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Foreign Capital Distribution in Nigeria: Policy Implications for the Agricultural Sector

John O. Udoidem Dept. of Banking and Finance University of Uyo, Uyo Akwa Ibom State, Nigeria

Abstract: Stimulation of foreign resources into Nigeria is to transform the economy as neoclassical economics promised. Successive governments in Nigeria usually attract large inflows, yet, small proportion is usually distributed to the agricultural sector despite the importance of this sector and the need for such capital. This study therefore focuses on the policy implication of sectoral distribution of foreign capital for the agricultural sector in Nigeria. The main objective is to examine the contribution of foreign capital to growth in the agricultural sector. Secondary data are employed for analysis. The relevant data are obtained from Central Bank of Nigeria (CBN) Statistical Bulletin. Simple percentages, tables and charts are the tools of analysis, while regression and correlation techniques are the inferential statistical approaches applied. Findings show that distribution of capital inflow in Nigeria does not reflect theoretical position that capital should flow to sectors of need, particularly, where there are abundant raw materials. This theoretical postulation has not been upheld in Nigeria where capital inflow was found to be randomly distributed. This has had negative effect on the contribution of foreign capital to growth in agricultural sector. It is therefore recommended that government should pursue policies like tax holidays and production subsidies for foreign investments in the agricultural sector.

Keywords: Foreign capital distribution; Policy implications; Agricultural Sector; Nigeria.

1. Introduction

Neoclassical economists hold the opinion that foreign capital helps to provide resources for investment, especially, in countries where incomes are generally low and, as a consequence there is a savings-investment gap. Influenced by this school of thought, many developing countries actively encourage the inflow of foreign capital. In consonance with the argument, Nigeria has adopted policies over the years to encourage foreign capital inflow. The effort started in the mid 1950s and has continued up to the time of this study (Onoh, 2002). Since the return to democracy in 1999, a more sustained effort has been made as the savings-investment gap remains a serious problem due to a combination of factors, including the inability of local financial institutions to mobilize and channel resources into needed investments and rising costs of projects.

This stimulation of an inflow of foreign resources into the economic sectors in Nigeria was expected to speed up the growth and transformation of the sectors. In particular, transformation of the agricultural sector was expected as it was the main stay of the Nigerian economy in the mid 1950s and early 1960s (Mkpakan, 2004). Inspite of the changes that have taken place as a result of the activities in the oil sector, it is instructive to note that agriculture remains the bedrock of the Nigerian economy. Agricultural produce is next to crude oil and is more reliable source of foreign exchange earning in Nigeria as well as source of food for the increasing population. Yet the sector seems neglected in the distribution of foreign capital.

The importance of agriculture aside, the common determinant of sectoral distribution of foreign capital in developing countries as suggested by the neoclassical economists is the need to raise investment fund to develop a sector where there is available un-used raw materials but no sufficient capital to develop the sector. Despite the vast land and cheap labour in agricultural sector and problems confronting the sector ranging from low productivity to low yields, the determinant of distribution of capital inflow as suggested by the neoclassical economists seems ignored in Nigeria.

Large foreign capital inflow is needed in the sector as much is to be done in irrigation, seed distribution, introduction of fertilizers, agricultural research and extension services and use of machines such as tractors. Both private and public sectors can not raise capital to develop the sector beyond subsistence level. Given the limitation, foreign capital as alternative source of capital which could make significant contribution to bridging the investment gap becomes imperative. Yet, the approach to distribution of foreign capital does seem not favour agricultural sector in Nigeria. Foreign capital into the country seems distributed randomly.

This method of distribution has aroused the concern to investigate the implication for agricultural sector. The main objective of this paper therefore is to assess the contribution of foreign capital to growth in the agricultural sector. To achieve this objective, we attempt to: examine the structure of foreign capital inflow into Nigeria; examine the distribution of the inflow; evaluate the contribution of foreign capital to growth performance in the agricultural sector.

To further clarify the relationship between foreign capital inflow and growth performance, hypothesis stated below is tested.

Ho: There is no significant relationship between foreign capital inflow and growth performance in agricultural sector of Nigeria.

This paper is divided into five parts. Immediately following this is part two which reviews the related literature. Part three presents the method of the study while part four deals with the analysis of data collected for the study and findings made. Part five contains the summary, conclusion and recommendation.

1.1. Limitation of the Study

This work is particularly limited by non availability of data and sectoral distribution from 2009 till date for the statistical analysis. However, the period under review has covered from 1980 to 2008.

Presently, issues on the subject matter remain the same.

2. The Theoretical Framework

Ideas and theories that have influenced this study are discussed in this section. The relevant theoretical literature and conceptual issues discussed are: flow of foreign capital and the induced growth in the recipient country, the role of foreign capital in less developed countries (LDCs), foreign capital inflow in agricultural sector of LDCs, and the importance of agriculture in economic growth of Nigeria.

