

**GLOBALIZATION, REFORMS AND  
INVESTMENT IN NIGERIA 1999-2013**

**[INDEPENDENT FINAL REPORT]**

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## **Chapter One: Introduction**

### **1.1 Research Background**

The fall of communism in the early 1990s led to many changes in international politics and economy. Democratic governance advanced as many autocratic regimes had to turn right, embracing liberal and free market reforms. This had profound impacts on many economies in the global south. As the world became more and more integrated and interlinked in a web of economic, social and political linkages, hitherto peripheral economies were increasingly drawn into the global flow and exchange of capital, technology, information and knowledge. This process generally known as globalisation is the integration of the world culturally, economically and politically. Jhabvala and Kanbur (2002) notes that “globalization and economic reform are not unrelated because one of the key tenets of economic reform in the last ten years has been the opening up the national economy to international competition through more openness in trade and in capital flows (p.2)”

The wind of change did not take time before reaching Nigeria. Pressures had begun by the early 1990s on the military dictatorship to transfer power to a democratic government which had become popular around the world. Though the military elite hesitated, but looking towards the future, it was inevitable. After decades of military dictatorship, the country returned to democratic rule in 1999. This ushered political and economic reforms around age old and outdated practices and policies. The civilian regime eliminated antiquated regulations and military decrees that limited foreign and domestic investment.

The new civilian government brought reforms that allowed free market institutions to flourish and opened the emerging capital markets to investors all over the world. In 2005 Nigeria won a debt relief agreement with the Paris club estimated at about \$18 billion of debt in exchange for \$12 billion in payments. This wrote about \$30 billion off Nigeria's total \$37 billion external debt (Dijkstra, et.al 2011)

The Nigerian economy has grown at an impressive average annual rate of 7.0% between 2007 and 2011, (Central Bank of Nigeria, 2011), in the past five consecutive years as crude oil exports surged investments especially from the United States. The United States is Nigeria’s largest foreign investor, though majority of the investment goes into the oil sector of the economy. The oil wealth has created a huge Federal government budget surplus and led to increased economic activity. The booming population and developing middle class which accounts for about 23 percent of the population (Renaissance Capital, 2011) has provided a large market for consumer goods and interestingly luxury goods as well.

However, a lot of challenges still remain. Corruption has not abated and public institutions still lag behind in efficiency. Electricity generation has not improved much since 1999 with the current average total daily public generation of 4, 000 megawatts (i.e. generation from public power plants) way below the self-generation of about 6, 000 megawatts (i.e. generation from private small generators at homes, offices and factories) (GSI, 2012). Businesses have had to source alternative electricity supply, a substantial cost on production. Civil conflicts also pose another problem. Agitations for greater share of oil revenues by communities and militant groups in the oil rich Niger Delta have affected oil multinationals exploring for and producing oil as well as government revenues. There is also the challenge of ethnic conflicts in the North central region and Islamic militancy in the North. These and other business environment concerns still hamper efficiency and productivity.

## **1.2 Research Problem**

This paper focuses on the impact of market reforms on Foreign Direct Investment (FDI) in Nigeria. It assesses the impact that market reforms have had on the business environment and investment climate in Nigeria.

Investment flows have attracted academic interests from scholars around the world. Such papers have focused on regional groupings such as Africa (Morisset, 2001) or country specific such as Tanzania (Ngowi, 2005), but there are few of such on Nigeria. Moreover, many of them focus on determinants of FDI rather than specific reform attempts. Feridun, Olusi and Folorunso (2006) reviewed the impact of globalisation on Nigeria's economy between 1986 and 2003 and found a positive relationship between trade openness and economic growth in Nigeria. Their attempt however, focuses on an earlier period. This paper is different in that it focuses on specific reforms and a different time period. Busari and Omoke (2008) studied the impact of trade policy practice and its credibility on private investment using firm level data of 67 Nigerian firms over the period 1980–2003. The study observed that trade policy practice in Nigeria has deterred investment. This has occurred through restrictions on international capital movements; rapid and variable devaluation of the exchange rate; tariffs and high import costs. My proposed research rather examines how much of these constraints to investment have changed as a result of the reforms since 1999.

There clearly exists a dearth of research on the impact of reforms on FDI in Nigeria. Besides, reform efforts in Nigeria since 1999 are yet to be empirically studied. This paper attempts to bridge some of the gaps in knowledge. The scope of this study is to understand how much growth in FDI has happened between the periods 1999 and 2012 and how this has been a function of the reforms since the return of democracy in 1999. It will also try to assess current challenges to investment and what other reforms that may be necessary to improve the general investment climate.

### **1.3 Research Questions**

This paper will explore the following questions:

1. What are the reforms that are targeted at improving the investment climate that the government has introduced in the major economic sectors (telecoms, commercial banking, and electricity) since 1999?
2. Reforms have little relevance if they are not followed through implementation. How thoroughly have reforms been implemented?
3. Reforms aim at achieving certain objectives which includes improving the investment climate. Has reform policies expressed through regulation led to changes in investment?
4. Nigeria is still categorised as a developing nation and still lags behind in many business environment indexes. What current challenges remain? And what further reforms are needed to sustain improvements in the investment climate?

### **1.4 Methodology**

This paper will be a desk study research based primarily on public data from government institutions on and secondary materials and academic papers. Investment data across the various sectors of the Nigerian economy is recorded and kept by the Central Bank of Nigeria. Such data is available on the annual statistical bulletin and other publications of the CBN which is published on the banks website. The United Nations Conference on Trade and Development (UNCTAD) has a comprehensive data on country FDI flows. This will provide a useful source of data for this study

I will make use of descriptive and analytical qualitative methods as well as employing statistical tools such as charts to drive home arguments (Braddy & Collier 2010). Combining qualitative and quantitative techniques and tools can provide useful insights which only one approach may be insufficient to capture (Braddy & Collier 2010). In attempting to draw conclusions of impact, comparisons of pre-reform and post-reform investment profiles within ten year intervals will be made. In this sense, graphical tools such as bar charts and line graphs will be used to show trends in both periods. I will also critically and analytically synthesise findings from other research papers and other secondary materials together with government data in an attempt to answer the research questions.

### **1.5 Significance of study**

This study would help examine the widely held thinking that reforms in developing economies encourage investment and economic growth. Dominant economic and strategic business thinking is

that developing economies would be more attractive to global financial capital if the investment climate of such economies is considerably improved through sustained regulatory and institutional reforms (World Bank, 2009: Smith & Hallward-Driemeier, 2005). Since Nigeria has witnessed some of such reforms over the last decade, it would be a good time to take some sort of impact evaluation. Besides, if a positive relationship is established, it would serve as a pointer to the Nigerian government that such reforms have to be sustained and even further deepened. There is always a risk of reforms getting relaxed, or completely reversed leading to the loss of any gains made (McPherson, 2000).

### 1.6 Problems and limitations

Public data keeping and availability in Nigeria is poor. It is not unusual for time series data to be incomplete with large gaps. This may be experienced in relation to data during the military period when this problem was most pervasive.

Secondly, the study would rather have been better scoped to focus on a particular sector or subsector of the economy such as oil and gas, telecoms or manufacturing. However, the nature of available data has limited the study to a more general economy-wide level study. Available data, especially pre-reform period, is seldom found with sectoral FDI inflows. Most data sources from this period only show economy-wide FDI data which makes sector focused studies quite difficult.

### 1.7 Research Plan

Activity	Timeline				
	May	June	July	August	September
Background work and problem definition					
Literature review					
Data collection					
Data processing and analysis					
Discussions/report writing					
Presentation/Submission					<b>END</b>

## **Chapter Two: Literature Review**

### **2.0 Introduction**

This chapter examines literature on the linkages between globalisation, reforms and investment. The first section is a general overview of literature around the subject. It starts by conceptualising the phenomenon of globalisation, reforms and the relationship with investment. Attempt here is made to summarise findings on this topic in relation to the African sub-region. The second section examines a case study of a reform and FDI evaluation. Interest here is to closely look at another economy that has attempted similar reforms and what the outcomes were. As a case study, Pakistan was chosen given that it is a developing economy with similar economic size and challenges to Nigeria. The third section would narrow down to research in relation to Nigeria. Here attempt would be made to understand what other empirical studies have established and the gaps in knowledge.

As a recapitulation from the first chapter, this paper seeks to pursue an understanding of the impact of reforms in Nigeria since 1999 and FDI inflow into the country. Has reform policies expressed through regulation led to changes in investment? What current challenges remain? And what further reforms are needed to sustain improvements in the investment climate?

### **2.1 General overview**

The push of global capital into the frontiers of world economy has put greater pressure on economies on the periphery to modernise and speed up reforms. Such has seen reform attempts in the marginal economies of Europe, Asia, Latin America and more recently Africa. Christopher and Jacqueline (2008) define globalisation as the “integration of nations through the process of cross-national flows of goods, investment, production and technology” (p.2)?. This integration has also brought about expectations of common standards, institutions and even political arrangements. It has also laced fortunes of nations into a global network of which anyone excluded suffers a level of disadvantage. The most profound impact this has had is the pressure on governments to conform to such standards in order to be captured in the global flow of economic and cultural exchange. Such has informed reform programmes in so many regions of the world.

Economic and institutional reforms impact very well on the nature of the business environment. Lowther and Silva-Leander (2006) describe “business environment as “comprising the institutional, policy, and regulatory environment in which firms operate. Regulations affect all aspects of business operations, including starting a business, hiring and firing workers, enforcing contracts, getting credit, closing a business, registering property, dealing with licences, paying taxes, and trading across borders”. This operating surrounding influences investment decisions such as whether to invest in an

economy, scale down existing investment or withdraw entirely. Investors want reasonable returns from their investments and prefer environments that support growth and productivity.

