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Agricultural Sector: The Role of Foreign Direct Investment (FDI) in the creation of an integrated Agriculture Sector in Nigeria.

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DECLARATION

I declare that***, Agricultural Sector: The Role of Foreign Direct Investment(FDI) In The Creation Of An Integrated Agricultural Sector in Nigeria*** is my own work, that it has not been submitted before for any degree or examination in any other university, and that all the sources I have used or quoted have been indicated and acknowledged as complete references**.**

EFUNKOYA ADEOLA ADEFUNKE

Signed: …A.A EFUNKOYA……………… May 2007

DEDICATION

My LL.M Degree in its entirety is dedicated
To the love of my life, my friend, mentor and Husband
Olukayode Efunkoya.
&
To the most adorable and cheerful son I could ever ask for
Olorunjubelo Efunkoya; you are indeed my bundle of joy.

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On a very personal note, I will love to thank my friend, my mentor and husband, Kayode Efunkoya for your moral and financial support, inspiration, love, courage, strength and above all for tolerating my absence during my study period. To my son, Olorunjubelo Efunkoya, I had you on the same day that I was to resume for my LL.M, and you resumed school with me exactly 14days after you were born, as a baby, you

were sweet and adorable, truly loving, thank you for the smiles and loving eyes, that gave me the needed courage to hold on and pull through, despites the odds. We got the victory my darling and now you can have your mummy back totally to yourself.

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KEYWORDS

AGRICULTURE, WTO-AGREEMENT ON AGRICULTURE, MARKET ACCESS, EXPORT SUBSIDY, DOMESTIC SUPPORT, NIGERIA, FOREIGN DIRECT INVESTMENT (FDI) DOHA ROUND, EMPLOYMENT OPPORTUNITIES, OIL AND GAS, TRADE.

RESEARCH METHODOLOGY

This thesis is mainly based on research work carried out at the libraries of the University of Western Cape and the Amsterdam Law School. It is also based on relevant and useful information found on the Internet.

In addition, I made study visits, and collected books and documents at the following institutions, both based in Ibadan, Nigeria, The National Institute of Social and Economic Research (NISER) and the International Institute of Tropical Agriculture (IITA), Ibadan, Nigeria.

ABBREVIATIONS:

WTO	WORLD TRADE ORGANISATION
ECOWAS	ECONOMIC COMMUNITY OF WEST AFRICAN STATES
AOA	AGREEMENT ON AGRICULTURE
FDI	FOREIGN DIRECT INVESTMENT
TRIMS	AGREEMENT ON TRADE-RELATED INVESTMENT MEASURES
OPEC	ORGANISATION OF THE PETROLEUM EXPORTINGCOUNTRIES
USAID	UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
RBDA	RIVER BASIN DEVELOPMENT AUTHORITIES
ADP	AGRICULTURAL DEVELOPMENT PROGRAMS
NALDA	NATIONAL AGRICULTURAL LAND DEVELOPMENT AUTHORITY
FAO	FOOD AND AGRICULTURE ORGANISATION
UR	URUGUAY ROUND
GATT	GENERAL AGREEMENT ON TARIFFS AND TRADE
TRQ	TARRIF RATE QUOTA
AMS	AGGREGRATE MEASUREMENT OF SUPPORT
ODC	OTHER DUTIES AND CHARGES
UEOMA	WEST AFRICAN ECONOMIC AND MONETARY UNION
CET	COMMON EXTERNAL TARIFF
NEEDS	NATIONAL ECONOMIC EMPOWERMENT AND DEVELOPMENT STRATEGY
EPA	ECONOMIC PARTNERSHIP AGREEMENT
ETLS	ECOWAS TRADE LIBERIALISATION SCHEME
NEPAD	NEW ECONOMIC PARTNERSHIP FOR AFRICA'S DEVELOPMENT
AGOA	AFRICA GROWTH AND OPPORTUNITY ACT
ACP	AFRICAN CARIBBEAN PACIFIC COUNTRIES
EC	ECONOMIC COMMUNITY
MFN	MOST FAVOURED NATION
ASYCUDA	AUTOMATED SYSTEM CUSTOMS DATA
TBT	TECHNICAL BARRIERS TO TRADE
SPS	SANITARY AND PHYTOSANITARY MEASURES
TRIPS	AGREEMENT ON TRADE-RELATED ASPECTS OF THE INTELLECTUAL PROPERTY RIGHTS.
TPRM	TRADE POLICY REVIEW MECHANISM
CAMA	COMPANIES AND ALLIED MATTERS ACT
OECD	ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT.
DFID	DEPARTMENT FOR INTERNATIONAL DEVELOPMENT

WIPO	WORLD INTELLECTUAL PROPERTY ORGANISATION

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Chapter One:

1. Introduction

1.1 Historical Context:

Nigeria is one of the largest countries in Africa, with a total geographical area of 923.768 square kilometers and an estimated population of about 140 million (2006 estimate)[1]. It lies wholly within the tropics along the Gulf of Guinea on the western coast of Africa.

Nigeria has a highly diversified agro ecological condition, which makes possible the production of a wide range of agricultural products. Hence, agriculture constitutes one of the most important sectors of the economy. The sector is particularly important in terms of its employment generation and its contribution to gross domestic product (GDP) and export revenue earnings.

Despite Nigeria's rich agricultural resource endowment, however the agricultural sector has been growing at a very low rate. Less than 50% of the country's cultivable agricultural land is under cultivation. The smallholder farmers use rudimentary production techniques to cultivate the land but are constrained by many problems including those of poor access to modern inputs and credit, poor infrastructure, inadequate access to markets, land and environmental degradation, and inadequate research and extension services.

Nigeria's economy is the largest in West Africa, producing 60% of the region's GDP. As the most populated country in Africa, with access to more than 30 million consumers residing in neighboring West African countries, Nigeria has a huge market for agricultural products and hence attractive to foreign investors[2].

[1] See CIA: The World Fact book as stated on the website www.cia.gov/cia/publications/factbook/geos/ni/htm
[2] Nigeria: Agric-food Past, Present and future Report, Canada, March 2006 @ www.ats.agr.gc.ca/stats/nigeria_e.pdf

Having adopted a new constitution in 1999, the first truly democratic elections in over 40 years were held early in 2003. It is the goal of the current government to seek and maintain positive relations with western powers, and to promote Nigeria as a leading regional and international power.

Nigeria is the only African country to have negotiated both an anti-corruption compact with G8 nations, and to have signed on to the Extractive Industries Transparency Initiative. Nigeria is a member of the WTO, OPEC and the Economic Community of West African States (ECOWAS).

With a new democratic structure in place, and economic reforms poised to diversify the economy, Nigeria's agricultural sector is expected to become modernized and a more significant part of the economy. Nigeria is accepting significant investment in agriculture to modernize agricultural equipment and practices. Extension services are being provided to increase knowledge of better practices and to help expand agricultural operations.

It is recognized that agricultural commercialization and investment are the key strategies for promoting accelerated modernization, sustainable growth and development and, hence, poverty reduction in the sector[3].

However, to attract investment into agriculture, it is imperative that those constraints inhibiting the performance of the sector are first identified with a view to unlocking them and creating a conducive investment climate in the sector[4].

This is important to create appropriate strategies for promoting accelerated commercialization and investment in the sector such that, in the final analysis, agriculture will become one of the most important growth points in the economy.

[3] Jeremiah Dibua; Modernization and Crisis of Development in Africa: The Nigerian Experience, Page 173, Ashgate Publishing Limited.
[4] Emmanuel Udogu, 2005, Nigeria in the Twenty-first Century: Strategies for Political Stability and Peaceful Co-existence, Africa World Press.

1.2 The 1st Agricultural Phase[5]:

Agriculture remains the dominant sector in the rural areas of Nigeria. It provides employment for about 60% of the work force. The diversity of climatic conditions, the richness of soil types and water sources, and the high population density provide great potentials for crop, animal, fish, and tree production. In the 1960s and up to the early 1970s, Nigeria's agriculture flourished. The country was one of the world's highest producers of palm oil, cocoa, and groundnut. Over time, agriculture has declined in importance[6].

In terms of employment, agriculture is by far the most important sector of Nigeria's economy, engaging about 70% of the labor force. Agricultural holdings are generally small and scattered; farming is often of the subsistence variety, characterized by simple tools and shifting cultivation. These small farms produce about 80% of the total food.

About 30.7 million hectares (76 million acres), or 33% of Nigeria's land area, are under cultivation. Nigeria's diverse climate, from the tropical areas of the coast to the arid zone of the north, make it possible to produce virtually all agricultural products that can be grown in the tropical and semitropical areas of the world[7].

The economic benefits of large-scale agriculture are recognized, and the government favors the formation of cooperative societies and settlements to encourage industrial agriculture. Large-scale agriculture, however, is not common. Despite an abundant water supply, a favorable climate, and wide areas of arable land, productivity is restricted owing to low soil fertility in many areas and inefficient methods of cultivation.

5 Sokari-George.E; Planning in Nigeria: The agricultural base 1962-1985, Earth and Environmental Science, GeoJournal, Volume 14, Number 1/January 1987, Springer Netherlands. This paper critically examines some of the causes and the problems of agricultural development in Nigeria. It also discusses very minimally, the rise and the contribution of the petroleum industry to the Nigerian economy and its effect on the agricultural sector.
6 The Transformation of Nigeria: Essay in honour of Toyin Falola and Adebayo Oyebade 2002, Africa World Press, Inc, Eritrea.
7 Akande, S.O; (1999) A study of Agricultural Research System in Nigeria, NISER, Ibadan, Nigeria.

However, there are many signs that agriculture is regaining its past glorious importance, as agriculture contributed 32% to GDP in 2001. The country is now the largest producer of cassava roots and yam tubers; livestock and soybean production is among the largest in Africa. The share of agriculture in real GDP has been increasing since 1996 and the annual growth of the sector has surpassed population growth in recent years. More importantly, the agricultural sector is receiving the expected attention from policy makers, which is manifested in several new presidential initiatives, e.g., cassava and rice.

In spite of the existence of a well-articulated agricultural policy document for Nigeria since 1988, the country has never established a systematic focus in her agricultural planning history that shows a conscious effort to purposely prioritize her agricultural development based on the generally identified components that constitute modern agriculture.

Normally, in terms of concentrating on the development of the various parts of the agriculture continuum, the government of Nigeria (GON) should have adopted a prioritization scheme in which, for some specified time periods, it would consciously emphasize on one or more of the areas of commodity production, commodity processing (to add some value), commodity marketing (for either internal commercialization or external trade or both), and institutional support services for agro industry[8].

What has happened instead is that, over the years, there has been the development and adoption of programs that tended to generally support only increased production of commodities in the country. Such programs have included, among others, the following key ones: Farm settlement schemes (FSS) in the early to mid 1950s for creating farmsteads of the Israeli Moshav-type agriculture intended to increase commodity output and create employment for young school leavers; River basin development authorities (RBDAs) for the purpose of harnessing water resources for farmers throughout the country; and Agricultural development programs (ADPs) in all

[8] S.O Akande, 1999, A study of Agricultural Research system in Nigeria; NISER publication, Oyo State, Nigeria.

states of the federation to help organize farmers into more productive agriculture through the provision of modern inputs.

