

## Foreign Direct Investment: Catalyst for Sustainable Economic Development in Nigeria

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**Abstract:** This is a conceptual review (content analysis) of the effect of foreign direct investment as a catalyst for sustainable economic development in Nigeria. The major objective is a comparative analysis of 87 developing countries with the capacity to attract FDI and proffer possible solutions that will catapult Nigeria as a globally acceptable haven for foreign investment. The secondary data were sourced from Investing Across Borders (IAB) 2010 report where 87 developing countries across the globe were assessed using the IAB indicators. The major conclusion drawn from the survey is that Nigeria as a country is yet to maximize its potentials (given available resources and market size) at attracting foreign investment. It also concludes that the process of foreign business establishment/ownership in Nigeria need to be improved upon to encourage high patronage of foreigners in economic activities. This study therefore recommends that Government should make policies that will encourage equity ownership of investments in Nigeria by foreigners. The authorities should put in place machineries that will ensure a transparent and simple business registration and ownership process.

**Keywords:** Foreign Direct Investment; Sustainable Economic Development; Equity Ownership; Productive Capacity

### INTRODUCTION

Nigeria is endowed with rich human and natural resources, given its wealth in economic potentials, it is ironical that Nigeria still is rated as one of the poorest economies in the world [1]. It is true that Nigeria has great economic potentials but her poor economic 'know – how' leaves her disadvantaged and at the receiving end of the ever highly competitive global market/economy [1]. Over the past four decades, foreign direct investment (FDI) in the regions of Africa has been erratic and chaotic in nature. The volume of FDI has increased relatively over the past four decades in the African regions. The pattern of flow, however, has been that of sharp increases followed by sharp decreases in subsequent years. Also, the flow of FDI to African regions has declined in comparison to other developing regions in the world over the years; this therefore is reason for the increase being regarded as relative [2]. Development theories have identified a strong association between investment (private investment) and economic growth. It has been observed that private investment should be the main driving force for economic growth in developing countries like Nigeria. Barro and Barro and Sala – I – Martin predict that output can only grow through increased factor accumulation and through technical progress [3]. However most growth models have come to ascribe the rate of growth of an economy as being determined by the amount of physical and human capital, the efficient use of resources and the ability to acquire and apply

model technology. Since investment determines the rate of accumulation of physical capital, it thus became an important factor in the growth of productive capacity and in turn, contributes towards the growth of the economy. Many countries and continents (especially developing country like Nigeria) now see attracting FDI as an important element in their strategy for economic development. This is most probably because FDI is seen as an amalgamation of capital, technology, marketing and management [7]. With a marked shift away from half-hearted piecemeal approach to foreign investment during the eighties to a more comprehensive open door policy during the nineties, India has progressively expanded the scope for FDI by gradually increasing the number of sectors opened to FDI as well as the caps on FDI. Some of the measures included removing the general ceiling of 40% on foreign equity under the Foreign Exchange Regulation Act, 1973 (FERA), lifting of restrictions on the use of foreign brand names in the domestic market, removing restrictions on entry and expansion of foreign direct investment into consumer goods, liberalising the terms for import of technology and royalty payments and permitting foreign investment up to 24% of equity of small scale units and reducing the corporate tax rates [14].

It is established that there is a strong correlation between the growth situation in developing countries and their success attracting Foreign Direct

Investment [4]. Unlike other sources of foreign investment, FDI is accompanied by the following benefits according to Obwona [5]:

- i. The provision of managerial knowledge and skills including organizational competence and access to foreign market.
- ii. It provides an array of goods and services to residents in the recipient country.
- iii. It enables the transfer of technology to occur from developed economies.

The above and several other benefits of FDI have made the developing countries, including Nigeria, to see it not only as a channel to increasing aggregate investment, but also as a propeller of economic growth. This could explain the past and current moves of developing countries to attract FDI, by removing structural barriers and encouraging foreign investors. Such encouragement includes offers of incentives such as income tax holidays, import duties exemptions and subsidies to foreign firms. In Nigeria for example, the Nigeria Investment Promotion Decree was promulgated basically to “encourage, promote and coordinate foreign investment and enhance capital utilization in the productive sectors of the economy”. It also provides an opportunity for foreign participation in Nigeria enterprises up to 100 percent ownership. In order to achieve these objectives, the decree established NIPC in conjunction with the foreign exchange (monitoring and miscellaneous provisions) decrees No. 17 of 1995 that establishes the Autonomous Foreign Exchange Market (AFEM).

#### MEANING OF FOREIGN DIRECT INVESTMENT

According to the World Bank, FDI is an investment made to acquire a lasting management interest (normally 10% of voting stock) in a business enterprise operating in a country other than that of the investor residency [6]. Such investments may take the form of either “Greenfield” investment (also called “mortar and brick” investment) or merger and acquisition (M&A), which entails the acquisition of existing interest rather than new investment. In corporate governance, ownership of at least 10% of the ordinary shares or voting stock is the criterion for the existence of a direct investment relationship. Ownership of less than 10% is recorded as portfolio investment. FDI comprises not only merger and acquisition and new investment, but also reinvested earnings and loans and similar capital transfer between parent companies and their affiliates. Countries could be both host to FDI projects in their own country and a participant in investment projects in other countries. A country’s inward FDI position is made up of the hosted FDI project, while outward FDI comprises those investment projects owned abroad. One of the most salient features of today’s globalization drive is conscious encouragement of cross-border investments, especially by transnational corporations and firms (TNCs).

According to the IMF and OECD definitions, *direct investment* reflects the aim of obtaining a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is resident in another economy (the direct investment enterprise). The “lasting interest” implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the latter. Direct investment involves both the initial transaction establishing the relationship between the investor and the enterprise and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated. It should be noted that capital transactions which do not give rise to any settlement, (e.g. an interchange of shares) does not amount to FDI. Financial Times Magazine defines FDI as an Investment from one country into another (normally by companies rather than governments) that involves establishing operations or acquiring tangible assets, including stakes in other businesses [10]. It is the purchase or establishment of income-generating assets in a foreign country that entails the control of the operation or organization.

