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Private Foreign Investment in Nigerian Agriculture

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ABSTRACT

Nigerian policies have tended to support foreign investment since national independence, but agriculture has attracted little foreign capital. The Government favors private ownership, but it accepted a large role in agriculture. The response to a declining agricultural sector and a recent decline in export earnings from petroleum has been an array of programs directed toward enhancing foreign and private agricultural investment opportunities. Most of these programs have limited potential to improve agricultural productivity at the national level, although effects of import bans and currency devaluation will be extensive.

Keywords: Agricultural policy, foreign investment, Nigeria, privatization

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SUMMARY

With the fall in world oil prices and the rise in Nigeria's debt in the early 1980's, domestic agricultural production assumed increased importance for Nigeria's 100 million people. New and revised policies to halt the decline in per capita agricultural production were instituted, including a variety of changes promoting private control of production and processing under either foreign or domestic ownership.

Foreign direct investment in developing countries generally increased annually until 1982, after which lower oil prices and larger debt burdens reduced attractiveness of these countries to private capital. Agriculture and food processing have claimed a relatively small share of investment in developing countries because nonfood export industries have been emphasized and because only a small portion of food is commercially processed.

Nigeria is typical of developing countries in its recent pattern of investment in agriculture, but several new policies appear to enhance private and foreign investment opportunities. The unfortunate, immediate result of these policies is to promote changes of ownership rather than to direct capital toward bottlenecks in the agricultural sector. In the ideological struggle between export-led growth versus self-sufficiency, Nigeria offers an experiment of faith that new private or foreign managers of the nation's productive resources will improve efficiency and will share those improvements.

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INTRODUCTION

The richest and most populous African nation, Nigeria views itself as a leader in the search for national economic growth and independence. With increasing concern over food self-sufficiency, Nigeria and many other African nations are refocusing on agricultural production. The strategy outlined by the Organization for African Unity (38) contrasts strongly with the strategy promoted by the World Bank (49, 50) and the International Monetary Fund (IMF) with respect to agricultural trade liberalization (see 42). Even so, the methods adopted today in Nigeria reflect Western orientation toward private investment and ownership. American involvement with this issue dates from a joint effort in 1981 between the Government of Nigeria and the U.S. Department of Agriculture to encourage private investment in Nigerian agriculture by U.S. firms. Even more recently, Nigeria created major new opportunities for private investment by eliminating state commodity marketing boards and by beginning the sale of state farms.

Despite a modest recovery in 1984 and 1985 from the preceding drought years, per capita agricultural production has declined in Nigeria since independence (46). Similar declines elsewhere in Sub-Saharan Africa have been attributed to structural deficiencies initiated during the colonial period and maintained, in part, through the influence of foreign economies (5, 7, 41, 42, 48). Nevertheless, many governments in Sub-Saharan Africa continue to promote foreign investment. The Government of Nigeria in particular has increased its efforts to attract private foreign investment in agriculture, eliminating many protections it formerly regarded as necessary and which other countries in the region retain. For example, the Government raised the percentage of foreign ownership allowed for some types of agribusiness and opened new mechanisms for spending foreign exchange. Current Nigerian policy especially differs from the course pursued in its first 20 years of independence with respect to land sale to foreigners. The Government is seeking foreign buyers for agricultural land, at least nominally. This feature contrasts with policy of all its neighbors. Even the United States seems cautious about foreign ownership of farmland (14).

Policies supporting private foreign investment remain strong in Nigerian programs because the Government sees reasons why foreign businesses would invest there and how they would bring benefit thereby. Nigeria offers a large, undeveloped market for agricultural output supported by existing industrial development in the petroleum industry and an infrastructure of relatively good roads and good educational institutions. Furthermore, Nigeria's long history of policies generally favoring foreign investment appears to promise the political stability needed to attract foreign entrepreneurs. If the Nigerian Government is right, U.S. agribusiness would benefit from reexamining the opportunities in Nigeria.

This report investigates how important recent changes in Nigerian investment policy are and whether they are a model for other countries. The hypothesis underlying this research is that such attempts to promote private foreign investment are unlikely to assist development or, more specifically, to provide enough capital to significantly raise the national output of agriculture in a country like Nigeria. A search for explanations other than raising production for changes in Nigeria's investment policies accompanies evaluation of the hypothesis. First, the Nigerian case is placed in the setting of worldwide multinational corporate activity in agriculture. Next, justifications which might have motivated the Nigerian Government to make changes are described. Finally, programs are examined for effects which might derive from the new policies beyond those which concern or were anticipated by program designers.

