FOREIGN DIRECT INVESTMENT IN NIGERIA: CHALLENGES AND PROSPECTS

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Abstract

Foreign Direct Investment (FDI) in Nigeria represents a pivotal component of the nation's economic landscape, positioning it as the third host economy for FDI in Africa, trailing behind Egypt and Ethiopia. Despite encountering significant setbacks, such as negative FDI flows amounting to USD 187 million in 2022, primarily due to equity divestments, Nigeria continues to attract substantial investor interest, particularly in sectors like hydrocarbons, energy, and construction. Noteworthy greenfield projects have surged, with investments such as Airtel Nigeria's USD 731 million data centre in Lekki and Sun Africa's USD 1.8 billion solar power plant and battery storage facility exemplifying this trend.

Nigeria's strategic economic diversification efforts aim to reduce dependency on oil by fostering a competitive manufacturing sector and enhancing integration into global value chains. The consolidation of trade, industry, and investment under the Federal Ministry of Industry, Trade, and Investment underscores this coordinated approach. While Nigeria offers advantages like a partially privatized economy, favourable taxation, abundant natural resources, and low labour costs, challenges such as corruption, political instability, lack of transparency, security challenges, import restrictions, and inadequate infrastructure persist. Additionally, bureaucratic hurdles and an underdeveloped power sector impose further constraints on FDI potential.

The Nigerian Investment Promotion Commission (NIPC) plays a crucial role as a one-stop investment centre, authorized to negotiate special incentives for substantial investments. Despite the country's placement at 145th out of 180 economies on the 2023 Corruption Perception Index, 109th on the Global Innovation Index 2023, and 125th on the Index of Economic Freedom 2024, Nigeria remains a promising destination for foreign investors because of low labour costs, favourable taxation and a privatized economy. This article delves into the multifaceted challenges and prospects of FDI in Nigeria, offering a comprehensive analysis of the current investment climate and future outlook.

A. INTRODUCTION

Numerous nations, especially the Less Developed Countries (LDCs), are working assiduously to quicken their economic development and progress They are actively seeking for-

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eign direct investments (FDI) because of this drive. Nigeria, classified as a lower middle income developing country[1] and other LDCs frequently struggle with economics issues including large foreign debt, high imports relative to exports, and inadequate domestic savings. They require external capital to fund current account deficits and expand production to overcome these difficulties and accelerate economic growth. In this situation, foreign direct investment (FDI) is vital because it closes the savings-to-investment gap and augments domestic deposits.[1] The total stock of FDI in Nigeria was estimated at USD 88. 2 billion at the end of 2022, constituting around 18.5 % of the country's GDP. Key sectors in Nigeria drawing FDI include oil and gas, telecommunications, manufacturing, real estate, and agriculture, with significant contributions from the UK, China, and the U.S. However, 2023 witnessed a slow start in FDI inflows due to political uncertainties and elevated production costs, compounded by currency devaluation losses faced by foreign-owned subsidiaries like Nestle, Guinness, Airtel Africa, and MTN Nigeria. Nonetheless, pro-market reforms implemented in the fourth quarter of 2023, such as the removal of fuel subsidies and exchange rate harmonization, spurred a rise in capital importation to USD 1.1 billion.

Nigeria continues to work actively to enhance its investment climate by implementing foreign investment-friendly policies and programs. These efforts include offering tax incentives, promoting exports, and making macroeconomic adjustments. The motivation behind attracting foreign investment stems from the numerous benefits it avails the country, such as new capital, technology, improved management practices, and access to markets. Foreign Direct Investment (FDI) is also recognized for its ability to enhance the efficiency of productive sectors through increased competition, stimulating economic progress, creating jobs, and fostering growth in the economy.

Despite the efforts made by Nigeria, it has encountered challenges that makes it less attractive to foreign investors. Factors such as heavy debt burdens, which erode confidence in developing countries, and low creditworthiness contribute to this. Additionally, factors like recession and ongoing macroeconomic and political instability further hinder the perception of Nigeria as viable investment destinations.

This paper also goes further to look at the prospects of FDI in Nigeria and recommends solutions to the challenges attributed to FDI in Nigeria.

B. WHAT IS FOREIGN DIRECT INVESTMENT

Foreign direct investment is a category of cross-border investment in which an investor resident in one economy establishes a lasting interest in and a significant degree of influ-

1 *Eric Metreau, Kathryn Elizabeth Young and Shwetha Grace Eapen*, World Bank Country Classifications by Income Level 2024–2025 https://blogs.worldbank.org/en/opendata/world-bank-country-classifications-by-income-level-for-2024-2025 Accessed 22 September 2024.

