into the Nigeria agricultural sector were very meager (1.04% for agriculture and 0.39% for fishing) compared to the large amounts allocated to shares, banking and telecommunication.

Keywords: Foreign direct investment (FDI); capital importation, agriculture; fishing; economic sectors; Nigeria.

INTRODUCTION

Captivated by high rates of return, investors from all over the world have now set their sights on the Federal Republic of Nigeria (Dartmouth Business Journal, DBJ 2012). As African most populated country, Nigeria also boasts the continent's second largest oil resources and has a very promising growth outlook. Poised to eclipse Africa's largest economy, Nigeria is becoming a rather worthy recipient of foreign capital through foreign direct investment programme.

Foreign Direct Investment (FDI) refers to an investment in a business by an investor in a country other than his home country and for which the investor exercises control over the business. According to the Organization of Economic Cooperation and Development (OECD, 2001), control over a business means owing not less than 10% of the business. Businesses that make FDIs are called Multinational Corporations (MNCs), global corporations or multinational enterprises, MNEs (www.study.com, 2003 – 2018). The term multinational cooperation, multinational enterprise or global enterprise according to Brigham and Houston, (2004) is used to describe a firm whose operations and activities cut across several countries. Usually, the activities of such firms cover several operations ranging from production through manufacturing to distribution to consumers across the globe. Brigham and Houston, (2004) gave the following reasons why firms go multinational or global. Among them are:

(a) The need to broaden their markets: This enables firms to exploit growth opportunities in foreign markets either because the company has saturated its home market or is facing challenges from the home front.

(b) To source for raw materials to feed their local plants: This was the reason behind the rush for Africa by early European explorers such as Britain, France, Portugal, Spain and Belgium.

(c) To seek new technology since no one country has technology monopoly in all fields: They therefore browse the world for leading significant and design ideas. This reason is particularly applicable to electronics, automobile, computer and office furniture companies.
(d) To seek productive efficiency: If firms notice that cost of production at home is very high, they shift to low-cost regions. Most FDIs made in developing countries are for this reason because the managers know that labour and cost of raw materials are low when compared to their home countries.
(e) To avoid political and regulatory hurdles: Most firms shift base primarily because of stringent hygiene and environmental regulations which they find disturbing. They move into areas where most of the conditions are relaxed or where they can manipulate the host country, particularly developing countries.
(f) To diversify: This is done to cushion the effects of adverse economic trends in a single country since it is very unlikely that all countries will face the same economic challenges at the same time.

Considering the rich human and natural resources with which Nigeria is endowed, it is ironical that the country is still rated as one of the poorest economies in the world. Uzoma et al., (2016) opined that since investment determines the rate of accumulation of physical capital, it has become an important factor in the growth of production capacity and in turn contributed towards the growth of the economy. However, Osinubi and Lloyd, (2009) noted that despite the increased flow of investment to developing countries, Sub-Saharan African (SSA) countries still lag behind in terms of attracting FDI. They stressed that FDI can serve as engine of technological development with much of the benefits arising from positive spillover effects. Such spillover effects include among others, transfer of production technology, skills, innovative capacity and organizational and managerial practices. Zien, (2006) also cited the classical theory of investment, suggesting that FDI and MNCs are very vital and contribute to the development of host countries through several channels. They do this through transfer of capital, advanced technological equipment and skills, expansion of the tax base and foreign exchange earnings of the country, creation of employment and the integration of the host economy into the international market, among others. On the factors that engender FDI inflows, Moore, (1993) and Chakraboarti, (2001) as cited in Obida and Abu, (2010), stated that the host country's market size is an important determinant of FDI inflows. Alfaro et al,. (2002) discovered that countries with better financial system and financial market regulations can exploit FDI more efficiently and achieve a higher growth rate. Similarly, Robu, (2010) noted that FDI is usually sought by countries that are going through periods of transition or those that face severe structural unemployment. This challenge is what Nigeria is currently passing through.