WORLDWIDE PATTERNS IN PRIVATE FOREIGN INVESTMENT

Occasional resistance to foreign investment expressed by the policies of less developed nations (LDC's) is not defensible in the development theory based on neoclassical economics. Foreign investment is viewed in that tradition as a source of capital, technology, management, and marketing, often the exact factors which constrain LDC growth. Furthermore, neoclassical models generally accept that foreign investment abets development by improving competitiveness, creating jobs, increasing efficiency and, eventually, evening distribution of income (19, 32, 33, 35, 43).

Each of these benefits has been evaluated empirically, documenting instances where foreign investment hindered development. The major alternative view to neoclassical economics on the efficacy of such investment is generally termed the dependency school (9, 23, 34). This view finds that, with large foreign investments in LDC's, oligopolistic market structure inhibits competitiveness, mechanization raises unemployment, and centralization of ownership reduces efficiency of natural resources use.

With the demise of colonialism, LDC's have greater ability to affect terms of foreign investment. For example, India successfully bargained with the international computer industry to win sufficient concessions to allow a domestic industry to become established (22). However, control of marketing channels and technology by international pharamaceutical firms severely constrained the growth of Mexico's suppliers of raw material and processing despite attempts by the Mexican Government to support its domestic industry (21).

Poorer nations often cannot increase foreign investment, even if they wish to. The stock of foreign investment per capita among LDC's correlates positively with gross national product (GNP) per capita (40). The empirical relationship of such investment to growth of GNP is more controversial, with stock of foreign investment negatively correlated with growth (11, 16) and the flow of foreign investment positively correlated to growth (16), suggesting that the role of foreign investment is still changing.

Data on foreign direct investment (FDI) has been variously interpreted to indicate either a positive (37) or negative (29) trend in real value since 1960. But, there is agreement that FDI is a declining proportion of all foreign investment. FDI refers to establishment of wholly-owned subsidiaries of firms in this discussion.

Several new forms of equity-sharing between multinational companies and LDC governments are gaining prominence, although the major alternative to FDI has been lending by international banks. During the 1970's, this form grew from a small amount relative to FDI to twice the level of FDI (37). With the crisis in repayment of debt arising in the 1980's, further attention is directed toward the new forms of private foreign investment. These investments generally provide a specific set of services or a particular type of capital rather than the full bundle accompanying traditional FDI. Facing a well-defined investment opening, multinational corporations can reduce their risk and LDC's can increase control over nonpecuniary impacts of investment.

The relatively new and expanding types of private foreign investment may be grouped into six categories:

(1) Joint ventures are investments in which assets, risks, and profits are shared by domestic and foreign investors at a predetermined ratio.

(2) Licensing is used to transfer a technology or trademark for a set fee. With franchises, some management may be retained by the foreign investor.

(3) Under management contracts, physical capital is not necessarily supplied by or owned by the foreign investor although payment may be on the basis of return to capital.

(4) Turnkey contracts are the opposite of management contracts since the only responsibility of the foreign investor is supply of the production unit.

(5) Production-sharing has been widely used in petroleum and mining industries. The domestic partner is generally a state-owned company.

(6) International subcontracting places a foreign investor at the center of management, but requires that specific parts of the work be subcontracted to domestic firms.

Table 1 gives nominal value of FDI for various national groupings since 1970. Total FDI rises each year until 1981. Developing countries received 25-30 percent of total FDI in a typical year during this period, with no pronounced trend in their share. The proportion going to Sub-Saharan Africa has declined significantly while the proportion going to the oil-exporting nations generally rose except for the two periods surrounding the major petroleum price rises. Nigeria's share generally declined, especially during the petroleum price rises.

Nearly all FDI originates in industrialized countries. Of 963 firms based in the LDC's with at least one subsidiary in another country in 1980, only 6 qualify as multinational enterprises under the standard definition of having subsidiaries in six or more foreign countries (47). Of the 200 largest multinational firms, all but 1 are based in developed market economies (44).

Table 1--Foreign direct investment

Region	1970	1971	1972	1973	1974
	Million dollars				
Total	9,855	10,284	12,024	15,006	14,335
Developing countries	1,812	2,201	1,718	3,021	-3,844
Industrial countries	6,323	6,181	8,549	11,152	15,296
Oil-exporting nations	523	455	-492	-370	-7,548
Africa	752	813	807	716	1,497
Sub-Saharan Africa	530	777	747	755	1,352
Nigeria	205	286	305	373	257
	1975	1976	1977	1978	1979
	Million dollars				
Total	20,367	15,863	23,067	33,376	34,191
Developing countries	8,648	4,058	7,125	10,290	4,892
Industrial countries	11,128	11,211	15,892	23,086	29,208
Oil-exporting nations	2,208	-857	1,680	2,733	-5,295
Africa	799	454	511	677	1,432
Sub-Saharan Africa	1,275	967	544	777	690
Nigeria	418	339	439	213	310
	1980	1981	1982	1983	1984
	Million dollars				
Total	47,723	58,251	48,984	46,662	52,640
Developing countries	11,792	21,013	24,053	17,542	15,389
Industrial countries	35,932	37,238	24,931	29,120	37,251
Oil-exporting nations	-26	5,825	10,336	6,725	6,315
Africa	239	1,947	2,226	1,984	1,035
Sub-Saharan Africa	108	1,571	1,594	1,218	874
Nigeria	-739	546	429	354	294

Source: (27).