1 *Salako, H. A. and Adebusuyi, B. S.*, Determinants of Foreign Direct Investment (FDI) in Nigeria: an empirical investigation. Economic and Financial Review, 39(1) https://dc.cbn.gov.ng/efr/vol39/iss1/2/ Accessed 25 July 2024.

ence over an enterprise resident in another economy.[2] Ownership of 10 percent or more of the voting power in an enterprise in one economy by an investor in another economy is evidence of such a relationship.[3] FDI is a key element in international economic integration because it creates stable and long-lasting links between economies. FDI is also an important channel for the transfer of technology between countries, promotes international trade through access to foreign markets, and can be an important vehicle for economic development.

C. DIFFERENCE BETWEEN FOREIGN DIRECT INVESTMENT AND FOREIGN PORTFOLIO INVESTMENT (FPI)

As earlier highlighted, FDI is an investment made by a company or individual in one country into business interests located in another country,[4] While Foreign Portfolio Investment (FPI) refers to the investment made by individuals, financial institutions, or funds in financial assets such as stocks, bonds, and other securities of a foreign country. Unlike FDI, where investors seek to establish a significant degree of influence or control over a foreign business, FPI involves a more passive approach, with investors mainly focusing on financial returns rather than direct management or control.[5]

D. DETERMINANTS OF FOREIGN DIRECT INVESTMENT

Nigeria presents significant opportunities for Foreign Direct Investment (FDI) due to its strategic location, enormous market size, and wealth of natural resources. To completely understand these opportunities, one must consider the many factors that contribute to Nigeria's appeal as a location for foreign direct investment. These aspects comprise the policy-driven, infrastructure-driven, economic, and demographic elements that together influence the nation's investment environment.[6]

E. OVERVIEW OF FDI IN NIGERIA LEGAL AND REGULATORY FRAMEWORK FOR FDI IN NIGERIA

FDI plays a crucial role in the economic development of Nigeria, providing capital, technology transfer, and employment opportunities. Nigeria has established a comprehensive

2 *CFI,* Foreign Direct Investment https://corporatefinanceinstitute.com/resources/economics/foreign-direct-investment-fdi/ accessed 25 July 2024.

3 *OECD,* Foreign Direct Investment https://www.oecd-ilibrary.org/finance-and-investment/foreign-direct-investment-fdi/indicator-group/english_9a523b18-en accessed on 25 July 2024.

4 *Devendra Singh Negi,* What is the Difference Between FDI and FPI? https://www.forbes.com/advisor/in/investing/fdi-vs-fpi/ accessed 19 October 2024.

5 Ibid.

6 *United Nations Conference on Trade and Development*, Investment Policy Review- Nigeria https://unctad.org/system/files/official-document/diaepcb20081_en.pdf accessed on 28 June 2024.

regulatory and legal framework through its investment law, foreign exchange law, company law, technology transfer law, sector-specific regulations, as well as international agreements (alongside the general legal framework that applies to all businesses)[7] to attract and manage FDI, ensuring a conducive environment for foreign investors. The primary laws which control and regulate foreign investments on grounds of national security and public order in Nigeria include:

1. Nigerian Investment Promotion Commission (NIPC) Act

The NIPC Act is the cornerstone of Nigeria's investment framework. Enacted in 1995, it established the Nigerian Investment Promotion Commission[8], which serves as the primary agency for promoting and facilitating foreign investments in Nigeria. The NIPC Act guarantees foreign investors the same treatment as Nigerian nationals and ensures the repatriation of profits and dividends.[9] All businesses with foreign participation must register with the NIPC and obtain a certificate of registration, which requires proof of registration with the Corporate Affairs Commission (CAC). Notably, Section 31 of the NIPC Act restricts both domestic and foreign investment in certain business activities on a "negative list." These activities include the production of arms and ammunition, manufacture and trade of narcotics and psychotropic substances, and the production of military and paramilitary uniforms and equipment, including those for the Police, Customs, Immigration, and Prison Services. The Federal Executive Council may also designate additional items on this restricted list.