Lowther and Silva-Leander (2006) argue that “a poor business environment has a chilling effect on investment. A poor business environment is characterised by legal and institutional obstacles to business start-up and growth. International evidence shows that the poorest countries tend to have the most regulations and more arbitrary and complex enforcement practices ('red tape')”. (p.1) Many Asian countries, they write “have made their business environments more investor-friendly during the past two decades” (p.1). Such reforms have obviously opened up economies in East and South East Asia to the inflow of foreign capital, technology and R&D.

Arbatli (2011) studies the determinants of FDI inflow into emerging economies focusing on economic policies. The results from the study show that “both global push factors and economic policies had a significant effect on FDI inflows... Among the set of pull factors that were considered, lowering corporate tax rates and tariffs and a stable exchange rate were found to be statistically important determinants of FDI inflows” (p.19). Most importantly, reforms were found to be of significant influence. “Accounting for the effects of policy changes or shifts was found to be useful in explaining sharp increases in FDI inflows”(p.19).

Asiedu (2004) questions the FDI attraction potential of sub-Saharan African countries. Her paper argues that despite reforms in the business environment of countries in the region, their FDI inflows continue to decline relative to the rest of the world. She contends that “although sub-Saharan Africa improved its infrastructure, liberalized its investment framework and reformed its institutions, the degree of reform is not far reaching compared with the reform implemented elsewhere in the developing world” (p.41). She recommends that for reforms to effectively attract FDI, policy reforms have to be made in “both absolute and relative terms”. By far reaching, Asiedu means that many of the reforms were not comprehensive for instance, Eberhard and Gartwick (2011) observes that in many cases of power reforms the state maintained a dominant share of the market while private investors only operated at the margins.

Ngowi (2005) examines the role of institutional reforms in attracting FDI. Using the case of Tanzania, a country which in the 70 and 80s nationalized privately held companies and operated a centrally planned economy, Ngowi argued that Tanzania has been able to improve its economy through institutional and trade reforms. He maintains that in the mid 80s the government of Tanzania liberalized agricultural marketing, lifted foreign exchange controls, privatized redundant public assets and initiated a new investment policy that offered competitive incentives. The reforms improved competitiveness of the economy and FDI grew from 12 million USD in 1992 to 192 million USD in 2000.

Morisset (2001) studied the determinants of FDI inflow in Africa. His paper argued that most FDI inflow into Africa went to the extractive industry and as such the size of a country's natural resource wealth is important to FDI inflow. However, Morisset argues that controlling for natural resource wealth, there is still significant evidence which reflects other important factors. He maintains that economic "growth rate and trade openness have been positively and significantly correlated with the investment climate in Africa" (p.10). The positive impact of trade openness reinforces the arguments that trade liberalization leads to a more general reduction in administrative barriers and improve the business environment in the host economy. "Countries with low trade barriers also tend to have low barriers to FDI – as well as conveys the right signal to the international business community" (p.10). In this vein, reforms that make trade more open significantly improve the FDI inflow of countries in Africa irrespective of their natural resource potentials.

## **2.2 Nigeria**

Despite the elaborate reforms embarked by the government, research on reforms in Nigeria is few. Most of the existing papers focus on issues other than FDI, or only include FDI as one aspect of their objectives. Moreover, the approach is usually steeped in economics with the intent to establish econometric relationships through tools such as regression analysis. In this regard, little attention is given to business environment issues, specific reforms, their implementation, outcomes and reform limitations.

The African Development Bank (2010) conducted an evaluation of Nigeria's economic and power sector reforms and found profound impacts on economic growth indices and FDI. The report shows that the "macroeconomic performance of Nigeria was remarkably strong during the period 2004-2008". Actual economic performance outpaced most of the government targets. Real GDP growth rate averaged 7% per annum and primarily driven by the non-oil sector (9.7%). "The performance of the service sector was the strongest, supported by the sustained growth in banking and telecommunications". The evaluation pointed out significant FDI improvements following the reforms. FDI inflows were significant reaching USD 10.3 billion in 2007. However, the evaluation reveals business environment issues that still remain particularly "chronic power shortages".

Ogunkola, Bankole and Adewuyi (2006) evaluate Nigeria's trade and investment policy reforms with the objective of measuring the impacts on different sectors of the economy. Their focus is on output growth in sectors such as Agriculture, manufacturing and services rather than on FDI inflow and investment climate. In this way their research though concerned with Nigeria's reforms differs from the thrust of this paper; it adopts a more economics approach placing emphasis on investment growth and sector productivity. This research however, is more concerned with the business environment issues in relation to FDI.



Feridun, Olusi and Folorunso (2006) studied the impact of globalisation on Nigeria's economy using a time series data between 1986 and 2003. They found out that "trade openness had significant positive effect on economic growth in Nigeria"(p.173). As their study revealed also "the impact of financial integration on the economy is, however, negative but insignificant at 10 per cent level of significance. In conclusion, their paper submitted that "Nigeria could benefit more from globalization if its economy would fully integrate with the rest of the world. The paper therefore suggested the removal of all barriers to trade and movement of capital" (p.173)

Babatunde (2012) examined an insight into the determinants of FDI in the oil and gas sector in Nigeria the background of reforms introduced by the government towards attracting investment. Her paper finds a significant impact of tax incentives and trade openness on FDI inflow into the oil and gas sector in Nigeria.

Nurudeen (2010) studied the determinants of FDI in Nigeria. His paper introduces the variable of deregulation which is not included in most other papers. His results show that the 'market size of the host country, deregulation, political instability, and exchange rate depreciation are the main determinants of foreign direct investment in Nigeria' (p.26). A percentage point increase in deregulation in the previous two years, increases FDI inflows by 3.62 percent. The implication of this finding is that reforms that encourage deregulation would benefit FDI. Importantly, reforms in the sectors under consideration in this paper involved a great deal of deregulation.

## **2.3 Case Study**

### *2.2.1 Pakistan*

In this section, we will focus on a case to have a more in-depth and comparative understanding of the relationships between reforms and FDI focusing on the case of Pakistan. Pakistan has been chosen because it is a developing economy with similar economic size and challenges to Nigeria. The two countries have the 27<sup>th</sup> and 30<sup>th</sup> largest economies in the world, respectively. Both also share challenges such as public corruption, weak institutions, infrastructural deficiencies, low economic indices, etc. Besides, it embarked on similar policy reforms which have attracted some empirical evaluation.

Kikeri, Kenyon and Palmade (2006) examined the reform case of Pakistan. Their focus was on investment and business climate improvements. They observed that in the early 1990s, Pakistan started to "open and liberalize its economy, relaxing exchange controls, opening financial services to the private sector, and allowing foreign investment in the capital market. But although basic stock markets had developed, with automation and reasonable trading systems, the market was small and fragmented and there was little genuine investment activity" (p.82). Among the major challenges that

remained was poor corporate governance at firm level: Companies seldom complied with company law or listing regulations, inadequate disclosure and auditing standards. “Investors had little confidence that they were receiving their fair share of profits, and this lack of confidence held back development of the market”. Besides, the regulatory environment was also weak, with long and cumbersome processes for company registration which lacked any formal guidelines for duration. In addition, the unprofessional civil service made matters worse. “The body responsible for administering the 1984 Companies Ordinance, which stipulates the requirements and steps for registration, was the Corporate Law Authority, a government department established in 1981 and staffed by civil servants who had jobs for life and were promoted on seniority rather than merit—which created a working atmosphere that was not conducive to integrity, professionalism, and customer service (Kikeri, Kenyon and Palmade 2006). Bound by civil service pay scales, the CLA was unable to attract dynamic individuals from the private sector, and with its limited resources it could not afford professional training for its staff” (p.82).

Reform for Pakistan was inevitable. From corporate governance to regulatory institutions the business environment and investment climate required significant improvement. Kikeri, Kenyon and Palmade (2006) note that the “impetus for reform came from Pakistan’s urgent need to raise foreign exchange, and to mobilize long-term resources while improving the efficiency of their allocation through a diversified and competitive capital market” (p.83). With support from the Asian Development Bank in 1997, the government of Pakistan designed a “capital market development program that established the Securities and Exchange Commission of Pakistan (SECP) as an autonomous body with quasi-judicial powers to replace the old Corporate Law Authority” (p.83). The New body backed by an act of parliament administered corporate laws and regulated securities markets and non-bank financial institutions.

To improve corporate governance, the SECP required that independent, professional chief executives are appointed to head the stock exchanges, and brokers were compelled to register with the SECP and to adhere to a code of conduct. “Margin requirements were strengthened and capital adequacy requirements imposed, blank sales were replaced by a regulated system of short selling, new market instruments were introduced, and an improved, rolling settlement system was put in place” (p.83). Among other reforms that the SECP introduced to improve corporate governance, “a new code of corporate governance barred brokers from being company directors; raised the quorum for general meetings of public listed companies, and required minutes of board meetings to be circulated to directors within fourteen days” (p.84). Additionally, “Listed companies were mandated to make their audit papers available for quality control reviews, and auditors could not be engaged to perform any other services for the company and had to be replaced after five years” (84).