The agricultural interest of multinational corporations is concentrated in food processing and marketing. Most multinational firms with food-related activities originally focused on some other industry and diversified into food processing, marketing, and providing of inputs (45). Those firms which originated in agriculture have tended to shift from production to processing and to diversify into nonfood areas. Contract farming has been a common substitute for direct production by multinational firms. By 1980, 53 percent of revenues from the 100 largest multinational firms with food sales came from processing (12).

Nations often compete for processing tasks since they provide employment. The proportion of food commercially processed is much lower in LDC's, 10-15 percent, compared with 80-85 percent in developed countries (44). Of this amount, about 1/8 is processed by affiliates of foreign firms. Some potential for capturing food processing demand is indicated by the change in proportion of highly processed foods sold to developed countries, which rose from 11 percent of food shipments in 1965 to 23 percent in 1975. But, the LDC's share has declined (44). Nigeria's only major agricultural export, cocoa, is more readily processed in importing countries because chocolate deteriorates more easily than cocoa beans.

Even with this large industry worldwide, there is an oligopolistic market structure. The 25 largest firms account for 2/3 of foreign food processing and the largest 2, Unilever and Nestle, account for 1/4 of foreign food processing (45). Oligopolistic structure in trade is indicated by the industry concentration portrayed in table 2.

Table 2--Market concentration in agricultural trade by LDC's, 1980

Commodity	LDC's exports	Percentage marketed by largest 15 firms
	Million dollars	Percent
Wheat	16,566	85-90
Sugar	14,367	60
Coffee	12,585	85-90
Corn	11,852	85-90
Rice	4,978	70
Cocoa	3,004	85
Tea	1,905	80
Bananas	1,260	70-75
Pineapples	440	90
Forest products	54,447	90
Cotton	7,886	85-90
Rubber	4,393	70-75
Tobacco	3,859	85-90
Hides and skins	2,743	25
Jute	203	85-90

Source: (45).

Within individual LDC's, the industry structure is typically even more concentrated since large multinational firms tend to specialize among groups of nations, often based on linkages remaining from the colonial period. For example, 67 percent of food-related foreign investment by U.S. multinationals and 90 percent of their production activity is in the Western Hemisphere or the Philippines (44). A United Nations study found that the four leading processors held 50-70 percent of most national markets (45).

FOREIGN INVESTMENT POLICY HISTORY OF NIGERIA

Nigeria has the largest population of any African country and has generally led Sub-Saharan Africa in the annual FDI received. In the early 1970's, it ranked fifth among all LDC's (26) and received about 20 percent of all FDI in Africa (9).

Nigerian agriculture, however, has never received intensive foreign investment. Britain dominated Nigeria's international trade during the colonial period. However, Nigeria relied on production by indigenous people immediately after independence in 1960. Landownership by expatriates was specifically discouraged (9, p. 70). The Nigerian constitution clearly established the rights of foreign investors in 1963 and the investment policies of the colonial period were generally retained. Immediately after independence, British and other foreign sources accounted for 3/4 of industrial investment based in other countries (table 3), but less than 2 percent of foreign investment was allotted to agriculture even though much manufacturing and distribution were associated with food (table 4). Since agriculture accounted for about 60 percent of the entire GNP at that time (18, p. 7), foreign investment in agriculture had an insignificant effect on sector performance.

During the 1967-70 civil war, the Government took several war measures discouraging foreign investors. A 65-percent surtax was placed on profits and dividends, and foreign exchange was severely constrained. At this time, however, potential for petroleum revenue was first appreciated and Nigeria soon followed the precedent of other members of the Organization of Petroleum Exporting Countries in encouraging new investment.

Table 3--Foreign investment in Nigeria by origin

Area	1964 1/	1970 2/	1980 3/	1982 2/
			Percent	
Britain	63.6	44.0	53.6	37.0
Other Western Europe	11.2	23.0	23.7	29.0
United States	9.4	23.0	16.6	22.0
Other	15.8	10.0	5.3	12.0

1/ Source: (24).
2/ Source: (25).
3/ Source: (45).

