THE FACTORS THAT DETERMINE FOREIGN DIRECT INVESTMENT IN NIGERIA

A Dissertation

Presented to the
Faculty of the University of Sarasota

In Partial Fulfillment of
The Requirement for the Degree of

Doctor of Business Administration

by

Donatus Chukwuemeka Ojide

December 2003

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Dissertation Committee Approval:

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Prosper Bernard, Member date

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TABLE OF CONTENTS

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Chairperson: Dr. Gordana Pesakovic
Committee: Dr. Prosper Bernard
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Department: School of Business

ABSTRACT.

The purpose of this study is to look into the various elements of Nigeria's investment policies that made it very difficult for foreign capital owners to invest in the economic future of that country. These elements are similar to those ones instituted by various countries in Sub-Sahara Africa and they amounted to huge stumbling blocks to infusion of capital into the Nigerian economy by foreign and domestic capital owners alike. The various elements of Nigeria's investment policies are government procurement practices that are marred by corruption and lack of transparency and export subsidies that were operated by an agency called Nigerian Export Promotion Council (NEPC). This agency is responsible for encouraging development in the non-oil exports.

The other elements of the investment policies are lack of intellectual property protection law that has encouraged rampant sale of pirated products. In addition to the above elements, the services barriers and other investment barriers such as continuing

existence of public corporations and parastatals that are inefficient and cost millions of dollars to operate and maintain are deterrents to foreign direct investment.

The study used the foreign direct investment survey to examine the issues surrounding FDI as an indicator of global economic health and stability and the correlation to Nigeria and Sub-Sahara Africa's economic development. It also used the multiple regression analysis to determine the correlation between the dependent variable, economic development and the independent variables of stable political and economic environment, open markets and minimal regulation, low production costs and good infrastructure, privatization of state-owned enterprises, rates of economic growth and size of domestic market and liberal investment regimes and incentives. The idea of expanding business operations outside the boundaries of the firm's country of origin involves challenging and complex issues and it is a very expensive investment. Government policies and regulations coupled with a worldwide business slowdown can cost companies millions of dollars annually. Therefore, this research study explored the policies in Nigeria and Sub-Sahara Africa that inhibit investors' commitment of their time and resources towards establishing business operations in that region.

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This journey, which I named the quest for knowledge through the pursuit of a higher education started twenty-two years ago when I arrived on the shores of this great nation, the United States of America to attend college. In the course of this time period, the experiences that I have acquired and the people whom I met shaped and enriched my life, personally, academically and professionally. To all those individuals and the circumstances that made us cross path, I will forever be grateful.

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List of Tables

Lists of Figures

Table of Appendices

CHAPTER ONE

THE PROBLEM

Nigeria, Africa's most populous country with about 125 million people, "offers investors a low-cost labor supply, abundant natural resources and large domestic market. But Nigeria suffers from inadequate and poorly maintained infrastructure, confusing and inconsistent regulation, endemic corruption and lack of confidence in the rule of law" (Country report, 2001, p. 323). The country has:

> Enormous economic potential. It has a vibrant private sector, vast and fertile agricultural land. Yet Nigeria's economic and social development remains far below even the minimum expectations of the population. The income per capita amounted to only U.S. $240 in 1997; this is substantially below the level at the time of independence in real terms (Newafrica.com, 1999, p.1).

It is equally disturbing that:

> The country's social indicators have slipped to well below the average for the developing countries. About half the population lives in absolute poverty, life expectancy is only 52 years and infant mortality rate is as high as 84 per 1,000 live births. Mismanagement of the resources, over regulation of the economy and price and exchange rate distortions has been at the root of Nigeria's economic downturn (Newafrica.com,1999, p. 1).

Problem Background

Nigeria has the largest population in Sub-Sahara Africa (SSA), which is roughly 125 million people according to the last census count.

It has a complex social and political history that has impacted adversely on the population and has worsened income distribution. The exploitation of the nation's oil resources and the management of oil windfalls have dominated the progress and decline of Nigeria's economy over the past two decades and has influenced evolution and perception of poverty. The economy is currently characterized by a large rural, mostly agricultural-based traditional sector, which comprises of about two-thirds of the poor, and by a smaller urban capital-intensive sector, which has benefited most from the exploitation of the country's resources and from the provisions of services that successive governments have provided (Poverty.worldbank.org, 1996, p. 1).

In the Nigerian situation, there were:

Many significant events before 1985 affected the economy in general and poverty in particular. The exceptionally high oil prices brought a huge inflow of oil revenues that increased the income per capita from $1,300 in 1972 to $2,900 in 1980. After 1980 oil revenues collapsed and real income per capita, expenditure and consumption dropped precipitously. However, public expenditures on capital-intensive projects continued as a result of increasingly financial resources from external borrowings.These borrowings were to the detriment of investments on human capital. The modest overall changes in per capita private consumption during the past three decades suggest that the majority of the population did not benefit from the dramatic changes in average per capita incomes over the period (Poverty.worldbank.org, 1996, p. 1).

In the literature, it is stated that:

Few public resources were devoted directly to providing social services to the poor. The problem is partly due to lack of resources and also how these resources are allocated and managed. In 1990, the estimated public expenditures on education and health services at all levels of government were about 15 percent of total government expenditures and 4.5 percent of GDP. Although these funds are not low compared to other developing countries, but government funds have been erratic, fluctuating largely with oil revenues. More importantly resources have not been used efficiently, as a result there were serious deterioration in the quantity and quality of services and minimized benefits to the poor. Tertiary services absorb disproportionately large portion of government financing both recurrent and capital budget in healthcare and education. In addition, a very high proportion of recurrent budget is absorbed by personnel costs; thereby leaving very little financial resources for much needs input such as drugs and books. There is also very little transparency and accountability for the use of funds for social services at all levels of government. Finally, the roles of different levels of government in the provision of services, overlapping responsibilities and constant shifts of functions between one level of government and another have further compounded fiscal inefficiencies. This in turn has made it difficult to assess total expenditures in social sectors ((Poverty.worldbank.org, 1996, p. 2).

In the theoretical contexts, oil accounts for more than 90 percent of Nigeria's exports, 25 percent of its GDP and 80 percent of its public revenues. Thus, a small oil price increase can have a large impact. A good example is that a dollar increase in the oil price in the early 1990s increased Nigeria's foreign exchange earnings by about $650 million U.S. and its public revenue by $320 million U.S. a year. Nigeria's reliance on oil production for income generation clearly has serious implications for its economic policy management.

In resource-based economies, such as those that are dependent on oil, exports and government revenues are uncertain and highly volatile (World Bank, 1995). Uncertainty means that a variable such as the oil price for the coming year is simply unpredictable. Volatility means that even if another variable such as oil production changes from year to year, its level is still predictable. Consequently, eliminating uncertainty may not eliminate volatility.

The uncertainty of revenues can be addressed by using hedging instruments, which for a fee provide insurance against unexpected price fluctuations. Hedging instruments allows governments, corporations and individuals in developing countries to reduce their vulnerability to fluctuations in currency, interest rate and commodity price (World Bank, 1995). This can be accomplished by selling them to other agents that are more able to bear such risks. Such hedging may allow a country to forecast the oil revenue it would receive in the following year. However, it may not reduce the volatility of revenue because the prices of these instruments are also volatile.

This volatility can be managed by an oil stabilization fund, which complements the hedging. The use of these instruments can lessen the authorities' worries as a result of actual revenues departing from budgeted numbers. If revenues increase, should expenditures be increased accordingly? If revenues fall, should expenditures be reduced? If there is a revenue variation after the budget is approved, should the Finance Ministry assume that the revenue variation is permanent or transitory? If transitory, how transitory?

The 1991 World Development Report recognized the difficulty in ascertaining whether a shock will be permanent or transitory. It argued that "prudence calls for treating all favorable shocks as temporary, at least until the dust settles" (World Bank, 1995, p. 2). The report however, did not explain what finance ministries have to do to know when the dust settles. In reality, the dust never settles and this is precisely the difficulty in managing resource and commodity-based economies.

Nigeria is exposed to more than oil price changes. Its exposure to exchange and interest rate uncertainty and volatility affects its debt service obligations and thus needs managing as well. Since public external debt amounts to 100 percent of GDP, a large share of debt is in currencies other than U.S. dollar. As some interest rates are not fixed, the economy is sensitive to changes in cross-currency exchange rates and interest rates. The adverse movements in these rates that have been extremely volatile in the past three decades explain much of the increase in the rapid growth of Nigeria's debt burden in the 1980s.

Private investment also suffered. Since the public expenditure program expands and contracts at the whim of oil revenue, the volatility and uncertainty that plagued oil revenues were channeled to the domestic economy through changes in relative prices and in the associated structure of production (Pfeffermann, 1999). If the oil shock had been permanent, the response would have been the correct one. However, due to the fact that oil prices are uncertain and highly volatile, investors cannot predict when the shock will take place. They also cannot predict the direction of the next shock or which sector will be favored and which one will be hurt. This uncertainty increases the risk investors face in non-oil activities that in turn reduces the volume of private investment and slowing the growth of non-oil economy. As several World Bank studies confirm, volatile relative prices are one of the main factors limiting private investment in developing economies.

The important point is that with high oil prices and high revenues, project selection becomes very lax. The belief in the oil boom's permanence encouraged Nigeria to finance large public expenditure programs. However, the quality of much of the investment was so poor that many investments did not pay for themselves. Some projects that might have become viable had the oil prices remained high turned non-viable when oil prices fell. Due to political reasons, the projects were not shut down.

There are other macroeconomic costs as well. Capital flight is often the private sector's response to a fear that once oil revenues fall, unsustainable budget deficits will bring inflation and higher future taxes (Emeh, 2002). In addition, there is often an unproductive political struggle among the economic players, trying to appropriate windfalls during the booms and avoid losses during the bursts. The process weakened decision-making process in Nigeria.

Literature Review

Nigeria like many countries in the Sub-Sahara African region operates inadequate and poorly maintained infrastructure. This concept covers many projects ranging from railroads and telecommunication systems to institutional development such as accounting and legal services. The poor and inadequate infrastructure is seen as both impediment and opportunity for foreign direct investment into the Nigerian economy. It is cited that one of the major stumbling blocks to the infusion of foreign capital into Nigeria is that "foreign investors point to the potential for attracting significant foreign direct investment if the Nigerian government permits more substantial foreign participation in the infrastructure sector of the economy" (ODI, 1997, p.6).

Although, the recent attempt made by the Nigerian government to privatize the telecommunications (NITEL) and airlines (Nigerian Airways) have attracted foreign direct investment flows, but other essential infrastructure such as road-building and maintenance remained unattractive, indicating both low returns and high political risks for such investments.

Some of the recent studies done by multilateral lending agencies on the factors affecting the inflow of FDI into Nigeria showed that "poor accounting standards, inadequate disclosure and weak enforcement of legal obligations have dealt a blow to the credibility of the financial institutions. This has happened to the point where it is discouraging to foreign investors to invest their scarce resources in the region" (ODI, 1997, p. 6).

Finally, it could be stated that in the Nigerian situation, bad roads, delay in the shipments of goods at ports such as Lagos, Port Harcourt and Calabar and unreliable means of communication contribute to low level of investment in the country. Furthermore, inadequate power supply by Nigerian Electric Power Authority (NEPA) has added to these disincentives to foreign direct investment in Nigeria.

Second, on the matter of confusing and inconsistent regulation, Nigeria's lack of incentives and operating conditions posed a huge deterrent to inflow of FDI. The fact that regulations that imposed restrictions and didn't provide enabling conditions for good business operating environment resulted in a negative effect to FDI in Nigeria. The country did not have open-door policy for foreign businesses, which could have resulted in the institution of special economic zones and could have increased the initial influx of FDI into Nigeria. It could be stated that lack of incentives such as the granting of equal treatment to foreign investors and inconsistent policies towards privatization in such sectors as air transport, retailing, banking etc. have had a negative impact on the inflow of FDI in recent years (Obadina, 1999).

Although, the Nigerian government has recently repealed some of the laws that impede foreign direct investment, but the lack of transparency in the investment approval procedures and a huge bureaucratic system are still the stumbling blocks to foreign direct investment. Hence the relative low FDI/GNP ratios. It is important to note that "investors are attracted by factors such as low cost but high quality inputs and minimal transaction costs in their interaction with the government and other bureaucracies. The extent to which unnecessary, distorting and wasteful business costs are reduced will definitely contribute positively to FDI inflow into Nigeria" (Ngowi, 2001, p.8).

Finally, the literature on FDI indicated that:

> Economic and structural reforms in Nigeria will be necessary in winning foreign investors' confidence to take their investment funds to that country. These types of reforms have to be very wide and far-reaching. The various reform measures may overlap with each other. Some of the important reforms will require relaxation of entry restriction in various sectors, deregulation in various industries, abolishing price controls, easing controls over mergers and acquisitions and trade practices In addition, removal of government monopoly, privatization, establishing an independent Central Bank of Nigeria, elimination of import licensing, removal of foreign exchange, exchange rate and interest rate controls are among the essential

reforms needed to ensure the inflow of FDI. The above stated reforms are more than likely to create a business-friendly environment that is conducive for FDI in Nigeria (Ngowi, 2001, p.8).

It is important to note that these reforms may be expensive to the country and its people, but these reforms have to be justified and must take into consideration their impact on the well being of all Nigerians. The foreign investors are likely to invest in Nigeria if its economic fundamentals are solid.

