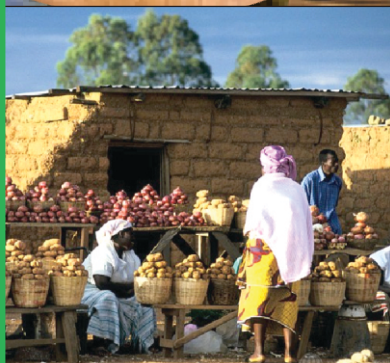




# BULLION

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## Foreign Direct Investment



**FDI in Nigerian Oil Sector and Economic Growth Nexus; Evidence from Nigeria**

by: Chris AC. Ogonna (Ph.D)

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**Effects of Entrepreneurship Interventions on Economic Growth: An Assessment of the Government Entrepreneurship Empowerment Programme (2016-2020)**

by: Lawal Lateef  
Fauziyya R. Mohammed



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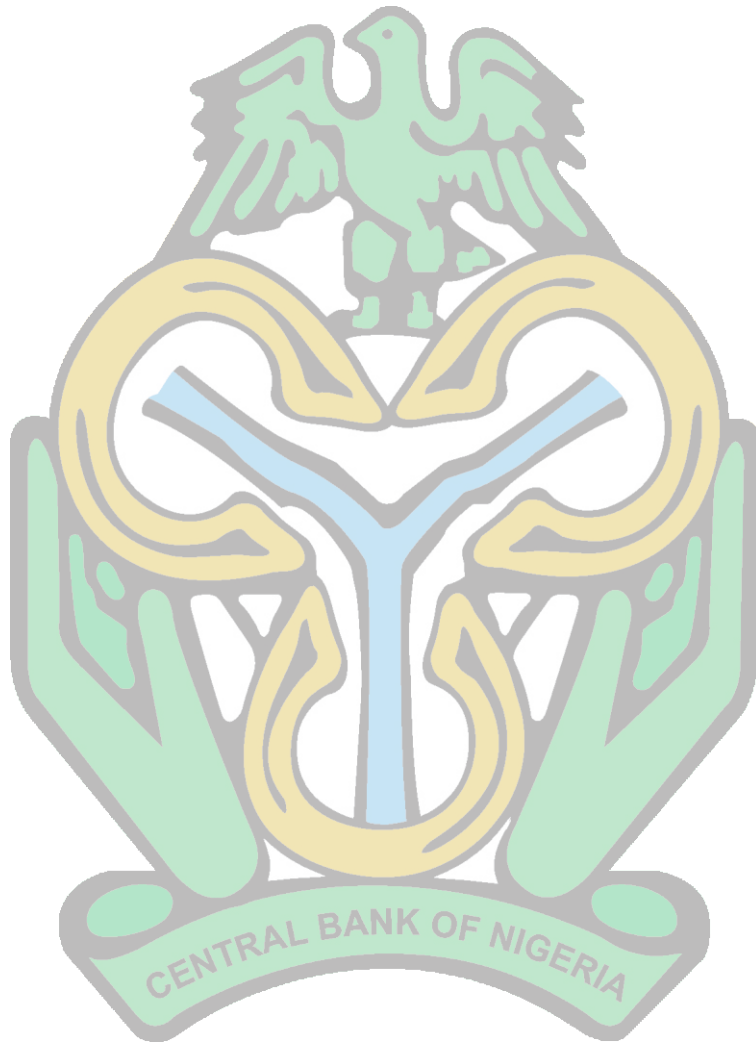
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## FDI In Nigerian Oil Sector and Economic Growth NEXUS; Evidence from Nigeria



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### Abstract

*Foreign direct investment (FDI) has been seen as a catalyst for economic growth in Nigeria through its direct and indirect linkages and positive externalities. Consequently, Nigeria being a country rich in natural resources such as oil has more than 70% of its FDI in oil sector. Therefore, this study investigated effects of foreign direct investment in oil sector on economic growth. Time series data of secondary sources were used for the study over the years of 1981 to 2018. Having confirmed for stationarity for the three variables at first difference, the Vector Autoregressive model was employed for the estimation. The result showed a negative relationship between oil FDI and economic growth. Consequently, the findings indicated a positive nexus between exchange rate and economic growth. The recommended policies include the provision of an enabling environment, the need for investment policies that will be favorable to local investors, formulation and implementation of favorable exchange rate policies as well as improved state of infrastructure in the country among others.*

*Keywords: FDI, Oil Sector, Economic Growth, Nigeria*

**Keywords: Central Bank; Macroeconomic Policy; Development Finance; Developmental Function; Quantitative easing.**

### 1.0 Introduction

Nigeria is richly blessed with abundance of natural resources such as oil, gold etc. Her economy heavily depends on revenue generated from the oil sector. The supply and sales of oil has been fluctuating over the years since its discovery in 1958. Because of the perceived presence of natural resource and huge market size, Nigeria has always received the highest inflow of FDI in Africa characterized fluctuations. For instance, there was a drastic reduction of FDI in Nigeria between 2009 and 2010 by \$3.7bn from \$6bn in 2009 to \$2.3bn in 2010 (UNCTAD, 1999, 2006, 2007).

Then, the current total FDI inflow in Nigeria stands at 4billion dollars, with more than 60% of it going into oil sector (UNCTAD Report, 2019), although the inflows have been fluctuating over the years. The presence of oil gave rise to the presence of many oil international companies in Nigeria during the 60's and the 70's namely Texaco, Shel-BP, Chevron, Safrap (Elf), Mobil, Esso, Philips, Agip and Tenneco. Consequently, these companies were joined by Occidental, Deminex, Japan Petroleum union oil, Niger oil Resources and Niger petroleum and many others.

With the presence of this international firms, it has shown that FDI is more in oil sector than non-oil sector such as manufacturing, communication sectors, etc. With regards to the perceived positive economic effect, spillover and externalities of FDI, many developing countries including Nigeria have embarked on several policies as well as setting up of agencies to attract more FDI thereby creating incentives towards making the environment non-hostile for the

establishment and survival of these industries. Some of those agencies are Export Promotion Council, Investment promotion council etc. All these aid in providing enough capital as a supplement for the domestic capital accumulation and creates both vertical and horizontal linkages with other sectors for economic growth. Furthermore, the level and degree of inflow of FDI differ among developing and developed countries. Africa has been termed as the second highest recipient of FDI after Asia (UNCTAD 2019). Nevertheless, the amount of inflow among African countries differ as well as there is presence of competition for struggle for FDI depending on resource, market or efficiency seeking Foreign Direct Investment, also it differs among several sectors of the economy. From 1970-1990, Nigeria accounted for 30% of FDI inflow to Arica; this was due to its investment opportunities in the oil sector (UNCTAD, 1996)

FDI has also been identified through two channels as it aids in economic growth-through knowledge transfer promotion; both in terms of labour training and skill acquisition, capital and better management. It can as well promote and enhance the implementation of new technology in the production process through capital spillovers.

## 1.2 Statement of the Problem

Over the years, the study of effect of Foreign Direct Investment (FDI) in oil sector on economic growth has occupied the space of public discourse by researchers, scholars and media due to the sensitivity of the sector and its utmost importance to growth. It has been observed and established that FDI generates positive externalities to the host country such as inflow of capital, technical know-how,

technology, innovation, efficient management, employment and others. The hypothesis of FDI-led growth model emerged with the development of Solow–Swam model of exogenous growth theory. Consequently, it could be stated that exchange rate has impacts in attracting foreign direct investment in a country in line with the chosen growth model which have effect on the economic growth of the country. Frequent and erratic changes in exchange rate of the domestic currency affect the inflow of FDI (Goldberg and Klien, 1997 as cited (Atlaw, Teklemariam and Geun, 2013).

Devaluation of exchange rate is in two folds used in explaining variations in FDI. On the one hand, the real value of foreign investor's capital increases when the host countries currency is devalued. On the other hand, frequent and continuous decline in the value of host countries currency would decrease FDI inflow, as it creates high uncertainty (Atlaw, Teklemariam and Geun, 2013). In addition to that it was established that a negative relationship between exchange rate and foreign capital inflows (Nazanin, 2014). When exchange rate decreases, foreign goods price in host country decreases. Then foreign countries will enjoy selling their goods.

As a result, of foreign direct investment in host country will increase (Nazanin, 2014). Also, presently Nigeria is the highest recipient of FDI in Africa gulping more than 15% of total FDI flows into the continent, with more than 60% going into oil sector. (UNCTAD, 2019). Furthermore, a comparative analysis of average FDI inflow into oil sector and its corresponding gross domestic product showed inconsistency in trend and

fluctuations. The data showed that within the period of 1970-74, FDI in oil sector was N45.54billions and the GDP was N1.244544billions, 1985-1989, FDI stood at N25222.1 billion and GDP was N264.136 billion, also from 2004-2014, FDI was N307334.3 while GDP was 56,986.73, finally, from 2010 – 2013, FDI stood at N2311220.87billion, and GDP was N67,349.79billions (CBN, Statistical Bulletin, 2018). Similarly, the inflow of FDI into non-oil sector has recorded an increase and fluctuations with the sector receiving 30.8% from 1975-1979, 14.1% from 1980-1984, also 22.9% from 1990-1994 and 24.5% from 2005-2009. (CBN Statistical Bulletin, 2009). From the above analysis, it could be deduced that a progressive increase in FDI over the years does not bring about a steady increase in GDP. Given the above analysis and deductions, it is evident that it poses many questions and problem which this study tends to investigate in order to ascertain whether FDI in oil sector has an effect on the economic growth of Nigerian economy, and examine the effect of exchange rate on economic growth of Nigeria.

### 1.3 Objectives of the Study

The major objectives of the study are to investigate the effect of FDI in oil sector on the economic growth in Nigeria.

### 1.4 Hypotheses

1.  $H_{0_1}$  – Oil FDI does not have any significant effect on the economic growth of Nigeria.
2.  $H_{0_2}$  – exchange rate does not have an effect on the economic growth of Nigeria.

### 2.0 Literature Review

Odebiyi and AC-Ogbonna (2019) carried out

a study on the investigation of petroleum foreign direct investment and economic growth for the year range 1986-2016. A time series data of secondary source was used for the analysis. The Autoregressive Distributed Lag Model was employed to carry out the study and it showed a positive relationship with economic growth, and a long run and short form coefficients of the model with a speed of adjustment of 23. 9%.

The recommendation of the study is that government should create an enabling environment, enactment of investment favorable policies that will favor local investors, formulation and implementation of favorable exchange rate policies as well as provision of sound infrastructure. The methodology used to carry out the research is suitable. But the year range is not updated as it does not provide recent information on the variables. Also, the result conformed to the a priori expectation.

Agrawal (2016) undertook an empirical study on FDI in Indian Petroleum Sector from 2005-2015. He tried to analyze whether there exist any long-run relationship between FDI in petroleum sector, contribution of the sector towards national economic growth and index of industrial production in the petroleum sector. A time series data of secondary source was used, CAGR and Pearson Correlation are the two tools used to assess the growth and relationship between the variables.

The result showed a negative relationship between oil FDI and economic growth. He recommended a diversified inflow of FDI to other sectors in order to spur growth. The year range of the study makes it impossible to provide us with current information as regards

to the study. Consequently, it does not validate the theory and a priori expectation.

Salami (2014) carried out a research on Foreign Direct Investment into crude oil exploitation and its impact on the economic growth and environment: case study of Niger Delta oil producing communities. The study adopted structural equation modeling, co-integration analysis and regression analysis to arrive at findings. The findings of the study shows that the coefficients have a higher value which implied that the communities perceived that foreign direct investment into oil exploitation caused environmental degradation which has a negative impact on the overall health status of the host communities. It further revealed that there is no significant relationship between FDI in oil sector and economic growth. The author further stated that the Nigeria economy needs more domestic investment to influence the Gross Domestic Product.

He recommended on the need for government to ensure sustainable fiscal policy management, and, low inflation. Policy adoption can help make livelihood assets of the poor more resilient to environmental stress while providing other development benefits. Consequently, policy should promote equity in income distribution so that the income generated from crude oil exploitation will trickle down to the people.. The study did not take a general overview of the economy, also the year range is outdated. Also, the findings are not in line with theory and the methodology is too simplistic for the study.

Salami, Fatimah, Gazi, Makua and Oke (2012) also examined the impacts of foreign direct investment in oil sector in Nigeria and its

attendant impact on economic growth. The co-integration analysis was employed in the course of the study. And the result indicated that foreign direct investment at current year has a negative relationship with GDP possibly due to the fact that investments as such requires some time lag to translate to any significant impact.

The study revealed that the impact of domestic capital formation is little compared with the impact of foreign direct investment in the oil sector. The recommendation, thus is that resolving the issues of security, corruption, inadequate infrastructure and consistent regulations remains the key elements of Nigeria's future gridlock of attracting more efficiency-seeking foreign direct investment that can promote her economic growth. The work is suitable for my work, but the finding differs from the theory. And the gap in the year range calls for a bridge on the information gap.

Ekperiwere (2011) examined the sectorial impact of Oil and Non-Oil FDI and Economic growth, using data from 1970 to 2008. The research relied on Ordinary Least Square technique to empirically show the impact of extractive and other sectors FDI on economic growth. The oil and non-oil sectors showed valid and statistically significant. However, findings showed that non-oil is more statistically significant and has more positive effect in the economy contrary to oil FDI which has the higher FDI in the economy. The research work strongly advised that government and all stakeholders to encourage investors into non-oil sectors that has more economic returns in the form of human capital, employment, local contents than the extractive sector dominated by



expatriates. Furthermore, there is need to strengthen the local content policy in the extractive industry annex the gains of that sector to economic growth. The methodology used in this study is very suitable for the work. The findings stated a negative relationship instead of positive relationship between oil FDI and growth. Also, the gap in the year range is too far to current situation of the economy.

Dilek and Selin (2003) took a study on the role of the sectorial composition of foreign direct investment on Growth. In the study, differential effect of the primary, services, oil and manufacturing sector FDI on growth. The study covered a period of 1990-2003 of a cross-country data. The result showed that while the magnitude of inflow of FDI is very key, also the sectorial composition matters too. As the share of the manufacturing sector in FDI flows increases there is a positive effect on economic growth. Also, the higher the share of oil FDI the more positive effect it has on economic growth. Whereas, as the share of primary or service sector investments increases there is a negative effect on economic growth.

Thus, the recommendation suggest that countries should not only focus on attracting more FDI but should look into policies that will allow maximization of benefits through appropriate composition of the flows. The study did not look directly into the effect of FDI in oil sector on economic growth. The data used is cross- country data. And the finding showed that the benefits of FDI have not been fully utilized.

Hamza (2017) studied the impacts of Foreign Direct Investment in oil sector on the growth

of the Canadian economy using a time series data from 1990-2012. The Ordinary Least Square method for multiple regression was applied. The result showed that oil FDI has a positive effect on the host country's development effort due to the accompanied positive externalities. He recommended that government should provide adequate infrastructure and policy framework that will be conducive for doing business, so as to attract more FDI. Consequently, there is need for government to articulate policies that will as well be conducive for local investors to thrive. The year range of the study is far from recent, and therefore fails to provide current information for decision making. Also, a simple technique was used for the study.

Hasan and Hamza (2017) investigated the linkage between Foreign Direct Investment in Petroleum Sector, Domestic Investment and Economic Growth: Evidenced from Nigeria between the ranges of years 1980-2015 of a time series data, using Johansen multivariate Cointegration test and vector error correction model (VECM) as estimation technique. The result showed that, oil FDI, Domestic Investment and economic growth have a long-run equilibrium relationship. According to the VECM result, the speed of adjustment of the variables towards their long-run equilibrium path was 52.55%., which validates the oil FDI lead growth hypothesis of Nigeria. Thus, they recommended that government should encourage more inflow of FDI into oil sector to enhance the economic growth of the country. The study employed a more sophisticated model for the study, and is more diverse than other studies evaluated above.

Okoro and Egbunike (2015) further took an

investigation on Foreign Direct Investment in petroleum sector, Oil revenue and Economic Prosperity in Nigeria. However, quantitative data on GDP, oil revenue and oil FDI were obtained from 1981-2015. The study indicated that GDP is negatively influenced by oil revenue using Ordinary Least Square Method of analysis. But positively influences by oil FDI. The study recommended that the government should ensure accountability and transparency in the industry to control the revenue generated from oil and foreign investment in Nigeria. By doing so, funds generated can be judiciously used to empower other sectors of the economy that are growth driven. The study is quite old and therefore, seems to be irrelevant in providing the needed information for policy making. Also, a simple regression model was used for the study.

Awolusi (2012) further carried out a study on the impact of foreign direct investment in oil sector and economic growth in Nigeria: A Vector Error Correction modelling, as well as to assess the short-term impact of inward oil FDI, trade and domestic investment on economic growth in Nigeria from 1970-2010. A multivariate Cointegration technique was used to investigate the long run equilibrium relationships. The result affirmed the existence of cointegrating vectors in the systems of this country. However, the short term impact of inward oil FDI, trade and domestic investment on economic growth in Nigeria was also tested and the result revealed a short run causal effect either running unidirectional or bidirectional among variables for the country. The findings indicated that oil FDI, imports and domestic investment impacted positively on economic growth in Nigeria during the period of study.

Also the study was not able to affirm whether technology transfer aids economic growth.

The study recommended that policy makers should know that, benefits from trade and oil FDI are not automatic, a certain degree of infrastructure, education and human capital development, capacity building and consistency government policies are needed to maximize these benefits. There is need also to attract FDI into service sector so as to improve the infrastructural facilities, and as well to compliment FDI in the market and resource seeking sectors from developed economies. Critically, the study conformed to the a-priori expectation. The regression technique used in the study is sophisticated, but the year range of the study is far from present. Therefore, it questions the validity of the finding for national decision making.

Egwaikhide (2009) examined the Impact of Foreign Direct Investment in Nigeria's Economic Growth within the periods of 1980-2009. The methodologies applied in this study were Johansen Cointegration technique and Vector Error Correction Model in which the FDI is disaggregated into several components. The result stated that the impacts of some disaggregated sectors like agriculture, mining, manufacturing, and petroleum sector is very small with the exception of telecom sector which has a good and promising future, especially in the long run. He further recommended the creation of enabling investment environment climate in Nigeria through the overhauling of the security situation in the country which will help in no small measure in boosting the investor's confidence.

Also, there is need to further liberalize the

foreign sector in Nigeria while all barriers that are inimical to cross-border trade such as arbitrary tariffs, import and export duties and others are reduced to the barest minimum. The study employed a more sophisticated model in carrying out the regression. Furthermore, the year range of the work is old, also the findings conformed to the a-priori expectation.

Adams (2009) examined the effects of FDI in oil sector and Domestic Investment on economic growth in Kuwait from 1990 to 2003. He employed OLS and discovered that Domestic Investment is decidedly and essentially corresponded with economic development, while oil FDI is significantly related to economic growth just in OLS estimation. He further found that oil FDI has short run or negative impact on Domestic Investment but will eventually turns to be positive. The study recommended for a more business friendly policies to attract more oil FDI. Critically, the study employed a simple regression model, the year range of the work is far from present but, it conformed to the a-priori expectation.

Aliyu and Ibrahim (2008) using co-integration techniques examined the determinants of Foreign Direct Investment in oil sector in Nigeria and its effect on economic growth, from 1970-2006. The result observed that major determinants of FDI in Nigeria are market size, real exchange rate, political factors and more. Impulse response and variance decomposition analysis were adopted, the result shows that liberalization if not checked could be harmful to the economy. Also, the findings revealed a positive relationship between oil FDI and economic growth. Critically, the study is not

current and not credible for present day decision making. The technique employed in this study is too simple with serious limitations.

Adeolu (2007) investigated the empirical relationship between non-extractive FDI, extractive FDI like oil and economic growth in Nigeria and examined the determinants of FDI into the Nigerian economy. He collected his data from secondary sources from 1970-2002. Ordinary Least Square method was applied on augmented growth model and two stage least square method to establish the nexus between FDI, its components and economic growth. The result suggested that there is a positive effect of oil FDI and economic growth, although the overall effect may not be significant, the components do have a positive impact.

