

***AN EVALUATION OF FOREIGN DIRECT INVESTMENT  
AS A STRATEGY FOR SUSTAINABLE ECONOMIC  
GROWTH IN NIGERIA***

***BY***

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**A THESIS SUBMITTED TO THE POSTGRADUATE SCHOOL IN PARTIAL  
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE  
DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA)**

***DEPARTMENT OF BUSINESS ADMINISTRATION  
FACULTY OF ADMINISTRATION  
AHMADU BELLO UNIVERSITY  
ZARIA.***

***MARCH 2007***



## **DECLARATION**

I hereby declare that work in this project entitled “An Evaluation of Foreign Direct Investment as a Strategy for Sustainable Economic Growth in Nigeria” has been written by me in the Department of Business Administration. The information derived from the literature has been duly acknowledged in the text and a list of references provided. To the best of my knowledge, no one has done a similar work at the time this project was being done.

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Name of Student

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Signature

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Date

## **DEDICATION**

This research work is especially dedicated to my loving children, Abdulmalik and Firdausy and to that soul mate whose heart is pure and simple.

**CERTIFICATION**

This is to certify that this project titled “AN EVALUATION OF FOREIGN DIRECT INVESTMENT AS A STRATEGY FOR SUSTAINABLE ECONOMIC GROWTH IN NIGERIA” BY USMAN Safiya, meets the partial regulations governing the award of the degree of Masters of Business Administration ( MBA) of the Ahmadu Bello University, Zaria and it is therefore approved for its contributions to knowledge, and literacy presentations.

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## **ACKNOWLEDGEMENT**

All praises be to Almighty Allah for His mercy, protection and blessings throughout the period of this programme.

I would like to first acknowledge my parents, brothers and sisters for the love and support they have given to me which has in no small way given me the zeal and courage to carry this course through. I also wish to thank Professor Abdulsallam Ibrahim and his wife for their support.

My utmost gratitude to my Executive Secretary Engr. Mustafa Bello, FSNE, my bosses Mrs. M.E Abang, Mr. Amos Sakaba and Mal. Sabo Isiaku and the entire staff of the Nigerian Investment promotion Commission for their support and understanding and for making it possible for me to attend this programme. May Allah bless you all.

My special thank you to my supervisors, Dr. M.N. Maiturare and Mal. Bello Sabo, for their valuable contributions to the success of this study. I also wish to thank Dr. Sani Abdullahi for his kindness and support. To all my esteemed lectures, I say thank you more than words can ever say.

I wish to thank all my friends in the MBA class for making this programme a memory I will cherish forever. Thank you, Rafa Atta, Fatima Jammare, Nafisa Bello and Fatima Adamu Balogun. Thank you Bukar, Shehu, Kabiru and Imam, I love you all.

Most importantly, I wish to thank my friends in the NIPC for their support and encouragement. Thank you Shiru Abdullahi, Zainab Bako, Lovina Kayode, Hauwa Ndanusa, Muhammed Baba and many other well wishers who could not be mentioned due to space constraint.

**Usman Safiya**

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## **ABSTRACT**

Foreign Direct Investment (FDI) is a global term that is increasingly growing in popularity among nations of the world. The attraction of FDI has been a major feature in the economic and political agenda of developing countries for its inflow is a sure way of ensuring steady economic growth in a nation's economy. Devising strategies and policies for the attraction of FDI has over the years grown in sophistication. This is because a lot of countries are competing for global FDI and so every nation must put together a mix that would ensure that investors get the best deal and protection for their capital. FDI can provide the impetus to uplift an economy which has a resounding effect on other economic activities, especially in a developing nation. It can safely be said that steady FDI inflow can create wealth in both developed and developing countries because it provides employment, improves skills, improves infrastructure, social amenities and general well being of a people. This study shows that dependency theory is limited by its failure to account for the fact that many developing economies of the world that depended on FDI have grown faster than ever before due to more FDI net flow.

This study utilizes primary data obtained through the use of questionnaires and personal interviews as well as data obtained from World Investment Annual Reports and Account Books, NIPC and CBN publications and other related literatures to provide a working guide for analytical discussions.

The study shows that there are strong indications that the Nigerian economy is desirous of FDI and have joined the team of developing nations that are strategizing its systems for effective attraction of FDI. It also shows that there are constraints to the attraction of FDI which needs to be addressed before meaningful progress can be made. These constraints are

being managed by the leading investment promotion outfit of the country, the Nigerian Investment Promotion Commission. However, the study recommends that there must be proper funding of NIPC, improvement in infrastructure, proper incentives, policies and transparency for the effective performance of FDI in Nigeria.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 BACKGROUND TO THE STUDY**

In the 1990's, Foreign Direct Investment (FDI) became the largest single source of external finance for developing countries. In 1997, FDI accounted for about half of all private capital and 40% of local capital flows to developing countries. Following the virtual disappearance of commercial bank lending in 1980's, policy makers in emerging markets eased restrictions on incoming foreign investment. Many countries even tilted the balance by offering special incentives to foreign enterprises including lower income taxes or income tax holidays, import duty exemptions and subsidies for infrastructure.

The rationale for these special treatments often stems from the belief that foreign investment generates externalities in the form of technology transfer. Apart from employment and capital inflows, which accompany foreign investment, multinational activities may lead to technology transfer for domestic firms. If foreign firms introduce new product or processes to the domestic market, domestic firms may benefit from the accelerated diffusion of new technology. In some cases, domestic firms may increase productivity simply by observing the business methods of the foreign firms and the mix of their supply and demand.

Foreign Direct Investment (FDI) has increased tenfold over the last 20 years in developing nations. This kind of investment brings private overseas funds into a country for investments in manufacturing or services. In the years after the Second World War, global FDI was dominated by the United States, as much of the world recovered from the destruction wrought by the conflict. The U.S. accounted for around three-quarters of new FDI (including reinvested profits) between 1945 and 1960. Since that time FDI has spread to become a truly global phenomenon, no longer the exclusive preserve of Organization for Economic Cooperation and Development (OECD) countries. FDI has grown in importance in the global economy with FDI Stock now constituting over 20% of global GDP. In the last few years, the emerging market countries such as China and India have become the most favoured destinations for FDI and investor confidence in these countries has soared. By 2005, as per the FDI Confidence Index compiled, China and India hold the first and second position respectively, whereas United States has slipped to the third position. The story in Nigeria is that prior to government efforts in recent times to seriously attract FDI, the economy had been growing at a snail pace. It was as a realization of the transformation that foreign capital has wrought in other developing economy that the Nigerian government has strengthened its investment promotion laws and institutions and repositioned them to package the economic potentials of the country for investment promotion and FDI inflow.

## **1.1 STATEMENT OF THE PROBLEM**

Recent trends in foreign direct investment have created a unique opportunity for developing countries to attract the international resources, technologies, and skills essential for economic growth. Foreign Direct Investment has been flowing from more sources and into more sectors than ever before. Although foreign investment to developing countries has fallen by 26 percent since 1999, its growth over the past 13 years has been phenomenal, averaging more than 17 percent a year in dollar terms. Investment flows between developing countries have also risen dramatically, now accounting for 30 percent of foreign investment in these countries, up from just 17 percent in 1995. Foreign investment is now targeting domestic markets, such as banking, retail and construction, instead of focusing primarily on the more traditional and export-driven natural resource and manufacturing sectors. Countries that fail to respond to these trends when developing policies to attract foreign investment could be left behind.

Economic indices and realignment of global interests have necessitated a new focus in Nigeria's foreign policies, especially in the drive to improve the economy and grow the industrial base of the nation. Nigeria after independence has proved itself in all facet of life and has contributed immensely to world peace and development. The country has proved that it could set the lead for other African countries and developing nations to follow. Nigeria is obviously the largest market in sub Saharan Africa with a manpower base of varying skills level that ensures efficient and effective management of investment within the country. The natural conclusion

therefore is for this great country with huge potential to bring its experience to bear in the management of foreign capital and investors and use these factors to bring about economic turnaround for its teeming population.

As a strategy for sustainable economic growth in a globally challenging world, FDI has been successful in most economies. Nigeria has put in place measures to ensure that its economy is governed by policies that would encourage foreign investment and also protect domestic industries. In this light, FDI as a tool for economic growth has been successful in Nigeria. It has been proven often that Nigeria has the potentials to get about 60% of the investment coming to Africa if it channels its resources towards infrastructural development needed to sustain FDI in an industrializing economy. This project would seek to investigate some of the problems associated with FDI inflow to Nigeria and deal with the measures taken by the Federal Government of Nigeria to promote a healthy inflow of FDI.

### **1.3 OBJECTIVE OF THE STUDY**

The objective of this study is to ascertain that Nigeria has benefited from FDI inflow and has actually increased its GDP and credibility in the international community through its FDI drive. In more specific terms, this study would provide a holistic understanding of the benefits of FDI to the development of the Nigerian economy and achieve the following objective:

1. Ascertain that among the African nations, Return on Investment (ROI) in Nigeria is about the highest. This is due mostly to the huge population of Nigeria.

2. Examine the factor responsible for the growth of FDI into Nigeria. Provide FDI into Nigeria is growing due to many factors some of which can be traced to government reforms, investment promotion and advocacy activities, a stable polity, industrial growth, friendly incentives and friendly investment policies that is, 100% ownership of a foreign business concern by an investor and repatriation of profit.
3. Ascertain that at the international level, Nigeria is among the first West African country to embrace the best practices of investment promotion.
4. The study would provide an understanding of the institutional framework that supports the growth of FDI in Nigeria.
5. The study will provide ready information to all stakeholders in institutions of learning, government establishment and potential investors on investment facilitation activities put in place by the government and their regulating/ discharging agencies.
6. To examine the function of NIPC in relation to its mandate as Nigeria's foremost investment promotion outfit.
7. Lastly, this work would seek to provide statistics needed for the analysis of FDI growth in Nigeria.

#### **1.4 HYPOTHESIS OF THE STUDY**

This study seeks to test the following hypothesis:

HO: There is no significant relationship between foreign direct investments inflow into Nigeria and the economic growth of Nigeria.

HA: There is a significant relationship between foreign direct investment into Nigeria and the economic growth of Nigeria.

## **1.5 JUSTIFICATION OF THE RESEARCH**

The aim of this study is to ascertain the extent of FDI Nigeria has attracted and how it has been effective as a tool for economic growth. The study would also strive to identify the roles the various reforms, government institutions; incentives, private organizations and international organizations have played in increasing the FDI growth in Nigeria. In the past, studies have been carried out on FDI into Nigeria but most of these studies have been statistical in nature and not been backed with enough literature needed for in-depth understanding. Also, this study provides easy and accessible data to stakeholders in investment promotion. The study would be useful to numerous organizations, public and private, institutions, businesses, investors, international organizations and the NGO's in the following ways:

1. As a study into the role of FDI in development of the Nigerian economy, this work would be useful for potential investors as a source of data on performance of foreign capital in Nigeria, which would form the basis for investment decision.
2. It will avail existing investors with ready information on government efforts to sustain investors/ FDI and also available incentives to investors
3. As a collation of various authorities on FDI into Nigeria this study will augment the data on FDI collected by the CBN, NIPC and international organizations like the World Bank and the UNIDO.

4. This project will seek to provide material for higher institution of learning in the area of foreign direct investment and international business respectively.

## **1.6 SCOPE AND LIMITATION OF THE STUDY**

The research study is titled “An Evaluation of Foreign Direct Investment as a Strategy for Sustainable Economic Growth in Nigeria.” As the title implies, an evaluation of the FDI in the Nigerian context would be evaluated and how much that FDI has impacted on the economic growth of this great nation vis a vis the various strategies put in place by the federal government would be deduced.

In a research work of this nature, the obvious limitations of time, inadequacy of materials, the global nature of foreign direct investment and the financial resources of the researcher make it difficult to combine field research, consultation with government officials, international organizations and experts because such a situation constitutes a lot of constraints. Therefore, this study covers the period between 1999-2005.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 LITERATURE REVIEW**

FDI can bring impressive growth, as in China's coastal provinces, but also instability and economic distress, as during the 1997-98 Asian financial crisis. Governments of many poor countries see foreign capital as a means of economic growth, and they have taken steps to attract it. These steps often include minimizing business regulation and weakening codes for labor, health, and the environment. Such governments may also try to improve the investment climate by using violence to silence opposition parties and movements. Rich countries, for their part, have sought legal protection for investors, and have used the World Bank and the IMF to impose new arrangements in this field. Bilateral and multilateral agreements, such as the North American Free Trade Area, protect investments at the expense of environmental and health regulations.

This scenario makes one wonder if Nigeria has put in place proper regulations to protect its citizens, businesses and investors from undue influence. Policy measures other than the ones concerning entry and ownership were also used to control the activities of Trans National Corporations (TNCs) in accordance with national developmental goals. Firstly, there were measures to ensure that the “right” kinds of technology were acquired in the “right” terms. The technology that were to be brought in by the investing TNCs was carefully screened and checked whether they were not

overly obsolete or whether the royalties charged on the local subsidiaries, if any, were not excessive. Secondly, those investors who were more willing to transfer technologies were selected over the others that were not, unless they were too far behind in terms of technology. Thirdly, local content requirements were quite strictly imposed in order to maximize technological spillovers from TNC presence. One thing to note, however, is that the targets for localization was set realistically, so that they would not seriously hurt export competitiveness of the country – in some industries they were more strictly applied to the products destined for the domestic market.