Wheeler and Moody, (1992) used country risk indices to demonstrate that there exists, a strong correlation between economic and political stability and investment inflows. Sachs and Sieves, (1998) study, also stressed political stability as one of the most important determinants of FDI distribution. In Nigeria, Ajuwon and Ogwumike, (2013) and Oloyede, (2014) also identified unfavourable economic and political environment as obstacles to FDI inflow as no investor would like to commit his/her resources into an uncertain environment. The recent spate of insecurity occasioned by activities of militants, pirates and terrorists, has further compounded the problem. Agriculture is worst hit because while security agencies try to protect urban investors, agriculture which is a rural occupation, characterized by small holders, is never protected. This serves as a disincentive to MNCs to invest in the sector, thus further compounding the problem of food security and poverty alleviation.

Ngowi, (2001) particularly mentioned high levels of corruption, lack of political, institutional and policy stability as well as predictability as major obstacles to FDI inflows into developing countries including Nigeria. Advance Fee Fraud (AFF) popularly called "419" in Nigeria and interest fraud are worthy of mention. Accam, (1997) reviewed the effect of exchange rate instability on the macro-economic performance with particular reference to its effect on trade and investment and found a negative correlation. Root and Ahmed, (1979) found out that unstable macro-economic environment constitutes one of the major impediments to investment in many developing countries. Otepola, (2002), Ajuwon and Ogwumike, (2013) that the low level of FDI in Nigeria is also traceable to deficiency in the country's legal framework concerning corporate laws, bankruptcy and labour law, in addition to institutional uncertainty.

A study by Uzoma et al., (2016) revealed that high inflationary pressure within the economy significantly affects foreign capital inflows and consequently discourages prospective investors from entering the market. Asiedu, (2002) and Ajayi, (2004) identified poor infrastructure and institutions as strong retardants to FDI. Ngowi, (2001) also identified poor infrastructure and institutions as impediments to FDI. Nigeria as a country is endowed with abundant land and water resources. Consequently the agricultural sector has great potential for growth, especially if the value chain of major commodities is fully explained to remove all forms of waste and eliminate glut in supply.

Ajuwon and Ogwumike, (2013) opined that despite the huge potential of agriculture to stimulate growth, the impact of the sector on poverty reduction through ensuring food security and self-sufficiency is still very low. The major reasons for this are low private investments in agriculture, inequitable access to assets and resources and poor technology (including absence of processing, storage and marketing facilities). According to Adegeye and Dittoh, (1985) productivity is low and in some cases stagnant while commercial agriculture based on modern technology remains under developed.

Ajuwon and Ogwumike, (2013) further observed that investing in agriculture can be transformative as it is still the single largest employer of labour and thus holds the key to sustainable reduction in poverty in Nigeria. They quoted the World Bank as estimating growth in the agricultural sector as being twice as effective at reducing poverty compared to growth in other sectors. Effective harnessing of this enormous potential of agriculture is capable of alleviating poverty among Nigerians through the provision of food, income to farmers, raw materials to industries and generation of foreign exchange for the country, etc. (Ayanwale, 2007).

Given its natural resource base and large market size (over 190 million people according to NBS, 2018 population estimate), Nigeria is indeed one of the top three leading African countries that consistently received FDI in the past decade. However, the amount of FDI attracted to agriculture is very low, for instance, between 1976 and 2007, Nigeria's share of FDI inflow to Africa averaged about 20.68% while only about 1% of this figure went to agriculture, it was 2.46% between 1980 and 1984 but stood at a meager 0.37% in 2007 (Ajuwon and Ogwumike, 2013).

It is for this reason that this paper attempts to look at the constraints to FDI inflow into agriculture in Nigeria. FDI inflow is one of the cheapest ways to get foreign aid by developing countries. Knowledge of factors that engender FDI inflow into the country will enable government formulate policies that attract FDI into the country by providing adequate framework to attract multinational corporations (MNCs) into the country. It will also contribute to the existing body of literature on the subject as well as assist scholars and researchers as a secondary source of data. The major objective of this study is to investigate the constraints to foreign direct investments (FDI) inflow into agriculture in Nigeria. The specific objective of this study is to:

(i) Estimate the Nigerian foreign direct investments (FDI) actual inflows.
(ii) Estimate FDI inflows into Nigerian economic sector.
(iii) Estimate and analyze the share of agriculture from the FDI's inflows into the Nigerian economic sector
(iv) Described the major constraints to FDI inflow into agriculture in Nigeria.