2. Companies and Allied Matters Act (CAMA)

CAMA regulates the incorporation, registration, operation, and winding up of companies in Nigeria. The Act establishes the Corporate Affairs Commission[10] which is the primary body responsible for incorporation of companies in Nigeria. The 2020 amendment to CAMA introduced significant reforms to improve the ease of doing business, including the establishment of single-member companies and the reduction of filing requirements.[11] Generally, any individual or company registered outside Nigeria and having the intention of carrying on business in Nigeria must be registered at the Corporate Affairs Commission (CAC), except the company is exempt by law. The company is permitted to have 100 %

7 *Olisa Agbakoba Legal*, Foreign Direct Investments in Nigeria https://oal.law/foreign-direct-investments-in-nigeria/ Accessed 21 October 2024.

8 Section 1, NIPC Act.

9 Nigerian Investment Promotion Commission Act (1995) CAP N117 LFN 2004 https://www.nipc.gov.ng/wp-content/uploads/2021/10/NIPC-ACT.pdf accessed 20 October 2024.

10 Section 1, Companies and Allied Matters Act, 2020.

11 Companies and Allied Matters Act (2020) https://www.cac.gov.ng/wp-content/uploads/2020/12/CAMA-NOTE-BOOK-FULL-VERSION.pdf accessed 20 October 2024.

foreign shareholders except it operates in specific sectors such as oil and gas, aviation and domestic coastal carriage, which require local ownership and control. There are also no restrictions in respect of the limits of foreign shareholding, in Nigerian registered/domiciled enterprises. A foreign entity must also have at least one (1) shareholder and Director, hence one can solely own a company, however *business Permit and expatriate quota* (also known as Combined Expatriate Residence Permit and Alien card) from the Ministry of Interior for foreign owners and expatriates is required when a newly incorporated company is entirely owned by foreigners using a Nigerian contact address. The shareholder's names, contact and residential addresses, phone numbers, email address, occupation, electronic signature(s) and government-issued means of identification must be presented to the CAC. Other requirements for registration may vary from one sector to another.

3. Foreign Exchange (Monitoring and Miscellaneous Provisions) Act

This Act governs the free flow of foreign exchange into and out of Nigeria, providing assurance to foreign investors regarding the ability to repatriate funds. It established the Autonomous Foreign Exchange Market and outlines the procedures for foreign exchange transactions.[12]

4. Industrial Development (Income Tax Relief) Act

This Act offers tax incentives to foreign investors, including pioneer status, which grants a tax holiday for up to five years for companies in certain industries. The goal is to attract investment into sectors deemed crucial for national development.[13]

5. Nigerian Export Promotion Council Act

This Act provides incentives for companies involved in export activities. Benefits include tax reliefs and access to export development funds, aiming to boost Nigeria's non-oil exports and diversify the economy.[14]

F. CHALLENGES OF FOREIGN DIRECT INVESTMENT IN NIGERIA

Nigeria has traditionally promoted foreign private investment through the provision of incentive packages in an effort to hasten growth and development. This is predicated on the

12 Foreign Exchange (Monitoring and Miscellaneous Provisions) Act, 1995 https://nigeriatradeportal.fmiti.gov.ng/media/Nigeria%20Foreign%20Exchange%20(Monitoring%20and%20Miscellaneous%20Provisions)%20Act%201995.pdf accessed 20 October 2024.

13 Industrial Development (Income Tax Relief) Act, 1971 http://lawsofnigeria.placng.org/view2.php?sn=203 accessed 20 October 2024.

14 Nigerian Export Promotion Council Act, 1987 https://faolex.fao.org/docs/pdf/nig120580.pdf accessed 20 October 2024.

idea that foreign direct investment can help close the deficit in domestic resources. When foreign exchange is made available by FDI, the nation's ability to import should increase. FDI in Nigeria has faced and continues to face several challenges despite the country being one of Africa's largest economies with significant natural and human resources. Some of the key challenges include:

1. Political Instability and Security Concerns:

Political risk is a major factor impacting Foreign Direct Investment (FDI) inflows into Nigeria. The influence of political stability or conversely political risk on FDI flows have also been tested. Early studies of foreign investment decision process indicated that political instability was one of the main factors' investors cited in explaining decisions opposed to investment in Nigeria.[15]

Despite the country's large market size and economic potential, challenges such as political instability, regulatory unpredictability, and policy inconsistency have deterred investors. These factors create an environment of uncertainty, diminishing investors' confidence and increasing their perceived risk of investment. Inconsistent government policies, abrupt regulatory changes, and the prevalence of corruption in both public and private sectors also contribute to weak investor sentiment. Addressing these issues would involve strengthening the rule of law, ensuring consistent and transparent policies, and improving security conditions, which would go a long way in improving investor confidence. By prioritizing political and regulatory stability, Nigeria could better harness its economic potential and market attractiveness to become a more appealing FDI destination.[16]