2.1. Flow of Foreign Capital and the Induced Growth in the Recipient Country

It is believed by neoclassical economists that international capital flows increase the volume of international investment. Capital inflows, it is argued, finance projects and production activities, and have the capacity to generate a good number of new employment places (Williamson, 1995).

Foreign capital inflow is widely considered a very welcome idea for raising level of investment and for encouraging economic growth as well as for building – up of foreign exchange reserve (Yang-Yung, 1997). Pontes (1999) supports that capital inflow is widely embraced by developing economies to raise their level of investment as well as build up their foreign exchange reserves. According to Williamson (1995), "…inflow is seen as a piece of good fortune that permits a country to enjoy a larger real income".

Empirical surveys have established positive impact of capital inflow on economic growth and development of host countries Bloomstrom and Kokko (2003); Caves (1974) and Chowdhury and Mavrotas (2003). Calvo *et al.* (1996) writing in support of the positive role of capital inflow stated as follows:

> *after about a decade in which little capital flowed to the developing nations, capital has started in the 1990s to move from industrial countries like USA, and Japan to developing regions like Latin America, the Middle East and parts of Asia as well as Africa. The preliminary data have indicated that in most countries, resurgence in economic growth accompanied the increase in capital inflow (p.123).*

Also, Larosiene (2004), argued that "…countries are involved in international transactions and are, in particular, very dependent on private inflows, and advised nations to count on private flows to do the bulk of financing.

Still in support of the importance of capital inflow; world economic leaders during the G-20 London Summit of April 12, 2009, emphasized that International capital flows should be encouraged to improve the world economy, particularly the economies of the host countries (G-20 Communiqué – www.fco.gov.uk). The economic theories of capital inflow, the product life cycle theory, and the motivational theory and others are in agreement that capital inflows impact positively on economic growth of the host or recipient country (Mkpakan, 2004).

2.2. Foreign Capital Inflow and Agricultural Development in less Developed Countries (LDCs)

There are several problems confronting agricultural development in LDCs. These problems have caused low productivity and low yields of agricultural produce. Agricultural sector in LDCs is still operating at a subsistence level due to lack of capital and poor financing of the sector. In many developing countries, much is still needed to be done in the areas of irrigation, seed distribution, introduction of fertilizers, agricultural research and extension services, use of machines such as tractors and other needs. The Ldcs can not afford to develop the sector beyond subsistence level thereby rendering such important sector unproductive. Production in agricultural sector in Ldcs is carried on in an old fashion with obsolete and outdated methods of production. Mechanized system of farming is not common. This situation results to hunger as the countries cannot produce to meet their increasing population.

Prices of food items become very high. In this situation, socioeconomic cum political issues are raised in relation to food security, poverty, education, rural development, technology and access to land and water. In addition

to the problems of agriculture in LDCs, low productivity and poor yields of agricultural produce could be attributed to lack of investment over decades, particularly in sub-Saharan African, thereby making food crisis the major problem of this region. A close look at the problems of agriculture and inability to invest in the sector in LDCs seems to be caused by low level of income in the region, thus, existence of savings – investment gap. In order to bridge the gap, there is need for foreign capital inflow. International investment in developing country agriculture is not a new phenomenon.

According to Hallam (2009)

> *Investors from Gulf States acquired agricultural land in Africa and outside Africa for food production in support of their food security strategy, Europe and North America were also exploring opportunities motivated by potentially high expected returns. Chinese and Korean agricultural investors were not left out. But, there was a slow pace of foreign investment in agriculture before 2005 and this could be attributed to the problem of land ownership pp. 22.*

The common system of land ownership, particularly, in Africa is the land tenure system. Land is fragmented and shared among family members. This method does not encourage modern farming nor large scale agricultural activity, thereby discouraging foreign investors. Yet, recent studies led by Food and Agriculture Organization (FAO) has shown that developing countries need increased investments in agriculture. These studies by experts on "How to feed the world in 2050" provide estimates of additional investments required annually if developing country agriculture is to meet food needs in 2050. The analysis has shown that capital stocks and land available per labourer suggests that too many people in sub Sharan Africa depend on a labour intensive, capital saving form of small scale agriculture, in which too many farmers will have too few resources. Poverty reduction in this situation is thus limited.

This poses the question as to what method of agriculture should be applied in the region and the alternative sources of capital that could be tapped. The growth options preferred by the experts was a capital intensive form of agriculture and thus run counter to the factor endowment that characterizes Africa's smallholders structure. To overcome these constraints, increased investments is required. Since there is already a gap in the region, the alternative source of capital to breach the gap is increase in foreign capital inflow to develop agriculture as developing countries' own capacity to fill the gap is limited.