Kikeri, Kenyon and Palmade (2006) submit that the reforms recorded very notable results. Firstly, there were “significant improvements in the quality of the annual financial statements of listed companies” (p.84). The reforms established market balance and stability, increased the percentage of settled trades from 1 to almost 10 per cent. They also observed that “systemic problems that used to arise two to three times a year have not occurred since 2001”. Business registration, a frustratingly cumbersome process was also made quicker and cheaper. “Standardized procedures and maximum time periods for processing each document received by the Registrar were issued, and an explanation from the Registrar is required where registration takes more than three days”. (p.84) Similarly, “The fees for registering a company were reduced, with the fee for the smallest companies halved. Three provincial governments agreed to reduce stamp duty”. (p.84) In effect the investment climate became more conducive for FDI inflows.

Kikeri, Kenyon and Palmade (2006) noted that the success recorded was as a result of three factors: securing leadership; engaging stakeholders and strengthening incentives and capacity. The first two are at the level of reform initiation. To secure leadership “an external candidate experienced in both capital markets and in Pakistan was selected to head the SECP and to lead the reform process with less vulnerability to political pressure from vested interests” (p.84). This also doused doubts from entrenched interest in the civil service. Stakeholder engagement on its own enabled all interest groups to be carried along and the development of trust in the reform process.

### **2.3 Conclusion**

General literature tends to support conventional thinking that reforms do impact positively on FDI inflow. The major reason adduced for this is that reforms create a more investment friendly climate through market liberalisation, deregulation, tax rebates as well as institutional improvements such as rule of law, private property rights and macroeconomic stability. Papers on Nigeria, though few, corroborate general literature.

## **Chapter 3: Reforms since 1999: Selected Sectors**

### **3.0 Introduction**

In this chapter we will examine regulatory reform undertaken by the Nigerian government since 1999. At inception, the civilian administration was eager to effect changes on the business environment and investment climate of the country. Such enthusiasm necessitated a holistic multi-sector approach across the various sectors such as agriculture, telecommunications, finance, energy, trade and commerce, etc. Given the constraints of time, the need for manageability and the ease of collecting data, this chapter will examine reforms in three selected sectors – telecoms, commercial banking, and electricity. The objective is to explore some of the regulatory reforms undertaken by the government so as to put in perspective business environment and investment climate improvements that may impact on investment, particularly FDI. These three sectors have been selected for not only the extensive reforms which were initiated but also as a result of their importance to productive activities; they are core business sectors (NBS 2012)

### **3.1 Telecoms Sector Reforms**

#### *3.1.1 Pre reforms*

Telecommunication facilities in Nigeria were first established in 1886 by the colonial administration (Ijewere and Gbandi, 2012). The administration largely used it towards discharging administrative duties rather than the provision of social service or development of the country. “At independence in 1960, with a population of roughly 40 million people, the country only had about 18,724 phone lines for use. This translated to a teledensity of about 0.5 telephone lines per 1,000 people” (Ijewere and Gbandi, 2012). Between 1960 and 1985, the telecommunication sector was made up of the Department of Posts and Telecommunications (P&T), a limited liability company in charge of the internal network and, the Nigerian External Telecommunication (NET) Limited, responsible for the external telecommunications services (Ijewere and Gbandi, 2012). By the end of 1985, the installed switching capacity was about 200,000 lines a shortfall from the planned target of about 460,000 (Ijewere and Gbandi, 2012).

The sector was largely characterised by poor quality of service. “The telephone system was unreliable, congested, expensive and customer unfriendly” (Ijewere and Gbandi, 2012). The government sought for ways of improving the sector and “in January 1985, the erstwhile Posts and Telecommunications Department was split into Postal and Telecommunications Divisions. The latter was merged with NET to form Nigerian Telecommunications Limited (NITEL), a limited liability company.” NITEL, a wholly state owned enterprise was created to “harmonize the planning and co-

ordination of the internal and external telecommunications services, rationalize investments in telecommunications development and provide accessible, efficient and affordable services” (Ijewere and Gbandi, 2012). NITEL operated as a state monopoly and the sector was restricted from private sector participation. Like most other state enterprises in Nigeria, NITEL failed largely to either expand the telecommunications services across the population or improve the quality of service on offer. The result was a stifling of investment in the sector and breakdown of telecoms services. By 1999, “NITEL had roughly half a million lines available to over 100 million Nigerians (Ijewere and Gbandi, 2012) In contrast, South Africa had over 4 million landlines and seven hundred thousand mobile lines for its 44 million population in 2000 (Mutula 2002).

### *3.1.2 Evolution of Telecoms sector Reforms*

Reforms in the sector took roots way back in 1987 when the then Military government organised a seminar on telecom sector restructuring (Jerome 2003; Ndukwe, 2005). The outcome of this forum led to the development of Nigeria’s first National Telecommunications Policy. The policy recommendations included;

- Privatisation of the public monopoly, NITEL
- Deregulation/liberalisation of the industry
- Establishment of the National Regulatory Authority  
(Ndukwe, 2005)

Following the recommendations of the forum, mobile telephony was introduced in 1992, through a joint venture between NITEL and DSL of Canada to form MTS. The following year, the Nigeria Communications Commission (NCC), a regulatory body to oversee the governance of the industry and introduce competitive market reforms, was established by the government. In 1997 through licensing of Private (Fixed) Telephone Operators competition was introduced into fixed telephone network subsector. Subsequently, the Telecom Law was reviewed and amended in 1998 and similarly the 1987 Telecom Policy was reviewed

However, the industry remained largely uncompetitive until 1999 when the Civilian administration committed to extensive reforms. The then President, Olusegun Obasanjo, submitted that Nigeria “cannot be talking about creating a conducive environment for foreign investments if the performance of our transport, telecommunications and energy sectors remain dismal and epileptic” (Ndukwe, 2005). Among the drivers of the reform process was “The need to attract foreign investment and reduce the role of the government where the private sector has the capabilities to operate more efficiently” (Ndukwe, 2005). In 2000 a new National Telecom Policy was drafted by the Federal Government to guide the reform of the industry. The new policy had the following agenda (Ndukwe, 2005):

- To modernise & expand the telecom network and services
- To licence 4 national digital mobile telephone operators, with initial 5-year exclusivity;
- To privatise the incumbent operator/carrier by 2002;
- To licence a second national carrier by 2002;
- To achieve 2 million fixed lines and 1.2 million mobile telephone lines by 2002 and 5 million fixed lines and 4 million mobile lines by 2005;
- To strengthen and empower the Regulator through full independence;
- To establish a National Frequency Management Council to coordinate and allocate block spectrum to different user groups
- To develop and enforce Universal Access obligations for fixed and mobile telephone operators

### *3.1.3 Framework and elements of the Reforms*

The reforms in the sector were based on the following (Bankole, 2006):

- Ministry of Communications: for formulation, implementation and monitoring of the Telecommunications policy.
- Nigerian Communications Commission (NCC) regulates the telecommunications industry:
- Restrictions removed on foreign equity participation
- Import duties on telecom equipment reduced from 25% to 5%;
- Pioneer status (i.e. five-year tax holiday) granted to qualified investors.
- Telecommunications Act of 2003 authorised NCC to grant and renew communication licences, monitor and enforce compliance with licence terms and conditions by licensee; promote competition and approve tariffs of telecommunications companies; ensures that network service providers allow interconnectivity with their communication systems when requested by other providers, and all agreements involved must be registered with NCC.
- NCC manages and administers frequency spectrum.
- The National Frequency Management Council (NFMC) responsible for national frequency plan
- NCC to facilitate universal access of telecommunications

### *3.1.4 Regulatory Interventions*

The NCC established a number of regulatory interventions guiding the activities of operators in the sector. One of the conditions of licensing was the principle of non-discriminatory & transparent interconnection of networks. To this end, the NCC published the Reference Interconnection Offer in 2003 to guide the technical & economic relationships among operators.

Secondly, the NCC licensed Metropolitan & Long Distance Fiber Optic transmission networks operators to address problems of inadequate backbone infrastructure. This intervention was necessary given the lack of basic telecommunication infrastructure in the country.

To secure stakeholder buy-in, the commission conducted public inquiries on a number of regulations to gain insight of stakeholder expectations. Such issues included spectrum fees & prices, Enforcement, and Dispute Resolutions. It also instituted a monthly ‘Consumer Parliament’ to inform and educate consumers, and to redress complaints

Given that the telecoms industry in Nigeria was still evolving, the NCC considered it a necessary intervention to create the manpower base to drive the expansion of the sector. By this, it established an ICT-based training Institute to facilitate human capital development.

Mechanisms for regulatory impact assessment were also put in place. Such mechanisms through regular research are used to monitor impacts or regulatory actions, as well as global developments for purposes of measuring effectiveness and benchmarking. The reforms have been generally implemented with more recent reforms such as the number portability start introduced and already implemented in 2013. The NCC also conducts a regular consumer satisfaction survey to ensure that policies are impacting on service quality;

### **3.2 Banking sector reforms (focus on commercial banking)**

#### *3.2.1A brief History of banking reforms in Nigeria before 1999*

In the 1970s, the Federal Government of Nigeria pursued an indigenisation policy which led to the nationalisation of many firms including banks. By this, a structure of banking developed in which most banks were owned either wholly or partly by the federal or state governments, with the erstwhile foreign owners becoming minority partners and eventually withdrawing which left the Federal and state governments with majority stakes (Agbaje, 2011). Anyanwu (2010) notes that between 1986 and 1990, with the introduction of the Structural Adjustment Programme (SAP) the Government reversed to a privatisation of state owned enterprises leading to the sale of many of the banks and the licensing of new operators. The deregulation of the banking sector was in order to allow substantial private sector participation. However, Agbaje (2011) notes that the regulatory aspect of the SAP was weak as a result of inconsistencies and policy flip flops and by 1993, the sector had fallen into crisis. This crisis led to new state regulations and restriction of commercial banking.