2. Economic Challenges:

Nigeria's foreign investment inflows declined by 26.7 % to $3.9 billion in 2023, down from $5.3 billion in 2022, primarily due to political instability and rising production costs that dampened investor confidence during the first three quarters of 2023.[17] This decline significantly impacted foreign-owned subsidiaries like Nestle, Guinness, Airtel Africa, and MTN

15 Salako, H. A. and Adebusuyi, B. S., Determinants of Foreign Direct Investment (FDI) in Nigeria: an empirical investigation. Economic and Financial Review, 39(1) https://dc.cbn.gov.ng/efr/vol39/iss1/2/ Accessed 25 July 2024.

16 *Danjuma Iyaji,* Insurgency, Political Risk, and Foreign Direct Investment Inflows in Nigeria: A Sectorial Analysis, CBN Journal of Applied Statistics (12)(2)(27) https://dc.cbn.gov.ng/cgi/viewcontent.cgi?article=1204&context=jas#:~:text=The%20study%20found%20that%20FDI,of%20the%20economy%20to%20FDI. Accessed 25 October 2024.

17 *NESG,* Foreign Investment Inflows into Nigeria weakens in 2023 https://www.nesgroup.org/blog/Foreign-Investment-Inflows-into-Nigeria-weakens-in-2023 Accessed 25 July 2024.

Nigeria, leading to over N900 billion in losses tied to currency devaluation.[18] However, the implementation of pro-market reforms, such as fuel subsidy removal and exchange rate harmonization, reversed this trend by the fourth quarter of 2023, as capital importation reached $1.1 billion.[19] This improvement in Q4 of 2023 was largely driven by the Central Bank's efforts to clear foreign exchange backlogs, fostering a rise in Foreign Direct Investment (FDI) to $184 million, compared to $84.2 million in Q4 of 2022. As a result, FDI’s share of total investment inflows rose to 16.9 %, while Foreign Portfolio Investment (FPI) increased by 8.6 % year-on-year, though other investment types, primarily foreign loans, saw a decline. The broader fall in FDI in the second quarter of 2024 down to $29.83m[20] reflects adversely on business environment leading to significant divestments by major multinational companies, including Shell, GlaxoSmithKline, Procter & Gamble, and others. This exodus is anticipated to negatively impact Nigeria’s manufacturing sector, which has seen limited growth, and exacerbate contraction in the oil and gas sector, which has been struggling since 2020. The shortage of foreign capital also pressures foreign exchange availability, risking further depreciation, highlighting the need for targeted government strategies to attract foreign capital inflows.[21]

Nigeria has experienced significant challenges in retaining foreign direct investment (FDI) as fluctuations in exchange rates prompt investors to turn to other markets. The impact of exchange rate volatility on FDI has generated diverse perspectives among researchers; some propose that it positively influences FDI, while others argue that it has a detrimental effect. Foreign investors face substantial financial risks due to sunk costs and political uncertainties which make them harder to attract. Despite efforts to enhance FDI inflows through various policy measures, these initiatives have shown limited success. Although the government has introduced incentives to encourage investment, foreign investors remain hesitant to commit further capital. Issues such as inadequate infrastructure, general insecurity, sectarian violence, armed conflict in the Delta region, and systemic indiscipline persist, impacting investor confidence. Furthermore, the state of the Nigerian stock market has also discouraged numerous investors from entering the country.[22]

18 *Segun Odunewu*, Airtel, MTN, others accumulate over N900bn forex loses to naira devaluation https://blueprint.ng/airtel-mtn-others-accumulate-over-n900bn-forex-loses-to-naira-devaluation/ Accessed 26 September 2024.

19 *NESG,* Foreign Investment Inflows into Nigeria weakens in 2023 https://www.nesgroup.org/blog/Foreign-Investment-Inflows-into-Nigeria-weakens-in-2023 Accessed 25 July 2024.

20 *Sami Tunji,* FDI crashes to record low of $29.8m https://punchng.com/fdi-crashes-to-record-low-of-29-8m/#:~:text=Foreign%20Direct%20Investment%20into%20Nigeria,findings%20by%20The%20PUNCH%20showed. Accessed 29 October 2024.

21 *NESG,* Foreign Investment Inflows into Nigeria weakens in 2023 https://www.nesgroup.org/blog/Foreign-Investment-Inflows-into-Nigeria-weakens-in-2023 Accessed 25 July 2024.

