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Investment Climate in Nigeria: Effects on Nigeria's Economic Development

Abstract. This research examines the investment climate of Nigeria and the effect it could have on economic development. Primary data were gathered randomly from investors and quantitatively analyzed using Likert scale and T-test to determine the authenticity of the hypothesis proposed in the questionnaire. The result shows that the Nigeria culture and value system have positive impact on Nigeria investment climate, the financial institutions in Nigeria are efficient and able to drive a positive investment climate, the Nigeria stock exchange is efficient, it is not difficult to acquire real estate for business purpose in Nigeria at affordable prices, communication channels like email, telecommunication etc. are efficient, the possibility of natural disaster is very low, and it's not difficult to get credit facilities. On the negative front, security threats is an impediment to free movement, infrastructures like roads, railways, airports, sea-ports and electricity are inadequate, corruption is prevalent and a lot is still expected as regards rule of law. Recommendations includes, transparency and reduction of bureaucratic process in governance as well as more involvement of the private sector through project financing to provide necessary infrastructures that are needed to drive the economy.

Keywords: investment; investment-climate; economy; development; GDP; government; infrastructure; corruption.

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The economy of a nation is sustained by the economic well-being of firms and industries operating in the economy. Unlike Government that is obliged to provide primary goods, the primary motive of an investor is profit making. Since it takes a while for a newly established firm to break-even, potential investors both local and foreign are constantly looking out to a favorable environment that will allow business to grow without hindrance. The investment climate can be defined as the factors constraining the effective functioning of product markets, financial and non-financial factors, markets, and infrastructure services, including in particular weaknesses in an economy's legal, regulatory and institutional framework (World Bank, 2003).

A similar definition is also given in the World Bank developmental report as the set of location-specific factors shaping the opportunities and incentives for firms to invest productively, create jobs, and expand (World Bank, 2004). Stern (2002) sees investment climate as a summation of present and expected policy institutional and behavioral environment that could have influence on the returns and risk associated with investment in a specific location. It should be noted that the term investment climate is sometimes used interchangeably with 'business environment'.

Nigeria economy is dynamic and growing at a very fast rate with peak GDP growth rate as follows: 6.5% (2014), 5.4% (2013), and 6.5% (2012). After the 2014 re-basing of the country's GDP, the economy assumed the status of the largest economy in Africa leading South Africa and Egypt. IMF in 2014 put Nigeria's GDP nominal at \$594.257bn (21st in the world), GDP per capita \$3,416 (118th in the world). Petroleum contributes about 20% of the GDP and makes about 80% of government spending. The recent drop in the international price of oil from a peak of \$115 per barrel, June 2014 to \$45 per barrel in January 2015 thus has a huge negative impact on the economy. The nation's foreign exchange changed from an average of 180 naira to a dollar in May 2014 before the sharp drop in price to a peak of 206 naira to a dollar February 2015. The diversification of Nigeria economy however offers hope that the economy can still remain robust in the face of global oil price crisis.

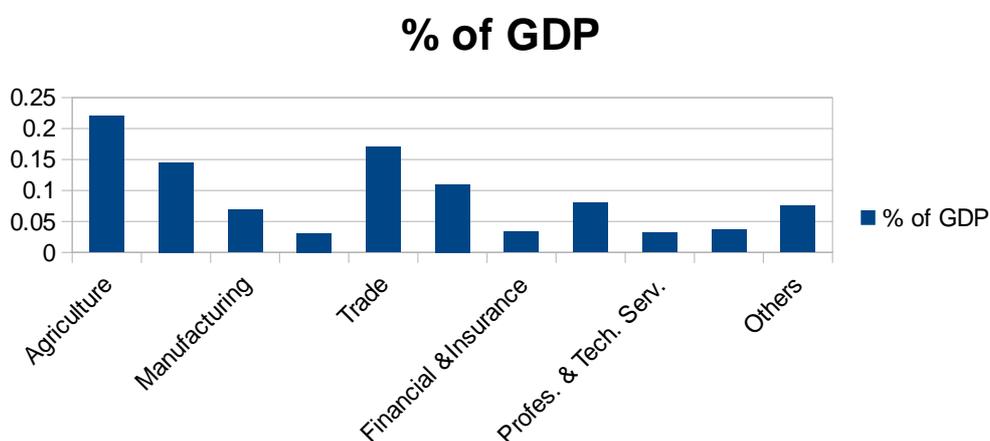


Figure 1. Nigeria's GDP estimates by sector (2013)