With the rapid increase in petroleum revenue during the 1970's, Nigerian demand rose to a level capable of generating great interest from a diverse group of foreign investors, including both agricultural producers and processors. However, very little foreign investment was attracted into agriculture because agriculture was performing poorly and because of government policy to promote Nigerian ownership. The index of per capita agricultural production declined 17 percent during the 1970's (46).

The 1972 Indigenization Decree was amended in 1976 and 1977, specifying minimum equity participation by Nigerians for three classes of industry. The most capital-intensive industries, including fertilizer production, and tobacco and equipment manufacture, required at least 40-percent ownership by Nigerians. Less capital-intensive enterprises, such as beer brewing, canning, and dairy processing, required 60-percent Nigerian ownership. The least capital-intensive operations, such as poultry farming and wholesale trade, were reserved entirely for Nigerians. In 1978, integrated agricultural production and processing were transferred into the 40-percent category. The Government's agricultural development strategy relied on input subsidies, infrastructure development in project areas of the north, large-scale irrigation, and large-scale, state-run farms, mainly in the south and west.

With election of a civilian government headed by Shehu Shagari in 1979 came new commitment to attract foreign investment. The fifth round of U.S.-Nigeria bilateral talks in 1980 produced an agreement to establish several Nigerian Investment Promotion Centers in the United States and to hold a series of seminars to explain the Nigerian business climate to American investors. These efforts were not completed, but in the sixth round of talks in 1981, a Joint Agricultural Consultative Committee (JACC) was set up. This organization initially was a joint venture between the U.S. Department of Agriculture and the Nigerian Ministry of Agriculture to promote private U.S. investment in Nigeria agriculture. The committee was formed with leaders of major U.S. food processing and other agribusiness firms. Direct U.S. Government involvement soon ended, although the Nigerian Government provided an office and other support in Lagos. Membership in JACC expanded to 55 U.S. corporations by 1985, but in 1986 JACC disbanded.

Table 4--Sectoral distribution of foreign private investment

Sector	1962	1965	1970	1975	1982
			Percent		
Agriculture	2.0	1.5	1.1	0.5	NA
Oil and mining	36.7	43.7	51.4	42.0	20.0
Manufacturing	17.3	18.5	22.5	22.1	36.0
Construction	3.8	5.3	1.4	4.9	NA
Distribution	38.4	24.6	20.6	25.0	28.0
Other	1.8	6.4	3.1	5.2	NA

NA = Not available.

Source: (13), (25).

Investment possibilities were initially designed by private sector Nigerians and submitted to JACC. About 200 proposals had been received by mid-1985 of which about 30 were deemed viable enough to seek funding. About 10 investments were made through JACC, ranging from $1.5 million to $20 million. The managing director of JACC reported that the amount of U.S. investment was constrained primarily by administrative problems and import licensing in Nigeria rather than by expected profitability of potential investments. The value of all U.S. investments in Nigerian agriculture was estimated at $516 million in 1983 (4).

Incentives for agricultural investment were expanded by the Shagari administration (1979-83), including a 5-year tax holiday for investors combining production and processing, and cessation of import duty on agricultural machinery and on raw materials used in feed manufacture. These incentives were apparently insufficient to attract much investment in agriculture from the United States or elsewhere.

During 1984, the Government announced an array of new incentives for Nigerian and foreign investments. In July, the Government announced a rise in the permitted level of foreign equity participation to 80 percent for large-scale corporate farms, but it never actually allowed any such rises in equity. At the same time, state governments were directed to select areas for large, privately held plantations. Five years of tax relief were allowed for agricultural projects based on local raw materials; several other tax changes were also made. In December, agricultural credit was facilitated by lowered interest rates, expanded loan funds, and a 5-year moratorium on repayment for tree crops. Agricultural insurance and a government office to assist new ventures were promised.

Along with the new budget released at the beginning of 1985 came announcement of a major shift in emphasis in agricultural development. The states were directed to cease all agricultural production, freeing their large-scale farms for private ownership. The mechanism by which transfer of ownership will occur has not been specified, but a department to assist foreign investors has been established. It consists of five desks, each with responsibility for investors from a specified part of the world. The desks are modeled on JACC, with the North American desk filling the role previously taken by the Nigerian JACC office.

The administration of Ibrahim Babangida entered office in August 1985, bringing increased effort to control the balance-of-payments problems resulting from debt repayment, high food imports, and declining petroleum revenue. On October 1, rice and corn imports were banned, creating the potential of increased prices for domestic foods. A less formal incentive for agricultural investment took the form of a question on such investments on the application for import licenses, implying some link between investment and the granting of a license. Import licenses for 1986 are cited by the Government as a demonstration of its attempt to support agricultural processing by allowing complementary inputs to be imported while constraining imports which compete with domestic production (1). Actual licenses issued allowed increased imports of finished products in 1986, although categories of imports formally announced are too broad to make this clear (table 5).