Third, on the matter of endemic corruption and lack of confidence in the rule of law, Nigeria faces many cultural and budgetary difficulties and all of these difficulties are part and parcels of bad governance. Corruption for instance hinders growth and investment by raising transaction cost that reduces profitability. Diverting public resources from their intended uses causes this. In addition, corruption and fraud fee on government policies generate rents that allow a few segments of the society to acquire undeserved profits by bribing government officeholders. It is because of the above stated reason and the concern for efficiency that IMF has continuously asked for the "repeal of import and export quotas, tax exemptions, subsidies and other policies that grant privileges to certain industry in Nigeria" (Country report, 2001, p.287).

One other important issue about corruption is that it also can lead to misappropriation of public fund in violation of the law and budgetary methods, sometimes with the blessing of the officials in the spending agency or with potential taxpayers. The occurrences of corruption and nepotism in Nigeria have contributed to inadequate accountability and transparency in the public sector, a factor that has contributed to poor governance.

In the case of lack of confidence in the rule of law, inadequate legal systems are major obstacles for foreign investors as far as Nigeria is concerned. Private investment in the country will not take off in a situation "where investors and lenders lose their capital because of dysfunctional court system failed to enforce contracts and property rights" (country Report, 2001, p.322). The liberal investment codes and one-stop shops are not sufficient for investors to go through the hassle of getting authorization and permits from ministries that do not want to give up their power. Therefore, strong enforcement regimes are required to ensure that the intent of the liberal policies is transformed into practical actions on the ground. On a final note, it is worth mentioning that the private sector would not respond to an improved economic environment if the basic institutions were either lacking or inefficient.

Fourth, the government procurement practices have dealt a huge blow to the efforts made towards increasing the inflows of investments into Nigeria. In as much as the country is a member of the World Trade Organization (WTO). "It generally does not use open-tender system for awarding government contracts. The competition for government contracts continues to be made difficult by corruption and lack of transparency in the decision making process" (Country report, 2001, p.322).

This type of practice does not receive favorable consideration in the eyes of the foreign investors and it has accounted for the low level of capital inflow into Nigeria.

Fifth, in the case of export subsidies, since the 1970s, Nigerian government has: Operated the Nigerian Export Promotion Council (NEPC) to encourage development of non-oil exports. NEPC oversees various incentive programs such as duty-drawback and pioneer status scheme. The government proclaimed that the duty-drawback and export expansion grant schemes have been the most utilized incentives that distributed less than one million dollars in subsidies annually. These schemes are to a great extent ineffective due to inefficient administration. Shortening the application process for subsidy consideration from 38 to 18 was one of the promised reforms, but they are yet to be effective (Country report, 2001,).

Thus, the government in the later years of 1990s replaced the incentive schemes by “non-cash incentive scheme termed Negotiable Duty Credit Certificate (NDCC), under which exporters' claims are credited against future imports” (Country report, 2001, p. 322). The government claimed that this new system would save it from making annual budgetary allocations; hence it is in conformity with the WTO guidelines. The success or failure of this new system is yet to be seen.

Sixth, the lack of intellectual property right protection made Nigeria the largest market for pirated products in Sub-Sahara Africa. The losses sustained from inadequate intellectual property rights (IPR) protection are enormous. Nigeria being a member of the World Intellectual Property Organization (WIPO) and signatory to other conventions such as Universal Copyright Convention, Berne Convention and Paris Convention is a party to most of the major agreements on IPR. Some cases involving copyright infringement of non-Nigerian materials have been successfully prosecuted in Nigeria (Country report, 2001).

However, the enforcement of the existing laws remains weak, especially in the patent and trademark areas. Despite the active participation in international conventions and sudden interest in IPR issues, the Nigerian government efforts have “been ineffective in eradicating the widespread production and sale of pirated tapes, videos, computer software and books" (Country report, 2001, p.322).

The IPR problems in Nigeria spread with the government's nationalization of the film industry in 1981. Although this law has been repealed "but the Motion Picture Association (MPA) member companies were not paid their contractual compensation that was promised by the Nigerian government. In addition, the companies were unable to repatriate their assets from Nigeria" (Country report, 2001, p. 323). Thus, there hasn't been trade in recent times between MPA member companies and Nigeria. The total estimated losses to MPA member companies exceed $25 million. Finally, it is worth mentioning that:

> Few companies have refused secured trademark or patent protection in Nigeria because it was considered ineffective. Most of the sound recordings and videotapes sold in Nigeria are pirated; satellite signal piracy is also common. The manufacture and sale of pharmaceutical products and auto parts are some of the emerging problems in that country (Country report, 2001, p. 323).

Seventh, in terms of the services barriers, Nigeria is overdue to provide to WTO an acceptance of the fifth protocol of the General Agreement on Trade and Services (GATS), which is essential to bring its commitments on financial services into action. In Nigeria, foreign banks must acquire licenses from the Central Bank of Nigeria in order to operate. According to the recent study done by the Economist Intelligence Unit, the central bank has recently liquidated 26 troubled banks, bringing the total banks in operation in Nigeria to 89. At the present time the three major clearing banks are the United Bank for Africa, Union Bank of Nigeria and First Bank of Nigeria. The embargo placed in 1991 on the issue of new banking licenses are still in effect and this has resulted in a sharp increase in the number of non-bank financial institutions, such as Community Banks, Bureaux de Change and Mortgage Banks.

The Nigerian government still owns stocks of some banks, despite the fact that it is selling off its commercial and merchant banks. Finally, in February of 2000, the Central Bank of Nigeria placed restrictions on the levels of foreign exchange that may be traded on the stock exchange or held by banks.

Eighth, in terms of investment barriers, most industries are open to 100 percent foreign ownership in Nigeria. However, foreign enterprises must obtain a series of investment approvals such as licenses to invest and permits for foreign workers. This process could take several weeks or even months to complete. In addition to the above, several regulations apply to the financial sector, mining, oil and gas industries. The departments responsible for approving foreign investments often act arbitrarily and there could be long delays in the project approval process. In some situations, foreign nationals may not own land, but they may lease with different restrictions applied by different regions of the country.

In 1997, Nigerian government continued the liberalization of the foreign exchange mechanism that commenced in 1995. This 1995 foreign exchange law known as the Autonomous Foreign Exchange Market (AFEM) was reinstated, "allowing private companies to source foreign exchange at the parallel market rate of N86 to one U.S. dollar. The central bank intervenes weekly in the AFEM" (Country report, 2001, p.323). Thus, with the abolition of the dual exchange rates, AFEM now prevails for all business transactions. This means that companies can now hold domicillary accounts in private banks, with the accountholder having unrestricted use of the funds. Therefore, "foreign investors may bring capital into the country to service foreign loans and remit dividends without the approval of Ministry of Finance" (Country report, 2001, p.323).

In 1995, the government of Nigeria passed the law that created the Nigerian Investment Promotion Commission, which liberalized the foreign investment regime. This law allows 100 percent foreign ownership of non-oil producing firms and it abolishes the expatriate quota system and prohibits any nationalization or expropriation of foreign company by the government except for such cases that are determined to be in the national interest. The implementation of the 1995 law that is designed to stop money laundering has been sporadic and to a great extent ineffective. The other section of the law meant to fight advanced fee fraud, known as 419 fraud, has produced limited progress. It should be noted that the scope of the advanced fee business fraud has brought international notoriety to Nigeria, thus is a major deterrent to foreign investment in Nigeria.

Finally, the establishment of a Nigerian Export Processing Zone Authority (NEPZA) in 1992 was an additional effort to attract foreign investment. This zone is located in the port city of Calabar. After five years and $50 million in investment, the zone is still essentially not in operation. Despite the government reports that indicated 16 firms have provisional authority to operate there, only six firms have started test production runs and no export has been generated at Calabar Port.

Ninth, in terms of other barriers like the existence of government parastatals, the Nigerian government promised the imminent privatization of the telecommunication sector in its budget for the fiscal year 1997-98. It was to keep 40 percent equity in the telecommunication parastatal (NITEL), reserved 20 percent equity for Nigerian citizens and offers the remaining 40 percent for unrestricted sale. The invitations to invest were "made to specific investors with relevant expertise" (Country report, 2001, p.324). The budget for the fiscal year 1997-98 targeted the reorganization of electricity generating parastatal (NEPA) by 1999. The government also repealed and amended some subsections of the law that restrict competition or confer monopoly powers on public enterprises of petroleum, telecommunication, power and mineral sectors. It should be noted that several private telecommunications companies started operating successfully in 1998. The commitment of Nigerian government to privatize parastatals such as NITEL and NEPA is yet to be seen.

In Nigeria, government consumes anywhere from 4 to 11.5 percent of GDP. The privatization has stalled and the government is a key player in the aluminum, banking, cement, communications, engineering, fertilizer, insurance, oil and gas, pulp and paper, steel, transport and motor vehicle assembly industries. It could be said that it is due to increased evidence of government involvement in the economy that made capital inflow in Nigeria very low in the non-oil sector of the economy.

Tenth, on the issue of major problems of the economy, Nigeria depends heavily on oil, as it accounts for more than 95 percent of the foreign exchange earnings and about 60 percent of its fiscal revenues. This dependency exposes the country to oil price uncertainty and volatility (New Africa.com, 1999). In order to guage the degree of the country's exposure to changes in oil prices, it could be observed that a change in the price of oil by $1.00 per barrel increases or decreases Nigeria's annual foreign exchange earnings by about $650 million or 2 percent of GDP.

It should be noted that foreign exchange earnings have fluctuated extensively in the past, reaching $26 billion in 1982 before falling down to around $10 billion in the 1990s. This volatility in the oil prices results in fluctuations in federal government's ability to collect revenues, which in turn lead to erratic public expenditure patterns with their attendant negative effects on income, employment and investment plans across all sectors of the economy. Thus, given the high exposure to the volatile oil market, there is urgent need to diversify Nigerian economy with the hope to offset the oil price's negative impact on the economy.

Political instability is yet another unfavorable factor as the future has been full of uncertainties, thus making long-term planning very difficult. The situation is such that it does not create a conducive atmosphere for investment in the private sector. In addition, the political instability has been a factor in the country's unfavorable relations with donors and creditors alike. The heavy debt burden estimated to be about $32.5 billion in 1996 is another problem. The country's debt service obligations create a huge distress on its foreign exchange earnings and the country still accumulates substantial arrears. The plausible solution is debt relief, a situation that is conditional on Nigeria adopting policies that are acceptable to its major multilateral donors.

The cost of doing business in the country has been increased by inadequacy of infrastructure, which caused enterprises to install power supply generators, boreholes and water treatment plants as a means of ensuring fairly reliable supply of electricity and water. These additional costs, presumed to be about 25 percent of the total investment for small firms and 10 percent for large firms, have the negative effect of limiting the development of the country's industrial potential. Thus, the insecurity associated with the above stated factor works against the ideal atmosphere conducive to successful business operation.

The other problem is the slow progress on the privatization of the largest public enterprises such as NEPA and NITEL. These enterprises are inefficient and unable to provide a supportive role to industrial and economic development. The ineffective operations of the public enterprises have led to enormous fiscal deficits and the near collapse of essential public services (Drum, 1993). Finance for much-needed investments in the economy of Nigeria and a great deal of human capital, time and efforts have been diverted into marginally productive activities. At the same time efforts of private entrepreneurs have been curbed by inappropriate policies. The entrepreneurs have had to operate in the informal sector where they have based many of their operations on the price and other distortions resulting from government policies.

The government initially resisted the call for privatization, due to the short-term vested interest of certain powerful groups. However, it became clear that Nigeria's willingness to encourage a more liberal approach to economic development were reaping the benefits of growth. At the same time the beneficiaries of this growth could be found at all levels in the society. Thus, came the hard realization that the government could no longer afford to support the increasing drain of the PEs on fiscal resources and the fact that donors would no longer be prepared to finance it.

Nigeria has been implementing a privatization program since 1988. The purposes of the program are to improve enterprise performance and viability, to reduce the level of unproductive public sector investment, to encourage recourse to the private capital markets rather than recourse to the treasury finance and to transfer to the private sector those activities it can best manage. In addition, it is suppose to create a favorable investment climate for foreign and local investors and to reduce debt by debt-equity swaps. The other important purposes are to widen the share ownership base and to deepen and extend capital markets in Nigeria. The anticipated revenue from privatization over the period 1988-1992 is estimated at $325 million.

Great care was taken in the planning and implementation of the privatization program in Nigeria. The 1988 government decree created a high level Technical Committee on Privatization and Commercialization. It gave the committee the full authority to implement the program. Professionals from the private sector who are highly motivated and well paid staff the committee. Full utilization of the independent expertise available in Nigeria has been made including merchant banks and issuing houses, accounting and legal firms and general management consultants.

The special features of the Nigerian privatization program are full accountability and a high degree of transparency in the process. An extensive promotion campaign and public offering through the Nigerian Stock Exchange encourage this effort. In addition, there is priority allocation of shares reserved for the employees of the enterprises and efforts to ensure regional and ethnic balance in the ownership structure of the privatized enterprises. The valuation of shares is based on their future earnings potential.

Finally, the problems experienced include delays in processing applications and in returning refunds for oversubscribed issues. The over concentration of shareholdings in certain geographical locations and the difficulties small investors face in obtaining credit from the banking systems are additional problems. There are some degrees of frustration on the part of larger investors as priority in allocation has been given to small investors, some political opposition to privatization and to liberalization of the whole economy (Drum, 1993). As the program has evolved, the benefits have become more apparent to those who initially opposed the idea. Hence, whenever the larger enterprises are put up for sale, opportunities for larger investors will become apparent and arrangements are being made to facilitate the purchase of shares by enterprise employees.