FDI is distinguished from portfolio foreign investment (the purchase of one country’s securities by nationals of another country) by the element of control. Standard definitions of control use the internationally agreed 10 per cent threshold of voting shares, but this is a grey area as often a smaller block of shares will give control in widely held companies. Moreover, control of technology, management, even crucial inputs can confer *de facto* control. FDI is not just a transfer of ownership as it usually involves the transfer of factors complementary to capital, including management, technology and organizational skills.

For instance, strategically FDI comes in three strands:

- (1) **Horizontal**: where the company carries out the same activities abroad as at home (for example, Toyota assembling cars in both Japan and the UK).
- (2) **Vertical**: when different stages of activities are added abroad. Forward vertical FDI is where the FDI takes the firm nearer to the market (for example, Toyota acquiring a car distributorship in America) and Backward Vertical FDI is where international integration moves back towards raw materials (for example, Toyota acquiring a tyre manufacturer or a rubber plantation).
- (3) **Conglomerate**: where an unrelated business is added abroad. This is the most unusual form of FDI as it involves attempting to overcome two barriers simultaneously - entering a foreign country and a new industry. This leads to the analytical solution that internationalization and diversification are often alternative strategies, not complements. Businesses that make foreign direct investments are often called multinational corporations (MNCs) or multinational

enterprises (MNEs). A MNE may make a direct investment by creating a new foreign enterprise, which is called a Greenfield investment, or by the acquisition of a foreign firm, either called an acquisition or brownfield investment.

### **RATIONALE FOR THE ATTRACTION OF FDI BY DEVELOPING COUNTRIES**

Sub-Saharan Africa as a region now has to depend very much on FDI for so many reasons, some of which are amplified by Asiedu [7]. Some of the reasons for developing countries like Nigeria may include:

- (i) The inflow of a foreign capital – “which may be significant in not only raising the productivity of a given amount of labour, but also allowing a large labour force to be employed” [8].
- (ii) The effort to improve their business climate stems from the desire to attract FDI.
- (iii) Resource mobilization, reforms and conducive environment for FDI, this is one of the pillars on which the New Partnership for Africa’s Development (NEPAD) was launched to increase available capital to US\$ 64 billion [9].
- (iv) Natural Resource Base and Large Market Size - Nigeria as a country, given her natural resource base and large market size, qualifies to be a major recipient of FDI in Africa and indeed is one of the top three leading African countries that consistently received FDI in the past decade.
- (v) Economic Growth & Development – Studies have shown that attraction of FDI is the fastest and easiest way to fast-track the desired economic, infrastructural and social development of emerging markets.
- (vi) Population and Labour Force – A country with large population and active labour force has the potentials of attracting Multinational Enterprises that will explore the abundant cheap labour and market for their products. This accounts for China’s dominant position in manufacturing and production of goods and services across the globe.

### **CONSTRAINTS TO FDI INFLOW IN AFRICA**

1. Lack of effective interplay between leaders of African countries to provide the support institutions and the dynamic domestic entrepreneurial class which is a key success factor for attracting foreign direct investment.
2. Dishonest and egocentric governance - some notorious past leaders had unwittingly given themselves away as incompetent by saying that Nigeria’s problems defiled all logic human solutions.

3. Another major hindrance to FDI inflow in the continent is the fact that a number of investors are not aware of the strides taken by African countries towards development, as many of them limit their focus to political stability, corruption and weak infrastructure [11].
4. Debt Over Hang – Studies have shown that another major constraint to FDI inflow is huge domestic and external debt. A country that is heavily indebted will go cap in hand asking for rescheduling and debt forgiveness as she cannot even meet up with debt repayment let alone develop infrastructures
5. Weak Infrastructural Base - According to Mogbo, the infrastructure in Nigeria is generally inadequate and of poor quality when compared to Europe, North America and Japan. The infrastructural base of the Nigerian economy has remained weak in the past decades, and further characterized by uneven distribution, unreliability and decay, arising from several years of neglect. In 1999, Nigerian government responded to the problem by expressing determination to improve basic infrastructure as a means of promoting economic development.
6. Manufacturing and processing facilities in the construction sector on the other hand, has been characterized by low capacity utilization that averaged 30 percent in the last decade. Low and declining contribution to national output that averaged 6 percent in 1997 – 1999. These features clearly identify Nigeria as a country characterized by the phenomenon of de-industrialization Omagbeme.
7. For the oil sector, terrorism, communal strife, pipeline vandalization, and failure to carryout proper Turn-Around-Maintenance (TAM) of refineries and pipeline systems as and when due has been a major reason for the withdrawal of some oil companies operations in Nigeria.

### **OTHER FACTORS AFFECTING FOREIGN DIRECT INVESTMENT (FDI) IN NIGERIA**

The Nigeria case is quite ironical: Nigeria can be said to possess the factors that should make it one of the highest recipients of FDI in the world but this is not so. The phenomenon can be attributed to other limiting factors peculiar to Nigeria. The first two facts below describe the factors that “should” make Nigeria not just one of the highest recipients of FDI in Africa, but one of the highest among the developing countries of the world economy.

- a. **Market Size:** One of the major factors explaining the inflow of FDI into any economy is the attractiveness or largeness of its market. Studies conducted in various countries have shown a well-established correlation between FDI and market size. According to Broad man and Sun, there is little doubt that the size of Chinese market explains, to a great extent, the massive flows it has

attracted since the early 1980s. Nigeria, given her reputation ‘the most populous country in Africa’, may explain her being the highest recipient of FDI in Africa. Compared to the rest of the world, Nigeria is among the ten most populous countries in the world but ironically, one of the least recipients of FDI in the world.