According to Sen (1998:6), since the subject matter of investment occurs in several disciplines, it has generated serious debate between social and management scientists leading to sharp division along different lines of thought and explanations. Investment as a concept literally means, putting resources into some form of “security” of assets, stocks, bonds, mutual funds and certificates of deposits. Piana (2001:1) defines investment as the value of machinery, plants and buildings that are bought by firms for production purposes. The acronym FDI – Foreign Direct Investment, from the convincing evidences therefore means a channel of development through international transfer of productive resources. According to Yakubu (2003:3) Foreign Direct Investment could be defined as:

*Investment that is made to acquire a lasting interest  
in an enterprise operating in an economy other than  
that of the investor, the investors purpose being to  
acquire a lasting interest and have an effective control*

*in management of the enterprise which is long- term  
in nature.*

According to Hill (2005:13), FDI could be viewed as a “long term investment by a foreign direct investor in an enterprise resident in an economy other than that in which the foreign direct investor is based”. He pointed out that FDI relationship consists of a parent enterprise and a foreign affiliate, which together form a Transnational Corporation (TNC). In order to qualify as FDI, Hill (2005:13 further asserts that investment must be the parent enterprise control over its foreign affiliate. The UN World Investment Report (2004:34) defines control in this case as owning 10 % or more of the ordinary shares or voting power of an incorporated firm or its equivalent for an unincorporated firm.

Mkpakan (2004:1) views FDI as an economic affair that resulted from capital movement. This conception is often considered to be sound because when an investor wants to embark upon foreign investment, he would transfer abroad money, capital, technology, personnel, know-how and even organizational capital. However, capital movement through foreign direct investment is only one way out of a variety of ways through which capital could be moved from one country to another. According to Mkpakan (2004:1), FDI could be executed through the exchange of pieces of property such as patents, technology, machinery and know-how, against agreed equity claims without any visible transfer of funds, through the foreign exchange market, which should have been evidence of capital movement.

From management point of view, Penrose (1956:220) examines Foreign Direct Investment to have evolved naturally. Thus he asserted that:

*Everyone knows that once a firm has been founded, it is expected to “live” and “grow”. And as the firm makes profit, owners deploy part of it for retirement so as to continue to project growth. If the firm does not grow, of course it means, it “dies”. If the opportunity for growth does not exist in the domestic market the firm has to look for such opportunities in the international market – for to fail to grow amounted to wanting to die. This is simply how the international firms or multinationals have managed to come into existence.*

From the above, the basis for the decision making to go into foreign direct investment is always based on the availability of markets for the goods produced by the firm. Foreign direct investment is caused largely by the availability of market opportunities that the international firm has identified and judged worth exploiting.

Since the doha development round negotiation in 2001, regulation of FDI has emerged as a prominent issue in the World Trade Organization WTO agenda. On this basis, Aremu (2005:2) defines FDI as the creation of enterprises abroad or the acquisition of substantial stakes in existing enterprises by foreign owners. According to him, as the internationalization of production and consumption becomes a prominent feature of today’s global economy due to the transnational corporations global operations, more firms than ever (in more industries and in more countries) are networking their economic activities in form of FDI. Consequently, therefore, for

good international relations to exist among host and home economies of these investments, it is argued that a global multilateral investment framework is inevitable.

## **2.1 BACKGROUND TO FDI**

According to Hill (2005:13), in the years after the Second World War global FDI was dominated by the United States, as much of the world recovered from the destruction wrought by the conflict. The United States accounted for around three quarters of new FDI (including reinvested profits) between 1945 and 1960. Since that time FDI has spread to become a truly global phenomenon. He further argued that FDI has grown in importance in the global economy with FDI stocks now constituting over 20% of global GDP. In the recent past according to World Bank report (2005:7), the emerging market countries such as China and India have become the most favoured destinations for FDI and investor confidence in these countries has soared. The 1999 World Bank Report revealed that the most heavily indebted poor nations and low-income countries of the world remain largely dependent on bilateral and multilateral aid for their development strategies. However, since 1990 total Overseas Development Assistance has dropped by more than half. According to the report, much importance is now being placed on the alternative sources of capital to finance national development and FDI is now the largest source of foreign private capital reaching developing countries. Global flows of FDI have grown phenomenally over the last ten years. United Nations Conference for Trade and Development (UNCTAD, 1999:8) reported that total flows rose by nearly four times, from US \$174 billion in 1992 to US \$ 644 billion in 1998. However, total flows to developing

economies fell between 1997 and 1998. On the other hand, World Bank (1999:11) points out that within the period, prospects look least good for Africa while in the middle region, Asia experienced the fastest rate of growth in FDI but also has the greatest volatility.

At present, the momentum for the expansion of international production continues to hold, though the world economy is currently affected by a number of factors that could discourage investment, including FDI by transaction corporations. According to World Investment Report (1999:2), the production of goods and services in countries that is controlled and managed by firms headquartered in other countries is at the core of the process of globalization. The report pointed out that “the transnational corporations that engage in international production now comprise over 500,000 foreign affiliates established by some 60,000 parent companies, many of which also have non-equity relations with a number of independent firms”.

Global foreign direct investment inflows largely declined in their value in 1999 (43%), 2000 (42%), 2001 (41%), 2002 (13%), and 2003 (12%). While in 2004, the inflows rose modestly by 2% higher than in 2003, (World Investment Report, 2005:1). According to this report, this growth reflected increased flows to developing countries as well as to South-East Europe and the Commonwealth of independent States. Globally, many factors help to explain why the growth of FDI was particularly pronounced in developing countries in the recent times. According to UNIDO (2005:3), intense competitive pressures in many industries are leading firms to explore new ways of improving their competitiveness. Some of these ways are by

expanding operations in the fast-growing markets of emerging economies to boost sales, and by rationalizing production activities with a view to reaping economies of scale and lowering production costs. Similarly, higher prices for many commodities have further stimulated FDI to countries that are rich in natural resources such as oil and materials. In some developed and developing economies, increased inflows in 1999 to 2004 were linked to an upturn in cross-border merger and acquisition activity. According to Greenfield FDI continued to rise for the third consecutive year in 2004. Provided economic growth is maintained, the prospects for a further increase in global FDI inflows in years to come are promising.

## **2.2 DEFINITION OF TERMS**

The following words are defined as they are used in the context of this study:

- i. The term FDI has been dealt with extensively in the literature review. However for the purpose of this section, foreign direct investment (FDI) is defined as a long term investment by a foreign direct investor in an enterprise resident in an economy other than that in which the foreign direct investor is based. In order to qualify as FDI, the investment must afford the parent enterprise control over its foreign affiliate.
- ii. The term “transnational corporation” means a profit-oriented enterprise marked by two basic characteristic:
  - 1) It engages in enough business activities- including sales, distribution, extraction, manufacturing, and research and development- outside the

country of origin so that it is dependant financially on operations in two or more countries;

- 2) Its management decisions are made based on regional or global alternatives.

A transnational Corporation (TNC) can therefore be defined as a huge company with business tentacles in its home origins or several other countries with the ability to provide work and enrich a country's economy negatively or positively depending on the level of development of the country. Most TNC's are much richer than entire countries in less developed world.

- iii. Development: This, as a term has a reputation for meaning so many things at one and the same time. It has the social, economic and political aspects. For the purpose of this study, the term means a complex of mutually related economic, social and political changes that lead to the fulfillment of human potentials and the advancement of the social whole without its negation to the individual interest.
- iv. Privatization: This is the selling of a part or the entire equity of a publicly owned organization to private individuals or organization such that the control of the public institution is transferred from government or any of its agencies to private hands.
- v. Foreign Companies: This, as used means all companies that are investing in Nigeria either as wholly owned companies or in joint ventures and have

passed through all the necessary registration procedures needed to operate in Nigeria.

### **2.3 EVOLUTION AND IMPORTANCE OF FDI TO ECONOMIC GROWTH**

Political events in a number of African countries have for a long time discouraged foreign direct investors. On their TV screens, company executives have seen civil unrest, starvation, epidemic diseases and economic disorder. Investment conditions until the early 1990s discouraged many companies from setting up shop in African States, especially as some companies found themselves subjected to expropriation when political winds changed.

While such problems persist in some African countries, the tendency to lump all African countries together in a single negative stereotype clearly gives a wrong impression. As the new UNCTAD study *Foreign Direct Investment in Africa: Performance and Potential* underlines, the more than 50 countries in Africa more than a quarter of the members of the United Nations vary widely in history, development, political systems and economic climate.

In the 1990s, regulatory and other reforms have been introduced by a number of governments to make their economies more attractive to foreign investors. Today, the regulatory conditions established in many African countries are on a par with those in other developing countries.

Among the steps to improve the FDI climate taken by African governments are:

- **Improved environment**

Trade liberalization, strengthening of the rule of law, improved legal and support institutions, better governance, improved transparency and better transport and telecommunications have helped make it easier to do business in many African countries. Over 40 African countries are now members of the WTO, with more in the process of joining.

- **Economic reforms**

Many African countries have stabilized their economies, sometimes through the devaluation of overvalued currencies. They are reducing inflation rates and cutting budget deficits. Others are raising educational standards and, more generally, upgrading their human resources.

- **Private sector encouragement**

Many countries are stimulating economic growth by making life easier for the private sector. At least 17 have broad-based privatization programmes in place. When one looks at particular sectors, the number is even bigger: some 25 countries in sub-Saharan Africa are transferring all or part of their telecommunications ownership from the state to the private sector. The results of the privatization efforts in Africa are already visible. Countries in which privatization has attracted significant FDI include Ghana, Nigeria, Mozambique and Uganda. In Nigeria, the privatization program is vigorously pursued in order to revive huge companies that have the potentials to absorb labour and act as a role model to potential investors.

- **Better FDI regulatory framework**

The great majority of countries have substantially improved their FDI regulatory frameworks. Many more countries now allow profits to be repatriated freely or offer tax incentives and similar inducements to foreign investors. Many African countries have investment promotion agencies (IPAs), to assist these investors. At the international level, 37 African States are now members of the Convention Establishing the Multilateral Investment Guarantee Agency (and seven are in the process of fulfilling their membership obligations), 42 are signatories to the Convention on Investment Disputes between States and Nationals of Other States, and 26 to the Convention on Recognition and Enforcement of Foreign Arbitral Awards. Fifty countries have concluded bilateral investment treaties aimed at protecting and promoting FDI, and 41 have signed double taxation treaties.

The importance of FDI to economic growth has become glaring to the global economy. Attracting foreign direct investment has become a key part of national development strategies for many countries. They see such investments as bolstering domestic capital, productivity, and employment, all of which are crucial to jump-starting economic growth. While many highlight FDI's positive effects, others blame FDI for "crowding out" domestic investment and lowering certain regulatory standards. The effects of FDI can sometimes barely be perceived, while other times they can be absolutely transformative. While FDI's impact depends on many

conditions, well-developed and implemented policies can help maximize its gains.

The gains of FDI can be in the form of:

- ◆ Economic Growth
- ◆ Trade
- ◆ Employment and skills level
- ◆ Technology diffusion and knowledge transfer and
- ◆ Linkages and spillover to domestic firms

Foreign direct investment (FDI) fuels development as it fuels trade. When FDI creates a new facility in a developing country, effects cascade: FDI first creates jobs as the facility is built; it creates new jobs as the facility operates; it increases the capacity of the foreign country to produce goods in a given sector as well as its capacity to export; new incomes generated by the investment will boost the country's spending on imports, many of which will come from trade linkages established by the original investment.

The sources, types, main host countries, and organizational forms of FDI have changed dramatically over the past several decades (Emery, et al 2000:34). To them, the chief types of FDI are no longer only market seeking and natural resource seeking but rather, efficiency- seeking and strategic asset- seeking investments, which are now also important. They also pointed out that while joint ventures are still common, companies use a variety of other arrangements such as strategic alliances, networks, and non-equity arrangements, mergers and acquisitions, which are all important forms of FDI.

Hill (2005: 13) identifies four types of FDI, which include: Greenfield investment, mergers and acquisitions, horizontal foreign direct investment, and vertical FDI. According to him, Greenfield FDI is a direct investment in new facilities or the expansion of existing facilities. As he rightly observed: Greenfield investments are the primary target of a host nation's promotional efforts because they create new production capacity and jobs, transfer technology and know-how, and can lead to linkages to the global marketplace.

He however argued that this often crowds out local industries and multinationals are able to reduce goods more cheaply because of advanced technology and efficient processes and uses up resources such as labour and intermediate goods. Another downside of Greenfield investment as he pointed out is that profits from production do not feed back into the local economy, but instead to the multinational's home economy. This is in contrast to local industries whose profits flow back into the domestic economy to promote growth.

Mergers and acquisition as Hill (2005:15) observes occur when a transfer of existing assets from local firms takes place, which is now the primary type of foreign firms take place, which is now the primary type of foreign direct investment.