Purpose of the Study

The purpose of this study is to look into the various elements of Nigeria's investment policies that made it very difficult for foreign capital owners to invest in the economic future of that country. These elements are similar to the ones instituted by various countries in Sub-Sahara Africa and they amounted to huge stumbling blocks to infusion of capital into the Nigerian economy by foreign and domestic capital owners alike. The various elements of Nigeria's investment policies are the government procurement practices that are riddle with corruption and lack of transparency and export subsidies that were operated by an agency called the Nigerian Export Promotion Council (NEPC). This agency is responsible for encouraging development in the non-oil exports.

The other elements of the investment policies are lack of intellectual property protection law that has encouraged rampant sale of pirated products. In addition to the above elements, the services barriers and other investment barriers such as continuing existence of public corporations and parastatals, that are inefficient and cost millions of dollars to operate and maintain, are deterrent to foreign direct investment.

Research Questions

The objective of this research study is to examine the various elements or factors that inhibit the inflow of foreign direct investment into the Nigerian economy. The study Found the determinants of FDI to developing countries and analyzed whether these variables have a different impact on FDI inflow into Nigeria and SSA compared to other regions. It particularly used the cross-sectional data in 71 developing countries to answer the following questions: (i) what factors attract FDI to developing countries? (ii) Are these factors equally applicable for FDI into Nigeria and SSA? (iii) Why have Nigeria and SSA attracted low level of FDI inflow? (iv) Why has Nigeria been unsuccessful in attracting FDI in non-oil sectors despite policy reform? Are Nigeria and SSA different? (Asiedu, 2001)

The empirical analysis uses a comprehensive data set. It includes a large set of developing countries of which half are in Sub-Sahara Africa region. The advantage of using a data set that includes a large set of countries is that it increases the degrees of freedom and therefore enhances the credibility of the results (Asiedu, 2001). Moreover, it allows the testing of the extent to which the FDI determinants described in previous literature help explain the variation in FDI for the comprehensive sample. The issues in question (ii), (iii) and (iv) are yet to be addressed in the literature.

Limitations/Delimitations

The limitation of this study is focused on the various economic and investment policies in Nigeria and SSA countries from 1981-2002. Nigeria has enormous economic and investment potentials coupled with "a vibrant private sector, highly motivated entrepreneurs, vast fertile agricultural land and large domestic market. It is the seventh-largest oil exporter in the world and it is richly endowed with other natural resources as well" (New Africa.com, 1999 p.1).

In the case of Nigeria's growth of output, the gross domestic product (GDP) from 1980 through 1990 was 1.6 percent while the growth in GDP between 1990 and 2002 was 2.8 percent according to information from the International Monetary Fund. The growth in agricultural output from 1980 to 1990 was 3.3 percent while the growth between 1990 and 2002 was 2.9 percent, which indicates a decline in output. The industrial output rose from –1.1 percent between 1980 and 1990 to 1.2 percent between 1990 and 2002. In terms of manufacturing output, productivity increased from 0.7 percent between 1980 and 1990 to 1.8 percent between 1990 and 2002. Finally, in terms of the services sector, the output declined from 3.7 percent between 1980 and 1990 to 3.5 percent between 1990 and 2002.

It is important to carefully look at Nigeria's economic and social indicators and evaluate the extent to which the country has performed economically. The population of the federation is estimated anywhere from 118-125 million people with a population growth of 2.9 percent from 1990-97. The gross national product (GNP) per capita in 1997 was $260 and the exchange rate between Naira, Nigeria's currency and the U.S. dollar was N90 = $1.00. It should be noted that the gross domestic product (GDP) in 1997 was $36.5 billion of which agriculture constituted 45 percent, while the industrial sector consisted of 24 percent and the services sector consisted of 32 percent. The oil share of the export earnings in 1997 was 97.6 percent, which shows Nigeria's vulnerability to fluctuation in world oil prices. The total foreign debt in 1997 was anywhere between 28.5 and 32.5 billion dollars and the debt service to export ratio in 1997 was 7.8 percent. The labor force annual growth rate between 1990 and 1997 was 2.8 percent while life expectancy at birth in 1996 figure was 53 years. It is important to note that infant mortality in 1997 (per 1,000 live births) was 112. The access to safe water in 1995 was 39 percent while the literacy rate in 1995 for ages 15 and above was 57 percent.

In the literature, it indicated that:

> Nigeria's economic and social development remains far below even the minimum expectations of the population. In addition to the above, it is equally disturbing that the country's social indicators have slipped to well below the average for developing countries, for instance half the population lives in absolute poverty. Mismanagement of the country's resources, the over-regulation of the economy, price and exchange rate distortions what has been at the root of Nigeria's economic malaise (Newafrica.com, 1999, p. 1).

It should be noted that "some progress was made in stabilizing the economy by the introduction of greater competition and strengthening the financial system" (Newafrica.com, 1999, p.1). It is equally note-worthy that inflation was reduced from 77 percent in 1994 to 10 percent in 1997 and the exchange rate has remained stable. The exchange controls on current international transactions have almost been totally abolished, "interest rates have been deregulated and restrictions on competition and private sector participation have been eliminated in most sectors of the economy" (Newafrica.com, 1999, p.1). Nigeria as a nation has taken a number of measures to address the financial sector distress, such as "raising the minimum paid-up capital requirement, liquidating insolvent banks, improving loan recovery and imposing sanctions on financial malpractice" (Newafrica.com, 1999, p.1).

"The external debt remains high; in the last several years the Nigerian government serviced only part of its external debt. This means that interest-not paid and interest accruing on unpaid debt service becomes new debt" (Newafrica.com, 1999, p.1). Therefore, despite the imposition in 1994 of the embargo on contracting new debt, the low level of disbursement from existing obligations and on-going debt conversions and paybacks, the outstanding stock of external debt has not declined. The stock of debt disbursed and outstanding remained at an estimated $28.8 billion after 1997 and of this; about $17.7 billion represented arrears owed to the entire Paris Club Creditors. Then the remaining $11.1 billion were new loans and other obligations owed to other countries or organizations like World Bank, IMF, and developed countries like the U.S., Japan, and the European Union.

The sharp drop in world oil prices in the late 1990s coupled with one-third drop in oil receipts, which was about $5 billion dollars have aggravated Nigeria's already difficult economic situation. The "real GDP growth slowed to an estimated 2.3 percent and real national income declined substantially due to the fall in oil prices" (Newafrica.com, 1999, p.1). Nigeria's balance of payments also weakened drastically with the current account balance moving from a surplus of 1.9 billion in 1997 to a deficit estimated at $3.1 billion a year later. The "official foreign exchange reserves remained unchanged at about $7.2 billion but the estimated amount of $3.1 billion in external arrears was accumulated during this period" (Newafrica.com, 1999, p.1).

Finally, the Autonomous Foreign Exchange Market (AFEM) profits were distributed for the first time among the three tiers of government. This "was more than enough to compensate for the decline in the country's revenue allocation to the state and local governments" (Newafrica.com, 1999, p.2). Therefore, the fiscal balance on the aggregate basis declined from an overall surplus of $350 million in 1997 to a deficit of $2.56 billion a year later. The huge decline in government deposits and "increase in bank credit to the government to finance the deficit increased the broad money by an estimated 25 percent, clearly greater than expected " (Newafrica.com, 1999, p.1).

According to World Bank figures in 2003, the private consumption rose from –2.6 between 1980 and 1990 to –0.8 percent between 1990 and 2002. The private consumption per capita declined from –3.7 percent between 1980 and 1990 to –5.5 percent between 1990 and 2002. In addition to the above indicators, the general government consumption rose –8.5 percent between 1980 and 1990 to 10.4 percent between 1990 and 2002. The above figures indicate the need for foreign direct investment into the Nigerian economy in order to alleviate poverty, hopelessness and foster continuous and sustainable economic growth.

Definitions

AFEM: This acronym stands for Autonomous Foreign Exchange Market. It allows private companies to source foreign exchange at parallel market rate. This means that firms can hold domicillary "accounts in private banks with unfettered use of the funds and foreign investors may bring capital into the country to service foreign loans and remit dividends without authorization from Federal Ministry of Finance" (Country Report, 2001, 323).

ECOWAS: This acronym stands for Economic Community of West African States. It is a sixteen-member state union formed in 1975 to foster economic integration in the West African region. In addition, "the union was set up to promote cross border or international trade and mobility of factor services from within member countries by enhancing a more market oriented pattern of intra-regional resource allocation" (Greer, 1992, p.2). Finally, this regional integration has increased the size of a unified market along the West African corridor, which has helped to develop complementarity interest between landlocked and coastal countries.

FDI: This acronym stands for Foreign Direct Investment. It is defined "as investment in businesses of another country, which often takes the form of setting up local production facilities or the purchase of existing businesses" (Ngowi, 2001, p.1).

NEPC: This acronym stands for Nigerian Export Promotion Council. It encourages the development of non-oil exports; "it also administers various incentive programs such as duty drawback program, an export expansion grant fund, a duty suspension scheme, a manufacturers-in-bond program and a pioneer scheme" (Country report, 2001, p.322).

NIPC: This acronym stands for Nigerian Investment Promotion Commission. The agency is empowered to encourage, promote and coordinate investments in the Nigerian economy. It provides necessary assistance and guidance for the establishment and operation of enterprise in Nigeria.

TRIMS: This acronym stands for Trade-Related Investment Measures. It allows countries like Nigeria to notify the WTO that it maintains certain measures that are inconsistent with the "WTO Agreement on trade-related investment measures. These measures are related to local content requirements and the proper notification allows developing country WTO members to maintain such measures for a five-year transitional period upon accession to the WTO" (Country report, 2001, p.322).

UNCSD: This term is used for United Nations Commission on Sustainable development. It stands behind the principle that Development in the 21st century is a multi-dimensional concept, which combines five perspectives, all of which are key to making development sustainable. First, financial capital comprises of sound macroeconomic planning and prudent fiscal management. Second, physical capital comprises of infrastructure assets such as buildings, machines, roads, power plants and ports. Third, human capital comprises of good health and education to maintain labor markets. Fourth, social capital includes people's skills and abilities, as well as the institutions, relationships and norms that shape the quality and quantity of a society's social interactions. Fifth, natural capital comprises of natural resources, both commercial and non-commercial and ecological services. It provides the requirements for life, including food, water, energy, fibers, waste assimilation, climate stabilization and other life-support services. The action plans for sustainable development can be achieved if all involved stakeholders make an effort to find effective long-term solutions together and then commit themselves to implement them in partnerships. It is through collective action that hope can be brought about for billions of people around the globe (Inweb18.worldbank.org,).

WIPO: This acronym stands for World Intellectual Property Organization. Its membership requires Nigeria to investigate and prosecute cases involving violation of intellectual property rights law.

WTO: This acronym stands for World Trade Organization. It requires member countries such as Nigeria to gradually phase out barriers to international trade transactions such as import prohibition, higher tariffs and excise duties. It also encourages member nations to use an open-tender systems for awarding government contracts and the use of competition and transparency in the decision making process.

Importance of the Study

The analysis of FDI inflow to Nigeria and SSA is important for several reasons. First, with regards to FDI, Nigeria and SSA countries remained under-researched. At the present time, there is no empirical study on FDI that focus exclusively on Nigeria. It is surprisingly because it was pointed out earlier, that "FDI is crucial for the country and the region. Second, to the extent that FDI contributes to sustainable development, it is important to know the factors that affect FDI inflow to the developing region of Africa" (Asiedu, 2001, p. 4).

Third, to the extent that FDI to Nigeria and SSA is determined by different factors, policies that are successful in East Asia and Latin America may or may not work for SSA and Nigeria. Actually, a number of African policy makers believe that the lessons from other regions of the world do not apply to them due to the fact that circumstances are different. Therefore, this research will shed some light on ways that policy makers in SSA and Nigeria can attract FDI.

The results are summarized as follows: (i) Nigeria and "SSA have on the average received less FDI than countries in other regions by virtue of their geographical location. (ii) Higher return on capital infrastructural development promotes FDI in other region, but have no significant impact on FDI inflow to Nigeria and SSA countries" (Asiedu, 2001, p.4). (iii) Openness to trade has a positive impact on FDI inflow to Nigeria, SSA countries and other regions of the world (Asiedu, 2001).

CHAPTER TWO

REVIEW OF LITERATURE

The developing countries have now recognized that international capital markets have become inaccessible as a result of debt crisis, therefore, foreign direct investment (FDI) can play an essential role in development (Allaoua & Atkins, 1993). Foreign direct investment is useful not only for its financial contribution, but it is important because of other characteristics incorporated in FDI as a package. The benefits of this package include management and marketing know-how, technology transfer, linkages to domestic firms and access to markets. These aspects of FDI can directly benefit Nigeria because of the demonstration effect they stimulate.

The literature on FDI indicated that "optimism about the economic consequences of foreign direct investment, couple with heightened awareness about the importance of new technologies for economic growth, have contributed to wide reaching changes in national policies towards FDI" (Hanson, 2001, p.3). Therefore, before we can explore the impact of FDI on the economy of Nigeria, this concept has to be thoroughly explained.

There are many definitions of FDI in the literature and according to Rutherford in (1992 & 1995); FDI refers to investment in businesses of another country, which often takes the form of setting up of local production facilities or the purchase of existing businesses. The United Nations Conference on Trade and Development (UNCTAD) reports defined FDI "as an investment involving management control of a resident entity in one economy by an enterprise resident in another economy. It involves long-term relationship reflecting an investor's lasting interest in a foreign entity" (Ngowi, 2001, p.2). FDI concepts differ greatly across countries and these differences are likely to be based on the criterion of the percentage of ownership of stocks or controls between the foreign investors and the citizens in a country's firm (www.africaresource.com).

