

## IMPACT OF FDI ON STANDARD OF LIVING IN NIGERIA

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### **Abstract**

*The study examines the impact of foreign Direct Investment on Standard of living in Nigeria for periods 1986-2021 Foreign investment has become the most important source of external flow to developing and underdeveloped countries over the year and has shown a significant part of capital formation and accumulation in these countries, through their share in the global distribution. The main objective of the study is to examine the impact of FDI on standard of living in Nigeria. Ordinary least square (OLS) method of data analysis was adopted. The data was sourced from CBN statistical bulletin vol. 27 2018. The variables were petroleum foreign investment, Agriculture FDI, manufacturing FDI, telecommunication FDI and mining FDI and the exogenous proxies GDP. From the model, it was discovered all the variables are negative and have no significant impact on standard of living.*

**KEYWORDS:** Standard of living, direct investment, exchange rate.

### **Introduction**

One of the most salient features of today's globalization is the increased inflow of capital across the nations. Foreign capital is considered by many countries (especially developing ones) as a major source of resources needed to attain economic growth and development. It is seen as a means of bridging the resources gap inherent in many developing nations.

Foreign capital is seen as an amalgamation of capital, technology, marketing and management, and thus its role in economic growth and development cannot be overemphasized. The integration of the Nigerian economy with the global economy increased sharply in the 1990's with the changing economic policies and lowering of barriers to trade and investment. This has led to increased inflow of foreign capital. The increased inflows of foreign capital are expected to result in faster economic growth through trade and investment over the years.

The underdeveloped nature of the Nigerian economy that essentially hindered the pace of her economic development has necessitated the demand for foreign investment into the country. Aremu (1997), noted that Nigeria as one of the developing countries of the world has adopted a number of measures aimed at accelerating growth and development in the domestic economy, one of which is attracting foreign investment into the country. According to World Bank (1996), FDI is an investment made to acquire a lasting management interest (normally 10% of voting stock) in a firm or an enterprise operating in a country other than that of the investor defined according to residency. However, foreign direct investment is often seen as an important catalyst for economic growth in the developing countries because it affects the economic growth by stimulating domestic investment, increase in capital formation and also facilitating the technology transfer in the host countries. (Falki, 2009).

A number of studies have analyzed the relationship between FDI inflows and standard of living, but the issue is far from settled in view of the mixed findings reached. The center-piece of the neo-liberal School otherwise known as the Pro-Foreign Investment School is that FDI can provide crucial help in modernizing the industrial order for the developing countries. They also believed that Trans-national Corporations (TNCs), through their FDI, could provide much of the 'motor' needed for economic growth in developing countries (Penrose, 2016 and

Chenery and Stout, 2015). As opposed to the claim of the dependency theories that FDI leads to transfer of economic control and wealth of foreign powers ultimately leading to economic marginalization of the FDI host countries, neo-liberals argue that FDI provides vast benefits to recipient firm and host economies of TNCs affiliates (Matzner, 2014).

Firstly, they believe that FDI brings crucial western knowledge and value in the form of superior Western management qualities, business ethics, entrepreneurial attitudes, better labour/capital ratio, and production techniques. Secondly, FDI possible industrial grading by typing firms of developing countries hosting TNCs affiliates into global research and development (R&D) networks, and thus resulting in technology transfer as well as providing a greater deal of investment fund (Fisher and Gelb 2015). Thirdly, FDI leads to the growth of enterprises by providing access to Western markets. This growth in turn provides a source of new jobs and stimulates demand hosting TNCs affiliates (Apter, 2014).

In contrast to this submission by the pro-foreign investment school, the dependency theory advocates see FDI as the advanced guard for a new diplomacy of economic imperialism (Bailey, 2015; Inzeit, 2014; Aslund, 2016; Ake, 2014; Landsburg, 2015; Hejdra, 2002). To them, foreign investors' penetration into a host economy would result in 'disarticulated development'. They also believe that the integration of developing countries' economy into the world of capitalist system would result in their underdevelopment in a sort of what Wolf (2017), referred to as 'dependence causes underdevelopment'.