Also, the result suggested that factors such as market size, infrastructure development and stable macroeconomic policy determines the level of FDI in Nigeria. The study recommended for a more enabling environment for FDI and domestic investment to thrive. Also, necessary infrastructure should be put in place to tap the positive externalities that come from FDI. The study is old, but a more sophisticated technique was employed for the study.

Anyawale (2007) investigated the empirical relationship between extractive FDI and economic growth in Nigeria as well as the determinants of FDI inflow into Nigerian economy from 1970-2002. He used both single equation and simultaneous equation model to examine the relationship. The result showed a positive correlation between extractive FDI such as oil and economic growth in Nigeria. Further, some of the factors

seem significant in attracting FDI in Nigeria were market size, political instability and others. The study is not current and associated with limitations not reliable for decision making.

In a related work by Akintola (2004) the study explored the impact of foreign direct investment in the petroleum sector on economic growth in Nigeria, for the period of 1970-2001. The technique of analysis was Error Correction Model which showed a significant impact of petroleum FDI on the economic growth. He therefore recommended for labour expansion and education policy to raise the stock of human capital in the country in order to maximize the benefits that FDI in petroleum sector generates.

Most studies on economic growth using the Solow's growth model normally employ the aggregate-production function developed by Cobb-Douglas. The Cobb-Douglas production function is modelled against capital input, labour input, and the rate of technological progress. According to this theory, FDI increases the capital stock in the host country; and this would, in turn, affect economic growth (Mahembe & Odhiambo, 2014)). Since FDI brings about new technologies which in turn leads to increased labour and capital productivity, FDI can impact economic growth.

The theoretical underpinning of this research therefore is anchored on the exogenous growth model which is considered very important in explaining the importance of FDI flows at the global level with enormous benefits to the local economy

### 3.0 Research Methodology

The study adopted the ex-post facto design because the design considers availability of data that already in existence. The reason for the choice of period is justified on the ground that the Nigerian economy witnessed oil boom and an increasing number of oil international firms entered the oil sector for business.

After carrying out unit root test for the three variables, we achieved stationarity at first difference for all the variables; consequently, we carried out cointegration test using Johansen cointegration technique. It showed no cointegration which indicates that there is no long run relationship among the variables. This necessitated the application of standard VAR as the suitable estimation technique. Given a 3 variable VAR model, we have the following standard VAR model specified:

$$\begin{aligned}
 FDI &= f(RGDP, Exr) \\
 \Delta FDI_t &= \alpha + \sum_{i=1}^k \beta_i \Delta FDI_{t-i} + \sum_{j=1}^k \beta_j \Delta RGDP_{t-j} + \sum_{m=1}^k \theta_m \Delta Exr_{t-m} + U_{1t} \quad \dots \quad (1) \\
 \Delta IRGDP_t &= \delta + \sum_{i=1}^k \beta_i \Delta FDI_{t-i} + \sum_{j=1}^k \beta_j \Delta IRGDP_{t-j} + \sum_{m=1}^k \theta_m \Delta Exr_{t-m} + U_{2t} \quad \dots \quad (2) \\
 \Delta Exr_t &= \rho + \sum_{i=1}^k \beta_i \Delta FDI_{t-i} + \sum_{j=1}^k \beta_j \Delta IRGDP_{t-j} + \sum_{m=1}^k \theta_m \Delta Exr_{t-m} + U_{3t} \quad \dots \quad (3)
 \end{aligned}$$

### 3.1 Model Specification

The model for the study is specified thus: In line with the study by Odebiyi and AC-Ogbonna (2019) on the Investigation of impact of Petroleum Foreign Direct Investment and economic growth in Nigeria. This study therefore adopted the same growth model as follows;

$$\begin{aligned}
 RGDP &= f(FDI, INTR, EXCH) \quad \dots \quad (1) \\
 \text{The model is therefore mathematically specified thus:} \\
 RGDP_t &= f(OFDI, EXCH) \quad \dots \quad (2) \\
 RGDP_t &= \beta_0 + \beta_1 OFDI_t + \beta_2 Exch_t + \mu_t \quad \dots \quad (3)
 \end{aligned}$$

Where  
 RGDP= Real Gross Domestic Product  
 OFDI= Oil Foreign Direct Investment  
 EXCH = Exchange rate  
 Ui = Error term  
 Real Gross Domestic Product is chosen as the dependent variable to capture the changes in

the independent variables. While, Oil Foreign Direct Investment, and Exchange Rate are the independent variables.

$\beta_0$  is a constant parameter

$\beta_1, \beta_2$ , are the parameters to be estimated

### 3.2 Apriori Expectation

$\beta_1 < 0, \beta_2 > 0, \beta_3 > 0$

### 3.3 Sources of Data and Method of Data Collection

The study used data annual time-series secondary data on the variables from 1970-2018. It consists data on Gross Domestic

Production, Foreign Direct Investment in oil sector, and Exchange rate. The sources of data for this study were from Central Bank of Nigeria Statistical Bulletin for Exchange rate, the National Bureau of statistics (NBS) publication for Gross Domestic Product, World Bank Development Indicator for Oil Foreign Direct Investment and World Investment Directory. Real Gross Domestic Product is as proxy for measuring Economic Growth in Nigeria while exchange Rate was used to measure FDI in Nigeria Oil sector.

### 4.0 Presentation and interpretation of Estimation Results

Table 1.1 shows the mean, standard deviation, maximum, minimum and other values of the variables. Descriptive statistics show the statistical characteristics of the data used

Table 1.1: showing the Descriptive statistics of the variables.

	RGDP	OFDI	EXC
Mean	35610502	45486899	88.65711
Median	25453452	13463899	97.4
Maximum	69023930	2.27E+08	306.08
Minimum	16318341	1916.529	0.51
Std. Deviation	18513455	63340836	87.1981
Skewness	0.702622	1.478496	0.798932
Kurtosis	1.945608	4.393455	2.963906
JarqueBera	4.886885	16.91874	4.044584
Probability	0.086861	0.000212	0.132352
Sum	1.35E+09	1.73E+09	3368.97
Sum Sq. Dev.	1.27E+16	1.48E+17	281329.8
Observations		38	38

Source: Author generated using E-Views 9,2020

**4.1 Unit Root test.**

The unit root test is carried out to find out if the variables are stationary or not over time. The essence of stationarity is for the mean and the variance of the data to be fairly constant to help the predictability of the model. Table 1.2 shows the result of the unit root test for all the time series data conducted using the Augmented Dickey Fuller (ADF) and Phillip Perron test.

Table 1. 2 Unit Root Result using Augmented Dickey Fuller (ADF) and Phillip Perron.

At Level				At first Difference			
Variable	ADF stat	5% level	Prob. Value	ADF stat	5% level	Prob. Value	Order of Integration
LRGDP	-0.75382	-2.9484	0.8196	-3.90868	-2.94584	0.0048	I(1)
LOFDI	-2.39393	-2.94343	0.1503	-5.27463	-2.94584	0.0001	I(1)
LEXCH	-2.22014	-2.94343	0.2029	5.196301	-2.94584	0.0001	I(1)

Table 1.3 Phillip Perron Test

At Level				At first Difference			
Variable	PPT Stat	5% level	Prob. Value	PPT stat	5% level	Prob. Value	Order of Integration
LRGDP	-0.649744	-2.943427	0.9893	-3.801338	-2.945842	0.0064	I(1)
LOFDI	-2.39393	-2.94343	0.1503	-5.252302	-2.94584	0.0001	I(1)
LEXCH	-2.625944	-2.943427	0.0970	5.196301	-2.94584	0.0001	I(1)

**Source:** Computation by researcher using E-Views 9,2020

Table 1.3 shows that the variables were not stationary at level of 5%. Then, all variables are differenced, and were all found to be stationary at 5% in the both tests. Since all the variables are stationary at the same order of integration, that is I (1), it indicates the need for further treatment and analysis and hence, the need for co-integration test using Johansen Cointegration test to check for existence of long or short run relationship of the equation. Consequently, the unrestricted Vector Autoregressive Model of estimation will be used.

**4.2. Optimal Lag Selection.**

The optimal lag selection was carried out before cointegration, and all the lag length selection criteria (AIC, LR, FPE, SC and HQ) chose lag length 3. We shall therefore use lag 3 for the estimation of the model.

**4.3. Co-integration test.**

Cointegration enables us to confirm if there is a long run relationship among the variables. This will help us determine the long run association among the variables for future forecast and prediction.

Table 1.4. Johansen Cointegration Tests.

Trace Test				Max -Eigen test		
Ho	Trace Statistic	0.05 level of sig	Prob. Value	Max -Eigen Statistic	0.05 level of sig	Prob. Value
None	24.75896	29.79707	0.1702	13.84244	21.13162	0.3781
At most 1	10.91652	15.49471	0.2167	6.520373	14.26460	0.5474
At most 2	4.396148	3.841466	0.0360	4.396148	3.841466	0.0360

**Source:** Computation by researcher using E-Views 9,2020

Table 1.4 above shows the result of the co-integration test. The table shows that using Trace statistics and Max-Eigen value test, there is no cointegration, since at the null hypothesis of none, the probability value is more than 5%. We therefore accept null and conclude that there is no cointegration.

#### 4.4. Vector Autoregressive (VAR) Estimation result.

As a result of no cointegration achieved after Johansen cointegration test. It implies no long run relationship among the variables, and therefore we resorted to use of unrestricted

Vector autoregressive model. The result showed a negative coefficient for foreign direct investment in oil sector lagged one period and a positive coefficient for exchange rate lagged one period.

Table 1.5: VAR Estimation Result.

Dependent Variable: LRGDP					
Variable	Coefficient	Std. Error	t-Statistic	Prob.	
D(LRGDP(-1))	0.430062	0.149119	2.884017	0.0070	
D(LOFDI(-1))	-0.031132	0.024109	-1.29134	0.2058	
D(LEXCH(-1))	0.044117	0.033441	1.319243	0.1965	
C	0.023651	0.010950	2.159785	0.0384	
R-squared	0.269064		Durbin-Watson stat		2.284886
Adjusted R squared	0.200539				
F-statistic	3.926493				
Prob.(F-statistic)	0.017094				

**Source:** Computation by researcher using E-Views 9,2020

#### 4.5 Residual Diagnostics tests result.

Table 1.6

Residual Diagnostic tests	
Type of test	Prob.
Breusch-Godfrey Serial Correlation LM Test:	0.0645
Heteroskedasticity Test: Breusch -Pagan -	

**Source:** Computation by researcher using E-Views 9.

**i) Breush-Godfrey Serial Correlation test result.**

The table 9.6 above gives the results for the Breusch-Godfrey Test of Serial correlation. The probability of 0.0645 which is greater than 0.05 indicates that the residuals of the variables are not serially correlated. It implies that there is no correlation between consecutive residuals or error term. Thus, the null hypothesis of no serial correlation is not rejected, which satisfies the assumption of no serial correlation. Consequently, the model shows a good precision, therefore could be used for forecasting.

**ii) Breush-Pagan-Godfrey Heteroskedasticity test result.**

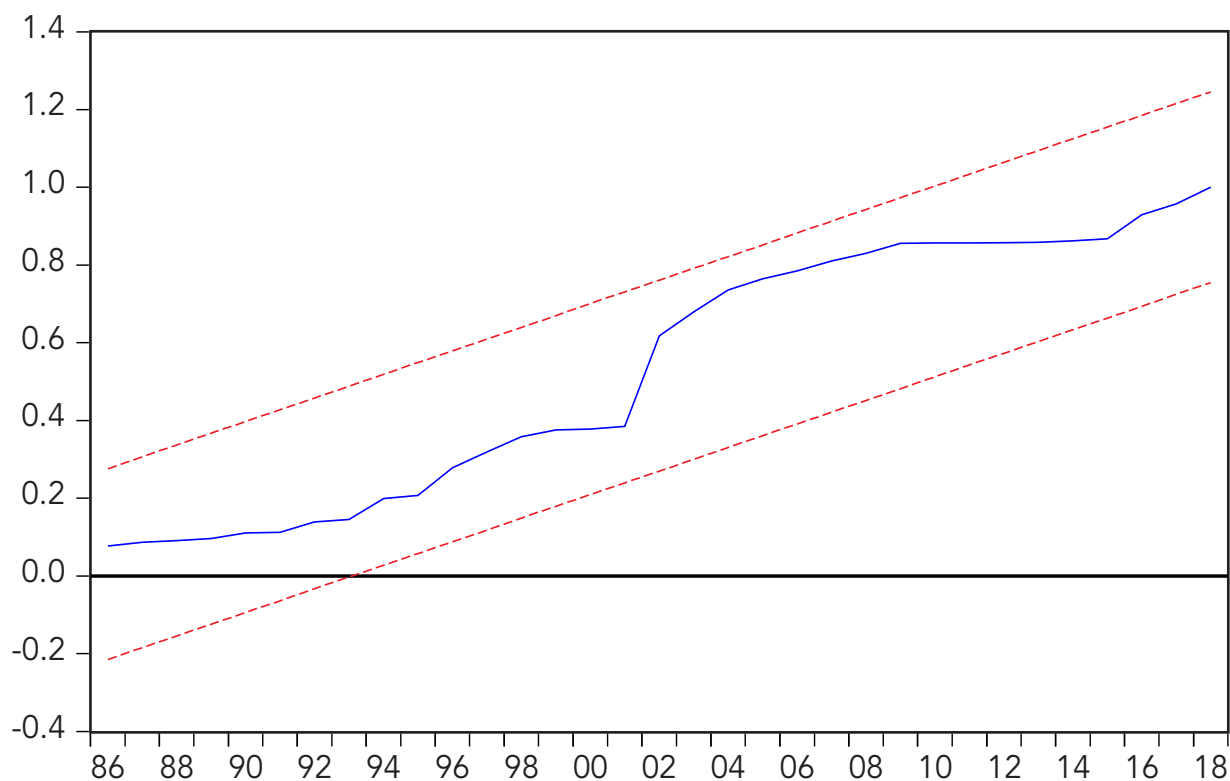
Above 9.6 table shows the result of Heteroskedasticity test by Breush-Pagan-

Godfrey test. Given that the probability of 0.1892 is greater than 0.05 indicates that the residuals of the variables are homoscedastic. It implies that the error term is the same across all variables of the independent variable. Therefore, the coefficient of the variables are unbiased and could be used for forecasting.

**iii) Normality test result.**

The table 9.6 above shows the result of normality test of Jarque-Bera test. The Jarque-Bera has a value of 0.907474 and a probability value of 0.635250, which is greater than 0.05, it indicates that the residuals of the variables are normally distributed which satisfies the normality assumption. In order words, it could be used for forecasting and policies.

**iv). Stability Test Result.**



Source: Author's Computation 2020

From the graph above using CUSUM of squares, it shows that the variables are stable. That means the model exhibits stability over time and can be used for forecasting.



#### 4.6 Interpretation of Result

Having tested for stationarity of the variables of which they were all stationary at first difference, the Vector autoregressive estimation model was used to perform the estimation as shown in table 4.5. The results in table 4.5 showed that the estimated intercept is 0.023651 while the estimated coefficients of foreign direct investment in oil sector lagged by one period is -0.031132 which is different from the a-priori expectation, and the estimated coefficients of exchange rate lagged by one period is 0.044117 which is the same with a-priori expectation.

Similarly, real gross domestic product lagged by one period carries a positive sign and implies that output this year will be positively influenced by that of last year. However, it is statistically significant at P value of 0.0070. The result indicates that foreign direct investment in oil sector has a negative effect on economic growth and exchange rate has a positive effect on economic growth.

A one percent increase in exchange rate component leads to 0.4% increase in the rate of real GDP, while a one percent increase in foreign direct investment in oil sector leads to a fall in the rate of growth in the real GDP by -0.3%. This shows that exchange rate contributes positively to real Gross Domestic Product but foreign direct investment in oil sector contributes negatively to real gross domestic product over the period under review.

Using the result of the estimation in table 4.5. From the result in table 4.5, a unit increase in exchange rate lagged by one period leads to about 0.4% increase in economic growth in Nigeria. This shows that there is a direct relationship between economic growth and

exchange rate. However, it is not statistically significant at probability value of 0.1965.

Again, the result in table 4.5 shows that a unit increase in foreign direct investment in oil sector lagged by one period will bring about a decrease in economic growth by -0.3%. This shows that there is a negative relationship between foreign direct investment in oil sector and economic growth.

#### 4.7 Evaluation of Working Hypotheses

The research objectives and working hypothesis are evaluated based on the regression result shown in table 9.5.

The main objective of this study was to investigate the effect of FDI in oil sector on economic growth in Nigeria under the year in review. We discovered that there is a negative effect between oil foreign direct investment and economic growth, which indicates that a unit change in oil foreign direct investment lagged by one period leads to a fall in economic growth by -0.3% in Nigeria. In effect, the relationships were not statistically significant as the probability value is more than 5% and not in line with a-priori expectation. The reasons for the deviation from the expected a-priori sign could be explained from the point of view that since oil generates up to 90% percent of the Nigeria foreign revenue but contributes a little to gross domestic Product, it implies that foreign direct investment in oil sector does not constitute a major part of GDP related productive component. Also, due to the indirect linkage between Oil sector and other productive sectors of the economy, it takes longer time for its positive spillover to be felt. This submission could be substantiated by the work of Salami (2012) which stated is due to the time lag required for such investment to be translated to any significant impact.

Another objective was to determine the effect of exchange rate on economic growth in Nigeria. We discovered that there is a positive effect between exchange rate and economic

growth, which indicates that a unit increase in exchange rate lagged by one period brings about a 0.4% increase in economic growth. In effect, the relationships were in the main, statistically insignificant due to the probability value of 0.1965.

### 5.0 Summary of Result

All variables were tested at level and first difference, but stationarity was achieved at first difference using the Augmented Dickey-Fuller (ADF) unit root test and Phillip Perron tests. Consequently, with Johansen cointegration test, there was no cointegration, implying no long run relationship among the variables under study. Empirical results of the Vector Autoregressive model show that there is a negative relationship between economic growth and oil foreign direct investment which did not conform with the a- priori expectation. However, it has a probability value more than 5% which shows that foreign direct investment in oil sector is statistically insignificant in affecting economic growth within the period under review.

Also, the finding showed a positive relationship between economic growth and exchange rate which conformed to a-priori expectation. But, it has a probability value which is more than 5% implying that exchange rate is statistically insignificant in affecting economic growth over the period of 1981-2018. The result is consistent with the work of Salami et al (2012) and Moses (2011) which showed that FDI in oil sector has a negative impact on economic growth. The residuals results were shown to satisfy all the four key assumptions of OLS regression, indicating that the model could be used for

forecast.

### 5.1 Conclusion

In this study, an attempt has been made to investigate the effect of foreign direct investment in oil sector on economic growth in Nigeria from 1981 to 2018. Having tested for stationarity of the variables which were found stationary at first difference, the Vector Autoregressive model was employed to carry out the estimation. The model estimated showed that independent variables- oil foreign direct investment and exchange rate do not significantly have any effect on economic growth in Nigeria.

The variable that showed correct sign was not significant in affecting the dependent variable. The weakness of effect of oil foreign direct investment in oil sector could be attributed to poor infrastructural facilities, the time lag and indirect linkage between oil sector and other sectors. Furthermore, for exchange rate, it could be attributed to unstable and multiple exchange rate practiced in Nigeria which reduced the confidence of foreign investors and their profit level.

### 5.2 Policy Recommendation

- I. The government should through the monetary authorities initiate an economic policy on exchange rate that will further drive foreign investment in Nigeria
- II. The government should also guarantee sustainable macroeconomic policy framework that could encourage foreign investment in the Nigeria oil sector. All these will boost the economic growth of Nigeria.