Looking at the past FAO estimates of investment requirements in developing countries. A study on "Agriculture: Towards 2000" (FAO, 1980) gave an estimate of average annual gross investment over 20-year period (1980-2000) for 90 developing countries (excluding China) of US $69 billion in 1975 dollars. Similar study was conducted in 1988, (Alexandratos, 1988) for 93 developing countries (excluding China) and the gross investment required amounts to US $88 billion in 1980 dollars. Another important study was "Investment in Agriculture: Evolution and Prospects" based on the FAO study Alexandratos (1995), "World Agriculture: Toward 2010. The estimate for annual (average over 1993 – 2013) gross investment in 1993 dollars was US $129 billions. Still more, FAO exercise giving investment estimates was FAO (1999) "Investment in Agriculture for food security: situation and resources requirement to reach the World Food Summit (WFS) objectives". The WFS target was to cover till 2015. the estimate for annual (average over 2000 – 2015) gross investment in 1995 dollars was US $140 billions.

Considering the estimates by various studies pioneered by FAO on developing countries to 2015, in an attempt to seek for how to feed the world in 2050, the developing countries can not on their own afford to accomplish the objective of FAO. Need therefore arises to intensify efforts to encourage increase in foreign investments in agriculture in the developing countries.

2.3. Agriculture in Nigeria

Overall view of the Nigeria economy portrays that it is predominantly agricultural. Agriculture remains the mainstay of the Nigerian economy inspite of the changes that has taken place as a result of the activities in the mining sector. It is stricking to note that agricultural activity dominated the economy through out 1958 – 1974 (Bureau of Statistics National Accounts of Nigeria, 1976). Its sectoral contribution to the Gross Domestic Product (GDP) was the highest through out the period. Between 1958 – 1963, the average contribution made was 62.8 percent. The average contribution declined to 55.4 percent in 1963 – 1968. Between 1969 to 1974 the average contribution went down to 42.3 percent. The gradual decline in this period could be attributed to the shift from the rural areas to the urban centres by the young school leavers. From the inception of the oil boom in 1974 to 1982, agricultures share of Gross Domestic Product dropped to 15 percent (Talabi, 2002).

The situation is improving. Between 1980 – 1989, the average contribution was 32 percent. It went up to 33 percent between 1990 – 1999 and 41 percent between 2000 to 2008. The improvement could be attributed to government intervention in agricultural development. More is needed to be done, particularly, as the world is aiming at sufficient food production in 2050.

Apart from the contribution to GDP, it is pertinent to note that although the percentage of the population engaged in agriculture has declined over the years, there is no doubt that agricultural sector is the primary source of employment in the country. It deserves to be accorded a priority in the development strategy of the economy. But, this is not the case in the distribution of foreign capital inflow in to the country.

Another significant area where importance of the agricultural sector may be stressed is its export earnings potential. Just immediately after the Second World War, virtually all the nation's foreign exchange was obtained from the exportation of primary commodities (Tomori, 1979). However, the picture changed dramatically by 1965 when petroleum's share of total exports amounted to 25 percent, rising to 57 percent in 1970. Today, agriculture maintains the second position in its contribution to total export earnings in Nigeria.

2.4. Problem of Agriculture in Nigeria

The major problems confronting the agricultural sector as identified by Tomori are:
(i) Shortage of qualified manpower in key areas
(ii) Inadequate supplies of agricultural input
(iii) Inadequate extension services.
(iv) The poor condition of roads and other transport facilities.
(v) Lack of a effective supporting services such as farm credit, and marketing facilities.
(vi) The problem of land ownership imposed by the land tenure system
(vii) The problem of diseases and pests
(viii) The problem posed by labour shortage in rural areas in consequence of rural to urban migration.
(ix) Lack of appropriate technology.

In order to solve the listed problems and many others, increase in investment fund in the agricultural sector becomes imperative. Since Nigeria may not have the ability to meet these needs, foreign investors could be attracted into the sector, as these will provide developmental benefits through technology transfer, infrastructural developments, greater participation of labour force as well as invested capital (Udoidem, 2012).

3. Methodology

These section discuses the method adopted in conducting the study. Both descriptive and correlation methods were applied. Data on the inflow of foreign capital into Nigeria were collected and examined. Furthermore the distribution of the inflow and whatever effect the distribution of the capital inflow into the sector may have had on its growth was assessed. Tables and Charts are the basic tools applied for descriptive analysis while regression and correlation techniques of estimation were the inferential statistical methods used. Statistical Package for Social Science (SPSS) is the applicable software in computer used to obtain results of the inferential statistical analysis conducted.

3.1. The Regression Model

Distribution of foreign capital inflow to agricultural sector and output performance in the sector. Gross Domestic Product in the sector is used as proxy for performance. Functional relationship between foreign capital and output performance for regression analysis is expressed as:

GDPA = F(DCIA).

where GDPA = Gross Domestic Product in Agricultural sector

DCIA = Distribution of foreign capital to agricultural sector.

Functional relationship is specified thus:

$$GDPA = ao + a1\ (DCIA)t + e$$

Where

ao = The model intercept
a1 = Parameter of the explanatory variable
e = Stochastic error.