- b. **Natural Resources:** Compared to other countries in Africa, Nigeria, no doubt ranks among the most endowed with natural resources. Since the years of the oil boom, many MNCs have flooded the country to invest in the oil and gas sector. Ever since, the abundance of mineral resources besides crude oil makes Nigeria one of the highest recipients of FDI in Sub – Sahara Africa beside Angola and South Africa.
- c. **Level of Income:** Bhinda et al explains that major indexes of a small domestic market to a foreign firm are low income (GDP per capital) which reduces purchases for high cost of goods, a resulting low domestic saving rate which limits local investment and a small domestic market measures in population. Most investors find these indexes, especially low income, as deterrents. Considering the fact that more than half of the Nigerian populace earns less than a dollar (\$1) a day is enough to discourage potential investors coming into the country.
- d. **Infrastructure:** According to the ODI, infrastructure covers many decisions ranging from roads, ports, railways and telecommunications system to institutional development (e.g. accounting, legal, services, etc.). Thus, both social and economic infrastructures are relevant here. The majority of views hold that poor infrastructures act as disincentives to FDI. Surveys in Sub-Sahara Africa shows that poor accounting standards, inadequate disclosure and weak enforcement of legal obligations have damaged the credibility of financial institutions to the extent of deterring foreign investors. Bad roads, delays in shipment of goods at ports and unreliable means of communication among others have added to the disincentives. Despite the role that infrastructure could play as incentive to attract FDI, evidence point to the decay in infrastructure in Nigeria. Socio-economic and financial infrastructure are on the verge of collapse. A good example of the poor infrastructure in Nigeria is the poor supply of electricity. Electricity supply has been unreliable which has led to an increase in the cost of production of companies who are constantly generating energy.
- e. **Privatization Policy:** A good number of studies have found particular evidence to support the positive role of privatization in attracting FDI. In Nigeria, privatization has, in the last decade and half, been a major policy used as an attraction of FDI inflow. As a result, many of the government owned and controlled corporations have been sold or put up for sale to the private sector. This, no doubt, also gives room for foreign investor’s takeover. Although, the appropriateness of some of the privatization procedures are still a subject of debate, many social observers in the country believe that the process of privatization is corruption ridden as it favour mostly those who are associated with the ruling class. This narrows the chances of both foreign and indigenous investors with genuine capacity and ability to take over the public corporations.
- f. **Social Factors:** Social instability, crime and corruption are considered the bane of FDI inflow in Nigeria. The recognition of Nigeria as top ranking (or among the top ranking) in corruption, fraud and other financial improprieties such as “419” has resulted to the loss of investors’ confidence in Nigeria generally and particularly to partner with Nigerians. Nigerians travelling around the world are treated with caution, as they are seen to epitomize corruption, crime and other social vices. The offices of US Trade Representative, USTR have noted that fraud, theft and extortion are endemic in Nigeria, warning that US investors remains very cautious about doing business in Nigeria. Bhinda et al agree that corruption is a powerful deterrent to potential investors and drawback to those already doing business in the country. The FDI Magazine also noted that, in Nigeria crime is an issue particularly in the commercial centre, Lagos, citing cases of violent street crimes, armed robberies, mugging and carjacking, while hostages taking for ransom are now daily news in the Niger-Delta regions of the country. On the whole, the summary of the social problems in Nigeria indicate that social issues pose a serious constraint to foreign investors in Nigeria and inflates the cost of doing business in the country.
- g. **The Political Environment (Nigeria Case):** To best explain how the politics has affected FDI in Nigeria, let us look at the country in two different areas or dispensation: pre and post 1999.
- i. **Pre 1999:** Politically, the nation had undergone quite a traumatic experience. Between 1960 and 1995, the country had experienced eight major military take-over (coup de tats) some of them ending in bloodsheds. Military rule was to remain the dominant form of governance for over twenty (20) out of the country’s 39 years of independence. The period of military rule came along with certain characteristics, some of which include:
  - a. Disregard for fundamental human rights.
  - b. Suspension of the rule of law.
  - c. Massive monopoly by firms having the backing and favour of the military government.



- d. Large scale looting of public funds and corruption.
- e. A gradually declining economy brought about by inconsistent economic policies.

**During military rule, Nigeria witnessed a decline in the influx of foreign investment as a result of various economic sanctions imposed on the country by the international community.**

ii. **Post 1999:** The inauguration of a democratic government in May 1999 raised hopes of redressing the social and economic damages of the military rule. The country began a gradual progression into creating a political and social environment supportive of FDI and ultimately economic development. With the re-establishment of democratic rule came the following:

- a. Empowerment of the constitution and renewed emphasis as the respect for fundamental human right.
- b. Re-establishment of the rule of law.
- c. Building of a competitive economy through various policies such as the deregulation of various sectors amongst which are: The Telecoms Sector, The Down-Stream Oil & Gas Sector, Solid Mineral Resources etc.

As a matter of fact, Nigeria witnessed a greater FDI inflow between 1999 and 2001. Another factor responsible for the phenomenal increase in FDI inflow apart from the economic policies is the fact that the legal regime and its related institutions require for the creation of a market economy and suitable investment climate were priority public policy agenda of the new civil regime.

#### **CLASSIFICATION OF FDI IN NIGERIA**

##### **1. Green Field Investment (Mortar & Brick Investment)**

A green field investment is a form of foreign direct investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up. In addition to building new facilities, most parent companies also create new long-term jobs in the foreign country by hiring new employees.

##### **2. Brown Field Investment (Acquisition)**

Brown Field Investment is when a company or government entity purchases or leases existing production facilities to launch a new production activity. This is one strategy used in foreign-direct investment.

The type of investment to be adopted depends largely on some factors such as goodwill, financial capability of the investing company or institution, integration bottlenecks of the host government, tax regime and holidays available in host country, cultural and religion differences, investment environment and

objectives, availability of resources, level and sophistication of the financial market, technological advancement, all factors of production etc.