22 *Temitope Omole*, Foreign direct investment (FDI) in Nigeria: Opportunities, challenges and way forward, International Journal of Law Volume 7, Issue 5, 2021, Page No. 116–121 https://www.lawjournals.org/assets/archives/2021/vol7issue5/7-5-34-892.pdf Accessed on 27 October 2024.

3. *Infrastructure Deficiency*

The true position of Nigeria's overall progress or otherwise remains a topic of considerable debate among analysts. What is indisputable, however, is Nigeria's position as one of Africa's largest economies, despite its growth indicators appearing unfavourable. During the 1970s and 1980s, Nigeria attracted substantial foreign direct investment (FDI) due to its rich natural resources, large consumer market, and strategic geographic location. Yet, a persistent infrastructure gap has created major obstacles for attracting and sustaining foreign investment. Nigeria's infrastructure, which includes its energy supply, transportation networks, communication systems, and water and sanitation facilities, remains inadequate, thus impeding economic growth and limiting FDI inflows.[23]

A particularly critical challenge to FDI in Nigeria is the epileptic electricity supply. Frequent power outages and insufficient electrical infrastructure drive up business operational costs, decrease productivity, and reduce competitiveness. This unreliable energy supply has prompted foreign investors to explore costly alternative energy sources, impacting profitability and overall investment feasibility. Additionally, Nigeria's transportation infrastructure continues to deter foreign investment; poor road networks, congested ports, and limited access to quality transport services have escalated logistics costs and slowed the flow of goods and services. These deficiencies create logistical bottlenecks, affecting the ability of investors to efficiently distribute products and raw materials.[24]

Nigeria's communication infrastructure also poses barriers to FDI. Limited reliable internet and telecommunications services restrict business operations, impair communication with global partners, and impede market access. This deficiency impacts not only multinational corporations but also constrains the growth of small and medium-sized enterprises aiming for expansion. Inadequate water and sanitation infrastructure further complicate the business landscape by posing health risks and operational challenges. A lack of clean water and sanitation not only affects employee welfare and community health, but also raises concerns about business continuity and sustainability.

In addition to infrastructure deficiencies, complex regulatory frameworks, bureaucratic delays, and corruption, diminish investor confidence in Nigeria's business environment, discouraging long-term commitments.

Nevertheless, opportunities exist to address these challenges and attract more FDI by strategically investing in infrastructure, especially in the power, transport, communication, and water sectors. Public-private partnerships (PPPs) offer a vital approach to mobilizing resources and expertise to bridge Nigeria's infrastructure gap. With private sector participation, the government can expedite infrastructure projects, fostering a more attractive investment environment and enhancing economic competitiveness.

23 *John Idumange*, Implications of Nigeria's Infrastructure Gap on Foreign Direct Investment https://www.modernghana.com/news/1305757/implications-of-nigerias-infrastructure-gap-on.html Accessed on 27 October 2024.

24 Ibid.

Infrastructure improvements promise multiple benefits: boosting productivity, lowering operational costs, and creating a conducive business environment for foreign investors. Investments in renewable energy, such as solar and wind, could alleviate power shortages and reduce Nigeria's dependence on fossil fuels. Sustainable infrastructure initiatives not only meet immediate infrastructure needs, but also support environmental conservation and climate resilience. Upgraded roads, expanded ports, and enhanced rail and air transport systems would increase Nigeria's connectivity, facilitating trade and investment flows and supporting the growth of export-oriented industries. Developing digital infrastructure—by expanding broadband access and bolstering cybersecurity—would foster innovation, entrepreneurship, and digital transformation, critical to economic growth and attracting technology-driven investment.

Investments in water and sanitation infrastructure are essential for public health, improved living standards, and sustainable development. Access to clean water and proper sanitation is fundamental for business continuity, employee welfare, and community resilience. Although Nigeria's infrastructure gap presents significant challenges to FDI, it also offers avenues for sustainable development and economic transformation. By prioritizing infrastructure investment, promoting public-private partnerships, and improving the business environment, Nigeria can reposition itself as a competitive destination for FDI in Africa. The current administration has a unique opportunity to address the infrastructure gap, harnessing Nigeria's economic potential and fostering inclusive growth for the benefit of all stakeholders. Having lagged behind for decades, Nigeria must adapt to the rapid industrialization and globalization shaping the modern economy.