According to him, while cross-border acquisitions occur when the control of assets and operations is transferred from a local to a foreign company, with the local company becoming an affiliate of the foreign company. Unlike Greenfield investment, acquisitions provide no long-term benefits to the local economy even acquiring firm, meaning that the money from the scale could never reach the local

economy. Nevertheless, this type of FDI according to World Bank report (2005:23) is significant form of FDI and until around 1997, accounted for nearly 90% of the FDI flow into the United States.

On the horizontal foreign direct investment, Hill (2005:16) points out that it is the investment in the same industry abroad as a firm operates at home. Vertical foreign direct investment takes the form of backward vertical where an industry abroad provides inputs for firm's domestic production process; and forward vertical FDI in which an industry abroad sells the outputs of a firm's domestic production processes.

From the above therefore, for good international relations to exist across nations it has been argued that a global multilateral investment framework becomes inevitable and such a framework according to Aremu (2005:2) provide for investors confidence, particularly in cases of Greenfield investments. Thus it is believed that contracting nations to FDI would agree to commitment mechanism that would disallow expropriation without compliance with the principle of customary international law. Therefore, in deciding the type of investment to attract and in which sector and from what source, a country has to first carry out a comparative analysis of its economic indices after which a rigorous promotional activity is launched backed with the right dose of information and investment protection laws.

## **2.4 ECONOMIC GROWTH OF NIGERIA**

Among less developed countries (LDCs), Nigeria had the eleventh largest external public debt in 1989 (and the largest among sub-Saharan countries.) Its debt

had increased from US\$9 billion in 1980 to US\$33 billion by 1989. The country faced persistent difficulties servicing its debt; in the 1980s, debt rescheduling was almost continuous. The secondary market price of Nigeria's bank debt in mid-1989 was only 24 cents on the dollar, indicating the markets were heavily discounting the probability that Nigeria would pay its external debt.

Official reluctance to devalue the naira between 1981 and 1983, when inflation was more than 20 percent per year, discouraged foreign direct investment, spurred substantial capital flight, and encouraged firms to build up large inventories of imports (often with over invoicing and concomitant foreign deposits) or under pricing exports (with the difference placed on deposit abroad). Having exhausted its official reserves and borrowing limits, Nigeria built up its arrears on trade credit to US\$6 billion by the end of 1983.

Nigeria's contractionary fiscal policy in 1986 and 1987 reduced the budget deficit substantially. During early 1988, when the poor 1987 harvest put pressure on food prices and opposition to austerity mounted, authorities eased financial policy, more than doubling the budget deficit. Nigeria also eased monetary and fiscal policy in late 1989. Still, the country had managed to reduce real public spending since the early 1980s.

Despite several debt rescheduling in the 1980s and early 1990s, Nigeria's debt overhang continued to dampen investment and adjustment in the late 1980s and early 1990s. Facing years of austerity and stagnation, Nigeria could not afford to reduce consumption to affect an external transfer; thus a major contributor to adjustment was

reduced investment. A lengthy schedule of large loan repayments acted as a tax on investment, since a share of returns had to go to creditors. Substantial debt servicing often meant slowing economic growth to avoid an import surplus. Without concessional funds, rescheduling only postponed an external crisis. Moreover, Nigeria's highly oligopolistic money markets, financial repression of interest rates and exchange rates, and sluggish expansion in response to improved prices in export and import-substitution industries prevented timely adjustments to financial and exchange rate changes. The early 90's into late 90's saw more policy distortions and political unrest, which was a bad sign for investors both potential and existing. Capital flight was also the order of the day in the early 90's and a lot of Swiss banks were home to stolen money from Nigeria. Needless to say those perpetrators of advanced fee fraud (419) were having a field day. All these happenings coupled with a crippled infrastructure and public sector was sending wrong signals to the investing community.

Although the enabling laws that will liberalize the economy and protect investors have been enacted, it lacked implementation and were lost under numerous beaureucracy. Targeted public and private sector initiatives that link industry, education, human capital and institutional capacity-building was required in order for greater FDI to assist in a virtuous cycle of economic growth, job creation and rising incomes. More than four decades after independence, Nigeria still has the distinction of being one of the few countries in the world today that depends almost exclusively on one single export commodity—oil. Until recently, there was a serious decline in

production in virtually all other sectors. But in the last few years focus has been on the expansion of economic base. The yielded results include government's encouragement of foreign capital inflow, together with commitment to full funding of its own obligations, which has led to a steady rise in the number of high-profile projects going on simultaneously in Nigeria. Some of these projects/reforms would enable the growth of public, private partnership (PPP), improve service delivery through privatization, provide employment, reduce poverty and create wealth through small business linkages. Also, the promotion of foreign direct investment in Nigeria will improve not only foreign resources but also Nigerian resources abroad. Other resources are more likely to flow into the country when domestic and externally based Nigerian resources are seeking returns in Nigeria. Some of the reform projects embarked on by the government to make the country investment friendly include:

- The capitalization of Nigerian banks
- Privatization of government owned establishment,
- The advent of NEEDS (National Economic Empowerment and Development Strategy) and its state counterpart, SEEDS
- Public sector reform through SERVICOM
- Rigorous pursuit of debt elimination, which culminated into the debt cancellation by the Paris Club.
- Improvement in the export oriented goods through protection of local industries from undue competition. The ban on some imported goods by the

federal government ensured that local manufacturers had fair return on their investment.

## **2.5 FACTORS MILITATING AGAINST FDI INFLOW TO NIGERIA**

Many obstacles to trade remain, especially for low-income economies like Nigeria. Trade-supporting infrastructure is essential and is improving due to more efficient communication and transportation technology. But landlocked economies and those lacking suitable seaports remain at a disadvantage. For those that have these seaports, like Nigeria, undue delays in clearing procedures, corruption of customs officials and clearing agents and high duty on imports has remained a barrier to FDI. Poor roads and high inland transportation costs have kept many people from trading with the outside world.

Other obstacles include an unfriendly business environment and inadequate policies and institutions. For example, in Sub-Saharan Africa it takes twice as long to comply with the procedures required to export or import goods as it does in East Asia and Pacific and four times as long as in high-income countries. Lack of access to capital and a small entrepreneurial class willing or able to take risks also impede the growth of trade.

But the greatest barriers are those erected by high-income economies. Even in an era of falling tariffs, developing countries have a hard time reaching high-value markets. Tariff escalation is one of the rich countries' protectionist strategies. EU tariffs are almost zero for cocoa beans but rise to about 10 percent for semi processed

cocoa and about 30 percent for chocolate. So tariff escalation penalizes producers when they add value.

Although regional agreements have proliferated, significant barriers to trade remain because of imperfect implementation of agreements, high border and behind-the-border costs, absence of common standards, restrictive rules of origin even within customs unions, and inconsistent (and inconsistently applied) tax policies. In Nigeria, FDI inflow has been hindered by a number of factors among which are enumerated below:

1. **Limited diversification of industry structure.** The heavy dependence on natural resources implies that the industry structure is not diversified -- a phenomenon, which further reduces the attractiveness of Nigeria to foreign investors. Small or limited locational advantages also do little to attract FDI.
2. **Inadequate Policy considerations:** The overall policy requirement for host governments seeking substantial inflows of FDI or other forms of foreign participation is the creation of an attractive climate for investors through macroeconomic stability, consistent policies and adequate institutional support. Although Nigeria has taken substantial steps in this direction in recent years, but there remain considerable adjustment and variations in national policies and approaches to encourage FDI inflow. In this connection, it is important to take into account the main broad objectives of foreign firms engaged in FDI so as to be able to design an appropriate policy mix.

3. **Inadequate Overall regulatory framework:** A healthy investment climate requires a general legal framework that is conducive to facilitating business. In this respect, business and commercial legislation is particularly important. Complex or confusing legislation in this area poses problems for investors. Indeed, several European firms interviewed in a survey (UNCTAD and European Commission, 1996) regarded certain legal practices as a deterrent to their activities. Although the situation differs, of course, from country to country, it was pointed out that traditional ways of doing business could be very different from those prevailing in developed countries. Of course, legal certainty does not obviate the need for foreign investors to adapt to local market conditions. Overall, foreign investment, like any economic activity, thrives best in a stable, predictable and transparent environment. In this respect, policy transparency, bilateral investment treaties or sectoral agreements contribute to the creation of an environment conducive to investment. The Nigerian government can do more in this area by putting in place a monitoring system that would ensure compliance with laid down laws and regulations especially as it affects foreign investors. An overall legal infrastructure for private business activity -- for national and foreign investors alike -- consisting of laws, which provide for the creation of business entities, enforcement of contracts, private ownership and transfers of property, assessment and payment of taxes, foreign exchange dealings etc., is a prerequisite. The NIPC has been proactive in the regard especially with the

advent of the One Stop Investment Center (OSIC), which has brought to light the need for proper administration of investment incentives.

4. **Lack of Policy coherence:** An appropriate regulatory framework needs to reduce, if not to eliminate, the risk that private enterprises, including foreign firms, perceive, objectively or subjectively, as arising from macroeconomic instability, lack of consistency in policy implementation, long records, if any, of unwarranted government interference in business, and the threat of civil strife. While the federal government, have clearly improved policies in general, and policies specifically related to FDI in particular, there is still need in some cases to enhance the image of policy coherence both with foreign investors and with the national private sector.
5. **Limited Authorization procedures:** Authorization procedures have been the subject of attention in all reforms relating to investment. The main objective of the reforms has been to respond to the criticism that the process is usually excessively tedious and cumbersome and that bureaucratic delays lead to significant cost increases for investors. In response to such criticism, most investment codes have sanctioned the establishment of 'one-stop shops' to process and facilitate the approval of investment proposals. However, studies indicate that shortcomings still exist. First, in a number of cases, the one-stop shop has become simply an additional stop on a route that still involves a wide range of government departments, several of which may have different perceptions of a given project. Second, in a few cases, the one-stop shops go

beyond the traditional screening for compliance with legal requirements or incentives qualification, and go so far as to involve themselves in screening potential investments for financial viability. It should be mentioned that the screening of foreign investment applications in order to establish their viability is a complex process. It requires considerable expertise and is a time-consuming exercise. At the outset, concerned countries should therefore decide whether approval procedures for foreign investment are necessary, or whether a simple registration procedure would suffice. While the One Stop Shop is a welcome reprieve in Nigeria, it would be advisable for authorities to ensure that officials in the one-stop agencies are in fact fully representative of all the ministries concerned. At the same time, the rules regarding investment authorization should be transparent and formulated in clear terms so as to minimize the scope for discretionary decisions. This would reduce the opportunities for illicit practices and ensure that the investment liberalization scheme is operated with fairness and consistency. Above all, however, emphasis should be placed on the need for decisions to be made with great efficiency.

6. **Inadequate implementation of Incentive mechanisms:** Incentives may be granted conditionally or unconditionally. Those granted conditionally may be linked to performance requirements, which in some cases can have a disincentive effect on the investment (incentives are then used to compensate for this disincentive). They can be granted, financed and/or administered at all

levels of government, i.e. at the supranational, national, regional and local levels. Incentives may be granted automatically (upon compliance with certain qualifying conditions), or there may be varying degrees of discretion on the part of the administering authority to decide on the awards. Also, awards may be granted before the conditioning element has come into existence, or retroactively, after the condition has been met (obviously, the choice between *ex ante* and *ex post facto* awards is very much dependent on the type of incentives chosen). Thus, not only is there a wide array of choices for designing FDI incentives, but, also the characteristics of their administration and implementation can make a difference. Indeed, the same benefit for the foreign investor may cost a government more or less, depending on the type of incentive used and on how it is administered. In practice, however, in the case of large or important FDI projects, incentives are often granted as part of a negotiation process with an investor, with investors infrequently demanding incentives, be it to match incentives offered elsewhere or to compensate, e.g. for perceived higher structural costs. In this event, the line between what is an incentive *stricto sensu* and the larger package of conditions and counter-conditions being negotiated is often difficult to draw. The pioneer status incentive being administered to investors through the NIPC had proved to be an FDI puller. However, a system should be devised for rewarding firms for actual achievements at the end of the investment cycle and avoids the imposition of operational restrictions. Firms that achieve the goals of an

incentive system - for example, firms that create and maintain a certain number of jobs, transfer technology or promote exports - could receive a substantial fiscal incentive. In this way, the productivity of the incentive system is ensured and both the host country and the foreign investor are rewarded.

7. **Poor implementation of Privatization programmes:** A policy action likely to make an immediate contribution to the improvement of investment conditions in many countries relates to privatization programmes. Judging from the experience of other countries, privatization programmes with foreign participation can provide a vehicle to increase FDI flows (with potential qualitative contributions to the economy) over a long period of time, since FDI flows can continue after the acquisition of assets through privatization. Such programmes have been a major factor in the rapid increase of FDI flows to Latin America and Central and Eastern Europe. To benefit from privatization-related FDI, existing programmes need to be improved upon and perhaps new programmes launched. In some cases, this may require the attainment of a broader political consensus so as to end the stop-go nature of some of these programmes, make them more transparent and expand them to include firms of all sizes and from all sectors of the economy. The last of these considerations may be of special importance to a country like Nigeria that needs to compensate for certain deficiencies in investment conditions by increasing the attractiveness of privatization programmes. Furthermore, including only loss-making firms, while excluding profitable firms would certainly not make a

privatization programme attractive. The attractiveness of privatization programmes could be further enhanced by linking them to debt-equity swaps.