#### **ADVANTAGES OF FDI**

In the context of foreign direct investment, advantages and disadvantages are often a matter of perspective. An FDI may provide some great advantages for the MNE but not for the foreign country where the investment is made. On the other hand, sometimes the deal can work out better for the foreign country depending upon how the investment turns out. Ideally, there should be numerous advantages for both the MNE and the foreign country, which is often a developing country. We'll examine the advantages and disadvantages from both perspectives, starting with the advantages for multinational enterprises (MNES).

- **Access to markets:** FDI can be an effective way for you to enter into a foreign market. Some countries may extremely limit foreign products access to their domestic markets. Acquiring or starting a business in the market is a means for you to gain access.
- **Access to resources:** FDI is also an effective way for you to acquire important natural resources, such as precious metals and fossil fuels. Oil companies, for example, often make tremendous FDIs to develop oil fields.
- **Reduced cost of production:** FDI is a means for you to reduce your cost of production if the labor market is cheaper and the regulations are less restrictive in the target foreign market. For example, it's a well-known fact that the shoe and clothing industries have been able to drastically reduce their costs of production by moving operations to developing countries.
- **Source of external capital** - FDI also offers some advantages for foreign countries. For starters, FDI offers a source of external capital and increased revenue. It can be a tremendous source of external capital for a developing country, which can lead to economic development. For example, if a large factory is constructed in a small developing country, the country will typically have to utilize at least some local labor, equipment, and materials to construct it. This will result in new jobs and foreign money being pumped into the economy. Once the factory is constructed, the factory will have to hire local employees and will probably utilize at least some local materials and services. This will create further jobs and maybe even some new businesses. These new jobs mean that citizens have more money to spend, thereby creating even more jobs.
- **Generation of tax revenue** - additionally, tax revenue is generated from the products and activities of the factory, taxes imposed on factory employee income and purchases, and taxes on the income and purchases is now possible because of the added economic activity created by the factory.

Developing governments can use this capital infusion and revenue from economic growth to create and improve its physical and economic infrastructure such as building roads, communication systems, educational institutions, and subsidizing the creation of new domestic industries.

- **Development of new industries and businesses** - another advantage is the development of new industries. Remember that a MNE doesn't necessarily own all of the foreign entity. Sometimes a local firm can develop a strategic alliance with a foreign investor to help develop a new industry in the developing country. The developing country gets to establish a new industry and market, and the MNE gets access to a new market through its partnership with the local firm.
- **Learning and acquisition of new skills and techniques** - finally, learning is an indirect advantage for foreign countries. FDI exposes national and local governments, local businesses, and citizens to new business practices, management techniques, economic concepts, and technology that will help them develop local businesses and industries.

#### **MAJOR INDICATORS OF FOREIGN DIRECT INVESTMENT IN A COUNTRY: A COMPARATIVE ANALYSIS**

The factors driving investment decisions by multinational corporations are changing. When seeking business opportunities, companies are now more concerned about financial and political risks, with a focus on stable and predictable business environments. In response, governments everywhere recognize that their chances of attracting more foreign investment depend on making their investment climates more competitive. The Investing Across Borders (IAB) 2010 report and online database offer companies and governments indicators measuring how countries around the world facilitate market access and operations of foreign companies [13]. For each of the 87 countries surveyed, the report identifies sectors with restricted entry for foreign investors, defines roadmaps for companies seeking to create foreign subsidiaries and acquire real estate, assesses the strength of commercial arbitration systems, and presents dozens of other indicators on regulation of foreign direct investment. For potential investors, the indicators measure the transparency and predictability of countries' legal environments. For governments, the indicators identify good regional and global practices and offer tools for improving the competitiveness of business climates. For academics and researchers, the indicators provide vast amounts of previously unavailable data that enable the pursuit of new insights and knowledge. This report and its Web site are designed to inform decisions, stimulate discussions, spur policy reforms, and facilitate new research and analysis.

The indicators focus on 4 thematic areas measuring how foreign companies invest across sectors, start local businesses, access industrial land, and arbitrate commercial disputes. The indicators combine analysis of laws and regulations, as well as their implementation. They explore differences across countries to identify good practices, facilitate learning opportunities, stimulate reforms, and provide cross-country data for research and analysis

#### **1. Restrictive and obsolete laws and regulations impede FDI:**

Most of the 87 economies measured by IAB have FDI-specific restrictions that hinder foreign investment. For example, a fifth of the countries surveyed require foreign companies to go through a foreign investment approval process before proceeding with investments in light manufacturing. This requirement adds, on average, nearly 1 month to the establishment process—and in some countries up to 6 months. In addition, almost 90% of countries limit foreign companies' ability to participate in some sectors of their economies. While there are few restrictions on foreign ownership in the primary sectors and manufacturing, services—such as media, transportation, and electricity—have stricter limits on foreign participation (figure 2.2). In some sectors—such as banking, insurance, and media—laws often limit the share of foreign equity ownership allowed in enterprises. In others—such as transportation and electricity—state-owned monopolies preclude both foreign and domestic private firms from engaging in the sectors.

When it comes to international commercial arbitration, nearly 10% of IAB countries do not have special statutes for commercial arbitration. Furthermore, 1 in 4 countries has not ratified the New York Convention, the ICSID Convention, or both.<sup>2</sup> Adherence to and implementation of international and regional conventions on arbitration signal a government's commitment to the rule of law and its investment treaty obligations, which reassures investors.