These programs/schemes only succeeded in increasing food production but failed in the processing and/or commercialization of the food output. Most of the agricultural scheme identifies specific areas in assessing current agricultural performance for example; the 2001 Rural Development Sector Strategy[9]. Similarly, the 2002 Agricultural Policy document that has listed the new directions that agricultural development in the country should take has also only listed the various components of the agriculture sector without any attempt at prioritizing the components. So, in both cases, there is no indication of the desired impact indices that must be attained within such periods.

1.3 Scope and objectives of the study

The primary purpose of this research is to recommend ways in which Nigeria could unlock constraints to commercialization and investment in the Nigerian agricultural sector for sustained economic growth, enhanced food security, increased competitiveness of products in the domestic, regional and international markets; sustainable environmental management; and poverty alleviation. The specific objectives of this research are, therefore to:

- Review previous studies on constraints to commercialization and investment in Nigeria's agriculture
- Identify technical, infrastructural, economic, political, social, policy, and institutional constraints to commercialization and investment in Nigeria's agriculture
- Explain the persistence and assess the effects of the identified constraints to commercialization and investment in Nigeria's agriculture over time and from regime to regime within a political economy framework.

[9] It identifies the following areas for immediate attention if agriculture and rural development in Nigeria are to make the desired impact on the lives of the people: Institutional restructuring and role reassignment in the agricultural extension sub sector; Agricultural technology development and natural resource management; Physical and social infrastructural development; Public intervention in specified areas of rural agriculture to measure effectiveness; Human capacity building in the agriculture sector.

Furthermore this research paper seeks to find the domestic policy options under the Agreement on Agriculture that is available for Nigeria to improve her agricultural sector. Specific attention will also be given to the legal commitment of Nigeria under the WTO, taking into consideration the Agreement on Agriculture to ascertain its benefit to developing nations most especially Nigeria.

A paradigm shift from oil to agriculture is expedient as Oil is an exhaustible natural resource, which has over the years caused uneven development in Nigeria and the shift will go a long way in enhancing the economic situation in Nigeria. It is expedient to say that if Nigeria takes advantage of foreign direct investment (FDI) and private sector participation in the development of its agricultural sector, by putting in place the right policies and making its environment investment friendly, food security, wealth generation, poverty elimination, better infrastructure and employment opportunities will be guaranteed.

1.4 THESIS OUTLINE

Chapter one studies the historical context of Nigeria, analyses the 1st Agricultural phase before the Oil boom. It reviews Nigeria's agricultural sector and its potentials in the development of Nigeria's economy, which can thus be commercialized for the international market. It further suggests that a paradigm shift from oil to agriculture will go a long way in enhancing the economic situation in Nigeria.

Chapter two looks at the agricultural sector in Nigeria from the early 70s where agriculture was the country's was the main revenue earning sector. This chapter also examines the Agricultural policies in Nigeria, examining past government policies in agriculture, agriculture institutions and policies, the new Nigeria agricultural policy direction and the Land Tenure and Agricultural development in Nigeria.

Chapter three examines the emergence and role of the Oil and gas in Nigeria's economy and governance; and its implication on the economy and government, as an exhaustible resource.

Chapter four examines the WTO-AOA, Nigeria's commitment and implementation of the AOA. It also examines Nigeria's trade policy structure looking at the role of regional integration in Nigeria's development and economic growth. This chapter further examines the role of the international community in trade liberalization and development process.

Chapter five highlights the Nigeria's business environment, looking at the enabling laws that protect investors and their investments in Nigeria. It also does a comparative analysis of other economies of the world that have successfully attracted FDI in the development of their agricultural sector. It also ties up with the findings of the previous chapters.

Chapter 2

2. THE AGRICULTURE SECTOR

2.1 Salient Features

Agriculture employs about 70% of the labour force and contributes around 40% to GDP, although it makes a minimal contribution to foreign exchange earnings and the bulk of Nigeria's food is imported[10]. The country, which was a net exporter of agricultural produce until the 1970s, currently spends a minimum of $2.5 billion a year on food imports, including $600 billion on rice. Other imports are chickens, milk and sugar. The principal export crops are cocoa and rubber, which together account for nearly 60% of all exports excluding oil. The principal cash crops are cocoa, rubber and palm oil, while food crops include sorghum, millet, maize, rice, yams, cassava and plantain. Livestock and timber farming and fishing are some of the other forms of agriculture practised[11].

Agriculture was the country's main revenue earning sector in the 1970s. About 75% (74 million hectares) of Nigeria's total land (98 million hectares) is arable, although only about 40% of this is cultivated.40 Despite the existence of two major rivers, which run across large parts of the country (the Niger and Benue), most agriculture is rain-fed. Crops contributed some 27% of GDP, livestock another 3.3% and forestry and fisheries 1.5%. The agricultural export of significance is cocoa, which contributes less than 0.5% to the agricultural GDP[12].

Nigeria's current land tenure system does not encourage long-term investment in technology or modern production methods, as there is no freehold title, only leasehold[13].

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[10] S.O Akande, 1999, A study of Agricultural Research System in Nigeria, NISER publication, Oyo State, Nigeria.
[11] The Export Crop Sector in Nigeria: UNEP Country Projects-Round 2- A Synthesis report that can be viewed on http://www. unep.ch/etu/publications/synth_Nigeria.PDF
[12] Ade Olomolo (1999), Trend and Impact of Government Agric Expenditure in Some States in Nigeria, NISER, Ibadan, Oyo State Nigeria.
[13] DON N. IKE (1984) The System of Land Rights in Nigerian Agriculture American Journal of Economics and Sociology 43 (4), 469–480. *Land ownership* in the *agricultural sector* of the *Nigerian economy* is basically communal. Under this system the *land holding* group is the family, clan, village or community. An important practice under communal ownership is the principle of *inalienability of land.* The mobility of the agricultural labor force is inhibited. Non-provincials are forbidden to plant cash crops. *Property rights* to land are not specific. Individualized allotments are absent and land markets non-existent. Other details of the *communal system* of *land tenure* in Nigeria are given. Reasons are sought for the persistence of custom in the practice of inalienability of land even when economic conditions have changed, enabling the right perception of *land values.*

Foreigners are prohibited from owning land. The farming methods are low-yield owing to basic levels of farming technology and insufficient supplies of inputs such as fertilizer. Rural Nigeria is divided into seven agro-ecological zones[14]; i.e. semi-arid, found only in the northern region; the savannah, found in the northern and middle region; a small highland area found in the middle and southern region; a larger transition environment of savannah derived from the forest overlapping the southern and middle regions; mangroves in the Niger Delta; freshwater swamps in the Niger Delta and Lowland rain forest in the south[15].

The agro-ecological setting and technology base, in principle, determine the production systems. Two major production systems dominate these zones: (i) the traditional production system, which is found in all parts of the country and consists of land holdings of less than 2 hectares with a variety of food crops intended for consumption purposes mainly and (ii) the improved irrigation production system which comprises the improved small scale irrigation using low-lying or water logged areas for crop and livestock production as well as large-scale mechanized and/or commercial irrigation farming systems.

Many enterprises in Nigeria are linked to the agriculture sector and require little capital or skills and rely on informal credit providers. The government has focused on the cassava industry to help boost agriculture. It has set up a presidential committee to boost cassava production and exports, with a view to raising $5 billion from cassava exports in the next few years.

2.2 REVIEW OF THE AGRICULTURAL POLICY IN NIGERIA AND PAST GOVERNMENT POLICIES IN AGRICULTURE

Nigeria' agricultural policy framework has gone through a number of evolutionary processes and fundamental changes that has reflected, in a historical perspective, the

[14] Solomon, A.O. (1991): Title to land in Nigeria. An inaugural lecture delivered at the Obafemi Awolowo, University of Ile-Ife.
[15] Ade Olomola (1999), Trend and Impact of Government Agriculture Expenditure in Some States in Nigeria, NISER, Ibadan, Oyo State, Nigeria.

changing character of agricultural development problems and the roles which different segments of the society were expected to play in tackling these problems[16]. But in the main, the form and direction of agricultural policy were dictated by the philosophical stance of government on the content of agricultural development and the role of government in the development process[17].

In retrospect, four distinct agricultural policy phases[18] can be identified in Nigeria the first phase spanned the entire colonial period and the first post-independence decade from 1960 to about 1969, the second covered the period from about 1970 to about 1985, the third phase started from about1986 in the structural adjustment period, and the fourth was what could be characterized as the post structural adjustment era starting from about1994.

2.2(i) The Pre-1970 Era

In the pre-1970 era, the government philosophy of agricultural development was characterized by minimum direct government intervention in agriculture. During this era, it was the private sector and particularly the millions of small traditional farmers that bore the brunt of agricultural development efforts. Government efforts were merely supportive of the activities of these farmers and largely took the form of agricultural research, extension, export crop marketing, and pricing activities. In the 1950s and 1960s, the government created government-owned agricultural development corporations and launched farm settlement schemes. But these actions found their justification more in welfare considerations than in hard-core economic necessities[19].

Though towards the end of the 1960s it was clear that the Nigerian agricultural economy might be running into stormy weather, as emerging agricultural problems included declining export crop production and some mild food shortages arose and was ascribed to civil war.

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[16] Manyong, V.M., A. Ikpi, J.K. Olayemi, S.A. Yusuf, B.T. Omonona, V. Okoruwa, and F.S. Idachaba. 2005. Agriculture in Nigeria: identifying opportunities for increased commercialization and investment. IITA, Ibadan, Nigeria. 159p.

[17]. S.O Akande, 1999, A study of Agricultural Research System in Nigeria, NISER publication, Oyo, Nigeria.

[18] Idachaba F.S. 1980; Agricultural Research policy in Nigeria, International Food Policy Research Institute

[19] Idachaba, Supra

2.2 (ii) Pre-Structural adjustment periods (1970–1985)

The turn of the 1970s was characterized by a state of general apprehension about the condition of the Nigerian agricultural sector. This led to a fundamental change in the philosophy of government towards agricultural development from one of minimum government intervention to one of almost maximum intervention, particularly by Federal GON. The feeling was pervasive that the solutions to the increasingly serious problems of agriculture and especially those of food supply required the heavy clout of government in the form of multidimensional agricultural policies, programs, and projects, some of them requiring the direct involvement of government in agricultural production activities[20]. The sudden smile of the oil fortune on Nigeria reinforced this feeling. Hence, the decade of the l970s and early 1980s witnessed an unprecedented deluge of agricultural policies, programs, projects, and institutions. A highlight of these is presented as follows.

2.3 Agricultural sector policies and institutions

Sector-specific agricultural policies were largely designed to facilitate agricultural marketing, reduce agricultural production costs, and enhance agricultural product prices as incentives for increased agricultural production[21]. Major policy instruments for this purpose included those targeted to agricultural commodity marketing and pricing, input supply and distribution, input price subsidy, land resource use, agricultural research, agricultural extension and technology transfer, agricultural mechanization, agricultural cooperatives, and agricultural water resource and irrigation development. Some of these policies will be discussed:

2.3(i) Trade policy[22]

Policy instruments in this category were those that involved trade liberalization, import substitution, the local sourcing of raw material, and tariff structure adjustments designed to encourage local production and protect local industries from undue international competition and dumping[23].