#### *3.2.2 Reforms since 1999*

Since 1999, Nigeria has been undergoing financial sector reforms in one form or the other, notes Agbaje (2011). These are:

- Universal Banking: 2001-2010
- Banking Consolidation: 2004-2005
- Stress Testing and Regulator Intervention 2009
- 2009 Reform of Universal Banking: 2010-date
- Other Minor Reforms 2010 - date

*Universal Banking: 2001-2010*

By 1999 Nigeria had returned to democracy and the government committed to economy wide reforms. A new phase of banking reforms was initiated in 1999 with the return of liberalization and the adoption of the universal banking model. Agbaje (2011) writes that Nigeria adopted the universal banking model in 2000 in accordance with global trends driven by the US deregulation of financial services. Prior to the introduction of universal banking, he continues “Nigeria maintained a separation between commercial and merchant banking, and insurance”. The underlying principle behind universal banking was “based on economics of scale; lowering of financial costs; integration of financial markets; and the logic of free enterprise and deregulation”. This reform updated Nigerian banking operations to align with global best practice.

*Banking Consolidation: 2004-2005*

By 2004, the Central Bank of Nigeria (CBN) embarked on fresh regulatory reforms aimed at strengthening banks’ capacities (Alford, 2010). This was targeted at capital base consolidation and “was meant to correct the structural and operational weaknesses that constrained the banks from efficiently playing the catalytic role of financial intermediation” (Anyanwu, 2010). The consolidation exercise was anchored on the fact that of 89 commercial banks in the country, only few were adequately capitalised. Ogujiuba and Obiechina (2011) summarized the problems of the sector thus:

- a) Weak corporate governance, evidenced by high turnover in the Board and management staff, inaccurate reporting and non-compliance with regulatory requirements, falling ethics and de-marketing of other banks in the industry;
- b) Late or non-publication of annual accounts that obviates the impact of market discipline in ensuring banking soundness;
- c) Gross insider abuses, resulting in huge non-performing insider related credits;



d) Insolvency, as evidenced by negative capital adequacy ratios and shareholders' funds that had been completely eroded by operating losses;

e) Weak capital base, even for those banks that have met the minimum capital requirement, which stood at N1.0 billion or US\$7.53 million for existing banks and N2.0 billion or US\$15.06 million for new banks, and compared with the RM2.0 billion or US\$526.4 million in Malaysia; and

f) Over-dependence on public sector deposits, and neglect of small and medium class savers

Adeyemi (2006) summarized the key elements of the 13-point reform programme:

- Minimum capital base of N25 billion with a deadline of 31st December, 2005;
- Consolidation of banking institutions through mergers and acquisitions;
- Phased withdrawal of public sector funds from banks, beginning from July, 2004;
- Adoption of a risk-focused and rule-based regulatory framework;
- Zero tolerance for weak corporate governance, misconduct and lack of transparency;
- Accelerated completion of the Electronic Financial Analysis Surveillance System (e-FASS);
- The establishment of an Asset Management Company;
- Promotion of the enforcement of dormant laws;
- Revision and updating of relevant laws;
- Closer collaboration with the EFCC and the establishment of the Financial Intelligence Unit.

Following the exercise, the aggregate capital of the consolidated banks rose by 439.4 per cent between 2003 and 2009, while deposit level rose by 241.8 per cent (Anyanwu, 2011). A number of banks merged or were acquired to meet the consolidation deadline. At the end, the result was the emergence of 24 strong banks (down from 89), larger capital base (from under US\$3.0 billion to over US\$9.0 billion), rating of Nigerian banks by international rating agencies (S & P; Fitch) for the first time, branch network increased from 3,200 in 2004 to 3,866 in April 2007 (Ogujiuba and Obiechina, 2011). However, this was not reflected in the flow of credit to the real economy, as the growth rate of credit fell during this period, while actual credit did not reflect the proportionate contribution of the sector to the GDP (Anyanwu, 2011).

*Stress Testing and Regulator Intervention 2009*

Though the 2004 reforms were highly successful in strengthening the capitalisation of banks it was weak on regulatory reforms. The 2009 reform, was triggered by the need to address the combined effects of the global financial and economic crises, as well banks' huge exposures to oil/gas and margin loans, which were largely non-performing; corporate mis-governance and outright corruption, among operators in the system (Anyanwu, 2011). The weak regulation of the sector led to many corrupt practices where banks gave out nonperforming loans used by beneficiaries to fund non-productive activities or out rightly embezzled. The precarious nature of the banks necessitated corporate governance reforms.

Anchored on a ten-year blueprint, the four cardinal principles of the reform were enhancing the quality of banks; establishing financial stability; enabling healthy financial sector evolution and ensuring that financial sector contributes to the real economy. This round of reform, therefore, sought to substantially improve the banking infrastructure, strengthen the regulatory and supervisory framework, and address the issue of impaired capital and provision of structured finance through various initiatives, so as to provide cheap credit to the real sector, and financial accommodation for small and medium-scale enterprises (SMEs) (Anyanwu, 2011).

#### *Other Minor Reforms 2010 -Date*

Continuing from the 2009 reforms, there were other complementary reforms introduced by the CBN (Agbaje, 2011). Among these include

- Common Accounting Year End for all banks from running January to December
- Credit Risk Management System: This outlined a new terms of reference for issuing credits to borrowers. This was aimed at curtailing the abuses that nearly crashed the system
- Corporate Governance Reforms: This introduced a 10 year maximum tenure for Bank Chief Executive Officers and directors
- Asset Management Company of Nigeria (AMCON). AMCON was to takeover and manage the recovery of bad loans
- Removal of Off-site Bank ATMs
- New Uniform Account Numbering Scheme (NUBAN)
- New Cash Policy: The cash policy among other things introduced cash withdrawal limits
- Islamic Banking Scheme and Islamic Sovereign “Sukuk” Bonds. This however attracted controversies and is yet to be implemented

### **3.3 Energy Sector Reforms (Electricity)**

#### *3.3.1 Background of Electricity Sector*

Nigeria's energy sector is characterised by government subsidies and inefficiencies. The National Electric Power Authority (NEPA) which later transformed to the Power Holding Company of Nigeria (PHCN) controlled the sector as a monopoly from generation, distribution and transmission.

According to the Global Subsidies Initiative, GSI (2012) "Nigeria's electricity supply industry has been under central control of the state since its creation. At different times, however, the sector has been managed by different designated agencies of government. These agencies coordinate the generation, transmission and distribution aspects of the electricity supply industry". Despite tariff increases to reflect a more market price of electricity, the GSI argues that "tariffs were still far from covering the full cost of production. This is clear when the price of electricity in Nigeria is compared with prices in other West African countries". As a result of this, the industry for decades remained unprofitable and was unable to attract private sector investment.

### 3.3.2 Electricity Sector Reforms

Nigeria has embarked on electricity sector reforms since 2005 (GSI 2012; Bankole 2006). The objective of the reform is to boost electricity generation and transmission through increased private sector participation. To achieve this, the government embarked on regulatory reforms that will liberalize the sector and create an enabling environment for private sector investment. The government passed the Electric Power Sector Reform Act 2005 which established a new legal and regulatory framework for the industry. The elements of the reform include

- Unbundling of the PHCN into six generation companies, 11 distribution companies, and one transmission company. These companies will be commercialized and transferred to the private-sector (GSI 2012; Bankole 2006).
- The Act also established the National Electricity Regulatory Commission (NERC) that is responsible for regulating the sector and licensing private companies intending to operate in the sector.
- Universal access issues are also dealt with under the current reform. These measures, including the encouragement of private sector participation through Independent Power Producers (IPP), are directed at addressing the considerable power shortage in Nigeria. "IPPs operating in Nigeria are Enron (in Lagos State) and Nigerian AgipOil Company (AGIP) which have added 270MW and 350MW respectively to the generating capacity in the country. Other oil companies are in the process of generating power for the country" (Bankole 2006).

- Six gas turbines scheduled for commissioning in 2006, part of government's plan to generate 10,000MW by 2007.
- A new pricing system based on market rates. According to the GSI (2012) in 2008 a 15-year roadmap was developed "towards cost-reflective tariffs, called the Multi-year Tariff Order (MYTO). The first two phases, 2008–2011 and 2012–2017, are designed to keep consumer prices relatively low, though still affecting price increases in a gradual manner"... the final regime is intended to provide the necessary incentives for power producers and investors to operate and maintain electricity infrastructure

The unbundling of the PHCN is underway with the sale of its assets managed by the Bureau for Public Enterprise (BPE) through a competitive open bidding system. The MYTO has also started with more market reflective rates and will gradually replace the heavily subsidized rates in the past. Infrastructure is also being upgraded to improve gas supply which is a major feedstock for electricity generating plants

### **3.4 Conclusion**

The Nigerian government has embarked on serious economic reforms since the return of democracy in 1999. The reforms have largely targeted policies that encourage private sector participation. To this regard, commercialisation, liberalisation and deregulation as well as strengthening corporate governance and regulatory institutions have been key strategies. The later recognises that strong and efficient regulatory institutions are important in improving the business environment. This belief is evident across the sectors examined. The Telecoms sector has the Nigerian Communications Commission; the Electricity sector has the National Electricity Regulatory Commission; and the banking sector has the Central Bank of Nigeria. All of these agencies have witnessed capacity improvements, empowerment through legislation and human capacity development. The next chapter will examine FDI data and trends in Nigeria.