#### **2. Red tape and poor implementation of laws create further barriers to FDI**

The IAB indicators go beyond analyzing the text of laws and the ratification of international conventions. They also examine the typical experience of investors as they go through administrative processes and interact with public institutions. For instance, the indicators find that leasing privately held industrial land takes, on average, 2 months—and leasing public land almost 5 months. But there is also large variation across countries. Leasing private industrial land in Nicaragua and Sierra Leone typically requires half a year, as opposed to less than 2 weeks in Armenia,

the Republic of Korea, and Sudan. The amount of time required to enforce an arbitration award in local courts also varies by country. On average, more than a year is needed in the South Asian economies measured by IAB. In contrast, in high income OECD countries such as France and the United Kingdom, enforcement can be completed in less than 2 months. The typical experience of foreign companies trying to start a business also varies greatly across countries. In Angola and Haiti establishing a subsidiary of a foreign company can take more than 6 months (figure 2.5). In Canada, Georgia, and Rwanda it can be done in less than a week. In Sub-Saharan Africa and the Middle East and North Africa the procedures required of foreign companies take twice as long to complete as those for domestic companies. In high-income OECD countries and Eastern Europe and Central Asia these FDI-specific additional procedures add only a couple of days, on average

### 3. **Good regulations and efficient processes matter for FDI**

Countries with poor regulations and inefficient processes for foreign companies receive less FDI and have smaller accumulated stocks of FDI. Based on IAB results, countries tend to attract more FDI if they allow foreign ownership of companies in a variety of sectors, make start-up, land acquisition, and commercial arbitration procedures efficient and transparent, and have strong laws protecting investor interests. But this correlation does not imply existence or direction of a causal relationship. Many other variables—such as market size, political stability, infrastructure quality, or level of economic development—are likely to better explain the relationship. IAB also finds that countries with smaller populations and markets tend to have fewer restrictions on FDI. And countries that have done particularly well in attracting FDI (before the recent economic crisis)—such as Ireland, Singapore, the United Kingdom, and the United States—also score well on the IAB indicators

### 4. **Effective institutions help foster FDI**

Easily accessible and reliable information and efficient and predictable actions by public institutions help create a business environment conducive to investment. For instance, studies have shown that 70% of countries miss out on foreign investment due to deficiencies of investment promotion institutions in providing potential investors with accurate and up-to-date information. Electronic services can make administrative processes more efficient and transparent and do not necessarily require costly or complex technological solutions. Any public agency with a Web site can start by posting key information online and, over time, provide some services electronically. The

convenience of online access to laws and regulations is important to all businesses, but particularly for foreign investors not physically present in a country. IAB shows that laws on establishing a foreign business are available online in all IAB countries except Ethiopia, Ghana, and Liberia. In 83% of IAB countries laws on commercial arbitration are available online. But many of these are not Web sites of government institutions, but of law firms. Economies that provide a lot of information about land, often through a land information system, usually make it accessible online. There is significant variation in the effectiveness of institutions providing land information.

### 5. **Countries can improve their FDI competitiveness**

The IAB indicators are designed to identify good practices that offer governments concrete tools for improving their investment climates in the 4 measured indicator areas. Though legal frameworks and their implementation may not be the main drivers of foreign investment decisions (see the Introduction chapter), they can tip the balance in favor of one country over another if all other factors are equal. Countries that score well on the IAB indicators share certain features (box 2.1). Higher IAB scores are associated with better governance, higher institutional quality, lower political risk, and less corruption

## **CHARACTERISTICS OF COUNTRIES THAT SCORE WELL ON THE IAB INDICATORS**

### ➤ *Investing Across Sectors*

**Allowing foreign ownership in the primary, manufacturing, and service sectors:** The results of the Investing Across Sectors indicators illustrate 2 key points. First, the global trend has been to liberalize a growing range of economic sectors. Second, in many countries the benefits of openness to foreign capital participation have trumped reasons for restricting certain sectors from foreign ownership. For every country that limits or prohibits foreign equity ownership in certain sectors, several others with similar features allow unrestricted foreign ownership. But having an open economy is not enough. Other requirements include good regulation and strong investment climate fundamentals, with features such as well-functioning institutions, economic and political stability, and respect for the rule of law.

### ➤ *Starting a Foreign Business*

**Equal treatment of foreign and domestic investors:** The start-up process should be governed by the same rules for all companies regardless of their ownership. Any differences in treatment should be due to companies' size, legal form, or commercial activity—not the nationality of its shareholders.

**Simple and transparent establishment process:**

Countries should consolidate start-up procedures and abolish unnecessary ones (such as company seal requirements or investment approvals for small projects). Obtaining investment approvals can be burdensome for foreign investors. Countries should simplify or abolish such requirements unless foreign investment is in a sector that affects national or economic security. In addition, countries can enable investors to register businesses online. Fast-track alternatives, even if they entail higher processing fees, are also usually valuable to foreign investors. Finally, countries should not require foreign companies to go through a local third party (lawyer, notary, public entity).

➤ *Accessing Industrial Land*

**Clear laws which provide fair and equal treatment for foreign and domestic companies:** Laws should provide sufficient security to investors—foreign and domestic—so that they feel comfortable operating and expanding their businesses, and should not limit their ability to develop, renew, transfer, mortgage, or sublease land. Laws and regulations should take into account the interests of all stakeholders related to land use—including investors, governments, and local communities. Attention must also be paid to environmental protection.

**Accessible land information. Land records should be up-to-date, centralized, integrated (linked across relevant government agencies):** easily accessible (preferably with online access), and provide information useful to investors and the general public.

**Efficient land acquisition procedures:** A country should have clear rules for acquiring private and public land. Rules should remove unnecessary and burdensome steps while enabling authorities to conduct a proper process with fair protections for the greater public good.

➤ *Arbitrating Commercial Disputes*

**Strong arbitration laws in line with arbitration practice:** Many countries have enacted modern arbitration laws. Ideally these are consolidated in one law or a chapter in civil code and are coherent, up-to-date, and easily accessible. A strong legal framework should be associated with effective arbitration practices and greater awareness of the benefits of arbitration.

**Autonomy to tailor arbitration proceedings:** Good arbitration regimes provide a flexible choice for commercial dispute resolution. Parties should be able to choose how to run their arbitration processes, including whether they will be ad hoc or administered by an arbitral institution, the qualifications of the arbitrators, and the language of the proceedings.

**Supportive local courts.** A good arbitration regime is associated with strong support from local courts for arbitration proceedings and consistent, efficient enforcement of arbitration awards.