8. **Poor infrastructural support:** A major detriment to FDI inflow both to local and foreign investors in Nigeria is poor infrastructure. This had perhaps led to the slow industrial growth of the country which is an indication to investors that all is not well in the country. But for the large size of the Nigerian market, which continues to be a deciding factor for investment location for foreign investors, the lack of industrial base to hook on to for easy production activities would have crippled the ability of the country to attract FDI. The epileptic nature of power supply has increased production cost for manufacturers in Nigeria while poor road network and water supply has ensured that producers have inadequate input materials and thereby slower return on investment. These conditions have led to undue competition with foreign goods and unfair or inflated cost of locally produced goods as the case may be since producers have to continually be on alternative power supply to avoid colossal loss due to break in production circle. Privatization and reforms of public enterprises have improved but the pace of such reforms is too slow for any meaningful impact to be felt. The unbundling of the Power Holding Company of Nigeria (PHCN) formally NEPA seems to be taking forever due to slow legislative and bureaucratic passage.

## **2.6 THE NIGERIAN INVESTMENT PROMOTION COMMISSION**

The Nigerian Investment Promotion Commission (NIPC) was established under the NIPC Act of 1995 as a successor to the Industrial Development Coordination Committee (IDCC). The NIPC law repealed the IDCC Decree No 36 of 1989 as well as the Nigerian Enterprise Promotion Decree of 1989.

The major objective of government for establishing the NIPC was to adequately address problems that foreign investors associate with the Nigerian Indigenization Decree of 1977 and bureaucratic bottlenecks experienced in the country. The decree restricted foreign equity participation in some category of business activities in the country. The NIPC Act removed these barriers thereby opening the economy to full foreign participation except in those enterprises concerned with the production of arms and other prohibitive items.

The establishment of the Commission was also an answer to a global call for developing economies to attract and stimulate investment for the maximum realization of economic liberation and deregulation. The Commission carries out in function in accordance with similar Investment Promotion Agencies (IPAs) around the world with common goals.

NIPC is therefore an Agency of the Federal Government with perpetual succession and a common seal, which is specially established among other things, to: Attract investment in and outside Nigeria through promotional means; encourage, promote and coordinate investment in the Nigerian Economy; register and keep

records of all enterprises as applicable; advice the Federal Government on policy matters including fiscal measures designed to promote the industrialization of Nigeria.

The Commission was to serve as a one-stop agency and a coordinating center that would consider and grant all industry related approvals under one roof, thus saving unwary prospective investor's frustrating merry-go-rounds associated with obtaining investment approvals from different approving centers (Daisi, 2002:5). NIPC has the sole vision to be the foremost investment agency and the largest single contributor to Nigeria economic transformation by proactively positioning and promoting Nigeria as the preferred investment destination by creating investment into the national economy, and for efficient assistance to all investors non-bureaucratic grant of investment approvals and provision of up-to-date information to assist investors.

On the statutory functions of the Commission, the Decree establishing it charged it to encourage, promote, monitor and coordinate investment in the Nigeria economy and also specially charges it with the following functions:

- i. Be the agency of the Federal Government to coordinate and monitor all investment promotion activities;
- ii. Initiate and support measures, which shall enhance investment climate in Nigeria from both Nigeria and non-Nigerian investors;
- iii. Promote investment in and outside Nigerian through effective promotional means;

- iv. Collect, collate, analyze and disseminate up-to-date information on incentives available to investors;
- v. Register and keep records of all enterprises to which this decree applies;
- vi. Identify specific projects and invite interested investors for participation in those project;
- vii. Initiate, organize and participate in promotional activities, such as exhibitions, conferences and seminars for the stimulation of investment;
- viii. Maintain liaison between investor and ministries, government departments and agencies,
- ix. institutional lenders and other authorities concerned with investments;
- x. Provide and disseminate up-to-date information on incentives available to investors;
- xi. Assist in-coming and existing investors by providing support services;
- xii. Evaluate the impact of the commission on investment in Nigeria and make appropriate recommendations.
- xiii. Advise the Federal Government on policy matters, including fiscal measures designed to promote the industrialization of Nigeria or the general development of the economy;
- xiv. Perform such other functions as one supplementary or incidental to the attainment of the objectives of this decree.

In furtherance of the above, the Commission's activities include, granting of Business Permit and Expatriate Quota to foreign investors wishing to do business in

Nigeria, and granting of approvals for Pioneer Status Certificate and other fiscal incentives designed to encourage and consolidate investments (NIPC 2005:17).

The NIPC from inception faced a lot of challenges typical of a developing economy with diverse culture, institutions, government agencies each governed by its own decree and law. Most of the challenges faced by the Commission were external to the operations of the Commission and include:

1. Since it became fully operational in 1999, the NIPC had to contend with problem of multiplicity of agencies involved in various aspects of investment facilitation processes in Nigeria and the resultant inter-agency rivalry, which was complicated by conflicting statutory laws/ legal frameworks. These required being streamlined, simplified and clarified to support investment facilitation.
2. The Commission had to contend with poor service orientation, characterized by unsatisfactory client service and other unwholesome practices in government agencies not in consonant with what obtains in other IPA'S and rapt with bureaucratic bottlenecks.
3. The NIPC had to build its information databank from scratch since most of what was on ground were obsolete. In places where such information was available and accurate, it was cumbersome to retrieve.
4. Since the Commission was not an income generating one, it had financial constraints in carrying out its mandate.
5. Other social and economic problems were militating against the success of the Commission. Such problems include poor infrastructure, unstable government,

inconsistent policies, insecurity, erratic taxation and duties, corruption and poor service delivery. This has continued to undermine FDI inflow.

6. Internally the Commission had to reposition itself to be able to deliver against the high expectations placed on it by the Federal Government. The systems and people in NIPC had to be re-structured to play its role as the frontline service provider to investors and other stakeholders.
7. Arbitrary use of discretion in granting approval was also a big challenge to the Commission. This undermined the authority and transparency of the Commission as the forefront government agency in charge of pre and post registration requirements of investors.
8. Limited transparency and bureaucratization in the processes/procedure. Sometimes, outdated and irrelevant requirements are imposed on investors. The result of all these are high cost of doing business in Nigeria and long delays in obtaining approvals.
9. It was difficult to gauge the level of success of the Commission both internally and externally (by international organizations) in terms of FDI tracking/inflow due to duplication of functions and illegal practices.

Although NIPC initially set out to serve as a “One-Stop-Shop” for foreign investors in the country, it discovered that building a real one- stop- shop was not a feasible objective at that time. Consequently, the Commission was structured to lay more emphasis on investment facilitation, which was considered critical to the success of all efforts by NIPC in promoting investment in Nigeria. The main objective was for

the Commission to serve as a coordinating center at the Federal level, for all government approvals with respect to the establishment and operation of industries or business undertakings by liaising with all relevant licensing and approval agencies in facilitating and securing all necessary approvals required by investors.

## **2.7 STRATEGIES ADOPTED BY NIGERIA TO ENCOURAGE FDI INFLOW**

Attraction of FDI is globally becoming increasingly important, which is often based on the implicit assumption that greater inflows of FDI will bring certain benefits to the country's economy. FDI, like any other flow of capital is simply that a source of capital. Conventional view however, holds that a targeted strategy is the most appropriate approach to attract foreign direct investment. Investment strategies involve the organized use of a range of promotional activities to increase the level of investment in a country. Most strategies according to Louis (1980:2) use three different but interrelated sets of activities which include activities to enhance the image of the country (image building), those to generate an increased flow of investors (investments generation) and those to help investors (investors servicing ). The importance attached to an activity varies by country and over time, but at any given time most strategies include elements of all three activities.

Louis (1980:2) asserts that image-building activities include producing and distributing fact sheets, videos, brochures and newsletters, holding briefings and engaging in media relations and advertising. He opined that-building techniques must be accompanied by investment generation and investor-servicing activities, as on their

own they are invariably wasteful. Professionals best implement some of these techniques, particularly advertising and media and public relations.

According to wells and wint (1990:16), image-building techniques use a number of tools, which include the following:

- i. Fact sheets, videos and information briefs that address topics of general interest to investors (fact sheets and videos) and more specific topics and topics subject to quick change (information briefs).
- ii. Newsletters that tell a target audience about investment developments, plans and events. They can be produced by desktop publishing and circulated monthly or quarterly.
- iii. Media and public relations activities that publicize investment success stories and alert the domestic and international media and selected audiences to upcoming events and new policies. The entail press. Radio and television briefing, conferences, organized tours for national and international journalists and tours by government representatives to promote the country in overseas markets.
- iv. Investors guide and brochures that contain essential information on how to do business in the country, including the legal aspects, in an easy –to- read format. They could also show key economic indicators to exhibit the country’s comparative strengths.

Nowadays they can be produced relatively cheaply by desktop publishing.

- v. Advertising, which may be targeted and specific or general and directed at providing an overall message in selected media.

Wells and Wint (1990:18) further emphasize that image-building techniques are used in both domestic and overseas markets to inform investors about a country's investment plans, its policies and incentives, its producers and requirements and its progress and achievements. The techniques according to them are normally best used in conjunction with investment – generating and investor –servicing techniques, as on their own they can be very expensive and not fully effective in winning new projects or realizing them. Supporting this view, Louis (1980:23) points out that advertising, need to be practiced by specialist; companies, subcontracting the execution and the evaluation of advertising campaigns.

On the second strategy- investment generation, Louis (1980:4) involves the use of mails and telephone campaigns, investment seminars and missions and direct marketing to individual investors. To them, mail campaigns, which can be effective in introducing an agency, an event or an investment prospect to many potential investors, since response rates and recall rates to mails campaigns are often low, they need to be combined with other activities. Such campaigns have the advantage, however, of being able to reach a large and specific audience at a relatively low cost.

Telephone campaigns, which are often used in conjunction with, mail campaigns to confirm invitations, to set up appointments or to follow up on previous contacts. These are all key part of all investment generating activities.

Another tool of this strategy as identified by Louis (1980:22) is promoting up and coming local investors and potentially lucrative investments to attract the interest of foreign partners. Similarly, and generate contracts for subsequent follow-up. Sector-specific seminars are normally more effective than general seminars. According to hill (2005:17) investment forums, in which interested investors negotiates one-on –one with potential partner, are likely to involve much more planning than investment seminars, in which experts discuss the issues, and while they are useful they tie substantial resources to a single event that occurs only infrequent. Foreign participants should be briefed in advance on the prospects to be prevented at a forum to ensure that they prepare themselves for substantive discussions. To support the conversion of initial discussions into contracts, hill suggests that individual meetings should be scheduled and an effective follow-up should be carried out.

Furthermore, in-bound and out-bound missions, that can be sector specific or general, are also widely used for for generating investments. Experience however shows that, large general missions tend to be expensive and sre not particularly good at directly generating investments. Experience however shows that, large general missions tend to be expensive and are not particularly good at directly generating investments. As Louis (1980:22) rightly observe:

*In-bound missions are normally less expensive than out-bound ones, but both types can suffer from having too general a focus and are often made up individuals from a wide range of business activities and with interest that vary from investment to trade to tourist activities. For best results, the missions should be well organized and supervised.*

Trade fairs and conferences, can be both useful for dominating information and training staff but neither of which is particularly useful for generating investments. Direct marketing however seems to be a very effective form of investment generation. Advertising sales promotion and publicity are all important in the investment promotion mix, but personal selling remains the most effective technique. It does, however, require substantial financial and personnel resources and as a practical matter can form only one element of programme investment generation. On this technique, the United Nations Industrial Development Organization provides a platform for low cost direct marketing and does away with the need for overseas offices, (UNIDO, 2004:45).

Sader (2000:54) points out that implementing investment generating techniques such as seminars, conferences and missions require the participation of private sector investor, and most investment promotion agencies work closely with that sector. In some countries, investment-generating activities are carried out exclusively by the private sector, but this is the exception rather than the rule.

However, according to wells and wint (1991:20), promoting and generating joint-venture investments requires the use of still other techniques such as:

- i. Identification of the local partners and obtaining information on their company: size, products, technology, markets, financial position and investment interest.
- ii. Compiling a joint- venture file in the form of a booklet or a computer file, which is easily disseminated by electronic means. The investments prospects can be amplified in individual project profiles describing the idea and giving enough information to allow a prospective partner to decide whether the venture is worth pursuing. Profiles might describe the proposed markets, competitors and suppliers, import- export conditions and the foreign resources needed.
- iii. Preparation of profiles for that project likely to be of greatest interest to overseas partners. Local partners would prepare fact sheets on their companies and investment interests.
- iv. Targeted promotion of high potential projects, which entails identifying companies likely to be interested in a certain high potential project, contacting them to come and view the proposals themselves.
- v. Brokering agreements between partners, which involves bringing potential partners together and then helping, if necessary, to conclude an agreement.

To assist investment promotion agencies especially in developing countries in carrying out the above tasks, UNIDO has prepared guidelines for preparing industrial

investment project profiles. The guidelines suggest a format for compiling company and idea profiles. The organization also developed simple spreadsheet-based software called PROPSPIN- project profile screening and pre appraising information system, which not only allows for systematic compilation of detailed data on high-potential projects but also performs preliminary financial analysis based on readily available raw information and enough estimates (UNIDO, 2004:45).