3.2. A Prior Expectation

As opined by the neoclassical economists, it is expected that as the distribution of capital inflows increases in agricultural sector, the output by the sector should also increase. The inflow is expected to have positive relationship with performance in the sector.

4. Data Presentation, Analysis and Interpretation

The material in this section is organized around the main objective and the specific objectives of the study. Accordingly, we present and analyze data on the structure, distribution of capital inflows in Nigeria and the contribution of foreign capital to growth in the agricultural sector.

4.1. The Structure of Foreign Capital into Nigeria

Capital inflows into Nigeria, as outlined by Central Bank of Nigeria (CBN), include unremitted profits; Changes in Foreign share Capital; Trade and Suppliers' credit; Liabilities to Head office and Other Foreign liabilities such as external borrowing. The trend of these components is presented in table 4.1 from 1980 – 2008.

Table-4.1. The Structure of Capital flow in Nigeria from 1980 – 2008 (N Million)

						Average Net Flows				
Year	**UP**	**CFSC**	**TSC**	**OFL**	**LTH**	**UP**	**CFSC**	**TSC**	**OFL**	**LTH**
1980	104.5	50.5	80.6	201.7	29.7					
1981	156.0	41.6	204.4	-279.1	14.4					
1982	413.3	66.6	238.4	955.1	-48.5					
1983	228.8	89.5	664.1	-294.4	-131.3					
1984	329.7	53.4	-56.9	233.3	-22.9	246.5	60.3	226.1	163.3	-31.7
1985	317.1	58.7	2918.0	-395.2	57.3					
1986	316.4	93.8	652.7	481.2	955.5					
1987	427.5	152.9	1119.6	-1341.4	321.4					
1988	396.9	287.0	795.6	355.4	-489.3					
1989	1194.5	525.0	661.6	-2955.4	134.9	530.5	223.5	1229.5	-771.1	196.0
1990	1531.8	516.9	6072.4	-255.5	-8329.9					
1991	2101.5	669.1	707.2	-664.3	-1005.5					
1992	889.5	227.0	8964.4	-110.7	-1700.9					
1993	2734.5	5011.4	17803.1	-4305.7	11751.1					
1994	1749.7	429.5	214.8	209.4	1303.8	1801.4	1370.8	6752.4	-1025.4	403.7
1995	4428.8	10858.1	16936.4	8342.8	8111.0					
1996	1758.2	707.7	-535.5	579.0	221.6					
1997	1942.5	461.5	1071.8	-1807.6	4062.9					
1998	9471.8	4385.4	-986.5	-50.1	11189.9					
1999	2719.7	377.8	-76.2	-13122.5	-119.7	4064.2	3358.1	3282.0	-1211.7	4693.1
2000	1293.0	143.9	14353.9	-11982.8	-276.4					
2001	3911.4	-53.4	-224.1	-142.0	-118.3					
2002	5798.7	776.5	902.4	26.7	701.2					
2003	8699.3	1266.1	1461.5	396.4	1233.3					
2004	13217.4	2504.4	1326.7	525.6	2308.0	6584.0	927.5	3564.1	-2235.2	769.6
2005	17182.6	3255.7	1724.7	718.4	3000.4					
2006	27552.1	5209.2	2759.5	1149.4	4800.6					
2007	34440.2	6511.3	3449.7	1936.8	6000.8					
2008	24859.2	4817.0	2655.7	1325.8	4671.1	26008.5	4948.3	2647.4	1282.6	4618.2

Source: (CBN Statistical Bulletin, 2008)
* The averages are computed.
Note:
UP - Unremitted profits
CFSC - Changes in Foreign Share Capital
TSC - Trade and Suppliers' Credit
OFL - Other Foreign Liabilities
LTH: - Liabilities to Head Office of foreign firms