## Chapter Four: FDI Trends and Impact

### 4.0. Introduction

In this chapter we would examine general FDI inflow before and after the period following 1999. This would help us to understand the nature of changes in FDI inflow since the democratic government embarked on far reaching reforms. We will then examine the nature of FDI inflows in one of the three sectors examined in chapter 3. For this purpose, The Telecoms sector has been chosen for in-depth examination given that it has more easily accessible data than the other sectors. Secondly, it is the sector that was most underdeveloped prior to the reforms. Therefore, it would provide a very good understanding of the impact of reforms on FDI on the sector and general industry performance (Opaluwa et.al 2013) Focus here will be to understand not just volumes of inflow but specific market performance and industry growth since the reforms. This is important given that reforms should not only drive investments but improve industry performance and quality. Moreover, investor decisions to enter a given market is influenced by the performance of players in that market (Yao & Curl 2010)

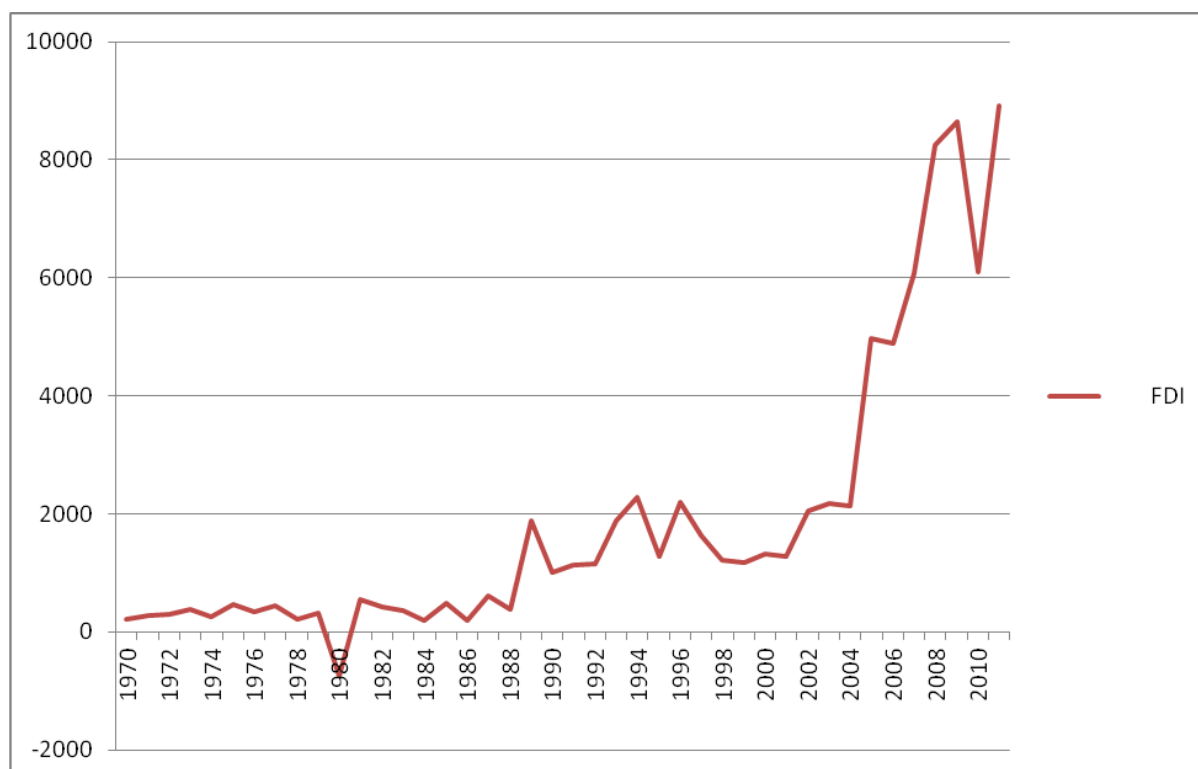
Inward and outward foreign direct investment flows, annual, 1970-2011											
UNCTAD, UNCTADstat											
MEASURE	US Dollars	DIRECTION									
		Inward									
YEAR	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
ECONOMY											
FDI	205	286	305	373	257	470.12	339	440.514	210.933	309.599	-738.87
YEAR	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	
	542.327	430.611	364.435	189.165	485.581	193.215	610.552	378.667	1884.25	1002.5	
YEAR	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	
	1123.9	1156.7	1878.1	2287.4	1271.053	2190.685	1642.472	1210.105	1177.708	1309.665	
YEAR	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	1277.421	2040.182	2171.39	2127.086	4978.26	4897.811	6086.73	8248.64	8649.527	6098.963	8915

Source: Composed from UNCTAD database: Inward and outward FDI Flows, Annual, 1970 -20102  
in US\$ million

#### **4.1. General FDI inflow**

In this section we would examine trends in FDI inflow and the underlying drivers of FDI through this trend. From table 4.1 below, FDI inflow to Nigeria has seen particularly three trends over the past 50 years: stagnation, slow growth and geometric growth. The first phase of FDI inflow is characterised by a fairly constant annual FDI inflow between 1970 and 1989. Except for the slump in 1980 where inflows recorded negative flows, FDI averaged around USD\$ 200 million. In the second phase FDI inflow experienced fair growth that differed from the trends of the previous two decades starting around 1989 up to 1996 peaking at about USD\$2 billion. From 1996 FDI inflow declined until 2001. In the third phase, FDI growth took a geometric turn that would eclipse all previous trends. Starting from 2001 growth in inflows saw a steep rise that would peak in 2009 at over USD\$8 billion and sharply falling in 2010 before picking up again in 2011.

**Table 4.1: FDI Inflow to Nigeria 1970 – 2010 (in million US Dollars)**



Source: Composed from UNCTAD database: *Inward and outward FDI Flows, Annual, 1970 -20102*, based on the data set above

Available at: <http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=88>

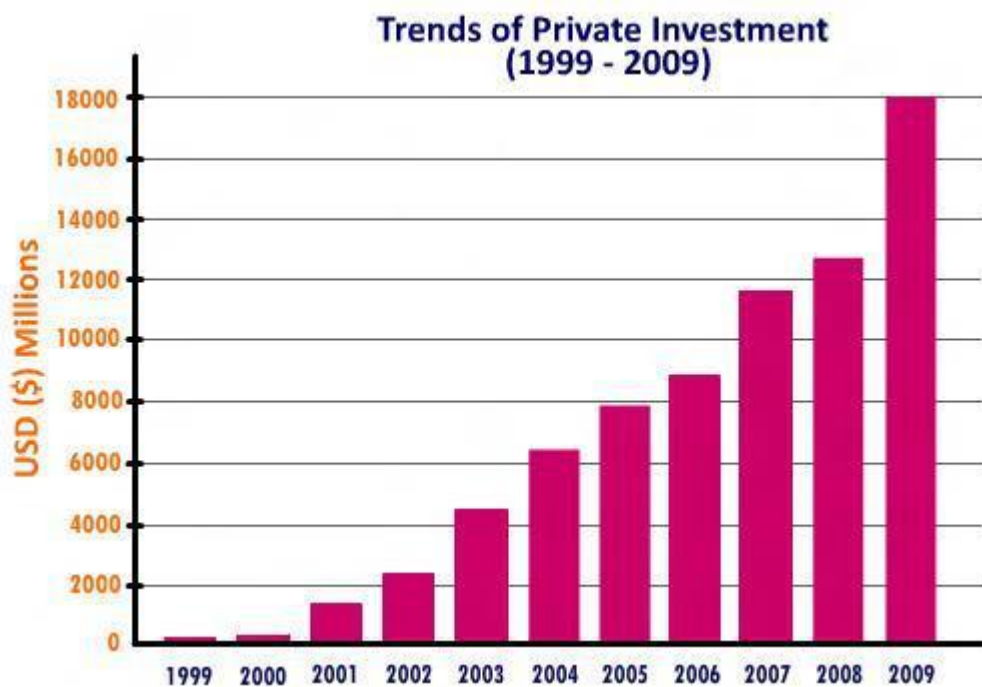
In the 1970s and 1980s, FDI inflow remained almost stagnant with little fluctuations the, most significant being the slump in 1980. FDI in this period was particularly driven by investments in oil which was discovered in commercial quantities in 1958 (Akinlo 2012; Subair & Salihu 2011). The discovery of oil, coupled with the boom in revenues following the Arab-Israeli conflict (Akinlo 2012), led to the decline of other sectors such as agriculture and manufacturing. To this effect, the sole viable sector for foreign investors was oil and its capacity to absorb further investments was limited.

From the late 1980s up to 1996 the first significant growth in inflows was recorded. In line with the observations of (Busse 2003), this could be explained by the democratic and economic reforms initiated in the 1980s by the military government of General Babangida and the IMF driven Structural Adjustment Programme (Ainmulegun 2012). Within this period, elections were held for local and state executives and legislatures as well as the federal legislature. The SAP also led to the privatisation of some state corporations as well as cuts in public spending (Akinmulegun2012). However, it is observable that inflow dipped around 1994. The dip in inflow in 1994 may be explained by the political uncertainties that followed the annulment of the June 12 presidential elections and the rise of General Abacha's brutal dictatorship.

The third phase of FDI inflow is clearly very different from the first two in volumes and annual growth rates. FDI growth in this period was phenomenal and geometric, experiencing over 1000 percent increase between 1999 and 2011. As also shown in Table 4.2, private investment rose in similar fashion (a result of both increase in private domestic investment and foreign direct investment in a proportion of 5:4).