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## Impact of Human Capital Development on Productivity in Nigeria



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### Abstract

*This study assessed the impact of the human capital development on productivity in Nigeria. The study employed Auto-Regressive Distributed Lag (ARDL) technique. The result of the study revealed that there is long run relationship between human capital development and productivity. The ARDL long-run co-integrating coefficient revealed that the coefficient of productivity is positive and statistically significant. There is an interrelationship between human capital development and productivity in Nigeria. It was observed at the end of the study that about 16.85% (productivity) of the short-run inconsistencies are being corrected and incorporated into the long-run equilibrium relationship in each period. Individuals are encouraged to acquire more education and skills as a result of high-income disparity among households; the resulting overall effect would lead to increase in productivity. Effort of the government in Nigeria should be directed at increasing expenditure on education and health in order to increase productivity in the short run and long run respectively. Thus, the quality and quantity of human resources would lead to positive growth in the economy and further accentuate the ability of the nation to attain sustainable growth and development.*

**Keywords:** Human Capital Development, Productivity, Growth and Development.

### 1.0 Introduction

It has been observed that the ability of any nation to attain sustainable growth and development largely depends not only on the available natural resources and other supportive factors; but also on the ability to perfectly combine, transform and distribute these factors; which in turn, depends on the quality and quantity of human resources in the economy (Todaro, 2007). Hence, the wealth and vitality of nations rest ultimately upon the development of people and the effective commitment of their energies and talents towards production. Developing countries are usually characterized by their low rate of productivity, poor literacy level, low income, poor health care system, and low standard of living (Todaro and Smith, 2011). Consequently, low and inadequate government spending on health care and education, which are the basic infrastructure that are imperative for improving human capital development in developing countries, are extremely low. The poor investment in human capital development hinders the productivity level of people in an economy. Countries with significantly developed human capital, on the other hand, enjoy quite a number of benefits such as increased level of productivity, reduced poverty, increased employment opportunities, wealth distribution, and sustainable economic growth rate. Countries that failed to develop her human capital adequately have the following demographic indicators such as low life expectancy, and high mortality rate.

According to the United Nations (2006) many developed countries have engaged their human capital to achieve substantial progress in terms of the productivity and technological advancement. In spite of the recognition of

human capital usage among developed countries though, several developing countries have still not woken up to the actual fact that human capital may be used as a key drive to facilitate an improved economy through productivity.

Several developing countries including those of Sub-Saharan Africa countries are yet to reach their maximum capacity in spending on the component of human capital in boosting their productivity level (Shuaibu, 2016). Inadequate spending by the government on human capital in Sub-Saharan countries has contributed to numerous challenges ranging from low quality of educational delivery which consequently result in poorly equipped graduates to poor infrastructures in healthcare, which has led to a negative effect on the level of productivity (Ragan & Lipsey, 2005).

Nigeria, a developing country in Sub Sahara Africa, in an attempt to develop her human capital to achieve sustainable growth through increased productivity, embarked on some educational programs in the past. Unfortunately, the programmes only served as conduits to transfer money to the corrupt political leaders and their cronies (Anyanwu, Adam, Obi & Yelwa, 2015). In 1967, Nigeria launched a mass-oriented education program; Universal Primary Education (UPE). The program was launched by Olusegun Obasanjo. However, it was reported that the falling standard of education in Nigeria was caused by an "acute shortage of qualified teachers at the primary school level" not long after the period of commencement. About 23 percent of the over 400,000 teachers employed in the nation's primary schools do not possess the Teachers' Grade Two

Certificate, even when the National Certificate of Education (NCE) is the minimum educational requirement to teach in primary schools in Nigeria (Ogbeifum & Olisa, 2001). These have caused undesirable consequences for the development of high-quality human capital in Nigeria. Yet it has not changed the focus Nigeria on human capital development in its objective to achieve significant levels of productivity.

Productivity is the efficient and effective use of resources i.e., labour, capital, materials and land in the production of various goods and services. Higher productivity is accomplishing more output with the same amount of resources or achieving higher output in relations to same volume and quality of input. The level of economic growth determines the productive structure of a country (Todaro, 2007). This improved labour productivity is boosted through investment in human capital. UNDP (2010) observed that no country has achieved sustained economic development without substantial investment in human capital and improved labour productivity. Lyakurwa (2007) is of the opinion that only education has the capacity to enlarge the choices and opportunities of the people, improving the healthy living through acquired skills and eventually enhance growth in a nation's Gross Domestic Product (GDP) through increased productivity.

There has been a persistently low productivity rate in Nigeria (Computer and Enterprise Investigations Conference, 2019). Labour productivity dropped by 1.14% in September 2018 compared with growth of 3.25% in the previous quarter. Indeed, there is a huge decline in GDP per worker over the years. This indicates that there is low GDP per person in

the country. Nigeria's productivity growth dividend opportunity is very significant (OECD, 2018). However, the country has several challenges that prevent her from realizing such a productivity dividend (Bloom, Finlay, Humair and Mason 2010).

In addition, literatures have been able to establish that human capital development would enhance productivity. Given the high prospects of achieving productivity growth in Nigeria which human capital development may contribute to, education and health, therefore, continue to receive significant attention from the Nigerian government. Thus, this study seeks to examine the effect of human capital (education and health) on productivity in Nigeria.

In particular, it explores the contribution of health and education as major components of human capital development on Nigeria's productivity.

## 1.2 Statement of the Problem

Over the years there has been huge investment on human capital development through increase in government expenditure on education and health, to increase the productivity growth. For example, between 2010 and 2020, government spending on education went from 170.8 billion naira, which was 5.49% of the government total expenditure in 2010, to 593.44 billion naira, which was 7.31% of the government total expenditure in 2020.

Government spending on health increased from 99.10 billion naira, which was 3.19% of the total government expenditure in 2010 to 365.99 billion naira, which was 4.55% of the total government expenditure in 2020.

The labour productivity had a downward trend between 1985 and 1998, despite the various policies by the government such as Structural Adjustment Programme (SAP). The productivity level had an upward trend between 1999 and 2005 when policies like National Economic Empowerment Programme Strategy (NEEDS) was adopted by the government. In September 2018, labour productivity fell by 1.14%, compared to 3.25% rise the previous quarter. The labour productivity had a negative growth between January 2016 and July 2017, and then in September 2016 the labour productivity growth of Nigeria recorded an all-time low of -3.81%. The labour productivity rate has also been declining between 2018 and 2020. The implication of this persistent decrease in productivity growth sends a signal of an unhealthy economy, to the government. Policy makers have suggested that a better performance of productivity growth will enhance the growth of the economy.

Despite the increasing expenditure on education and health in Nigeria, low productivity has been major problem in Nigeria over the years. There is need to tackle the problem of the increasing rate of low productivity as a result of lack of human capital development.

Nigeria as one of Africa's biggest economies has been faced with the problem of human capital development over the years. In spite of all the abundant resources, the Nation has been endowed with resources such as crude oil, bitumen, fertile land for agriculture, and so on. Nigeria has failed to realize her full development potential in terms of sustainable human capital development or people-oriented development like many

other prosperous economies of the world that have adopted a similar strategy to boost their labour productivity.

In response to this, various researchers have investigated the factors affecting human capital and productivity, with diverse views and their outcomes remain inconclusive and unsatisfactory for the essential empirical needs of policy makers, a few of the research studies are Mbonigaba and Akinola (2020), Bokana and Akinola (2018) examined human capital on productivity in South Africa. Some other researchers like Awotunde (2018) focused on capital accumulation on productivity growth in Nigeria. Also, some researchers such as; Umoru and Yaqub (2013) focused on the effect of productivity on unemployment in Nigeria. None of the above previous studies examined the relationship between human capital development and productivity in Nigeria, which is the central focus of this study. These form the gap, the needs, and justification for this study.

The broad objective of this study is to examine the impact of human capital development on productivity in Nigeria.

In a bid to successfully carry out this research, the following question was raised:

- i. What is the impact of human capital on productivity growth in Nigeria?

### 1.3 Significance of the Study

The Asian tigers have revealed that high productivity serves as influence centres, where world resources including labour are redirected as against economies with low or declining productivity, unlike in the past where economies with high productivity were centred on the determination of global balance of economic power like Japan and

United Kingdom (Paul, 2018). Recent studies, including Odusola & Obadan (2018) have also shown that high productivity increases competitiveness in terms of penetrating the world market. Hence, a very high capacity utilization rate (optimal use of resources), high standard of living and low rate of unemployment depict high productivity in an economy. Huge investment in human capital formation has played a major role in increasing the productivity among the Asian Tigers. The Asian tigers invested heavily in education, health care system and infrastructural facilities, thus, improved the knowledge and skills of the workforce which resulted in increasing their productivity.

This study would help to understand better and appreciate how human capital development affects productivity in Nigeria. At the individual level, this study would enable people to understand and appreciate the relevance of developing human capital in a bid to achieve productivity. For the Private Sector, this study would help them to improve their productivity through human capital. For the government, it would provide a framework for policy formulation through human capital and the implementation to improve the level of productivity to achieve better economic growth and development in the nation. This study focused on human capital development on productivity in Nigeria and it relied on time data series from 1985 to 2020. The timeframe was due to the availability of data from the central bank of Nigeria statistical bulletin, World Bank database and Penn world data table.

### 2.0 Literature Review

Krugman (1994) defines productivity as the ratio between the output and inputs, i.e.,



productivity measures how efficiently input of production such as labour and capital are being utilised in an economy to produce a given level of output. According to Krugman (1994), productivity is a key source economic growth and tackling unemployment. It can be used to determine the utilisation of the capacity, which can be used to measure the position of economies in the business cycle. Productivity is used to assess the relationship between quantity and quality of goods and services produced and the quantity of resources needed to produce them; factors of production like labour, capital and technology. Increase in productivity could be as a result of using minimal resources, reducing cost and use better methods; innovation in factor inputs, predominantly labour (Obadan & Odusola 2018).

### **Theory of Marginal Productivity**

This theory was developed by the Von Thunen in 1826, then later developed and discussed further by Clark, (1901); Schultz, (1929); Hicks, (1932). This theory under the perfect competition, the price of services rendered by a factor of production is equal to its marginal productivity. Marginal product refers to the increase in amount of output by addition of one unit of factor of production, while the other factors remain constant. The increase in the output with the addition of one unit of factors of production is known as Marginal Productivity. Clark, (1901) argued that a business would be willing to pay productive agents only what he adds to the firm's welfare or utility; that it is clearly unprofitable to buy, for example, a man hour of labour if it adds less to its buyer's income than what it costs. This marginal yield of a productive input came to be called the value of its marginal product.

Blaug, (1997) posited that "The marginal productivity theory competes that in equilibrium each productive agent will be rewarded in accordance with its marginal productivity". If organization increases one unit of a factor of production, while keeping other factors constant, the marginal productivity increases to a certain level of production. After reaching a certain level, the marginal productivity starts declining. This is because when an organization keeps on increasing the amount of a particular factor of production, the marginal cost increases also. After reaching a certain level, the marginal cost (MC) exceeds the marginal revenue (MR), thus the marginal productivity declines. On the other hand, if marginal revenue (MR) is greater than marginal cost (MC), the organization opts for employing an additional unit factor of production.

### **Empirical Review**

Mbonigaba and Akinola (2019) examined the productivity effects of human capital: an empirical investigation of health and higher education in South Africa. The study investigated the relationship between human capital and health, higher education enrolment (HEE), and higher education graduates (HEG) The study adopted the time series autoregressive distributive lag (ARDL) with data covering the period 1980 - 2015. The study found that, while GDP grows, employment rates and HEE have a positive impact on productivity in South Africa. Capital stock and life expectancy exhibited an inverse relationship with productivity. The findings of the study support the hypothesis that widespread antiretroviral therapy and resulting survival, without corresponding school sector focus on needed skills, relate negatively to productivity. The findings

further support that school enrolments affect positively, productivity because they comprise individuals who are partly skilled in programs needed by the economy. Also, the study supports the hypothesis that graduate outputs relate negatively to productivity, because of mismatch of graduation skills and the economy's need. As a policy suggestion, combined effort at school and health sector is needed in South Africa for increased productivity.

Awotunde (2018) investigated the role of capital accumulation on labour productivity growth in Nigeria. Endogenous growth and efficiency wage theories were employed in explaining the determinants of labour productivity. The study employed the ordinary least squares (OLS) technique to evaluate the effect of capital accumulation on labour productivity and employment generation in Nigeria over the period of 1970-2014. The findings suggest that education expenditure and capital formation's impact on labour productivity growth is time dependent; health expenditure positively impacts labour productivity growth and compensation to employee negatively impacts productivity growth in Nigeria.

Ngutsav and Ijirshar (2018) examined the relationship between labour productivity and economic growth in Nigeria covering the period of 1980 to 2015. The study employed the Auto-regressive Distributed Lag (ARDL) model for the analysis. The study discovered that there was a significant relationship between labour productivity and agricultural sector growth and between labour productivity and the growth in the service sector. However, there was no significant relationship between labour productivity and

manufacturing sector growth and between labour productivity and the growth in the oil and gas sector. The study recommended that the Nigerian government should continue to invest greatly in human resource development that could improve labour productivity in all the sectors in the recent changing world towards highly technological growth-oriented economy, and should create an enabling environment for the agricultural sector through advancing of loans to farmers and manufacturers through formal financial institutions.

Hadir and Lahrech, (2015) examined the relationship between human capital development and economic growth in Morocco using annual data from 1973 to 2011. The study used the ordinary least square regression using total government expenditure on health and education, the enrolment data of tertiary, secondary and primary schools as a proxy for human capital. The study revealed that there is a positive relationship between total government expenditure on education, total government expenditure on health, primary school enrolment, secondary school enrolment and tertiary school enrolment. The study recommended that the effort of Government on increasing primary school enrolment through the free compulsory Universal Basic Education should be sustained and the government should invest more and more in Health.

Lawanson (2015) investigated the relevance of education and health components of human capital to economic growth, using panel data from sixteen West African countries over the period 1980 to 2013. The study employed Diff-GMM dynamic panel

technique. The findings indicated that coefficients of both education and health have positive statistically significant effects on GDP per capita. The study affirms the strong relevance of human capital to the economic growth of West Africa. The study recommended that increased resources and policy initiatives to motivate and enhance access to both health and education by the population should be pursued by policymakers.

Umoru and Yaqub (2013) examined the labour productivity effects of health capital in Nigeria. The study adopted the GMM methodology in the estimation. The study found that health capital investment is a significant determinant of labour productivity. The analysis indicated that health capital investment enhances productivity of the labour force. Another essential finding in the study lies in the statistical significance of the education-labour and health capital-labour interaction terms. The Nigerian government has to build capacity through investment in education in order to enhance productivity of the labour force.

### 3.0 Research Methodology

This study is anchored on the Lucas Endogenous Model. Lucas propounded this model in 1982, developing Becker's model that first introduced human capital into the Endogenous growth model. Becker (1964) posits that humans are more productive due to their increase in knowledge and skills. Becker (1964) explained that improved health of the people also improves productivity in any country. Romer modified the model in 1990.

Romer (1990) assumes that investment in

education and health leads to the production of human capital which is the crucial determinant in improving the productivity level of an economy. The model made a distinction between the internal effects of human capital where the individual worker undergoing training becomes more productive and external effects which spill over and increase the productivity of capital and of other workers in the economy. The model opined that investment in human capital rather than in physical capital has a spill-over effect that increases the level of technology in any given economy.

Romer (1990), explains that each firm faces constant returns to scale, while there are increasing returns for the whole economy. Further, learning by doing or on the job training and spill-over effect involve human capital. Each firm benefits from the average level of human capital in the economy, rather than from the aggregate of human capital. Thus, it is not the accumulated knowledge or experience of other firms but the average level of skills and knowledge in the economy that are crucial for productivity in an economy.

$$y = Ak \tag{1}$$

Where A is a positive constant that represents the technology and K is a broad concept that includes physical and human capital. Expressing equation 1 as a ratio of Labour (L) to obtain output per labour, we have:

$$\text{where } y = \frac{y}{L} \tag{2}$$

$$k = \frac{K}{L} \tag{3}$$

The equation 1 becomes:

$$y = Ak \tag{4}$$

Equation (4) is the output per capital and the average and marginal products of capital are constants at the level  $A > 0$ . According to Lucas (1988), capital (k) can be broken down into human capital ( $Hk^\alpha$ ) and physical capital

$(Pk_t^\beta)$  as in  
 Therefore,  $K = (Hk_t^\alpha Pk_t^\beta)$  5

Incorporating equation (5) into the endogenous production function:

$$y_t = A_t H k_t^\alpha P k_t^\beta \quad 6$$

Where  $y$  is the total factor productivity,  $A_t$  is the level of technology,  $(Hk_t^\alpha)$  is human capital and  $(Pk_t^\beta)$  is physical capital.

Human capital improves the knowledge and skills of the workforce, which would in turn increase the level of productivity of the economy. The knowledgeable and skilled labour force would be more productive in the economy.

The objective is to examine the effect of human capital on productivity

Recall equation (6) above:  $y_t = A_t H k_t^\alpha P k_t^\beta$  7

Representing human capital with government expenditure on education (E), government expenditure on health (H), average years of schooling (S), mortality rate (M), life expectancy (L).

$$y_t = A_t E_t^\delta S_t^\theta M_t^\phi E_t^\beta L_t^\varphi P k_t^\beta \quad 8$$

Expressing equation (7) in linear form:  
 $y_t = A_t + \delta E_t + \theta S_t + \phi M_t + \vartheta H E_t + \varphi L E_t + \beta P k_t$  9

Expressing equation (8) in stochastic form:  
 $y_t = \alpha_0 + \alpha_1 A_t + \alpha_2 E_t + \alpha_3 S_t + \alpha_4 M_t + \alpha_5 H E_t + \alpha_6 L E_t + \alpha_7 P k_t + \mu_t$  10

Where  $\alpha_0$  is the constant and  $\alpha_1 \alpha_2 \alpha_3 \alpha_4 \alpha_5 \alpha_6 \alpha_7$  are the coefficients of the variables.

From equation (10),  $y_t$  is Total Productivity Factor,  $A_t$  is Technology,  $E_t$  is the Government Expenditure on Education,  $S_t$  is the Average Years of Schooling,  $M_t$  is the Mortality Rate,  $H_t$  is the Government Expenditure on Health,  $L_t$  is the Life Expectancy,  $Pk_t$  is Physical Capital,  $\mu_t$  is the error term.

The estimation techniques used for this study, is Auto Regressive Distribution Lag test to test for the presence of long run relationship among the variables. Error Correction model was used to show the rate at which short-run inconsistencies are being corrected and incorporated into the long-run equilibrium relationship which was employed after conducting the preliminary tests like the unit root test, co-integration, lag selection test. To derive a well reliable result, the data for Total Factor Productivity were sourced from the Penn World Table, while the data for Mortality rate, Life Expectancy were gotten from World Development Indicators. Also human capital was represented with government expenditure on health and education which was gotten from the Central Bank Nigeria (CBN) statistical bulletin. It was used to source for annual time series data while the E-view was used to analyse the data sourced.

### 4.0 Results and Discussion

Table 2.1: Unit Root Test

Variables	Test statistics	Critical value			Order of Integration
		1%	5%	10%	
TFP	-6.092332	-3.639407	-2.951125	-2.614300	I(1)*
AYS	-3.815736	-3.632900	-2.948404	-2.612874	I(0)***
GHEA	-2.984452	-3.711457	-2.981038	-2.629906	I(1)**
LE	-2.937667	-3.639407	-2.951125	-2.614300	I(0)**
GEDU	-3.995774	-3.724070	-2.986225	-2.632604	I(1)**
MR	-7.113841	-3.639407	-2.951125	-2.614300	I(1)*

Note: \* (\*\*) (\*\*\*) denotes null hypothesis at 10%, 5% and 1% level of significant respectively

Source: Author's Computation, (2021) from E-view 9, Statistical Package

Table 2.1 showed the result of the Augmented Dickey-Fuller unit root test. From the result, it is shown that average years of schooling and life expectancy attained stationarity at level and at 1%, 5% and 10% level of significance while total factor productivity, government expenditure on health, government expenditure on education and mortality rate attained stationarity at after differencing i.e.

at first difference and at 5% level of significance. The economic implication of this is that any shock or disturbance (e.g.

government policy) to the variables will not be sustained for a long period of time meaning such shock will die off in a short while.