Investment promotion agencies sometimes think that investment generation is done only overseas, but in fact most such effort should also incorporate a strong domestic element. Many of the techniques use internationally can be used at home, where they can be directed at local investor and local branches of foreign companies. In some countries up to half the new overseas investment comes from the expansion of firms already in the country.

On the third strategy, that is the techniques of servicing investments, hill also identified the following methods:

- i. Pre-approval service, including information services, sit-visit services and procedures for handling investor. Theses services usually feature strongly in most investment promotion strategies.
- ii. Approval services, including screening, evaluating and approving projects for incentives and permits required by the government.
- iii. Post-approval services, including assistance with matter that arise during implementation of a new project; delivery of permits; access to site and infrastructural facilities; custom and visa clearances, foreign exchange

clearances; introduction to local business, government and community leaders; and assorted settling in problems. Properly developed post-approval servicing can become an important competitive advantage for promotion agencies. One-stop servicing is likely to be very attractive to investors and to influence their investment location decisions.

Louis (1980:38) opines that investment promotion agencies need to decide which kind of service will take precedence (pre approval, approval or post- approval services), and for each service, they should decide what kind and level of help to offer. A choice must be made for instance on the level of informational services, on the level of site-visit support and on the level post-approval; and aftercare services. These decisions can be made in the light of national investment goal, the resources available and investor servicing needs in the country.

To him, public and private sector networking is essential to the provision of efficient investor services. Without close and going government contact with private sector investors well. Just as necessary are effective working relationships across the public-private networking that determines how effective are the facilitation services provided to services provided to investors. The imaginative and well-managed use of these networks, strongly supported by the government, often does more to facilitates investments than giving the investment promotion agency strong and special legal powers.

Investment requires profitable opportunities and regulatory framework that facilities investment transaction. No doubt, NIPC discovering the new competitive

environment among developing nations for available foreign investment has adopted certain promotional strategies that are enticing enough to lure foreign investors into Nigeria economy. According to UNIDO (2003:47), the three interrelated factors that influence a country's ability to win FDI include:

- i. Its overall investment policy framework, public governance and market competitiveness;
- ii. Its investment promotion and institutional capacity building strategies; and
- iii. Its institutional capacity for implementing these strategies.

For quite some times, investment incentives as a pricing technique according to Aremu (2005:134) have been adopted by NIPC to attract foreign investors. These incentives were made available to all foreign investors despite the fact that particular incentives were effective in influencing decisions only for certain types of projects. Promotion strategy in this sense includes communication activities that provide extra value or incentives to investment site. Essentially therefore, the promotional techniques of investment by NIPC involved those aimed at:

- I Building or changing the investment image through advert, investment mission abroad or trade fairs;
- Ii Generating investment directly; and
- Iii Servicing existing and prospective investors appropriately (Aremu, 2005:136).

Examining the above strategies; the NIPC promotional programmes tend to engage the three types of investment promotional activities in varying degrees, particularly image building with investment generation through persuasive communication approach, by way of correctly identifying the message, the channel of communication as well as the appropriate audience to talk to (NIPC, 2005:18).

As FDI promotion policies are gradually evolving, the government through NIPC is simply liberalizing the country's enabling frameworks to attract more investment and secondly, the Commission actively markets the country as preferred destination for FDI. Another promotional strategy used by NIPC is the proactive approach to target investors in accordance with the country's developmental priorities at the level of industries and firms, and seek to meet their location needs (NIPC 2005:18). Appraising this strategy, Aremu (2005:136) points out that this targeted approach is not only effective in challenging the growing competition in the area of investment promotion; it is also desirable from the perspective of achieving efficient use of scarce resources. This strategy also helped the Commission to improve on its understanding of corporate strategies and of the specific locational asserts and liabilities that characterize the host country, Nigeria.

Similarly, NIPC, just like any other investment promotion agency in the world over, use a range of techniques to promote investment. These according to Mkpakan (2004:39), include: those strategies aimed at servicing existing, prospective and new investors known as investor –servicing techniques; those aimed at identifying and removing administrative obstacles and managerial impediments to FDI; those aimed

at building, or changing the investment image of the country, otherwise known as investment generating techniques.

NIPC in its effort to attract more investments through a more business-friendly environment capable of promoting local foreign investments has scaled down various bureaucratic obstacles and intervening opportunities that constitute disincentives to foreign investors. Yet, according to Aremu (2005:137) potential foreign investors have discounted the economy as a location for investment because of the negative image the economy conceals, despite the varieties of investments opportunities that await these investors. As rightly observed:

*Since independence, Nigeria has been associated with pictures of civil disturbances, starvation, deadly diseases as well as macroeconomic mismanagement, distortions and performance.*

However, reducing the negative image of Nigeria to prospective investors may not be sufficient to improve the investment climate alone, it has to be backed with appropriate promotional strategy to catch investors' attention. Hence, NIPC has changed the negative image of the country and thus facilitated investments into the economy. The Commission's promotional strategies at marketing Nigerian investment potentials to both foreign and indigenous investors have considerably improved the flow of foreign capital into Nigeria.

## **2.8 FDI INFLOW IN DEVELOPING ECONOMIES**

African, Caribbean and Pacific (ACP) countries, like developing countries in general, are increasingly adopting policies to attract foreign direct investment (FDI). They are doing so because it is now recognized that FDI can, under appropriate conditions, be an efficient means both of transferring a package of capital, skills and technology to host countries and of providing these countries with enhanced access to international markets. However, the benefits expected from FDI do not arise automatically. The impact of FDI depends indeed on many factors, crucial among them being the capacity of the host economy to absorb skills and technology, and the existence of conditions necessary to facilitate backward and forward linkages. Recent UNCTAD studies have illustrated some deficiencies in the possible positive impact of FDI in a number of ACP countries. It is underlined that this is to some extent the result of a policy framework that has not, so far, focused on optimizing the use of the resources that come with FDI. In designing policies to attract FDI, ACP countries need thus to create a policy environment which is conducive to maximizing the net benefits to be derived from FDI by the domestic economy.

ACP countries comprise a great variety of political and economic situations and, thus, differentiated investment conditions. In order to create an environment conducive to attracting FDI and enhancing its impact on development, it is important to review the different options and measures through which further improvements can be achieved. While some of these measures could be implemented only in the long

term and, especially in the case of the least developed countries (LDCs) among the ACP countries, require considerable assistance within the framework of the Lomé Convention, others could be taken by the governments of host countries in the short term. This paper focuses on the policy environment in ACP countries and on the extent to which it is conducive to attracting FDI in a manner optimal to the national economies. Of equal importance, although not specifically addressed in this paper, is the fact that, in line with the Lomé Convention, the European Union and its member States ought to intensify support efforts aimed at promoting and increasing European foreign investment in the ACP States, which, as shown in this paper, continues to be relatively low.

The globalization of the world economy entails a growing interpenetration among economies. The role of FDI in this process has become increasingly important; in recent years, world FDI has grown more rapidly than world exports, and foreign affiliates. Sales now exceed world exports in value. However, ACP countries have remained, in relative terms, at the margin of the process of expanding FDI flows: more than 20 years after the signing of the first Lomé Convention, FDI flows into ACP countries have been mediocre, resulting in only 1 to 3 per cent share in the world inflows. This share has declined in fact by a half, from some 3 per cent to 1.5 per cent, during the past decade -- the very period which witnessed accelerating investment flows that have benefited both developed and developing countries. Although this declining share of FDI corresponds to the diminishing weight of ACP economies in

world trade and gross domestic product (GDP) the decline is steeper than in terms of world trade and GDP. As FDI is considered to be an important vehicle for integrating the ACP group into the world economy, and transferring production resources from transnational corporations (TNCs) that could be used for the development of its own economy, this is a disturbing signal for ACP countries. The situation is further aggravated by the fact that FDI is increasingly concentrated in only a few ACP countries.

The diagram below identifies the bureaucratic and legal hurdles an entrepreneur must overcome to incorporate and register a new firm. It examines the procedures, time, and cost involved in launching a commercial or industrial firm with up to 50 employees and start-up capital of 10 times the economy's per-capita gross national income (GNI).

The table below shows the main indicators. The survey and data was carried out and collected by the International Finance Corporation World Bank Team, They include:

- all procedures required to register a firm,
- average time spent during each procedure,
- official cost of each procedure, and
- the minimum capital required as a percentage of income per capita.

<u>Region or Economy</u>	<u>Procedures (number)</u>	<u>Duration (days)</u>	<u>Cost (% GNI per capita)</u>	<u>Min. Capital (% GNI per capita)</u>
East Asia & Pacific	8.2	46.3	42.8	60.3
Europe & Central Asia	9.4	32.0	14.1	53.9
Latin America & Caribbean	10.2	73.3	48.1	18.1
Middle East & North Africa	10.3	40.9	74.5	744.5
OECD	6.2	16.6	5.3	36.1
South Asia	7.9	32.5	46.6	0.8
Sub-Saharan Africa	11.1	61.8	162.8	209.9

Some of the reasons why FDI is concentrated in developed nations could be associated with the cumbersome procedures involved in setting up a business in developing countries as indicated by the above diagram. It would be noted that Sub-Saharan African was lagging behind in provision of pre- investment registration activities to potential investors.

## **2.9 FDI FIGURES IN NIGERIA SINCE 1999**

This study was started from 1999 not because Nigeria was not involved in attracting and promoting investment before that time but because from that year, there was seriousness on the part of the federal government; on the realization that FDI

inflow could transform an economy, to consolidate on the efforts and institutions put in place for the purpose of generating FDI. It was in 1999 that the NIPC went fully operational and strengthened by the federal government. It was in that same year that modalities were put in place for the implementation of incentives to investors. From that time till date, a lot of progress has been recorded in the quantum of FDI generating projects that have taken advantage of investment opportunities in Nigeria.

**FOREIGN DIRECT INVESTMENT (FDI by Sector) 1999-2005 [\$ MILLION].**

<b>Sub-Sector</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>Total</b>
Infrastructure	9.16	16.12	4.65	34.23	140.91	178.25	111.77	495.09
Services	22.69	14.69	22.29	77.48	86.12	147.75	1,097.38	1,468.40
Solid Minerals	0.1	0.07	-	-	-	10.02	-	10.19
Chemical/Pham.	0.13	0.08	0.08	0.04	0.08	0.4	0.31	1.12
Manufacturing	90.85	86.19	62.25	79.03	94.66	260.5	436.62	1,110.10
Others	21.8	24.87	6.16	22.75	12.37	49.09	60.15	197.19
Total	153.17	142.02	106.83	213.53	334.14	646.01	1,706.23	3,282.09
Oil & Gas	37.44	23.98	28.12	47.71	99.27	40.64	25.79	302.95
Total	190.61	167.15	134.95	267.24	440.86	695.25	1,732.02	3,585.04

**Source:**

- i) CBN Capital Importation data
- ii) Commercial Banks- Loans/Suppliers Credit
- iii) NIPC- Business Registration

The above table captures the performance of FDI in the real sectors of the economy and the Oil and Gas sector for the years 1999-2005. For the real sectors that is the infrastructure, services, solid minerals, chemical/pharmaceuticals, and manufacturing (which encompasses agric/agro allied), the table shows a gradual increase in FDI from 1999 to an appreciable number in 2005. In 1999 a total FDI of \$495.09m was recorded in these sectors. It rose to a total of \$3,282,09m in 2005. This indicates that the rigorous promotional activities coupled with reforms and administration of incentive to investors paid off in the influx of investors to Nigeria since 1999. The federal government had in recent years encouraged the growth of non-oil sectors and have put priority effort in the promotion of the sectors especially the agric/agro allied sector. However, the oil sector still accounts for a large number of FDI inflows because the sector provides inputs for the production of other products and also acts as the main provider of power and energy in Nigeria. The performance of the oil and gas sector was affected in 2004 and 2005 by the activities of militant youths in the Niger Delta region. It however, recorded a high number of FDI (302.95) which was only surpassed by the manufacturing, services and Infrastructure sectors because of the advent of GSM (communication sub-sector) operators in the country.

### **2.9.1 FDI AS AN ECONOMIC GROWTH INDICATOR**

Economic growth is an important factor in reducing poverty and generating the resources necessary for human development and environmental protection. There is a strong correlation between gross domestic product (GDP) per capita and indicators of

development such as life expectancy, infant mortality, adult literacy, political and civil rights, and some indicators of environmental quality. However, economic growth alone does not guarantee human development. Well-functioning civil institutions, secure individual and property rights, and broad-based health and educational services are also vital to raising overall living standards. Despite its shortcomings, though, GDP remains a useful proxy measure of human well-being.

The world economy has grown approximately fivefold since 1950, an unprecedented rate of increase. The industrialized economies still dominate economic activity, accounting for US\$22.5 trillion of the US\$27.7 trillion global GDP in 1993. Yet a remarkable trend over the past 25 years has been the burgeoning role played by developing countries, in particular the populous economies of east and south Asia.

A major factor in this development has been the steady integration of the global economy. Since the Second World War, international trade has grown consistently faster than output and now accounts for approximately 25 percent of world GDP. Other measures of globalization include the enormous expansion of international financial markets, the spread of new technologies that have revolutionized international communications and encouraged the development of transnational patterns of production and consumption, and the fourfold increase in foreign direct investment flowing to developing and transition economies over the past decade.