METHODOLOGY

Data used for this study were obtained from secondary sources. Time series data on foreign direct investment and capital importation into Nigeria economic sectors for the period 2015 – 2018 were obtained from the Central Bank of Nigeria (CBN) statistical bulletins and National Bureau of Statistics (NBS) publications for the period under review. Information subsequently obtained was analyzed using descriptive statistics. The data for agricultural sector allocation of foreign (imported) capital allocations were also obtained from various NBS publications.

RESULTS AND DISCUSSION

Analysis of Nigerian foreign direct investment, 2015 – 2018

The Nigeria foreign direct investment inflow into the country from 2015 – 2018 is shown in (Table 1). The table showed the period of activities (that is, July, 2015 – January, 2018), with each year having beginning and end of business months, all valued in millions of US Dollars (USD). The results of (Table 1) showed that foreign direct investment increased by $589.11 in July, 2015 and this was the highest increase within the period of over 94%. This result was followed by the July, 2016 parameter which was $480.23 million, showing an increase of 53% and January 2016 with an increase of $385.49 million (76.82%).These declines in values occurred between the beginning period of activities and the ending periods, from January 2017 to January 2018 respectively. The highest decline of foreign direct investment (FDI) occurred during January, 2017 with $415.35 million (32.72%), followed by $150.96 million in January 2018 (15.73%) decline and $92.90m decline in July, 2017 representing 10.42% of the period of investments. Actual total amount of foreign direct investment inflow at the beginning was $5,152.67 million and $5,948.29 million at the ending period, showing an increase of $795.62 million which represents 15.44% increase during the period under review from July 2015 – Jan 2018. Table 1 also showed the average total amount of inflows from the beginning and ending inflows. The results also showed that average foreign direct investment inflow into Nigeria at this period was $5,550 million with July, 2016 ranking first with $1,146.10 million (20.65%), followed by Jan, 2017 results which was $1,061.55 million (19.13%) and thirdly was July, 2015 worth $919.43 million (16.56%).These results showed that the average inflow of foreign direct investment (FDI) into Nigeria was between $694.58 million - $1146.10 million for the period 2015-2018 which was smaller than the average investment into Nigeria as reported by Dartmonth Business Journal (DBJ) in May, 2012 totaling $10 - $12 billion per year.

Nigerian sector foreign direct investment inflow

The foreign direct investment inflow into Nigeria by economic sectors is presented on (Table 2). The amounts invested into the sectors, represented the period

Table 1. Nigerian foreign direct investment, 2015 – 2018.

Period of activity	Actual Amount of FDI inflow (USD million)			Average inflow	Percentages	Banking
	Beginning	Ending	Difference in flow			
July, 2015	624.89	1213.98	589.11	919.43	16.56	3rd
Jan, 2016	501.83	887.32	385.49	624.58	12.51	6th
July, 2016	905.98	1386.21	480.23	1146.10	20.65	1st
Jan, 2017	1269.22	853.87	-415.35	1061.55	19.13	2nd
July, 2017	891.25	798.35	-92.90	844.80	15.22	5th
Jan, 2018	959.52	808.56	-150.96	884.04	15.93	4th
Total	5,152.67	5,948.29	795.62	5,550.50	100	-

Source: Trading economics.com/Central Bank of Nigeria, 2018.

of 2015-2017, indicating current foreign investments into the country. The capital importation was also represented in percentages, ranked and summed together. The highest allocation of foreign direct investment went to shares with about 60% of investments in 2015 and 2017 respectively, with an average of 54.43% for the period under review. Shares had a total sum of $14,694.86 million for the 2015 – 2017 periods with an increase of 31% in 2017 as compared to 2015 value. It was followed by banking enterprise with a total of $2,783.16 million with a substantive increase of 18.20% in 2016 and an average of 10.31% for the periods under review. Telecommunications came 3rd in ranking with an average of 8.94% and total sum of $2,413.93 million, revealing a high proportion of 18.17% in 2016 with a sharp decrease in the allocation by 42% in 2017. The production sector of the economy came fourth (4th) by allocation of capital importation into Nigeria with 6.33% of total amount invested from 2015 – 2017 with an increase of 131.64% in 2017 as against 2015 value. Servicing was the 5th in ranking with 5.91%, showing an increase of over 446.23% in 2017 value compared to 2015 value. With the exception of these five highest ranking investment in Nigeria, five sectors of the economy received very little foreign direct investment during the period under review and they included weaving which received only $200,000 in 2015, tanning which got only $520,000 in 2017 (20th position in ranking), hotels ($2.10 million), ranked 19th position with a decline of 82.61% in its investment. Next was drilling occupying the 18th position with $3.60 million (with an increase of 37.88% in 2017 allocation over the 2015 value) and marketing which occupied the 17th positions with a total value of $4.41 million, though with an increase in allocation of 180% in 2017 as compared to 2015. These results showed capital inflow into Nigeria sectors between 2015 and 2017; with special increases in 2017 as compared to 2015.The results of this research confirmed the results of Alfaro et al. (2002), Zien, (2006) and Robu, (2010).