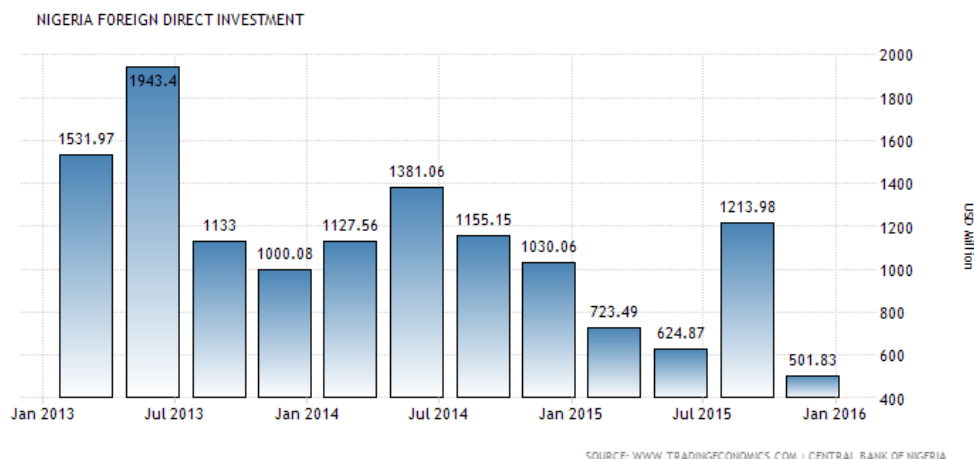
**Adherence to international conventions:** Adherence to and implementation of international and regional conventions on arbitration such as the New York Convention and the ICSID Convention signal a government’s commitment to the rule of law and the protection of investor rights.

*Source: Investing Across Borders database.*

**JUSTIFICATION FOR THE STUDY (STYLZED FACTS)**

**Nigeria Foreign Direct Investment 2007-2016 | Data | Chart | Calendar**

Foreign Direct Investment in Nigeria increased by 501.83 USD Million in the fourth quarter of 2015. Foreign Direct Investment in Nigeria averaged 1379.76 USD Million from 2007 until 2015, reaching an all-time high of 3084.90 USD Million in the fourth quarter of 2012 and a record low of 501.83 USD Million in the fourth quarter of 2015. Foreign.



**Fig-1: Direct Investment in Nigeria is reported by the Central Bank of Nigeria**



Table-1

Actual	Previous	Highest	Lowest	Dates	Unit	Frequency	
501.83	1213.98	3084.90	501.83	2007 - 2015	USD(M)	Quarterly	Current Prices, NSA

Table-2

Nigeria Trade	Last	Previous	Highest	Lowest	Unit	
Balance of Trade	26385.50	174765.00	2177553.08	-592200.72	NGN Millions	[+]
Exports	533774.30	695652.40	2648881.76	322.93	NGN Millions	[+]
Imports	507388.90	520887.40	1554732.90	167.88	NGN Millions	[+]
Current Account	-2013.91	-5695.27	9455.37	-5695.27	USD Million	[+]
Current Account to GDP	2.60	3.90	37.90	-18.70	percent	[+]
Terms of Trade	100.61	102.28	160.25	49.48	Index Points	[+]
Foreign Direct Investment	501.83	1213.98	3084.90	501.83	USD Million	[+]
Capital Flows	-1125.67	406.61	20302.97	-15439.95	USD Million	[+]
Gold Reserves	21.37	21.37	21.37	21.37	Tonnes	[+]
Crude Oil Production	1881.00	1949.00	2475.00	675.00	BBL/D/1K	[+]
External Debt	10718.43	10617.35	10718.43	3627.50	USD Million	[+]
Terrorism Index	9.21	8.20	9.21	3.86		[+]

Table-3

	Last	Previous	Highest	Lowest		
Albania	168.93	Dec/15	234	337	28.01	EUR Million Quarterly
Algeria	0.27	Sep/15	0.79	1.85	-2.12	USD Billion Quarterly
Angola	16543.20	Dec/14	14346	16581	105	USD Million Yearly
Argentina	516.05	Mar/16	349	1454	118	USD Millions Quarterly
Armenia	-7.50	Dec/15	109	426	-63.53	USD Million Quarterly
Australia	57525.00	Dec/14	56183	57932	-37050	AUD Million Yearly
Austria	-961.00	Dec/15	1994	55082	-22754	EUR Million Quarterly
Azerbaijan	1746.00	Dec/15	1936	2231	586	USD Million Quarterly
Bahrain	360.10	Dec/14	372	1096	30.2	BHD Million Yearly
Bangladesh	1700.00	Dec/15	1432	1726	276	USD Million Yearly
Belarus	134.00	Dec/15	94.5	2734	-12.3	USD Million Quarterly
Bolivia	379.50	Jun/16	324	1023	-165	USD Million Quarterly
Bosnia And Herzegovina	218.93	Sep/15	173	2600	27.23	BAM Million Quarterly
Botswana	995.96	Sep/15	1413	3369	-23.27	BWP Million Quarterly
Brazil	5560.00	Mar/16	5920	20427	-24.1	USD Million Monthly
Bulgaria	44.90	Jan/16	-117	1018	-414	EUR Million Monthly
Canada	8894.00	Dec/15	35076	50740	-8173	CAD Million Quarterly
Cape Verde	1707.00	Sep/15	2664	4905	-488	CVE Million Quarterly
Chile	-2324.52	Dec/15	-825	864	-4901	USD Million Quarterly
China	354.20	Mar/16	225	1263	18.32	USD HML Monthly
Colombia	2843.60	Dec/15	2357	6776	197	USD Million Quarterly
Croatia	147.90	Sep/15	114	2116	-258	EUR Million Quarterly
Czech Republic	2791386.72	Dec/14	2698543	2791387	83489	CZK Million Yearly
Denmark	595.10	Dec/14	511	595	402	DKK Billion
Ecuador	529.14	Dec/15	251	529	-286	USD Million Quarterly
Egypt	3156.10	Dec/15	1386	5572	40.7	USD Million Quarterly
Estonia	-148.90	Dec/15	438	1058	-414	EUR Million Quarterly
Finland	77342.00	Dec/14	64362	77342	5356	EUR Million Yearly
France	1414.00	Mar/16	4402	20881	-8809	EUR Million Monthly
Georgia	267.90	Dec/15	528	726	75.6	USD Million Quarterly
Germany	10512.54	Feb/16	-1633	141352	-32190	EUR Million Monthly
Greece	-11.00	Jan/16	154	2642	-533	EUR Million Monthly
Hong Kong	11602.90	Dec/14	10483	11603	3320	HKD Billion Yearly

