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Investment Climate Hostility and Nigerian Economic Development: An Appraisal

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ABSTRACT

Nigeria, despite being Africa's largest economy and most populous nation, faces investment climate hostility which may have negative impacts on her economic development. This study examines investment climate hostility and Nigerian economic development. However, the researchers adopted thematic approach in the study. The finding shows that corruption, terrorism and crime, lack of support from the government and infrastructural decay constitutes major challenges to investors in Nigeria. The study recommends amongst other things: that a sustainable environment should be provided for the intending and participating businesses and investments, that government should prioritize creating a stable and secured environment by addressing terrorism and crimes, promoting inclusive governance and ensuring the rule of law, and efforts should be made towards making significant investments in infrastructure as they are crucial to reducing operational cost and improve the ease of doing business. The researchers concluded that if efforts should be put in place by addressing all the identified problems, Nigeria will become a prosperous nation.

Keywords: Investment, Climate, Nigerian Economic and Development

INTRODUCTION

Nigeria, Africa's largest economy and most populous nation, stands at a crucial juncture. With its rich natural resources and a youthful, dynamic population, the potential for economic growth is immense. Nigeria is Africa's most populous nation with about180 million people, abundant natural and human resources, low-cost labour and largest potential market in sub-Saharan Africa for investment, [1]. These features mentioned above makes Nigeria the most viable economy to invest as the market is massive with great potentials. However, despite these inherent advantages, the nation grapples with an increasingly hostile investment climate, which hampers its economic development. Investment climate is the economic and financial conditions of a country that influences whether individuals and businesses are willing to lend money and acquire stake in the businesses operating in that country. It is a broad concept that has to do with a set of location-specific factors that shape the opportunities and incentives for firms to invest productively, create jobs and expand [2]. In the words of [3], Investment climate is essentially the overall economic and environmental conditions of a place or country that affect the willingness of individuals and businesses to invest or lend money and acquire a stake in the businesses operating in that place or country. It consists of a set of factors in a given location that provide incentives and opportunities to investors, [4]. It is affected by a multiplicity of factors such as poverty, crime, infrastructure, manpower, national security, political instability, regime uncertainty, taxes, rule-of-law, property rights, government policies and regulations, level of its economic growth, transparency and accountability, [5]. Nigeria's investment climate and economic development had faced significant challenges since 1981, when there was oil glut in the international energy market and a barrel of crude oil sold for less than $10 as against $40 in 1980. This had resulted to significant decline and shortfall in the revenue that accrued to the federal government to finance economic programmes, especially the fourth National development plan, [6]. The economic situation had led to serious economic hardships and social consequences that affected the standard of living of Nigerians. Investment climate can be friendly or hostile to investment and economic development. A friendly investment climate fosters investors' confidence to invest to boost the capacity utilization of the manufacturing sector to attract foreign and domestic investments, [7]. A hostile investment climate on the other hand, discourages investors and scares them away. This impacts negatively on the economic development of nation or an environment. Economic development refers to the process by which the economic well-being and quality of life of a nation, region, or local community are improved. It involves strategic initiatives aimed at fostering growth, enhancing competitiveness, and creating a vibrant, resilient economy. This collaborative effort encompasses a broad range of activities, from job creation and infrastructure development to education and workforce training, all aimed at building a sustainable and inclusive future for communities. This appraisal examines the underlying factors contributing to this hostility, evaluates its impact on economic growth, and proposes strategies to improve the investment climate.

The State of Nigeria's Investment Climate

Nigeria, despite being Africa's largest economy and most populous nation, faces a challenging investment climate. Several factors contribute to the current hostile state of Nigeria's investment environment, making it less attractive to both domestic and foreign investors. Understanding these factors is crucial for devising strategies to improve the investment climate and stimulate economic growth. [8], in her study opined that the Nigeria business climate is perceived as hostile by a survey on some Swedish company operating in Nigeria. Among the factors cited are corruption, insecurity, political instability and inadequate infrastructure. Companies report difficulties obtaining the necessary currency for trade, hampering daily activities and the ability to do transactions. Key factors shaping Nigeria's investment climate are:

Political instability and insecurity: Political instability and insecurity create a multifaceted hostile investment climate by increasing risk, uncertainty, and costs while reducing predictability and confidence. Stable political environments, on the other hand, tend to attract more investment by offering a predictable, secure, and supportive framework for economic activities. Political instability often leads to economic policies that are inconsistent or unpredictable. This can cause economic volatility, which deters investment. For example, sudden changes in tax policies, nationalization of industries, or erratic enforcement of regulations can undermine investor confidence. Political instability can lead to sudden changes in laws and regulations, creating an unpredictable business environment. This legal uncertainty can deter both domestic and foreign investors who rely on stable legal frameworks to protect their investments. Also, the country faces significant security issues, including terrorism (notably from Boko Haram in the northeast), kidnappings, and ethnic conflicts. These security concerns deter investment, particularly in affected regions, and increase the cost of doing business due to the need for enhanced security measures.