G. PROSPECTS OF FOREIGN DIRECT INVESTMENT IN NIGERIA

Foreign Direct Investment (FDI) in Nigeria holds substantial prospects given the nation's abundant natural resources, large market size, and strategic location. However, to fully grasp these prospects, one must consider the multifaceted dimensions that make Nigeria an attractive destination for FDI. These dimensions include the economic, demographic, infrastructural, and policy-driven factors that collectively shape the investment landscape in the country.

1. Economic Potential:

Nigeria boasts one of the largest economies in Africa, primarily driven by its oil and gas sector. The country is richly endowed with natural resources, including petroleum, natural gas, and minerals, which have historically attracted significant FDI.[25]Beyond the extractive industries, Nigeria's agricultural sector offers considerable opportunities. The country's vast

25 *Salako, H. A. and Adebusuyi, B. S.,* Determinants of Foreign Direct Investment (FDI) in Nigeria: an empirical investigation. Economic and Financial Review, 39(1) https://dc.cbn.gov.ng/efr/vol39/iss1/2/ Accessed 25 July 2024.

arable land, favourable climate, and a large workforce present potential for agribusiness investments, which can contribute to food security and export revenues.

Moreover, Nigeria's manufacturing sector is gradually gaining traction. The government's emphasis on diversifying the economy away from oil dependence has led to policies encouraging the development of industries such as food and beverages, textiles, and chemicals. The presence of a large domestic market, combined with regional market access through the Economic Community of West African States (ECOWAS), enhances the appeal of manufacturing investments.[26]

2. *Policy and Regulatory Environment:*

The Nigerian government has implemented various reforms to create a more conducive environment for FDI. These reforms include the establishment of the NIPC, which serves as a one-stop agency for investors, providing information, support, and facilitation services.[27] The government has also introduced tax incentives such as pioneer status, streamlined business registration processes, and implemented measures to protect investor rights.

The Economic Recovery and Growth Plan (ERGP) and the subsequent National Development Plan are strategic frameworks aimed at promoting economic diversification, improving infrastructure, and enhancing the business environment.[28] These plans underscore the government's commitment to creating a stable and attractive investment climate.

3. *Demographic Dividend:*

Nigeria's population, estimated to be over 200 million, is the largest in Africa and is characterized by a youthful demographic. This youthful population represents both a large labour force and a significant consumer base, which are critical drivers for economic growth and investment. The increasing urbanization rate further amplifies the prospects for investments in infrastructure, real estate, and consumer goods.[29] For Nigeria to effectively benefit from FDI using its demographic advantage, there needs to be a demographic transition.

The demographic transition, which involves moving from high birth and death rates to lower ones, is crucial for economic growth and poverty reduction in Nigeria. As birth

26 Ibid.

27 *Ministry of Foreign Affairs*, Investment https://foreignaffairs.gov.ng/nigeria/investment/ Accessed 28 October 2024.

28 *Onyeka Ugwueze*, The Economic Recovery and Growth Plan (ERGP) as a Remedy to Nigeria's Economic Recession: An Introspection. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4333756#:~:text=The%20Economic%20Recovery%20and%20Growth%20Plan%20(ERGP)%20is%20a%20medium,build%20a%20globally%20competitive%20economy. Accessed 10 September 2024.

29 *World Bank Group*, Nigeria's Demographic Dividend? Policy Note in Support of Nigeria's ERGP 2017–2020 https://documents1.worldbank.org/curated/pt/767341550814839218/pdf/Nigeria-Demographic-Dividend-Policy-Note.pdf Accessed 10 September 2024.

rates decline, the proportion of working-age individuals in the population increases relative to dependents, creating a demographic dividend for accelerated economic growth if these workers are productively employed. This shift can equally boost productivity, household incomes, and savings, driving down poverty rates in Nigeria. Additionally, with fewer dependents, families can invest more in health, education, and skill development, enhancing human capital and enabling a skilled workforce that attracts investment, fosters innovation, and ultimately contributes to a sustainable economy. However, realizing these benefits depends on effective policies in health, education, and job creation to harness the potential of a younger, growing workforce.[30]

4. Strategic Location and Regional Integration

Nigeria's strategic location in West Africa positions it as a gateway to regional markets. The country's membership in ECOWAS and the African Continental Free Trade Area (AfCFTA) provides investors with access to a broader market of over 1.2 billion people. This regional integration enhances Nigeria's attractiveness as a hub for regional trade and investment.