The countries in Sub-Sahara Africa (SSA), in general, and Nigeria, in particular, are increasingly adopting policies that attract foreign direct investment. They are doing so because they now recognized that FDI can under the right conditions, be an efficient means of "transferring a package of capital, skills, and technology to host countries and providing these countries with enhanced access to international markets" (www.ACPsec.org, 1997, p.1).

It should be noted, however, that the benefits expected from FDI depends indeed on many factors, such "as the capacity of the host country to absorb skills and technology, and the existence of conditions necessary to facilitate backward and forward linkages" (www.ACPsec.org, 1997, p.1). In fact recent studies done by UNCTAD show that some deficiencies exist in the possible positive impact of FDI on a number of countries like Nigeria. It is indicated that to some extent, Nigeria suffers from the result of a policy framework that has not focused on optimizing the use of resources that come with FDI. Therefore, in designing policies that attract FDI, Nigeria needs to create an environment, which is conducive to maximizing the net benefits to be realized from FDI by the domestic economy (www.ACPsec.org, 1997).

There are various political and economic conditions in Nigeria that warrant differentiated investment strategies. Thus, in order to create an environment that is good for attracting FDI and enhancing its impact on development of Nigeria, it is necessary to review the different options and procedures through which further improvements can be achieved. Although some of the measures could be implemented by long-term planning, especially in situations where Nigeria requires considerable assistance within the framework of the Lome Convention, however there are some situations where short-term strategy is applicable (www.ACPsec.org, 1997).

This study looks at the policy environment in Nigeria and SSA, as well as the extent to which it is conducive to attracting FDI in a way that is optimal to the national economy. On this note, it is equally important to know that in line with the Lome Convention, the European Union member states have intensified support efforts aimed at promoting and increasing European foreign investment in Nigeria and some African countries (www.ACPsec.org, 1997). The only downside of this intensified effort is that when it is compared to the investment inflows in other regions of the world, it continues to be relatively low. FDI to developing countries rose from $25 billion, which represented 12 percent of global FDI in 1990 to over $95 billion in 1995, which represented 38 percent of the global FDI (Wilhelms, 1998). This means that the share of the developing economies' FDI is growing more rapidly than the developed economies of the West. The distributions of FDI among developing countries are markedly uneven, about 50 percent flowed into East Asia and 28 percent into Latin America and the rest went to Sub-Sahara Africa, South Asia, Caribbean, North Africa and Middle East.

It should be noted that globalization, a concept that describes a worldwide trend towards integration of markets, is changing the strategies of multinational companies (MNCs) and the way developing countries like Nigeria compete for foreign direct investment. The MNCs' global strategies seek to maximize their competitiveness by locating facilities in multiple locations around the world because of increased international competition. In the global business arena, attracting FDI increasingly depends on the ability of developing countries to provide favorable FDI regime and competitive factors of production (Rasiah, 2000). The provision of favorable FDI regime requires a stable, efficient and service-oriented environment that welcomes investors into most economic activities without discrimination.

The modern legal and intellectual property rights, effective competition policies, a strong judiciary and minimum bureaucratic harassment are all necessary to attract foreign investors (Pigato, 2001). The competitive factors of production are the ultimate determinants of FDI. These are no longer just cheap raw labor and basic infrastructure, instead in the present day global economy; they require adaptable labor skills, sophisticated suppliers networks and flexible institutions. The tax incentives can enhance a country's attractiveness, however, if other factors are unfavorable, they will not be sufficient to significantly increase inflow of FDI.

In the case of Sub-Sahara Africa in general and Nigeria in particular, the questions that come to mind are, whether the FDI environment, incentive framework and competitive factors of production adequate to attract FDI in a globalizing world? In addition to the above question, what should African countries do to improve the environment? The answers to the above questions can be looked at by mentioning that the FDI environment in Africa in general and Nigeria in particular is still inadequate to attract high quality, efficiency-seeking globalizing FDI. Although, the general policy framework in the region has improved greatly in recent years, a trend that is continuing in many countries. However, the incentive framework continues to lag behind due to a number of deficiencies (Pigato, 2001). These deficiencies are characterized as barriers to entry into countries like Nigeria. Moreover, there are generous and costly incentives for investment that retard the effectiveness of FDI promotion in Sub-Sahara Africa countries.

First, in the case of barriers to entry, that still exist in Nigeria and many Sub-Sahara Africa countries; it should be mentioned that certain sectors are reserved for domestic firms only. In almost all these countries within the region, everywhere registration requirements for foreign investors are burdensome and it raises transaction costs (Morisset & Neso, 2002). Secondly, in the case of generous and costly incentives for investment, it could be stated that in recent years, there has been a considerable effort to streamline incentives and harmonize them through the signing of regional agreements. However, many countries still retain generous investment incentives such as costly tax holidays and the authorities maintained considerable discretionary powers on the allocation of incentives.

Third, the effectiveness of FDI promotion in SSA is generally low, and it should be mentioned that most agencies are struggling with a difficult transition from a regulatory role to a promotional one. These agencies often lack the authority to help investors cope with the ministries, departments and agencies. They are often under-funded and there is insufficient private sector participation.

Fourth, the fact that Nigeria and Sub-Sahara Africa are lagging behind in the development of their competitive factors of production, could be why economic instead of policy factors are likely to be more impediments to FDI in the region. In the past decade, educational, health and infrastructure indicators have worsened in many countries and are now below standards that exist in countries of other developing parts of the world. Therefore, improving the competitiveness of Nigeria and SSA's investment climate is a major challenge in the light of deteriorating education and health programs. Weak physical infrastructure and the lack of safety net for enterprises are major contributing factors. The hope is that additional resources freed up in the immediate future from implementation of debt reduction initiatives will enable these countries to spend more funds on raising social indicators and physical infrastructure and rebuilding institutional capacity.

In general it is significantly important for SSA countries and Nigeria to aspire in the long-term through joint membership of countries attracting high quality and export oriented FDI. In order to achieve this, it will require upgrade of national, state and local laws as well as incentives to attain to the level of international practices and lowering transaction costs. These costs are related to setting up business and dealing with bureaucracy. The examples of the costs include expenses associated with paying taxes, exporting and importing, hiring and dismissing workers, improving the supply of skills, infrastructures legal and judicial systems and institutions. Therefore, incentives should be retained only if they are moderate and in line with development objectives of developing economies.

Fifth, Nigeria and SSA countries should aim at increasing FDI inflows into existing areas of comparative advantage like extractive and other natural resource activities and pursue appropriate policies to maximize their benefits. The sectors mentioned above provide potentially high rents and they do not require fiscal incentives to attract FDI. It should be noted that foreign investors emphasize more on title security for exploration and exploitation concessions, clear entry rules that guarantees against unreasonable government interference, a transparent regime and guidelines on environmental and health standards.

On the other hand, investment in natural resources sector has its setbacks. First, mineral, energy and primary products prices have fluctuated extensively in the past, hence exposing developing countries to great vulnerability. Second, many natural resources are non-renewable unless they are conservatively used. Third, natural resource investment can attract massive inflows of foreign currency that can result in continuous appreciation of local currency. On a final note, many MNC's engaged in these sectors are capital intensive with standardized processes that require very little adaptation to local labor and technologies, therefore it generated only minimal spontaneous positive spillovers and backward linkages to the local economy.

Finally, privatization should be pursued, as it may become a powerful instrument to attract foreign investors, provided they can count on fair and stable rules of engagement (Drum, 1993). The program of privatization can result in net gains for both foreign investors and the host country, though the interests may sometimes appear to differ. The foreign investors are interested in access to market share of the enterprises that are being privatized, rather than acquiring productive facilities. They may demand special deals or continuation of existing protection. On the other hand, government objectives in privatization are to have better services for consumers, higher budget revenues and faster growth. The responsibility of the government is to protect both foreign investors and consumers, and to make sure that the benefits from privatization are equally distributed.

Foreign Direct Investment, Development and New Global Economic Order

The 1997 study done by the South Center, made mention that official developmental assistance (ODA) flows are steadily diminishing and bank credit, when available is subject to high and variable interest rates. Added to the fact that most portfolio investments carry their own risks, developing countries are now eager to attract other types of financial flows from abroad to meet their needs. FDI has therefore come to be considered as a major source of funds that contributes to development in other ways, including through deeper integration into the world economy with huge growth potential it is deemed to offer. In actuality, FDI today is widely viewed as beneficial under all circumstances. The widespread acceptance of the policy implications of liberalization and lobalization has given rise to both the temptation and pressures to fully liberalize FDI regimes (www.southcentre.org).

In social and political terms, foreign direct investment is becoming a major influence in national politics, affecting everyday decision-making process both directly and indirectly, and defining national models of development in many developing countries. There are convincing arguments to suggest that a fully liberalized regime for FDI would not necessarily promote widespread growth and development or take account of developing countries' socio-economic, or political agendas (www.southcentre.org). As far as the developing countries of the south are concerned, it is also a strategic issue as to whether a positive attitude to FDI at the national level should necessarily be transposed willingly or by default, into an acceptance of a fully liberalized global FDI regime. It should be noted that similar reservations arise with regards to the global rules of engagement that are being formulated on investment-related items on the in-built agenda of the Uruguay Round (www.southcentre.org). The FDI literature indicated "that the challenge faced by developing countries on FDI matters is considerable. In addition to the legitimate dilemma face by each country in determining its stance on FDI, there are strong external pressures on most developing countries to adhere to what in essence would be an investor-oriented agreement" (www.southcentre.org, p.1). .

These agreements would significantly diminish the exercise of sovereign power by developing country nation-state in their own territory. Additionally, in a world of uneven development and huge disparities in economic and political power among states, the asymmetries are such that to accept the kind of national policies or multilateral investment arrangement of the sort pressed for by the developed countries of the north would likely accentuate the differences (www.southcentre.org).

Therefore, the fundamental policy issue facing the leaders and governments of the developing countries is "whether these countries should jointly define their interests and demands with respect to global FDI matters and mobilize themselves as a group to act in the international arena" (www.southcentre.org, p.1). It is well known that developing countries vary widely in their characteristics and immediate interest and often their views on FDI differ.

This not withstanding, there are policy options nationally and internationally that would serve the interest of all developing countries as a group, but individually could have little if any political or economic leverage in the global negotiating forum (www.southcentre.org).

The Benefits and Costs of FDI as a Source of Development

As noted earlier, attraction of FDI is becoming increasingly important for developing countries. However, it is often based on important assumption that greater inflows of FDI will bring certain benefits to a country's economy. FDI, like official developmental assistance (ODA) or any other flow of capital, is simply a source of capital. Therefore, the impact of FDI is dependent on what form or shape it takes. This includes the type of FDI, sector, scale, duration and location of business and secondary effects. The various discussions and debates have outlined a range of positive and negative aspects of FDI as a source of development for developing countries (www.earthsummit2002.org).

First, on the matter of stimulation of national economy, FDI is believed to bring certain benefits to national economies. It can contribute to gross national product (GDP); gross fixed capital formation, also known as total investment in a host country and balance of payments. The OECD empirical study in (1999) has indicated "a positive link between higher GDP and FDI inflows, however, the link does not hold for all regions. FDI can also contribute toward debt servicing repayments, stimulate export markets and produce foreign exchange revenue." ((www.earthsummit2002.org, p.3). It should be mentioned that subsidiaries of transnational companies (TNCs) that bring the vast portion of FDI are estimated to produce about a third of total global exports. However, the UNCTAD (1999) report indicated that levels of FDI do not necessarily give any indication of domestic gain. Corporate strategies such as protective tariffs and transfer pricing can reduce the level of corporate tax received by host governments. In addition, importation of intermediate goods, management fees, royalties, profit repatriation, capital flight and interest payments on loans can limit the economic gain to host economy. The good illustrations are the level of domestic investment and savings, the mode of entry such as merger and acquisitions and the sector involved, as well as a country's ability to regulate foreign investment (www.earthsummit2002.org).

Secondly, on the matter of stability of FDI, it is widely believed that FDI can be affected by change in national exchange rates when compared to other private sources such as portfolio investments and loans. This is partly due to the fact that currency devaluation indicates a drop in relative costs of production and assets. These assets are in form of capital, goods and services of foreign companies and they increase the relative attraction of a host country. Foreign direct investment can stimulate product diversification through investments in new businesses, thereby reducing market reliance on a limited number of sectors and products. However, if international flows of trade and investment fall worldwide and for a lengthy period of time, this implies that stability is less certain (www.earthsummit2002.org).

The new inflows of FDI are particularly affected by the global trends, due to the fact that it is more difficult for a foreign company to divest or reverse from foreign affiliates as opposed to portfolio investment. Therefore, companies are likely to be careful to ensure that they will realize benefits before making any new investments. It should be noted that while FDI growth continued in some Asian countries such as Korea and Thailand, during the Asian crisis, it fell in other countries such as Indonesia. In addition, during the Latin America's financial crisis in the 1980s, many countries in the region experienced a sharp decline in the FDI. This suggests that investment sensitivity changes according to a country's particular situation.