Corruption and Bureaucratic Inefficiencies

Corruption remains a major issue in Nigeria, affecting various sectors and levels of government. Bribe taking from firms or investors to get things done on time in accordance with laws governing business operations in Nigeria has increased the cost of doing business in the country. The prevalence of corrupt practices undermines the rule of law and erodes investor confidence. In a survey study carried out by the United Nations Office on Drugs and Crime (UNODC) in 2019, result shows that there is a significant decline in the rate of bribery and corruption. Out of all Nigerian citizens who had at least one contact with a public official in the 12 months prior to the 2019 survey, 30.2 per cent paid a bribe to, or were asked to pay a bribe by, a public official. This means that, although still relatively high, the prevalence of bribery in Nigeria has undergone a moderate, yet statistically significant, decrease since 2016, when it stood at 32.3 per cent. Although there is a significant decline in the rate of bribery and corruption as recorded from official documents studied, the level of undocumented bribery and corruption is still on the high side. Also, the regulatory environment is often seen as overly complex and burdensome. Obtaining necessary permits and licenses can be time-consuming and costly, discouraging investment. The lack of transparency and efficiency in bureaucratic processes further exacerbates the challenges faced by investors

Inadequate infrastructure

One of the major factors that contribute to hostile investment climate is inadequate infrastructure. Infrastructure such as roads, rail, seaports, airports, power plants, health facilities, educational facilities and others helps to boost the productive capacity of an economy. The more available and better they are, the more the opportunity for development. Infrastructure connects firms to their customers and input suppliers and helps them take advantage of modern production techniques [9]. Infrastructures in an economy are assumed to be direct input used in production to enhance productivity and economic growth hence they are often incorporated in sophisticated production functions, [10]. Worthy of mentioning here is the unreliability of power supply. Power supply in Nigeria is notoriously unreliable, with frequent blackouts and inadequate capacity to meet demand. Businesses often rely on expensive generators to ensure continuous operations, significantly increasing their operational costs. In the recent times quite a number of multinational companies operating in Nigeria generate own power. The average firm in Nigeria is reported to incur losses due to power outages to about 17 percent of sales higher as compared to other countries, [11]. While there have been improvements in telecommunications, access to high-speed internet and reliable information and Communication Technologies (ICT) infrastructure remains limited, particularly in rural areas. This hampers business operations and the adoption of modern technologies in the business environment. Companies that depend largely on internet for their service delivery, such as FinTech companies, will be deterred from investing in such climates as cost will be higher while service delivery will relatively be poor. In summary, inadequate infrastructure creates a multitude of challenges for businesses and investors, leading to higher costs, reduced productivity, limited market access, increased risk, and lower competitiveness.

Economic and Currency Volatility

Economic and currency volatility can significantly impact the investment climate of a country, creating a hostile environment for both domestic and foreign investors.

i. Economic volatility

Economic volatility refers to the unpredictable fluctuations in key economic indicators such as GDP growth rates, inflation, interest rates, and unemployment. High economic volatility can deter investment due to several reasons.

Uncertainty in Returns: Investors prefer stable environments where they can predict future returns with some degree of confidence. Economic volatility makes it difficult to forecast future performance, increasing the risk associated with investments.

Business Planning and Operations: Companies face challenges in strategic planning, budgeting, and operational decision-making in volatile economies. This unpredictability can lead to inefficiencies and increased operational costs.

Access to Finance: Economic instability can lead to tighter credit conditions as financial institutions become more risk-averse. This makes it harder for businesses to secure funding, particularly for long-term projects.

Consumer Behavior: Volatility can impact consumer confidence and spending, leading to fluctuations in demand for goods and services. This uncertainty can further deter investment as companies struggle to predict market conditions.

ii. Currency Volatility

Currency volatility involves fluctuations in the exchange rate of a country's currency. This can have a profound effect on investment decisions due to several factors:

Exchange Rate Risk: For foreign investors, currency volatility introduces exchange rate risk. If the local currency depreciates, the value of their investments and returns, when converted back to their home currency, can decrease substantially.

Cost of Imports and Exports: Businesses that rely on imported goods face higher costs when the local currency depreciates, affecting profitability. Similarly, exporters may benefit from a weaker currency, but the uncertainty makes long-term planning difficult.

Debt Repayments: Companies and governments with foreign-denominated debt face increased costs when the local currency depreciates. This can lead to higher default risks and reduce investor confidence.

Hedging Costs: To mitigate currency risk, companies might engage in hedging activities, which can be costly and complex. These additional costs and administrative burdens can deter investment.