Private investment has witnessed tremendous growth since 1999 from about US\$50 million in 1999 to about \$US18 billion in 1999. Much of the investment has come from foreign direct investment flows.

**Table 4.2: Private Investment in Telecoms 1999 - 2009**



Source: Mowete, I. (2007) '2007 Nigerian Telecommunications Sector Review'

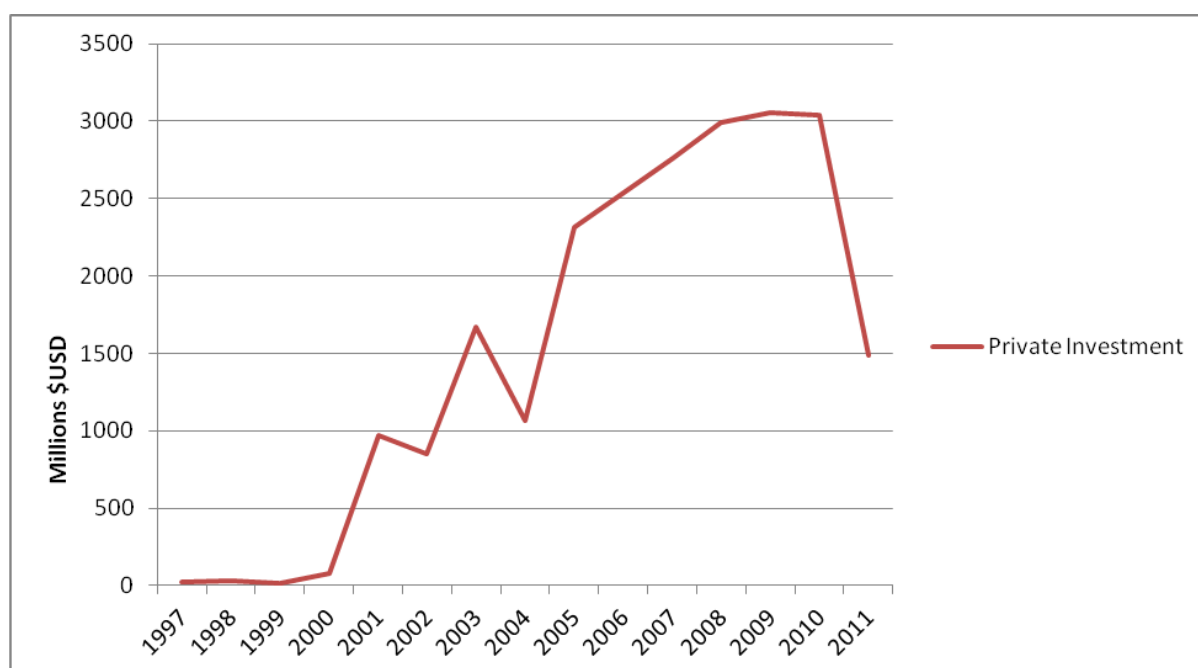
## 4.2. Telecoms Sector FDI and Growth

### 4.2.1. Investment Inflow.

The reforms in the sector have seen an influx of mobile telephone networks such as MTN, Globacom, Airtel, and Etisalat. From less than half a million telephone lines in 1999 there are currently about 130 million subscribers (NCC 2013). Most of the growth has happened in the mobile telephone networks sector unlike the former system that was dominated by fixed lines.



**Table 4.3: Private Investment in Telecommunications**



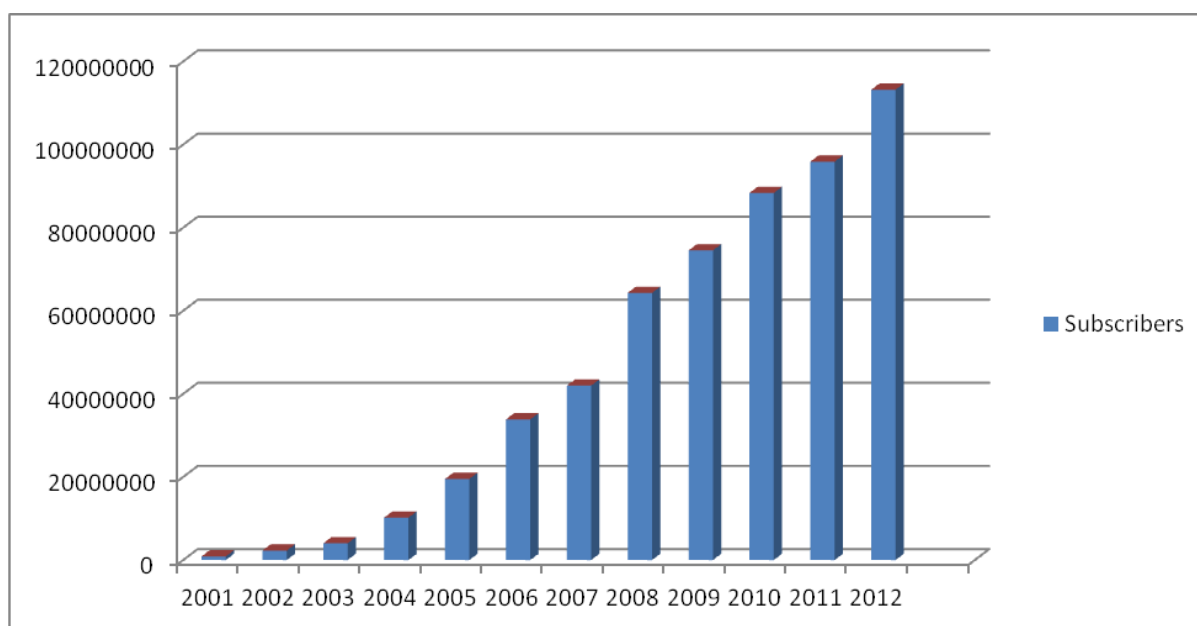
Source: Computed from World Bank's *World Databak*

As seen from the table 4.3 above, private investment (foreign investment is included and most investment in the industry comes from FDI) has seen a geometric growth starting about 2001 from a base of US\$22 million to a peak of over US\$3 billion in 2009. The growth in private investment in the sector has happened in the last decade following liberalisation of the sector to private investments as well as strengthening of the institutional and regulatory environment.

#### 4.3.2: Subscriber Growth

The subscriber growth has been phenomenal especially in the hitherto nonexistent mobile telephone sector. From just about half a million lines in 1999 subscriber base has risen to over 113 million in 2012. The cumbersome, costly and inefficient bureaucratic procedures for the acquisition of telephone lines from the state run NITEL made it near impossible for subscriber expansion. Industry expansion led by the private sector eliminated inefficient processes as well as drastically reducing cost. In the 1990s, NITEL telephone lines cost nearly N200, 000 to install (Ofose 2012). Today, it costs just about N100 to purchase on the spot SIM card from any of the private service providers. Apart from the cost and process simplification, an important factor in subscriber growth is the new reach of telecoms infrastructure. The inflow of private investment in the sector provided the funding for the expansion of infrastructure into frontier towns and villages enabling network coverage to reach previously excluded millions of potential subscribers. Growth in subscriber base has driven costs down and made it even more affordable for potential customers. From about N49 per minute of voice call in 2002 costs have gone down to an average of N10 per minute.

**Table 4.4: Subscriber Base 2001 -2012**



*Source: Composed from Nigerian Communications Commission Data on Website - 2013*

#### 4.2.3. Industry competition and structure

The telecoms industry has witnessed tremendous diversification since the reforms and investment inflow in the sector beginning in the early 2000s. The industry was before then dominated by fixed telecoms operations largely held by the state owned NITEL. Today the structure has changed in favour of the mobile operations. Data from the Nigerian Communications Agency (NCC) shows that the mobile sector has 99.68 percent share of the market while fixed (wireless and wired) has only 0.32 percent. Of the mobile share, Global System of Mobile Communication (GSM) has 97.55 percent while Code Division Multiple Access (CDMA) has just 2.13 percent.

The industry has also seen a diversification of firms from the NITEL monopoly as well as in product offerings. We would briefly consider key players in the dominant Global System of Mobile Communication (GSM) category and their market impact

##### *MTN*

Mobile Telephone Networks (commonly known as MTN) has the largest subscriber base with 238, 47 percent share of the total market (55, 238, 430) (NCC, 2013). MTN is a South African mobile telephone company with Headquarters in Johannesburg and operations across Africa, Middle East and Europe. MTN was incensed by the Nigerian government after payment of \$285m for one of four GSM licenses in January 2001. It started operations in May 2001 and today its services spans 223 cities and towns, more than 10,000 villages and communities across Nigeria (MTN 2013)

According to the company, from 2011 to date it has invested in excess of US\$1.8 billion in building mobile telecommunications infrastructure in Nigeria (MTN, 2013). The company's competitive advantage stems from its wide network coverage (88 percent of country land mass) and large subscriber base.

#### *Globacom*

Globacom (commonly known as Glo) is the second largest operator with a subscriber base of 25,019,862 accounting for 21 percent of total market share. However, Glo is an indigenous Nigerian company with its headquarters in Lagos. It started operations in 2003 and has expanded into three other West African countries

#### *Airtel*

Perhaps the company that has undergone the most transformation since it started operations in 2001. Originally licensed as Econet, it was acquired by Vodacom a South African company. In 2006, Vodacom's operations were acquired by Celtel International, and the company was subsequently sold to Zain. In 2010, Zain sold the company once more to its present operator Airtel, an Indian company. Airtel commands some significant presence with a subscriber base of 21,591,904 accounting for 19 percent of total market.