According to the rule of thumb which says that when there is mixture of I(0) and I(1) ARDL approach to co-integration should be applied and otherwise Johansen co-integration. Since there are mixtures of I(0) and I(1) variables. Autoregressive Distributed Lag model (ADRL) was adopted and bound test was used to capture the presence of co-integration as against Johansen co-integration.

**ARDL Bound Co-integration on Human capital development and Total factor productivity**

Table 2.2: ARDL Bound test

NULL HYPOTHESIS	F - STATISTIC	CRITICAL VALUES BOUNDS		
		SIGNIFICANCE	LOWER BOUND	UPPER BOUND
No long -run relationships exist	110.4935	10%	2.26	3.35
		5%	2.62	3.79
		2.5%	2.96	4.18
		1%	3.41	4.68

**Source:** Author's Computation, (2021) from E-view 9, Statistical Package

The table 2.2 revealed that the computed F-stat of 14.706493 is greater than the Upper Bound table value at any % level of significance.

The study rejects the null hypothesis. This is

interpreted as there is long-run relationship among the variables, that is, the variables co-move on the long run. This implies that study may proceed further to the long run analysis and the short-run dynamic and error correction analysis.

**Long and Short Run Estimation Coefficients**

Having confirmed the existence of long-run relationship among the variables, the study will estimate long run and short run parameters by general to specific procedure ARDL model.

Table 2.3: Long Run Co-Integrating Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C (TFP)	-32.017892	7.573383	-4.227687	0.0517
GEXEDU	0.008366	0.001316	6.357606	0.0239
GEXHEA	0.023459	0.004484	5.231985	0.0346
LE	0.572112	0.113263	5.051195	0.0370
AYS	-0.582409	0.221182	-2.633171	0.1190
MR	0.015710	0.007218	2.176565	0.1615

**Source:** Author's Computation, (2021) from E-view 9, Statistical Package

The result of table 2.3 indicated that the coefficient of total factor productivity is positive and statistically significant. This implies that if all the variables are held constant, total factor productivity will increase by 32.01%. The coefficient of government expenditure on education is positive and statistically significant. This implies that any attempt by the government to increase expenditure on education will lead to about 0.08% increase in total factor productivity. The coefficient of government expenditure on health showed a positive and statistically significant relationship with total factor productivity. Thus, a percent change in government expenditure is expected to yield about 0.23% increases in total factor productivity. Also, the table indicated a positive and significant relationship between life expectancy and total factor productivity.

This implies that a percent change in the level of life expectancy will significantly result into 5.72% changes in total factor productivity.

Conversely, average years of schooling reported a negative and an insignificant relationship with total factor productivity, implying that 1% increase in average year of schooling will result to about 5.82% decreases in total factor productivity. Lastly, mortality rate has a positive and an insignificant relationship with total factor productivity which implies that 1% change in the effort of the government on mortality rate will result to about 0.15% change in total factor productivity.

**The Short-run Dynamic and the Error Correction Model**

Table 2.4 The Short-run Dynamics and Error Correction Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(TFP(1))	0.13959	0.14948	0.93388	0.449
D(GEXEDU)	0.00167	0.00040	4.13833	0.053
D(GEXHEA)	-0.00271	0.00069	-3.90719	0.059
D(GEXHEA(1))	0.01165	0.00182	6.39409	0.023
D(GEXHEA(2))	0.00996	0.00167	5.96149	0.027
D(GEXHEA(3))	0.00677	0.00135	4.98506	0.038
D(LE)	-0.08132	0.07936	-1.02471	0.413
D(LE(1))	6.10810	3.72052	1.64173	0.242
D(AYS)	0.84525	0.81046	1.04292	0.406
D(MR)	-0.00871	0.00543	-1.60387	0.249
(ECM1)	-1.68567	0.15575	-10.82264	0.008

Source: Author's Computation, (2021) from E-view 9, Statistical Package

The result in the table 2.4 indicated that the coefficient of the error correction term ECM(-1) has the correct sign and significant at 5% level. The value of the coefficient is -1.685676. The result shows that about 16.85% of the short-run inconsistencies are being corrected and incorporated into the long-run equilibrium relationship in each

period. In other word, it can be said that the level at which human capital development adjust to equilibrium was about 16.85%. This therefore implied that an approximate 17% of the discrepancy between long and short run level of human capital development in Nigeria was corrected and incorporated on yearly basis.

The short run result revealed that government expenditure on education has a positive and significant relationship with total factor productivity. Therefore, it can be concluded that the government expenditure on education has the coefficient of 0.001673, implying that government expenditure on education slightly increased total factor productivity by 0.01% in the short run. On the short run relationship between government expenditure on health, it was discovered that the relationship is negative and statistically insignificant in nature. However, at lagged  $D(\text{GEXHEA}(-1)), 2, 3$  it showed a positive and significant relationship at the respective lags. Thus, at lag 3, it can be said that government expenditure has positive and significant effect on productivity with a contributive effect of 0.06%.

The short run result further showed that the life expectancy has negative and an insignificant relationship with total factor productivity originally which later became positive and insignificant at  $D(\text{LE}(-1))$ . Thus, it can be reported that at lag (-1), life expectancy revealed a positive and an insignificant relationship with total factor productivity with a coefficient value of 6.108101 which implies that life expectancy increased total factor productivity by 61.08%.

Also, average years of schooling denoted a positive and an insignificant relationship with total factor productivity in Nigeria which implies that on average, average years of schooling contributed positively and insignificantly to total factor productivity by 8.45%. Finally, mortality rate disclosed a negative and an insignificant effect on total factor productivity, which implies that *ceteris paribus*, mortality rate decreases the

value of total factor productivity in Nigeria by 0.01%.

## 5.0 Summary, Conclusions and Recommendations

The main objective of the study is to investigate the human capital as a driver for productivity in Nigeria over the period of 1985 to 2020. Human capital development was represented by government expenditure on education, government expenditure on health, life expectancy, average years of schooling and mortality rate, productivity was captured by total labour productivity. Secondary data were obtained from Central Bank of Nigeria (CBN) Statistical Bulletin, Penn World Data Table and World Development Indicators. The study was anchored on the Lucas endogenous model. In order to achieve the objective of the study, a long run approach of econometric analysis was used, unit root test was also used to test the stationarity of the variables, the Auto Regressive Distribution Lag test to test for the presence of long run relationship among the variables, Error Correction model to show the rate at which short-run inconsistencies are being corrected and incorporated into the long-run equilibrium relationship was employed.

According to the empirical findings, the Augmented Dickey-Fuller (ADF) unit root test showed that average years of schooling and life expectancy were stationary at level total factor productivity, government expenditure on health, government expenditure on education and mortality rate stationarity after first difference. Due to the mixture of the  $I(1)$  and  $I(0)$  series, the condition to adopt Johansen co-integration test technique was debased and Pesaran ARDL bound test was

used to test for the presence of co-integration among the variables as it suit this study and the result showed an evidence of long run relationship among the variables.

The result of the study revealed that there is long run relationship between human capital development and productivity. The result of the ARDL long-run co-integrating coefficient revealed that the coefficient of productivity is positive and statistically significant. This implies that if all the variables are held constant, productivity will increase significantly. The result further showed that government expenditure on health and education have positive and significant effect on productivity, life expectancy and average years of schooling have positive and an insignificant effect on productivity, mortality has negative with an insignificant effect on productivity; and finally, that there is an interrelationship between human capital development and productivity in Nigeria. It was observed at the end of the study that about 16.85% (productivity) of the short-run inconsistencies are being corrected and incorporated into the long-run equilibrium relationship in each period.

### Conclusion

This study has endeavoured to determine the effect of human capital development on productivity in Nigeria. After an extensive review of the literature, the study adopted the Lucas endogenous theory as the framework of study which proposed that humans are more productive due to their increase in knowledge and skills. Statistically and empirically, the study concludes that human capital development when by government expenditure on education and health has great influence on productivity in the short run and long run respectively. Relating these findings to the submission of Obi and Obi

(2014), Olalekan (2014), Ajadi and Adebakin (2014), Sharimakin, Oseni and Adegboye (2015), Lawanson (2015), Bokana and Akinola (2017), Awotunde (2018), and Mbonigaba and Akinola (2019), it is obvious that human capital development affect productivity owing to the fact that the key variables significantly affected productivity.

Also, interesting in this study is the fact that the response of productivity to policy initiatives on human capital development slowly takes cognizance of the adjustment of the variables to yield long run result with the 16.85% recorded as the Error Correction Coefficients. Hence, the study concluded that human capital development has positive and significant impact on productivity in Nigeria.

### Recommendations

Arising from the evidences offered by the empirical results, it is pertinent to offer some policy options that could strengthen human capital development, productivity in Nigeria.

- i. Individuals are encouraged to acquire more education and skills as a result of high-income disparity among households; thus, lead to increase in productivity;
- ii. Effort of the government should be at increasing government expenditure on education and health in order to increase productivity in the short run and long run respectively. This will have positive effect on the growth and development of the Nigeria economy.
- iii. Efforts should be made to encourage, and promote self-dedication, commitment and service delivery in order to improve on the quality of educational output in Nigeria in terms of quality of human capital and capacity building;



**Suggestion for Further Studies**

The present study investigated the topic of human capital development and productivity in Nigeria and opens new opportunities for future researchers in the following ways;

1. Future research could extend by covering more countries by doing

cross country research in order to strengthen results;

2. Secondly, a comparative study may be carried out on industries;

3. Thirdly, application of quarterly data is suggested and;

4. Comparative study on regions of the country could be researched.

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## Effect of Financial Inclusion on Economic Growth in Nigeria



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### Abstract

*This work investigates the effect of financial inclusion on economic growth in Nigeria between 1988 and 2018. The work was motivated by the role financial inclusiveness plays in generating finance for businesses and consequently for productivity. Autoregressive Distributed Lag (ARDL) model was employed. The findings revealed that all the four independent variables do not have statistically significant relationship with GDP although the coefficients were correctly signed, confirming a priori expectations. Recommendations include encouraging Commercial Banks to increase their presence in economically viable locations with the help of regulatory incentives by CBN.*

*JEL Classifications: G14, G18, E02*

**Key Words: Financial Inclusion, Economic Growth, Bank Branches, Lending rate.**

### 1.0 Introduction

Growth in any economy is enhanced where there is adequate financial inclusion and this encapsulates the whole gamut of easy access to formal financial services, including payment processes, savings, credit and insurance services. Economies grow faster where there is finance for businesses to increase production and increase sales. Whenever this happens, the businesses will also reward their employees and even employ more labour.

Countries that have very high account penetration also have high Gross Domestic Product (GDP) (Demirguc-Kunt and Levine, 2008). According to the World Bank National Accounts 2017, showed that United States of America (GDP \$19,485 billion), United Kingdom (GDP \$2,638 billion), Sweden (GDP \$536 billion) and Germany (GDP \$3,693 billion) were developed economies with high account penetration as a financial inclusion indicator. Virtually every adult in Germany (99%) and all adults in Sweden (100%) had a bank account with a regulated financial institution.

As at 2018, Nigeria remained the biggest economy in Africa with a GDP of US\$376.284 billion, closely followed by South Africa with US\$349.29 billion. However, its national income had not translated to higher people's welfare because GDP per capita was only US\$ 2,050 in Nigeria compared to US\$ 6,560 in South Africa and US\$ 2,572 in Egypt (World Bank, 2018). The proportion of adults (age 15 years and above) with their own bank account domiciled with a regulated financial institution was 39% in Nigeria, 32% in Egypt and 67% in South Africa (Demirguc-Kunt, Klapper, Singer, Anser and Hess, 2017).

Meanwhile, ownership of bank account is considered as the entry level into the formal financial system. A person who owns a bank account can save, take loan and also buy insurance cover for his life or assets. The possibility of easy access to a wide range of financial services like electronic payments, savings, insurance and pension products, are considered as critical elements to a county's economic growth (Demirguc-Kunt, Klapper, et al, 2017). An economic system where citizens and businesses enjoy these services which meet their needs at affordable prices and are provided in appropriate and dignified manners is considered to have achieved high level of financial inclusion.

The Findex report of the World Bank (2017), about 1.7 billion people had no bank account across the world, 40% of them in Sub-Saharan Africa (SSA). Nigeria is among the SSA countries with the highest financial exclusion rates. About 40 million adult Nigerians had no bank account either with a deposit money bank or microfinance bank and they do not belong to the informal sector. This set of persons is considered financially excluded. The most significant step taken so far in Nigeria was the development and implementation of a National Financial Inclusion Strategy (NFIS) for Nigeria (EFInA, 2018).

This multi-stakeholder strategic roadmap has brought global attention to financial inclusion in Nigeria. First, Nigeria is a member of the Alliance for Financial Inclusion, a global network of over 100 countries making deliberate efforts toward improving the level of financial inclusion through the MAYA Declaration. Second, the strategy laid out practical solutions to extend formal financial

services to the about 40 million adults in Nigeria who were financially excluded.

Few studies have focused on this area, creating room retest and attempt to revalidate the relationship between Financial Inclusion and Economic Growth in Nigeria. Besides, new strategies have been rolled out to deepen financial inclusion in Nigeria beginning from 2014. This has possibly thrown up issues which need fresh empirical studies to determine the relationship between these two variables. Our motivation for retesting the existing model is that majority of the works sighted was done prior to the era of radical policy changes that occurred in Nigerian financial system between 2014 and 2018.

The radical changes included the implementation of the National Financial Inclusion Strategy (NFIS), the Cashless policy, and the reforms in the payment systems in the country occasioned by the Digital Financial Services and Agent Banking frameworks.

In collaboration with other stakeholders, the Central Bank of Nigeria lunched the NFIS in 2012. The Strategy proposed to attain 80% financial inclusion rate by the year 2020. Other targets set out in the NFIS are payments (70%), Savings (60%), Credit (40%), Insurance (40%) and Pension (40%). Agency banking, mobile banking, linkage model in lending and client empowerment were the major focal areas of the 2012 NFIS. After 4 years of implementation, the NFIS was reviewed and revised in 2018. Five priority areas were identified by the revised strategy. They are: Expansion of Digital Financial

Service, rapid growth of agent networks, reduction of KYC hurdles for operating a bank account, focusing on serving the most excluded, and adoption of cashless payment channels.

By the end of 2020, the demand-side survey conducted by EFINA showed that Nigeria was at 64.1% financial inclusion rate which leaves 15.9 percentage points away from the 80% target. Given the efforts of stakeholders towards the NFIS implementation in the last decade, it is important to use empirical methods to retest the relationship between financial inclusion and economic growth

## 2.0 Theoretical Review

The advent of technology created a new dimension of financial exclusion. Automated Teller Machines (ATM) are mostly installed in location where cost to service would be adequately recouped. There are costs of installing the ATM machines, powering them, internet facility to drive network connectivity of the machines and, of course, security for the facilities. All these costs must be recovered by the operators. However, the socially disadvantaged groups may not be very disposed to paying extra for the services. Hence, one can hardly find ATMs in the rural areas within Nigeria. On the other hand, Point of Sale devices (POS) are more commonly deployed in rural areas but most times, operators charge more than regulation allows.

Pradeep and Suresh (2019) shed light on the extent of indebtedness among the Scheduled Tribe Communities in the Wayanad District of Kerala. Four tribe communities namely Paniya, Adiya, Kuruma and Kurichya were studied. Data were collected using a

structured questionnaire to measure the adoption of credit as a financial inclusion indicator among the tribes. Simple descriptive statistical method was used to analyze the data. Findings showed that credit exclusion of Tribes from the formal institutions appeared to be very high, and this undoubtedly threw serious questions at the celebrated success of financial inclusion strategies in India. The study showed that 80 per cent of tribes did not access credit from the formal financial institutions. Passive credit exclusion was rampant among the tribes because of socio-economic reasons. Majority of tribes did not attempt to seek credit from the formal institutions as they feared that their credit demand would be summarily rejected.

The work, therefore, called for making formal financial institutions friendlier towards the credit needs of the socially and economically disadvantaged sections like the tribes. Pradeep and Suresh's study was a survey that generated primary rather than secondary data. The point of interest in the study is that it used primary data to invalidate some of the claims made by earlier studies on India.

Musau, Muathe and Mwangi (2018) carried out an investigation of the effect of financial inclusion on credit risk and the intermediation effect of the competitiveness of banks in Kenya. The study measured financial inclusion with availability of bank, accessibility of and usage of bank and also measured credit risk loans that were non-performing. Using secondary data and descriptive statistics and panel regression, the findings revealed that availability of bank, accessibility of bank and usage significantly affected credit risk of banks in the country. It was, therefore, deduced that financial inclusion significantly

affected bank stability in the country.

Gretta (2017) investigated the effect of financial inclusion on economic growth in the MENA region. The work employed a VAR regression methodology to estimate the parameters such as financial activities, financial literacy and growth. Using secondary data, the finding showed that financial inclusion significantly affected economic growth.

Juaidah (2016) examined how financial system affected financial inclusion in 80 countries between 2007 and 2011. The study employed cross-sectional panel regression methodology and the findings revealed that institutional settings were shaped and organized in agreement with financial inclusion. The quantile regression similarly agreed that financial inclusion was institutionally motivated.

Sarma and Pais (2011) examined the relationship between financial inclusion and economic development in India. The work discovered that there was a positive relationship between financial inclusion and economic growth especially in the area of banking penetration and availability of banking services. The implication of the finding was that financial inclusion played an important role in developing a strong and efficient financial structure which further enhanced the growth of an economy. No doubt, this study provided a framework upon which an econometric model between the two variables of interest could be established. Ogunsakin and Fawehinmi (2017) examined the effect of financial inclusion in poverty alleviation in Ekiti State of Nigeria between 1980 and 2015. A survey method of data

collection was used with structured questionnaire served to a sample of 180 adults.

Descriptive statistics and multinomial logit were used to empirically analyze the results. The findings showed that financial access points were low and therefore, many people made use of informal financial services in the selected Local Government Areas.

Okoye, et al, (2017) studied the effect of financial inclusion on economic growth in Nigeria between 1986 and 2015. Ordinary Least Square was employed for the estimation. Financial inclusion was captured using variables such as loan to deposit ratio, financial deepening indicators, loan to rural areas, and branch network. The finding of the study was that delivery of credit to private sector did not significantly affect economic growth in the country.

It also revealed that financial inclusion had aggravated poverty level. The limitation of the study was over-generalising the impact of the financial inclusion variables without considering the residuals.

Okorafor, et al, (2016) examined the factors that could determine financial inclusion in Nigeria between 1990 and 2016. The methodology of Error Correction Model (ECM) was employed to estimate the parameters. The findings revealed that there existed a positive and statistically significant relationship between financial inclusion and variables such as GDP per capita. It was also discovered that increase in broad money supply, credit and internet users per 100 people led to increase in financial inclusion in the country.

Onaolapo (2015) studied the effects of financial inclusion on economic growth in Nigeria between 1982 and 2012. The study employed the Ordinary Least Square and measures of financial inclusion used were bank branch network, loan to rural area, demand deposit, liquidity ratio, capital adequacy, and gross domestic product. The study estimated three models to explain the relationship between financial inclusion and economic growth in Nigeria. The first model looked at financial inclusion and poverty reduction, the second model financial inclusion and economic growth while the third was financial intermediation and financial inclusion.

A limitation of the study was that it only considered the relationship between financial inclusion and economic growth but failed to mention the specific component of financial inclusion (lending, means of payments, investment windows, insurance or pension).

Babajide, Adegboye and Omankhanlen (2015) examined the effect of financial inclusion on economic growth in Nigeria between 2014 and 2018. The work employed the Ordinary Least Squares technique. The findings showed that financial inclusion significantly affected factors of production and capital per worker.

**Theoretical Framework**

This study adopts the finance growth theory espoused by Bagehot (1873) as a theoretical framework of this analysis. The theory posits that financial inclusion measured by strong intermediation process supports economic growth. Banks play this intermediation role by taking deposits from surplus areas and giving loans to areas where funds are needed for

economic activities. This theory brings out clearly the variables of interest to this study, which are availability of bank branches, access to credit for micro business growth, availability of funds for intermediation, lending rate and of course indicators of economic growth (Real GDP).

