INTRODUCTION

Africa and Nigeria in particular, has witnessed monumental increase in the level of poverty. Available records from the Federal Office of Statistics (1996) show that about 71 percent of Nigerian households are considered poor. However, the poverty level increased to 74.2 percent in the year 2000. The high level of poverty has a lot of destabilizing effects on the citizens as well as the country. Poverty has the tendency to exacerbate crime, prostitution and high level of HIV/AIDS, loss of confidence in the economy and increase in the level of frustration. Evbromeran (1997) observed that poverty can cause fear, depression, despondency and suicide as well as revolution, envy, bitterness, self-depreciation of ego etc. The effects of poverty can therefore be said to be multi dimensional in nature.

In order to reduce the level of poverty, the Nigerian government introduced lot of incentives such as fiscal, financial and non-financial. In 1997 budget governments showed its intention to enter into investment production agreements (i.e Bilateral, Regional and multilateral treaties) with foreign governments or private organisations wishing to invest in Nigeria as well as discuss additional incentives with them. (Aremu 1997: 2).

The inflow of foreign resources such as foreign private investment has the tendency of stimulating employment, income, consumption and economic growth, hence the possibility of reducing poverty. Borenstein and Lee (1998) have shown that foreign private investment has significant effect on the host country e.g. a one percent point rise in the ratio of foreign direct investment and gross domestic product increase the rate of per capita income growth of the Less Develop Countries (LDCs) by 0.3 percent to 0.8 percent.

This study is significant for two reasons to the Nigerian government and the general public. In the first place it is significant because it is timely. This is because the period of study coincides with the period (1997-2006) which the United Nations has declared as the decade of eradication of poverty in the world most especially in the third world countries. Secondly, it is significant because it would expose and proffer recommendations to the Nigerian government about its policies on foreign private investment.

Theoretical Framework and Literature Review

The role of foreign private investment in stimulating economic growth has been given prominence in development. The classical
economist gave prominence to the extension of markets as a key element that would encourage economic growth and development. With extension of market economies prosperity would emerge as a result of increased specialization and trade.

Marx like the classicists shared the same view on the extension of market as a catalyst for economic growth. But Marx analysis was based on historical stages of a society. His historical underpinning was that social, political, cultural and spiritual aspects of life are conditioned by the mode of production. The mode of production was seen as the sum of the material, productive forces of society. These produce forces include climate and geography as well as existing technology. It was technology that Marxist saw as the main factor changing the material basis of society. The technical nature of production conditions, social relationships and upon this social relationship is built the super structure of political and legal institutions.

Hood and Young (1979) observed that a country may invest in another rather than exporting because of certain advantages. Such ownership bestows specific advantages not shared by its competitors such as advantages in technology, marketing/branding skills, superior organizational skills, and ability to differentiate product and management technique. Dunning (1981) put forward his eclectic integrated approach to international trade. He observed that technology is not the main determinants that give a country advantage over another country through internationalizing. Internationalization could occur through transfer, price manipulation, security of supplies and markets and control over use of intermediate goods.

Caves (1971) opined that avoidance of oligopolistic uncertainty and erection of barriers to the entry of new rivals are the factors underpinning the investment decision in LDCs. This observation was further enhanced by the deficiencies of capital, technology and expertise to exploit and enhance the natural resources that abound in the less developed countries.

Aremu (1997) submitted that foreign Private Investment accelerate the pace of economic development of the LDCs up to a point where a satisfactory rate of growth can be achieved on a self-sustaining basis. He observe that the main responsibility of foreign private, investment in LDCs is to raise the standard of living of its people so as to enable them move from economic stagnation to self-sustaining economic growth. He therefore concluded his study by recommending that foreign private investment should continue to rise till a certain level of income is reached in the undeveloped countries. The LDCs should also mobilize a level of capital formation sufficient to ensure adequate level of economic growth and development.

Mishara and Mody (2001) observed that foreign private investment has been associated with higher growth in some advanced countries. Within the LDCs, however, Foreign private investment is associated with high incidence of crises.

Agada and Okpe (2002) investigated the determinants of risks on foreign investment in Nigeria from 1980 to 2000), used data from the Central Bank of Nigeria and Federal Office of Statistics, Lagos. The study showed that inflation rate, petroleum profits tax, political and administrative risk inhibits foreign investment in Nigeria. While government expenditure, exchange rate and balance of payment have significant effect on foreign investment in Nigeria.