Third, in terms of social development, it is stated that:

> FDI where it generates and expands businesses can help to stimulate employment, raise wages and replenish the declining market sectors. However, the benefits may only be felt by small portion of the population. The cultural and social impacts may occur with investment geared towards non-traditional goods (www.earthsummit2002.org. p.3)

A good illustration will be that if financial resources are diverted away from food and subsistence production towards more sophisticated products, hence promoting a culture that is consumer-oriented can have a negative environmental consequence. This means that within the local economies, small scale and rural businesses in the host countries have less capacity to attract FDI and bank credits/loans, as a result, certain domestic companies may be made to go out of business or to use more informal sources of finance (www.earthsummit2002.org.)

Fourth, in the case of infrastructure development and technology transfer, it is widely believed that "parent companies can support their foreign subsidiaries by ensuring adequate human resources and infrastructure are in place" (www.earthsummit2002.org p.3). This is particularly true with the Greenfield investments into new business sectors that can stimulate new infrastructure development and technologies to host economies. They can result in social and environmental benefits but only at the point where they spillover into host communities and businesses. In addition, investment in research and development (R&D) from parent companies can boost innovation in production and processing techniques in the host countries. This is based however, on the assumption that in-house investment in areas such as R&D, production, management and personnel training will result in improvements (www.earthsummit2002.org).

Fifth, in the case of crowding in or crowding out, it was indicated that crowding in takes place where FDI companies can stimulate growth in up or down stream on domestic businesses within the national economies. The crowding out is a situation where parent companies dominate local markets, stifling local competition and entrepreneurship. The reason for crowding out is because of policy chilling or regulatory arbitrage. It is a situation where government regulations such as labor and environmental standards are kept artificially low to attract foreign investors; this is because lower standards can reduce the short-term operative costs for businesses in the country in question (www.earthsummit2002.org).

The exclusive production concessions and preferential treatment to transnational companies by host governments can restrict other foreign investors and encourage oligopolistic market structure. The "crowding out is thought to be more common on specific sectors such as in industries where demand or supply for a product or service is highly price elastic and capital intensive" (www.earthsummit2002.org, p.4). Therefore, regulation comes with additional costs of compliance and it is much more likely to influence a firm's decision as to whether to invest in that country or not.

Sixth, on the matter of scale and pace of investment, the indication is that it may be difficult for some governments, especially low-income countries, to regulate and absorb rapid and large FDI inflows (www.earthsummit2002.org). Moreover, it is also difficult for governments to regulate the negative impacts of large-scale production growth on social and environmental factors. In addition, a high proportion of the FDI inflows in developing economies are primarily geared towards such sectors as petroleum, mining, agriculture, paper-production, chemicals and utilities. These primary sectors are typically capital and resource intensive, with a greater emphasis on economies of scale and therefore, are slower to produce positive economic spillover effects. Hence, in the short-run, low-income economies will have less capacity to mitigate environmental damages or take protective measures, imposing greater remediation costs in the long run, as well as potentially irreversible environmental losses (www.earthsummit2002.org).

Finally, on the matter of skewed or unequal distribution, it is well known that FDI inflows are still highly concentrated in certain countries and regions. The transnational companies are the largest source of FDI, about 95 percent of total inflows and the majority of these are located in developed countries. ((www.earthsummit2002.org). The highest proportions of FDI inflows go to other developed countries like USA, UK and Japan as well as countries like Germany, France, Canada and Netherlands.

In terms of the proportion that went to low-middle income countries, the highest share went to Asia and Latin America, while only 6 percent were invested in Africa. It should be noted that over half of the FDI that reaches developing countries is concentrated in five countries. This is equally true of transnational economies in Eastern Europe; only 75 percent of the FDI inflows are directed toward five countries. The issue to be discussed is the most effective way foreign direct investment can be better applied to sustainable development in developing economies (www.earthsummit2002.org).

<u>How Can Foreign Direct Investment be applied to Sustainable Development?</u>

Reviewing the following, accessibility and stability of FDI, social responsible investment and environmental protection can derive at the answers to the above question.

First, on the matter of accessibility of FDI, it is stated that "if FDI is to take a greater role in building developing countries' economies, further assessment of the factors that influence and are influenced by FDI flows is necessary" (www.earthsummit2002.org, p.5). Foreign and domestic investors are believe to be attracted to recipient countries for a whole range of factors, such as political stability, market potential and accessibility, repatriation of profits, infrastructure and ease of currency conversion. The privatization and deregulation of markets are also believe to be the central means to attract FDI, but this can expose the poorest or the most indebted countries to destabilizing market speculation. The national law can support better investment security for local markets, fair competition and corporate responsibility through defining equitable, secure and non-discriminatory, transparent investment practices. There are some concerns that increased investment regulation could deter new foreign investors. However, the ECOSOC research study in 2000 indicates that Eastern Europe has the tighter regulation of corporate environment and labor standards, yet it has not affected FDI growth (www.earthsummit2002.org).

In situations where low income and developing economies are successful in attracting FDI, they require huge amounts of support to ensure that they can adapt to rapid and large inflows of FDI, and that these inflows positively benefit domestic economic stability. This means that developing strategies that encourage greater and long-term domestic investment and savings, as well as higher returns on investment capital is essential in attracting FDI. The development of an international multilateral rule-base trading and investment strategy has been widely promoted in the developing countries. It should be mentioned that while the abandoned Multilateral Agreement on

Investment would have provided greater rights for companies and investors, it gave limited support for social, economic and environmental concerns of host countries (www.earthsummit2002.org).

In addition, regulation of investment is only as effective as a country's ability to enforce it. The cost of implementation may be exorbitant for many countries; therefore, bilateral and multilateral support as well as multi-stakeholder participation is essential for the formulation of such agreements (www.earthsummit2002.org).

Secondly, on the matter of socially responsible investment, it is indicated that "ethical and socially responsible FDI can be encouraged through national, bilateral and international investment guidelines and regulations" (www.earthsummit2002.org, p.5). The examples of these guidelines and regulations are consumer rights, information provision, commercial probity, labor standards and corporate culture. At this point it should be indicated that several institutions have developed or are presently working on responsible practice. The International Labor Organization has several conventions referring to social responsibility and it also has more specific declaration of principles concerning transnational companies and social policy. In addition, the United Nations Conference on Trade and Development has developed a code of Restrictive Business Practices ((www.earthsummit2002.org).

The eradication of poverty and the reduction of gender inequality, especially in situations where women constitute almost 70 percent of the world's poorest people, should be given utmost priority. It should be noted that while governments may seek FDI for labor-intensive sectors, those sectors that require greater skills are likely to require investment in domestic training and education. The access to FDI for poorer communities and small to medium enterprises can be promoted by fostering credits/loans and the capacity building programs to improve their bargaining power. Finally, the intellectual property right agreements between host countries and foreign investors can be strengthened to ensure domestic technology transfer and skill developments are better adopted (www.earthsummit2002.org).

Third, on the environmental protection, it is mentioned that greater efforts need to be made to assess the linkages between environmental implications and FDI. Although it may be hard to isolate FDI impacts from other activities, however governments and businesses can apply Environmental Management Systems to assess the potential impacts of FDI activities. These EMS require investment in inspection, monitoring, regulation and enforcement to ensure effective implementation. The resources required in order to effectively implement these approaches are often lacking in many developing countries. Therefore, it is essential to suggest a vital need for targeting international assistance. The greater environmental commitment can bring long-term corporate gains for greater efficiency and better quality of practice ((www.earthsummit2002.org).

The host governments and businesses play an important role in ensuring that environmentally sustainable technology trickles down to the host countries. WTO, GATT and TRIPS agreements require governments to take all practical steps to promote, facilitate and finance, as well as appropriate transfer, diffusion and access to environmental technology and know-how. When specific sectors are looked at, tourism has been identified as a key source of FDI. At the 1997 Commission on Sustainable Development (CSD) summit, seven member states were asked to develop policies that encourage tourism, attract FDI and at the same time adopt environmentally appropriate practices. The corporate environmental policy promotes considerable business enhancement internationally. A good example of corporate environmental policy is in the energy sector, where parent companies can support subsidiary use of renewable energy. This practice can provide a competitive advantage for businesses, especially where consumers/shareholder awareness of negative environmental impacts is great (www.earthsummit2002.org).

Finally, all these institutions need greater cooperation to be more open and take full accountability in processing how international flows of FDI inflows can be better geared toward the specific goals of sustainable development. Collectively, they need to ensure that finance; trade and investment strategies are mutually applicable toward sustainable ends www.earthsummit2002.org).

<u>The FDI Environment in Sub-Sahara Africa</u>

The policy framework with respect to FDI had improved throughout much of Sub-Sahara Africa. First, most countries in SSA have concluded bilateral treaties and have signed multilateral agreements with WTO and GATT. The restrictions on external account transactions have been largely removed and many countries have shifted to market-based exchange rates. At the same time the simplification and reduction of tariffs has continued steadily. As mentioned earlier many countries are participating in international, regional and bilateral agreements dealing with FDI. It could be said that such participation is an important signal that a favorable policy environment is being created and that practices are being raised to the level of international standards and it could contribute to creating international recognition. The binding manner of a bilateral or international treaty contributes to securing a favorable climate for FDI.

Second, the harmonization of investment laws and incentives has been increasing in the past few years. Some countries in Eastern and Southern Africa have instituted the Cross-Border Initiative (CBI), which led to a common road map for investment facilitation. It is because of this initiative that these countries have agreed to simplify and codify all regulatory provisions into a unified published document that would be readily available to all the interested parties. On the same token, these countries have also agreed to establish one-stop centers that will process applications within two months and grant automatic approval in the absence of objections at the end of that period (Pigato, 2001).

Similarly, countries in different regional trading blocs have either signed trade and investment agreements or are finalizing similar investment protocols. The purpose of these documents is to set up common and general foreign investment, transparent and non-discriminatory procedures for entry and operations of investments, a common fiscal regime and harmonization of fiscal incentives.

On the matter of investment liberalization and incentives, it stated that in spite of recent improvements to streamline and eliminate the obstacles to investment, the legal and fiscal framework for Nigeria and SSA presents several disadvantages (Morisset, & Neso). First, there is considerable variation in FDI entry procedures and requirements across SSA countries. Some sectors like tourism; petroleum and minerals are most of the time placed under special approval regimes. A good example is that in Botswana, a potential manufacturing investor has to obtain both an investment license as well as approvals from the land board and district councils. The investment has to satisfy criteria on capital adequacy, technical skills and the interests of the economy. These incentives can be granted only to registered companies, and the aforementioned companies are only allowed one application per year. The MNCs are not allowed in activities reserved for domestic SMEs. In some countries, land title transfer and registration can take from six months to eight years. Special authority is required for oil and mineral prospecting.

Nigeria requires approval from both the Ministry of Internal Affairs and the Ministry of Finance for new investments. In the East African country of Uganda, potential investors have to establish that the project generates economic benefits like foreign exchange, employment, and the use of local raw materials as well as technology transfer.

Third, the granting of investment incentives varies, with some countries still operating on a discretionary, case-by-case basis that results in delays and non-transparent procedures. The nature of investment incentives also varies, in the sense that many countries grant tax holidays anywhere from five to ten years. The experience from international setting shows that tax holidays are biased against long-term investments and against equity financing and that they are very costly to governments. Some countries like Ghana have abolished tax holidays and instituted low general tax rates. Many SSA countries including Nigeria grant depreciation allowances on a straight-lines basis, with varying rates for different items of capital. Only republic of South Africa allows accelerated depreciation, which is the preferred method in most modern tax regimes.

Fourth, in terms of tax systems, many countries are bringing tax rates in line with international norms, but they still need to be rationalized and harmonized. The issues of double taxation treaties have to be finalized by many countries both within and outside their regions. The tax incentives of such items as R&D, training and new equipment purchase has to be revamped. The loss carry-forward provisions differ, with some countries allowing anywhere from three to five years and others giving indefinite periods. It should be noted that when short periods are granted for carry-overs of losses, firms might be subject to income tax, in spite of their cumulative net losses.

The withholding taxes on royalties, fees and interest payments and dividends vary by country. South Africa and Zimbabwe do not impose such taxes, while others have high withholding taxes that can vary by origin of investor. The withholding taxes on dividends received by non-resident affect companies financing decisions. Therefore, if interest payments can be deducted from the taxable income, foreign investors will prefer to finance themselves through debt rather than equity. The royalties and technical fee limits have been removed in most countries, but Nigeria still imposes limits on such fees. Some countries levy custom duties and other taxes on imported capital goods, thereby increasing the cost of investment. The work permit regulations vary, with many countries still making it difficult and agonizing to obtain expatriate permits quickly and more efficiently.

Finally, in terms of export processing zones (EPZs), many countries in SSA have created EPZs and have maintained incentives for firms operating in them. It should be noted that only Mauritius could be regarded as successful in terms of attracting FDI or stimulating exports and employment. Although the investment incentives provided are often generous, however restrictive provisions and bureaucratic procedures undermine their effectiveness. The essential factors that determine a successful free zone program is the transparency and comprehensiveness of the incentives offered and the quick response to their application, without the need for elaborate qualifying criteria. The other weaknesses include weak government agencies established to develop and operate zones and regulate free zone activity. These regulatory authorities lack control over their budgets and have restrictive civil service salary caps and employment conditions.

Nigeria and Sub-Sahara Africa play a less significant role on the world economic arena. Their total gross national product is approximately 1 percent of the global GDP, which is slightly above the GDP of Belgium and yet it has a population of over 600 million people. The question is to what extent is the region really well endowed with natural resources? Since a great deal of private foreign capital has not been attracted to Sub-Sahara Africa and its domestic investors have to a large extent left the region. The reality is that most of the region's exports are concentrated in oil, gas and minerals; as such diversification is clearly needed (Kallunki, Larimo & Pynnonen). The above stated policy on exports result in dependence on aid instead of trade, which is not appropriate condition for a region that needs to accelerate its economic growth.