#### *Etisalat*

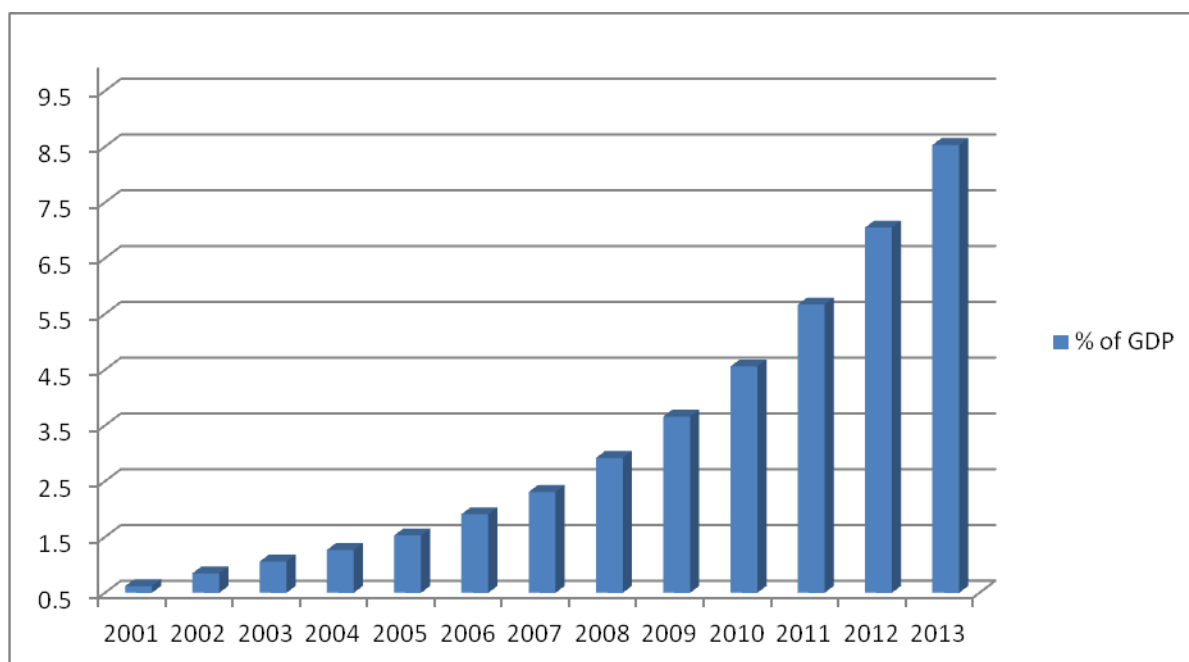
Etisalat, owned by the United Arab Emirates entered into Nigeria in 2008 through a 40% equity acquisition of Emerging Markets Telecommunications Service (EMTS). Its 15,303,647 subscriber base accounts for 13 percent of the total market.

#### *4.2.4: GDP contributions*

As the investment inflow in the sector has grown, so has the contribution to economic growth and performance. The telecoms sector has significantly increased its share of GDP from a low of 0.62 percent in 2001 to a high of 8.53 percent by the first quarter of March 2013 (NCC 2013). It has been a steady and geometric increase on a year on year basis. The 8.53 percent contribution is comparable to other key sector such as oil and gas (14.75%), and much higher than finance and insurance (3.95%) and manufacturing (1.14%).

Arguably, this increase has benefitted from the inflow of private investment in the sector including foreign direct investment.

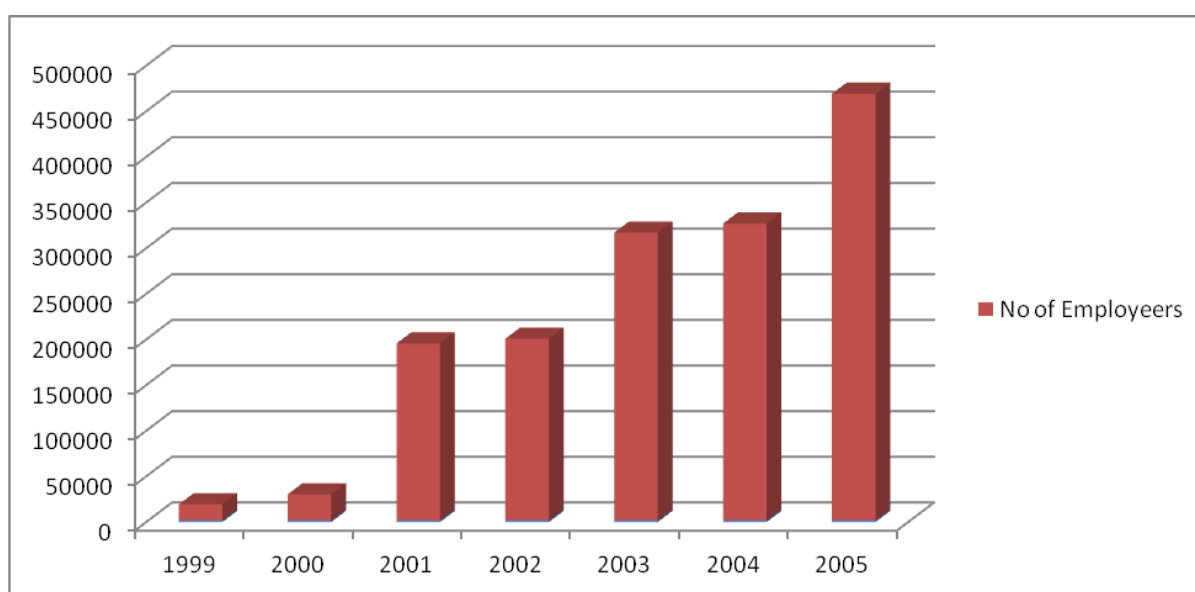
**Table 4.5: Percentage Contribution of Telecoms to GDP 2001 – Q1 March 2013**



*Source: Composed from Nigerian Communications Commission Data on website (2013)*

GDP contributions have also been boosted by the employment boom generated by the inflow of investments into the sector. Available data (see table 4.6) shows that jobs in the sector were just over 17,000 in 1999. By 2005, the number employed in the sector had grown to almost half a million. The current situation is likely to be a lot higher than the 2005 figures given much higher levels of investment in the sector since 2005.

**Table 4.6: Number of Employees in the Telecoms Sector 1999 – 2005**



*Source: National Bureau of Statistics data cited in Mowete(2007) “2007 Nigerian Telecommunications Sector Review”*

### **4. 3. Conclusion**

Statistical data shows three different phases of FDI inflow to Nigeria between 1970 and 2012. Of the three phases, the period between 1999 and 2012 shows significant change in the trend, a period of unprecedented FDI inflow. Similarly, this period witnessed general increase in private investment. FDI inflows into the selected telecom sector also showed massive increases as well as the contribution of the sector to the economy. The sectors contributions rose from small fractions to very significant proportions. Employment in the sector also grew in large proportions within the same period. Interestingly, the period corresponds with the wide scale economic reforms following transition to democratic rule showing that a significant relationship exists between the trends. Reforms enabled private sector participation leading to industry diversification and competition.

In summary, evidence from the data presented above shows a positive relationship between economic reforms since 1999 and FDI inflow and economic performance. This, however, does not discount other factors such as return to democracy and rising middle which may have played a role. Such factors are beyond the scope of this study and may require separate studies.

## **Chapter Five: Discussions and Conclusion**

### **5.1. Introduction**

In the previous chapter, I examined FDI trends and impact on the economy. In the light of the research objective to examine the impact of reforms in Nigeria since 1999 on foreign direct investment, this chapter will discuss the investment trends observed in chapter four in relation to reforms. This discussion will assess how the observed relationships compare with literature. In this chapter also, the current business environment challenges will be examined. As a recap, this research focuses on the following questions:

1. What are the reforms that are targeted at improving the investment climate that the government has introduced in the major economic sectors (telecoms, commercial banking and electricity) since 1999?
2. Reforms have little relevance if they are not followed through implementation. How thoroughly have reforms been implemented?
3. Reforms aim at achieving certain objectives which includes improving the investment climate. Has reform policies expressed through regulation led to changes in investment?

4. Nigeria is still categorised as a developing nation and still lags behind in many business environment indexes. What current challenges remain? And what further reforms are needed to sustain improvements in the investment climate?

Questions 1 and 2 have been assessed in chapter three. Questions 3 & 4 will be examined in this chapter.

## **5.2. Discussion of Findings**

This section will focus on discussing the findings on Questions 2 and 3 above. The trends observed in chapter four will provide the basis for drawing assessments and judgements.

### **5.2.1 Impact of Reforms on Investment**

*RQ: Reforms aim at achieving certain objectives which includes improving the investment climate. Has reform policies expressed through regulation led to changes in investment?*

This question is at the heart of this exercise. To answer this research question, trends in FDI and private investment has been presented in chapter four. The data shows that private and foreign direct investment has significantly increased since 1999 following extensive reforms in different sectors of the economy. FDI growth from 1999 shows unprecedented growth from just about US\$100 million in 2001 to a peak of over US\$8 billion in 2010. This is also observed in the growth of private investments in the same period from below US\$50 million in 1999 to US\$18 billion in 2009.

For the telecoms sector that was given in-depth examination, a significant relationship was observed between the onset of the reforms and the rise in private and foreign investments. Prior to the reforms, private investment in the sector was at a zero level. This situation changed after the introduction of reforms with private investments rising around 2000 and peaking at over US\$3 billion in 2009.