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[20] Nwosu A.C, 1999 Agricultural Linkages, Structural Adjustment and Macro-Economy of Nigeria, NISER, Ibadan, Oyo State, Nigeria.

[21] S.O Akande, 1999, A study of Agricultural Research System in Nigeria, NISER publication, Ibadan, Oyo State, Nigeria.

[22] Oyejide T.A 1986, The Effects of Trade Exchange Rate Policies on Agriculture in Nigeria, IFPRI

[23] Highlights of trade policy instruments were as follows:

• Trade liberalization measures, the key elements of which were the abolition of commodity marketing boards, the abolition of many import levies, the reduction of some excise and export duties, the reduction of the number of prohibited import items, and a reduction from 100% to 25% in the advance payment of import duties required at the time of opening letters of credit.

2.3(ii) Institutional policies

In pursuance of the objective of giving market forces more influence and the private sector a greater role in the economy, most enterprises owned by government and parastatals were to be either privatized or commercialized. Hence a National Agricultural Insurance Company was established in 1987 to operate and administer the Nigerian Agricultural Insurance Scheme. The idea of the scheme was first mooted in 1984 as a strategy for tackling the problem of small farmers' inability to satisfy the collateral requirements of banks when asking for loans. The scheme was to issue insurance certificate to farmers, which would serve as collateral for loans at commercial banks, and funds mobilized from the insurance scheme would be utilized for agricultural investment.

2.3(iii) Fiscal policies

The objectives of fiscal policies[24], which consist mainly of budgetary and tax policies, were to enhance fiscal efficiency and reduce inflation through fiscal discipline and a reduction of budgetary deficit.

2.3(iv) Land development policy

The implementation of land development policy in the country was largely the responsibility of a National Agricultural Land Development Authority (NALDA) established in 1991. NALDA's mandate covered the provision of strategic support for land development and the promotion of the optimum utilization of the nation's rural land resources. However, NALDA proved to be ineffective and was subsequently scrapped[25].

2.3(v) Agricultural commodity marketing and pricing policy

The major instrument of agricultural commodity marketing and pricing policy was the establishment of six national commodity boards in 1977 to replace the regional, multi

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• Export promotion of non oil goods, including agricultural commodities, by allowing exporters to keep all their foreign exchange earnings in a domiciliary account from which they could freely draw for their foreign exchange transactions. Furthermore, export financing by commercial banks was facilitated through Central Bank discounting facilities.

• Import substitution measures, which involved the selective use of import regulations to restrict or ban the importation of many types of food and industrial raw materials in order to encourage their local production and, hence, promote self-sufficiency in domestic food production and the local sourcing of agro industrial raw materials.

[24] Monetary circulars issued annually contain information on the government-regulated interest rate structure. They are reproduced and discussed in various issue of Central Bank of Nigeria, Annual Report and Statement of Accounts.

[25] Famoriyo S. 1973b. Land Tenure and Food Production in Nigeria. Land Tenure Centre News 41:10-15

commodity boards that had been operating since 1954. It administered a guaranteed minimum price policy whereby floor prices were nationally set for each of the six-grain crops and the board would intervene as a buyer of last resort if and when their regular market prices fell below the guaranteed minimum. The board also operated a strategic grain reserve scheme[26].

2.4 The new Nigerian agricultural policy Direction[27]

According to the document, the new agricultural policy will herald in a new policy direction via new policy strategies that will lay the foundation for sustained improvement in agricultural productivity and output[28].

2.5 Land Tenure and Agricultural Development in Nigeria.

Land is perhaps the single most important natural resource in the sense that it affects every aspect of a people's live; their food, clothing, and shelter. It is the base for producing raw material for the manufacturing industry.

In 1990, estimates indicated that 82 million hectares out of Nigeria's total land area of about 91 million hectares were arable. However, only about 34 million hectares (or 42 percent of the cultivable area) were being cultivated at the time. Much of this land was farmed under bush fallow, a technique whereby an area much larger than that under cultivation is left idle for varying periods to allow natural regeneration of soil fertility.

Another 18 million hectares were classified as permanent pasture, but much of this land had the potential to support crops. Forests and woodlands covered about 20 million hectares. Most of this land also had agricultural potential. The country's remaining 19 million hectares were covered by buildings or roads, or were considered

[26] Njoku, P.C. 1998. Nigerian agriculture and the challenges of the 21st Century. Faculty Lecture, Faculty of Agriculture, University of Nigeria, Nsukka.

[27] Creating a more conducive macro environment to stimulate greater private sector investment in agriculture; rationalizing the roles of the tiers of government and the private sector in their promotional and supportive efforts to stimulate agricultural growth; reorganizing the institutional framework for government intervention in the agricultural sector to facilitate the smooth and integrated development of the sector; articulating and implementing integrated rural development programs to raise the quality of life of the rural people; increasing budgetary allocation and other fiscal incentives to agriculture and promoting the necessary developmental, supportive, and service-oriented activities to enhance agricultural productivity, production, and market opportunities; rectifying import tariff anomalies in respect of agricultural products and promoting the increased use of agricultural machinery and inputs through favorable tariff policy.

[28] FMARD (Federal Ministry of Agriculture and Rural Development). New Agricultural policy, Abuja, Nigeria

wasteland. Nigeria's soil is rated from low to medium in productivity[29]. However, the Food and Agriculture Organization of the United Nations (FAO) concluded that most of the country's soil would have medium to good productivity if this resource were managed properly.

Traditional land tenure throughout Nigeria was based on customary laws under which land was considered community property[30]. An individual had usufructuary rights to the land he farmed in his lineage or community area. The right of disposal belonged only to the community, which, acting through traditional authorities, exercised this right in accordance with customary law[31].

Various laws and ordinances gave government the power to expropriate statutory landholdings in return for compensation. Expansion of the money economy and the resulting emphasis on commercial crops encouraged farmers to seek private ownership of land. Nonetheless, customary tenure remained the principal form of landholding throughout Nigeria as late as the early 1970s.

During the 1970s, however, individuals and business enterprises drove up land prices, especially in newly urbanized areas, by investing heavily in real estate. In response to a potential crisis in land distribution, the Federal Military Government promulgated the Land Use Decree No. 6 of March 1978, establishing a uniform tenure system for all of Nigeria. The Act vested all land in each state on the Governor of that state, who shall hold such land in trust and administer the land for the use and common benefits of all Nigerians.

Subsequently incorporated in the constitution of 1979, (this has been amended by the 1999 constitution) the decree effectively nationalized all land by requiring certificates of occupancy from the government for land held under customary and statutory rights

[29] AIAE Policy Brief 1, Unlocking the Potentials of Agriculture and Forest for Growth and Poverty Reduction. This Policy Brief is drawn from the study carried out by a research team comprising Prof. Eric C. Eboh, Dr. Kalu O. Oji, Dr. Ifeyinwa A. Achike, Oliver C. Ujah, Uzochukwu S. Amakom, Moses O. Oduh, and Chukwuemeka C.P. Nzeh of the African Institute for Applied Economics (AIAE), and Bjorn K. Larsen, International Consultant. The study was commissioned and funded by the UK Department for International Development, with facilitation by Jean-Paul Penrose, Environment Adviser.

[30] Solomon A.O (1991): Title to Land in Nigeria; An Inaugural Lecture delivered at Obafemi Awolowo, University of Ile Ife.

[31] Alienation of family Property in Southern Nigeria (196660 P&D) Third National Development Plan 1975-80 Vol.398.

and the payment of rent to the government. The main purpose of the 1978 decree was to open land to development by individuals, corporations, institutions, and governments. The decree gave state and local governments' authority to take over and assign any undeveloped land. Occupancy or possession of undeveloped land by individuals was restricted. To prevent fragmentation, the statutory right of occupancy could be passed on only to one person or heir.

The land tenure system in Nigeria before the 1978 Land Use Decree was problematic and extant literature has expressed the concern of renowned scholars on the problems of traditional land tenure system in Nigeria[32]. The expression of the scholars with respect to the problems of land tenure could be interpreted based on the duplicity of ownership of land with consequent excessive transaction costs, fragmentation of land into uneconomic sized tracts, and inalienability of land which makes land part of the physical capital but not a part of financial capital.

Many government development projects have been shifted by a prohibitive amount of compensation demanded by speculative purchasers who had previous knowledge of government intentions[33]. In other instances, disputed claims and counter claims over ownership of the proposed site and the attendant law suit coupled with court injunction which often prevent the development of land subject to litigation make such land unavailable.

It can be said that the objectives of the land use act have remained largely unfulfilled 29 years after its enactment and title to land appears to be more insecure now than it ever was. The implementation of the Act posed almost intractable problems (Fabiyi and Adesimi 1979) amongst which is finding a replacement for acquired agricultural land is extremely difficult because there is no land in Nigeria without an owner (Potential or actual)[34]

[32] Famoriyo, A.O, Y.L Fabiyi and A. Gadonu (1977): Problems Posed by Land Tenure in Nigeria Agriculture NISER, University of Ibadan 2000pages
[33] Famoriyo, A.O, Y.L Fabiyi and A. Gadonu (1977): Problems Posed by Land Tenure in Nigeria Agriculture NISER, University of Ibadan 2000pages.
[34] Making Land Administration Pro Poor: Paper written by Lasun Mykail Olayiwola and Olufemi Adeleye; Land Reform – Experience from Nigeria Promoting Land Administration and Good Governance 5th FIG Regional Conference Accra, Ghana, March 8-11, 2006

CHAPTER THREE.

3. THE ROLE OF THE OIL AND GAS IN NIGERIA'S ECONOMY AND GOVERNANCE.

It would be difficult to exaggerate the role of oil in the Nigerian economy. Since the first oil price shock in 1974, oil has annually produced over 90 percent of Nigeria's export income. In 2000 Nigeria received 99.6 percent of its export income from oil, making it the world's most oil-dependent country.

Oil production has also had a profound effect on Nigeria's domestic sector. One way to characterize its impact is by looking at the rents produced by oil – that is, the returns in excess of production costs – in the Nigerian economy. From 1970 to 1999, oil generated almost $231 billion in rents for the Nigerian economy, in constant 1999 dollars. Since 1974, these rents have constituted between 21 and 48 percent of GDP. Yet remarkably, these rents have failed to raise Nigerian incomes and done little to reduce poverty[35].

Oil has also had a deep influence on the Nigerian government. Since the early 1970s, the Nigerian government has annually received over half of its revenues – sometimes as much as 85 percent – directly from the oil sector[36]. These oil revenues are highly volatile – that is, they can fluctuate drastically in size from year to year, causing the size of government, and the funding of government programs, to fluctuate accordingly.

Few governments are able to cope with this kind of volatility, and it is not surprising – in retrospect – that the Nigerian government was unable to adhere to wise fiscal policies during the 1970s and 1980s, when oil prices fluctuated sharply. The ability of the governments to spend their funds wisely, and limit corruption, has been low.

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[35] This lack of improvement is striking, given the size of Nigeria's oil windfall. Had each year's oil rents been invested in a fund that yielded just five percent real interest, at the end of 1999 the fund would be worth $454 billion. If divided among the general population, every man, woman, and child would receive about $3,750, equivalent to about 15 years of wages.