The privatization moves of the previous administration were extended under Babangida. In announcing the 1986 budget, the president began the divestment of state holdings in all "non-strategic enterprises," specifically including agricultural production and processing. Table 6 lists firms affected by this policy and indicates that agricultural enterprises lead the privatization effort. In addition, the Government has announced plans to reduce its role in fertilizer distribution to a 10-percent interest in the Fertilizer Procurement and Distribution Company, now a state entity. Finally, between June and December of 1986, the commodity marketing boards were abolished, creating further opportunities for private marketing, especially for cocoa and cotton.

Table 5--Import licenses issued before June 1986

Licensee	Value	Firms
	Million dollars	Number
Food related:	1,000	1,085
Flour mills	285	20
Breweries--	49	31
Guinness	6	1
Nigerian Breweries	7	1
Gongola State	10	1
Food Specialties	8	1
West Africa Milk Co.	8	1
Cadbury Nigeria	7	1
Swiss Nigerian Chemical Co.	5	1
Inlaks	4	1
Other food related--	624	952
Poultry/feedmill	NA	227
Machinery and chemical	NA	230
Bakery/confectionery	NA	197
Soft drinks	NA	82
Other processing	NA	217
Not food related:	533	NA
Soap and detergent--	101	NA
Lever Brothers, Nigeria	41	NA
Patterson Zochonis	24	NA
Petroleum related--	170	NA
Paint	17	NA
Pharmaceutical	75	NA
Cement	56	NA
Other not food related	131	NA
Total	1,533	NA
Total planned for 1986	2,463	NA

NA = Not available.

Sources: (36, 1).

These agricultural policies may be overshadowed in importance by changes in the exchange rate. Adjustment in the official exchange rate slightly reduced overvaluation of the naira in mid-1986 when a dual rate system was announced. This system is planned to allow foreign trade with the naira at free-market levels. This would increase the price imports and improve the competitiveness of domestic production. Currency overvaluation was the largest source of income redistribution between consumers and the agricultural sector, according to a recent analysis of trade liberalization in Nigeria (31).

Principal foreign sources of interest in agricultural investment today appear to be food processing firms already active in Nigeria. Nearly all breweries have recently sought locally grown inputs, such as sorghum, barley, and corn. The effective incentive for this change is the restraint on issuing of import licenses. Guinness bought a 10,000-hectare farm for maize. Nigerian Breweries acquired 15,000 hectares for maize and sorghum. The two companies have a joint venture growing barley. Jos International Breweries and its partner, CEREKEN, began production on their 4,000-hectare farm in 1984. As the farm expands, it will encompass various processing facilities in addition to production of grains, vegetables, tree crops, pigs, poultry, and cattle.

Soft drink manufacturers are also expanding production. Vegfru, a branch of Inlaks, has borrowed $11.5 million to expand its plantations and processing plants for tomatoes and fruit juice. The managing director claims Vegfru obtains all raw materials within Nigeria. The Nigerian Bottling Company has invested $50 million in land and a processing plant to convert Nigerian corn to fructose. It had corn production on 2,000 hectares in 1985, including such byproducts as corn oil and animal feed. Also, Christlieb (Nigeria) is

Table 6--Privatization in Nigeria, June 1986

Offered for sale:	May be sold:
Bauchi Abattoirs	Central Water Transporation Co.
Mandara Dairies	Federal Housing Authority
National Livestock Production Co.	National Cargo Handling Co.
Nigerian Dairy Co.	National Electric Power Authority
Nigerian Food Co.	National Root Crops Production Co.
Nigerian Ranches Co.	New Nigerian Newspapers
	Nigeria Airport Authority
Will be sold within 1 year:	Nigeria Airways
	Nigerian Coal Corp.
Natl Grains Production Co .	Nigerian Mining Corp.
Nigerian Cocoa Board	Nigerian Natl Shipping Line
Nigerian Cotton Board	Nigerian Ports Authority
Nigerian Frieght Co.	Nigerian Railways Corp.
Nigerian Groundnut Board	Nigerian Telecommunications
Nigerian Natl Supply Co.	North Brewery
Nigeria Palm Produce Board	River basin Development Authorities
Nigeria Rubber Board	Superphosphate Fertilizer Co.
	Tourist Co. of Nigeria
	West African Distillers

Source: (3).

beginning a fish farm in Lagos State and a corn farm in Kwara State, while CFAO (Nigeria) is investing $25.5 million in an integrated farming project in Gongola State. United Africa Company plans to begin corn production in Kaduna in 1986 and is considering large agricultural production of other field crops in Oyo.