5. Infrastructural Developments

In recent years, Nigeria has made strides in improving its infrastructure, which is vital for attracting FDI. The government has initiated several projects aimed at upgrading transportation networks, energy supply, and digital infrastructure. The development of the Lekki Free Trade Zone which offers tax incentives and infrastructure support, the construction of new ports, and investments in renewable energy are examples of initiatives that enhance the country's investment attractiveness.

Worthy of mention is the fact that the digital economy in Nigeria is burgeoning, with significant investments in telecommunications and fintech sectors. The widespread adoption of mobile technology, artificial intelligence systems and the internet has catalysed growth in e-commerce, digital payments, and tech startups, creating a vibrant ecosystem for innovation and investment.

30 Ibid.

H. CASE STUDIES OF SUCCESSFUL FDI PROJECTS IN NIGERIA AND THE FACTORS THAT CONTRIBUTED TO THEIR SUCCESS:

1. Dangote Refinery and Petrochemical Project

The Dangote Refinery, a $12 billion investment by the Dangote Group, is set to be the largest single-train refinery in the world. It aims to address Nigeria's dependence on imported refined petroleum products.[31]

Factors Contributing to its Success:

a. **Strategic Location:** Situated in the Lekki Free Trade Zone, which offers tax incentives and infrastructure support.
b. **Government Support:** Strong support from the Nigerian government in terms of policies and incentives.
c. **Local Expertise:** Leveraging local expertise and workforce to minimize costs and enhance project relevance. Over 30, 000 Nigerians were employed among the skilled work force during the construction of the Refinery.[32]
d. **Market Demand:** High local and regional demand for refined products ensures market stability.
e. **Strong Leadership:** Visionary leadership and management by Aliko Dangote, with a clear long-term vision.

2. Lafarge Africa Cement Plant[33]

Lafarge Africa, part of the global LafargeHolcim Group, invested heavily in expanding and modernizing its cement production capacity in Nigeria.

Factors Contributing to its Success:

a. **Robust Market:** Growing demand for cement driven by Nigeria's infrastructure development needs.
b. **Technological Innovation:** Implementation of modern, efficient production technologies to reduce costs and improve product quality.
c. **Local Partnerships:** Strong partnerships with local suppliers and distributors.

31 *NESG,* Dangote Refineries and Petrochemical Company: Nigeria's Transformative Leap in Energy Independence https://www.nesgroup.org/blog/Dangote-Refineries-and-Petrochemical-Company:-Nigeria%27s-Transformative-Leap-in-Energy-Independence Accessed 25 July 2024.

32 *Africa Check,* Dangote refinery says reports of exclusion of Nigerian locals are 'malicious' https://africacheck.org/fact-checks/meta-programme-fact-checks/dangote-refinery-says-reports-exclusion-nigerian-locals-are Accessed 30 October 2024.

33 *Business Hilights,* Cement backward integration attracted $6bn FDI in 2002—Lafarge https://businesshilights.com.ng/2017/10/13/cement-backward-integration-attracted-6bn-fdi-in-2002-lafarge/ Accessed 28 October 2024.

d. **Sustainability Focus:** Commitment to sustainable practices and community development.
e. **Regulatory Environment:** Favourable government policies supporting infrastructure and housing developments.

3. Indorama Eleme Petrochemicals Limited (IEPL)[34]

Indorama acquired the Eleme Petrochemicals plant in Port Harcourt during the privatization exercise in 2006. The company invested over $3 billion in expanding and upgrading the facility.

Factors Contributing to its Success:

a. **Privatization Benefits:** Acquisition through a transparent privatization process.
b. **Investment in Modernization:** Significant investment in modernizing the plant to enhance efficiency and output.
c. **Export Potential:** Focus on both local supply and export markets.
d. **Corporate Governance:** Strong corporate governance and adherence to international best practices.
e. **Community Engagement:** Proactive community engagement and corporate social responsibility initiatives.

4. Heineken's Nigerian Breweries

Heineken has been a long-term investor in Nigeria through its subsidiary, Nigerian Breweries. Continuous investments have been made in expanding production capacity and product range.

Factors Contributing to its Success:

a. **Brand Loyalty:** Strong brand recognition and loyalty among Nigerian consumers.
b. **Market Insights:** Deep understanding of the local market and consumer preferences.
c. **Innovation:** Introduction of new products tailored to local tastes and preferences.
d. **Distribution Network:** Extensive and efficient distribution network across the country.
e. **Economic Resilience:** Ability to navigate economic challenges and currency fluctuations.

5. MTN Nigeria

MTN, a South African telecommunications company, entered the Nigerian market in 2001 and has since become the largest mobile network operator in the country.