Anfofum (2005) investigated on the macroeconomic determinants of private investment in Nigeria. He discovered that external debt burden, inflation and exchange rate, political crises, and coup d'etat negatively affect private investment in the manufacturing sector. The negative relationship attests to the major reason why investors do not have confidence in Nigeria’s investment climate and as such potential investors are scared away.

Ayashagba and Abachi (2002) carried empirical investigation on the effects of foreign direct investment on economic growth in Nigeria from 1980 to 1997. The result presented showed that foreign direct investment had significant impact on economic growth in Nigeria. They therefore concluded that the presence of foreign direct investment in the LDCs particularly in Nigeria is not totally useful.

Poverty Alleviation Programmes in Nigeria

The World Bank report (1990) outlined four ways in which the income of the poor can be enhanced. This can be increased through increase in the demand for labour of the poor class and thereby raising their price (Wage rate); increase in the poor access to physical assets.
such as land in order to raise their productivity; provision of social services such as education and health to the poor and transfer of current income to the poor in the form of cash and subsidies.

In Nigeria, poverty alleviation programme is as old as her national development plan. The objective of the poverty alleviation programmes depends on the government macroeconomic target. The First and Fourth National Development Plan emphasized the need to provide infrastructure such as education, health and employment through River Basin Development Authorities (RBDA), the Agricultural Credit Guarantee Scheme (ACGS), the Agricultural Development Programme (ADP), the Rural Electrification scheme (RES) and the Rural Banking Programme (RBP). While the fourth National Development plan’s main objective is to increase rural income as well as to bridge the gap between the poor and rich. Other poverty alleviation programmes that were introduced are the Operation Feed the Nation (OFN) in 1977, which was supplemented by the Green Revolution (GR) in 1980, and the low cost housing scheme was established to solve the housing problem of the majority of the civil servants in the country.

A lot of poverty alleviation programmes were introduced during the Structural Adjustment era (1986 to 2003). Such as the Directorate of Food Roads and Rural Infrastructure (DFRRI), which had the mandate of providing food, shelter, potable water and also to identify and promote other programmes that would enhance economic activities in the rural areas. Ogwunike (2001: 56) stated that DFRRI completed over 278, 526km of road, while over 5000 rural communities benefited from its rural electrification programme.

In 1986, the National Directorate of Employment (NDE) was also established. Its main objectives is to design and implement programmes to combat mass unemployment and articulate policies aimed at developing work programme with labour intensive potentials. Under the NDE we have Vocational Skills Development (VSD), the Special Public Works Programme (SPW) the Small Scale Enterprise Programme (SSEP) and the Agricultural Employment Programme (AEP).

In September 1987 the Better Life programme was introduced, it was later transformed into Family Support Programme (FSP) in November, 1994. It had the objective of encouraging rural women to improve their standard of living via the promotion and formation of self – help rural development organizations through education, business management and recreation and the creation of greater awareness among the populace especially women.

The People’s Bank, another poverty alleviation project was established in 1989. It was mandated to provide credit facilities to rural and urban inhabitants who because of the problem of collateral could not have access to commercial credit facilities. Due to the failure of the rural bank branches of People’s Bank to mobilize savings, the community banks were established in 1990 with the aim of providing banking facilities for rural dwellers as well as supporting microenterprises in urban centres (Oladeji and Abiola 1998).

Additionally, the Petroleum (special) Trust Fund (PTF) was established in 1994, with the responsibility of utilizing the gains from increase in the prices of petroleum products, to complete all government- abandoned projects and to rehabilitate decaying social infrastructure nation wide. In 1988, the Nigerian Guinea Worm Eradication Programme (NIGEP) was established with the aim of eradicating guinea worm infection and also to improve the quality of life of rural people.

**Foreign Private Investment and Economic Growth in Nigeria**

The inflow of Foreign Private Investment in Nigeria had assumed tremendous dimension since 1970s. Available data (Table 1 in Appendix) showed that Foreign Private Investment increased from its low level of N2287.5 million to N6804.0 million in 1985. However, from 1986 upward, there was a tremendous increase. For example, it increased from its negative figure of –6.8 percent to 29.3 percent.