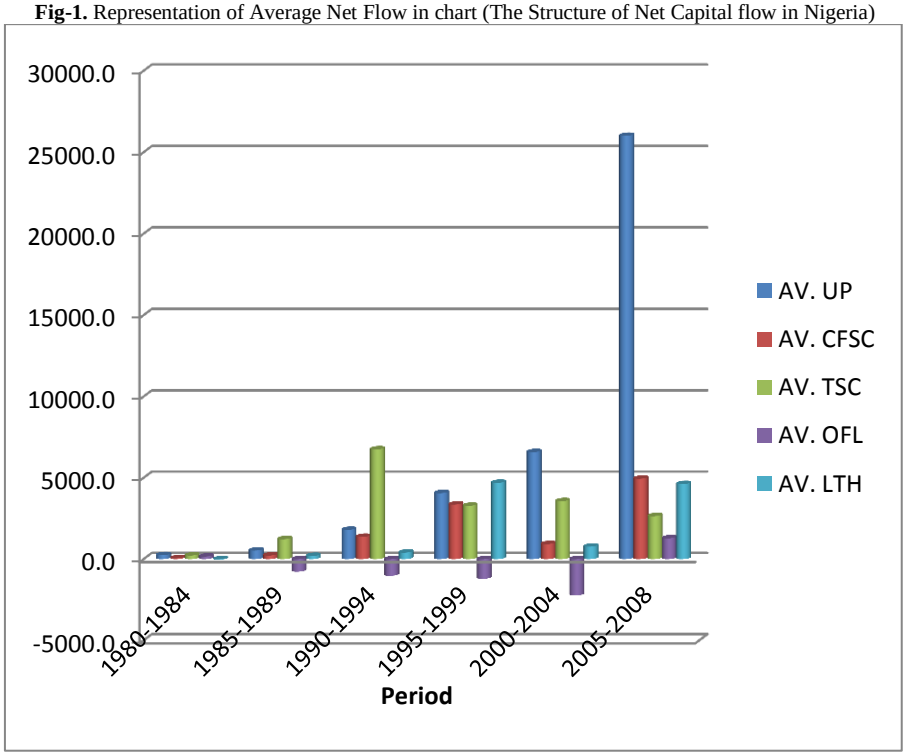
From 1980 to 1984, Unremitted profit recorded the highest averagenet flows in Nigeria, followed by trade suppliers' credit. Other foreign liabilities took the third position followed by changes in foreign share capital. The average net flow of liabilities to head office was very insignificant. Between 1985 to 1989, Unremitted profit increased by 115 percent while Trade suppliers' credit went up by 211.,5 percent and took the lead in this period. Liabilities to head office and changes in foreign share capital recorded remarkable positive changes. Liabilities to head office increased by 517.7 percent while changes in foreign share capital increased at the rate of 270 percent. Other foreign liabilities took a negative turn at -66 percent.

In the period 1990 – 1994, the average net flows of Unremitted profit, change in foreign share capital, trade and suppliers' credit rose at the rate of 239 percent, 513 percent and 604.8 percent respectively. Liabilities to head office rose by 106 percent while other foreign liabilities continued with negative growth rate. Between 1995 – 1999, Unremitted profit, change in foreign share capital and liabilities to head office, maintained positive growth at 126 percent, 145 percent and 1063 percent respectively.

The growth of the components of capital inflow into Nigeria fell between 2000 and 2004. Only Unremitted profit showed increasing rate of 62 percent. Change in foreign share capital, other foreign liabilities and liabilities to head office of foreign firms declined drastically. Trade and suppliers' credit managed to grow at insignificant rate of 8.5 percent. For the period 2005 –2008, a favourable trend was observed. Unremitted profit showed a growth rate of 295 percent while change in foreign share capital rose by 434 percent. Liabilities to head office increased at the rate of 500 percent. Slight drop was noticed only in trade and suppliers' credit.

The overall picture of the data has shown that most of the components of capital inflow into Nigeria did not maintain stable growth pattern during the period under review except Unremitted profit. The analysis is represented in the Chart (Fig. 1) below for easy assessment.

Fig-1. Representation of Average Net Flow in chart (The Structure of Net Capital flow in Nigeria)



Source: obtained from table 4.1

4.2. Percentage Sectoral Distribution of Foreign Capital in Nigeria (1980 – 2008)

Foreign capital is involved in various sectors of the Nigerian economy. The major ones include capital intensive industries like mining and manufacturing. They are equally fairly engaged in labour intensive sectors like agriculture, trading, and services. Virtually, in all cases, the common determinants of sectoral distribution are need for investment capital to develop a particular economic sector, availability of un-used raw materials in some sectors of the economy, need for possession of production technology in some economic sectors, need for managerial and technical skills in some fields and provision of infrastructural facilities in some sectors to stimulate growth (Mkpakan, 2004).

Table 4.2. Percentage Sectoral Distribution of Foreign Capital in Nigeria (1980 – 2008).