Source: Figure by the author, data from *The Guardian* 7th April 2014

The vibrant and growing different sectors of the economy yet present different opportunities for local and foreign investment. Figure 1 above shows the different sectors of Nigeria economy and the percentage of their contributions to national economy. The statistics drawn from the *Guardian* 7th April 2014 was arrived at after the 2013 rebase of the country's GDP. Details of the sector composition are: Agriculture 21.97%, Mining and Quarrying 14.50%, Manufacturing 6.83%, Construction 3.12%, Trade 17.02%, Information and communication 10.94%, Financial and insurance 3.30%, Real Estate 8.02%, Professional, scientific and technical services 3.19%, public

administration 3.63%, others mainly services 7.48%. the figure shows graphical representation of these statistics in sequential order.

Table 1: Comparison of Nigeria, South-Africa, USA on World Bank Ease of Doing Business

Variables	Nigeria	Russia	SA	USA
Ease of Doing Business	170	62	43	7
Starting a Business	129	34	61	46
Getting Electricity	187	143	158	61
Getting Credit	52	61	52	2
Paying Tax	179	49	19	47
Enforcing Contract	140	14	46	41

Source: Table by the Author data from World Bank Doing Business

Despite the huge potential of Nigeria economy, the investment climate or the business environment has some challenges. Table one shows some selected statistics (the smaller the figure the better) of World Bank ease of doing business comparing the situation in Nigeria with Russia, South Africa and the United states. The comparison shows the investment climate in Nigeria is far behind what is obtainable in international communities. The only parameter where the investment climate is appreciable is in the ease of getting credit where Nigeria has the same rank with South Africa and a better ranking compared to Russia.

Even though there are many multinational companies operating in Nigeria, a classical example of the sojourn of Virgin Atlantic (US Airline), in Nigeria shows that some companies still expect more to be done to improve the investment climate. Following the collapse of Nigeria national carrier (the Nigeria Airways), the then president of Nigeria in 2004 brokered into a deal with Virgin Atlantic to be the nation national carrier, thus Virgin Nigeria was formed with Virgin Atlantic having 49% stake with their \$25m deposit while the Nigeria government had the remaining stake of 51%. Following the change of government in 2007, some of the concession given the new Airline like the use of the international terminal for domestic flights was reclined, after five years of operation, Virgin Atlantic pulled out of the deal. The New Airline was then taken over by a Nigeria's business man who renamed it "Air Nigeria" but today the Airline has stopped operation.

This research is aimed at examining the Nigeria's investment climate as seen by local investors with empirical analysis to make deductions that are valid and to give a projection on how this attributes can be improved such that the country can experience a great economic development. In view of this, the research gives answers to the following questions: (1) what are the expectation of Nigeria investment climate? (2) What are the attributes of the Nigeria investment climate ?(2) To what extent has these attributes affected economic development in Nigeria (3) How can the Nigeria's investment climate be improved such that there will be increase in domestic investment, and more inflow of Foreign Direct Investment can be guaranteed.

Dollar et al (2006) in a research based on a survey conducted in five cities covering 1,500 Chinese enterprises to check the effect of the investment climate and their effects on firm performance, shows the measurement of company ownership and investment climate are both important for investment. Details show that there is a positive correlation between private and foreigner ownership to firm performance. Other areas where positive correlation was noticed with firm performance were in light regulatory burdens, labor market flexibility, limited corruption, and technological infrastructure.

A unique discovery from this research that should be of interest to the Nigerian economy is the development of technological infrastructure. Technological infrastructure enables seamless fabric of interconnected computing and storage system that ensures fast processing of data, information, organizational interaction and information exchange. The research also shows that corruption makes

Government to divert resources like public goods from citizens. Corruption is more burdensome on firms, when regulatory agencies are uncoordinated and decentralized as a result of cumulative bribes to be paid.