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Foreign Investment and Economic growth. For example, when Foreign Direct Investment increased from N22,875 million in 1975 to N6,804.0 million in 1985, the Gross Domestic Product also increased from N20,957.0 million to N70,633.2 million in the same period respectively. Likewise when Foreign Investment increased from N5,073.9 million in 1986 to N174,450.3 million in 2003, the Gross Domestic Product also shows similar response from N71,859.0 million to N6,061,700.0 million from 1986 to 2003, respectively.

METHODOLOGY

This study covered the period 1975 to 2003. This period was chosen because it coincided with the “boost” in real wages. The period also coincided with the influx of Foreign Private Investment in the economy most especially in the petroleum sub-sector. The period 1975 to 2003 is furthermore justified because it covers the period of regulation and deregulation in the economy, the terminal date of 2003 was chosen because data for the study were available only up till 2003.

Secondary data were used. They were obtained from Central Bank of Nigeria, Lagos, publication and publication from the Federal Office of Statistics, Lagos, as well as Journal and test books.

It was hypothesized in this study that the inflow of Foreign Direct Investment does not have significant effect on poverty reduction in the country.

The Variables under Study

The variables used to analyze major findings are Foreign Private Investment and Gross Domestic Product at current factor cost. The Foreign Private Investment used includes paid up capital plus reserves and other liabilities. To ascertain the level of poverty, the growth rate of Gross Domestic Product at factor cost was used. To analyze specific findings, Government Expenditure, Petroleum Profit Tax, External Debt and Inflation rate were used.

Decision Rule

If the regression coefficient is positive and the t value is greater than the tabulated value, it is an indication that there is a positive relationship between the dependent and independent variables. The closer the coefficient of multiple determination (R^2) is to one (1) the stronger the relationship between the dependent and independent variable. Finally, if the Durbin Watson test is approximately two (2), it shows the absence of autocorrelation.

Model Specification

The model used for estimating foreign direct investment and poverty alleviation in Nigeria from 1975 to 1985 is:

\[ GR = F (FI, ED, IR, PT, GE) \] — eq (1)

To capture the effect of deregulation the model used is

\[ GR =+ F (FI, ED, IR, PT, GE) \] — eq (2)

Finally the model below was used to capture the period 1975 to 2003

\[ GR = F (FI, ED, IR, PT, GE) \] — eq (3)

Where

GR = Growth rate of Gross Domestic Product
FI = Foreign Private Investment
ED = External Debt
IR = Inflation Rate
PT = Petroleum Profit tax
GE = Government Expenditure

RESULTS AND DISCUSSION

The result for the period of regulation is presented as;

\[
GR = 11896.05 - 3.361FI + 0.948ED - 44.72IR \\
(1.147) \quad (1.281) \quad (-0.418) \quad (0.738) \\
+ 0.454PT + 2.825GE \\
(0.042)
\]

\[ R = 0.59, R^2 = 0.345 - DW = 2.013, F = 0.527 \]

Standard error of the estimate 2931.36

For the period of deregulation the following result was obtained:

\[
GR = -63866.8 + 8.619FI + 0.658ED + 2769.6IR \\
(2.987) \quad (2.506) \quad (0.650) \\
- 0.676PT - 2.776GE— \\
(-0.748) \quad (-2.712)
\]

\[ R = 0.773, R^2 = 0.597 \quad F = \quad 3.561 \quad DW = 1.550 \]

Standard error of the estimate 334788

For the entire period (1975 – 2003) was;

\[
GR = -47155.2 + 8.655FI + 0.659ED + 2265.3IR \\
(4.344) \quad (3.461) \quad (0.189) \\
- 0.662PT - 2.809GE— \\
(-1023) \quad (-3.798)
\]

\[ R = 0.817, R^2 = 0.667 \quad DW = 1.565 \quad F = 9.215 \]

Standard Error of the estimate 242912.06
Equations 4, 5 and 6 showed the various results obtained from the tests conducted.

For the period of regulation the result is presented in equation 4. The result showed that the t-value of the regression coefficient of foreign private investment is negative and statistically insignificant on growth rate of Gross Domestic Product.

Equation 5 above represent the period of deregulation. The result showed that Foreign Private Investment had the regression coefficient of 8.619 with its t-value of 2.989. The result indicated that Foreign Private Investment had a positive and significant effect on growth rate of Gross Domestic Product. As Foreign Private Investment increases there is also the increase in the growth rate of Gross Domestic Product hence a decline in the level of poverty.