Year	MQ	MP	AFF	TC	BC	TB	MS
1980	18.7	41.5	3.3	1.7	8.5	19.1	7.2
1981	14.0	45.4	3.2	1.6	8.7	20.4	6.7
1982	18.1	35.7	2.2	1.3	7.8	27.6	7.3
1983	8.6	35.8	2.1	1.3	7.5	38.2	6.5
1984	10.9	32.9	2.0	1.3	6.8	40.9	5.2
1985	10.9	33.5	1.9	1.3	6.7	39.7	6.2
1986	27.0	30.2	1.2	0.9	5.4	29.6	5.7
1987	22.6	31.2	1.1	0.8	4.6	34.0	5.6
1988	30.0	32.1	1.2	1.4	4.3	27.6	3.4
1989	5.8	49.6	3.2	1.5	4.4	32.1	5.4
1990	10.5	60.7	3.1	2.3	7.1	16.4	-0.2
1991	-6.6	71.0	1.9	3.0	12.0	11.9	5.6
1992	31.3	47.5	1.8	1.9	6.9	7.2	3.3
1993	41.5	19.3	1.7	0.8	0.1	2.8	33.9
1994	37.7	19.9	1.0	0.6	2.4	3.2	34.5
1995	45.5	23.2	1.0	0.3	1.3	2.5	24.2
1996	46.3	24.3	0.9	0.4	1.5	3.0	23.5
1997	46.2	24.4	0.8	0.5	1.0	2.8	24.2
1998	39.3	22.6	0.8	0.5	2.6	6.9	27.4
1999	38.2	23.5	0.8	0.5	2.6	7.1	27.3
2000	38.5	23.7	0.7	0.5	2.5	7.1	26.8
2001	38.3	23.5	0.7	0.6	2.6	7.4	27.0
2002	37.0	24.0	0.7	1.0	2.6	7.4	27.3
2003	34.6	25.6	0.5	1.0	2.5	8.1	27.5
2004	24.9	41.3	0.5	1.7	2.1	8.1	21.5
2005	24.8	41.1	0.1	1.7	2.1	8.1	21.4
2006	22.0	44.2	1.1	1.7	2.2	8.6	21.4
2007	23.9	39.7	0.2	1.9	2.1	8.6	23.6
2008	24.0	39.2	0.2	1.9	2.2	8.6	23.9

Source: (CBN Statistical Bulletin, 2008).
MQ - Mining and Quarrying
MP - Manufacturing and Processing
A - Agriculture
TC - Transport and Communication
BC - Building and Construction
TB - Trading and Business Services
MS - Miscellaneous Services

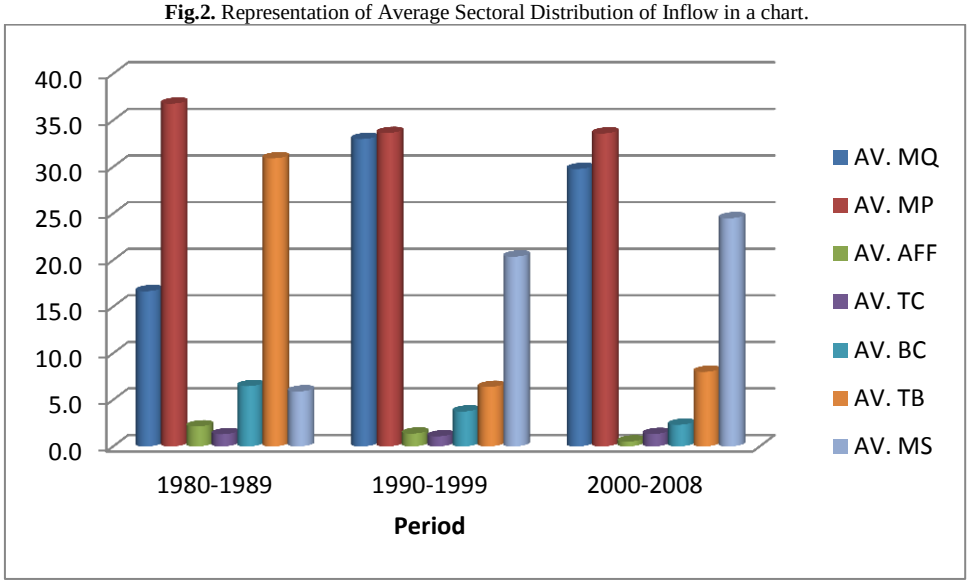
The sectoral distribution of foreign capital in Nigeria covers mining and quarrying; manufacturing and processing; agricultural; transport and communication; building and construction; trading and business services and miscellaneous services as presented in table 4.2 (CBN Statistical Bulletin, 2008).

Using averages, from 1980 – 1989, percentage of capital inflows found in mining and quarrying was 16.7 percent while 36.79 percent was found in manufacturing and processing. Only 2.1 percent was found in agriculture, Transport and communication had the lowest inflows of 1.3 percent. Building and construction recorded 6.5 percent while trading and business services had 30.9 percent. Miscellaneous took 5.9 percent. In this period, manufacturing and processing took the highest percentage of sectoral distribution, seconded by trading and business services.

Between 1990 – 1999, average of capital inflows that went to mining and quarrying increased from 16.7 percent in 1980 – 1989 to 33.0 percent in 1990 – 1999 being 96 percent rate of change. Miscellaneous services also received more inflows in the period. Capital inflows found in miscellaneous services rose from 5.9 percent in 1980 – 1989 to 20.4 percent in 1990 – 1999 showing 245 percent increase. Other sectors experienced decline in the inflow of foreign resources. Manufacturing and processing declined by 8.6 percent; agriculture, fell at the rate of 36 percent; transport and communication dropped at the rate of 18 percent; building and construction dropped at the rate of 42 percent while trading and business services declined at the rate of 79 percent.

Between 2000 – 2008 the decline in mining and quarrying was 10 percent; manufacturing and processing experienced decline at the rate of 0.1 percent; agriculture, had a decline at the rate of 58 percent while building and construction dropped at the rate of 39 percent. Transport and communication increased at the rate of 20 percent. Trading and business services also increased at the rate of 25 percent and miscellaneous services at the rate of 20 percent. See the trend as represented in the chart (fig 2) below.