**3.0 Methodology**

This study adapts the model proposed by Onaolapo (2015) with the aim to expanding the model by adding two more variables and testing the model with more recent empirical data. In his classic work, Onaolapo (2015) used bank parametric such as branch network, loan to rural area, demand deposit, liquidity ratio, capital adequacy, and GDP to build a model for the relationship between financial inclusion and economic growth. This study will adjust Onaolapo's variables by replacing liquidity ratio and capital adequacy by access point per 100,000 adults and interbank lending rate for small and medium enterprises (SMEs).

The model can then be expressed functionally as:

$$RGDP = f(BRA, BBT, LSME, BLR, MS) \dots \tag{3.1}$$

Model (3.1) can be expressed econometrically as:

$$RGDP_t = \alpha + \beta_1 BRA_t + \beta_2 BBT_t + \beta_3 LSME_t + \beta_4 BLR_t + \beta_5 MS_t + \mu \dots \tag{3.2}$$

Where: logRGDP = log of Real Gross Domestic Product,

BRA = Deposit Money Bank branches in rural areas,

BBT = Bank Branches per 100,000 Adults,

LSME = Loan to SME as a percentage of total Loan portfolio of commercial banks

BLR = Bank's Lending Rate,

MS = Broad Money Supply (M2),

$\beta_0$  = Intercept,

$\beta_1, \beta_2, \beta_3, \beta_4$  = are Regression equation coefficients

$\mu$  = Random Error term



### 3.1 Data and Sources

The required secondary data were sourced from Statistical Bulletin of the Central Bank of Nigeria, the World Bank's Financial Inclusion Tracker Survey, EInA's Access to Financial Services Survey in Nigeria (A2F) and the annual publications of the National Bureau of Statistics. The data covers a period of 31 years from 1988 to 2018

### 3.2 Specification of ARDL Model

The unit root test was carried out and the results showed that the variables were integrated at both 1 and 0, that is, I(1) and I(0). Consequently, this work employed the Autoregressive Distributed Lag (ARDL) Bounds Test to check for cointegration and if found, we estimated the long run model with Error Correction Model.

The generalized ARDL (p, q) model is specified as below:

$$Y_t = \alpha_0 + \sum_{i=1}^p \beta_i Y_{t-i} + \sum_{i=0}^q \beta_j X_{t-i} + \epsilon_{jt} \quad \dots \quad (3.3)$$

The steps to estimate the ECM were as follows:

- i. Establish the cointegration using Bounds testing
- ii. If there is cointegration, choose appropriate optimal lag length.
- iii. Estimation of the long run ARDL model
- iv. Reparameterization of ARDL model into Error Correction Model

When there is cointegration, the Error Correction Model (ECM) is then specified as follows:

For an ARDL of this order (p, q1, q2, q3, q4, q5)

$$\Delta \log rgdp_t = \alpha_0 + \sum_{i=1}^p a_{1j} \Delta \log rgdp_{t-i} + \sum_{i=1}^{q1} a_{2j} \Delta \log bbt_{t-i} + \sum_{i=1}^{q2} a_{3j} \Delta \log blr_{t-i} + \sum_{i=1}^{q3} a_{4j} \Delta \log sme_{t-i} + \sum_{i=1}^{q4} a_{5j} \Delta \log ms_{t-i} + \gamma ECM_{t-1} + e_t \quad (3.4)$$

The long run relationship is also expressed as follows:

$$\log rgdp_t = a_0 + b_1 \log rgdp_{t-1} + b_{21} \log bbt_{t-1} + b_{22} \log blr_{t-1} + b_{41} \log bra_{t-1} + b_{51} \log sme_{t-1} + b_{61} \log ms_{t-1} + e_{1t} \quad (3.5)$$

The Error Correction Model (ECM) can be derived from ARDL model through a simple linear transformation, which integrates short run adjustments with long run equilibrium without losing long run information.

### 4.0 Results and Analysis

The data for each of the variables were subjected to unit root test and the result is presented in Table 4.1.

Table 4.1: Unit Root Test results

Variable	At Level			First Difference			
	ADF STAT	t-stat (5%)	P. Value	ADF STAT	t-stat (5%)	P. Value	Order Integration
logrgdp	-0.70447	-2.96041	0.8312	-	-2.96041	0.0358	I(1)
logbra	-4.28557	-2.95711	0.0020	3.11438	-	-	I(0)
logbbt	-1.53939	-2.95711	0.5012	-4.8893	-2.96041	0.0004	I(1)
loglsme	-1.96227	-2.95711	0.3011	-4.4142	-2.96041	0.0015	I(1)
logblr	-0.83069	-2.96041	0.7962	-	-2.96041	0.0000	I(1)
logms	-1.11198	-2.95711	0.6988	7.47649	-	-	I(1)
				5.48789	-2.96041	0.0001	I(1)

Source: Computed by the authors using Eviews 10

Table 4.1 showed the unit root tests for all the variables. All, except logbra were stationary at first difference. Logbra was stationary at level. As a result of the stationarity test, which indicated mixed orders of integration, (0 and 1), we employed Autoregressive Distributed Lag model (ARDL) approach to cointegration to establish if the variables were cointegrated before the parameters were estimated.

#### 4.1 ARDL estimation and Bounds Testing for Cointegration

The test for cointegration was carried out using the Bounds testing. The value of the F-statistic was 4.466 and the decision rule is that:

If the F-statistic is greater than the upper bound value at 5% level, there is cointegration

If the F-statistic is less than the lower bound value at 5% level, there is no cointegration. If the F-statistic falls between upper and lower bound values at 5% level, not decided.

From Table 3.2, F-statistic was higher than the upper bound value at 5% level of significance, that is, 4.466 is greater than 3.79, so we concluded that there was cointegration and that implied that there was long run relationship among the variables.

Table 3.2: Cointegration Test.

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Level of Significance	I(0)	I(1)
Asymptotic: n=1000				
F-statistic	4.466252	10%	2.26	3.35
k	5	5%	2.62	3.79
		2.50%	2.96	4.18
		1%	3.41	4.68

Source: Computed by the authors using Eviews 10

With cointegration established, we then estimated the long run model, took the residuals and then estimated the Error correction model. To run the long run and the ECM model, we determined the appropriate lag length.

### 4.2 Lag Selection

All the lag selection criteria selected lag length two for the model. We now present the ECM, which is a combination of short run and the long run relationships.

### 4.3 Error Correction Model

The error correction model was estimated by adding the residuals lagged one period of the long run model to the short run model and the result is presented in Table 4.3.

Table 3.3: Error Correction Model				
Dependent Variable: D(LOGRGDP)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.042922	0.008108	5.293911	0
D(LOGBBT( - 1))	0.093521	0.077029	1.214106	0.2404
D(LOGBBT( - 2))	0.041265	0.077855	0.530026	0.6026
D(LOGBLR( - 1))	0.003104	0.01124	0.276188	0.7856
D(LOGBLR( - 2))	- 0.0095	0.02002	- 0.47449	0.6409
D(LOGBRA( - 1))	- 0.01779	0.041847	- 0.4251	0.6758
D(LOGBRA( - 2))	- 0.06459	0.04102	- 1.57466	0.1327
D(LOGLSME( - 1))	0.122573	0.090304	1.357336	0.1915
D(LOGLSME( - 2))	0.102846	0.081772	1.257 713	0.2246
D(LOGMS( - 1))	0.054368	0.059194	0.918473	0.3705
D(LOGMS( - 2))	0.019815	0.071675	0.276457	0.7853
ECT( - 1)	- 0.67252	0.204235	3.292873	0.001
R- squared	0.98628			
Adjusted R - squared	0.903957			
F- statistic	11.9807			
Prob(F - statistic)	0.01 328			
Durbin - Watson stat	2.02857			

Source: Computed by the authors using Eviews 10

The coefficient of the error correction term in Table 4.3 is correctly negatively signed and the p-value is statistically significant at 5% level (0.001). The coefficient shows the speed of adjustment of correction in the long run. It then implied that the error in the model was corrected at the speed of about 67 percent per annum in the long run. The short run relationship from table showed that none of the independent variables was statistically significant.

**4.4 Residual Diagnostic test**

All residual diagnostic tests, namely Breusch-Godfrey serial correlation LM, Breusch-Pagan Heteroskedasticity and Jarque-Bera normality were presented in Table 4.4..

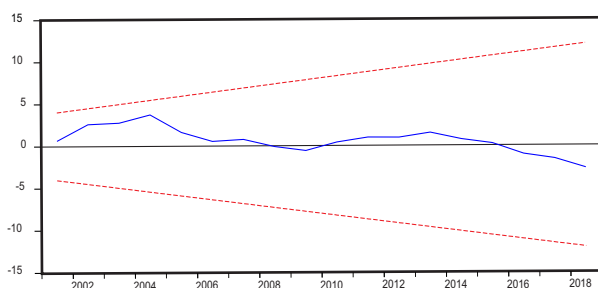
Table 3.4: Residual Diagnostic tests	
Breusch-Godfrey Serial Correlation LM Test	0.0784
Breusch-Pagan Heteroskedasticity test	0.4521
Jarque-Bera Normality test	0.2358

**Source:** Computed by the authors using Eviews 10

**Stability Test**

The model was tested for stability using Cusum test and the Figure 1.1 showed that it was stable within the 5 percent level of significance over the years under consideration and can then be used for policy purposes.

Figure 1.1: Stability test



**Source:** Computed by the authors using Eviews 10

**4.5 Discussion of Results**

It can be observed that availability of bank branches per one hundred thousand adults (BBT) had a positive relationship with RGDP in the short run, both at lags 1 and 2, and the coefficients were 0.0935 and 0.0413. These coefficients showed that a 1% increase in BBT will lead to 9.3% and 4.1% increase in GDP after year 1 and 2, respectively. However, they were not significant in affecting RGDP.

The Banks' lending rate (BLR) at lag 1 was wrongly positively signed (0.0031) but correctly negatively signed (-0.0095) at lag 2. That showed that if there was 1% increase in bank lending rate it would lead to a 0.09% decrease in GDP, though not significantly.

Availability of bank branches in rural areas (BRA) had a negative coefficient of -0.0178 in lag 1 and a negative coefficient of -0.0646 in lag 2. This means that provision of bank branches in rural areas may not have any positive effect on RGDP. It follows that provision of bank branches in rural areas may not have any positive effect on RGDP. That also means that if a new branch is opened in a rural area in time, it would reduce RGDP by 6.5%. This is also in line with the a priori expectation as branches of commercial banks in rural areas may not be economically viable to recover operational costs.

It was also discovered that lending to SMEs as a proportion of total loans (LSME) had a positive coefficient of 0.123 at lag 1 and 0.103 at lag 2. This showed that there existed a positive relationship between SME's access to credit and real GDP. The implication of these results is that the more the number of small businesses that have access to loans for productive activities, the more the increase in real GDP.

Money supply (MS) had a positive coefficient of 0.0544 at lag 1 and a positive coefficient of 0.0198 at lag 2 in the short run. This result showed that money supply had a positive but weak effect on economic growth in the short run. This implied that for every unit change in money supply, economic growth changed in the same direction by 5.4% after year one and 1.9% after year two, howbeit, not statistically significant.

### 5.0 Summary and Policy Recommendations

This work investigated the effect of financial inclusion indicators on economic growth in Nigeria using time series data spanning 1988 to 2018 sourced from the statistical bulletin of the CBN and the World Bank online database. As a result of the stationarity test, the work employed (ARDL) approach to cointegration. The Study found that all the 4 independent variables (Bank Branches in rural areas, Available bank branches per 100,000 adults, SMEs' access to credit facilities, banks' lending rate to SMEs and money supply) did not have statistically significant relationship with GDP although the coefficients were correctly signed. This meant that the a priori expectations of the relationships with GDP were confirmed, but the probability values showed no short run causality. However, there was a long run relationship with the speed of adjustment of short run disequilibrium in the long run at a speed of about 67.3 percent.

1. This study, therefore, recommends that the CBN should have specific policies that would encourage Commercial Banks to increase their presence (branches) in economically viable locations whether in urban or semi-urban areas especially in those areas where it is viable. CBN should use regulatory incentives to encourage financial service providers to open

access points in economically viable areas. The CBN's policy on Agency Banking, especially the Shared Agent Network Expansion Facility (SANEF), is a step in the right direction. SANEF Limited should step up monitoring and oversight functions to reduce the activities of unregistered agents who may impose unapproved charges on the last mile financial services consumers.

2. The government should create interventions that would enable small and medium business concerns to have access to credit at a single digit interest rate. To step up credit to the private sector, several bold steps are required. The first step is for the government to create incentives that would formalize majority of the small-scale business operating in the informal sector in the country. The second step is to speed up issuance of National Identity Number to all citizens to overcome the Know-Your-Customers (KYC) hurdles, and the third step is for the CBN to encourage more financial service providers make use of the National Collateral Registry.
3. In the long run, the government should look at using expansionary monetary policies to grow the economy. Capital expenditure channeled to infrastructure provision (building good roads, improving power supply, building and running efficient education system) would be a right step. The provision of these infrastructural facilities will open up the rural areas to become more viable for businesses and banks to operate more profitably.

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## Multinational Corporations and Their Role in the Development of Nigerian Economy: A Study of Julius Berger



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### Abstract

*The study examines the implications of multinational corporations (MNCs) on Nigeria's economic development with a focus on Julius Berger Nigeria Plc. The framework utilized for this study is the dependency theory. The methodology adopted is secondary method of data collection. The findings reveal that MNCs especially Julius Berger Nig. Plc has contributed in no small ways to the economic development of the country because seventy percent (70%) of their staff are Nigerians employed into various departments. Multinational corporations as agents of development have brought about employment, economic stabilization and deepening the tenets of democracy in their host countries. However, MNCs are also agents of underdevelopment. Underdevelopment is manifested in several ways and dimensions and Julius Berge Nigeria is one of the tools used for the underdevelopment of the country. Its incursion in the politics and domestic affairs, inflation of contracts and tax evasion are part of the reasons for the underdevelopment of Nigeria. The study recommended that the government should embark on proactive measure that will help checkmate illegal transfer of natural resources from the country and capital flight also. Again, policy makers should ensure that there is local content in all trading and business activities of all MNCs in the country and more Nigerians should be employed into various departments of the workforce of multinational corporations like Julius Berger.*

**Key Words:** *Multinational Corporations, Economic development, Underdevelopment ment, Productivity, Growth and Development.*

### 1.0 Introduction

**M**ultinational Corporations are giant private business firms with their headquarters in parent countries that are developed such as the United States, Britain, Germany, Japan and France and they also operate in other countries, both developed and developing and their subsidiaries operating in more than one state. Basically, they carryout business activities across national boundaries. Modern MNCs have become economic Goliath. The MNC means more than merely trading. It implies ownership of manufacturing plants and/or resource extraction and processing operations in a variety of countries. Examples of MNCs are Coca-cola, Toshiba, Honda, McDonalds, Julius Berger and BMW to mention a few (Aja-Akpuru, 2012).

Multinational Corporations spread not only in the less developed countries (LDCs) of Asia, Africa and Latin America but also on the continents of Europe, Australia, New Zealand and South America. They are engaged in mining, tea, rubber, coffee and cocoa plantations; oil extraction and refining, manufacturing for home production and exports. Their operations include such services as banking, insurance, shipping, hotels and so on. MNCs have power and control over large stock of global capital, technology and market ideology (Nabhon, 2015). They have the advantage of global connectedness. They operate in the developed, developing and underdeveloped countries.

Many MNCs are extremely powerful and influential, as they possess resources far in excess of most of the members of the United Nations. MNCs have continued to grow in

importance, particularly as facilitators of global flow of capital and technology among the rich and poor countries. In this way, MNCs link national and international economies to shape the present architecture of the world economic system dominated by capitalist competition. They overwhelmingly dominate not only global investment but also international production, trade, finance and technology. But adequate and reliable up to date data regarding the spread of MNCs in terms of subsidiaries, production, trade, finance and technology are rarely published and hence are not available (Sheriff, 2019).

Historically, the roots of modern MNCs date back to Europe's great trading companies. It started prominently with the Dutch East India Trading Company in 1689 (Nabhon, 2015). In the 19<sup>th</sup> century industrial revolution and capitalism in Europe, the export of capital and productive technology to pre-industrial territories of Africa, Asia and Latin America were championed by the biggest industrial powers. In the 20<sup>th</sup> century, the United States sought out competition of the European economy in export of productive technology and foreign investment. Such American predators were Singer sewing machine, Otis Elevator and General Electric. The growth of MNCs declined in the First and Second World War periods (Adelegan, 2018).

Between 1945 and 1970, MNCs increased foreign direct investment venture by 10% annually. In the 1960s, the US MNCs dominated the scene and have continued to preserve the domination. In the mid 1970s the dominance of the US MNCs was challenged by the European and the Japanese firms (Nabhon, 2015). In the 1980s, the corporations of the US, Japan and the

European countries increased fierce crisscrossing foreign direct investment strategies. Japan was after American market, and really penetrated the American economy with a number of well to do firms that shocked American businessmen. Seeking greater access to the growing European market, American increased investment ventures in Western Europe. Direct American investments in petroleum and other resources expanded in the Middle East and other oil producing exporting countries including Nigeria.

This study focuses on the activities of multinational corporations using Julius Berger as a case study. What is known today as Julius Berger was established and incorporated in Germany in 1980. Their first contract in Nigeria is the construction of Eko-Bridge in August, 1965. Julius Berger became incorporated in Nigeria in 1972. Since then, the company has carried out complex and diverse project nationwide. Julius Berger Plc maintains offices in Ten Nigerian cities namely Abuja, Port Harcourt, Warri, Yola, Bauchi Lagos, Kano, Obajana, Mina, Agbor, and Abuja Serving as its Head Office (Onimode, 2015).

It is seen from the above that the scholars dwelt glowingly on how MNCs have access to large volume of capital. They seldom related them to their activities in Nigeria. This work does not just drum it down to Nigeria but extended the argument further. In Nigeria, there has been a lot of argument for and against the activities of multinational corporations. Some argue that the MNCs have not brought any beneficial effects to Nigeria and whatever benefits they might have brought have been overshadowed by



their negative effects. This is because many people believe that MNCs have never been good to Nigeria and that they under price primary goods, cause technological distortion, cultural degradation, repatriate their profits and consequently leaving the country worse off.

### **Conceptual And Theoretical Discourse**

#### **Concept of Multinational Corporations**

Akpuru-Aja (2015) argues that economically, multinational corporations are corporations that have their headquarters in the parent country and subsidiary firms in developing countries in order to expand the market by setting their products and also acquiring raw materials with sole aim of boosting their home economy. Politically multinational corporations are corporations that have their headquarters in the parent country and use their subsidiaries that are built in developing countries like Nigeria to interfere in their politics to achieve their aims and objectives by playing its part in order to see that a candidate of their choice emerges as a leader. Akinola (2014) asserts that when we talk of socio-cultural activities and its consequences, we simply analyze that multinational corporations are corporations that transmit western value through their activities to third world countries. The leading owners of multinational corporations are United State of America, the defunct Union of Soviet Socialist Republics (USSR), Britain, Japan, Germany and France. Many of these corporations are richer than some countries of the world. Some multinational corporations are Unilever Plc, Nigerian Bottling Company, Seven-up Bottling Company, UTC, John Holt, Julius Berger PLC and so on.

Multinational corporations are those powerful

mega conglomerates that came into being after the abolition of slave trade. They became more prominent during the heydays of colonialism and even dominated the Africa's economy after independence. Nabon (2015) in his contribution towards the emergence of multinational corporations in Africa asserts that they came to the continent because of capitalist growth and expansion in Europe, which was instigated in the 18<sup>th</sup> and 19<sup>th</sup> centuries by the industrial revolution. With the advent of the industrial revolution came mass production and profit and the need to expand capital as a means of arresting the tendency for profits to fall at a point; and lastly, the demand for more sources of cheap raw materials and longer markets and outlets for sale of finished products.