According to Aremu (2015), dependency theory maintains that, developing countries are poor because they have been systematically exploited through: imperial neglect; overdependence upon primary products as exports to developed countries; foreign investors' malpractices, particularly through transfer of price mechanics, foreign firm control of key economic sectors with crowding-out effect for domestic firms; implantation of inappropriate technology in developing countries; introduction of international division of labour to the disadvantage of developing countries; prevention of independent development strategy fashioned around domestic technology and indigenous investors; distortion of the domestic labour force through discriminatory remuneration; and reliance on foreign capital in form of aid that usually aggravated corruption and dependency syndrome (Amin, 2016). In the same vein, the dependency theories have also focused on how FDI of multinational corporations distort developing nation economy. In the view of these scholars, distortions include the crowding out of national firms, rising unemployment related to the use of capital-intensive technology, and a marked loss of political sovereignty (Umah; 2017). It is also argued that FDI is exploitative and imperialistic in nature, thus ensuring that the host country absolutely depends on the home country and her capital. (Anyanwu; 2013) From the foregoing, dependency theories believe the participation of developed countries into developing nations via their FDI or any other means cannot be expected to produce beneficial result on the developing economies.

In the light of this, this study examines the impact of FDI on standard of living in Nigeria.

### **Research Hypotheses**

This study attempts to state the following:

HO<sub>1</sub>: Oil Sector investment has no significant impact on standard of living.

HO<sub>2</sub>: There is no significant impact of foreign agricultural investments on Nigeria standard of living.

HO<sub>3</sub>: There is no significant relationship between foreign investments in manufacturing on Nigeria standard of living

HO<sub>4</sub>: There is no significant impact of foreign direct mining investment on Nigeria standard of living.

### **Significance of the Study**

This research work is beneficial to the following stakeholders

1. Government and policy makers: The finding of this study could serve as an important reference for designing economic policies that could engender efficient foreign investment and enhance economic

- growth. Government will also see the need of pursuing sound and stable socio-economic policies which will not only help to attract FI but also to consolidate and earn the best return from every dollar of FI.
2. Academics: This research work will serve as a very good teaching /learning material for both lecturers and students in higher institutions who wish to learn about foreign investment and its effects on the economy of developing countries.
  3. Researchers: The study serves as a reference material for further research in this field.
  4. Investors and savers: knowledge they say is power. The study will reassure confidence in investors especially as most information needed for investment strategies are discussed in the work.
  5. Society/ Economy: the result and conclusion of this research will also add value to the Foreign Investment knowledge in Nigeria generally, through facilitating of our economic growth.
- 1.7 Scope of the Study: The study covers the impact of foreign direct Investment on Nigeria standard of living. Between 1986 and 2021. The time period was chosen considering that it offers updated time series observations and it constitutes a period which incorporate structural adjustment policy.

## **Review of Related Literature**

### **Conceptual Review**

#### **Standard of Living**

The degree of wealth and material comfort available to a person or community (oxford advanced dictionary) standard of living is the level of comfort, material goods, and necessities available to a person or group [Wikipedia].

The standard of living is a measure of the material aspects of a national or regional economy. It counts the amount of goods and services produced and available for purchase by a person, family, group or nation. The standard of living is different from other measures of quality of life. These of them include non-material characteristics, such as relationships, freedom and satisfaction. Indices that attempt to measure quality of life also include the material standard of living is narrowly focused on the value of goods and services produced and consumed.

#### **Concept of Agricultural Foreign Investment**

Okonkwo Rita (2015) has defined agriculture as the science or practice of farming. Pate and Hamza (2015) on their part defined agriculture as the production of animals, fishes, crops and forest resources for the consumption and other benefits of man. According to Okafor (2017), Agriculture is the process of producing food, feed, fibre and many other desired products by the cultivation of certain plants and the raising of domesticated animals (livestock). The practice of agriculture is also known as "farming" while scientists investors and others devoted to improving farming methods and implements are also said to be engaged in agriculture, subsistence farming, who farms a small area with limited resources inputs and produces only enough food to meet the needs of his/her family. At the other end is commercial intensive agriculture, including industrial agriculture.

#### **Concept of petroleum Foreign investment**

Okonkwo (2015) defined petroleum as the liquid material used to make asphalt. It would further be defined as a mineral oil that is found under the ground or the sea and it is used to produced petrol/gas, paraffin Diesel oil etc. Emmanuel and Isaac (2016), believed that oil and natural gas together make petroleum. Petroleum, which is Latin from rock oil, is a fossil fuel, meaning it was made naturally from decaying prehistoric plant and animal

remains. It is a mixture of hundreds of different hydrocarbons molecules containing hydrogen and carbon that exist sometimes as a liquid (crude oil) and sometimes as a vapor (natural gas).