Impact of Hostile Investment Climate on Economic Development

Individuals, businesses, governments, organizations (both governmental and non-governmental organizations) and other entities within and outside a country invest locally and/or internationally. The decision to invest in a particular location (country, state, or region) is guided by the desire to earn relatively high income or make relatively high returns. Generally, returns do not just come. They are by-products of risk-taking, [12].

The economy of a country functions on the fundamental mechanism of savings and investment of financial capital into economic activities that help in the creation of economic wealth. Economic wealth in turn creates conducive atmosphere for consumption that creates economic demand for goods and services thereby stimulating production and further investment. Therefore, this continuous economic cycle leads to growth in the economy which is usually measured by the gross domestic product (GDP). Economic growth when channeled optimally leads to economic development which is measured by the standard of living of the people and other parameters such as the availability of developed capital and money markets, the exchange value of the country's domestic currency and the level of infrastructural development to sustain economic activity " [13]. Therefore, to effectively develop the economy of a country, the environment and all the business growth indices such as electricity, infrastructure, security, political stability has to be friendly but the Nigerian case is not friendly to investors hence the economy is underdeveloped. The hostile investment climate has several adverse effects on Nigeria's economic development, including:

Decline in Foreign Direct Investment (FDI): The challenging environment deters FDI, which is crucial for economic growth, technology transfer, and job creation. Reduced FDI limits the country's ability to leverage external expertise and capital.

According to [14], Nigeria's foreign investment inflows fell by 26.7 percent to US$3.9 billion in 2023 from US$5.3 billion in 2022. The decline was orchestrated by the consecutive drop in foreign investment inflows in the first three quarters of 2023 due to political risks and elevated production costs. Consequently, foreign-owned subsidiaries, including Nestle, Guinness, Airtel Africa, and MTN Nigeria, have lost over N900 billion to currency devaluation. However, the implementation of pro-market reforms – fuel subsidy removal and exchange rate harmonization - reverted the trend in the fourth quarter of 2023 as capital importation rose to US$1.1 billion. Nonetheless, the overall drop in foreign investment inflows reflects the unfavourable investment climate, which has doused investors' confidence in the Nigerian economy.

Meanwhile, FDI fell by 19.4 percent to US$377.4 million in 2023 from US$468.1 million in 2022. This is not unconnected with the divestments by major multinational oil and manufacturing companies due to an unfavourable business environment. Specifically, Shell reached a financial close to selling its onshore oilfields in Nigeria at US$2.4 billion. Similarly, a British Pharmaceutical and Biotechnology Company, GlaxoSmithKline Consumer Nigeria, exited the country after 51 years of operation. The other multinational firms that divested from Nigeria in 2023 include Procter & Gamble (an American multinational consumer goods company), Unilever Nigeria (home care and skin cleansing division), Sanofi, and Bolt Foods, [14].

Stifled Entrepreneurial Growth: Local entrepreneurs face numerous obstacles, such as limited access to finance, high operational costs, and regulatory burdens.

Although research shows economic output, measured by Gross Domestic Product (GDP), grew by 3.54% in the second quarter of 2022, an improvement from 3.1% in the previous quarter, the business environment is still hostile in many fronts. While output continues to expand, there has been heightened pressure on inflation and exchange rate, with adverse effects on many businesses particularly Nano, Micro, Small and Medium-sized Enterprises (NMSMEs). Since February 2022, inflation rate has increased by 3.9 percentage points from 15.7% to 19.6% in July. This implies a higher input cost driven by insecurity in some parts of the country and the supply chain disruption caused by the war in Ukraine. In addition, lower crude oil production caused mainly by oil theft, limited inflow of foreign investment as well as rising import bills led to a depreciation of the exchange rate, further abetting inflation. FATE (2022).

[15], in their research opined that many businesses in Nigeria have faced shortage of foreign exchange in the official market, and resorted to purchasing foreign currency in the parallel market raising the cost of doing business. These costs have been passed on to the consumer, many of whom are struggling with lower real income,

This environment stifles innovation and the growth of small and medium-sized enterprises (SMEs), which are vital for economic diversification and job creation.

Sluggish Economic Growth: The combination of reduced investment and constrained entrepreneurial activity results in slow economic growth. Nigeria's GDP growth rates have often been inconsistent and insufficient to keep up with population growth, leading to lower living standards and increased poverty.The International Monetary Fund (IMF) has said that Nigeria's economy will decline from 3.2 percent in 2023 to 3.0 percent in 2024, indicating a 0.2 percent drop, [16].This performance was a result of a combination of policy mismatch and other challenges. The country experienced a surge in inflation, leading to a significant erosion of the local currency's value.The policy environment in Nigeria was characterised by hostility and instability, encompassing fiscal policy, monetary policy, and regulatory measures.