However, this overall picture masks large, growing disparities among the developing countries; not all countries have been able to take advantage of the benefits of globalization. Since about 1980, the fastest-growing economies of Asia and Latin America have been characterized by high rates of domestic savings, declining dependence on agriculture, and a rapid growth in trade, especially of manufactured exports. The emerging economies of the developing world -- such as Brazil, China, Indonesia, and Mexico -- have been increasingly attractive to private finance; two thirds of the US\$95.5 billion foreign direct investment flows in 1995 went to just six developing countries, Nigeria inclusive. The effects of FDI can sometimes barely be perceived, while other times they can be absolutely transformative. While FDI's impact depends on many conditions, well-developed and implemented policies can help maximize its gains. Some of the gains of FDI can be maximized by the following:

- Research has shown that an increase in FDI leads to higher growth rates in financially developed countries compared to rates observed in financially poor countries.
- Local conditions, such as the development of financial markets and the educational level of a country, affect the impact of FDI on economic growth. This realization was one of the catalyst for the recent sanitization of the Nigerian financial institutions like the bank.

- Policy makers should exercise caution when trying to attract FDI that is complementary to local production. The best connections are between final and intermediate industry sectors, not necessarily between domestic and foreign final goods producers.
- Human capital plays a critical role in achieving growth benefits from FDI. Low-wage labor and urbanization are attractive to FDI. The fact that Nigerian population is teeming with low wage earners has attracted FDI and this has in turn improved the job turnover of these low wage earners thereby improving their economic wellbeing.
- FDI has positive effects on social modernization, employment, and urban-rural differentials in the middle income countries like Nigeria.

Although there is considerable evidence on the link between foreign direct investments (FDI) and economic growth in developing countries, causal patterns of the two variables has not been investigated yet with a reliable procedure. Although FDI is expected to boost host economic growth, it is shown that the extent to which FDI is growth-enhancing appears to depend on country-specific characteristics. Particularly, FDI tends to be more likely to promote economic growth when host countries adopt liberalized trade regime, improve education and thereby human capital conditions, encourage export-oriented FDI, and maintain macroeconomic stability. Since the laws governing investment in Nigeria has been made investment friendly, the country is on the right track.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 INTRODUCTION**

The strategies adopted for carrying out a research constitute its methodology. To this end a number of techniques and interpretation of data.

Questionnaire, which is one of major sources of primary data, was one of the devices used for collecting responses to questions by using a form, which the respondents filled by themselves. Answers to those questions provided the data for analysis in this study. The study made use of questionnaire because of its greater impersonality, freedom of expression and anonymity, and requirement of much less skill to administer.

The commission has a number of employees and stake holders (foreign companies) which could not all be studied hence, the researcher decided to make a portion of the population for the purpose of the study.

#### **3.1 RESEARCH DESIGN**

It would of course not be out of place to state that the economy of Nigeria has come of age and is ripe for huge injection of foreign investment, skills and technology. The question this work would try to answer therefore are:

- ◆ What type of foreign direct investment should Nigeria try to attract?
- ◆ Which sectors should it target for such investment?
- ◆ When incentives should be used to attract foreign investment, and which type of incentives should be used?

- ◆ How important are investment promotion agencies in getting more and better foreign direct investment?
- ◆ What percentage of the global FDI had Nigeria been able to tap?
- ◆ To what extent has FDI inflow impacted on the Nigerian economy?
- ◆ What are problems encountered in the process of attracting FDI?
- ◆ How has Nigeria tackled the factors/ problems militating against FDI?

Answer to these questions is pertinent to the continued pursuit of factors and policies that would create an enabling environment for growth of FDI in Nigeria. The readiness of the Nigerian government to promote and guarantee Foreign Direct Investment is evidenced in the signing of Investment Promotion and Protection Agreements (IPPAs) with several countries such as United Kingdom, France, Netherlands, Spain, Germany, Switzerland, North Korea, South Korea, Romania and Yugoslavia and recently, India. Such agreements are intended to guarantee the safety of legitimate foreign investment in the event of war, revolution, expropriation or nationalization. This IPPA is a sort of double assurance in an extreme situation because the federal government has put in place structures, institutions and incentives for the sole aim of attracting investment.

The type of FDI to be attracted by a country is determined by the level of development of that country. A country like Nigeria with low industrial base and dependence on a single commodity (oil and gas) should target investment from a diverse collection of sectors that would grow its industries while also creating a level playing ground for the transfer of skills to local workers. In the 50's and early 60's for

example, the agricultural sector was the mainstay of the Nigerian economy and the largest employer of labour. With the discovery of oil, it was relegated to the ground and this attributed to the slide in the development of the nation and also caused undue pressures on scarce resources. This led to inflation, currency devaluation and deficit in trade. The oil discovery was not matched with development in infrastructure, policies, legislature and institutional growth, which led to a fall in standard of living, and a gloat in the spending power of the nation characterized by corruption and mismanagement. The fact still remains that the excessive indulgence of that period needs to be repaired considering the fact that Nigeria is endowed with numerous natural and human resources each one capable of generating substantial FDI.

### **3.1. SOURCES OF DATA COLLECTION**

In order to ascertain the role of FDI in the economic development of Nigerian three sources of data collection were used:

The first was the secondary sources, which came from existing records generated by scholars, researchers and NIPC accordingly. Such records gave some insight into the state of affairs at a particular time in the historical development of the Commission and FDI in Nigeria. In line with that, relevant documents on FDI as well as the utilization of government publications, books, journals, national dailies and other published and unpublished works on related issues were consulted through a library research.

The second source, called primary source of data involved the use of questionnaires on selected officials of the Commission some selected foreign

companies. It was organized in such a way as to make the respondents supply information concerning affairs and the impact each has on the socio-economic and political transformation of the country. Such information provided a good basis for one to compare performance of FDI in the growth of the country. On the whole, data used in this study were sourced from primary and secondary sources. Each of these sources of data collection has its shortcomings; however, the researcher was able to effectively maximize their advantages to minimize those shortcomings.

To this end, respondents were randomly drawn from the staff of the commission and some selected companies. This number consists of the following:

i.	Employees of the NIPC	25
ii.	Xechem Pharmaceuticals, Abuja	5
iii.	Conservaria Africana, Lagos	5
iv.	World Bank	5
v.	UNIDO	5
vi.	Federal Inland Revenue Service, Abuja	5
vii.	Nigerian Customs Service, Abuja.	5
viii.	Federal Ministry of Finance, Abuja	5
ix.	Nigerian Immigration Services, Abuja	5
x.	National Office for Technological Acquisition and Promotion (NOTAP), Abuja.	5
xi.	NAFDAC, Abuja	5

xii.	S.O.N, Abuja	5
xiii.	Sara Foods Limited	5
xiv.	MINL Limited	5
xv.	Integrated Dairy Farm Limited	5
xvi.	Sun and Sand Industries Limited	5
xvii.	Seagold fishing company limited Lagos	5
xviii.	West African Glass Industry Limited	5
xix.	Delta afrik engineering limited Lagos	5
xx.	IP satellite services Nigeria limited Lagos	5
xxi.	Kris oil Nigeria limited Lagos	5
xxii.	Bankers warehouse, Lagos	5
xxiii.	Brass LNG limited Lagos	5
	Grand total	140

The questionnaires were administered on the groups and individuals. A total number of 140 were returned out of the 200 administered. The analysis of the returned questionnaires is provided in chapter four of this study.

The other instrument of investigation was the personal interview. It involves eliciting information from the respondents through some verbal interaction in face-face contact. Interviews were designed to obtain further information to supplement the other sources of data collection, as no one method can be completely reliable in a study of this nature. Twenty five (25) officials of the commission including the executive directors and other principal officers of the commission were therefore all

involved in the oral interview to clarify certain issues raised in the questionnaire. A simple random sampling technique was used in drawing the sample population in order to ensure that every person had equal chance of being selected. This was done in order to avoid the problems of one unit being unproportionately included and thus, being represented less than, or greater than the proportion that existed in the entire population of the state.

### **3.2 SAMPLING TECHNIQUES**

The sampling technique employed in this study was random sampling. This technique was employed because NIPC has a number of employees and so many foreign companies licensed by the commission, which not all could be studied, hence the choice of population of two hundred as a basis for the study. A random sampling technique was also used because it was cheaper to study a sample than the entire population. Moreover, it afforded the researcher to be more thorough and to obtain quicker results than did a complete coverage of the target population.

### **3.3 METHOD OF DATA ANALYSIS**

The method of analyzing data in this study was purely descriptive. Simple model average was employed to evaluate the various opinions of respondents, which have been tabulated for clarity and easy understanding. Simple average was favored because it best served the purpose of the study, which was, itself heavily dependent on primary and secondary data. Another reason for the choice of simple average as a method of data analysis was because most people easily understood it. On data analysis technique, tables and diagrams were used in presenting and analyzing the

data for this study. Simple percentages and possible conclusions were made thereafter.

Finally, in testing the hypothesis, co-efficient of Correlating was used. It is the measurement of the degree or strength of relationship between two variables. It yields only indexes, which give a picture of the closeness of association between the variable. Co-efficient of Correlation can have values ranging from  $-1$  (including complete disagreement) to  $+1$  (including complete agreement). It should be noted that the study tends to verify the degree of importance given to FDI as a strategy for the economic growth of Nigeria and the success the NIPC promotional activities has achieved in attracting FDI inflows into the economy from 1999 to 2005.

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

#### 4.0 INTRODUCTION

This chapter is mainly concerned with the presentation and analysis of the various instruments used in the questioning of all relevant parties to this study. Also the various responses to the oral interviews conducted in the course of the findings would be used to supplement those questionnaires. The essence of this is to enable the researcher to draw a logical conclusion. Above all, the purpose is to scientifically determine the validity of some issues raised in the previous chapters regarding the theme of the research.

#### 4.1 STRATEGIES FOR ATTRACTING INVESTMENT

**Table 4.1: Strategies for the awareness of investment opportunities in Nigeria.**

Response	Frequency	Percentage
Investment Seminar Home Country	28	20%
Investment Mission to Host Country	22	15.7%
Direct Contact from NIPC	51	36.4%
Business Journal	9	6.4%
Embassy	15	10.7%
Others( Please Specify)	15	10.7%
Total	140	100%

**Source:** Sample survey, 2006

The analysis displayed by the table was to determine the strategy adopted by Nigeria by its forefront investment promotion outfit, NIPC, to attract investment.

From the table, the principal strategy used for attracting investment (FDI) was by direct contact (36.4%). It was observed that the NIPC out of its various outreach and sensitization strategies was more successful with the direct contact approach. The second strategy that has been successful in promoting investment opportunities was the investment seminars organized by the Commission to foreign countries followed by the investment mission to host country. The use of business journals, information from embassy and other strategies like personal effort, media etc were equally used as a strategy to showcase Nigeria's vast investment opportunities. It was clear by this survey that NIPC explored every means available to attract FDI into the Nigerian economy.

**Table 4.2: Pre- investment Registration Processes**

Response	Frequency	Percentage
Very Efficient	135	96.4%
Good	5	3.6%
Inefficient	-	-
Poor	-	-
Total	140	100%

**Source:** Sample survey, 2006

This survey is a confirmation that all sampled population under study has full confidence in the registration processes of NIPC. The companies under survey

attested to the fact that the registration of their businesses was conducted with utmost efficiency and professionalism. According to NIPC (2005:1), a total of 540 companies were given business permit between 1999 and 2005. The detail of companies registered is shown below:

**Table 4.2.1: Companies Registered in Nigeria by NIPC (1999-2005)**

Year	Number of Foreign Companies Registered
1999	38
2000	58
2001	50
2002	117
2003	90
2004	109
2005	78
Total	540

Source: NIPC (2005:1)

**Table 4.3: Efficiency of Promotion Activities in NIPC**

Response	Frequency	Percentage
Efficient	123	87.9%
Inefficient	17	12.1%
Total	140	100%

**Source:** Sample survey, 2006

The above table was to determine whether NIPC promotional activities have been effective in attracting foreign investors into the Nigeria economy. From the figures on the table, it is evident that majority of the respondents rated NIPC promotional activities efficient, 87.9% as against 12.1 who rated it inefficient. This is a solid indication that the country is enjoying attention of foreign investors because of the efforts at promoting and marketing investment potentials of the country by the NIPC. Those who argued to the contrary however believed that the inability of NIPC to promote effectively the potentials of the country was because the environment had not been made conducive for prospective investors due to lack of well designed investment policy. Supporting this view, Aremu (2005:184) posits that:

*.....for productive investments to be attracted to an environment, factors such as: access to inputs and skilled labour; access to markets for the products and services generated by the investments; existence of reliable infrastructure and quality service in transport and other services must be settled. To a substantial level, investment depends on all these among others, which are not currently present in Nigeria as in other developing countries.*

**Table 4.4: Adequacy of Efforts Made on Promotion Drive**

Response	Frequency	Percentage
Yes	113	80.7%
No	27	19.3%
Total	140	100%

**Source:** Sample survey, 2006

The above table was to ascertain the sufficiency of the investment drive embarked on by the NIPC. 80.7% of the respondents agreed that the level of drive to bring in FDI by NIPC was sufficient as there had been increase in the influx of investors. The 19.3% who disagreed were of the opinion that there needs to be more collaborated effort between all relevant stakeholders in promotion of investment for there to be the level of FDI inflow that was envisaged for the country. Some of the respondents interviewed however expressed optimism for more concerted efforts with the advent of the One Stop Investment Center (NIPC).