Firms not normally involved in agricultural production are investigating new possibilities. For example, Texaco set up a project now growing cassava on 2,500 hectares, although it has generally failed to make a profit. Kabelmetal Nigeria, an affiliate of a West German company, started a 10-hectare farm to produce cassava, corn, and vegetables. Nearly all the 100 largest firms in Nigeria plan some agricultural activity.

Foreign firms have also been active with management contracts in Nigeria. A private oil palm plantation, Adapalm, is run by a Belgian management company, Socfinco, making a profit on 43,000 hectares. In contrast, a N40-million program to hire a private firm, Inlaks, to rehabilitate the 6,400-hectare plantation of Imo State's Agricultural Development Corporation was halted in April 1986. The contract signed 3 months earlier would have given a 32-percent share of profits to Inlak's foreign stockholders. Another contracting failure attracted publicity in June 1986 with a $200-million judgment against the Nigerian Government in a suit filed in Mississippi. In that case, a U.S. firm, Hector International, sought compensation for a 1984 action in which its stock in Bansara Rice Farm in Cross River State was withdrawn. The firm managed production on 2,500 hectares in 1982 and 1983 with plans to increase to 4,000 hectares. Importance of indirect contracts was underscored in 1984 when the largest agribusiness company in Nigeria, United Africa Company, decided to increase the supply of Nigerian palm oil. Its strategy was to contract future prices to small producers.

Domestic firms might also benefit from new investment incentives but there are few large-scale, private agricultural firms in Nigeria. Two related sugar producers, the Nigerian Sugar Company and the Savannah Sugar Company, had a combined output in 1984 of about 60,000 tons. Afprint Nigeria plans to expand its cotton production to 10,000 hectares, but relies mainly on contracts with small farmers. There were several large poultry operations, led by Anadenya Farms, but shortage of imported feed severely curtailed its output in 1984.

POLICY RATIONALE

When culled from numerous policy changes of the past decade, items cited above seem to indicate increasing interest by the Nigerian Government in attracting private foreign investment, especially in agriculture. Mechanisms selected offer insight into government objectives, but the role of investment in long-term plans for rural development has not been fully revealed. Close examination of government motivation is needed to resolve the paradox that, in some respects, the Nigerian initiatives describe a strategy which was broadly rejected by newly independent African nations in a drive toward indigenization and, more recently, toward self-sufficiency.

Motivation behind apparent appeal to foreign investment may be associated with several anticipated effects of the programs. An appropriate starting point in cataloging these effects is to consider that no change in foreign investment may actually be expected by policymakers. Most changes directed at foreign investors concern profitability, yet JACC finds that expected profits are not generally constraining their potential investors. Profits have recently been good on existing multinational enterprise operations in Nigeria including the food industry. John Holt made $30 million in 1984/85, up 44 percent from the previous year. Tate and Lyle (Nigeria) reported a rise in aftertax profits to $6 million for 1985 as it continued to expand in Nigeria. SCOA made a profit of $10.3 million in 1985 after several years of losses. Lonrho announced 31 percent of its profits of $233 million for 1985 had come from east, central, and west Africa even though the region accounted for only 13 percent of turnover. Unilever raised pretax profits by 50 percent, including improvement in its Nigeria operations. Paterson Zochonis increased its profit 22 percent in 1985 on operations in Nigeria and Ghana. Although 1986 is not expected to continue the trend, profit margins for 46 Nigerian companies rose 100 percent from 1983 to 1985 and profits rose 30 percent in 1985 (25). Table 7 lists the major foreign-based firms active in Nigerian agriculture.

Past adjustments to tax and equity participation rules have had little impact in Nigeria on foreign investment and control (10). The Nigerian Government may benefit simply from announcements of investment incentives. Its IMF negotiations have failed to produce an agreement; thus, the investment incentives may be a means for the government to appear receptive to foreign capital.

Under the assumption that additional foreign investment is expected to result from the recent policy changes, program designers may be seeking foreign exchange, capital growth, diversification of the economy, improved management of large farms, a strengthening of the power of their class, or some combination of these. Although deliberations of Nigerian decisionmakers are not reported in sufficient detail to permit definitive interpretation of the logic they applied, each potential impact may be evaluated.

Table 7--Selected multinational agribusiness firms operating in Nigeria

Firm	Home country	Revenue: Food related	Revenue: Total	Worldwide rank among food firms
		Million dollars		
Unilever	UK/Netherlands	7,900	14,800	1
Cadbury Schweppes	United Kingdom	1,523	1,590	29
Tate and Lyle	United Kingdom	1,006	5,169	60
Arthur Guinness	United Kingdom	670	836	97
Booker-McConnell	United Kingdom	255	719	208
Lonrho	United Kingdom	197	2,189	226
SCOA	France	45	1,348	269
CEREKEM	Denmark	--	--	--
Inlaks	Switzerland	--	--	--
Kronenbourg	France	--	--	--
Leventis	United Kingdom	--	--	--
Parmalat	Italy	--	--	--
Paterson Zochonis	United Kingdom	--	--	--

-- = Not available.