Fig.2. Representation of Average Sectoral Distribution of Inflow in a chart.



Source: obtained from table 4.2

4.3. Foreign Capital Component of Agricultural Sectoral GDP Shares

Since capital inflows form part of capital invested, and has contributed to growth in the economic sectors; table 4.3 shows the foreign capital component of agricultural sectoral GDP shares.

Table-4.3. Foreign Capital Component of Aricultural Sectoral GDP Shares

Year	Percentage distribution of capital inflow to agricultural sector	Output performance by agricultural sector	Foreign capital component of the sectoral GDP shares
1980	3.3	6501.8	0.051
1981	3.2	57989.7	0.006
1982	2.2	59450.8	0.004
1983	2.1	59009.6	0.004
1984	2.0	55918.2	0.004
1985	1.9	65748.4	0.003
1986	1.2	72135.2	0.002
1987	1.1	69608.1	0.002
1988	1.2	76753.7	0.002

1989	3.2	80878.0	0.004
1990	3.1	84344.6	0.004
1991	1.9	87503.5	0.002
1992	1.8	89345.4	0.002
1993	1.7	90596.5	0.001
1994	1.0	92833.0	0.001
1995	1.0	96220.7	0.001
1996	0.9	100216.2	0.001
1997	0.8	104514.0	0.001
1998	0.8	108814.1	0.001
1999	0.8	114570.7	0.001
2000	0.7	117945.1	0.001
2001	0.7	122522.3	0.001
2002	0.7	190133.4	0.001
2003	0.5	203409.9	0.001
2004	0.5	216208.5	0.000
2005	0.1	231463.6	0.000
2006	1.1	248599.0	0.000
2007	0.2	266477.2	0.000
2008	0.2	283913.1	0.000

Source: (CBN Statistical Bulletin, 2008)

The contribution of foreign capital to growth in agriculture, is noted to be very poor. Assessment has shown average contribution of 0.008 percent between 1990 – 1998 and decline to 0.001 percent in 1990 – 1999. Between 2000 – 2008, the contribution was approaching zero.

4.4. The Relationship between Foreign Capital Inflow and Growth Performance in Agricultural sector of Nigeria

Test of Hypothesis

H0: Capital inflow has no significant effect on the output performance of the agricultural sector of Nigeria.

H1: Capital inflow has significant effect on the output performance of the agricultural sector of Nigeria.

The estimated equation is:

$GDP_A = a_0 + a_1 DCI_A$

Regressing gross domestic product in agriculture, on percentage distribution of capital inflow into the sector.

Table-4.4. Regression variables for test of hypothesis

Year	**X** **GDP_A**	**Y** **DCI_A**
1980	6501.8	3.3
1981	57989.7	3.2
1982	59450.8	2.2
1983	59009.6	2.1
1984	55918.2	2.0
1985	65748.4	1.9
1986	72135.2	1.2
1987	69608.1	1.1
1988	76753.7	1.2
1989	80878.0	3.2
1990	84344.6	3.1
1991	87503.5	1.9
1992	89345.4	1.8

1993	90596.5	1.7
1994	92833.0	1.0
1995	96220.7	1.0
1996	100216.2	0.9
1997	104514.0	0.8
1998	108814.1	0.8
1999	114570.7	0.8
2000	117945.1	0.7
2001	122522.3	0.7
2002	190133.4	0.7
2003	203409.9	0.5
2004	216208.5	0.5
2005	231463.6	0.1
2006	248599.0	1.1
2007	266477.2	0.2
2008	283913.1	0.2

Source: (CBN Statistical Bulletin, 2008)
* GDPA: Gross Domestic Product in Agriculture.
* DCIA: Distribution of Capital Inflow to Agriculture

4.5. Summary of the Results

$GDP_A = 1.722 - 302\ DC\ I_A$
$R = - 0.302$
$R^2 = 0.091$
Calculated "t" value = -1.643
Table "t" value = 2.052

The estimated equation shows inverse relationship between output performance in agricultural sector and capital inflow. It does not show that output performance in the sector has direct relationship with distribution of capital inflow into the sector as postulated by neoclassical economists. This inverse relationship could be attributed to the fact that inflow into the sector has not been judiciously utilized for agricultural purposes.

The correlation coefficient (R) is 30 per cent. This shows a weak relationship between the variables. The R-square (R2) is only 9 percent. This means that approximately 9 per cent of the variation in output performance in agricultural sector could be explained by the total distribution of capital inflows into the sector.

From the stated result, calculated 't' value is -1.643 (the absolute value taken is 1.643) while the table value t0.025 at n – k degree of freedom is 2.052. The table value is greater than the calculated value. Following the rules, the null hypothesis is accepted. Based on the result, this means that capital inflow has no significant effect on the output performance in agriculture, in Nigeria.