At this point, it is safe to ask, is there any hope for Nigeria and SSA? The response is emphatically yes, if the region can make progress in finding its way to the global market arena. Some countries have made the necessary progress toward diversification into non-traditional exports, such as vegetables, fruits, flowers and textiles. On the same token, others have established condition that warrants adding value to imports and re-exporting them. Yet these activities are taking place on a small scale to make a real difference. Therefore, Nigeria and other SSA countries need to adopt unequivocally a pro-export position, and institute the prerequisites that encourage entrepreneurship both at home and abroad. What role should and can EPZs play?

It is stated that the literature on EPZs indicates that "they are a second-best solution when compared with generalized countrywide reforms" (World Bank, 2001, p.

1). In situation where countrywide reforms are hard to implement, EPZs can be useful weapon in the development undertakings. Simply stated, under right circumstances and good management, EPZs can achieve two basic objectives of creating employment and increasing foreign exchange earnings. In the empirical investigations carried out by World Bank, it is confirmed that the generation of employment is always the main benefits from EPZs. In SSA countries including Nigeria, with relatively high levels of unemployment, they represent efficient method of reducing the economic and social burden of large number of unemployed people. EPZs do generate significant net positive effects on the host economy, since wages paid to workers tend to be much higher than their opportunity cost.

On the matter of constraints to the establishment of EPZ programs in SSA, factors like geography, infrastructure, government services, labor, incentives and management contribute to the condition of EPZs in the region. First, in the case of the role of geography, it is stated that tropical regions under-perform temperate regions substantially. Simply stated, their GDP per capita is only a third of that of temperate zones. This is in part due to inherent liabilities of tropical regions in climate, agriculture and health, substantial transport barriers, demographics and lack of urbanization. However, the geographical location does not explain the entire reasons for the constraint. Otherwise, how would one explain the successes of Singapore and Hong Kong? They are not strategically located in relations to their markets. The most surprising EPZ is the one located in Mauritius.

Second, on the role of infrastructure, it is stated that distance and rugged terrain make transportation in Nigeria and many SSA countries very difficult. This has ramification for international competitiveness where transportation costs are critical factor. However, Mauritius is more distant than Dakar or Accra from the EU markets that it has successfully penetrated. In addition, South African and Zimbabwean fruits and vegetables exporters are more distant from the EU than Ghana or Nigeria. Therefore, the length of shipment is not a critical factor.

The factor that distinguishes success from lack of it is the quality of the infrastructure. It should be noted that in most of SSA countries including Nigeria transportation infrastructure is in poor condition. The services have been mismanaged and governments have neglected investments and under-financed the basic maintenance. In addition to transportation infrastructure, electricity and water supplies are frequently unreliable and telecommunications are very costly.

Third, on the role of government services, investors' surveys indicated that the obstacles to FDI are caused by poor quality services, such as customs, tax administration, land acquisition, building and occupancy permits, visas and setting up a company. In addition the approval process involves frequent money exchange to facilitate the services provided. Fourth, the role of labor can be explained by the fact that SSA countries cannot set up an export-oriented strategy because of the unskilled African labor. However, three factors show the flaws in this argument, (a) large number of Africans do perform complicated and sophisticated services, (b) the number of workers required is not a lot just like in other countries that have been successful in export processing, (c) labor skills have continuously been improved.

Fifth, on the role of incentives, it is stated that Nigeria and SSA countries have limited room in deciding what incentives to provide. It is to a great extent decided by international competition. Some donor countries urge them to replace simple exemption schemes with more sophisticated duty drawback schemes. However, this is a misguided policy in SSA where incentive schemes should be internationally competitive and simple to operate.

Finally, on the role of management, the management of EPZs must be responsive to the needs of investors, foreign and domestic alike. It should be noted that most of the time in SSA including Nigeria; EPZs have been designed and operated by bureaucrats. These EPZs are over-designed, with increasing costs that led to the need for government subsidies. In SSA, it is prudent to insist upon private management for EPZs.

The above stated constraints can be overcome in SSA countries in the sense that other countries in various parts of the world have managed to set up internationally acclaimed infrastructure to provide efficient government services. They have also put in place competitive incentive packages, developed a skilled labor force and overcome the constraints of geographical location. Countries like Mauritius, Panama, the Dominican Republic, South Korea, Taiwan, Singapore and Hong Kong have successfully set up and implemented EPZs. This is why the EPZ idea is so attractive. Simply stated, it is easier to resolve problems at a small geographical location than to resolve them on a national scale.

The idea is that EPZ can be set up next to a port or airport and the roads, power and communications that serve them have to be upgraded and operated efficiently. There is no need to reform the whole port or civil aviation sector. On the same token, an EPZ does not require that the entire customs service be reformed. It can have a specialized customs service operating only on the EPZ. This is also applicable to other services.

EPZs in addition serve real estate function, relieving the investors of the need to deal with the local real estate and construction markets. It can facilitate the development of an effective labor force, create both competition and synergies between firms and makes it faster to market a country to foreign direct investors.

There is a substantial potential for African countries to take advantage of opportunities to the benefit of export-oriented growth based on the development of EPZs, but to take advantage of these opportunities will mean putting together a coordinated package of incentives, infrastructure and services that attract foreign investors. It requires articulating a vision of the country's development, building a consensus around this vision, moving to action to implement all the elements of the vision and sustaining incentives, infrastructure and services. It is also essential to enlist the coordinated support of development partners. The evidence from outside SSA showed that countries that can pull it all together reap substantial economic benefits.

On the matter of investment promotion agencies (IPAs), Wells and Wint (1990) study investigated the importance of promotions efforts in determining FDI. The result of their investigation was that "promotion efforts were highly successful in the sense that every dollar spent generated benefits with present value of almost four dollars. The most effective efforts were those geared toward matching the needs of investors. The personal contacts had a larger impact than impersonal advertising" (Pigato, 2001, p. 13).

It should be noted that looking back a decade later, Wells's (1999) study also found that most of the original recommendations are still valid. In addition, for SSA countries and transitional economies, the policy advocacy function was also found to be essential. At the present time, in Nigeria and many SSA countries' IPAs are still government agencies operating one-stop programs. About twenty-five SSA countries' IPAs are presently members of the World Association of Investment Promotion Agencies (WAIPA). In the past few years most IPAs in SSA countries have been struggling to change from the old-style setting regulations, granting licenses to the new-style IPAs, promoting and advertising FDI (Duran & Ubeda, 2001). In some situations, this transition is encountering huge resistance from the program administrators. A good illustration is that in 1997, the Tanzanian government enacted a new investment law to unify and streamline all investment incentives. The former promotion agency with its incentive-granting role was converted into the Tanzanian Investment Center, with the objective of promoting and facilitating investment. However, the transformation has yet to take place due to political resistance to change has been strong.

The country of Mozambique has played a major role in assisting in the reform of investment atmosphere. For example Mozambique investment promotion agency assisted with the negotiation, and implementation of a large project for smelting aluminum, it gained experience and enumerated the problems in businesses registration, registration procedures, custom clearance and so on. It then played a pivotal role by showing the individual ministries and agencies how to reduce bureaucratic barriers.

The national efforts by different SSA countries are not well organized in terms of relationship to one another, in spite of a strong case for small economies and agencies to improve their organizational setting. Given the general image problem in the region, countries in SSA would benefit by cooperating in FDI promotion. This would entail the consolidation of investment codes and other regulatory provisions across the countries and joint advertising efforts. If it were combined with effective lowering of trade barriers, it would also make use of the larger market size available, hence overcoming one of the main drawbacks to investing in SSA.

In the case of economic factors, it is simply stated that the ultimate determinant of FDI inflows is the expected long-term rate of return, which depends on economic factors (Wilhelms, 1998). Aside from macroeconomic management and stability, market size and growth, other determinants are quality of physical infrastructure and the level of human development. It should be noted that based on the indicators of health, education, power and communications in SSA and in other regions of the world, Africa fares worse than other regions, a trend that has taken downward spiral in many countries since 1990. On a final note with regards to economic factors, energy and infrastructure costs, quality and availability indicators are very hard to compare across SSA countries. The broad indicators such as power consumption per capita, phone subscribers and Internet subscription place most countries in Africa including Nigeria at the bottom list of the developing countries except for Republic of South Africa and Mauritius.

Nigeria and SSA's long-term growth performances will need to improve significantly for the country and region to visibly reduce poverty and raise the standard of living to an acceptable level. This means that appropriate actions will also be needed to ensure that an adequate share of the growing income is devoted to reducing poverty by improving the delivery of social services. The evidence from empirical studies suggests that the income of the poor increases one for one with overall growth and that economic growth is one of the best ways to reduce poverty (Hernandez-Cata, 2001).

The key policy question for these countries and their development partners is how to spur economic growth. Empirical studies suggest that the contributions to growth of physical investment and total factor productivity in SSA have been low in comparison with other regions. The fact remains that these total low factor productivity and physical investment have reflected inefficiencies in resource allocation, poor delivery of public goods, notably healthcare and education, and the high risk of doing business in many parts of the region. In as much as the labor force has expanded rapidly, its productivity has remained relatively low, due to poor standards of health and education (Hernandez-Cata, 2001).

Improving the Environment for Investment

In the 1990s, the ratio of investment to GDP in SSA was 17 percent of GDP, which is well below the ratios attained in the developing countries of Latin America at 20-22 percent and Asia at 27-29 percent. The empirical evidence and international comparisons also suggested that the ratio of private investment to GDP is low in Sub-Sahara Africa. This gives investors great concern for two reasons. First, private investment has been found to have significantly stronger effect on growth than government investment due to the fact it is more efficient in some countries that are less closely associated with corruption. Second, Official Development Assistance, which provides the financing for a large share of public investment is declining (Hernandez-Cata, 2001).

It could perhaps be said that the primary reasons for the low level of investment in SSA is the perception held by foreign and domestic investors alike that the risk-adjusted rate of return on capital is low. The three major sources of risk that appear to be particularly relevant are macroeconomic instability, inadequate legal systems, especially the difficulty of enforcing contracts, and political risk such as conflict. Therefore, reducing risk should greatly improve the attractiveness of holding assets in Sub-Sahara Africa at the same time raised domestic investment and savings rates, while they reduce capital flight, which is a major problem in many countries in the region (Hernandez-Cata, 2001).

In the case of macroeconomic instability, the countries of SSA including Nigeria have recently succeeded in reducing their budget deficits and have been able to lower the rate of the increase of the money supply and inflation. However, arrears both domestic and external remain a serious problem in many of these countries. In recent years, the economic situations in Gabon and Zimbabwe have shown how quickly monetary and fiscal control can be lost. The countries in SSA and their development partners must therefore continue to focus on macroeconomic stability as a key feature in the design of the programs.

In addition to macroeconomic instability, inadequate legal systems are major problem. Private investment will not succeed in a country where investors and lenders lose their capital because a dysfunctional court system failed to enforce contract and property rights. However, some progress is being made at the regional level through the work of the Organization for the Harmonization of Business Law in Africa. At this juncture, it is safe to say that much remains to be done (Hernandez-Cata, 2001).

It is a known fact that armed conflicts threaten the viability of growth oriented programs. This poses a huge problem, however the international community and African institutions such as Economic Community of West African States (ECOWAS) are presently finding ways to support countries involve in peacekeeping operations. For example Nigeria's involvement in the Sierra Leone conflict and countries that have to cope with large number of refugees like Guinea. Moreover, organizations like the World Bank and IMF are also helping those countries emerging from armed conflicts to rebuild their physical infrastructures and restore their ability to collect taxes and deliver essential public services (Hernandez-Cata, 2001).

The high tax rate is another reason for the low level of private investment in Sub-Sahara Africa. The combination of higher tax and import duty rates in addition to pressure from special interest groups has resulted in a vicious circle. Rising exemptions erode the tax base and ultimately force the policy makers to further raise tax rates to prevent mounting budget deficits. It is because of this reason and also because they create microeconomic distortions and provide fertile ground for corruption, that tax exemption should be sharply reduced as part of the strategy to boost growth and investment (Hernandez-Cata, 2001).

Finally, on the issue of improving the environment for investment, the debt overhang that many African countries have accumulated discourages private investment by reducing the expected after tax rate of return on capital. The World Bank and IMF's enhanced Heavily Indebted Poor Countries (HIPC) initiative "provides faster, deeper and broader debt relief to as many as 30 countries, mostly in Sub-Sahara Africa, while establishing a close link between debt relief and poverty reduction" (Hernandez-Cata, 2001, p.2).

Raising Productivity and Growth

The "rates of return on both capital and labor and the overall productivity of SSA economies remain low because of a variety of distortions and institutional deficiencies" (Hernandez-Cata, 2001, p.2). These problems are familiar to the international community. The good examples are obstacles to international trade, overvalued exchange rates, poor infrastructure, bad governance and corruption, and insufficient competition and monopolistic structures in many sectors, especially in agriculture. These problems can be solved if public policies are set on the right course, however, change will be politically difficult to implement and it will take time.

First, on the issue of obstacles to international trade, SSA is less open to international trade than other developing regions. It should be noted that several studies have concluded that trade liberalization should improve the region's trade performance significantly and thus increase the growth of productivity and output. Some countries in SSA have made progress in liberalizing trade over the past several years. A good example is the implementation of common external tariff in the West African Economic and Monetary Union that will contribute not only to intraregional trade liberalization but also to a considerable reduction and simplification of the region's external tariff structure. This type of progress will definitely strengthen and extend to other parts of SSA (Hernandez-Cata, 2001).