Source: (44).

Generation of foreign exchange is important to Nigeria. Since 1980, Nigeria's foreign debt has grown rapidly without an offsetting rise in exchange earnings. The IMF reports external debt rose from N1.9 billion in 1980 to N12.2 billion in 1983, while value of oil exports fell from N14 billion in 1980 to N7.8 billion in 1983 (28). In mid-1986, debt was estimated at over N20 billion (2). The two military regimes since 1983 have maintained a heavy schedule of debt repayment, although some imports of food and industrial inputs may be essential for stability of the current government.

Selling land for foreign exchange offers revenue now without immediate cost. Landownership, as a form of agricultural investment, has sometimes been stressed by the government. Land tenure laws were modified to facilitate agglomeration of parcels and to establish firm legal title for large-scale operators. States were directed to make parcels available for large farms and, eventually, to make their own farms available for private purchase. Land sale, however, does not in itself constitute investment in the sense of increasing the stock of capital.

An increase in the stock of capital may eventually result from foreign land ownership since relatively capital intensive production techniques are typical of foreign-owned, agricultural enterprises throughout LDC's. To the extent that capital for foreign-owned farms would substitute for imported inputs which would have been used on that land, further foreign exchange is saved. The provision prohibiting duty on agricultural machinery suggests that increasing capital may be a goal of the government.

Some economic problems of Nigeria are attributed to excessive dependence on a single market, petroleum, so diversification is considered important. Although agriculture constitutes a large portion of GDP, its share of export earnings has declined to insignificance compared with petroleum. Foreign producers in Nigeria may be able to provide reliable markets for export. Even if the product stays in Nigeria, any increase would substitute for imports, lessening dependence on petroleum revenue.

Cessation of production by the states after many years of operation without profit admits those efforts have failed. Yet, no specific structural change to their operation is proposed; only an ownership change. The implication is that new owners will provide better management. This may reflect a belief in private incentives over public administration or faith in foreign technical expertise. Faith in privatization would extend to potential Nigerian owners of current state resources while the faith in foreign expertise would extend to foreign investors on land now held by Nigerian citizens.

Improving opportunities for investment in large-scale farms is first a benefit to the relatively small group of people who might be able to participate in such investments. Among Nigerians, this includes higher level government people, relatively rich business people, and intermediaries for foreign investors. One or more of these groups would initially gain from the investment incentives at the expense of the general economy which is subsidizing credit and reducing its tax base. Terms of sale on state farmlands will be revealing in identifying first-round beneficiaries and in measuring the size of first round gains.

POLICY IMPACTS

The above justifications may explain why investment policies were instituted, but the policies will also affect several other aspects of the Nigerian economy. These are categorized in the discussion below into effects within the agricultural sector and effects on the economy as a whole. Within the agricultural sector, effects may be felt on (1) scale of production, (2) technology used, (3) crop selection, and (4) risk.

Much of the effect of the investment incentives derives from their encouragement of large-scale operations. Marginally improving credit opportunities and eliminating duties on agricultural machinery implicitly promote relatively large farms. Facilitating land agglomeration and selling state farms explicitly favor large-scale farming although selling state farms does not increase the number of large farms. Provisions supporting vertical integration and those directly supporting foreign investment also support large-scale farming because both food processors and foreign investors require large operations to absorb costs of establishing a new enterprise. The smallest project financed through JACC so far involved $1.5 million, considered by JACC to be about the minimum feasible investment.

Encouragement of large-scale farming _per se_ does not lead inevitably toward mechanization, even though mechanization _does_ create strong pressure toward large farms. Centralized decisionmaking, as on larger farms, is easier for manipulation of capital than for manipulation of labor. Also, experience of large-scale farming in the Western world has been on relatively capital-intensive farms. Nonetheless, neither state farms nor various attempts at communal organization have demonstrated the viability of mechanized agriculture in Nigeria. The poor performance of the agricultural schemes in the south was documented by Andreou (_6_). An example of a cooperative venture is provided by Texaco which organized 140 tracts of land in Ogun. Only 6 of 150 farmers trained in the cooperative decided to contract with the farm. The plan to grow corn was abandoned and cassava is now being produced without mechanization.

Analysis of how strongly these policies encourage large-scale production depends partly on what alternative agrarian policy is considered. If the appropriate alternative policy would be to break state farms into units for smallholders, then the recent policies strongly support large-scale farming. If the appropriate policy comparison would be to maintain the current agrarian structure, the effect of these private investment incentives is less clear.