#### **Concept of manufacturing Foreign Investment.**

Kindleberger (1965) has defined manufacturing as the business or industry of producing goods in large quantities in factories. Freidman (1972) on his part said that manufacturing is concerned with the activities of those who engage in processing and turning raw materials produced in the primary industry into finished products. The raw materials or natural resources are transformed into finished products after going through different processes to add value and utility. They engaged in utilizing or using the raw materials to produced finished goods. Examples of manufacturing occupationare shoe making, food processing, plastic processing, textile processing and rubber processing.

#### **Concept of Telecommunications foreign investment**

Telecommunications refers to the exchange of information by electronic and electrical means over a significant distance (Okafor 2017). A complete telecommunication arrangement is made up of two or more stations equipped with transmitter and receiver devices. A single co-arrangement of transmitters and receivers called a transceiver, may also be used in many telecommunications devices include telephones, telegraph, radio, microwave communication arrangements, fibred optics, satellites and the internet. Telecommunication is also known as telecomm.

#### **Concept of mining foreign investment**

Pate and Hamza (2015) have defined Mining as the process of getting coal and other minerals from under the ground. Buzan (1991) said mining as an example of extractive industries are those who engage in obtaining raw materials and natural resources from the soil or sea. The extractive occupation is concerned with making available raw materials and natural products from the land or sea.

#### **Acceleration Theory of Investment**

The principle of acceleration is based on the fact that the demand for capital goods is derived from the demand for consumer goods which the former helps to produce. The acceleration principle explains the process by which an increase or decrease in the demand for consumption goods leads to an increase or decrease in investment oncapital goods. The accelerator coefficient is the ratio between induced investment andan initial change in consumption expenditure.

Symbolically,  $\beta = \Delta I / \Delta C$  or  $\Delta I = \beta \Delta C$  where  $\beta$  is the accelerator coefficient,  $\Delta I$  is netchange in investment and  $\Delta C$  is net change in consumption expenditure.

#### **Foreign Investment Inflows and Economic Growth**

Okafor and Eyisi, (2017), researched on Relationship between FDI, Capital market and Nigerian economy. The variables used were Annual Market Capitalization as theindependent variable and GDP as the dependent variable. The findings revealed thatcapital market has positive significant impact on Nigeria economy; FDI in Nigeriahave significant impact on economic growth and that FDI enhances the capitalizationof Nigerian capital market.

Emmanuel (2016) investigated on effect of Foreign Direct Investment on Economicgrowth in Nigeria. The study covered the period between 1981 to 2015. The variablesused are Gross Domestic Product, FDI, and exchange rate. The results showed thatforeign investment has a positive and significant effect on gross domestic product. Itwas also found that exchange rate has a positive but not significant effect on grossdomestic product.

Ugwuegbe and Onoh (2013) worked on "the impact of Foreign Direct Investment onthe Nigerian economy. The variables used are Gross Domestic Product, Gross FixedCapital Formation, Foreign Direct Investment,

Exchange rate and interest rate. The results showed that FI has a positive and insignificant impact on the growth of Nigerian economy for the period under survey.

Onyali and Tochukwu (2014) examined the effect of Foreign Investment and the Nigerian economy. The study employed the use of ordinary least square regression test using time series data from 2000-2009. The result revealed that increased inflow of FDI in Nigeria is a major pathway towards achieving Vision 2020 economic growth.

Apana and Yehoah (2018) investigated on FDI inflows and outflows in Ghana and its export and import. The variables used are foreign Direct Investment, Export, Import and Gross domestic product. Their result revealed that there is a direct relationship between export and import of the GDP and the overall growth.

Ibekwe Ibekwei and Egungwu. (2018) studied the effect of foreign investment on economic growth of Nigeria. In other to achieve this objective the study used the ordinary least squares regression analysis. The variables used were agricultural foreign direct investment, Petroleum FDI and Real Gross domestic product. The findings discovered that agricultural FDI is positive and statistically significant while petroleum FDI is positive but statistically insignificant.