[36] Udeh, John (2002), "Petroleum Revenue Management": The Nigerian Perspective; Paper presented at the World Bank Petroleum Revenue Management Workshop, October 24-25, 2002, Washington D.C.

Nigeria's oil wealth has also led to social and political unrest, particularly in the Niger Delta[37]. If Nigeria's petroleum were soon depleted, these problems might eventually recede into the past. But there is every reason to think that over the next several decades, Nigeria's dependence on petroleum exports will remain exceptionally high; it may even grow.

Estimates of Nigeria's proven oil reserves range from 24 billion to 31.5 billion barrels [EIA 2003]; at the current production rate of 2 million barrels a day, these reserves alone would last between 32 and 43 years[38]. Nigeria also has an estimated 124 trillion cubic feet of proven natural gas reserves, the ninth largest such reserve in the world; it is rapidly increasing its capacity to liquefy and export this gas, which will further raise petroleum revenues.

International demand for Nigeria's energy supplies will almost certainly remain strong. World energy demand is projected to rise more than 50 percent over the next two decades; demand for natural gas is expected to rise especially fast [CSIS 2000]. The high quality of Nigeria's oil, and Nigeria's location outside the volatile Persian Gulf, suggest that global demand for Nigerian oil and gas will remain high over the next several decades. While this is good for the Nigerian petroleum sector, it poses major problems for the economy and the government. Nigeria's oil wealth performance will be examined on the five problems that typically link mineral wealth to poverty: volatility; the crowding out of manufacturing and agriculture; inequality; democracy; and violent conflict.

3.1 Oil Wealth and Human Poverty

The problems created by abundant mineral wealth are not unique to Nigeria. Mineral exporters tend to suffer from a cluster of economic and political ailments [Auty 2001][39]. Recent econometric studies show that states that depend on mineral exports tend to have a typically slow economic growth; unusually high corruption rates;

[37] Osaghae, Eghosa (1994) "The Ogoni Uprising: Oil Politics, Minority Agitation, and the Future of the Nigerian State," African Affairs 94, 325-344.

[38] The government has announced plans to increase production to 4 million barrels a day, and raise reserves to 40 billion barrels, by 2010. If it achieves these goals – which would entail a large rise in Nigeria's OPEC quota – oil supplies would last until approximately 2036.

[39] Auty, Richard M., ed (2001) Resource Abundance and Economic Development, New York: Oxford University Press.

abnormally low rates of democratization; and sharply higher risks of civil war. Since Nigeria is remarkably dependent on oil, it has been highly susceptible to these tribulations.

In addition to the ailments above, mineral dependence also tends to aggravate poverty [Ross 2003][40]. There are five ways that mineral wealth can hurt the poor: by causing economic volatility; by crowding out the manufacturing and agriculture sectors; by heightening inequality; by inducing violent conflict; and by undermining democracy.

3.2 Economic Volatility

Oil wealth can harm the poor by creating economic volatility. Volatility tends to hurt the poor in two ways: by causing macroeconomic shocks, and by making government revenues unstable. The volatility of the oil sector also produces volatility in government revenues. All oil-rich countries are subject to the same fluctuations in international oil prices. But not all governments are equally dependent on oil as a source of income. The more that a government relies on oil, the greater the impact that oscillations in oil prices will have on the government.

Revenue volatility also shortens the time horizon of all who are influenced by government programs[41]. This tends to be harmful, regardless of how the revenues are used. Countries like Indonesia and Malaysia (both major oil exporters), have adopted patronage severally in their planning horizon to help the poor, by improving rural infrastructure, and providing health and education facilities in low-income areas. In both of these countries, the planning horizon of the government has generally been long.

Finally, revenue volatility may also hurt the poor by causing instability in government policies and institutions. Rich and poor alike are more inclined to invest in their future if the government functions they depend on – including policies (such as agricultural support programs) and institutions (such as laws and courts) – are seen as stable.

[40] Ross, Micheal (2003), "How Does Mineral Affect the Poor", Manuscript.
[41] A shorter time horizon is the same as a higher discount rate.

3.3 Crowding Out Manufacturing and Agriculture

As the Drivers of Change Summary Report suggests, economic growth is "pro-poor" when it creates job opportunities for unskilled workers. Oil and gas industries are not themselves pro-poor, since they typically employ few unskilled workers. Manufacturing and agriculture, by contrast, are more 'pro-poor' since they tend to produce more low-skill jobs than the petroleum industry [Ravallion and Datt 1996; Bourguignon and Morrisson 1998]. This would matter little if growth in the petroleum sector had a significant multiplier effect, producing growth in other sectors of the economy. The oil boom of the 1970s created difficulties for both agriculture and manufacturing by producing an overvalued exchange rate; this, in turn, made Nigerian agricultural and manufacturing exports less competitive on international markets[42]. A large petroleum industry can also reduce the number of jobs for the poor by causing the Dutch Disease[43].

3.4 Undermining Democracy

Several studies have found that oil wealth tends to make states less democratic [Ross 2001a; Lam and Wantchekon 1999]. This effect works through three mechanisms. First, when a government has abundant oil revenues, it less likely to impose taxes on the general population; yet the taxation process typically forces governments to become more accountable to their citizens. Conversely, when they are able to keep taxes low, governments find it easier to elude the scrutiny of their citizens [Ross forthcoming]. Second, governments with abundant oil revenues tend to spend heavily on their military forces; by developing a more effective repressive apparatus, they are better able to undermine movements that challenge their authority.

[42] The government could have provided further benefits to the non-oil export sector, and simultaneously warded off inflation, by liberalizing its restrictions on trade. Yet Nigerian elites were politically and ideologically opposed to trade liberalization, and the combination of overvalued exchange rates and trade restrictions kept growth in the manufacturing and agricultural sectors low [Bevan, Collier, and Gunning 1999]. Exports from these sectors were further hampered by unfavorable domestic pricing policies, and strong domestic demand [Lukonga 1994].

[43] The Dutch Disease occurs when a booming minerals sector raises both the real exchange rate, and the cost of inputs for the manufacturing and agricultural sectors. Both of these effects will raise the price – and hence reduce the international competitiveness – of exports from the manufacturing and agricultural sectors. This relies on the growing body literature on the "Dutch Disease" phenomenon, which takes its name from the effects of a boom in natural gas on the economy of the Netherlands. Contributions to the literature include A.C Harberger, Dutch Disease; How much Sickness, how much Boom?" Resources and Energy 5 (No.1.1983), and H.Siebert, ed, The Resource Sector in an Open Economy (Berlin: Springer. Verlag, 1984)

Finally, democracy typically evolves from societies undergoing industrialization. Oil development generally does not lead to industrialization[44]. This tends to weaken democracy, which in turn harms the interests of the poor.

3.5 Sparking Violent Conflict

Oil dependence tends to increase the danger of civil war, which poses special dangers for the poor. These insurrections have four common elements. First, before the resource was exploited, people in these regions had a distinct ethnic or religious identity that set them apart from the majority population. Second, they share a belief that the central government was unfairly appropriating the wealth that belonged to them, and that they would be richer if they were a separate state. Third, in most cases local people bore many of the costs of the extraction process itself – due to land expropriation, environmental damage, and the immigration of labor from other parts of the country. They commonly argue that they have not been sufficiently compensated for these costs.

Oil has also played a major role in the recent Delta conflicts[45]. The Delta region contains the key ingredients for an oil-based conflict: it is the source of most of the country's oil; the region is populated by minority groups that have borne a disproportionate share of the costs of oil extraction, and believe they have received inadequate compensation; and the geographical spread of oil platforms, pumping stations, pipelines, and other infrastructure gives local groups ample opportunity to express their dissatisfaction by blocking the extraction process[46].

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[44]It infact retards industrialization by causing the Dutch Disease. This relies on the growing body literature on the "Dutch Disease" phenomenon, which takes its name from the effects of a boom in natural gas on the economy of the Netherlands. Contributions to the literature include A.C Harberger, Dutch Disease; How much Sickness, how much Boom?" Resources and Energy 5 (No.1.1983), and H.Siebert, ed, The Resource Sector in an Open Economy (Berlin: Springer. Verlag, 1984)

[45] The Igbo effort to secede from Nigeria, which led to the 1967-70 civil war, was deeply rooted in ethnic tensions and Nigeria's colonial past; but the rebellion was encouraged by the presence of oil, and hence the belief that independence would be economically beneficial for the Igbo people. Similarly, the unrest among the Ogoni and Ijaw peoples in the Niger Delta can in part be traced to their desire to win a larger share of the region's economic wealth.

[46] Osaghae Eghosa (1994) The Ogoni Uprising: Oil Politics, Minority Agitation, and the future of the Nigerian State, "African Affairs 94, 325-344.

CHAPTER FOUR

4. NIGERIA AND THE AGREEMENT ON AGRICULTURE.

The WTO Agreement on Agriculture (AoA) marks a significant policy departure in modern economic history. It sets out a programme for progressive liberalisation of trade in agriculture. The Uruguay Round (UR) saw agricultural protectionism as a factor for trade distortions and included agriculture in the agenda for negotiation. The participants of the UR focused accordingly on the need to bring “more discipline and predictability to world agricultural trade”[47]. In fact, agriculture was never excluded in the old GATT.

However, GATT-1947 rules applying to agricultural trade were weaker than those that applied to manufactured goods. The reason for this was that many nations regarded agriculture as a sector of economic activity that should be accorded special status[48]. Former discipline on Agriculture, allowed, for instance, quantitative restrictions and export subsidies. Dispute settlement required consensus.

Trade in agriculture has always been a politically sensitive issue. This may be seen in the number of disputes over agricultural trade. Although the share of agriculture in world trade sank from one half to one-tenth over the 40 years from 1948, agricultural trade continued to account for about half of all disputes brought to GATT. The implications for trade in agricultural goods are enormous. Today, not only are rules concerning trade in goods generally applicable to trade in agricultural goods, but new rules specific to trade in such products are set out in the WTOA's Agreement on Agriculture.

The WTOA promises to limit national agricultural policies which impede international trade in agricultural products. The new WTOA rules should increase efficiency of and decrease friction arising in trade in agricultural products. These developments represent truly positive economic and political outcomes.

[47] Croome, John (1995), Reshaping the World Trading System: A history of the Uruguary Round, WTO, Geneva 110-111.
[48] Bernard Hoekman and Micheal Kostecki (1995), The Political Economy of World Trading System: From GATT to WTO, Oxford University Press, Oxford: 200.

The Agreement on Agriculture requires WTO Member countries to undertake a number of measures towards liberalising agricultural trade. There are three major areas of commitment, namely market access, domestic support and export competition[49].

Key elements of the market access commitments are 'tariffication' (calculating tariff equivalents of non-tariff import barriers and adding those to fixed tariffs), tariff reduction, and binding of tariffs. During the negotiations, it was realized that tariffication alone would not lead to better market access opportunities. Many countries at that time were imposing quantitative restrictions to limit the volume of import of particular commodity groups. These were included in each country's tariff rate quotas (TRQs), which would allow low tariff imports up to a certain amount. The total number of TRQs was 1,366 in 36 countries.