In as much as the fact that trade liberalization in the region is essential, it is equally important that African producers be granted better access to the markets of the advanced economies. It is particularly important that advanced economies should reduce tariffs at all stages of production, with the intention of lowering the effective protection on goods of actual or potential interest to SSA countries such as clothing, fish, processed food and leather products (Hernandez-Cata, 2001).

Although selected industries in SSA may have benefited from the Protectionist policies, however the overall production and exports in the region have often been hurt by overvalued exchange rates. The principal reason behind such a policy is the desire to provide cheap imported goods to the urban dwellers. One fortunate thing is that policy in this area evolved in the right direction in the 1990s. The most popular example was the devaluation of the CFA francs in 1994, immediately after a lengthy period of stagnation in the CFA franc zone, provided a strong boost to economic growth, investment and exports in that region (Hernandez-Cata, 2001).

The other factor that inhibits private investment and growth in SSA is the increase the cost of investing in physical capital and the poor quality of infrastructure, especially in sectors like communications, ports, roads and railroads and electric power generation. The poor quality of the infrastructure imposes huge costs on the production of tradable goods. In addition to the costs resulting from the low population density is that many SSA countries are landlocked. The primary reason for insufficient investment and maintenance of infrastructure is related to policy, inadequate budgetary resources, fraudulent diversion of public funds and inefficiencies caused by corrupt management in the ports and cartels (Hernandez-Cata, 2001).

At this juncture it is safe to say that many of the structural and budgetary difficulties confronting SSA are associated with bad governance. Corruption mostly hinders growth and investment by raising transaction costs, hence reducing profitability by diverting public resources from their intended uses. In addition, corruption and fraud-fee on government policies do generate rent and allow few members of society to acquire undeserved profits by bribing government officials. It is because of this that the IMF has consistently demand the removal of import and export quotas, tax exemptions, subsidies and other policies that grant privileges to special interest groups. The IMF has sought to liberalize agricultural sectors throughout the region. A case in point is the cocoa sector in many West African countries like Ghana and Nigeria, where it initiated programs that improved efficiency and increased the distribution of income in favor of the poor farmers. The IMF will continue to call for the end of agricultural subsidies and protection in industrial nations, in some cases that are detrimental to the African producers (Hernandez-Cata, 2001).

Corruption can also lead to the misappropriation of public funds in violation of the law and budgetary procedures, sometimes with the blessing of the officials in the spending ministries or with potential taxpayers. In several SSA countries, the IMF has made it clear that instances of fraud must be investigated, in collaboration with the World Bank, has asked for external audits for major public sector entities in countries where fraud, financial improprieties or lack of transparency was suspected. Finally, in few countries, the IMF has had to delay, interrupt or refrain from extending a program because a major incident of corruption or fraud was unresolved (Hernandez-Cata, 2001).

Raising Labor Productivity

The labor force in Nigeria and SSA has grown quickly due to the rapidly increasing population. However, in parts of the region like Southern Africa, employment growth has been hindered by labor market rigidities, including the excessively high wages obtained by powerful labor unions for unskilled workers. Moreover, the growth of employment and labor force is likely to be negatively affected by sharp increase in the number of deaths from diseases and malnutrition (Hernandez-Cata, 2001).

Therefore, recognizing that human capital formation is an important determinant of growth, the IMF and the World Bank have emphasized that Nigeria and SSA countries need to increase the share of government expenditure devoted to education and health infrastructure. The expenditures in these countries do not tell the whole story, due to the fact that there is statistical evidence of a large gap between budgetary appropriations and effective improvements in healthcare and education in SSA. Hence, the difficult task that lies ahead is to ensure that budget outlays allocated for healthcare and education are not diverted to other uses and that schools and hospitals in the rural communities receive their fair share of public funds (Hernandez-Cata, 2001).

Major Risks

The policies aimed at dismantling the impediments to private investment and raising productivity should allow Sub-Sahara Africa to make the most of its resources. However, due to several reasons, the extent to which these policies will succeed in raising income per capita growth may be insignificant. First, there is the risk that spread of armed conflicts may jeopardize the continuing economic structuring and poverty alleviation efforts in a number of countries. The continuation or widening of conflicts will damage investor confidence and instigate capital flight and thus pose a danger risk to the achievement of rapid and sustained economic growth (Hernandez-Cata).

Second, the spread of communicable diseases especially in Southern Africa could have a lasting damaging impact on income and welfare. It is clear from several studies that there will be considerable demographic, macroeconomic and healthcare consequences, including a significant deterioration in income per capita growth over the medium term (Hernandez-Cata, 2001).

What Can Be Done?

In recognition of the minimal progress made so far in reducing poverty, especially in SSA, IMF has recently modified its concessional lending programs. The new Poverty Reduction and Growth Facility will continue to address the fundamental hindrance to economic growth, but programs under this area will place greater emphasis on poverty reduction and hence on adequate financing and delivery of social services, as well as the governance issues. Moreover, governments are increasingly taking the lead in developing ideas and plans for poverty reduction in the framework of a broad dialogue with civil society. Raising growth and reducing poverty will be difficult undertakings, but that can be accomplished as long as the policy makers in Nigeria and the international community are ready to do their part (Hernandez-Cata, 2001).

The IMF will continue to encourage Nigeria and SSA countries to pursue strong macroeconomic policies, improve economic efficiency by liberalizing trade and maintaining competitive exchange rates, removing the state from direct involvement in the production of marketable goods and services and enhancing domestic competition in all sectors including agriculture. It will also continue to encourage countries to support regional integration efforts that contribute to trade liberalization, strong macroeconomic policies and building of institutions that promote good policies (Hernandez-Cata, 2001).

In addition to the above policies of the Fund, it encourages improved infrastructure, especially in ports and communications to encourage trade and investment, increase the share of government spending directed to education and healthcare and improve the delivery of services in these areas. The encouragement also extends to intensify efforts to root out corruption and reduce investor's risks by improving the quality and integrity of the legal system.

Finally, in many of these areas mentioned above, the World Bank has a major role to play. However, the IMF can help through its financial programs, policy advice and technical assistance. It can also contribute by helping countries that have been devastated by armed conflicts, taking an active part in extending and deepening debt reduction and pressing the advanced industrial economies to open their markets to the exports of Sub-Sahara Africa (Hernandez-Cata).

Africa's Global Share of FDI

First, "FDI has been flowing to different regions of the world and countries in different proportions" (Ngowi, 2001, p.1). The triads of the U.S., EU and Japan have been the main sources of FDI inflows into Africa in the past several years. The countries in Africa have been receiving the lowest share of the global FDI inflows over the past decade. The study conducted by Bjorvatn (2000) indicated that the whole of Africa received less FDI than Singapore despite the fact that FDI is welcomed and actively sought by virtually all the African countries including Nigeria. The expected increased inflow of FDI into Nigeria in particular and Africa in general has not occurred. These countries have not benefited from the FDI boom since it started in mid 1980s. Since the 1970s, FDI inflows into Africa have increased only modestly from a yearly average of almost \$1.9 billion in 1983-87 to \$3.1 billion in 1988-92 and \$6 billion in 1993-97 (Ngowi, 2001). It should be noted that during these periods of time stated above, the global FDI inflows reached a record \$644 billion according to UNCTAD report of June 22, 1999.

As a group, FDI inflows into developing countries have increased fourfold from less than $20 billion in 1981-90 to $75 billion in 1991-95. It should be noted that inflows into Africa at that period merely doubled. Thus, Africa's share in total inflows of FDI to developing countries dropped significantly from a little over 11 percent in 1976-80 to 9 percent in 1981-85, 5 percent in 1991-95 and to 4 percent in 1996-97 respectively. Africa's global FDI share is also a reflection of the ratio of FDI to gross domestic product (GDP). In the 1970s, the countries of Africa attracted more FDI per $1000 of GDP than Asia, Latin America and the Caribbean, South, East and Southeast Asia respectively. In 1996, the figures stood at 13.6, 24.8 and 25.7, a year later the figures stood at 14.7, 33.8 and 28.3 respectively. This is a clear indication that since 1990, African countries had fallen behind other developing countries in terms of its value of FDI inflows and the FDI/GDP ratio and have lagged behind since then. Hence, the gap increased widely when the worldwide surge in FDI flows into developing countries by passed the region (Ngowi, 2001).

Finally, it should be noted that the share of FDI flowing into Africa has not been even in all the countries. Egypt and Nigeria received a larger share of FDIs flowing into the region in terms of size. However, one good look at the figures of FDI inflow into Africa in general showed that its global share is by all account very low. This share needs to be increased given the potential positive roles that FDI can play in the continent's development. On the other hand, it is also questionable as to whether Africa can increase its ability to attract more FDI. The doubt exists as to whether the continent has enough of the FDI determinants required to attract more of the global FDI outflows (Ngowi, 2001).

The Potential Roles of FDI in Nigeria's Economy

FDI is good and necessary for the development of Nigeria and SSA. It continues to be a driving force in the globalization process that characterized the modern world economy. The process has eliminated the significance of national boundaries and this means that all countries of the world are in one way or another involved in the process. Nigeria and SSA should therefore increase its global share of FDI based on the potential positive roles that FDI can play in the development of the country and the region. There is justification for the concern about the need for and the ability of Nigeria to increase its global share of FDI inflows and as explained above it is based on the potential roles that FDI can play in Nigeria's economy.

It has been proven that Nigeria like, many other developing countries of the world, needs a substantial inflow of external resources in order to fill the savings and foreign exchange gap. These gaps are related to a rapid rate of capital accumulation and growth needed to overcome widespread poverty and improve the standards of living to acceptable levels. The need for external financing is very important in the Nigerian situation because income levels are too low to generate adequate domestic resources for the attainment of even modest rates of investment and growth. Therefore, FDI is currently the best alternative source of external capital for the development of Nigeria's economy (Ngowi, 2001).

The reason FDI is the best alternative source of external capital is that during the 1960s and 1970s, countries like Nigeria were encouraged to borrow on the international markets to finance their own investments. Among the alternative means of financing these investments was FDI, but it was argued that it was one of the most expensive ways to finance capital accumulation. Nigeria like most countries borrowed instead, as a result of this later strategy, it accumulated huge debts to the amount of $32 billion. Therefore, as a result of these huge debts, it has less accessibility to international capital. According to UNCTAD 2000 report, long-term bank lending has stopped in Nigeria and Sub-Sahara Africa since 1985. It is worth noting; that private inflows of capital into Nigeria have mainly consists of FDI and short-term bank lending. In addition, it has been widely recognized that FDI can play a useful role in the development of Nigeria. Thus, the usefulness of FDI is not only in its financial contribution; but it is important because of other factors of FDI when it forms part of a package of investment options (Ngowi, 2001).

Finally, FDIs can create employment in Nigeria; be vehicles of transfer of technology; provide superior skills and management techniques to Nigeria's economy and it can help in the capital formation process in Nigeria as well. It will also facilitate local firms' access to international markets; use local resources more efficiently and productively; increased product diversity and use environmentally clean technology. In addition to the above stated factors, FDIs observe human and labor rights and help to create a lot of linkage-effects in Nigeria's economy both forward and backward.

FDI can be the engine of growth in Nigeria's economy. These investments can sustain and improve economic development in Nigeria for that matter. Given the economic situation in Nigeria and its level of development, the need for FDI in that country cannot be overemphasized. The country needs to increase its share of global FDI inflows, which is one of the best ways to accumulate the needed external capital for its economic development (Ngowi, 2001).

The FDI Determinants and how they Affect Nigeria's Economy

There are factors that determine FDI inflows into any country or geographical location. These factors give investors the confidence needed in invest in foreign markets. Some determinants may be more important to one investor at a given location and at a given time than another investor. Thus, a given determinant may be necessary and important in itself for FDI inflow in one location but not in another. In most situations, they form a complementary set. The focus of this section is to find out what factors would motivate or attract a multinational firm to invest in a particular country or region after making the decision to go multinational. These are the most important decision making elements that guide investors' commitments of their normally massive, expensive and scarce resources in a given geographical location (Ngowi, 2001).

Although it is very hard to determine the exact magnitude and value of FDI determinants that should be deployed in a location for it to attract a certain level of FDI inflows. However what is understandable is that every location must posses a certain essential minimum of the FDI determinants before FDI inflows begin to take place. In the Nigerian situation, these factors will be essential for FDI inflows, the policy framework for FDI and economic determinants (Ngowi, 2001).

First, the policy framework for FDI inflow into Nigeria should be based on economic, political and social stability and relaxed rules regulating entry and operations of FDIs. The country has to improve the standard of treatment of foreign affiliates and improve on the policies guiding the functioning and structure of the markets (Asiedu, 2001). It must be signatory to international agreement on FDI and expeditiously move towards privatization of all the public enterprise. Finally, it must reform its traditional policy, especially tariffs and non-tariffs barriers as well as coherence of FDI and trade policy. It also must improve the tax policy as it relates to both foreign and domestic investments (Ngowi, 2001).

Second, the economic factors should emphasize the principal economic determinants in the Nigerian scene. This means matching types of FDI by motives of the firms in accordance with principal economic determinants. In the case of the market-seeking types of FDI, it focuses on the criteria concerning market size and per capita income, market growth, access to regional and global markets, country specific consumer preferences and the structure of markets. Other factors include a resource/asset-seeking FDI, which emphasizes on raw materials, low-cost unskilled labor, as well as skilled labor, technological, innovative and other created assets and physical infrastructure. The other type of FDI is directed at ensuring efficiency, which looks for favorable balances in the costs of resources and assets adjusted for labor productivity as well as other input costs such as transportation and communication costs to and from, Nigerian economy. It should be mentioned that multinational firms should take into consideration that Nigeria's economy is part of a regional integration agreement that may be conducive to the establishment of regional corporate network (Ngowi, 2001).