Foreign direct investment in Nigerian agriculture

Table 2 also showed the foreign capital inflow into Nigerian agricultural and the fishing sectors respectively. In the agricultural sector, the sum of $98.33 million was invested by foreign investors in 2015, which dropped to $22.47 million in 2016 (a reduction of $75.86 million or 77.15%).This sector however received a boost of $159.06 million in 2017, which showed an increase of $136.59 million or 607.88%. This six times increase in foreign investment fund actually proved that the agricultural sector was not forgotten in the economic development of the nation. In the fishery sector, foreign capital importation increased from $10,000 only in 2015 to $6.00million in 2016 (an increase of 599%). By 2017, the allocation of foreign capital to the fishery sector had further increased to $100.43 million. These increases in foreign capital importation into the Nigerian agricultural and fishing sectors indicated that foreign direct investment actually increased, with the potential to reduce poverty and increase food security among Nigerians. This result obtained in this study is in line with the observations of Uzoma et al. (2016). However, the foreign capital importation into the agricultural and fishing sectors were mere 1.04% and 0.39% of the cumulative total of 2015-2017 allocation respectively, compared to the shares sector (54.43%), banking sector (10.31%), telecommunications (8.94%) and production sector (6.33%). The agricultural and fishing sectors ranked 10th and 12th positions in allocations within the period as shown on (Table 2), meaning these vital sectors were under funded. This observation is in line with the observations of Osinubi and Lloyd, (2009). Therefore, despite the recent increases in foreign capital importations into agriculture and fishing, the sectors were still poorly (inadequately) supplied with foreign direct investments that flow into Nigeria.

Constraints of foreign direct investment inflows into Nigerian agriculture

Despite efforts of successive governments to woo foreign investors into the Nigerian economy, the level of FDI inflow into agriculture is very insignificant 1.43% (where agricultural sector was 1.04% and fishing, 0.39%) compared to the resource base and potential need.

Table 2. Capital importation by economic sectors and nature of business, 2015 – 2017.

Economic sector	Amount invested in US Dollars (millions)			Total amount invested 2015 – 2017 (USD in millions)	Percentage of yearly total			% of total amount invested 2015 – 2017	Ranking
	2015	2016	2017		2015	2016	2017		
Shares	5726.29	1466.04	7502.53	14,694.86	59.38	28.61	61.35	54.43	1st
Agriculture	98.33	22.47	159.06	279.86	1.02	0.44	1.30	1.04	10th
Banking	913.54	932.51	937.11	2783.16	9.47	18.20	7.66	10.31	2nd
Brewing	9.06	54.26	27.19	90.51	0.09	1.06	0.22	0.34	13th
Construction	28.02	32.48	98.35	158.85	0.29	0.63	0.81	0.59	11th
Consultancy	10.59	2.92	13.67	27.18	0.11	0.06	0.11	0.10	15th
Drilling	1.32	0.46	1.82	3.60	0.01	0.01	0.02	0.01	18th
Electrical	212.32	125.36	38.92	376.60	2.20	2.45	0.32	1.40	8th
Financing	858.89	95.34	318.55	1272.78	8.91	1.86	2.61	4.71	6th
Fishing	0.01	6.00	100.43	106.44	0.00	0.12	0.82	0.39	12th
IT services	12.78	1.72	16.45	30.95	0.13	0.03	0.14	0.11	14th
Marketing	0.95	0.80	2.66	4.41	0.01	0.02	0.02	0.02	17th
Oil and Gas	29.76	720.15	331.37	1081.28	0.31	14.05	2.71	4.01	7th
Production	423.70	302.65	981.46	1707.81	4.40	5.91	8.03	6.33	4th
Servicing	200.47	298.91	1095.03	1594.41	2.08	5.83	8.95	5.91	5th
Hotels	1.15	0.75	0.20	2.10	0.01	0.01	0.00	0.01	19th
Telecoms	938.13	931.20	544.60	2413.93	9.73	18.17	4.45	8.94	3rd
Tanning	0.00	0.00	0.52	0.52	0.00	0.00	0.00	0.00	20th
Trading	167.54	124.92	55.66	348.12	1.74	2.44	0.46	1.29	9th
Transport	10.00	5.17	2.98	18.15	0.11	0.10	0.02	0.06	16th
Weaving	0.20	0.00	0.00	0.20	0.00	0.00	0.00	0.00	21st
Total	9,643.05	5,124.11	12,228.56	26,995.72	100	100	100	100	-