Corruption entails secrecy and motivates government officials to encourage monopolies which can discourage new entries and innovation of new firms so that the ranks of the elite are not expanded and the secrecy of the existing corrupt practices can be preserved. Other ways in which corruption is expressed is in payment of money to inspectors, officials that are in-charge of granting necessary permits, bribes for the fixing of utilities like telephone lines and electricity connections (Dollar et al., 2006; Clark and Xu, 2004). On legal system Dollar et al (2006) maintained that a good court system can sustain firm's expectation to the effect that contractual rights can be honored, which can encourage investment and even expansion such that investors will not have to worry about contract renegeing. Simeon et al (2002) research affirm this in their submission that legal system helps firm growth by improving the trust needed for new transaction relationship.

XU (2010) research was carried out for the World Bank. He made a survey to collect investment climate information at firms' level across different countries. His studies show the heterogeneity effect of business environment which is dependent on the industry, initial condition and institutions that are complimentary. He sees some elements of the business environment like labor flexibility, low entry and exist barrier as a sort of protection from the government which are of great importance to most economies. He classified business environment into four categories: The first is macroeconomics which include fiscal policies, high tax rate that has a tendency to lower companies' returns and inflation which can increase the variability of returns. Dollar et al (2006) however said higher tax rate do not seem to drive away investors. Governance is the second category which ensures political stability. He sees rule of law as a factor as this determines how much to invest and the organization form it should take. Infrastructures like electricity, transportation and communication is the last category which he opined is necessary for productive investment.

Poor business environment makes local firms engage lower factor prices in other to stay competitive with efficient producers that has better business environment. This results in lower wages for labor and profits for business owners. Djankov et al (2002) raised the issue of time spent in getting business started in Africa; he opined that too much time is spent in getting business started in some countries. He gave the example of Mozambique where the business owner has to go through 19 procedures over 149 days and pay an average of \$256 fees. He assessed this to be a bad practice when compared with the situation in Canada where it takes only two procedures in two days and a fee of \$280.

A good investment climate is thus very important for the development of local enterprises as it can guarantee higher returns for capital. It's however not advisable to make conclusions on the effects of investment climate within country in a short time variation as investment climate and institutions changes slowly (Grilliclesz, 1986). Adeoye and Elegunde (2012) in a research work titled the impact of external business environment on organization performance in the food and beverage industry in Nigeria, submit that business environment such as politics, economic, socio-cultural activities and technology do have influence on organization performance in-terms of effectiveness, efficiency increase in sales and achievement of corporate goals.

The research was executed with quantitative research method using a structured questionnaire as research design. 70 questionnaires were given out of which 63 representing 90% were returned. The population sample was randomly selected targeting local investors who are owners of Small and Medium Scale Enterprises, contractors and Managers in manufacturing companies. Collected primary data were statistically computed using Likert 5 point scale to determine the mean and standard deviations of each variable which were in turn used to compute T-test for the analysis of the

hypothesis. Supplementary information was gathered with unstructured interview questions which were analyzed qualitatively.

Respondent analysis

Categories of Investors	no	Age Group	Numbers
SMEs	28	18-25	3
Contractors	16	26-35	18
Services	5	36-45	25
Managers in Manufacturing companies	14	46-60	11
		61-100	6

Findings and discussion of findings

A total of 16 hypotheses were tested by this research, the computation of the data gathered from the field research is shown in Table 3 below. At 95% significance level and 60 degree of freedom, the result of T-calculated and T-tabulated are as follows in sequential orders. Where T calculated is greater than T-tabulated the null hypothesis is accepted while the alternative hypothesis is rejected, and where it's the reverse the null hypothesis is rejected and the alternative hypothesis accepted.