Large farms and foreign-owned farms are likely to choose different crops from those prevalent among smallholders. With the stronger market orientation of large farms, local food self-sufficiency obtains less priority. Grains are more likely to be used for poultry feed and prepared beverages. Cotton, coffee, and other nonfood crops are also more likely to be grown.

Increased participation in international markets may increase product availability, but it also brings risk. The relatively high foreign exchange expenditure required by more capital intensive techniques similarly raises the financial risk on expected net returns. Monoculture tends to be more vulnerable to disease and even the simple fact of changing a technology in a poorly researched environment implies more risk.

Although the incentives discussed here specifically cite agricultural investment, the effect of these incentives may reach into other sectors of the economy. The programs tend to (1) redistribute returns from natural resources, (2) restructure employment of rural labor, and (3) alter the relationship of Nigeria to the Western developed nations.

The distributional effect of new investment in agriculture depends on how much investment mobilizes underemployed resources compared with how much it shifts rights to resource use. Since most arable land is already used, at least in a fallowing cycle, expansion of total agricultural area is limited. More intense land use, in the sense of greater yield per unit of land area, is possible, but not a necessary outcome of increased investment. A large landowner could profit under existing yields per acre if cost of capital and management were low enough. Because capitalist farmers operate more fully in the money economy, they may be able to outbid in the land market even without producing greater yields. Numerous examples of large farms with lower yields to land than produced by peasants are found in Africa (17, 20, 30, 39). Rural labor is underemployed in Nigeria, at least on a seasonal basis, but large farms are likely to substitute capital for labor even in slack periods rather than to mobilize labor. Further mobilization is not possible where existing capital is not underemployed.

Large farms, if they become an important element of Nigerian agriculture, could restructure the rural labor market. Seasonal agricultural wage work is already well established, but small farms keep labor users competitive. Family labor, including the extended family, is the major supplier of labor. This group would become unimportant on large farms, raising the proportion of wageworkers in agriculture, especially among permanent agricultural workers. More capital intensive production would increase movement of job seekers to urban areas. Together, these effects would tend to proletarianize the workforce. Rural and urban labor markets are likely to remain closely linked because laborers typically maintain close associations with rural family members and village (8). Furthermore, firms likely to invest in agriculture already hire urban labor in food processing. These patterns provide a basis for a dualistic agrarian structure in which traditional agriculture contributes part of family income while low paying wagework in modern agriculture or in cities provides the necessary addition for survival. Such low-paying, dualistic labor opportunities have been described for Latin America (15) and are found elsewhere in Africa, such as in Sudan's Gezira scheme, but are not typical of Nigeria. Closer quantitative comparison of Nigeria with dualistic rural economies is necessary to determine how much corporate ownership would change the basic character of agrarian structure.

In contrast to the Latin American example described by deJanvry, (15) the transition to capitalist agriculture in Nigeria would not greatly increase export production. Nigeria is already strongly export-oriented due to petroleum sales, but its agriculture, except for cocoa, sells domestically. Expanded production would be mainly for substitution with imported food. This would support wages by linking demand for production to domestic ability to pay.

While domestic capitalist investment in agriculture could reduce dominance of foreign concerns in the wage-paying industries of Nigeria, some provisions of the new programs specifically encourage foreign investors, exacerbating potential conflicts between Nigerian and foreign interests. Although attractiveness of these provisions has not yet been tested, they may represent a reassertion of power by Nigerian representatives of foreign businesses who never lost as much power as the rhetoric of indigenization implied. Although transnational corporations have apparently sold equity to Nigerians in compliance with the law, other aspects of indigenization were not fully implemented (10). In particular, a variety of strategies for maintaining management control have been adopted by the transnationals.

Government officials continue to decry Nigeria's vulnerability to the business cycles of the developed Western economies, experienced via the petroleum market. They resist IMF conditionality as an infringement on their sovereignty. Yet, they impose their own austerity program in order to reduce national debt, they reduce government services, especially education and construction, and they privatize state farms. These actions place the present government firmly in support of the mainstream Western economic ideology. Any additional economic dependence arising from the agricultural investment policy changes will be seen as a necessary element of agricultural modernization.

Despite confidence demonstrated by renewed efforts to attract foreign investment, modernization is not the clear result. Some of what is legally considered foreign investment is only a change in ownership of existing resources. Furthermore, most food-related investment has flowed toward processing, already suffering from excess capacity in milling, rather than toward production, which is constrained by infrastructural problems. The hypothesis that private foreign investment is not improving national agricultural performance in Nigeria is tentatively supported by the evidence, although more experience with new programs is needed before a full evaluation is possible. Even though some foreign investors may find profits in Nigerian agriculture, agricultural development requires investments with benefits accruing to the millions of farming families who will provide most of Nigeria's agricultural output.

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