According to the National Bureau of Statistics (NBS), the country's 'real' Gross Domestic Product (GDP) expanded by 2.4 percent during H1-2023, with Q1'2023 and Q2'2023 experiencing growth rates of 2.3 percent and 2.5 percent, respectively. The Naira liquidity crunch in the first quarter of 2023 shaved off about 80-100bps from growth, leading to a moderation in GDP to 2.4 percent in H1-2023 (vs 3.3 percent in H1-2022). This indicates that the economic growth is slow in the period under review.

Widening Poverty and Inequality: The hostile investment climate exacerbates poverty and inequality in Nigeria. The gap between the rich and the poor may be a worldwide problem, but in Nigeria the scale of inequality is extreme. In one day, the richest Nigerian man can earn from his wealth 8,000 times more than what the poorest 10% of Nigerians spend on 16 average in one year for their basic consumption, [17]. Poverty in Nigeria is particularly outrageous because it has been growing in the context of an expanding economy where the benefits have been reaped by a minority of people, and have bypassed the majority of the population.

Poverty and inequality in Nigeria are not due to lack of resources, but to the ill-use, misallocation and misappropriation of such resources. At the root there is a culture of corruption and rent-seeking combined with a political elite out of touch with the daily struggles of average Nigerians. The issue of unfavourable policies such as taxation pushes majority of the Small and medium scale entrepreneur off the investment ladder. The burden of taxation mostly falls on poorer companies and individuals.

To meet their revenue generation targets, the government – especially at the state level – opts for aggressive taxation of the informal sector, sometimes imposing erratic taxes according to needs. As a consequence, small and medium enterprises and men and women in the informal sector face multiple taxation, accompanied in some cases by human rights violations.

As economic opportunities remain limited, social tensions increase, further destabilizing the investment climate and perpetuating a cycle of underdevelopment.

Strategies for Improving the Investment Climate

Investments and businesses are like crops that must grow on well-watered and fertile land. In view of this, a sustainable environment should be provided for the intending and anticipated businesses and investments. Addressing the hostile investment climate requires a comprehensive and multi-faceted approach. The critical nature of the investment climate made the World Bank and many other countries to embark on investment climate assessment surveys. These surveys provided policy guide that can boost expansion of capacity utilization of firms to increase productivity, employment and income among others. The World Bank's investment climate assessment surveys in different countries over the years revealed that good governance and effective business regulatory policy make a better investment climate. Other factors were better infrastructure, proper economic planning, better reform policies and implementation, proper contract enforcement, respect for property rights, free and fair competition and skilled manpower through education, [18]. It was also observed that conflict ridden and insecure countries, especially the developing ones, have weak enabling investment environment that hampers their economic development potentials and made them incapable of attracting high volume of foreign investment for development, [19]. Government must prioritize creating a stable and secure environment by addressing terrorism and crime, promoting inclusive governance, and ensuring the rule of law. Building trust in political institutions can create a more predictable environment for investors. Going forward, implementing stringent anti-corruption measures and simplifying regulatory processes are essential for improving the business environment. Transparency and accountability should be enhanced through the adoption of digital platforms for government services, reducing opportunities for corrupt practices. Efforts should be made towards making significant investments in infrastructure as they are crucial to reducing operational costs and improving the ease of doing business. Public-private partnerships (PPPs) can play a vital role in funding and managing large-scale infrastructure projects, particularly in transportation, energy, and telecommunications. The Central Bank of Nigeria should focus on stabilizing the naira and controlling inflation to build investor confidence. The government must commit to long-term, coherent economic strategies that provide a stable framework for investment decisions. In their special report on the state of Nigerian Economy, [20], opined that the Economic Management team of the Federal Government must achieve unanimity on supporting Forex market liquidity, among other essential measures. Such a coherent policy stance is paramount in enhancing investors' confidence, both from local land foreign stakeholders, in the country. In addition, a well-articulated policy governing the Central Bank's interventions in the foreign exchange market, backed by a unanimous stance from the Economic Management team, is pivotal in fostering investor confidence in Nigeria. This confidence will, in turn, attract more local land foreign investments, ultimately bolstering the nation's economic stability and growth. Finally, providing financial support, training, and incentives for local businesses can stimulate economic activity. Policies that encourage innovation and entrepreneurship will help create jobs, drive economic diversification, and reduce dependence on oil revenues.

CONCLUSION

Nigeria's hostile investment climate poses significant challenges to its economic development. It divests the economy as evidenced in recent exodus of some multinational companies and closure of some indigenous company as a result of high cost of doing business in the country. However, the government of the day can turn things around by enhancing political stability, combating corruption, investing in infrastructure, and supporting local businesses, Nigeria can create a more favorable environment for investment. These changes are crucial for unlocking the country's full economic potential and ensuring a prosperous future for its citizens. With strategic reforms and concerted efforts, Nigeria can transform its investment climate and pave the way for sustainable and inclusive economic growth.

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