The MNCs armed with global connections and in conjunction with individual merchants and manufacturers in the process culminated in the creation of an international division of labour between the capitalist and the exploited and marginalized. The capitalist power of Europe entered into this phase of imperialist expansion of unprecedented proportion based on the exploitation of other parts of the world (Oyejide, 2015). The consequence was the forceful colonization of Africa after the trading capitalist powers amicably partitioned the continent amongst themselves of the 1884 – 1884 Berlin conference thus from trading partners, the Europeans became conquerors and Empire builders through the instrumentalist of the colonial states. Africa was forcibly incorporated into the international division of labour as producer of raw materials for metropolitan industries and as marketers for the manufactured product from the

metropolitans. That was how multinationals corporations penetrated into Nigeria (Obinna, 2013).

### Concept of Economic Development

Economic development can be described as a process that influences growth and restructuring of an economy to enhance the economic well being of a community. According to Bird, Taylor and Beechler (2018), in the broadest sense, economic development encompasses three major areas:

- i Policies that government undertakes to meet broad economic objectives including inflation control, high employment, and sustainable growth.
- ii Policies and programs to provide services including building highways, managing parks, and providing medical access to the disadvantaged.
- iii Policies and programs explicitly directed at improving the business climate through specific efforts, business finance, marketing, neighborhood development, business retention and expansion, technology transfer, real estate development and others (Onwuchekwa, 2019).

The main goal of economic development is improving the economic well being of a community through efforts that entail job creation, job retention, tax base enhancements and quality of life. As there is no single definition for economic development, there is no single strategy, policy, or program for achieving successful economic development. Communities differ in their geographic and political strengths and weaknesses. Each community, therefore, will

have a unique set of challenges for economic development (Onodugo, 2017).

Changes in the distribution of factors of production, that is, in their new location, and not only labor, but of the entire technical potential. As for the operating assets, reallocation of technical potential is done through the engagement of cash accumulation, in order to build new generating capacity. Economic development means greater and more effective involvement of the economy of a country in the international economy. The development includes the ever growing share of accumulation in the national income. Thus, economic development represents a very complex process and phenomenon. Economic development is not just an increase in GDP and national income, but all the long-term socio-economic changes in the economy of a country. It is very important that, above all, political economy, deals with the problems of economic development (Wiig & Kolstad, 2017).

As criticisms of intentional development efforts in the Third World grew, scholars began to look more closely at the welfare implications of economic growth. Arghiri (2012) while pointing out the accomplishments of the Brazilian economy, noted that the Brazilian people were doing rather badly. Seers in Obinna (2013) captured the spirit of this criticism by defining development in human resource terms. Economic development occurs when poverty, unemployment and inequality are reduced while income per capita increases. Obinna (2013) and others under UN auspices developed direct measures of consumption to substitute for income measures. In a similar

vein, some U.S. scholars who were focused on regional development contrasted indicators of social well-being, for example, health and mortality indicators, to average income measures.

### Theoretical Framework

The study uses dependency theory as a framework of analysis and in order to understand the relationship between multinational corporations and economic development in Nigeria. The theory was propounded by an Argentine economist Raul Prebisch in 1950s, however, the theory gained popularity in the 70s (Shanula, 2014). Dependency theory is based on a Marxist view of the world, which sees global trade as a spread of market capitalism, and the exploitation of cheap labour and resources in return for the obsolete technologies of the developed world. The dominant view of dependency theorists is that there is a dominant world capitalist system that relies on a division of labour between the rich 'core' countries and poor 'peripheral' countries. Over time, the developed countries will exploit developing nations with an increasingly huge margin (Akinola, 2004).

Dependency as a concept becomes externally tricky in an increasingly integrated world economy. However, political independence means nothing without economic independence. It is within this context that Kwame Nkrumah in Sheriff (2015:34) former President of Ghana in his work: *Neo-Colonialism: The Last Stage of Imperialism* observed that: The Third World Countries would not make a forward march towards economic independence until neo-colonialism or neo-imperialism was vanquished. To give credence to this

assertion, decades after political independence for most of the Third World Countries, they have remained perpetually dependent.

According to Offiong in Sheriff (2015) dependency refers to the situation that the history of colonial imperialism has left and that modern imperialism creates in underdeveloped countries. According to Johnson (2012), dependency is imperialism seen from the perspective of underdevelopment. Dependency from this perspective is not an external factor but as a conditioning situation in which the specific histories of development and underdevelopment transpired in various societies.

To Dos Santos cited in Sheriff (2015:73-74):

Dependency refers to a situation in which a certain group of countries have their economy conditioned by the development and expansion of another economy, to which the former is subjected. The relation of interdependence between two or more economies and between these and world trade assumes the form of dependence when some countries (the dominant) can expand and give impulse to their own development, while other countries (the dependent) can only develop as a reflection of this expansion.

Multinational corporations are the major mechanisms by which capitalism attempts to spread its tentacles further and further across the globe. Capitalism, colonialism, imperialism comprador bourgeoisies, dependency all depend whole heartedly on foreign goods and service to the detriment of

the local industries. The dependency theorists assert that underdevelopment of the most third world countries is a result of their relationship with the developed or western state. Despite the termination of old colonial ties, the metropolitan countries still continue to exploit the underdeveloped countries.

Imperialism has been not so much a form of political domination that can be ended by a new regime, as a deep pattern of economic relations that requires a vital social revolution to alter it. It is understandable that through dependency, Nigerian resources were grabbed by the capitalist countries' multinationals and restrictions were placed upon Africans capacity to make maximum use of its economic potentials. Hence, the underdevelopment of third world countries was as a result of its continued relationship with former colonies, therefore the pressure of multinationals in most third world countries is a means of underdeveloping these third world states.

The Contributions of Multinational Corporations to the Economic Development of Nigeria Defenders of multinational corporations argued that they are the "engine of development". They argued that multinational corporations create jobs, attract technology, reduce inflation and make war unthinkable. But a body of evidence suggests that multinational corporations whose goal is the maximization of profits, are not philanthropic institutions and they serve the interest of no one but themselves. The profound hypocrisy of multinational corporations is unveiled before our eyes when they assume some respectable positions in the underdeveloped countries where they go uninhibited. They undermine not only their

parent countries where they are headquartered but they cause more injuries to the periphery (Kema, 2015).

It has been argued that multinational corporations do not really constitute flight of transfer of technology because they are very jealous of their technology as an instrument of producing capital and global economic influence. Furthermore, multinational corporations such as Julius Berger are referred to as agents of capital flight because they hardly support training, medicare and other forms of sustainable development (Akpuru-Aja, 2016). The activities of multinational corporations in this area of national development are shoddy and callous. The case of Shell, for instance which began her first operation in 1937 but only established a program of assistance in 1980. For forty three years of acute exploitation of Nigeria resources. Shell is just beginning to reappraise contributions towards Nigeria's national development. In the globalized economy since the 1990's international production occasioned more by the multinational corporations and activities operates outside the home countries only to facilitate huge amount of resources from the less developed country, Africa, and channel such resources to their home country.

Despite the negative activities of Shell, other multinational corporations have made positive contributions to the wellbeing of Nigeria. MNCs like Julius Berger has played its social responsibilities to the Nigerian economy in the area of health care, technology, micro – credit and business development, promoting women development, youth skills acquisition, education and sports. Others are scholarship

scheme and infrastructure development. For example, Julius Berger pays value added Tax (VAT) to the Nigerian government; this is a straight charge on the inputs of the company (Emmanuel and Agande, 2012).

At the VAT rate of 5%, some 262.5 million was paid by the company between 2015 and 2018 (Egwaikhide & Imoudu, 2019). The company also pays education tax as required by the federal government. It also pays withholding taxes. These are taxes on various transactions at the rate of 5 to 10% of the payments made for services rendered to the company.

Other taxes paid by multinational corporations include customs duty (this constitutes a huge charge on the company); levies, environmental taxes and fees (these are paid by multinational corporations to the federal, state and local government as specified by law); personal income taxes (these are paid previously on the basis of residency and the state governments in the areas where the company's operation is and these payments run into millions of naira) (Egwaikhide & Imoudu, 2019).

Oyejide (2015) argues that on employment, Julius Berger Nigeria Plc as a company through its direct employment opportunities has given jobs to several Nigerians. The company's staff strength stands at around 4,000 employees. The majority of Julius Berger Nigeria employees, that is, over 60% are Nigerians and over 10,000 other workers are engaged as contract staff through contractors working as joint ventures. The company manages a diverse multi-racial mix of staff from several countries within an aggressive positive policy in Nigeria. There is expatriate staff from about 12 countries. Also

JBN pursues an expatriate programme for Nigerians which is to address general manpower development and also enhance skill acquisition in areas of critical shortages. Oyejide (2015) submits that at the moment, 200 Nigerian employees are overseas on this programme.

JBN promotes national revenue to some extent and it facilitates modernization of Nigerian economy. The Nigerian government acquired such revenue through capital gain tax, education tax which is based on the provisions of the charge for taxation act and income tax. The charge for taxation in these accounts is based on the provisions of the company's income tax.

#### Challenges Posed by Multinational Corporations in the Achievement of Economic Development in Nigeria

Though some scholars like Bulus and Ango (2012) are of the view that multinational corporations are instruments of imperialism because they defend and expand underdevelopment particularly in the African societies.

The activities of multinationals like oil exploration have really affected the environment whereby the people are now prone to many types of environmental hazards. The meaningful economic activities in the host countries that give them control and jurisdiction in the manipulation of the economic policies of the less developing countries are seriously influenced by the economic power of multinational corporations. These in some instances have brought about political and economic disruptions in the host countries (Asiedu,

2013).

Furthermore multinational corporations take measures to ensure that their activities are secured and maintained (Nwanko 2013). Another obstacle that tends to have negative influence on African economies particularly Nigeria is that of export promotion, technical know-how, productive efficiency and worldwide networks. Reliance on the above strong points of the MNCs tends to accentuate dependence, creating problems for the expansion of manufacturing and exports.

It is important to note that multinational corporations often relate to Africa mainly as a source of raw materials and market for manufacturing goods.

Nwankwo (2013) argues that Africa has been stagnating and regressing economically and became unattractive for foreign investors, unable to export much and so as virtual nonentity in world trade and increasingly unable to elicit the interest of other regions. The decline is not just because of marginality, it is also the process of deepening crisis of underdevelopment.

Multinational corporations have their resources, skills, equipment and technological know-how and they also embark on policies that often safeguard their own interest. Nwankwo (2013) argues that the concept of development is the process by which people create and recreate themselves and their own choice and values. It is however their legitimate right to speak out on matters which affect the interest of employees, customers and shareholders and on matters of general interest where they have a

contribution to make based on particular knowledge. Multinational corporations are strategies of underdevelopment. In order to justify that multinational corporations are responsible for Nigeria's underdevelopment, those factors are fully discussed below:

Repatriation of Funds: Nwankwo (2018) has shown that the multinational corporations are only profitable to their parent economy rather than the host community. Nwankwo (2018) argues that multinational corporations do not bring their own finance capitals from abroad. Rather a much greater part of their financing is derived from local, or host country. He points out that between 2007 and 2017 only 17 percent of the gross investment of the multinational corporations in Nigeria came from non-local sources.

What one learns from the finding above is that foreign investors repatriate a larger part of what they realize from their operations in the host countries instead of re-investing it for the benefits of their hosts. This multinationals direct investment in the underdeveloped societies is a clear demonstration of their exploitation motive (Eze, 2017).

Over invoicing or inflation: This is in the area of prices paid for goods and services obtained from their home countries. Fake invoices of non-existent goods and services are sometimes prepared by the allies of the companies abroad and with these they obtain the permission of the government to export their money.

Repatriation of the salaries of the expatriates: Asiedu (2003) observes that the multinationals inflate the salaries of their expatriate employees by as much as five

times their actual salary. This is done so that the amount to be repatriated becomes very big only to their advantage.

**Evasion of taxes:** This is done through false declaration of profit. This fraudulent practice leaves the multinationals with plenty of money to repatriate. When the parent country supplies goods, gives service to their subsidiaries they set very high price for them but when they obtain goods or service from the subsidiaries, very little is paid (Adelegan, 2000). Egwaikhide and Imoudu (2012) argue that multinationals defraud the host government by importing further at a very big cost, dead machines or spare parts when required to do so. The recent maintenance of the third mainland bridge by Julius Berger attests to that. The bridge has not reached even half of its span but the government was forced to do maintenance on that bridge due to the inferior materials that have been used for its construction.

**Restriction of Technology Transfer:** In the host country, multinational corporations always restrict technology transfer as a means of remaining relevant. Therefore instead of transferring technology as many orthodox or pro-multinational thinkers suggests, the multinationals keep their knowledge to themselves in order to maintain their leadership. The indigenous employees of the companies as a matter of policy are excluded from participating actively in the field that can expose them to mastering the job (Ango, 2012).

The multinational corporation in addition to monopolizing and policing their technical know-how, deliberately excludes the indigenous technology of their host country

from occupying important managerial positions. This measure is implemented to ensure that these indigenous companies do not find themselves where they can influence policies in the companies.

As Offiong (2018) puts it, "they refused to confer effective managerial positions and power at their senior management level to the indigenous executives" just as Julius Berger quoting from the Sani's "The invisible Government". Offiong describes the indigenous executives of multinationals as being "little more than glorified Clerks who, like Monks without hoods, are generally dressed in borrowed robes while occupying the executive chairs assigned to them. The argument here is that multinational corporations do not transfer technological skill to the peoples of host as opportunity to developed and become less dependent on developed nations. That is why multinational corporations like Julius Berger PLC build bridges, roads, provide supplies but cannot teach the indigenous people how to do it on their own.

**Interference in the Politics of the Host Countries:-** In order to capture the economy of host country, multinationals engage in both the internal and international politics of the country. A good number of political crises and overthrow of governments in developing countries are caused and engineered by the multinationals. In order to check against a progressive leader emerging, which is detrimental to their existence, they gave all kinds of support to help a corrupt leader to remain in office where a progressive leader emerges they made whatever sacrifice it needs to get such leader removed. In most cases, they employ the services of the

indigenous collaborators in the country to accomplish their aims. The government of General. J.T.U Aguiyi Ironsi, Murtala Muhammed and Muhammed Buhari in Nigeria, Kwameh Nkrumah of Ghana, Thomas Sankara of Burkina Faso are very good examples (Ezeh, 2017).

The multinationals are also used by their home countries which can be of exploitative help to them. Multinational corporations like Julius Berger PLC also instruct and mislead the poor countries by offering them retrogressive economic advice which will not help in their development plan. The multinationals and their home governments carry out their mission without people knowing and even if accused they will always defend themselves.

**Strangulation of Indigenous Entrepreneurship:-** Having discussed the restraints in the transfer of skills by the multinationals, it is also good to note that MNCs make sure that other indigenous firms do not exist so as not also compete with them. This they do by importing heavy machines which has cost production advantage compared with local manufacturers.

They also make sure that local entrepreneurs collapse by offering the host governments advice that will be retrogressive in their development plan (Akinola, 2004).

Indigenous investors find it difficult to obtain loan from banks because that is the tool multinationals' like Julius Berger PLC is using in eliminating local competitors in the developing countries especially Africa. It is necessary however, to state here that most of the viable banks in developing countries are

multinational corporations. In Nigeria such banks as First bank (formerly Standard) Union Bank (formerly Barclays) Savannah Bank (formerly bank of America) United Bank of Africa (UBA) Afribank and so on are all multinationals in origin. This knowledge is important for anyone who wants to understand while indigenous investors find it difficult to obtain loans from banks (Aworom, 2013).

**Alteration in Social Value and Taste:** The existence of multinational corporations like Julius Berger Nigeria PLC has made Nigerians develop taste for luxury goods. Local Foods which can be produced locally are no more in demand, this is as a result of introduction of western foods and their continued adverts, coupled with the life pattern of these expatriates, how they dress, eat which goes a long way in introducing it to the Nigerian society. The developing countries like Nigeria now follow the fashion of the white man instead of dressing the local way which is more African (Bulus and Ango, 2012).

**Environmental degradation:** Onwuchekwa (2000) asserts that the activities of MNCs in Nigeria bring about land degradation whose result brings about poor agricultural production in area in which MNCs operate in Nigeria.

The air pollution through the industrial smoke tends to destroy the Nigerian ozone layer. However, the oil spillage of MNCs also destroy the fish in the sea hence brings about lower fish production on the Nigerian economy. In fact, all this negative impacts of MNCs on Nigerian economy cannot be emphasized and these are the challenges.



**Conclusion/recommendations**

It is obvious to note that multinational corporations' activities in Nigeria are mainly to exploit and export natural raw materials and resources to their mother countries. They operate in different parts of the world and they often operate as a cartel in order to increase their level of operation and success.

Furthermore, multinational corporations as agents of underdevelopment manifest in several ways and dimensions and Julius Berge Nigeria PLC is not left out in this regard. Their incursion in the politics and domestic affairs is responsible for the underdevelopment especially in Nigeria. World wide access to science and technology is another major factor responsible for the plight of the African continent particularly Nigeria. From the analysis given so far, it is obvious that multinational corporations have entrenched a type of policy that enables them have the resources of the less developed countries.

The paper recommends as follows:

- i. MNCs especially Julius Berger has contributed in no small ways to the economic development of the country. As such, policy makers should ensure that at least seventy percent (70%) Nigerians are employed into various departments of their workforce.
- ii. Irrespective of the challenges Multinational Corporations pose in the achievement of economic growth and development of Nigeria, the policy makers should prevail on multinational corporations to make use of indigenous technology where necessary rather than import foreign technology.
- iii. Apart from the many measures put in place to minimize the challenges of multinational corporations and to achieve economic growth and development in Nigeria, policy makers should come up with policy that will protect the right of every Nigeria worker and the idea of contract workers should be discouraged.

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## Globalization and Economic Growth in Sub-Sahara African Countries: Application of Panel Data Analysis



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### Abstract

*This study investigated the impact of globalization on economic growth in sub-Saharan Africa countries covering 2000-2019. The study adopted ex-post facto method and used secondary data on included variables and uses both static and dynamic panels to carry out the analysis. The analysis of the results showed that while exports (EXP) and foreign direct investment (FDI) have positive effect on real gross domestic product, imports (IMP) and net migration (NEM) have negative impact on it. The study recommends that governments should give subsidies and/or tax holidays to producers of export commodities especially those that have to do with manufacturing and industry to boost their output for exportation. Again, governments should create more employment and provide more infrastructures, and when this is achieved there will be positive net migration and foreign investments would be massively attracted into the country.*

**KEY WORDS:** Exports, Imports, Net Migration, Globalization, Panel Data.

**JEL Classification:** E65 O47 C32

### 1.0 Introduction

Globalization is the process of reducing or removing restrictions on international trade. This may include the reduction or removal of tariffs, abolition of import quotas, abolition of multiple exchange rates, and removal of requirements for administrative permits for imports or allocations of foreign exchange (Anowor, Ukwani & Martins, 2013). Many previous empirical studies have shown that globalization can potentially have a positive and statistically significant impact both on the level and rate of growth of GDP per capita of developing countries (Nannicini & Billmeier, 2011; Zahonogo, 2016; and Keho, 2017). On the other hand, there are studies which cast doubt suggesting openness to trade may have no impact or even negative impact on growth in countries with low financial development (Keho, 2017).

Testing whether the benefits of globalization for growth vary over time and across countries, Dowrick & Golley (2004) found that specialization in primary goods has a negative impact on growth. For a host of different reasons, the findings of previous studies on the impact of globalization on growth have been mixed. The issue of globalization becomes even more controversial given that transition economies have followed similar economic globalization path and pursued trade liberalization policies right in the early years of transition. In view of this, it comes as no surprise that the benefits of globalization remained controversial and increasingly debated in international and academic policy discourse (Silajdzic & Eldin, 2013).

On historical front, perhaps the extreme proponent of a deep historical origin for

globalization was Andre (1998), an economist associated with dependency theory. Thomas (2005) divides the history of globalization into three periods, namely: Globalization 1.0 (1492–1800), Globalization 2.0 (1800–2000) and Globalization 3.0 (2000–present). He states that Globalization 1.0 involved the globalization of countries, Globalization 2.0 involved the globalization of companies and Globalization 3.0 is the globalization of individuals.