<b>Hungary</b>	1079.00	Sep/15	-1233	4195	-1679	EUR Million	Quarterly
<b>Iceland</b>	24711.00	Dec/15	19193	199978	-93465	ISK Million	Quarterly
<b>India</b>	2473.00	Feb/16	4413	5670	-60	USD Million	Monthly
<b>Indonesia</b>	96100.00	Mar/16	82100	92200	35400	IDR Billion	Quarterly
<b>Iran</b>	4488.60	Dec/13	4322	4489	15.6	USD Million	Yearly
<b>Ireland</b>	65267.00	Dec/15	4616	65267	-16008	EUR Million	Quarterly
<b>Israel</b>	15022.60	Dec/15	20617	20617	-9293	USD Million	Quarterly
<b>Italy</b>	4553.00	Feb/16	2294	14203	-10787	EUR Million	Monthly
<b>Japan</b>	15272.00	Feb/16	10708	37754	-3825	JPY Hundreds Million	Monthly
<b>Jordan</b>	190.40	Sep/15	189	1713	189	JOD Million	Quarterly
<b>Kazakhstan</b>	3384.68	Dec/15	4074	8206	864	USD Million	Quarterly
<b>Kenya</b>	89928.00	Dec/14	43816	89928	871	KES Million	Yearly
<b>Kosovo</b>	16.30	Jan/16	3.5	441	-19.1	EUR Million	Monthly
<b>Kuwait</b>	3.00	Sep/15	40	721	3	KWD Million	Quarterly
<b>Kyrgyzstan</b>	122.20	Dec/15	188	694	-38.7	USD Million	Quarterly
<b>Laos</b>	913.24	Dec/14	427	913	8	USD Million	Yearly
<b>Latvia</b>	70.70	Feb/16	10.04	268	-190	EUR Million	Monthly
<b>Lebanon</b>	236.76	Jun/15	242	873	-1.81	USD Million	Monthly
<b>Lithuania</b>	247.17	Sep/15	65.23	815	-299	EUR Million	Quarterly
<b>Macau</b>	-7532.40	Dec/14	-19374	-1443	-40626	MOP Million	Yearly
<b>Macedonia</b>	8.77	Dec/15	-23.43	506	-48.03	EUR Million	Monthly
<b>Madagascar</b>	1251.50	Dec/13	1964	7717	531	MGA Billion	Yearly
<b>Malawi</b>	694.16	Dec/14	626	1128	-52.3	USD Million	Yearly
<b>Malaysia</b>	12500.00	Dec/15	9888	37325	5121	MYR Million	Quarterly
<b>Malta</b>	830.80	Sep/15	-317	2561	-1391	EUR Million	Quarterly
<b>Mauritius</b>	7214.00	Sep/15	14151	20373	7214	MUR Million	Yearly
<b>Mexico</b>	4891361.20	Dec/15	7149412	20994536	-63900	USD Thousand	Quarterly
<b>Moldova</b>	10.90	Sep/15	104	245	-2.78	USD Million	Quarterly
<b>Mongolia</b>	16752.70	Dec/15	16673	16843	4950	USD Million	Quarterly
<b>Montenegro</b>	757435.19	Dec/15	498084	1224000	479191	EUR Thousand	Yearly
<b>Morocco</b>	10286.00	Jun/15	6614	12206	-11002	MAD Million	Quarterly
<b>Myanmar</b>	381.39	Sep/15	150	2443	21.82	USD Million	Monthly
<b>Namibia</b>	12125.56	Dec/15	-173	12126	-1535	NAD Million	Quarterly
<b>Nepal</b>	3194.60	Dec/14	9082	9195	-470	NPR Million	Yearly
<b>Netherlands</b>	-184108.00	Dec/15	188088	189388	-184108	EUR Million	Quarterly
<b>New Zealand</b>	-1760.00	Dec/15	-1519	3717	-7322	NZD Million	Quarterly
<b>Nigeria</b>	501.83	Dec/15	1214	3085	502	USD Million	Quarterly
<b>Norway</b>	-72000.00	Dec/15	-37327	118173	-72000	NOK Million	Quarterly
<b>Oman</b>	284.00	Dec/14	337	1281	10	OMR Million	Yearly
<b>Pakistan</b>	2677.90	Dec/15	2847	3184	2099	USD Million	Yearly
<b>Palestine</b>	2486.00	Dec/15	2454	2791	893	USD Million	Quarterly
<b>Panama</b>	4653.76	Dec/13	2980	4654	98.44	PAB Million	Yearly
<b>Paraguay</b>	50056.64	Dec/14	83848	401944	-278601	USD Thousand	Quarterly
<b>Peru</b>	193.00	Dec/15	2342	4146	193	USD Million	Quarterly
<b>Philippines</b>	138618.00	Dec/15	48571	230215	3959	PHP Million	Quarterly
<b>Poland</b>	171674.30	Dec/14	160480	178257	9228	EUR Million	Yearly
<b>Portugal</b>	497.21	Feb/16	1013	6288	-3308	EUR Million	Monthly
<b>Qatar</b>	1262.00	Sep/15	947	3777	-1744	QAR Million	Quarterly
<b>Romania</b>	286.17	Jan/16	208	2933	-394	EUR Million	Monthly
<b>Russia</b>	52.00	Sep/15	-564	40140	-3922	USD Million	Quarterly
<b>Rwanda</b>	257.60	Dec/13	255	258	119	USD Million	Yearly
<b>Saudi Arabia</b>	2093.49	Sep/15	1964	11747	1848	USD Million	Quarterly
<b>Serbia</b>	140.00	Jan/16	235	3323	-477	EUR Million	Monthly
<b>Seychelles</b>	20.34	Dec/15	7.06	175	-0.1	USD Million	Quarterly
<b>Singapore</b>	18149.60	Dec/15	21310	24489	-4442	SGD Million	Quarterly
<b>Slovakia</b>	1011.00	Jan/16	1729	2102	-692	EUR Million	Monthly