Table 3

Summary statistics of used variables

Variables	Observ.	Mean	SD	Variance
ATTRACTION				
1.Nigeria's cul value system have positive impact	63	4.095	0.508	0.258
2.Fnancial Transactions in banks are OK	63	3.952	0.484	0.234
3.Efficient stock exchange	63	3.762	0.453	0.205
4.Positive progression of economic policies	63	3.238	0.407	0.166
5.Real Estate ifor business is easy to acquire and affordable	63	3.619	0.438	0.192
6.Workforce is skilled and productive	63	3.19	0.405	0.164
7.Good communication channels	63	4	0.492	0.242
8. It's Easy to move around without security threats	63	2.714	0.169	0.029
9. The possibility of natural disaster is low	63	4.095	0.508	0.258
NEGATIVE FACTORS				
10.Inefficient Government bureaucracy	63	3.857	0.47	0.22
11. Unfair interpretation and application of laws	63	3.523	0.428	0.183
12.Corruption has negative impact	63	4.476	0.581	0.337
13.Inadequate Infrastructure	63	3.667	0.444	0.197
14. Poor supply of electricity	63	4.429	0.571	0.326
15. The fear or occurrence of terrorism is high	63	4.19	0.525	0.276
16. It's difficul to get credit facilities	63	3.857	0.47	0.221

Source: Field survey 2015

Hypothesis is rejected. The following deductions can therefore be made from the research:

1. The Nigeria culture and value system have positive impact on Nigeria investment climate.
2. The financial institutions in Nigeria are efficient and able to drive a positive investment climate.
3. The Nigeria stock exchange is efficient.
4. The government economic policies are moving in the right direction.
5. It's easy to acquire real estate for business purpose in Nigeria at affordable prices.
6. The Nigerian labour force is skilled and productive.
7. Communication channels like email, telecommunication etc. is efficient.
8. Security threats is an impediment to free movement.
9. The possibility of natural disaster is very low.
10. Nigeria government bureaucratic process is inefficient.
11. There is unfair interpretation and applications of laws.
12. The Nigeria investment climate is characterized with corruption which has a negative impact.
13. Infrastructures like roads, railways, Airports and Sea-ports are inadequate.
14. The supply of electricity is poor.
15. The fear or occurrence of terrorism is high.
16. It's difficult to get credit facilities.

A sound investment climate will contribute in no small measure to Nigeria's economic development. The current effort of the government to simplify the registration procedures of companies with the government must be sustained. The current rating of Nigeria at 129 compared to Russia, USA and South Africa ratings of 34, 46 and 61 respectively on the World Bank ease of starting a business shows that a lot of work still need to be done which primarily has to do with the speed of approval process. This is where the use of technological infrastructure comes into play, the development of it which Dollar et al (2006) pointed out as one of the factors responsible for firm performance in China. Government agencies should be virtually linked such that an investor will not need to manually file applications in different agencies to get approval on related subjects. In this respect remittance of taxes can also be made easy. Olusegun et al (2008) said bankruptcy of contractors, variation of projects scope, incompetent project managers are causes of project abandonment in Nigeria. The points raised by these researchers are also valid for other form of investments.

Even though the result of the quantitative part of this research shows that the Nigeria work force is skilled and productive, oral questions shows that the most efficient professionals hardly get jobs on merit as a result of nepotism and corruption. As pointed out in the literature review, one of the ways in which corruption flourishes is secrecy in dealings and transaction. The enforcement of the freedom of information bill in Nigeria which have brought to open and public criticism some activities of the government officials, is a way forward in tackling corruption problem in Nigeria. Professionals and civil right groups should take more advantage of this bill to make government officials and even management staffs of corporate bodies to be accountable. The profile and track records of contractors bidding or executing high profile projects should also be in the public domain.

The solution to inadequate infrastructure development in Nigeria is in the input the private sector can bring as the financial responsibility of the government is so enormous and not much can be done by the government in this regards. Governments are looking to Public-Private Partnership (PPPs) to radically improve infrastructure networks in their countries (Farlan, 2005). More investment in Project financing by PPP can help boost investment climate in Nigeria by the provision of infrastructure. Natural hazard or inclement weather condition is generally not a problem in Africa. It was only in 2013 there were massive floods in a number of states in Nigeria which caused a lot of damages. The situation was promptly put under control and the government mapped out plan that could make a future occurrence of such incidence to be less devastating.