On the impact of globalization on sub-Saharan African countries, World Bank (2005) reported that in the 1960s, per capita gross domestic product (GDP) and GDP growth were higher in Africa than in Asia, and expectations then were that African countries would grow faster due to their superior resource endowments. However, they failed to adjust to changing global economic conditions and went on to experience over two lost decades of development from the late 1970s until the early 2000s. A key determinant of this growth and human development disaster has been the radical change in Africa's development policies from the 1980s.

Liberalization and privatization measures aimed at integrating countries into global markets and attracting private investment have replaced admittedly problematic state interventions and public ownership, notably the support for infant industries. Ironically, while policy debates during the pre-liberalization developmental era seriously considered the interactions between external and internal factors, the subsequent liberalization era has tended to focus almost exclusively on the domestic determinants of economic performance, assuming that external market forces are always benign, with

strongly positive influences on economic performance and prospects.

In summary, a tentative conclusion emerging from the background above is that globalization has some associations with economic growth in Sub-Saharan African countries. However, an empirical analysis is required to determine the exact relationship existing between these variables. This is the motivation to conduct this study which is designed to examine the effect of globalization on economic growth in Sub-Saharan African countries during the 2000-2019.

## 2.0 Literature Review

The relationship between globalization and economic growth is a highly debated issue among economists, public policy makers, and scholars. The arguments have been contradictory and sometimes inconclusive. Although there are multiplicity of definitions and descriptions of globalization by scholars of varied ideological convictions, two opposing conceptions stands out.

Liberal scholars viewed globalization as the saviour of the developing countries. According to Teddy (2016) Globalization is a process that enhanced interactions among countries and people facilitated by progressive technological changes in locomotion, communication, skills and knowledge. They believe that these movements of goods, services, capital, firms, and people contribute to the spread of technology, knowledge, culture, and information across border. Instead of a danger, globalization is an opportunity that everybody should scrounge. Frederic (2009) stated that globalization of trade and

information during the past century has lifted vast numbers of the world's people out of extreme poverty.

For Marxists, globalization is a continuous class struggle and an infiltration and advancement of capitalist norms. They view globalization as a new form of neo-colonialism which is economic, political, cultural, or other pressures to control or influence other countries, especially former dependencies (Online Oxford Dictionary, 2019). Nkrumah (1968) perceived Neo-colonialism as the worst form of imperialism: for those who practice it, it means power without responsibility and those who suffer from it; it means exploitation without redress. The essence of Neo-colonialism is that the state which is subject to it is, in theory, independent and has all the trappings of international sovereignty. In reality its economic and thus internal policy is directed from the outside. Thus, save for political independence of the colonized territories the post-colonial economic structures remains and share essentially the same feature with those of the colonial epoch.

In the area of theory, (Eddy & Marco, 2006; and Teddy, 2016) opined that globalization is rooted in the modernization theory propounded by liberalists, which states that developing countries should take a progressive journey from a traditional pre-industrial, agrarian society towards a modern, industrial mass-consumption society. It is worth noting that modernization in developing countries has taken a dualist approach, a traditional sector rooted in the country side and an emerging modern centers concentrated in the cities. These two sectors function in relative isolation from each

other such that the traditional sector functions as a reservoir for labor for the modern sector. Economic liberals underscore the need for an open economy free of political interference to help generate large investments that are required to foster sustained economic growth.

Secondly, they uphold the role of foreign trade which is viewed as a road to market expansion. Lastly, economic liberals promote foreign direct investments (FDI) which are brought about by Transnational Corporations (Jackson & Sorensen, 2003). Giddens (1997) in his work on globalization posited that it is the process of modernization of the world system through the use of institutions. Secondly, he argues that globalization is multifaceted, that it, it takes place at all levels and sectors of the society. This theory forms the root of this paper.

Several empirical studies have examined the effects of globalization on economic growth of countries and regions. Some of the empirical studies are reviewed below. Afzal (2007) analyzed the effects of globalization on economic growth with an error-correction model by using the Pakistan's data from years 1960 to 2006. The study used trade receptivity and financial integration variants to represent globalization. The study revealed that there is powerful connection between economic growth and trade gap and financial integration and that this connection leads to a development on economic growth in long terms.

Chang & Lee (2010) conducted a study on the relationship between general globalization index and its components, which are economic, social, and political globalization

indexes, and the economic growth of 23 Organization of Economic Cooperation and Development (OECD) countries, during the period 1970-2006, using co-integration analysis.

The results showed that there is a weak connection between variants and causality in short term but in long term there is a one way connection from general, economic and social globalization to economic growth. Ray (2012) analyzed if there is causality between globalization and economic growth in India in the 1990-2010 by using the Granger causality test. The study found that there is a bi-directional causality between globalization and economic growth in India during the period under review.

Umaru, Ahmadu & Musa (2013) analysed effects of globalization on Nigeria's economic growth between the years 1962 and 2009 by using the Annual Average Growth Rate (AAGR) technique. The study found that globalization affects petrol, manufacturing industry and solid mineral sectors in negative ways, but it affects the agriculture, transportation and communication sectors in positive ways

Ying, Chang & Lee (2014) conducted a study on the connection between social and political globalization and economic growth in ASEAN countries between the years 1970 and 2008 by using Fully Modified Ordinary Least Squares (FMOLS) technique. The study found that economic globalization affects economic growth in positively, but social and political globalization affects it in negatively. Kilic (2015) examined the effects of economic, social and political globalization on economic growth by using data of 74 developing

countries between 1981 and 2011. The study employed the Monte Carlo experiment performed by Pesaran (2006). The data of globalization and its sub-components namely, economic, social and political globalization, were obtained from Dreher (2006).

The data of economic growth were obtained from World Bank (WB) database. The study found that the coefficient of economic globalization index has significant and positive impact on economic growth. Similarly, political globalization is positively and significantly associated with GDP. There is an increase in the value of GDP for every increase in the value of political globalization index. However, the results illustrate that social globalization is significantly and negatively associated with GDP.

The review of the empirical studies above indicated that the impact of globalization on economic growth is influenced by sample, estimation techniques, and period specifications, observed and unobserved country-specific effects. Most of the empirical studies reviewed above are concentrated on the effect of trade or foreign capital volume (de facto indices) on economic growth. The problem is that de facto indices do not proportionally capture trade and financial globalization policies. These shortcomings have created gap in the literature. The rate of protections and tariff need to be accounted since they are policy based variables, capturing the severity of trade restrictions in a country. Therefore, globalization index should contain trade and capital restrictions as well as trade and capital volume. This study bridge the gap. Thus, this paper avoids these shortcomings by using indices of

globalization. The economic dimension of this index captures the volume and restriction of trade among countries. Despite the numerous studies, the effect of economic globalization on economic growth in Sub-Saharan Africa is still scarce. More importantly, this study is one of the most recent as it is done in 2020. None of the studies cited and reviewed above was done in 2018, 2019 and 2020.

### 3.0 Methodology And Data

This study adopted ex-post facto method to investigate the effect of globalization on economic growth in sub-Saharan Africa countries during the 2000-2019. To this end, the study uses secondary data on included variables and uses both static and dynamic panels to carry out the analysis. In order to investigate the effect of globalization on economic growth in sub-Saharan Africa countries, the study will adopt neoclassical growth model of Solow (1956) and Swan (1956) as the basic theoretical connection between economic growth and globalization. To promote economic growth, government need to promote both human and physical capital as well as mobilize both domestic and external financial resources. Therefore, foreign capital which eventually reduces savings-investment gap is significant to sub-Saharan Africa countries, including Nigeria. To capture the impact of external financial resources (exports, imports, and foreign direct investment) as well as human resources (net migration), on economic growth in sub-Saharan Africa countries, the Solow (1956) model as adjusted by Barro (1990) model was applied in this study.

The panel data regression model used in this study mirror the work of Bhavish, Nitisha, &

Sheereen (2016) on Foreign Direct Investment & Economic Growth in Sub-Saharan Africa: An Empirical Study. The model is presented as:

$$GDPPC_{it} = \alpha_i + \beta_1 FDI_{it} + \beta_2 OPNS_{it} + \beta_3 GCF_{it} + \beta_4 POP_{it} + \beta_5 D1_{it} + \epsilon_{it} \dots \dots \dots (3.1)$$

Where:

GDPPC<sub>it</sub> = GDP per Capita Growth (%) at time t, FDI<sub>it</sub> = Inward FDI (net inflows) as a % of GDP at time t, OPNS<sub>it</sub> = Trade openness, i.e. (Imports + Exports) as a % of GDP at time t, GCF<sub>it</sub> = Gross Capital Formation (%) at time t, POP<sub>it</sub> = Population Size at time t, D1<sub>it</sub> = Dummy variable, such that D1 = 1 for 2000-2009, 0 for 2012-2014. The subscripts i and t represent countries and time periods respectively. The data were collected from various sources including World Bank and International Monetary Fund.

Taking into consideration many countries situation-the structures of the selected sub-Saharan African economies and the dynamics of globalization and capital inflows, the necessary variables of interest are then introduced and integrated into the panel data equations form as presented herewith.

$$RGDP_{it} = \alpha_i + \beta_1 EXP_{it} + \beta_2 IMP_{it} + \beta_3 FDI_{it} + \beta_4 NEM_{it} + \Delta T + \eta_i + U_{it} \dots \dots \dots (3.2)$$

Where:

Subscript i denote a country and t denote a year, RGDP<sub>it</sub> = Real Gross Domestic Product (proxy of economic growth) for country i at time t; EXP<sub>it</sub> = Export from country i at time t; IMP<sub>it</sub> = Import into country i at time t; FDI<sub>it</sub> = Foreign direct investment inflow into country i at time t; NEM<sub>it</sub> = Net Migration (measured as immigration minus emigration); and U<sub>it</sub> = Error term for country i at time t. The real gross domestic product per capita was used to take care of the differences between the selected sub-Sahara African countries, η<sub>i</sub> is the unobserved time-invariant specific effects; Δt



captures a common deterministic trend. Our a priori expectations are that:  $\beta_1, \beta_2, \beta_3,$  and  $\beta_4 > 0$ .

This study employed time-series cross-sectional (TSCS) or panel data for 20 Sub-Saharan African countries over a period of 20 years (2000-2019) giving a total of 380 observations. The countries covered are: Algeria, Benin, Botswana, Burundi, Cameroon, Central African Republic, Chad, Congo Dem. Rep., Congo Rep., Cote d'Ivoire, Egypt, Gambia, Ghana, Kenya, Lesotho, Malawi, Mali, Morocco, Nigeria, and South Africa. The estimation period is chosen to use 29 years of time-series observations in each country in order to maximize the cross-sectional dimension of the panel to 20 countries.

To achieve the objective of this study in determining the relationship between globalization and economic growth, the study made use of models and estimation methods richer than the basic Ordinary Least Squares (OLS) method. These include pooled OLS, fixed-effects, random-effects, first-difference estimator methods.

In the static panel, the study estimated it by means of pooled OLS, fixed effects (FE) and random effects (RE), the F statistic tests and the null hypothesis of the same specific effects for all countries. If we accept the null hypothesis, we could use the OLS estimator.

**4.0 Empirical Results And Analysis**

The empirical results are presented on table 4.1 below.

The Hausman test was used to decide which of the random effects (RE) or fixed effects (FE) model is better. We estimate the relationship among globalization indices and economic growth using fixed effects model. The general formulation of fixed effects linear panel data model is as follows:

$$Y_{it} = X_{it}\beta + C_i + e_{it} \dots \dots \dots (3.3)$$

Where subscript  $i$  denote the cross-section dimension, and  $t$  denotes the time series dimension. The  $y_{it}$  term denotes the dependent variable;  $x_{it}$  is the  $K \times 1$  column vector of explanatory variables,  $\beta$  is a  $K$ -dimensional column vector of the regression parameters and the intercept terms,  $c_i$ , are the unobservable time-invariant individual fixed effects and are allowed to vary by subject and are known as individual or subject-specific parameters.

Finally,  $e_{it}$  denote the disturbance terms which are assumed to be uncorrelated with the explanatory variables of all past, current and future time periods of the same individual (Verardi & Wagner 2010). Using the logarithm of all the variables instead of the un-logged form makes the effective relationship non-linear, while still preserving the linear model and increases its robustness (Bhavish et al, 2016). Thus, a linear – log model is used as follows:

$$\ln \text{RGDP}_{it} = \alpha_i + \beta_1 \ln \text{EXP}_{it} + \beta_2 \ln \text{IMP}_{it} + \beta_3 \ln \text{FDI} + \beta_4 \ln \text{NEM}_{it} \dots \dots (3.4)$$

Equation (3.4) was estimated and the results are presented below for purpose of data analysis.

Table 4. 1: Regression results and static panel data estimates.

Variable	Pooled OLS Estimat	Fixed Effect Estima	Random Effect Estimat
Constant	9.213017 (8.23)***	-11.93007 (-2.24)**	11.1688 (6.82)***
EXP	0.043927774 (4.91)***	0.019034 (1.61)	0.048250 (2.34)***
IMP	0.0147238 (4.90)***	-0.0030929 (-2.12)**	-0.0030958 (-3.62)***
FDI	0.023405 (4.39)***	0.006271 (2.83)***	0.0078459 (3.13)***
NEM	-0.2113084 (-3.57)***	1.2168 (4.13)***	-0.2528503 (2.37)**
R <sup>2</sup>	0.5887	0.5487	0.6248
White's General Test (PooledOLS)	32.23	34.80	32.23

Source: Author's computation, 2020, using E-Views 10.0

Table 4. 1 reveals that under the random effects model (see column 4), the coefficient of determination ( $R^2$ ) explains 62.48 percent of the variability in real gross domestic product around its mean, i.e., the predictors under this model adequately fit our data. This model better caters for the overall effect of predictor variables such as the impact of globalization on the various growths of the SSA economies. This model portrays the similar behaviour as pooled OLS with parameter estimates of 0.048250 for EXP demonstrating a positive and significant relationship at 1 percent.

This implies that for every percentage increase in EXP outwards, ceteris paribus, RGDP per capita will increase by 0.048250 per-cent. This positive contribution is in line with the theoretical underpinnings discussed earlier. EXP increases technical progress in the host country by means of a contagion effect (Findlay, 1978) which eases the adoption of advanced managerial procedures by the local firms. The impact of EXP in SSA is also reported to be relatively lower as compared to other studies, for instance Borensztein, De Gregorio & Lee (1998) for Latin American countries, Wang (2002) for the Asian

economies case and Campos & Kinoshita (2002) for transitional economies. This means SSA countries have been among the lowest beneficiaries of EXP.

Import (IMP) has a negative and statistically significant relationship with RGDP at 1 percent. From the random effect result, it is reported to have a coefficient estimate of  $-0.0030958$  percent which indicates a slight negative impact on economic growth. As for foreign direct investment (FDI), it has a statistically significant and positive contribution on growth though to a lesser extent than EXP. This agrees with the work of Borensztein, De Gregorio & Lee (1998). This study reveals that foreign direct investment indeed affects economic growth to a very large extent with a coefficient estimate of 0.25. An increase in foreign direct investment implies greater employment and increase in productivity. Increased foreign direct investment would lead to increase in investment and production in the various sectors of the SSA economies towards faster economic growth in the countries. Finally, the impact of net migration on economic growth is found to be negative and

statistically significant at 1 percent with coefficient estimate of 0.252 percent and this has negatively affected the SSA economies. The growing dependence of SSA on expatriates particularly for engineering services heightens the region's

exposure to increased immigration. On the other hand, efforts to look for greener pastures by some Africans had led to increased emigration of both skilled and semi-skilled labour from SSA to Europe, U. S. A, Asia, etc.

Table 4.2: Dynamic panel data estimation (first step GMM estimator).

Variable	GMM Estimates
Constant	- 24.32 (- 5.57) ***
RGDP	0.358 (2.40)**
EXP	0.5906 (4.74)***
IMP	- 0.00342 (- 3.41)***
FDI	0.003824 (1.71) *
NEM	- 1.8465 (6.66) ***
Diagnosis Test	
Sargan Test of Over Identifying Restrictions	Prob > Chi 2 = 0.1304
Areliano-Bond Test of 1st Order Autocorrelation	Prob > Chi 2 = 0.0546
Areliano-Bond Test of 2nd Order Autocorrelation	Prob > Chi 2 = 0.3178

Source: Author's computation, 2020, using E-Views 10.0

Table 4.2 reports the results from the dynamic panel analysis (one-step GMM estimation). The results validate the hypothesis that EXP is a factor of economic growth in our selected countries even in the short run. Our findings on EXP coincide with results of Seetanah & Rojid (2011). In fact the value of the coefficient of EXP is about 0.59 percent which has a strong positive impact and statistically significant relationship with economic growth of Sub-Saharan countries. As observed under the static regression setting, import was found to be statistically significant at 1 percent and has negative (-0.00342) impacts on RGDP per capita. Under the dynamic regression model, it is observed that the effects of net migration on our dependent variable (RGDP per capita) has a negative coefficient estimate of -

1.8465 percent and is statistically significant at 5 percent since its t-stat (6.66) is greater than its t-table (2.26).

The Sargan test is performed in order to ensure that the whole specification does not have any correlation issue amongst the residuals and the instruments used. Our regression model shows that Prob > Chi 2 (0.1304) is greater than 5 percent (0.01025). This implies that the over-identifying restrictions are valid for our regression. The Arellano-Bond serial correlation test showed that the instruments used are valid and the error term does not display any serial correlation. Thus we conclude that there is no autocorrelation at 5 percent significance level. This implies that the model specification is valid and the error term is free

from any autocorrelation issue.

### 5.0 Conclusion And Recommendations

This study investigated the effects of some indices of globalization on economic growth in sub-Saharan Africa countries during the 2000-2019. It also examined causality between the variables by using random effects least squares method developed by Dumitrescu-Hurlin (2012) for developing countries. The effects of exports, imports, and net migration on economic growth were analyzed by using random effects and fixed effects results. The results of the analysis show that exports and net migration affected economic growth positively while imports affected economic growth negatively. According to the analysis of the results, increase in exports and foreign direct investment sub-Saharan Africa countries have increased their economic growth levels. In this respect, the results of this study partially supported Ying et. al. (2014) who asserted that globalization had positive effects on economic growth. The results also indicated that exports and foreign direct investment were more effective in the growth process of the selected sub-Saharan Africa countries compared to net migration.

Based on the findings of this study, the following recommendations are made: Governments in sub-Saharan Africa countries should develop strategies to promote exports trade. To this end, government should give subsidies and/or tax holidays to producers of export commodities especially those that have to do with manufacturing and industry to boost their output for exportation towards economic growth.

Dependency on imported goods both at domestic and industrial production levels should be discouraged with the aim of

importing improved technologies such as tractors and other agricultural machineries to increase the production of food items such as rice, flour, and ground nut oils, to economic development in sub-Saharan Africa countries. There is need for SSA countries governments to introduce policies that will encourage massive FDI by creating conducive environment for investment in their economies. To achieve this, government expenditures on provision of infrastructures should be increased. This would also help reduce the unemployment rate and capital flight devouring the SSA economies. Also, government should play a leading role in maintaining political stability, preventing and/or resolving tribal and communal crises. This will create more conducive environment for increased foreign direct investment in SSA.

(i) Governments of countries in SSA should continue to increase its expenditure on education in order to expand educational institutions, facilities, and opportunities for all and sundry, as well as create employment or people. This will go a long way to empower the generality of the people in SSA. Governments should ensure inclusive and equitable quality education and promote lifelong learning opportunities for all. To achieve this, the universal primary education programme should be introduced by the Federal Governments of respective countries and even make education compulsory at all levels. Continue women empowerment in terms of their accessibility to employment will raise their poverty thereby help to reduce their vulnerability to exploitation by prospective traffickers. Governments should try and introduce policies that will improve access of children to quality education at early childhood development, care and pre-primary education. To achieve this, there is need for governments to provide quality of early childhood development and pre-primary education services and facilities.