Niyi, and Ismaila (2017) assessed the impact of FDI on economic growth in Nigeria. The study employed the ordinary least square regression techniques. The variables used are Gross domestic product, foreign direct investment and exchange rate. The result of their study showed that FDI largely promotes economic growth and a positive relationship was also found between GDP and exchange rate.

Okon and Chuku. (2012) in his study on the effect of FDI and economic growth in Nigeria found that FDI and economic growth are jointly determined in Nigeria and there is positive feedback from FDI to growth and from growth to FDI.

George and Bariyima (2015) examined tax incentives and FDI in Nigeria. The variables were Gross Domestic Product, Annual tax revenue, Inflation rate, aggregate population of Nigerian and level of openness to trade. The result revealed that FDI response to tax incentives is negatively significant, that is, increase in tax incentives does not bring about a corresponding increase in FDI.

Adegbemi (2012) showed that FI has a significant impact on output of the economy but that the growth effects of FDI differ across sectors. The variables of the study were supply (output), private demand, Government expenditure and external sectors.

Okonkw, Egbunike, and Udeh Francis N.P (2015) investigated FI and Economic growth in Nigeria between 1990-2012. They employed OLS estimation techniques and the result showed that export assumes a positive sign which implies that there is a positive relationship between economic growth and export.

Ade Babatunde and Awoniyi (2011) investigated the relationship between corruption, FDI and economic growth in Nigeria over the period 1990-2009. The study found that there is an inverse relationship between FDI inflow and corruption. Also, there is a significant positive relationship between FDI inflow and economic growth in Nigeria. Obida and Nurudeen (2010) conducted a research on Determinants of foreign investment in Nigeria. The study employed the use of multiple regression model and error correction Technique. The results revealed that the market size of the host country, deregulation political instability and exchange rate depreciation are the main determinants of Foreign Direct Investment in Nigeria.

Asogwa and Osundu (2014) examined the impact of foreign investment on economic growth around 1980-2009. The study utilized multi-factor productivity and multiple regression models. The variables used are Real Gross domestic product, percentage of total population, Real Gross Fixed Capital formation, FDI and trade man

openness policy. The empirical evidence showed that FDI into manufacturing and Telecommunication sector has positive impact on economic growth in Nigeria while FI into agriculture sector impacted on economic growth negatively.

### **Foreign Agricultural Investment**

Oloyede (2013) examined the impact of foreign direct Investment on the agricultural sector development of the Nigerian economy. This work employs secondary time series data which spanned 1981 to 2012, the variables were on agricultural input, foreign direct investment, exchange rate, interest rate. Following ADF test for stationarity and a greater causality Test, the study found a relationship among the variables as affirmed by error parameter. The study reveals that foreign direct investment positively impacted on agriculture not only in the short run but also in the long run. This will also engender domestic income diversification which will boost agricultural sector. Further, political instability adversely affected agricultural investments in the long run. An enabling environment should be provided to attract investment on short and long run basis.

Ofolade and Ekperiware (2015), examined foreign portfolio investment and Nigeria agricultural sector which covered the period 2003-2011. The result from the findings showed that factors attracting foreign investors into the Agricultural sector in Nigeria is critical and if well managed by policy makers could enhance the attraction of foreign investment needed for financing agricultural sector that will result in economic development and improve the standard of living of the citizens. Akinmulegun, (2012), examined the relationship between foreign direct investment inflows and agricultural sector in Nigeria. The study covered the period of 1986-2009 using times series data. Vector Auto regression Model was used for the analysis. Test involving impulse responses analysis and variance decomposition revealed that the relationship between foreign investment inflows and agricultural growth is insignificant.

Oladipo (2013) examined the macroeconomic determinants of foreign direct investment inflows in Nigeria. Annual time data for the periods 1985 to 2010 was adopted. Generalized method was adopted for the analysis. The results showed that only exchange rate interest rate, money and trade openness determines foreign direct investment in Nigeria.