The findings of this paper in this regard show similarities with the findings of ADB (2010) on the power sector investment performance which finds evidence that Nigeria's FDI performance 'was remarkably strong during the period 2004-2008'. This period corresponds with extensive economy-wide reforms including privatisation, deregulation and institutional and regulatory functions. Findings by Feridun, Olusi and Folorunso (2006), Morisset (2001) and Babatunde (2013) reveal that openness has significant positive effect on foreign direct investment and economic growth in Nigeria. This may explain the geometric rise in FDI growth. For instance, telecoms sector reforms centred particularly on deregulation and strengthening of regulatory institutions to enable private sector participation. This led to the licensing of private operators in 2001 and the expansion of private investments in the sector.

However, reforms alone may not explain FDI growth within this period. Findings by Nurudeen (2010) argue that 'market size of the host country' is an important factor for FDI growth in Nigeria. This is instructive in that Nigeria has the largest population in Africa (estimated at 160 million in 2012) with

a rising middle class constituting about 23 percent of the total population (Renaissance Capital 2011). But it should be noted as well that prior to reforms, the large population was in itself not sufficient to attract the massive FDI inflow witnessed since early 2000s.

### 5.2.1 Business Environment Challenges and Current Reform issues

*RQ: Nigeria is still categorised as a developing nation and still lags behind in many business environment indexes. What current challenges remain? And what further reforms are needed to sustain improvements in the investment climate?*

Reforms following the return to democratic rule have repositioned Nigeria as an investment destination in Africa. However, its economy is still classified as developing. Business environment issues still remain and constitute a problem for private sector investments. The Business Environment and Competitiveness across Nigerian States (BECANS) survey 2010 (Eboh and Lemchi 2010) identified four broad constraints to doing business in Nigeria namely: Infrastructure; Security; regulatory services; and Business Development Support. A World Bank Business Environment Assessment in 2009 identified similar constraints. These challenges are highlighted.

#### *Regulatory Services*

Regulatory services though improving still remain weak. The World Bank Ease of Doing Business 2013 shows that Nigeria still some regulatory services still need to be strengthened. While she ranks strongly in access to credit (rank 23) and fairly on Protecting investors (rank 70), some other areas are still weak. For instance, Nigeria ranks 182 of 185 countries in ease of property registration; paying taxes (rank 155); resolving insolvency (rank 105) and trading across borders (rank 154). These regulatory issues require further reforms and strengthening of capacities in the institutions that oversee such processes.

#### *Electricity*

Power supply remains a major impediment to business activities in Nigeria. Currently, the country generates a paltry 4, 000 megawatts of electricity whereas projected demand is about 12, 000 megawatts (World Bank 2009). This situation leads to constant power outages and loss of productivity for firms amounting to about 10 percent of sales. About 86 percent of firms have their own power generators which on the average produce 61 percent of electricity needs (World Bank 2009). This situation has posed considerable problems to firms operating in Nigeria. The World Bank's Ease of Doing Business Report 2013 still ranks Nigeria among the top 10 most difficult places to get access to electricity connection (World Bank 2013). However, power sector reforms are on-going with the privatisation and sale of state owned power generation and transmission companies and the transition

to market tariffs which started in 2011. It is hoped that these recent efforts will increase electricity generation and transmission.

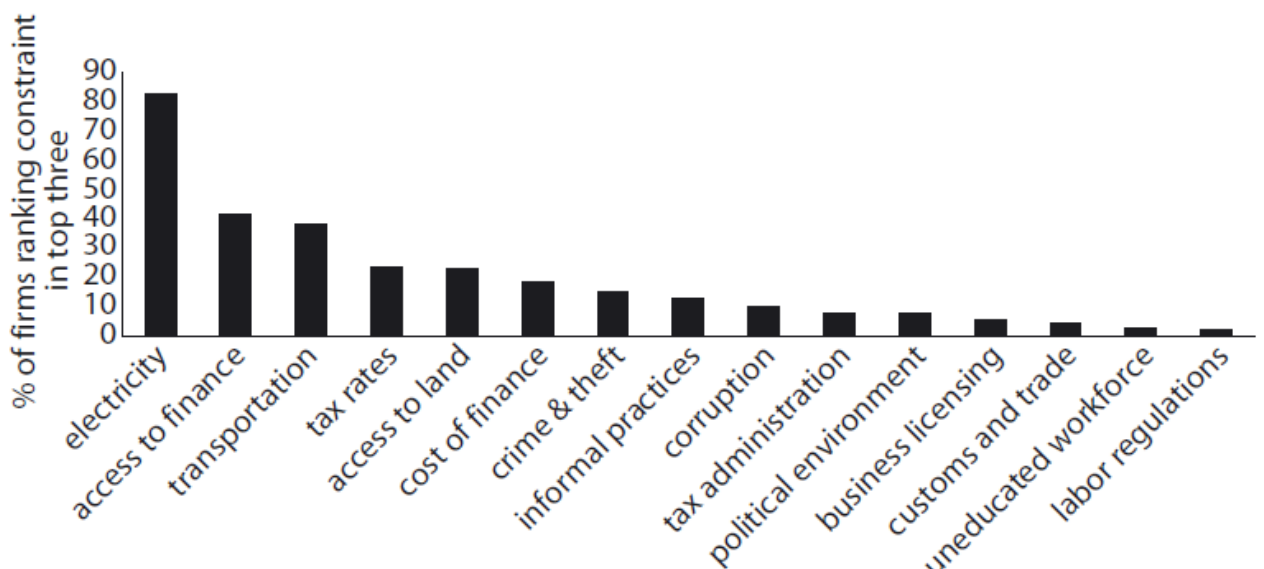
*Transport Infrastructure*

Another major problem to doing business in Nigeria is the lack of transport facilities. Most of the highways connecting the different regions of the country are barely pliable with only 15 percent of roads in Nigeria paved as of 2004 (World Bank 2009) and the situation has not changed much. Transport costs come in the form of breakage, spoilage, or theft amounting to about 4 percent of total sales (World Bank 2009). This situation is made worse by the nearly comatose condition of the railway service. Roads remain the major means of supply and distribution for firms despite their deplorable condition. Investments in transport infrastructure therefore remain an imperative particularly rail transport where reforms have been slow.

*Security*

Security in Nigeria has deteriorated so much since 2010 with the escalation of security problems across the country. In the South-East and South-South, increased levels of kidnapping for ransom have been recorded while in many parts of the north, the fundamentalist Islamic group Boko Haram have been waging a terrorist campaign. Statistics from Human Rights Watch (2012) show that the fundamentalist group have killed over 1500 people since 2009.

**Table: Major Perceived Constraints to Doing Business in Nigeria**



Source: The World Bank, *an Assessment of the Investment Climate in Nigeria* (2009)



From the table above, infrastructural gaps appear more constraining than institutional processes. As earlier highlighted electricity and transportation are key constraints to businesses operating in Nigeria while business licensing, tax administration and labour regulations are less of constraints. This may indicate that efforts towards regulatory reforms have been faster than infrastructural reforms. A contributory factor to this may be the effort at state levels in improving competitiveness such as the harmonization of taxes in Lagos state through the Lagos Collectible Levies Law 2010

### **5.3: Recommendations**

The business environment and investment climate has shown improvements but there are still gaps that remain. The first constraint that the government has to address is the electricity problem. Reform efforts in the electricity sector are underway with the unbundling of the national monopoly the Power Holding Company of Nigeria into Generating Companies (Gencos), Distribution Companies (Discos) and Transmission Companies (Transcos) and the privatisation of the resulting companies (GSI 2012). However, given that the process has been clouded in controversies of government interference (Ebelo 2013) the management of the process needs to be a bit more transparent and the advocacy process to enlighten the public will be important for its success. Every stage of the process should be open and the public should be given sufficient information about the bidding process and its outcome. Public support is very important in reform efforts in Nigeria as witnessed during mass protest following the withdrawal of petrol subsidies.

Critics of government in Nigeria often focus on issues such as physical infrastructure but regulatory services are as important. Many of the regulatory issues cut across both the federal and state governments. Cooperation between the different tiers of government can bring about a lot of improvements. For instance, the Lagos State Levies law 2010 has harmonized taxes paid to the state and local government authorities thereby eliminated double taxes paid by business in the state as well as simplifying the tax payment process. Such efforts could be replicated across the other states of the federation.

The infrastructure challenge can benefit from Public-Private Partnerships (PPPs). Again, the Lagos State Government has adopted this model in the provision of roads and bridges which has contributed in the reduction of the cities difficult traffic situation. Such PPPs may be employed by the federal government in the provision of interstate highways, and modernisation of the moribund state railway services.

Solving the security challenge in the country requires a more holistic approach. The government and its security agencies have so far relied heavily on use of force and physical patrol in areas where security is weak. Though this may be useful especially in the Northern parts of the country where

insurgents are constantly attacking civilian populations and in the Niger Delta where oil bunkering and kidnapping is common, there is need for greater intelligence in security operations.

#### **5.4. Conclusion**

This study set out to examine the impact of economic reforms in Nigeria since the return to democratic governance in 1999 on Foreign Direct investment. It also tried to examine the current business environment issues and areas for further reform effort. The findings of the research show that FDI and private investment has experienced a geometric rise following extensive economic reforms in different sectors of the economy. From just above US\$130 million in 2000 FDI rose to a peak of over US\$8 billion in less than 10 years in 2009. This unprecedented geometric increase shows that the reforms had a significant positive impact on FDI and private investment in general.

This research also found that though improvements have been recorded, some constraints to doing business still exist. Such constraints include poor electricity supply, weak transport infrastructure and security. Others are regulatory challenges such as cumbersome property registration and tax payment processes, and resolution of insolvency.

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