Conclusion

Nigeria is blessed with a pool of natural and human resources. The economy is dynamic and it's one of international significance judging by its recent status of being the biggest economy in Africa and one of the “N-eleven” countries. The Citi-Group in February 2011 fore-casted that Nigeria will get the highest average GDP growth in the world between 2010 and 2050, a good investment climate is one in which the Macro-economic indexes are positive and government policies move in the right direction, to make them better, such that the tax regime is not burdensome and inflation is constantly under check. Nigeria is doing well on this point there is however room for improvement. Political stability is very critical for sustained business investment. Since the return of Nigeria to civil rule in 1999, politics have been stable but effort should still be made such that government at all levels make policies that are well thought out and backed by law where necessary such that successive governments will not make changes that could be detrimental to investors.

The Nigeria legal system is overdue for reform, not just as it relates to legal proceedings in the court but the review of laws that pertains to business ownership and transactions such that necessary approvals can be gotten on time, and disputes charged to court promptly judged. One way to do this is to have a specific time frame for different issues to be resolved like the case of starting a business in Canada where it takes only two procedures, two days and a fee of \$280 as reported in the literature review. Government should also not forget its primary responsibility of ensuring security of lives and property which can best be achieved by being proactive. As regards infrastructure provision, government should encourage both local and foreign investors to engage more in project financing and the financial regulatory Agencies like the Central Bank of Nigeria should ensure that the financial institutions are in good position to provide necessary credits. They should also assist investors to get foreign financial partnership from Multi-lateral Agencies and Export Credit Agency (ECA). Finally corruption which gives room for nepotism, delay in granting approvals and all sort of vices that hampers investment prosperity should be tackled head long by ensuring openness in transactions, development of technological infrastructure, and strengthening the capacity of civil society groups and the media to checkmate potential offenders.

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Appendix I: Questionnaire Analysis

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
ATTRACTION					
1.Culture and value system	15	42	3	3	0
2.Fnancial Transaction	15	39	3	3	3
3.Efficient stock exchange	3	48	6	6	0
4.Good economic policies	3	30	12	15	3
5.Getting office space	6	36	12	9	0
6.Efficient workforce	3	24	18	18	0
7.Good communication channels	6	54	0	3	0
8.Movement without threats	3	15	24	15	9
9.No Natural disaster	6	48	0	3	0
NEGATIVE FACTORS					
10.Inefficient bureaucracy	6	51	0	3	3
11.poor application of laws	0	45	9	6	3
12.Corruption	30	33	0	0	0
13.Infrastructure	15	24	12	12	0
14. Poor supply of electricity	33	27	0	3	0
15.Terrorism	27	27	3	6	0
16. Difficulty in getting credit	18	27	9	9	0

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Инвестиционный климат республики Нигерия и его влияние на экономическое развитие страны

Аннотация. Данное исследование рассматривает инвестиционный климат Нигерии и его воздействие на экономическое развитие страны. Первичные данные были собраны, был произведен опрос большого количества инвесторов, а также количественно проанализированы с помощью шкалы Лайкерта и t-теста для определения подлинности гипотезы. Результат показывает, что культура Нигерии и система ценностей оказывают положительное влияние на инвестиционный климат Нигерии, финансовые учреждения в Нигерии являются эффективными и в состоянии поддерживать позитивный инвестиционный климат, нигерийская фондовая биржа работает эффективно. Недвижимость для деловых целей в Нигерии можно приобрести по доступным ценам. Эффективность использования таких каналов связи, как электронная почта, радиосвязь и т. д. весьма высокая. Возможность возникновения стихийных бедствий чрезвычайно низкая. Процесс получения кредитных средств для ведения бизнеса упрощен. Однако политическая нестабильность и угрозы безопасности являются препятствиями для ведения бизнеса, в стране отсутствует возможность свободного передвижения, использование инфраструктуры, такой как автомобильные дороги, железные дороги, аэропорты, морские порты и электричество является недостаточным. Коррупция распространена и продолжает расти. Автором приведены рекомендации по увеличению прозрачности и сокращению продолжительности бюрократического процесса управления, а также более активное участие частного сектора в рамках проектного финансирования для обеспечения необходимой инфраструктуры, которая необходима для экономического роста.

Ключевые слова: инвестиции; инвестиционный климат; экономическое развитие; ВВП; государственное управление; инфраструктура; коррупция.

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