34 *BPE,* Eleme Petrochemical Limited https://www.bpe.gov.ng/eleme-petrochemical-limited/ Accessed 28 October 2024.

Factors Contributing to its Success:

a. **Early Market Entry:** Strategic early entry into the market during the liberalization of the telecom sector.
b. **Network Expansion:** Extensive investment in network infrastructure and coverage.
c. **Customer Focus:** Strong focus on customer service and innovative offerings.
d. **Regulatory Compliance:** Adherence to regulatory requirements and active engagement with government stakeholders.
e. **Brand Strength:** Effective marketing and brand positioning as a reliable service provider.

I. Recommendations for improving the investment climate in Nigeria and attracting more FDI.

Improving the investment climate in Nigeria to attract more Foreign Direct Investment (FDI) requires a multifaceted approach. This includes:

1. Policy and Regulatory Reforms:

To foster a more conducive environment for business, policy and regulatory reforms should focus on further simplifying regulations to streamline business operations, minimizing bureaucratic hurdles, and establishing transparent and consistent regulatory frameworks. Strengthening the legal framework is also essential to protect investor rights, enforce contracts, and expedite commercial dispute resolution by addressing judicial inefficiencies and reducing corruption. Additionally, enhancing transparency and reinforcing institutions are critical for building investor confidence. Public-private partnerships, along with collaboration with international development organizations, can further help bridge infrastructural and developmental gaps.

2. Infrastructure Development

Investing in essential infrastructure such as roads, ports, railways, and airports is crucial to enable the efficient movement of goods and services, supporting economic growth. Additionally, improving the energy supply by addressing power challenges through investment in the energy sector, promoting renewable energy sources, and fostering private sector involvement in power generation and distribution is vital for sustained development and stability.

3. Economic Stability

To achieve economic stability, it is essential to maintain macroeconomic steadiness through stable policies, effective inflation control, and a stable currency, all of which contribute to a predictable investment climate. Additionally, diversifying the economy by reducing dependence on oil and fostering growth in sectors like agriculture, manufacturing, and services will help build a more resilient and adaptable economic structure.

4. Ease of Doing Business

Enhancing ease of doing business involves optimizing the one-stop shop for investors to efficiently manage all regulatory and administrative requirements, reducing the time and cost associated with starting a business. Additionally, access to finance for businesses, particularly SMEs, should be improved by promoting financial inclusion and developing strong capital markets to support growth and sustainability.

5. Human Capital Development

Human capital development can be enhanced by investing in quality education and vocational training to create a skilled workforce aligned with the demands of modern industries and meet up with the demands of foreign investment. Additionally, fostering innovation and research and development (R&D) is essential; this can be achieved through grants, tax incentives, and collaborative partnerships between industry and academia to support ongoing advancements.

6. Transparency and Good Governance

Promoting transparency and good governance in Nigeria which is a key factor directly contributory to the volume or otherwise of foreign investment, requires robust anti-corruption measures to ensure accountability in both government and business practices. Additionally, fostering high standards of corporate governance and ethical business conduct is essential for building and maintaining foreign investor confidence.

7. Sector-Specific Incentives

Sector-specific incentives for foreign investment include offering targeted tax benefits, subsidies, and grants to stimulate investment in critical sectors like technology, agriculture, and renewable energy. Additionally, the development and promotion of existing Special Economic Zones (SEZs), with favorable policies and robust infrastructure, can further attract foreign investors.

8. Trade and Investment Promotion

To enhance trade and investment promotion, it is essential to engage in trade agreements that facilitate market access and reduce barriers for Nigerian products. Additionally, strengthening investment promotion agencies will play a crucial role in actively marketing

Nigeria as an appealing investment destination while offering valuable support to potential investors.

9. Political and Social Stability

To ensure political and social stability, it is essential to address security challenges by strengthening law enforcement and enhancing national security, thereby creating a safe business environment that protects investments. Additionally, fostering social cohesion and tackling underlying social issues will contribute to a stable and peaceful society, further encouraging investment opportunities.

J. Conclusion

The prospects for Foreign Direct Investment in Nigeria are robust, underpinned by the country's economic potential, demographic advantages, infrastructural developments, and favourable policy environment. By continuing to address existing challenges and leveraging its strategic advantages, Nigeria can position itself as a leading destination for FDI in Africa. The sustained inflow of FDI will not only spur economic growth but also contribute to the country's broader development objectives, including job creation, poverty reduction, and technological advancement.

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