Okeke, Ezeabasili and Nwakoby (2013), examined the impact of foreign direct investment inflows on the growth of Nigeria agricultural sector between 1977-2011. The data was tested for unit root using Augmented Dickey-fuller. The result showed that foreign investment has positive relationship with agricultural sector growth in Nigeria. The study recommended that Nigeria evolve investor friendly policies that can attract foreign direct investments and enhanced productivity and growth. Osinubi and Amaghionye (2010), analysed the direct and significance effect of foreign direct investment on agricultural growth in Nigeria. Secondary data covered the period 1970-2005. The findings were that foreign private investment, agricultural investment growth and Net Export growth were positively related to economic growth in Nigeria. Lagged error term was statistically used in explaining variations in Nigeria's economic growth.

Ajayi and Oke (2012), investigated the effect of foreign direct Investment Inflows on the agricultural growth and development of Nigeria. Regression analysis was adopted. Based on the findings, the study revealed that foreign direct investment inflows have significant influence on agricultural growth.

Adaramola and Obisesan (2012) assessed the impact of foreign direct investment inflow on the Nigeria agricultural market development given the role of the letter instimulating the development of the Nation's economy from 1970-2010. The study employed ADF unit root test and Johansen co-integration test for the analysis. It was revealed that foreign investment impacted positively and significantly on agriculture.

The study thereby recommended that since foreign direct investment is a significant determinant, efforts should be made by government and monetary authorities to encourage foreign direct investment into Nigeria so as to stimulate the long run agricultural growth.

### **Foreign Petroleum Investment**

Salami, Gazi and Oke (2012) investigated the impacts of foreign direct investment in oil sector in Nigeria and its attendant impact on economic growth. The study employed co-integration analysis. The result showed that foreign direct investment at current year is negatively associated with GDP. The impact of domestic capital formation is relatively small compared with the impact of foreign investors in oil sector of the economy. The study recommended that government should provide good leadership, accountability and transparency.

Imoughele and Ismaila (2015), examined the impact of exchange rate on oil export.

Time series data obtained from central bank of Nigeria between the periods of 1986-2013 was used augmented Dickey-fuller test was used for the unit root test and Johansen's integration test was employed for analysis. The result revealed that effective exchange rate, money supply, credit to private sector and economic performance have a significant impact on the growth of oil-export. The study recommended that monetary authority should ensure stable exchange rate in order to stem inflationary tendencies.

A multiple regression model was used with standard of living in Nigeria.

proxied by per capita income as the dependent variable, while foreign petroleum investment, foreign agricultural investment, foreign manufacturing investment, foreign telecommunication investment and foreign mining investment for the period of study are treated as independent variables.

The structural form of the model is:

$$PCI = (FPI, FAI, FMI, FTCI, FMN)$$

The stochastic form of the model is:

$$PCI = \beta_0 + \beta_1 FPI + \beta_2 FAI + \beta_3 FMA + \beta_4 FTCI + \beta_5 FMNI + \mu$$

Where:

PCI = Per capital income

FPI = Foreign Petroleum Investment

FAI = Foreign Agriculture Investment

FMA = Foreign Manufacturing Investment

FTCI = Foreign Telecommunication investment

FMN = Foreign Mining Investment

U = Error term

$\beta_0$  = Intercept

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  = Slope of the regression equation

Our A priori Expectations are:  $\beta_1, \beta_2, \beta_3, \beta_4,$  and  $\beta_5 > 0$

### **Method of Data Analysis**

The study used the unit root test for stationary variables. The test was used to check if long-run relationship exists among the variables in the model using the Johansen technique. Results of the regression analysis help to determine the significance level of the study variables in the prediction of the dependent variable. The coefficients were used to show that the independent variables positively or negatively influence the dependent variable or if there is any relation at all. Furthermore, one indicator (R-square) was used to show to what extent the model explains the variation in the dependent variable. The analysis was conducted at 0.05 level of significance.

### **Data Analysis and Interpretation of Result**

**Data Presentation**

**Table I Dependent variable PCI**

OLS Estimation regression results for FDI inflow on standard of living in Nigeria.

Variables	prob.	B-Coefficient	E-Statistics
FDI	10.36***	3.06	0.8770
FAI	9.91***	9.66	0.08120
FMI	7.66***	5.33	0.1012
FTI	9.98***	9.72	0.0714
FMN	5.44***	5.44	0.2215
Constant	67.33***	4.01	00000

$r = 0.0, R^2 = 0.52, \text{Adjusted } R^2 = 0.37$

Durbin - Watson = 2.07

Note: \*\*\*, \*\*, \* denote significance of 10%, 5%, 1% level sample adjusted 1986-2021.