The emphasis of the domestic support provisions is on limiting the effects of trade-distorting measures. Domestic subsidies may distort trade; however, not all subsidies do so. Therefore, the Agreement divides subsidies into three groups namely the Green box, the blue box and the Amber box.

The Agreement establishes a ceiling on the total domestic support, commonly referred to as 'Aggregate Measurement of Support' (AMS)[50]. The green and blue box subsidies are exempt from inclusion in AMS. Export subsidies are considered trade distorting. The Agreement bans their use unless they qualify under some exceptions. Many developing countries can hardly pay export subsidies. This is affordable only by the developed countries. In fact, only 25 of the current WTO Members have agricultural export subsidy entitlements in their schedules, which cover a total of 428 product groups.

[49] This has spawned a wide range of literature on the potential impact of the Agreement on the prices of food imports; and on the agricultural production. See, for example, Greenfield, de Nigris and Konandreas (1996); Hamilton and Whalley (1995); Konandreas and Greenfield (1996); Lindland (1997); and UNCTAD (1995a, 1995b; and FAO (1996a, 1996b, 1996c, 1996d, 1999, 2003a, 2003b).

[50] Hoekman, B., F. Ng, and M. Olareaga (2002). 'Reducing Agricultural Tariffs versus Domestic Support: What's More Important for Developing Countries?' WB Policy Research Working Paper No. 2918. Washington, DC: World Bank.

The Agreement has also de minimis provisions, which exempt from reduction supports that are less than 5% (10% for developing countries) of production value. The Agreement on Sanitary and Phytosanitary Measures, closely linked to the Agreement on Agriculture, allows countries to restrict trade in order to protect human, animal, or plant life. However, this should not be a disguised restriction on trade.

4.1 Nigeria's Commitments and Implementation of AoA

Nigeria undertook bindings for agricultural products at the rate of 150% and a maximum 80% for other duties and charges (ODC)[51]. The bound rates for most products are considerably higher than applied custom duties. These bindings provide the country with substantial degree of freedom without necessarily violating the country's obligations in WTO.

Nigeria was not committed to reduction in domestic support, neither was the country committed to reduction in export subsidies[52], import protection and export incentives. Nevertheless supports and incentives to the sector are being reform mainly for ease of administration. The country's obligation in these areas is the filing of notifications on support programmes and on export prohibitions and restriction on food products and even these notifications have not proceeded smoothly[53].

Although the country is not committed to reduction in tariff rates, liberalization of the agriculture sector has continued. Market access conditions have improved tremendously over the pre-UR period. Implementation of AoA has brought some changes: tariff liberalizations and the removal of non-tariff barriers in the agricultural sector. Applied tariffs on agricultural products decreased from an average of 30.5% in 1990 to about 23% in 1998.

[51]It is noted that custom duties on 333 six-digit HS tariff lines were also bound at between 40 and 80%

[52] There is no export subsidy in place in Nigeria. However, there are a host of export incentives that are applied on non-discriminatory basis. Thus, there are no incentives (or subsidies) directed at agricultural exports. The operations of these schemes have been declining over the years due to lack of funds and bureaucratic procedure. A repackaged incentive was introduced in August 1999. The need to minimise government expenditures on some of these schemes and the desire to comply with WTO regulation on the use of non-cash incentives to support export activities prompted the review.

[53] E. Olawale Ogunkola (2005), "Advancing Nigeria's Agricultural Development through the Doha Development Round (DDR), in E. Olawale Ogunkola and Abiodun Bankole (eds).

Nigeria maintains some import prohibition measures for the purpose of safeguarding domestic producers[54]. Importation of some agricultural products (millet, sorghum, and wheat flour) and gypsum were banned for safeguard reasons. Other trade control measures applicable to agriculture are prohibitions, sanitary and phyto-sanitary inspection and certification.

Agricultural products featured prominently on the list of export prohibitions. These products include raw hides and skins, and wet-blue leather; maize; yam tubers; palm kernels; beans; rice; timber and unprocessed wood, except gmelina logs; scrap metal; and unprocessed rubber. A mandatory phyto-sanitary requirement for the exports of fresh plants and plant products is required. Similarly, a mandatory certificate of origin and a declaration of value for exports of cocoa are required. Export of animals and related products require sanitary certificate (WTO, 1998).

Nigeria's agricultural resources are under-utilised mainly due to under-utilization of resources; low productivity as a result of technological and investment constraints; and infrastructural constraints. About a third of the potential agricultural resources are currently under cultivation.[55] Since the technology of agricultural production is still backward, the fortune of the sector depends to a large extent on favourable weather conditions (timely and well distributed rainfall) and various activities of government agencies directed at minimising some of the constraints to agricultural development in the country.

In summary, the country made very little commitments in AoA; hence the required implementation has been limited to notification of changes in existing policy environment. Evidence point to lack of capacity (lack of resources and lack of understanding of the issues involve) rather than deliberate policy as the main determinant of the country's commitments. Indeed lack of capacity to implement the agreement has also featured in the notifications[56]. This point is informed by the

[54] Nigeria's system of industrial incentives is analyzed by T.A Oyejide, Tariff policy and Industrialization in Nigeria, (Ibadan, Ibadan University Press 1975); and T.J Bertrand and J. W Robertson; An Analysis of Industrial Incentives and Location in Nigeria (Washington, D.C, WB 1978).

[55] According to WTO (1998), area currently under cultivation was about 34 million hectares. This translates to about 37% of total arable landmass.

[56] Ogunkola E.O (2001) Nigeria and the New Round on Agriculture: Issues and Policy Options; Department of Economics, National University of Lesotho.

development in the policy environment since AoA came into effect and the role assigned to the agricultural sector in the development of the country.

4.2 NIGERIA'S TRADE POLICY STRUCTURES

The main thrust of Nigeria's trade policy is the integration of the economy into the global market system[57]. This entails progressive liberalization to enhance competitiveness of domestic industries; effective participation in trade negotiations to harness the benefits of the multilateral trading milieu; promotion of transfer, acquisition and adoption of appropriate technologies; and support for regional integration and co-operation. Within the broad framework of macroeconomic policy, trade policy formulation cuts across a broad spectrum of stakeholders.

Following the reinstatement of democratic rule in Nigeria in 1999, Nigeria's economic policy-making processes, including trade policy, are now formalized through the institutional law-making process[58].

Nigeria's current trade policy clearly acknowledges the role of international trade in the nation's economy and therefore makes a strong reference to vibrant engagement in bilateral, regional and multilateral trade negotiations, as a way of boosting trade and achieving full integration into the global economy. Thus, the government of Nigeria has at every opportune occasion reiterated its continued commitment to the principles and objectives of the multilateral trading system (WTO 2005: 19).

Under NEEDS[59], the policy vision is to drastically reduce uncertainty and unpredictability in the trade policy regime harmonize trade practices with ECOWAS

[57] See Consortium for study of Nigerian Rural Development Strategies and Recommendations.
[58] Agbaje, Adigun and Afeikena Jerome, (2005). Institutional Framework and Process for Policy Making in Africa: The Case of Nigeria, in Ogunkola, O E. and Bankole, A. (eds) Nigeria's Imperatives in the New World Trade Order, Africa Economic Research Consortium (Nairobi, Kenya) and the Trade Policy Research and Training Programme (Ibadan, Nigeria).
[59] NEEDS is Nigeria's home- grown poverty reduction strategy (PRSP). NEEDS builds on the earlier two-year effort to produce the interim PRSP (I-PRSP), and the wide consultative and participatory processes associated with it. NEEDS is not just a plan on paper, it is a plan on the ground and founded on a clear vision, sound values, and enduring principles. It is a medium term strategy (2003- 07) but which derives from the country's long-term goals of poverty reduction, wealth creation, employment generation and value re-orientation. NEEDS is a nationally coordinated framework of action in close collaboration with the State and Local governments (with their State Economic Empowerment and Development Strategy, SEEDS) and other stakeholders to consolidate on the achievements of the last four years (1999- 2003) and build a solid foundation for the attainment of Nigeria's long-term vision of becoming the largest and strongest African economy and a key player in the world economy.

countries, respect Nigeria's obligations under multilateral and regional trading systems, and create a conducive and competitive environment for Nigerian businesses to flourish and compete in the regional and global economies. The goal of policy here is to lay a solid foundation for fully exploiting Nigeria's potential in international trade and in helping it become the gateway to West and Central Africa.

The principal strategies and instruments for achieving this goal under NEEDS include harmonized tariffs with the West African Economic and Monetary Union (UEMOA) and other countries and adopting the ECOWAS Common External Tariff (CET); it also entails co-operation with other African and developing countries to ensure that the WTO trade negotiations take into account the concerns and interests of Nigeria and Africa (NEEDS: 83).

Indeed, given the phenomenal pace of globalization, with the multilateral trading system acting as a major catalyst, it has become imperative that trade policy critically recognize the role of the WTO and the need to actively participate in the process so as to take advantage of the benefits it offers[60].

This is equally true of Nigeria's participation in such schemes as the New Economic Partnership for Africa's Development (NEPAD), ECOWAS Trade Liberalization Scheme (TLS), the Africa Growth and Opportunity Act (AGOA); and the ACP-EU Economic Partnership Agreement (EPA)[61].

Nigeria became a founding member of WTO with the coming into effect of the Marrakech Agreement, establishing the Organization, in January 1995. However, Nigeria's involvement in the multilateral trading system dates back to 1960, when the

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[60] Briggs. Inye (2007) Nigeria: Mainstreaming Trade Policy into National Development Strategies; Africa Trade Policy Centre. ATPC is a project of the Economic Commission for Africa with financial support of the Canada Fund for Africa.

[61] The ACP-EU Partnership Agreement, which was signed in Cotonou in June 2000 (Cotonou Agreement), provides for the conclusion between the ACP and the EU of “new World Trade Organisation (WTO) compatible trading arrangements, removing progressively barriers to trade between them and enhancing cooperation in all areas relevant to trade” (Article 36(1)). Pursuant to Article 37(5) of the Cotonou Agreement, negotiations of EPAs will be undertaken with ACP countries which consider themselves in a position to do so, at the level they consider appropriate and in accordance with the procedures agreed by the ACP Group, taking into account regional integration process within the ACP. The Cotonou Agreement establishes a comprehensive framework for ACP-EU relations. At the centre of the partnership are economic development, the reduction and eventual eradication of poverty, and the smooth and gradual integration of ACP States into the world economy.

country formally joined the then General Agreement on Tariffs and Trade (GATT), after gaining independence from colonial rule.

At the conclusion of the Uruguay Round of multilateral trade negotiations however, GATT was succeeded by WTO, the key objective of which is continuous liberalization of global trade through the harmonization of global trade rules, aimed at greater reduction of tariff and non-tariff barriers.

WTO is guided by such principles as nondiscrimination, amplified under such concepts as the most-favoured-nation (MFN) status and national treatment, transparency, coherence and predictability; and increased tariffication or tariff bindings. All of these, taken together, guarantee the achievement of WTO's overall goals and objectives of a secure, stable, predictable rules-based multilateral trading system.