**Table 4.5: Extent of NIPC achievement of the objectives of attracting FDI for accelerated socio-economic development.**

Response	Frequency	Percentage
Sufficient	105	75%
Fair	35	25 %
Poor	-	-
Very poor	-	-
Total	140	100%

**Source:** Sample survey, 2006

Nigeria over the years have intensified efforts to revive the economy through ensuring that a business friendly environment exists for investors and for FDI to thrive. The government through various authorities has made efforts to scale down the bureaucratic obstacles and other disincentives that hinder the free flow of FDI. It was in recognition of the need for targeted efforts to attract FDI that the NIPC was given a lot of support by the federal government in the past few years. This support which led to the institutionalization of the One Stop Investment Center (OSIC) in March 2006 have further realized the objectives of the federal government to facilitate investment into the country. From the table, it was apparent that quite a number of the respondents (75%) agree that the federal government through the NIPC and other agencies have been able to attract more FDI in the last three years. Evidently, the annual aggregate inflow and outflow of FDI in Nigeria between 1999 and 2005 in dollars is shown below:

**Table 4.5.1: Flow of FDI into Nigeria from January 1999- December 2005 as Recorded by CBN.**

<b>Year</b>	<b>Number of Foreign Companies Registered</b>	<b>FDI Inflow (Million\$)</b>
1999	38	32.10
2000	58	47.19
2001	50	287.29
2002	117	389.71
2003	90	240.03
2004	109	97.65
2005	78	454.98
<b>Total</b>	<b>540</b>	<b>1,582.95</b>

**Source:** CBN (2005:67): Economic and Financial Reviews of Various Issues on FDI Survey Estimates.

From the table above, it can be deduced that the flow of FDI into Nigerian economy has undergone tremendous shift since 1999 in terms of the level of inflow; the component of the net flow; the source of the flows ; and the sectors where the flows are concentrated. The table shows the number of companies registered and certified by the NIPC and their corresponding inflows per annum. On the aggregate, a sum total of \$1,584.95 or N206, 043.5:00 equivalents, were recorded during the period under review of FDI inflow into the country.

**Table 4.6 Comprehensiveness and Effectiveness of the Strategy Used by NIPC to Attract Investment.**

Response	Frequency	percentage
Comprehensive	51	36.4%
Moderately Comprehensive	63	45%
Not Comprehensive	26	16.6%
Total	140	100%

**Source:** Sample survey, 2006

NIPC promotional strategies are the various techniques used to attract foreign investment into the country. It was important to sample the opinion of the respondents on the comprehensiveness of the leading FDI puller in the country (NIPC) in order to ascertain whether there were avenues that the federal government was yet to explore in order to make the environment conducive for FDI inflow. From the above table, the

data showed that 36.4% of the respondents felt that the promotional strategies applied by the Commission was comprehensive enough as it had been able to facilitate most of their pre-investment requirements and had made it easy for them to know investment opportunities in the country and their location. 45% of the respondents agreed that the strategies adopted by the NIPC were moderately comprehensive and less cumbersome in its entirety. They posit that the promotion activities of the Commission had made it possible for them to operate in the country. A small portion of the respondents however felt that the promotional strategies were not comprehensive and this they attributed to the existence of bureaucracy and monopoly in some fraction of the economy.

**Table 4.7: NIPC Strategy as a Motivating Factor to Investment Performance**

Response	Frequency	Percentage
Comprehensive	118	84.3%
Moderate	22	15.7%
Poor	-	-
Total	140	100%

**Source:** Sample survey, 2006

By the information on the table, it can be seen that it was widely accepted by a majority of the respondents (84.3%) that the NIPC promotion strategy is a motivating factor to investment performance in the country. It can therefore be strongly argued that investment drive into the country has been able to impact positively on the socio-

economic status of the country both at the micro-economic and macro-economic levels. However, 15.75% of the respondents disagreed with the above view for what they attributed to the endemic avalanche of power politics, mismanagement, and lack of focus by some investors themselves that marred the activities of the Commission to really attain her mandate of attracting FDI.

**Table 4.8: FDI and the Development of the Nigerian Economy.**

Response	Frequency	Percentage
Yes	116	83%
No	24	17.14%
Total	140	100%

**Source:** Sample survey, 2006

Of the total respondents to this particular question, a significant proportion of the respondents (83%) agree that FDI inflow into Nigeria had contributed immensely to the development of the Nigerian economy in the areas of employment and revenue generation. Existing foreign companies in the country serve as a source of employment to over one million people across the nation, not only that, the companies spearhead the development of their host communities by providing schools, hospitals, pipe borne water, good roads et cetera. For instance, Xechem Pharmaceuticals Company injected \$5b into the Nigerian economy and of the 57 staff in its employment, 51 are indigenes. Also, Conservaria Africana, an Indian company producing tomato paste in Nigeria brought in \$6m of investment and has employed

200 Nigerians in its factory. However 17.14% of the respondents disagree with the above arguing that FDI has no positive impact on the development of the nation's economy especially in employment of local people in management positions where the impact will be most felt. Some of the respondents interviewed attributed this to the international capitalists who collaborate with domestic allies in host economies, particularly in developing countries, to perpetuate the exploitation of host communities. This example can be seen in the Niger Delta Region where some oil companies carry out unwholesome activities with support from community leaders.

#### **4.2 CHALLENGES TO EFFECTIVE PROMOTION AND OPERATIONAL ACTIVITIES OF NPC**

**Table 4.9: Effect of Excessive Governmental Control and other Internal Policies on Investment**

Response	Frequency	Percentage
Agree	103	73.6%
Disagree	37	26.4%
Total	140	100%

**Source:** Sample survey, 2006

From the above table, it is clear that the activities of the Commission are impaired by the influence of government changing policies and control, inadequate funding, managerial control etc. This was indicated by a significant portion of the

respondents (73.6%) of the total number of respondents. On the other hand, only 26.4% of the total respondents expressed contrary view.

**Table 4.12: Assessment of the performance of FDI Inflow into Nigeria in the Last 3-5 Years.**

Response	Frequency	Percentage
Excellent	33	82.5%
Very Good	51	36.4%
Good	53	37.9%
Bad	3	2.14%
Very Bad	-	-
Total	140	100%

**Source:** Sample survey, 2006

The NIPC since its inception, had the mission to debureacratise and debottleneck administrative procedures for investing in the Nigerian economy, provide soft-landing and facilitate fast track approvals for business permit, licenses and clearance for investors thereby substantially reducing the cost of doing business in Nigeria. In realizing this task, the Commission assumed unprecedented center stage of the country's effort towards a bid to turn around the economic fortunes of Nigeria through massive inflow of FDI in a planned, timely and professional manner. Little wonder therefore, the Commission proactively canvassed for the establishment of the One Stop Investment Center to facilitate ease of entry for all investors in a well

harmonized manner that encourages investment. On this ground, the professional manner at which the executives handle the entire activities of the Commission was duly acknowledged by the majority of the sampled population who agreed that performance of FDI inflow in the last 3-5 years have greatly increased across all the sectors of the economy due to the proactive nature of the NIPC promotional strategies. A small fraction of the respondents disagreed with the above percentage but however did not give any reason to drive home the position.

**Table 4.10: Opinion on Constraints of NIPC in Attracting FDI**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Low Capital	49	35%
Personnel Inadequacy	20	14.3%
Unstable Policies of the government	38	27.14%
Inadequate Welfare Service	33	23.6%
<b>Total</b>	<b>140</b>	<b>100%</b>

**Source:** Sample survey, 2006

From the information on the above table, it was obvious that most of the respondents, 35%, opined that lack or low capital for the execution of investment promotion activities was a major constraint to FDI inflow and the mandate of the NIPC. Unstable policies have always been perceived as a major foe to investment

inflow and this was affirmed by 27.14 % of the respondents. Some of the people interviewed however said that though the problem of unstable policy had reduced greatly in recent times, it was hard to convince some investors who associate this concept with developing economies. Inadequate trained personnel and inadequate welfare had also been pointed out as constraints to attracting investment as those who felt so opined that management decision making positions was still so much in the hands of people who were not reform minded and accepting of global trends which is private sector driven.

**Table 4.11 Recommendations of Respondents**

<b>Respondents</b>	<b>Frequency</b>	<b>Percentage</b>
Proper Funding	<b>43</b>	<b>30.7%</b>
Training and Skills	<b>21</b>	<b>15%</b>
Acquisition	<b>24</b>	<b>17.14%</b>
Interagency Collaboration	<b>19</b>	<b>13.5%</b>
Collaboration with International Bodies	<b>11</b>	<b>7.9%</b>
Increased Promotion Activities and Well Formulated Policies	<b>22</b>	<b>15.7%</b>
<b>Total</b>	<b>140</b>	<b>100%</b>

**Source:** Sample survey, 2006

Due to the fact that majority of the sample surveyed are stakeholders and recipients of NIPC services, they are conversant with the problems hindering the otherwise rich investment opportunities in the country. 30.7% of the respondents opined that lack of adequate funding was a major constraint to investment promotion activities. Some of those interviewed in this category felt that with the quantum of responsibility placed on the NIPC, it should be adequately funded since it was a service oriented organization and does not directly produce revenue. Interagency collaboration was next on the rating and this respondents felt would lead to more collaboration and inflow of FDI. Following closely was the opinion that training and skills acquisition was vital to attracting investment and this was poor in the country. Other recommendations made by respondents were collaboration with international bodies, increased promotion and well formulated policies. 15.7% of the respondents felt that every investment related policy formulated should be sensitive to investors needs and be consistent.

### **4.3 HYPOTHESIS TESTING**

Having analyzed the data obtained from the administered questionnaires, an attempt would be made to test the hypothesis using some selected data. The correlation co-efficient as earlier stated would be explored to establish relations between the Null and Alternative hypothesis as stated in section 1.7 of chapter one.

#### **Hypothesis**

HO: There is no significant relationship between foreign direct investment inflow into Nigeria and the economic growth of Nigeria.

HA: There is significant relationship between foreign direct investment inflow into Nigeria and the economic growth of Nigeria.

In testing this hypothesis, the FDI inflow into the country from 1999 to 2005 would be used. This will include total number of companies registered and certified by NIPC and their corresponding net FDI inflow per annum as contained in the table below:

<b>Year</b>	<b>Number of Foreign Companies Registered</b>	<b>FDI Inflow (Million\$)</b>
1999	38	32.10
2000	58	47.19
2001	50	287.29
2002	117	389.71
2003	90	240.03
2004	109	97.65
2005	78	454.98
Total	540	1,582.95

**Source:** CBN (2005:67): Economic and Financial Reviews of Various Issues on FDI Survey Estimates.

To test the above hypothesis, the below product moment method of correlation co-efficient formula would be adopted as:

$$\underline{\Sigma \ x \ y}$$

$$r = \frac{\sum xy}{\sqrt{(\sum x^2)(\sum y^2)}}$$

In order to calculate r, the following procedures are adopted.

- i) Calculate the means X and Y.
- ii) Calculate standard deviation (SD) of X and Y.
- iii) Calculate  $\sum XY$  by multiplying each data in X with its counterpart Y (i.e. multiplying pairs together and then add the products)
- iv) Apply the formula (Akuezuilo, 1993:70)

Denoting the index for numbers of companies and FDI inflow as X and Y respectively. Thus the calculation of the correlation can be organized in the table below.

It should be noted that the year is used only to specify the corresponding value of X and Y.

X	Y	X-X	Y-Y	X <sup>2</sup>	YX	Y <sup>2</sup>
38	32.10	-39.14	-189.18	1,531.93	7,404.5052	35.789
58	47.19	-19.14	-174.09	366.340	3,332,0826	30.307
50	287.29	-27.14	66.01	736.580	1,791,5114	4.3572
117	389.71	39.86	168.43	1,588.820	6,713,6198	28.367
90	240.03	12.86	18.75	165.380	241,125	3,515,625
109	97.65	31.86	-123.63	1,015,0596	-3,938,8518	15.2844
78	454.98	0.86	233.7	0.7396	200,982	54.616
X=77.14	Y=			4.391	(7.473)	3.5158

$$r = \frac{\sum x y}{\sqrt{(\sum x^2)(\sum y^2)}} = \frac{7.473}{\sqrt{(4.391)(3.516)}}$$

$$r = \frac{7.473}{\sqrt{15,439}} = \frac{74.73}{3929} = \underline{1.902}$$

### **Decision Rule**

#### **a) Positive Correlation**

Correlation between two sets of variables is said to be positive when the value of correlation coefficient is above zero. This occurs when an increase in one variable is associated to a greater or lesser extend with an increase in the other

#### **b) Negative Correlation**

In this case, the value of correlation coefficient is less than zero; and this is the case when an increase in one variable is associated to a greater or lesser extend with a decrease in the other.