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## Effects of Entrepreneurship Interventions on Economic Growth: An Assessment of the Government Entrepreneurship Empowerment Programme (2016-2020)



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### Abstract

*This study examines the effects of entrepreneurship interventions on economic growth in Nigeria. It dissects the arguments by scholars on the relevance of entrepreneurship in boosting economic growth. The study used the narrative textual case study method to assess the effects of Government Entrepreneurship Empowerment Programme (GEEP) on the growth of the Nigerian economy between 2016 and 2020. It found that the Programme has significantly transformed the enterprise capacity of most beneficiaries and stimulated their purchasing power, thereby improving growth of the country's economy. Though these improvements may have been marginal on a macroeconomic scale, a sustained effort to entrench the programme will certainly ensure a greater effect. Therefore, the study recommended that both federal and state governments should commit funds to the GEEP as its various suits help in improving the standard of living of beneficiaries.*

**Keywords; Economic growth, GEEP, N-SIP, Entrepreneurship and Investments**

**JEL Classification: L26, O43**

### 1.0 Introduction

Development scholars and economists have often neglected entrepreneurs. Some scholars opine that entrepreneurship is no longer a problem or a binding constraint to development. On the other hand, some others have been more concerned with who, why and how of entrepreneurship rather than with the impact of entrepreneurship on development (Bruton, Ahlstrom, Oblog, 2008; Shane 1997) as cited in (Naude, 2013). Although mainstream economics literature had paid little attention to entrepreneurship, its importance in recent times has become difficult to ignore (Wennekers and Thurik, 1999).

Entrepreneurs are widely considered as individuals who will introduce innovation, bring in competition and as a result, induce economic growth. Several models of economic growth and development have been very consistent in asserting that economic growth is driven primarily by private sector capital accumulation (Adenutsi, 2009).

This suggests that, entrepreneurship is directly linked to higher incomes in real terms. A study by Global Entrepreneurship Monitor (2012) observed that Nigeria is one of the most entrepreneurial countries in the world. The study further showed that 35 out of every 100 Nigerians engaged in one form of entrepreneurial activity or the other. However, this has not transcended into higher income.

More recently, some Ministries, Departments and Agencies (MDAs) and entrepreneurship development centers have been set up in the six geo-political zones in Nigeria to drive entrepreneurial development. These

includes: Bank of industry (BOI), Federal Ministry of Finance (FMOF), National Directorate of Employment (NDE), Youth with innovation in Nigeria (YouWIN) and the Subsidy Re-investment and Empowerment Programme (SURE-P) amongst others. In addition to these, national social investment programme (NSIP) like N-Power, National Home Grown School Feeding Programme (NHGSFP), Conditional Cash Transfers (CCT) and Government Enterprise Empowerment Programme (GEEP) have been introduced as well.

Previous studies (See Nwandu, 2015; Ogbo and Nwachukwu, 2013; Afolabi, 2015 and Sangya and Roopal, 2013 amongst others) have tried to examine the impact entrepreneurship has on economic growth. They often focused on the wider aspects of entrepreneurship and innovation. However, this study focuses on the effects of entrepreneurship intervention scheme on economic growth in Nigeria.

The subsequent parts of this paper is organized thus: a review of literature, followed by the methodology in section 3. Results are presented in section 4 while section 5 summarizes and concludes the study.

## **2.0 Literature Review And Theoretical Framework**

### **2.1 Conceptual Definition**

#### **2.1.1 National Social Investment Programme (NSIP) / Government Enterprise and Empowerment Programme (GEEP)**

NSIP is a strategy for enhancing social inclusion which has brought about positive changes in the lives of the poorest and most

vulnerable people in the country. The federal government of Nigeria established the NSIP in 2016, to tackle poverty and hunger across the nation. In the last five years, over twelve (12) million households have benefitted from NSIP interventions (Bank of Industry, 2020).

The GEEP is one of the four suite programmes under the NSIP (Onah and Olise, 2019). It is a micro-lending intervention that targets traders, artisans, enterprising youth, farmers and women in particular. It provides loans at no monthly cost to beneficiaries. The GEEP scheme has sub areas that include: Trader Moni, Market Moni and Farmer Moni. The trader moni empowerment scheme in Nigeria is a novel government attempt to provide micro finance and complementary economic services through social protection systems. The objective of the programme is to enable small-scale traders or artisans, who lack collateral access loans with ease, thereby reducing their vulnerability.

Trader moni allows access to interest-free loan. The amount ranges from N10,000 to N300,000. Similarly, market moni is an initiative created to boost the Nigerian economy through leverage for petty traders. Beneficiaries receive loans ranging from N50,000 to 150,000 per applicant for as long as 6 months. This initiative attracts no interest except a one-time 5% administrative fee (BOI, 2020). So far, over 24,000 beneficiaries have accessed market moni. However, farmer moni is a loan scheme targeted at farmers belonging to aggregators.

The scheme empowers agropreneurs through the provision of collateral free loan. Agropreneur is a strand of entrepreneurs that venture exclusively in to the agricultural



sector. The loans are repayable over a period of 6 months. Under this scheme, beneficiaries can get access to higher facility ranging from N300,000 to N2,000,000.

### 2.1.2 Economic Growth

Economic growth is the increase in the value of the goods and services produced by an economy (Nwadu, 2015). Economic growth refers to potential output i.e. production at "full employment" which is caused by growth in aggregate demand or observed output. Economic growth is one of the most important notions in the global economy. Growth is calculated in real terms and remains the primary measure of prosperity.

## 2.2 Theoretical Framework

Classical and neo classical scholars including, Schumpeter (1934), Lewis (1956), Kuznet (1955), Solow (1957), Kuznet (1976) and Rostow (1960) have contributed to the theories of economic growth. These economists saw the determinants of economic growth in investments and improving productive capacity. Schumpeter (1934) did not consider the accumulation of capital as the main force driving economic growth. He assigned great importance to the concept of entrepreneurship. In his opinion, the innovation, foresight and creativity of entrepreneurs determine economic growth (Thomas, 1987).

According to Lewis (1956) the growth of a developing economy stems from labour transition between two sectors: The capitalist sector and the subsistence sector. To Lewis, labour can be used instead of capital in the creation of new industrial investment projects, or it can be channeled into nascent industries, which are labor-intensive in their early stages.

Lewis' theory proposed a low level of life in the short-run, thus, the savings obtained would increase the stock of capital, which in the long run will lead to economic growth.

However, the idea of Kuznets (1955) pays homage to Lewis's theory. According to Kuznets, initially, when labour begins to abandon agriculture for industry, the differences were the greatest. To him, economic growth is caused by long term changes in distribution of income (Sarigiannidou&Palivos, 2012). Kuznets also noticed a positive association between the dynamics of economic growth and the increasing share of urban population in the total population. Rostow (1960) made economic growth dependent on capital accumulation and distinguishes five (5) stages of development.

To him, the biggest problem for poor countries is the interruption of the "vicious circle" established through the years, which could be broken via accumulating capital. According to Solow (1956), a sustained rise in capital investment increases the growth rate only temporarily because the ratio of capital to labour goes up. To him, a steady-state growth path can be reached when output, capital and labour are all growing at the same rate, so output per worker and capital per worker are constant.

From the above review, we could see that the classical and neo classical thoughts on economic growth are basically linked to supply. Contrary to this, Keynes considered demand to be the most important. According to him, effective demand plays a crucial role in the growth path of the economy. The experience of the great depression

influenced Keynes view. In his short – run model, the main factor of growth is “investments”. This model has influenced the writings of most neoclassical thoughts. This short-run view of investments on economic growth is integral to the analysis in this study.

### 2.3 Empirical Review

This section provides a review of empirical literature. The various authors whose works were consulted provide relevant analyses of the effect of finance on entrepreneurship development. In this regard, we provide the reviews as follows.

To begin with, Olukayode and Somoye (2013) investigated the impact of finance on entrepreneurship. Data was gathered from secondary sources and analyzed using regression analysis. Their result from uni-directional granger causal relationship revealed that, access to finance by entrepreneurs has a significant relationship with growth of entrepreneurship in the country which in turn has a positive relationship with economic growth.

In the same vein, Abdul-Kemi (2014) applied the Auto regressive integrated moving average model in investigating the impact of SMEs financing on economic growth and development in Nigeria from 1992-2013. The results from the study provide evidence that SME financing have a positive and significant impact on economic growth and development in Nigeria during the period under review. Despite the relevance of the study, it did not focus on a specific programme targeted at SME financing.

Meanwhile, Saidi, Sodiq and Olushola (2016) employed Asymmetric Auto-Regressive

Distributed lag proposed by Greenwood-Nimmi and Shin (2003). The study sourced secondary data from Central Bank of Nigeria statistical bulletin and World Development Indicators (WDI). Their results reveal that SMEs financing does not significantly influence economic growth in Nigeria due to the fact that funds granted for SMEs development is not sufficient.

In another study, Nwadu (2015) sought to investigate the contributions of entrepreneurial activities on economic growth in Nigeria from 1999 to 2015. Applying the Narrative- Textual Case Study method, the result reveal that the percentage contribution of the construction and service subsectors to GDP recorded growth as contrary to the agriculture and industrial subsectors that showed a declining trend in GDP. Also, Riti and Kamah (2015) investigated the nexus between entrepreneurship, employment and sustainable development in Nigeria.

Secondary data collected between 1980 and 2013 were analysed using co-integration and vector error correction models. The study revealed that the variables considered are co-integrated. Specifically, they established the existence of a positive relationship between entrepreneurship, employment and sustainable development in the long run. In the short run, entrepreneurship was found to be destructive due to changing technology. Similarly, Afolabi (2015) examined the effect of entrepreneurship on economic growth and development in Nigeria using Narrative-Textual Case Study (NTCS) and analysis of primary data collected in 2015. The findings reveal that entrepreneurship is important for wealth and job creation. This is because when

entrepreneurs discover opportunities, new firms are established and resources are deployed, leading to a reduction in unemployment, thus, fostering economic growth.

Contrary to this, Zaki and Rashid (2016) using the linear regression model examined the effect of entrepreneurship on economic growth in emerging countries which include: Egypt, Hungary, India, Mexico, Indonesia, Turkey and Romania over the period 2004 to 2014. Their result revealed that there is a significant and negative relationship between entrepreneurship and economic growth. Hence, government in these countries should be aware that encouraging increasing number of businesses to start is not enough; adequate infrastructural facilities of high quality should be constructed in addition to reasonable taxing system and business regulation.

### **3.0 Methodology**

#### **3.1 Data Sources And Analysis**

The various data used in this study were collected mainly from secondary sources. Some of these sources include textbooks, journals and official publications sourced on-line. Newspaper publications and information on the Bank of Industry website, as well as the World Bank were used as these constitute the main sources of information relevant to this study. A number of individuals involved in the implementation of the GEEP who had been interviewed in news report and documentary programmes on government initiatives provided useful information on the impact of the programme on targeted enterprises. The various data gathered were descriptively analysed using the Narrative-textual and Case Study method due to the non-availability of

time series data for one of the variables in this study.

### **4.0 Data Analysis**

The purpose of this study is to review the economic effects of the current Government Entrepreneurship Empowerment Programme on the growth of the Nigeria economy. Accordingly, it examines the implementation of the policy on small scale businesses. Thereafter, it broadly assesses the effectiveness of the GEEP in driving economic growth in Nigeria. As such, it uses the available information on this aspect of the National social Investment Programme (N-SIP) of the federal government of Nigeria to assess its effects on the economic growth in the country.

The analysis is examined from three interrelated themes namely; the appropriateness of the contents of the programme for enabling economic growth; adequacy of the operational procedure for stimulating economic growth; and the challenges to the effective implementation of the GEEP and their solutions.

It is expected that the textual and thematic sequence help to address the stated purposes of this study. We now consider the basic contents and reach of the various strands of the scheme as executed by the agents of the federal government.

#### **4.1 Analysis of the GEEP Scheme**

The GEEP scheme is aimed at providing access to financial services (loans) to traders, market women, women cooperatives, artisans and Micro, Small and medium enterprises (MSMEs) as well as enterprising youths, farmers and agricultural workers. It

attempts to stimulate the commercial performance of beneficiaries and cushion the effects of economic downturn on the micro and small-scale business owners. It has been established that the MSME sector of the Nigeria economy contribute significantly to the gross domestic products of the country. As such, it is asserted that “the MSME sector has perhaps the highest potential for generating jobs and for promoting equitable growth. For instance, in 2014, the sector contributed about 52% of GDP and employed 82% of Nigeria's workforce” (CDD,

2019). This assertion is instructive when we look at the determination of the current administration to stimulate economic growth and employment creation through huge investments in the GEEP and its other suits under the N-SIP of the federal government of Nigeria.

The table below is a lucid articulation of the huge investment in the programme and the estimated number of beneficiaries so far in the country.

Table 5.1 Analysis of the GEEP scheme

S/N	GEEP LOANS DISBURSED	BENEFICIARIES	MONITORS OF NSIP	BENEFICIARIES	NATIONAL SOCIAL REGISTER	BENEFICIARIES
1.	Market Moni N50,000	317,212	No. of third Party Monitors paid in September	1,689		
2.	Farmer Moni N300,000	5,000				
3.	Trader Moni N10,000	1,061,592				
4.	No. of Cooperatives	1,061,592			Poor & Vulnerable households (PVHH) in 23 states	551,755

Source: authors' tabulation of BOI Data

The various data in the table above are illustrations of the level of reach and coverage of the various suits of the GEEP. It shows the number and capacity of the programme. For instance, the market moni suit which is targeted at small-scale retail traders who constitute a huge proportion of most market traders in all parts of the country have been given to over three hundred thousand traders. The initial disbursement of fifty thousand naira to beneficiaries has tremendous effect in boosting their capital and purchasing power from manufacturers and wholesale traders in their respective business.

The table is structured in three exclusive columns of two items. It illustrates the various suits in the programme and current number of beneficiaries in each scheme. We shall now examine the operational procedure of the GEEP.

#### 4.2 Operational Procedure and Effect on Economic Growth

The aim of GEEP is to achieve productive employment and decent work for vulnerable Nigerians in the business and informal sector of the economy. According to the government, its target includes young people and persons with disabilities, by providing

loans of between N10,000 and N100,000 to them without interest and demand for collateral (Federal Government of Nigeria, 2017:50). These loans are distributed through three strategic suits viz; Market Moni, Farmer Moni and Trader Moni, as indicated in Table 1. Although the various suits of programmes in the N-SIP are aimed at responding to the challenges of poverty, inequality and unemployment in the country, their role in the stimulation of economic growth is worth noting. From a news report on BusinessDay newspaper, a seller of local ointment who accessed a loan of N50,000 from the scheme was able to upscale her loan profile to become eligible for the N100,000 facility.

In a similar report, the representative of the market women in Obalende, Lagos state, states that over five hundred of the members of her group benefitted from the loan scheme. And that the loan was very helpful to their businesses, Bank of Industry (BOI, 2020). In other words, the effect of the loan on their businesses was transformational. Similar

stories run through the numerous beneficiaries of the GEEP suit of the NSIP of the Nigeria federal government. In this way, the livelihood and commercial prospects of these beneficiaries are significantly improved.

Accordingly, the implementation of the suits help to improve the livelihood for the poor, improve access to health and education, reduce youth unemployment, eradicate child malnutrition, improve financial inclusion including through better access to credit and promoting productivity (National Social Investment Office, NSIO, 2019). So, the specific and multiplier effect that the GEEP aspect of the programme has on the economic growth in Nigeria is significant. From the current trends in the micro economic environment across the country, there is growth in the capacity of small-scale traders who have benefitted from the scheme.

Despite the setback from the Covid 19 lockdowns, the growth potentials of the GEEP is noticeable.

**GDP Growth rate for Nigeria During the Period of GEEP Intervention**



Source: Data from World Development Indicators (2016-2020)

The illustration above shows the annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2010 U.S. dollars. It represents the growth rate of Nigeria from 2016, when the scheme was

launched to 2020, when the lockdowns of covid 19 started to take its toll. Giving the circumstance it is essential to note the significant growth in the economic indicator of the country.

While other factors and variables may have accounted for this trend, there is little doubt that the MSME sector, the focus of the GEEP is relevant to the growth. Therefore, this is one aspect of the federal government intervention that is capable of enhancing economic growth through the stimulation of greater economic activities in the critical aspects of the Nigerian economy.

#### **4.3 Challenges to the Social Investment Programme in Nigeria**

One of the notable hindrance to entrepreneurship development in Nigeria is access to fund. Many micro, small and medium enterprises lack the capacity to raise loans through commercial banks essentially because of lack of collateral. The GEEP has been instituted to make available interest and collateral free loans to qualified beneficiaries. This is definitely a good move towards lifting them out of poverty by promoting their enterprises. But what are the current challenges facing the programme?

In the first place, there is the need to make the programme more robust so that it can reach further to the mass of people in the informal sectors of the Nigerian economy. For a more meaningful impact on the economy, it is imperative that the scheme is sustained and expanded to reach a wider range of entrepreneurs across the country. This should be done with due diligence in order to ensure that the capital raised from such facilities are used for productive ventures that will stimulate businesses and economic growth in the country.

Another challenge to the GEEP strand of the

social investment programme is the question of sustainability and ability of the handlers to efficiently recover the principal and charges on loan facilities provided to beneficiaries. There is the tendency of some beneficiaries to see the facility as a largesse and an opportunity to devour their portion of the "national cake"! This is quite contrary to the idea and philosophy behind the GEEP. It is therefore necessary to educate beneficiaries on the importance of fulfilling their commitment to the scheme to ensure sustainability and growth of the economy.

#### **4.4 Appraisal of the Scheme to the Growth of Nigerian Economy**

From the foregoing analysis, it is reasonable to state that the GEEP and its various suits of the NSIP have made significant impact in the lives of their beneficiaries. Going by some of their testimonies and their ability to upscale their credit potentials, it means that the objective of boosting the business activities of MSME in the country is yielding good result.

There is evident indication that since the introduction of the scheme the country's GDP growth rate has appreciated considerably. Similarly, it has strengthened the enterprise capacity of its beneficiaries. However, what is critical in the medium term is the sustainability of the programme. This sustainability is highly dependent on the fidelity and credit worthiness of the beneficiaries.

It is important to state that in relation to some of the theoretical literature, entrepreneurship may not lead to outright economic growth

and as some scholars will argue, economic growth does not really translate into economic development. However, this study is rooted in the school of thought that argues otherwise. This is because the stimulation and accumulation of growth in an economy is related to high level of productivity. This helps to enhance the standard of living and improve the peoples welfare and well being. Evidence from Beck, Demirgüç-Kunt, and Levine, (2007) shows that appropriate financial services can help improve household welfare and spur small enterprise activity.

This is because financial sector development and poverty are mutually reinforcing. This is why efforts that are directed at the stimulation of growth in the Nigeria economy, through social and financial interventions must be sustained.

Therefore, there must be a deliberate policy that is driven by a concerted effort by relevant government agencies to continue to promote entrepreneurship development in Nigeria. Similarly, extant examples of countries that have grown through enterprise development have always entrenched effective policy formulation, implementation, and supervision through constituted and non-constituted government oversight.

### **5.0 Summary Conclusion and Recommendations**

There is evidence that social investment programme (GEEP) has significantly affected beneficiaries' standard of living and business enterprise. However, a major challenge to the sustainability of the programme in the

medium term is the non-remittance of loan by beneficiaries. Thus, it is important for the federal government to include a proactive monitoring team for efficient and effective recovery of loans and the delivery of the scheme's cardinal objectives. Being an initiative of the Federal Government of Nigeria aimed at providing financial inclusion and access to micro-credit for Nigerians at the bottom of the economic pyramid, the thirty-six state governments across the country could key in to expand the coverage capacity of the scheme.

Currently, the programme has succeeded in on-boarding most beneficiaries into the formal financial system. It has also boosted the purchase capacity of existing businesses that have benefited from the scheme. Therefore, government should continue to create the enabling environment for private sector to increase their investment and contribute significantly to job creation and economic growth.

The followings are recommendations from the study:

- i. Both federal and State governments should commit funds to the GEEP as its various suits help in improving the standard of living of beneficiaries.
- ii The federal government should review the programme to encourage more entrepreneurs to key into the scheme.
- iii. the agencies in charge of managing the GEEP should strengthen mechanisms for the recovery of funds in order to make the scheme sustainable in the long run.

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