Nigeria's commitment to these principles and objectives of the multilateral trading system, in itself implies that Nigeria is bound by the obligations she has undertaken under the WTO Agreements. It can therefore be easily inferred that the multilateral trading system must have impacted significantly on Nigeria's trade policy, given the WTO's role of harmonizing global trade rules.

WTO obligations enjoin its members to commit to implementing the specific requirements contained in the Agreements, which therefore confer at once privileges, benefits and obligations. This therefore poses various challenges, mainly to developing countries, especially given the Principle of "Single Undertaking"[62].

A positive side of membership of the WTO, asides extending the immediate benefits of market access through lower tariffs and the MFN principle, is that the organization also assists members in undertaking trade policy reforms. Although for developing countries, such reforms can be very painful and costly, it is often considered that in

[62] Single undertaking means that virtually every item of the negotiation is part of a whole and indivisible package and cannot be agreed separately. “Nothing is agreed until everything is agreed”.

the medium to long term, such reform agenda would enable affected countries to reap the benefits, as they would be able to engage more effectively in global trade.

Thus, as recommended by McLinden (cited by Newfarmer 2006:23), "high-income countries should make disciplines flexible enough to accommodate countries that have low capacity to implement accords, and developing countries should view the WTO negotiations as an opportunity to advance their domestic reform agenda".

Turning now to Nigeria's level of implementation of its WTO obligations, it is noteworthy that a cardinal objective of a rules-based multilateral trading system, is the streamlining of trade policy through tariff bindings, and this ensures that levels of tariff reductions already attained are not reversed.

Under this specific obligation, the government, both in the trade policy roadmap and the NEEDS document, acknowledges that trade policy had lacked consistency, certainty and predictability. Thus, the current policy posture subscribes to the need for certainty and predictability of the tariff regime.

Indeed, it is noteworthy that prior to the conclusion of the Uruguay Round, only one item (stockfish) was bound in Nigeria's tariffs (WTO 1998:39). Under current WTO obligations, Nigeria has bound all her agricultural tariff lines at the ceiling rate of 150 percent, although applied MFN rates are somewhat lower.

The wide margin between the level of agricultural bound rates (though in consonance with the requirement of binding all agricultural products) and applied rates, and the high level of unbound industrial tariffs, makes Nigeria's tariff profile highly opaque. Further, the government's decision to retain high tariffs and the continuous imposition of import bans makes trade policy highly uncertain and unpredictable.

It nonetheless has to be measured against the WTO tenet of a consistent, transparent, certain and predictable policy. There thus appears to be a policy disconnection and contradiction; on the one hand, the government states as a policy objective, the attainment of policy coherence, certainty and predictability and yet, on the other hand, affirms the retention of prohibitions, exemptions, exceptions and high tariffs, for purposes of protection of domestic industries.

It is noteworthy; however, that the government has taken some bold reform measures, aimed in part at complying with WTO obligations as part of specific trade policy measures and also as part of overall macroeconomic institutional reform, to boost capacity: These measures include:

• The abolition of general import licenses;

• The abolition of state trading enterprises otherwise known as Commodity Boards;

• No-local-content requirements legislation in line with the TRIMS Agreement, even though local content inputs are encouraged through the provision of certain incentives on a non-discriminatory basis;

• Reform of the customs administration and customs procedures, leading to the modernization of practices, through computerization of procedures to improve efficiency, transparency and accountability. It is known as the Automated System Customs Data (ASYCUDA).

4.3 ROLE OF REGIONAL INTEGRATION ON TRADE POLICY

At the regional level, Nigeria subscribes to the view that regional integration can serve as a building block to attaining economic growth and development. Indeed, regional integration schemes can play a very useful role in reform and further liberalization of policy. In this regard, the ECOWAS Trade Liberalization Scheme and attendant Common External Tariff (CET)[63] are noteworthy.

The ECOWAS CET as agreed to by members would consist of four bands: 0 per cent; 5 per cent; 10 per cent; and 20 per cent, similar to those already being applied by the UEMOA member-States. Although Nigeria has missed deadlines in the past, it has remained committed to implementation of the CET.

[63] The advantages of the Common External Tariff in integration schemes are well known. They are first and foremost a measure of the degree of integration among contracting parties. An obvious advantage of the CET is that adopting it is a way of reducing asymmetry in the distribution of gains and losses. The CET thus helps lessen potential tensions between members by lowering external tariffs, which helps to generate the classical gains from trade.

In line with this commitment, Nigeria commenced implementation of the first stages of the CET on 1st October 2005. By applying the CET, Nigeria will reduce the number of tariff bands from the 19 bands hitherto operated to the four that are operational under the ECOWAS regime. This implies that about 65 per cent of Nigeria's total imports (capital goods, raw materials and essential goods, such as medicines, will be subject to duties of 0 per cent – 10 per cent. Indeed, before the reform, 83 per cent of Nigeria's tariff lines were higher than UEMOA rates. Thus, Nigeria's average tariff rate has declined by more than 50 per cent following harmonization with the UEMOA rates. (Briggs 2005)

4.4 ROLE OF THE INTERNATIONAL COMMUNITY IN THE TRADE LIBERALIZATION AND DEVELOPMENT PROCESS

According to Agbaje and Afeikhena (2005: 350), there are challenges of capacity constraints that negatively affect the capacity of Nigeria to participate effectively in the WTO negotiations or even in the multilateral trading system in general[64]. However, the Uruguay Round, which ushered in the WTO, has brought along unprecedented obligations not only in relation to reducing tariff barriers but also towards the implementation of far-reaching reforms. Such reforms affect both trade procedures and many areas of regulation, which lay the basis for basic business environments in the domestic economy, for example, Technical Barriers to Trade (TBT), Sanitary and Phytosanitary (SPS) Measures, and TRIPS. (Finger and Schuler 2002:493).

In realization of the challenges brought about by this development, especially on demands for trade liberalization and the subsequent impact and implications for development, WTO embodies perhaps the most far-reaching impact of the international community on Nigeria's trade liberalization since the advent of the

[64] In assessing the challenges of capacity constraints currently facing Nigeria, Oyejide (2000); Butegwa (2004); Bankole (2005); and Agbaje and Afeikhena (2005: 351) have summarized some of the critical features namely:
- Limited knowledge base: the absence of in-depth knowledge and understanding of the rules, and technical issues; Limited research, analysis and evaluation capacities;
- Lack of access to up-to-date information on global developments and their potential impacts, including policy formulation by trading partners;
- Lack of attention to strategic and tactical planning, especially on a long-term basis, and non-anticipation of possible future developments, with the result that pre-emptive positions or appropriate policy alternatives are not formulated.

SAPs. Additionally, the WTO also has a key objective of providing technical assistance, mainly focused on training and dissemination of information[65].

There are other multilateral agencies[66] involved that has assisted Nigeria with the enhancement of the trade policy process. Thus, apart from the Commonwealth study, aimed at improving export quality of agricultural produce as well as meeting WTO obligations, other assistance programmes that have been geared to the human capacity area, have not been well co-ordinated or effectively streamlined[67].

The EU[68] is a very important trading partner for the ACP countries today (EU-ACP[69]), particularly in agriculture. Agriculture is an important source of foreign currency for most ACP countries, and the majority of their population depends on that sector for employment and livelihood security.

In addition, most ACP countries have comparative advantage in agriculture, and they often rely heavily on exports on a handful of agricultural products for their economic development. At the same time, it is in agriculture that the EU applies its highest and most complex tariffs, often in combination with non-tariff barriers (particularly rules of origin and various standards). This limits the chances of many developing countries

[65] In this regard, Nigeria has participated in several workshops and seminars aimed at capacity building, especially in the understanding of the WTO Agreements.
[66] Apart from the WTO, other multilateral agencies like the World Bank and the World Customs Organization, the World Intellectual Property Organization (WIPO), UNCTAD, the Commonwealth and other bilateral donors like the DFID and USAID, has on occasion assisted with enhancement of the trade policy process, either through targeted human capacity-building programmes or institution building, to improve administrative or regulatory frameworks. In relation to trade policy, USAID was active in supporting the Nigerian Trade policy review exercise, which was adopted in 2002. The outcome of that process, which stands as the current trade policy road map, provided the basic frame for mainstreaming trade into the NEEDS. DFID has also provided assistance, which led to the inclusion of trade into National Development Strategies in August 2004. The role of trade as a development strategy was also reassessed. The exercise eventually produced what came to be known as the "Trade Policy Action Plan".
[67] In this regard, Agbaje and Afeikhena (2005: 353) after doing an assessment of a list of technical assistance programmes in which Nigeria has benefited from the WTO and other agencies, conclude that they fail to sufficiently take into consideration the institutional inadequacies and structural deficiencies that prevent optimal deployment of financial assistance to support activities that could use these results in a more profitable and creative manner.
[68] The Cotonou Agreement does not fulfil the WTO rules on free trade agreements, since the EU is the only part that has to do any tariff reductions. Under WTO rules, both parties to a free trade agreement must reduce tariffs on “substantially all trade”.
[69] The EU-ACP trade is currently governed by the unilateral and non-WTO-compatible Cotonou Agreement. This agreement grants the ACP countries trade preferences for exports to the EU. EC-ACP Economic Partnership Agreements and WTO Compatibility: An Experiment in North-South Inter-Regional Agreements?", 43(5) *Common Market Law Review* (2006)

to trade and develop. However, the developing countries[70] comprised by the Cotonou Agreement get an advantage over competing developing countries from the preferential market access the agreement provides[71].

The issue of agriculture becomes even more important in the current EPA negotiations for three main reasons: firstly, the Lomé agreements as well as Cotonou already provide duty free access to the EU market for virtually all industrial products originating from the ACP countries and, from the perspective of ACP countries, the current negotiations are largely about securing additional market access for their agricultural products.

Secondly, even if the EPA negotiations result in the reduction or elimination of all tariffs on ACP agricultural exports, the probability of many ACP countries successfully exploiting any such opportunity is rather minimal due largely to poor supply capacity on their part and high sanitary and phytosanitary (SPS) standards applying in the EU.

Finally, given that the commodity protocols – particularly those on beef/veal and sugar – still play a crucial role in the economies of many of the beneficiary ACP countries, any moves towards reciprocal EPAs is likely to adversely affect the interests of those countries[72].

[70] Melaku, Geboye Desta: Legal Issues in International Agricultural Trade: WTO Compatibility and Negotiations on Economic Partnership Agreements between the European Union and the African, Caribbean and Pacific States", May 2006, published by the FAO Legal Office at http://www.fao.org/legal/prs-ol/lpo56.pdf

[71] In other words, for most ACP countries preferential access to the EU market is a great advantage. This access may also be improved, since the EPA negotiations will build on and reinforce the market access rules in the Cotonou Agreement (Council of the European Union, 2002). In addition, the preferences would be unlimited in time, and more legally certain, since the EPAs are to be WTO consistent.

[72] Melaku, Geboye Desta: Legal Issues in International Agricultural Trade: WTO Compatibility and Negotiations on Economic Partnership Agreements between the European Union and the African, Caribbean and Pacific States", May 2006, published by the FAO Legal Office at http://www.fao.org/legal/prs-ol/lpo56.pdf

To improve the market access[73] by, *inter alia*, addressing export subsidies and domestic support, for all agricultural products originating from ECOWAS, while preserving existing preferential arrangements[74].