Source: Researcher computation 2021.

Table 1: Shows the influence of the independent variable on the dependent variable

The result of multiple regression analysis displayed in table 1 above shows a coefficient of determination ( $R^2$ ) value of 0.41. It implies that changes in the study's explained variable account for 41% of the changes of the Nigeria gross domestic product.

On the other hand the 59% of the variation is attributed to variable not captured in the study.

**Hypothesis**

HO<sub>1</sub>: Oil FDI sector investment has no significant impact on Nigeria PCI.

From the summary of the regression result presented in table I it can be inferred that oil sector investment has no significant impact on PCI going by the probability of 86%,. ??

HO<sub>2</sub>: There is no significant relationship between FDI in agricultural investment and Standard of living.

The same regression result shows that there is no significant relationship between agricultural investment in Nigeria which has probability of 0.081.

HO<sub>3</sub>: There is no significant relationship between foreign direct investment in manufacturing and standard of living (PCI).

The regression analysis shows that there is no significant impact of FDI investment in manufacturing and standard of living in Nigeria.

HO<sub>4</sub>: There is no significant impact of FDI in telecommunication on standard of living. The regression result shows that there is no significant impact of FDI investment in Telecommunication and Standard of living.

HO<sub>5</sub>: There is no significant relation between FDI in mining and standard of living in Nigeria. The regression result shows that there is no significant impact of FDI investment in mining on Standard of living in Nigeria.

**Conclusion and Recommendation**

The Study examined the impact of FDI and Standard of living in Nigeria between 1986-2021. The Variables Precipitate incomes (GPD), petroleum, Agriculture, manufacturing, telecommunication and mining FDI's. The choice of these variables is based on the notion that improvement in them signifies improved mention standard of living. In chapter four we have been able to discuss and analyze all the relevant data. The following findings were arrived at:

1. From the summary of the regression result presented in table I it can be seen that oil sector investment has no significant impact on Standard of living going by the probability of 86%,. ??
2. The same regression result shows that there is no significant relationship between agricultural investments in Nigeria which has probability of 0.081.
3. The regression analysis shows that there is no significant impact of FDI investment in manufacturing and standard of living in Nigeria.

4. The regression result shows that there is no significant impact of FDI investment in Telecommunication and Standard of living in Nigeria.
5. The regression result shows that there is no significant impact of FDI investment in mining and Standard of living in Nigeria.

This research explores the impact of FDI on Standard of living between the period of 1986 - 2021. Foreign investment has been discovered as the engine of growth of PCI. Obviously, that FDI has contributed to the economic progress of Nigeria cannot be over emphasized:

- Foreign investments cater for job creation requirement,
- FDI improves incomes generation, it utilize national saving productively and economic growth.
- Foreign investment has been traditionally found to help in generating employment.

This testifies to the potentials of African countries like Nigeria in attracting qualify foreign direct investment (FDI) in their quest to achieve improved economic growth and development. However, it was concluded that African country like Nigeria, skill has several constraints that hindered foreign direct investment (FDI) such as exchange control (as presently appreciable to Nigeria due to declining crude oil revenue), skills shortages, crime, low growth rates (due to declining prices of commodities) and extensive labour legislation (Anyanwa and Yameogo, 2015, UNCTAD, 2015).

There is a strong evidence to assert that foreign direct investment inflow in oil and non oil related sectors of Nigeria economy do promote and support economic growth in Nigeria.

Attract skilled laborers technology, entrepreneurship and direct flow of foreign resources including foreign exchange. However, variables has no significant impact on standard of living.

The following recommendations are proposed:

- Government should make policies that will encourage equity ownership of investment in Nigeria by foreigners. Appropriate policy measures to attract foreign capital should be formulated and implemented to boost increased economic growth.
- Land acquisition and ownership laws should be friendly and simplified to ensure that hurdles that discourage business establishment are reduced in Nigeria.
- Elimination of terrorism, corruption, vandalization of oil pipelines and all forms of social vices will be a catalysts to foreign direct investment inflow (FDI) into Nigeria.
- The Federal and State government should as a matter of priority, improve the business environment by consciously providing necessary economic and social infrastructure, which will lower the cost of doing business in Nigeria.

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