<b>Slovenia</b>	215.00	Jan/16	-28.3	770	-230	EUR Million	Monthly
<b>South Africa</b>	1942.00	Dec/15	1624	1942	1	ZAR Billion	Quarterly
<b>South Korea</b>	7639000.00	Dec/15	4399000	7639000	114	USD Thousand	Quarterly
<b>Spain</b>	1489.00	Dec/15	738	23250	-8986	EUR Million	Monthly
<b>Sri Lanka</b>	153.00	Sep/15	134	386	20	USD Million	Quarterly
<b>Sudan</b>	557.70	Dec/15	494	1565	274	USD Million	Quarterly
<b>Swaziland</b>	-523.70	Jun/15	-248	726	-524	SZL Million	Quarterly
<b>Sweden</b>	106105.00	Dec/15	24432	505124	-27912	SEK million	Yearly
<b>Switzerland</b>	755784.60	Dec/14	697723	755785	20959	CHF Million	Yearly
<b>Taiwan</b>	323.44	Mar/16	428	3954	81.58	USD Million	Monthly
<b>Thailand</b>	40115.13	Feb/16	46729	125801	-95430	THB Million	Monthly
<b>Tunisia</b>	411.90	Sep/15	596	3361	0	TND Million	Quarterly
<b>Turkey</b>	12749.00	Dec/14	12457	22046	1800	USD Million	Yearly
<b>Ukraine</b>	743.00	Dec/15	915	6502	-470	USD Million	Quarterly
<b>United Arab Emirates</b>	47500.00	Dec/14	38500	52100	14700	AED Million	Yearly
<b>United Kingdom</b>	467.00	Dec/15	22369	82539	-44536	GBP Million	Quarterly
<b>United States</b>	35494.00	Dec/15	38675	46165	-9988	USD Million	Quarterly
<b>Uruguay</b>	534.70	Sep/15	672	873	429	USD Million	Quarterly
<b>Venezuela</b>	12.00	Sep/14	547	3061	-2040	USD Million	Quarterly
<b>Vietnam</b>	2622.50	Dec/15	7199	25791	-2650	USD Million	Quarterly
<b>Yemen</b>	2032.90	Dec/13	1516	2536	898	USD Million	Yearly
<b>Zambia</b>	397.23	Dec/15	397	1756	-551	USD Million	Quarterly

## CONCLUSIONS

From the above analysis, countries that have the potentials of increasing FDI must as a matter of policy do the following

- a) Allow foreign ownership of investments in the primary, manufacturing, and service sectors and ensure equal treatment of foreign and domestic investors in companies in Nigeria.
- b) Ensure a simple and transparent business establishment process.
- c) Encourage and institute clear laws which provide fair and equal treatment for foreign and domestic companies.
- d) Make land information accessible and affordable to collect. Land records should be up-to-date, centralized, integrated (linked across relevant government agencies): easily accessible (preferably with online access), and provide information useful to investors and the general public.
- e) Encourage efficient land acquisition procedures: A country should have clear rules for acquiring private and public land. Rules should remove unnecessary and burdensome steps while enabling authorities to conduct a proper process with fair protections for the greater public good.
- f) Establish strong arbitration laws in line with arbitration practice: Many countries have enacted modern arbitration laws. Ideally these are consolidated in one law or a chapter in civil code and are coherent, up-to-date, and easily accessible. A strong legal framework should be associated with effective arbitration practices and greater awareness of the benefits of arbitration.
- g) Give adequate autonomy and support for tailor-made arbitration proceedings: Good arbitration regimes provide a flexible choice for commercial

dispute resolution. Parties should be able to choose how to run their arbitration processes, including whether they will be ad hoc or administered by an arbitral institution, the qualifications of the arbitrators, and the language of the proceedings.

- h) Supportive local courts. A good arbitration regime is associated with strong support from local courts for arbitration proceedings and consistent, efficient enforcement of arbitration awards.
- i) Adherence to international conventions: Adherence to and implementation of international and regional conventions on arbitration such as the New York Convention and the ICSID Convention signal a government's commitment to the rule of law and the protection of investor rights.

## RECOMMENDATIONS

1. Government should make policies that will encourage equity ownership of investments in Nigeria by foreigners. Appropriate policy measures to attract foreign capital should be formulated and implemented to boost increased economic growth.
2. The authorities should put in place machineries that will ensure a transparent and simple business registration and ownership process.
3. Land acquisition and ownership laws should be friendly and simplified to ensure that hurdles that discourage business establishment are reduced.
4. Adequate, tailor made and autonomous arbitration laws should be made to encourage easy resolution of business disputes in Nigeria. such laws should conform to international best practices.
5. Policies that will bring about improvement in foreign direct investment and the balance of payments (BOP) in the economy should be encouraged. More attention should be channeled

towards improvements in the economic infrastructures and social amenities.

6. Policies and programmes that would promote or stimulate foreign capital in the form of FDI and reduce unemployment should be encouraged.
7. Programmes and policies that promote FDI and reduce inflation should be promoted.
8. The Federal and the various state governments should as a matter of priority, improve the business environment by consciously providing necessary economic and social infrastructure, which will lower the costs of doing business in Nigeria and attract FDI into the country.
9. Elimination of terrorism, corruption, vandalization of oil pipelines and all forms of social vices will be a catalyst to FDI inflow in Nigeria.
10. Strong and robust financial system will also aid FDI inflow into Nigeria.

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