EPA has been described as an impediment to Nigeria's development strategy. This is clearly shown in the result of the EPA Impact Assessment study on Nigeria, which has implicated the EPA of making Nigeria loose about $478million by end of 2008 (after being signed for implementation by the end of 2007), while the EU gains about $709million during the same interval/period, one is only left with a wonder on how EPA would bring the needed poverty reduction and development to Nigerians as expressed by NEEDS.

The Trade Policy Review Mechanism (TPRM) monitors the national trade policies of the WTO's members regularly under the General Council. TPRM[75] is to ensure the transparency and understanding of trade policies and practices, improve the quality of public and intergovernmental debate on the issues at stake. Via TPRM, multilateral assessment of the effects of policies on the world trading system is enabled and members' countries are encouraged to follow closely the WTO rules and disciplines, and the commitment undertaken.

The reviews undertaken by the TPRB are established at the same level as the General Council, on the basis of two documents: a policy statement by the government under review, and a detailed report prepared independently by the WTO secretariat.

[73] As noted, the benefits of ACP agricultural exporters in many of these areas are being eroded for various reasons, including reduction and/or elimination of EU MFN tariffs at the multilateral level, and reform of EU domestic support schemes particularly in products subject to commodity protocols in the Cotonou Agreement. Consequently, to the extent the EPA negotiations go outside their primary focus on dismantling ACP trade barriers to EU products, improved ACP agricultural market access will be the priority. Indeed, that is precisely what they mean when the ACPs propose for the extension of the EBA initiative to all ACP countries under the EPAs. Moreover, even assuming that the EU will agree to duty-free access for ACP agricultural products under EPAs, the most difficult obstacle to ACP agricultural exports comes from the high EU health and safety standards in place particularly in the agricultural sector.

[74] Under Article 36(4) of the Cotonou Agreement, the ACP and the EU "reaffirm the importance of the commodity protocols, attached to Annex V of this Agreement. They agree on the need to review them in the context of the new trading arrangements, in particular as regards their compatibility with WTO rules, with a view to safeguarding the benefits derived there from, bearing in mind the special legal status of the Sugar Protocol." Also we call for the abandon of all types of subsidies at the end of a period of three year, as from the conclusion of the current round of negotiations.

[75] The four largest trading members; the EU, the United States, Japan and Canada, are examined every two years. The next 16 countries in terms of their share of world trade are reviewed every four years; and the remaining countries every six years, with the possibility of a longer interim period for developing countries.

These two reports, together with the proceeding of the TPRB are published after the review meeting[76]. It is also important to note that the Agreement on Agriculture involves annual reporting to the Committee on Agriculture, with details of any changes in the use and levels of tariffs, NTBs, export subsidies and domestic support arrangements, including updated AMS calculations.

[76] The TPRB will also carry out an annual overview of the developments in the international trading environment which are having an impact on the multilateral trading system, assisted by an annual report by the Director-General setting out major activities of the WTO and highlighting significant policy issues affecting the trading system.

CHAPTER FIVE.

5. AN OVERVIEW OF THE NIGERIAN BUSINESS ENVIRONMENT.

Attracting foreign direct investment is at the top of the agenda for most countries. There is still much debate about which factors and policies most influence the location decision in the global marketplace: rule of law, corruption, legal and regulatory stability, market size, taxes, infrastructure service, to name a few. Transparency, protection and non-discrimination are investment policy that underpins efforts to create a sound investment environment.

Nigeria is a nation undergoing tremendous change and reform on both the political and the economic fronts. With its enormous human and material resources, and with its long-established and significant influence across the African continent, Nigeria stands on the brink of more substantial and more sustainable economic growth in the years ahead.

Nigeria is desirous of developing its agricultural, industrial and services sectors. The private sector, though previously held back by an over-powerful public sector, is at last beginning to play a leading role. The financial sector and the stock market are already geared to facilitate and assist participation and partnership.

All business enterprise in Nigeria must be registered[77] with the Registrar-General of the Corporate Affairs Commission. A foreign investor wishing to set up business operation in Nigeria needs to obtain local incorporation of the Nigerian Branch or subsidiary as a separate entity for that purpose. There are several other laws governing investment protection in Nigeria[78].

[77] The Companies and Allied Matters Act, 1990 (CAMA) is the principal law regulating the incorporation of any business in Nigeria.

[78] However, the principal laws are the Nigerian Investment Promotion Commission Decree No.16 of 1995 and the Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree No.17 of 1995. The NIPC Decree No.16 of 1995 establishes the Nigerian Investment Promotion Commission (NIPC). The NIPC issues guidelines and procedures, which specifies priority areas of investment and prescribe incentives and benefits which are in conformity with government policies.

In agriculture, as in the rest of the economy, Nigeria is currently undergoing a marked shift in the relationship between the state and the economy. Previously, the role has been that which is typical in a command economy, where all activity has been controlled and carried out directly by the government.

In shifting away from this model of development, it has become necessary to redefine the role of the government as it relinquishes its hold on activities, which it used to dominate and direct. Most obvious of these is the need for the government to rebuild and expand the necessary infrastructure.

The government must also promote and maintain a stable policy environment conducive to development and growth. Management of such policy tools as the exchange rate are key as is the protection of the basic institutional requirements of a market economy: a well functioning legal framework, stable financial system, clear rules of the game, and the power and will to enforce these.

It is important to note that the private sector will play an important role in other parts of the food and agricultural system as well. Most important will be the marketing and distribution of both inputs and outputs, areas where the private sector was active before 1975 but where the government has been dominant since.

An Agricultural Credit Guarantee scheme was set up in the 1970s, under which the federal government and the Central Bank of Nigeria guaranteed up to 75 percent of loans lent for agricultural purposes. And specifically to encourage foreign investment, foreign firms were allowed to hold up to 60 percent of the shares in agricultural ventures, as against 40 percent in most other sectors under "indigenization" regulations.

Despite these incentives, most foreign firms remained uninterested[79]. Foreign companies were apparently holding out for additional concessions from the government, particularly over repatriating profits and remitting salaries.

[79] According to Central Bank of Nigeria figures, foreign private investment in agriculture, forestry and fishing remained at approximately the same level of $130 million a year between 1979 and 1981, but the share put into agriculture of total foreign investment actually fell back between 1978 and 1981 from just over 4 percent to just over 3 percent.

Commercial and merchant banks have been directed to commit more of their loan portfolios to agriculture. Interest rates have been increased to encourage lending, but grace periods for borrowers have been lengthened, with tree crop farmers and ranchers benefiting most.

Along with such measures the scope of the Agricultural Credit Guarantee Scheme is being expanded. Fiscal incentives include a three-year income tax holiday for new agribusiness and the exemption of agriculture machinery and equipment from import duty. Inducements for foreign companies are even greater.

The Ministry of Agriculture is to set up an Agricultural Investment Bureau to give investors advice and guidance, and the government has repeatedly hinted at increasing the amount foreign companies can hold in agricultural ventures, but it seems to be moving away from such a move.

Economic analysts are skeptical that these incentives will encourage the kind of investment capital Nigeria needs to revitalize its economy. "Frankly the past three governments have tried in one form or another to stress foreign agricultural investment," said Jay Fetner of the African Development Group, but they only "add inconsequential things." Fetner says that what's keeping investors out of Nigeria is the country's exchange controls which limit the percentage of profits a foreign company can repatriate. "Nigeria is a huge virgin market-the profit margins are tremendous, you don't have to export, you can make all your money locally-the problem is repatriation of profits," says Fetner. "It's easy to make a buck in Nigeria; it's just hard as hell to get it out of the country."

The Nigerian government says that short-term cash problems make limits on the repatriation of profits a must, as this is believed to be in the country's interest. The government's recent attempts to encourage investment, however, are prompting some foreign firms and Nigerian entrepreneurs to look more closely at the profitability of agribusiness.

5.1 Policies to Attract Foreign Direct Investment

There is keen competition among developed and developing countries to attract foreign direct investment (FDI). This drive to lure investment often extends to the subnational level, with different regional authorities pursuing their own strategies and assembling their own baskets of incentives to attract new investments.

Various reforms and strategies have been implemented, with mixed results. Some are critical of the high costs of many of these initiatives, arguing that it would be more rewarding to improve a country's general business environment.

The Nigerian government is not left out in its keen competition to encourage private sector and foreign investment in her agribusiness and has come up with some incentives to attract FDI and their effectiveness[80].

Despite these incentives, there are however bottlenecks, both endogenous and exogenous, that have hampered FDI inflows into the developing countries, including Nigeria. Topmost among the endogenous factors are political stability and an enabling environment. Political instability and civil strife scare away investors, both domestic and foreign. Without an enabling environment, private initiative and economic enterprise will be limited and will deter FDI.

Economic geography, size and locational factors have a major bearing on foreign investment. This in itself is a plus to Nigeria, because of her population[81]. There is a host of other contributory factors, many of which are inextricably linked with, and

[80] This incentives include the removal of import duties on raw materials for the manufacture of livestock feeds; the supply of fertilizers to farmers in substantial quantities with a 75 percent subsidy; the establishment of subsidized tractor-hiring services throughout the country; all capital expenditures on plant and equipment incurred in agricultural production by individuals or companies will, apart from attracting existing capital allowances, enjoy an additional investment allowance of 10 percent; where losses are suffered by a company engaged in agriculture, such losses can now be carried forward indefinitely until they can be written off against future profits; where loans are granted to aid investment in agriculture, the interests payable on such loans will not enjoy special exemption from taxation; those who lease out agricultural equipment will not be given capital allowances for tax purposes.

[81] However resource endowments are not a prerequisite for attracting FDI as the case of both Mauritius and the Dominican Republic demonstrates. Examples from other countries like Hong Kong and Singapore provide ample proof that countries with no natural resources can still attract considerable flows of FDI. And outdo better-endowed countries. Anecdotal evidence suggests that some resource-rich country officials are wary of FDI because their country is going to be exploited by foreigners

indeed define, underdevelopment. These include the low level of domestic income of most developing countries including Nigeria, dilapidated economic and social infrastructure, poor work ethics, the shortage of trained labour, the relative lack of a business culture, undeveloped financial and capital markets, and the absence of a business- and investor-friendly environment.

Study from the ACP states shows that the Caribbean and Pacific countries which have not known major conflicts have been more successful in attracting FDI than the African countries, some of which like Angola, Mozambique, Rwanda, Burundi and the Democratic Republic of Congo, have been through periods of civil wars. Periods of unrest not only discourage FDI in the country concerned, they also cause damage to social and economic infrastructure and delay much-needed economic reforms which are often prerequisites for FDI.

There have however been success stories of countries that have been able to attract foreign investment to their economies. Mali and Mozambique are good examples and the questions that will arise, is what have these two countries done right? First, it appears that these two countries have established a stable macroeconomic environment, at least by investors. The Governments approved important pieces of legislation, including new Mining (1991) and Investment (1995) Codes in Mali and a new Industrial Free Zone regime in Mozambique (1994). Moreover, the adoption of international treaties related to FDI helped to increase the Governments' visibility in the international business community as well as provided additional insurance to potential foreign investors[82].