#### **c) Perfect Correlation**

When a change in one variable is matched by a change of equal degree in the other variable, the correlation is said to be perfect and the value is either +1 or -1. If both increase or decrease together, it is perfect positive correlation and the value is (+1); if one decreases as the other increase, it is perfect negative correlation and value is (-1).

**d) High Correlation**

This is the case when a change in one variable is associated with a change of a similar, but not equal degree in the other. A correlation coefficient of about 0.7, 0.8, etc could be to be high.

**e) Low Correlation**

Correlation is said to be below when a change in one variable is rarely associated with a change of similar degree in the other. Correlation coefficient of say 0.2, 0.3, and 0.4 or low.

**f) Zero Correlation**

Here the variables are not correlated at all, and there is no relationship between changes in one variable and changes in the other, thus (r) is zero.

**Interpretation**

From the above, we have positive correlation between the two variables because correlation coefficient is above zero. Thus, there was an increase in the number of registered foreign companies this leading to increase in FDI inflow which will translate to economic growth. We therefore reject Null hypothesis and accept Alternative hypothesis, and conclude that FDI inflow in the years under study had greatly improved the Nigerian economy.

**4.4 DISCUSSION OF FINDINGS.**

After careful study of the data presentation and analysis, the study revealed that there has been tremendous growth in the economy due to FDI inflow which was made possible through the activities of the Nigerian Investment Promotion Commission.

The study revealed that FDI has added new resources, capital, technology, management, skills and marketing among others to the economy leading to a diverse economic activity. It had also led to efficiency which is a necessary tool for stimulating economic growth. From responses gathered from the questionnaires administered, it was obvious that the effects of this change in economy were being felt by a cross section of the economy. From the study carried out, it can safely be said that FDI inflow had been able to fulfill its primary objective which are employment creation, poverty reduction, revenue generation, rural and urban development and a general increase in the living standard of the Nigerian people. Most of the companies studied had an average of 50 Nigerians on its payroll and this would amount not only to poverty alleviation but to skill acquisition and transfer. The study also showed that the activities of the major organ for the attraction of this much needed FDI, NIPC, was being hampered by several constraints, ranking highest amongst these constraints is the poor funding of the Commissions activities. It was also apparent from the study that the inflow of FDI is an outcome of economic, social and political processes that interact to enforce positive changes in the inflow of FDI that would make meaningful contribution to the development of the Nigeria economy. It was proved that a proper understanding of the strategies adopted by a country to attract investment was necessary for it to succeed. As such for any meaningful development to take place efforts should be made by the federal government and the NIPC to embark on progressive strategies where its implementation would be gradually but consistently followed and programmes are established to make the

unfavourable environment more favourable and friendly to both existing and prospective investors.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 SUMMARY**

This study is “An Evaluation of Foreign Direct Investment as a strategy for Sustainable Economic Growth in Nigeria”. It examined the events that led to the federal government’s realization of the importance of FDI in economic growth and setting up of the Nigerian Investment Promotion Commission to take up the challenge of attracting FDI. Overtime, various governments in Nigeria have employed several agencies and ways of attracting FDI inflows at various stages for effective development, but all such methods have been accused of inefficiency and incompetence. The monopolistic nature and of course, the enigmatic issue of corruption in the entire system further discouraged the inflow of FDI. As such, there has been a clamor for effective measures to be put in place to make Nigeria a preferred destination for foreign direct investment.

This study has therefore empirically determined the significant relationship between the Commission’s promotional strategies, FDI inflows and its general impact on national development. The Nigerian government is therefore committed to providing the enabling environment for serving the needs of both existing and prospective investors at large to hasten the economic growth of the nation. In view of the above, the relevance and the significant contribution of the NIPC to the development of the Nigeria economy has been concisely analyzed.

It was discovered that in the real sense of it all, FDI has significance relationship with the Nigerian development process hence more importantly; the commission through FDI inflows has so far relieved the government of what was a burgeoning burden of financing deficits, conserving local and foreign exchange outflow and implementing investment promotion strategies and incentives. Finally, FDI despite its seeming shortcomings has improved the allocative efficiency of national economy and enhanced the volume of corporate taxes to the national treasury.

## **5.2 CONCLUSION**

In the light of the above, it can be concluded that FDI inflow is important and meaningful agent for national development. It can contribute to Gross Domestic Product (GDP), Gross Fixed Capital Formation (total investment in the economy) and balance of payments. If we are to equate FDI with economic growth and development as conceived by this study, and also development to mean positive attempts to answer questions of unemployment, poverty, inequality and other social maladies or vices, then we can concluded that FDI has contributed considerably to the development of Nigerian economy.

Thus, the study has explicitly established that one of the very important roles of NIPC is to serve as a catalyst for rapid development by way of attracting FDI inflows, conserving both local and foreign exchange outflows. Nevertheless, its success in this direction the Commission still has enormous challenges on its path to attaining its maximum potentials. To overcome these challenges and effectively

discharge her responsibilities and the main task of bringing in more foreign investors to hastening the economic growth of Nigeria at large, recommendations would be made for the Commission to overcoming its challenges.

That is, for the country to effectively maintain its role in the competitive international market, in the face of the world trends of liberalization, privatization and globalization, the Commission more than ever before must be prepared to invest substantial resources in some initial critical areas such as the acquisition of modern state of the information technology as a means of enhancing her credibility and integrity in attracting foreign direct investment into the country.

Finally, the basis of the above findings it is clear that Nigeria as the most populous in sub- Saharan Africa is still evolving and as such it is yet to attain that critical level of sensitivity to investors needs. It would not be out of place finally to conclude that the years ahead hold great promise for NIPC and other related investment promotion agencies in Nigeria.

### **5.3 RECOMMENDATIONS**

From the foregoing analysis, it seems apparent that certain actions will need to be taken in light of the experiences so far in order to maximize the rich investment potentials inherent in the country some of which have not even been brought to the fore due to the uncreative attitude of our institutional leaders which can be attributed to lack of exposure to global events, training and development. In view of the findings, the following recommendations are therefore made to the management of the NIPC as well as the government with the belief that they would be implemented

so as to further improve its service in order to bring about more investors into the economy for the purpose of growth and development.

- i. From the findings, it was glaring that the NIPC has low capital base to needed to actively carry out its functions. In view of this, the federal government should device a way of allocating revenue to the Commission from sources that are related to the efforts of the Commission. This would also go a long way towards enhancing its income generating efforts to carry out its responsibilities. What the Commission requires is not subventions, grants, guaranteed loans or more borrowing powers, but reinforced equity capital. This will, invariably enhance its efficiency and ability to deliver quality services to its clients, services that can withstand the scrutiny of international observers and other IPA's.
- ii. There should be sustainability and accountability in the investment promotion strategies outlined and implemented by the federal government and the NIPC. Nigeria has a history of abandoning a set of strategies without allowing it to reach its potentials. Any set of strategy should be flexible and tested. This period of testing a strategy should be allowed to elapse and closely monitored and evaluated before they are discarded as useless. All strategies and programmes to attract investment inflows should be well-formulated and backed with proper feasibility studies and financial plan and also realistic implementation

plans. This will go along way effective specific strategy implementation and in eliminating the habit of embarking on programmes not planned for.

- iii. Though the federal government through its agencies has approved a lot of incentives to attract investors to the country, the incentives should be applied with utmost urgency to deserving investors that have met all the procedures stipulated by the NIPC.
- iv. Infrastructural development of a nation has always been a deciding factor for investment decision. In order to arrive at a destination to invest capital, a potential investor considers which economy offers him the best in terms of infrastructure which will translate to low cost of production and better service to the host community. Sadly however, Nigeria is poor in providing the basic infrastructure to impending investors. The power sector which is very vital to production has remained epileptic despite all efforts by the federal government to revive it. The recent move to debunk and reform NEPA (now PHCN) has not yielded the desired result. There is need for intense collaboration between the private and public sector to bring about change in the power sector. This will of course have to be backed with consistent monitoring and evaluation of target. Also the project should be devoid of all corrupt maneuvers in order to succeed.

- v. Policy issues, especially as it relates to taxes should be reviewed from time to time to meet investors yearning. Some tax regimes are not inline with global practices and such should be updated and applied to deserving investors.
- vi. A forum should be created for a nationwide Business and Investment Forum (BIF). The NIPC as part of its mandate holds BIF's in foreign countries aimed at sensitizing them on investment opportunities in Nigeria and affording Nigerian business men the chance to discuss one on one with foreign investors. The NIPC also organizes what it calls the National Council on Investment which focuses on investors in the states. The national investor's forum proposed should be such that all existing and potential investors in Nigeria both foreign and local should attend. It should be a national event that would focus on generating ideas from the investors themselves on measures to improve the Nigerian environment and also find out their problems and constraints with a view to finding solutions to them.
- vii. There should be free flow of information and collaboration between all stake holders in the promotion of investment. The private sector bodies like NACCIMA, NASSI, MAN etc, should network with all government bodies involved in attracting investors like the NIPC, CBN, FIRS, and NEPC etc. This would ensure that information on investment generating strategies, incentive regimes, policies and data on investment

feasibility studies, flow freely and is readily available to transfer to investors any of these bodies come in contact with.

- viii. The commission needs to re-orientate its existing workforce at all levels to reflect its new status. This is by way of training and re-training its staff more often. There should be proper mobilization and training of competent and efficient personnel to acquire basic skills on the basic responsibilities. Special and specific training center for the staff of the commission should be established in order to accelerate the employees training needs on foreign investment matters.
- ix. Nepotism, favouritism, tribalism and sharp practices as well as partisan politics should be eschewed out of the society so as to increase investor's confidence in the country. People of questionable characters and qualifications should be weeded out of sensitive positions so as to improve effectiveness and efficiency of the workforce and keep cost of doing business in Nigeria at its minimal.
- x. Lastly, it is important to stress that a more vigorous and better-formed system of tracking FDI inflow beyond what currently exist should be devised. There is need for the NIPC to work with all relevant agencies to track and record foreign capital inflow so as to monitor the level of development FDI has contributed to the economy and also to gauge the level of performance of all stakeholders in line with international measurements.

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## **QUESTIONNAIRE**

Department of Business Administration,  
Ahmadu Bello University, Zaria.

Dear Respondent,

### **“AN EVALUATION OF FOREIGN DIRECT INVESTMENT AS A STRATEGY FOR SUSTAINABLE ECONOMIC GROWTH IN NIGERIA.”**

As part of my studies for Masters in Business Administration, I am currently conducting a research on the above topic. The purpose of this questionnaire is to enable the researcher to obtain all the necessary information regarding the topic.

I would like to assure you most sincerely that whatever information supplied by you through this questionnaire would be held confidential and used for this research purpose only. Please do not indicate your name or signature.

Yours sincerely,

**Safiya Usman**

**No: GO4/BAMP/7201**

## INSTRUCTIONS

*Tick as appropriate and provide the answer to the best of your knowledge.*

1. Name of Organization .....
2. Department/Section/Unit .....
3. How was your company originally made aware of investment opportunities in Nigeria?
  - (a) Investment Seminar Home Country [    ]
  - (b) Investment Mission to Host Country [    ]
  - (c) Direct Contact from NIPC [    ]
  - (d) NIPC Home Page [    ]
  - (e) Business Journals [    ]
  - (f) Embassy [    ]
  - (g) Others (please Specify) [    ]
5. How would you rate the processes of investor registration in NIPC?
  - (a) Very efficient
  - (b) Good
  - (c) Inefficient
  - (d) Poor
6. How do you assess the promotional activities of NIPC?
  - (e) Efficient
  - (f) Inefficient

7. Do you think that the effort on FDI drive made by Nigeria/NIPC is sufficient?
- (a) Yes [      ]
- (b) No [      ]
8. To what extent has the NIPC achieved the objectives of attracting foreign direct investment to accelerate socio-economic development of Nigeria in the last three years?
- (a) Sufficient
- (b) Fair
- (c) Poor
- (d) Very poor
10. How comprehensive and effective are the strategies used by NIPC to attract foreign investment into the economy?
- (a) Comprehensive [      ]
- (b) Moderately Comprehensive [      ]
- (c) Not Comprehensive [      ]
11. In your opinion, to what extent does the NIPC strategy serve as a motivating factor to investment performance or productivity in the country?
- (a) Comprehensive
- (b) Moderate
- (c) Poor

12. Do you think FDI expand the productive capacity and stimulate growth and development of the Nigerian economy?

(a) Yes [      ]

(b) No [      ]

13. It is argued that excessive governmental control policy and other internal factors, such as low capital base; managerial/structural problems etc are some of the barriers to attracting foreign investment into the country. Do you agree?

(a) Agree [      ]

(b) Disagree [      ]

14. What is your assessment of the performance of FDI inflow into Nigeria in the last 3-5 years?

(a) Excellent [      ]

(b) Very Good [      ]

(c) Good [      ]

(d) Bad [      ]

(e) Very Bad [      ]

15. What in your opinion do you consider as the major constraints to effective performance of NIPC in attracting foreign direct investment? (Please use additional sheets if necessary).

a.....

b.....

c.....

d.....

e.....

16. As objectives as possible, suggest ways or measures to be taken in eradicating the currently observed barriers to FDI inflow? (Please use additional sheets if necessary).

a.....

b.....

c.....

d.....

e.....

***Thanks for your kind cooperation***