Source: National Bureau of Statistics: Nigerian Capital Importation, 2018.

This study outlined the following key factors based on various studies in the area:

Unstable political and economic environments

This, to a large extent, deters investors from investing in a country such as Nigeria. Several studies carried out on the relationship between FDI inflows and economic and political stability; support this view (Wheeler and Mody, 1992; Sachs and Sievers, 1998; Ajuwon and Ogwumike, 2013; Oloyede, 2014).

Lack of transparency

Fraudulent and other sharp practices in business transactions lead to lack of trust on business partners and government officials in developing countries by foreign investors (Thomas and Worrall, 1994; Ngowi, 2001).

Exchange rate instability

Unstable exchange rate is no doubt a deterrent to foreign direct investors (Accam, 1997). This seriously limits FDI into Nigeria with current exchange rate volatility.

Unfavourable regulatory environment

This study identified the unfavourable regulatory environment, among others, as a major impediment to attracting significant investment inflows. The tottering state of the rule of law and properties rights law, as well as the land use decree and law, are major drawbacks in government plans to lure FDI into Nigeria(Ajunwon and Ogwumike, 2013).

Inflation

High inflationary rate of an economy is another major constraint to FDI inflow (Uzoma et al., 2016).

Poor infrastructure base

Among the poor infrastructure identified are poor roads, water and electricity, small and stagnant markets, poor access to international markets, and so on (Ngowi, 2001, Asiedu, 2002; Ajayi, 2004).

Conclusion

This study had thrown light on the amount of foreign direct investments made in Nigeria from 2015 – 2018. This research found out that there were increases and decreases in the flow of investments into the Nigerian economy thereby making the inflow unsteady. Secondly, total average inflow of foreign direct investment was $5,550.50 million with an increase of $795.62 million (15.44%). The annual inflow of foreign direct investment into the country was between $649.58 million to $1,146.10 million for the period 2015 – 2018. Thirdly, the highest allocation of foreign capital importation went to shares with a total of $14,694.86 million (54.43%), followed by banking with a total sum of $2,783.16 million (10.31%) and telecommunications, $2,413.93 million (8.94%) respectively. There were sectors with very little allocations during the period under evaluation, namely weaving, tanning and hotels. Finally, the agricultural sector received an investment of $159.06 million in 2017 showing an increase of $136.59 million or 6 times increase, while the fishing sector was also boosted with $100.43 million, showing 6 times increase also. However, these increases were mere 1.04% and 0.39% of the total sum of capital importation in Nigeria during the period under review. Therefore, despite these increases in foreign direct investments in agriculture and fishing, these sectors are still inadequately supplied with the much needed capital importation funds for agricultural development in Nigeria.

Recommendations

(i) In other to achieve the needed FDI inflows, this paper recommends that government should as a matter of urgency put in place the necessary legal framework to protect foreign investors. The multinational investment guarantee agency should be re-structured such as to boost the confidence of foreign investors and permanently allay the fear of expropriation.
(ii) A critical review needs to be made on the pattern of investment in agriculture. Rather than focusing on production only, the entire value – chain of agricultural produce through investment in machinery, storage, processing plants/mills, etc. should be considered so as to produce for export and diversify the economy, thereby help to reduce poverty in the country in the long run.
(iii) Finally, a stable political and economic environment should be provided for investment to thrive. Unfavourable investment climate deters investors from committing their resources in a foreign land. Proper check in security challenges should be tackled in the country. Basic infrastructure deficiencies should also be addressed especially with respect to roads, water, electricity, health, infrastructure, etc.

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