To improve the climate for FDI, an econometric analysis indicates that strong economic growth and aggressive trade liberalization can be used to fuel the interest of

[82] As an illustration of this multiplier effect, it suffices to look at the investment projects financed by the International Finance Corporation (IFC) – the private arm of the World Bank Group in Mozambique and Mali over the past few years. Those investments range from projects in banking to printing and tourism, for a total commitment of $65 million and $134 million in Mali and Mozambique, respectively, as of June 1998. Interestingly, the IFC's portfolio in Mozambique was the largest in Africa, while that in Mali ranked in sixth position, greater than that in Nigeria, Cameroon or Ghana. It is believed that the IFC's portfolio allocation illustrates well the interest of the international private community in these two countries and the progress that they have achieved in their business climate.

foreign investors[83]. Beyond macroeconomic and political stability, those countries focused on a few strategic actions such as: opening the economy through a trade liberalization reform; launching an attractive privatization programme; modernizing mining and investment codes; adopting international agreements related to FDI; developing a few priority projects that have a multiplier effects on other investment projects; and mounting an image building effort with the participation of high political figures, including the President.

Interestingly, these actions do not differ significantly from those that have been identified behind the success of other small countries with limited natural resources such as Ireland and Singapore about twenty years ago. In developing its agricultural sector, Indonesia which is oil rich like Nigeria and Angola followed a policy of emphasis on agricultural infrastructure and technological improvement with modern high yielding varieties, as part of an overall economic policy program which resulted in high non-oil growth rates over sustained periods. Price policies encouraged fertilizer use, supplied from domestic production using petrochemical feedstocks. Indonesia also avoided extreme exchange rate overvaluation, though there were periods in which it appeared to be overvalued to some extent. Agriculture received a large share of public investment, more than 20 per cent in the initial years of the oil boom. An important aspect of government policy was its long run nature.

Successful sector development has been a matter of decades with an early and sustained emphasis on an agricultural investment program. An added benefit is the beneficial effect on income distribution, since the majority of the poorest in Indonesia (as in Angola and Nigeria) were rural. Indonesia's emphasis was on its staple crop, such as rice, which in particular has potential for large yield increases using existing technologies.

The impressive growth performance of the agricultural sector contributed substantially to the achievement of Indonesia’s development objectives: food security, low and stable prices, generation of employment and foreign earnings/savings.

[83] Similarly, a closer look at the experience of Mali and Mozambique – two countries that have shown a spectacular improvement in their business climate during the 1990 reveals that the implementation of a few visible actions is essential in the strategy of attracting FDI.

Indonesia is an excellent example of Mellor's theories (1966) regarding the role of agriculture in economic development. Agricultural development in Indonesia is arguably a significant determinant of growth in other sectors of the economy. During three decades of palpable economic progress, the agriculture sector, which is expanded mostly by smallholder activity, propelled the Indonesian economy through forward and backward linkages and through demand creation (Uphoff, 1999). Daryanto and Morison (1992) found that the consumption linkage effect of the induced growth in the agricultural sector represents a more potent intersectoral influence than the production linkages of agricultural growth.

Expansion of agriculture is seen as one of the main ways to overcome the crisis. There are five features of agriculture that make it an attractive option (Sunderlin 1998, Daryanto 1998a, Daryanto 1998b). First, provision of adequate basic need commodities (which include agricultural products) is a strategic priority of the government in order to preserve the conditions of stable rule and legitimacy. Second, the low proportion of imported inputs in the agriculture sector means agriculture has not been as badly affected as other sectors by the crisis. Mounting food imports and foreign exchange constraints have increasingly turned attention towards the need to expand food production. Third, the agricultural sector functions as a 'social safety valve', by absorbing some of the retrenched labour, as well as new entrants to the labour force unable to find work in urban areas. Fourth, the agriculture sector can make useful contributions to foreign exchange either by raising a country's earning from exports or by producing agricultural import substitutes. Fifth, the agricultural sector is an important potential source of demand for other sectors. A growing agricultural sector will stimulate the demand for industrial products. With increasing incomes in the agricultural sector, the effective demand for domestic manufactured goods would be bolstered.

It is important to note that both foreign and local investors want to ensure that they get a reasonable return on their investments. They will only invest if the business environment is secure and predictable enough to allow them to reap the benefits over time.

Tax and investment incentives cannot on their own outweigh political risks and risks of capital expropriation. The availability of a cheap, literate and easily trainable labour force is an important consideration during the initial stage of industrial development when manufacturing operations are likely to be concentrated at the low end of the market. An industrial culture and good work ethics are a distinct advantage. After the initial learning period is over and the wage level starts to go up, labour intensity gradually gives way to skill-intensity and it is the quality and level of skills that will attract further FDI flows into higher-value added products. Simultaneously, the industrial structure undergoes a gradual transformation from the low end to the middle end of the market.

Infrastructure facilities like telecommunication, regular power and water supplies, reliable air and sea connections, developed banking facilities, well-located industrial sites and efficient internal transport facilities are important prerequisites. These must not only be available but they must also be competitive in price and quality or they can more than offset the labour cost advantage that may have been the driving force behind the FDI decision in the first place.

The regulatory framework in any country wishing to attract FDI must be modern and transparent.[84] Laws must be enforceable and there must be no discrimination against foreigners. Another important aspect is very basic and concerns the level of safety prevailing in a host country. If a country is perceived to be a safe place, this inspires confidence in the eyes of the foreign investor.

[84] Like in Mauritius, Mali, and Mozambique amongst others.

RECOMMENDATIONS AND CONCLUSION.

The result of this study shows that transparency, property protection and non-discrimination are investment policy principles that underpin efforts to create a sound investment environment for all. Investment promotion and facilitation measures, including incentives, can be effective instruments to attract investment provided they aim to correct for market failures and are developed in a way that can leverage the strong points of a country's investment environment. Policies relating to trade in goods and services can support more and better quality investment by expanding opportunities to reap scale economies and by facilitating integration into global supply chains, boosting productivity and rates of return on investment. Competition policy favours innovation and contributes to conditions conducive to new investment. Sound tax policy enables governments to achieve public policy objectives while also supporting a favorable investment environment.

The degree to which corporations observe basic principles of sound corporate governance is a determinant of investment decisions, influencing the confidence of investors, the cost of capital, the overall functioning of financial markets and ultimately the development of more sustainable sources of financing.

Public policies promoting recognized concepts and principles for responsible business conduct, such as those recommended in the OECD Guidelines for Multinational Enterprises help attract investments that contribute to sustainable development. Such policies include: providing an enabling environment which clearly defines respective roles of government and business; promoting dialogue on norms for business conduct; supporting private initiatives for responsible business conduct; and participating in international co-operation in support of responsible business conduct.

Human resource development is a prerequisite needed to identify and to seize investment opportunities, yet many countries under-invest in human resource development due in part to a range of market failures. Policies that develop and maintain a skilled, adaptable and healthy population, and ensure the full and productive deployment of human resources, thus support a favourable investment environment.

Sound infrastructure development policies ensure scarce resources are channeled to the most promising projects and address bottlenecks limiting private investment. Effective financial sector policies facilitate enterprises and entrepreneurs to realise their investment ideas within a stable environment.

Regulatory quality and public sector integrity are two dimensions of public governance that critically matter for the confidence and decisions of all investors and for reaping the development benefits of investment.

While Nigeria has gone a long way in reducing trade barriers, development of the agricultural sector is constrained by non-trade factors especially agricultural production infrastructure. The need to develop these facilities for any reform to have optimum impact on the sector should be accorded priority. Further liberalisation of the sector without addressing the infrastructural bottleneck is capable of aggravating the problem of agricultural trade in the country, at least from the experience of the previous liberalisation.

The characteristics of Nigerian farmers require that peasant farmers be protected and that efforts should be geared towards encouraging large-scale farming in order to optimally benefit from trade liberalisation of the sector. Development of the necessary infrastructure and effective land reform will not only encourage large-scale farming but also ensure that the benefits of reform get to the main actors, the farmers.

Further reforms in the agricultural sector in Nigeria should proceed at least at the same level with reforms in the developed countries or at best the developed countries should lead. The country should take advantage of the next round not only to seek better latitude for the use of various supports, but also to demand for reform of AoA and effective implementation by the developed countries. The next round should also be an avenue for the country to bind its agricultural products at floor level and possibly liberalised the non-strategic sub-sector.

Nigeria in developing its agricultural sector may take a cue from countries like Indonesia that emphasized on agricultural infrastructure and technological improvement with modern high yielding varieties, as part of an overall economic policy program which resulted in high non-oil growth rates over sustained periods.

Price policies encouraged fertilizer use, supplied from domestic production using petrochemical feedstocks. Indonesia also avoided extreme exchange rate overvaluation, though there were periods in which it appeared to be overvalued to some extent. Agriculture received a large share of public investment, more than 20 per cent in the initial years of the oil boom. An important aspect of government policy was its long run nature. Nigeria should think of a functional agricultural investment program that will develop the sector. Nigeria should also concentrate on its staple crop, which in particular has potential for large yield increases using existing technologies.

The study further shows that the agricultural sector functions as a 'social safety valve', by absorbing some of the retrenched labour, as well as new entrants to the labour force unable to find work in urban areas. Research also show that the agriculture sector can make useful contributions to foreign exchange either by raising a country's earning from exports or by producing agricultural import substitutes. The drastic currency depreciation provides increased opportunities for expanding traditional crops (such as cocoa, cassava, palm oil production).

The agricultural sector is an important potential source of demand for other sectors. A growing agricultural sector will stimulate the demand for industrial products. With increasing incomes in the agricultural sector, the effective demand for domestic manufactured goods would be bolstered.

Finally, it is clear that FDI can play a constructive role in this process by transferring capital, skills and know-how. However, not only is attracting FDI not the same thing as development, but it seems clear from the findings in this report that whether it contributes to development depends on macroeconomic and structural conditions in the host economy[85].

Designing appropriate growth-oriented strategies requires much greater policy space for Nigeria, including more strategic trade and industrial policies adapted to their specific economic and social conditions and development challenges. The danger to be avoided in designing FDI policies is a tendency to confuse the means of global integration with the ends of economic and social development.

A more development conscious framework must be mindful of all the possible channels whereby FDI can impact, both positively and negatively, on domestic economic performance, including through the balance of payments, local financial markets, and market structure; it must provide the means to manage the procyclical and herd-type tendencies of investors; and it must, above all, be situated in relation to the fundamental processes of capital accumulation, structural change and technological upgrading which are the ultimate drivers of catch-up growth.

[85] FDI seems to have reinforced a pattern of adjustment that privileges external integration at the expense of internal integration, typified by the establishment of enclave economies. Behind this trend lies a policy philosophy that wrongly contrasts the efficiency of foreign firms with the distortionary economic impact of the local state. This dichotomy is no longer helpful to thinking about the challenges facing most African countries, including with respect to FDI. This call was echoed in the Zedillo Report on Financing for Development, and more recently both the Blair Commission Report on Africa and the Sachs report on the MDGs have arrived at a similar conclusion. Combined with a debt write-off, this should provide African countries with the necessary “big push” to break out of the vicious circle of low growth and rising poverty.

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