For the period 1975 to 2003, the result in equation 6 showed that foreign Private investment had positive and significant impact on the growth rate of Gross Domestic Product. It showed that an increase in the inflow of Foreign Private Investment would alleviate poverty significantly in Nigeria.

The regression results in equations 4 showed a poor $R^2$. But the result in the period of deregulation (eq 5) and the entire result (eq 6) showed a good relationship between the dependent and independent variable while the Durbin Watson test showed the absence of autocorrelation. The result presented in equation 4 shows the effect of external debt, inflation rate petroleum profit tax and government expenditure on the growth rate of Gross Domestic Products for the period of regulation. The result showed that t-values were statistically insignificant for the whole variables while the $R^2$ equally showed a poor relationship between the dependent and independent variables.

The result presented in equation 5, represent the period of deregulation (1986 – 2003). The coefficient of external debt, inflation rate, petroleum profit tax and government expenditure were 0.658, 2769.6 – 0.676 respectively and – 2.776 with their respective t-values of 2.506, 0.650, – 0.748 and – 2.712 respectively. The coefficient of external debt had a positive and significant effect on growth rate of Gross Domestic Product. This showed that increase in foreign loan would increase the growth rate of gross domestic product in Nigeria. This is because the loan so acquired would be used to provide goods and services, which would be used to better the life of the masses.

Government expenditure had a negative but significant effect on growth rate of foreign private investment. However, this does not conform to our expectation. The negative effect of government expenditure showed that it had a negative effect on poverty. This is because larger portions of Nigerians have not felt the impact of government poverty alleviation programmes. While petroleum profit tax had a negative effect on poverty but the t-value was not significant. Finally inflation rate had a positive and insignificant impact on poverty.

The final equation (6) represents the period of regulation and deregulation (1975 to 2003). The result as observed is not different from the period of deregulation in terms of its signs and output of the coefficient as well as the t-value and the Durbin Watson test.

Comparing the result obtained in equation 4 and 5. The result in equation 5 performed better than the result in equation 4. Because of the poor performance of the result in equation 4, it would not be used for policy recommendations in this study. The recommendations made would be based on the result obtained in equation 5.

**CONCLUSION**

This study concludes that the inflow of foreign private investment and foreign loan reduced poverty in Nigeria. This finding is collaborated by Ayashagba and Abachi (2002: 123) that “direct foreign investment can contribute better in the development aspirations of their host country if they can sacrifice some level of their profits for projects that can enhance the standard of living of their host countries”. The study further showed that government poverty alleviation policy had not reached the majority of Nigerians. Majority of them have no access to infrastructural facilities such as pipe-borne water, hospitals, good roads and even the current policy of National Poverty Alleviation Programme NAPEP has not been felt by them.

**RECOMMENDATIONS**

The study recommends that government should intensify effort to encourage inflow of foreign resources such as foreign private investment. Foreign loan should be highly
discouraged but if loans must be sought, it should be done in such a way that it does not have subsequent negative impact on the country. Also, government policy on expenditure and petroleum profit tax should be revised. Government should direct her efforts in providing infrastructural facilities to the majority of Nigerians most especially in the rural areas. Government should reduce petroleum profit tax. This is because a continuous increase of it would scare away foreign investors and many Nigerians would be unemployed.

REFERENCES


## FOREIGN PRIVATE INVESTMENT AND POVERTY REDUCTION IN NIGERIA (1975 TO 2003)

### APPENDIX

#### Table 1: Cumulative foreign private investment in Nigeria (N Million)

<table>
<thead>
<tr>
<th>Year</th>
<th>UK % Distribution of Total</th>
<th>US % Distribution of Total</th>
<th>Europe % Distribution of Total</th>
<th>Others % Distribution of Total</th>
<th>Grand % Distribution of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>857.5</td>
<td>37.5</td>
<td>535.2</td>
<td>23.4</td>
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<td>1976</td>
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<td>566.2</td>
<td>15.6</td>
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<td>38.0</td>
<td>438.6</td>
<td>11.7</td>
<td>540.1</td>
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#### Table 2: Some economic indicators

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<th>Year</th>
<th>GDP at Current FC</th>
<th>Growth Rate</th>
<th>External Debt</th>
<th>Expenditure</th>
<th>Petroleum Profit</th>
<th>Inflation</th>
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