5. Discussion of Findings

The structure of foreign capital inflow into Nigeria was examined. Generally, foreign capital is made up of foreign direct investment and non foreign direct investment flow into a country. However, the Central Bank of Nigeria (CBN) recognizes foreign capital to consist of un-remitted profits – the foreign investors' share of undistributed profits ploughed back into business as additional investment; changes in foreign share capital – yearly difference in equity holdings of the foreign share holders in direct investment enterprises; trade and suppliers' credit, credit facilities and deferred payments for goods and services purchased from abroad, liabilities to head office – amount of capital transferred between the parent company and its overseas affiliate; other foreign liabilities – the financial commitments in the form of external borrowing, grants and aids.

Examination of the sectoral distribution of foreign capital inflow into Nigeria was also carried out. The components of inflow are found in all sectors of the Nigerian economy. The specified sectors by CBN are: Mining and quarrying; manufacturing and processing; agriculture; building and construction; trade and business, transport and communication and miscellaneous services. However, it is very apparent that the inflow into agricultural sector as compared to others is very low despite the available opportunities and needs. Foreign capital is distributed randomly in Nigeria. The random method of distributing the foreign capital does not favour the agricultural sector. The sector is ignored in the distribution.

In assessing the contributions of foreign capital to output performance in the agricultural sector, it is revealed that, though capital inflow contribute certain percentage to growth in the sector, the contribution is very insignificant throughout the period under investigation. The contribution kept declining throughout the period. It has declined to a point that it was approaching zero.

In terms of the functional relationship between foreign capital inflow into agricultural sector and growth in the sector, the finding reveals a contrary position to the a priori expectation. There is inverse relationship between capital inflow and growth in the sector. This inverse, relationship is attributed to a low supply of the foreign capital to the sector and the fact that the small percentage distributed to the sector is not used judiciously for agricultural purpose. Experience in Nigeria has shown that such capital is usually diverted to other sectors.

Sometimes, foreign investment may commence in agricultural sector but the proceeds are later diverted for investment in another sector.

6. Summary, Conclusion and Recommendations

6.1. Summary

This paper focused on examination of the distribution of foreign capital in Nigeria and the policy implication for agricultural development. To achieve the purpose, structure of foreign capital inflow in Nigeria has been reviewed. It is noted that in Nigeria foreign capital comes in the form of un-remitted profits, changes in foreign share capital, trade and supplier's credit, liabilities to head office, and other foreign liabilities such as foreign loans and aids. The sectoral distribution of the inflow was also examined. It was found that the components are found in all sectors of the Nigerian economy. The sectors as specified by CBN are mining, agriculture, manufacturing, building and construction, trade and business, transport, communication and miscellaneous services. However, it is clear that the inflow into agricultural sector is very low despite the needs in the sector.

The contribution of foreign capital to growth performance in agricultural sector was also assessed. It was found that though foreign capital has contributed certain percentage to growth in the sector, the contribution is very insignificant. The low contribution was declining throughout the period under review. In an attempt to establish functional relationship between foreign capital inflow and growth performance in agricultural sector, it was found that there exist inverse relationship.

6.2. Conclusion

The inverse relationship found between foreign capital and growth performance in agricultural sector of Nigeria is contrary to the a priori expectation. However, this position is true. This is attributed to low percentage of distribution of foreign capital into agricultural sector in Nigeria and abuse of the inflow by some farmers. Experience has shown that foreign capital into the sector sometimes are diverted into other sectors such as trade and manufacturing, especially, when the inflow is in the form of loan and aids.

The low percentage sectoral distribution of foreign capital into agricultural sector has effect on the growth performance of the sector. It is found that, its contribution is very insignificant. As the percentage sectoral distribution kept declining, its contribution was also declining over the years approaching zero. It is noted that random method of sectoral distribution of foreign capital is adopted in Nigeria. There is no systematic approach nor regulation that guides the sectoral distribution. This method of sectoral distribution has a negative effect on agricultural development in Nigeria.

Recommendations

1. It is recommended that Nigerian government should do more than before in encouraging foreign capital. This could be achieved by making provision for special package of recognition to foreign investors that have reached a certain target of investment in Nigeria, particularly, in agricultural sector. It could be in the form of award.
2. Foreign investors should be encouraged to invest in agriculture. Attractive measures or regulation such as tax relief and free land for cultivation should be made available by government. Land tenure system should completely be abolished to encourage foreign investors.
3. It is also recommended that Nigerian government should make regulation that improves sectoral distribution of foreign capital into agricultural sector. Since the most stable source of inflow is unremitted profit, it is suggested that certain percentage of the unremitted profit should be invested in agriculture irrespective of the industry or firm that has recorded the profit.
4. It is further recommended that government should negotiate for more funds through external borrowing to develop agricultural sector. Such fund should be judiciously used and monitored such that it is strictly used for development of agriculture.

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