Since FDI is increasingly geared towards technologically intensive activities, technological assets are becoming increasingly important for multinational companies to maintain and enhance their competitiveness. A good illustration of the above point is that efficiency-seeking FDI will tend to be located in the regions or countries that are able to supply a skilled and disciplined workforce and good technical and physical infrastructure. The 1999 study by Bjorvatn indicated that "companies would locate their industrial activities in countries with superior quality of national infrastructure. Thus, a good quantity and quality of infrastructure in a given location is among the factors that enhance business operations" (Ngowi, 2001). The physical infrastructure includes such factors as roads, railways, ports and telecommunication facilities as well as traditional postal services and modern communication facilities like networking Internet (Ngowi, 2001).

The regional trading blocks (RTBs) are important determinants of FDI. They represent different types of economic integration among countries. In addition, they are set up to promote cross-border or international trade and mobility of factor services from within member countries by enhancing a more market-oriented pattern of intra-regional resource allocation. The RTBs have the potential to increase the size of a unified market. Sometimes common external tariffs imposed by RTBs are likely to force non-members to enter the market through FDI instead of through trade. Therefore, it is one of the ways in which RTBs may be among the essential FDI determinants.

The importance of regional trading blocks as a factor in attracting FDI has been well emphasized by UNCTAD. It argued that countries stand to reap some economies of scale in regional blocks and that it develops complementarity of interests between land-locked and coastal countries. In the Nigerian situation, it is a member of a regional trading block called Economic Community of West African States (ECOWAS).

In addition to the above determinants, tax exemption, tax holidays or tax reduction for foreign investors and similar incentives would play a positive role in attracting FDIs into countries such as Nigeria. Other incentives that may play important role include guarantees against arbitrary treatment in case of nationalization, government provisions of such utilities as water, power and communication at subsidized prices or free of cost. The other incentives are tariffs or quotas set for competing imports; reduction or elimination of import duties on inputs, interest rate subsidies, guarantees for loans and coverage for exchange rate risks, wage subsidies, training grants and relaxation of legal obligation towards employees. However, the costs of these incentives to Nigeria's economy must be compared to the potential benefits that FDI may bring. It is worth noting that it is only when the benefits of FDI projects more than outweigh the costs, should Nigeria offer incentive to foreign and domestic investors alike (Ngowi, 2001).

The other factors that determine the inflow of FDI are labor availability, relatively low labor costs, highly skilled and efficient workers. It is safe to say that in Nigerian situation, the factors listed above are readily available to would be investors. FDI may be attracted by other factors such as low costs but high quality inputs and minimal transaction costs in their interaction with the government and other agencies. In addition, the strength of a currency may determine FDI inflow; an example is that a relatively weak currency would be more likely to attract FDI than relatively strong one. Since there are potential losses incurred in converting weak currency to hard one, many foreign investors may simply reinvest in the host country economy their profits and other remittances. The devaluation of currency may lead to cheap assets that will in turn be expected to attract more FDIs especially through Mergers and Acquisition (M &A) (Ngowi, 2001).

Finally, a country's membership in a binding multinational investment agreement (MIA) and institutions concerning FDI can reduce the perceived risks of investing in that nation. As soon as the perceived risk is reduced, there is an expectation of increased investment in that country. These agreements may include several bilateral investment treaties and double taxation treaties. Thus, Nigeria's membership on binding agreements such as World Intellectual Property Organization (WIPO); the convention establishing the Multinational Investment Guarantee Agency (MIGA); the convention on the settlement of investment disputes between states and national of other states will help to have an impact on the flow of FDI.

The presence of investment opportunities to these countries is an important factor that determines FDI. These opportunities should be made known to potential investors through effective promotion, which includes marketing a country and coordinating the supply of a country's immobile assets with the specific needs of the investors being targeted (Ngowi, 2001). Thus, Nigerian government must reach out to investors through the Nigerian Investment Promotion Commission (NIPC), its embassies and consulates abroad.

The Policies Nigeria Can Adopt to Encourage FDI

In today's global economy, countries are vigorously competing to attract foreign investments. The studies done by organizations like the World Bank and IMF have indicated that Nigeria and other Sub-Sahara African countries should adopt the following measures. They should permit unrestricted entry of foreign investment and keep limitations to the barest minimum. In addition, open-ended criteria like industries of strategic importance and small businesses should be abolished. Nigeria should clearly define investments that will benefit from incentives and grant these incentives automatically, minimizing discretion and negotiations. It should not favor foreign investors over domestic ones in granting investment. This will not only encourage questionable joint ventures to benefit from incentives; at the same time it will also erode the confidence of domestic investors and encourage capital flight (Allaoua & Atkins, 1993). Nigeria should grant reasonable tax rates instead of tax holidays then followed by uncertain rates. It should permit unrestricted access to foreign exchange for inputs, debt servicing, profit repatriation and service payments. The country should not undertake expensive investment promotions until the investment climate is satisfactory. It must establish an investment promotion agency with participation from the private sector and a focus on investor support instead of screening.

The above measures are part of an overall policy to attract FDI and countries like Nigeria are not likely to succeed on their own unless multinational companies are satisfied with the overall business climate and expect stable policies. In short-term, the government of Nigeria can act on the above stated factors by vigorously pursuing the policy agenda outlined. Therefore, the barriers to trade and investment need to be dismantled to encourage economic integration and enlarge markets.

Finally, there are tremendous investment potentials that abound in the new Nigeria, agriculture and mineral extraction are potentially lucrative sectors. The government of Nigeria claimed that the country contains $30 billion worth of solid minerals and foreign direct investment inflows in these areas could help in the country's economic growth.

The obstacles to FDI abound in Nigeria, corruption is widespread, although the present administration is making some progress in tackling it and the decaying infrastructure will put a dent on the government's expenditures in few more years to come. In spite of the set backs in attracting FDI inflows into Nigeria, there is one economic success. Shell, the biggest source of FDI into Nigeria emphasized the contribution that oil and gas sectors had made in the development of the Nigerian economy. However, one will always remember that oil revenues over the past three decades have led to political difficulties, made previous administrations to believe in false sense of security and the necessary investment in other sectors has been neglected. Therefore, black gold that flows out of the Niger delta has poisoned the roots of development in other sectors of the economy (Ford, 2001).

The present Nigerian administration can sow the seeds of recovery and change the direction of the Nigerian economy by creating a genuinely attractive investment climate, macroeconomic stability, improved infrastructure and the beginning of a more diversified economic base. Nigeria is eager to consolidate its democracy by strengthening its free market economy and creating an enabling environment to encourage foreign investment. It is already Africa's second largest economy; an economically strong Nigeria would serve as a driving force behind many striving African economies. As other countries build viable economies, a whole new set of potential markets would open up and the opportunities for U.S. and Nigerian trade would grow rapidly (The Washington Times, 1999).

Nigeria's economic transformation and resurgence would have enormous, positive impact on regional development and create billions of dollars of opportunities for new economic ties with the U.S., including exports and other sales and commercial ventures (The Washington Times, 1999). There is a movement towards privatization, improvements in the standard of accountability, openness and transparency. In addition to the above factors, there are interests in seeing growth and development in key sectors as well as the country coming to terms with the IMF and World Bank. The era of government dominance on all aspects of the economy is over in Nigeria, and the new attitude to trade is reflecting the change (The Washington Times, 1999).

The country has set in motion an aggressive privatization program and has moved to free the economy from government intervention and controls to create more market access. The strategy of the system that is more open is resonating at home and abroad and less government and greater involvement of private interest and capital define this strategy. This means open competitive and international bidding, privatization and greater prudence and discipline in public expenditure. It is hoped that the cost of governance will be reduced and political democracy will translate into economic liberalization. It should be noted that several of the emerging sectors such as telecommunication, solid minerals, power, steel and agriculture have already been thrown open through economic liberalization and efforts are being made to make contacts with foreign investors. On a final note, many investors may remain unconvinced that Nigeria is a good bet for long-term investment. However, the government of Nigeria must earn their trust and if relative political and economic stability can be maintained, then the investors will definitely come (The Washington Times, 1999).

Nigeria and Foreign Direct Investments

It is indicated that globally, economists tend to favor the free flow of capital across national borders because it allows capital to seek out the highest rate of return. Nigeria is abundantly blessed with enormous mineral and human resources but believed to be a high-risk market for investment. In addition, decades of bad governance have also depleted the national economy with corruption and misappropriation of funds becoming the norm rather than the exception (www.Nigeriabusinessinfo.com). What is the way out of this worsening economic situation? “Many analysts and scholars alike have given the thumbs up for foreign direct investment as a proper engine of growth of Nigeria's economy. Since the establishment of democratic governance in 1999, the government has taken a number of steps to welcome foreign investors into Nigeria” (www.Nigeriabuinessinfo.com, 2002, p.1). Therefore, it is necessary to assess the inflow of FDI finance and its impact on the Nigerian economy (www.Nigeriabusinessinfo.com).

On the issue of benefits of foreign direct investment, it is stated that “FDI is not only a transfer of ownership from domestic to foreign residents but also a mechanism that makes it possible for foreign investors to exercise management and control over host country firms” (www.Nigeriabuinessinfo.com, 2002, p.1). This means that it is a corporate governance mechanism. Nigeria has one of the highest rates of investment returns in the emerging markets, presently estimated to be 30 percent. What are the advantages of FDI to a host country economy? First, “international flows of capital reduce the risk faced by owners of capital by allowing them to diversify their lending and investment” (www.Nigeriabuinessinfo.com, 2002, p.1). Second, “the global integration of capital markets can contribute to the spread of best practices in corporate governance, accounting rules and legal traditions” (www.Nigeriabuinessinfo.com, 2002, p.1). Third, “the global mobility of capital limits the ability of governments to pursue bad policies” (www.Nigeriabuinessinfo.com, 2002, p.1). Fourth, “FDI allows for the transfer of technology particularly in the form of new varieties of capital inputs that cannot be achieved through financial investments or trade in goods and services” (www.Nigeriabuinessinfo.com, 2002, p.1). FDI can also promote competition in the domestic input market. Fifth, "recipients of FDI often gain employee training in the course of operating the new businesses, which contributes to human development in the host country. Lastly, profits generated by FDI contribute to corporate tax revenues in the host country (www.Nigeriabusinessinfo.com, 2002, p.1)

On the matter of FDI inflow in Nigeria, positive developments have occurred in the country since May of 1999, when democracy replaced the military regimes that stagnated the economy over the past years. This has "resulted in numerous spirited moves to attract investors, local and foreign into the country. The civilian government in a bid to achieve this end embarked on a global mission that included interacting with other governments and the business community of different countries" (www.Nigeriabusinessinfo.com, p.1). Therefore, with a more relaxed taxing system, incentives and the creation of Nigerian Investment Promotion Commission (NIPC), the country was set to lure private sector finance. The first step the government took was the bold move to privatize all the ailing public enterprises. It "set up the Bureau of Public Enterprise (BPE) to oversee this crucial venture and the National Council on Privatization to formulate pragmatic policies in this area" (www.Nigeriabusinessinfo.com, p.1).

This privatization drive led to recent 51 percent ill-advised share sale of Nigerian Telecommunication Limited (NITEL) to Investors International Limited (IIL) for the sum of US $ 1.317 billion. Unfortunately IIL was only able to come up with 10 percent of this payment and as penalty for default lost this initial payment. A number of other enterprises have been slated for the same process in an attempt for the government to divest its investment in public service sector. The most successful of the government's bid to attract FDI finance is the license granted for Global System for Mobil

Communication (GSM) to three GSM service providers namely Econet Wireless, MTN and NITEL, at a hefty sum of $285 million each. This has really boosted Tele-density of the country and their impact is felt in the employment market, in terms of massive job creation (www.Nigeriabusinessinfo.com). There have been countless FDI in-roads into the country, which cut across all sectors such as oil and gas, capital market, agriculture, solid minerals and information and communication technology of the economy.

Finally, At the present time, Nigeria enjoys reasonable level of foreign investment, but caution is the right word to describe it because the domestic investment undertaken by FDI establishments is heavily leveraged due to borrowing in the domestic credit market (www.Nigeriabusinessinfo.com,). Hence, the fraction of domestic investment actually financed by foreign savings through FDI flows may not be as large as it seems, and the size of the gains from FDI may be reduced by the domestic borrowing done by foreign owned firms.

It is important that "the government concentrate on providing the basic infrastructures to support the local organized private sector (OPS) that are ready to invest domestic funds into the economy" (www.Nigeriabusinessinfo.com, p.4). The response to private initiatives by the government is quite commendable, however, there is need for more favorable policies targeting specifically the locals as opposed to the foreigners. The recent establishment of the Bank of Industry and the Small and Medium Industries Equity Investment Scheme (SMIEIS) is an indication of better things to come in the future (www.Nigeriabusinessinfo.com).

CHAPTER THREE

METHODOLOGY

This chapter of the dissertation examines the type of research design to be used in this study. The type of design to be used is called Survey. According to Isaac and Michael (1995) handbook in research evaluation, a survey design is a systematic means of collecting descriptive information about the characteristics, practices or attitudes of a defined population of participants. This study was conducted with a sample size of 300 transnational companies that have ventures in Nigeria and Sub-Sahara Africa. The details of the study will be discussed later in the chapter.

Research Design

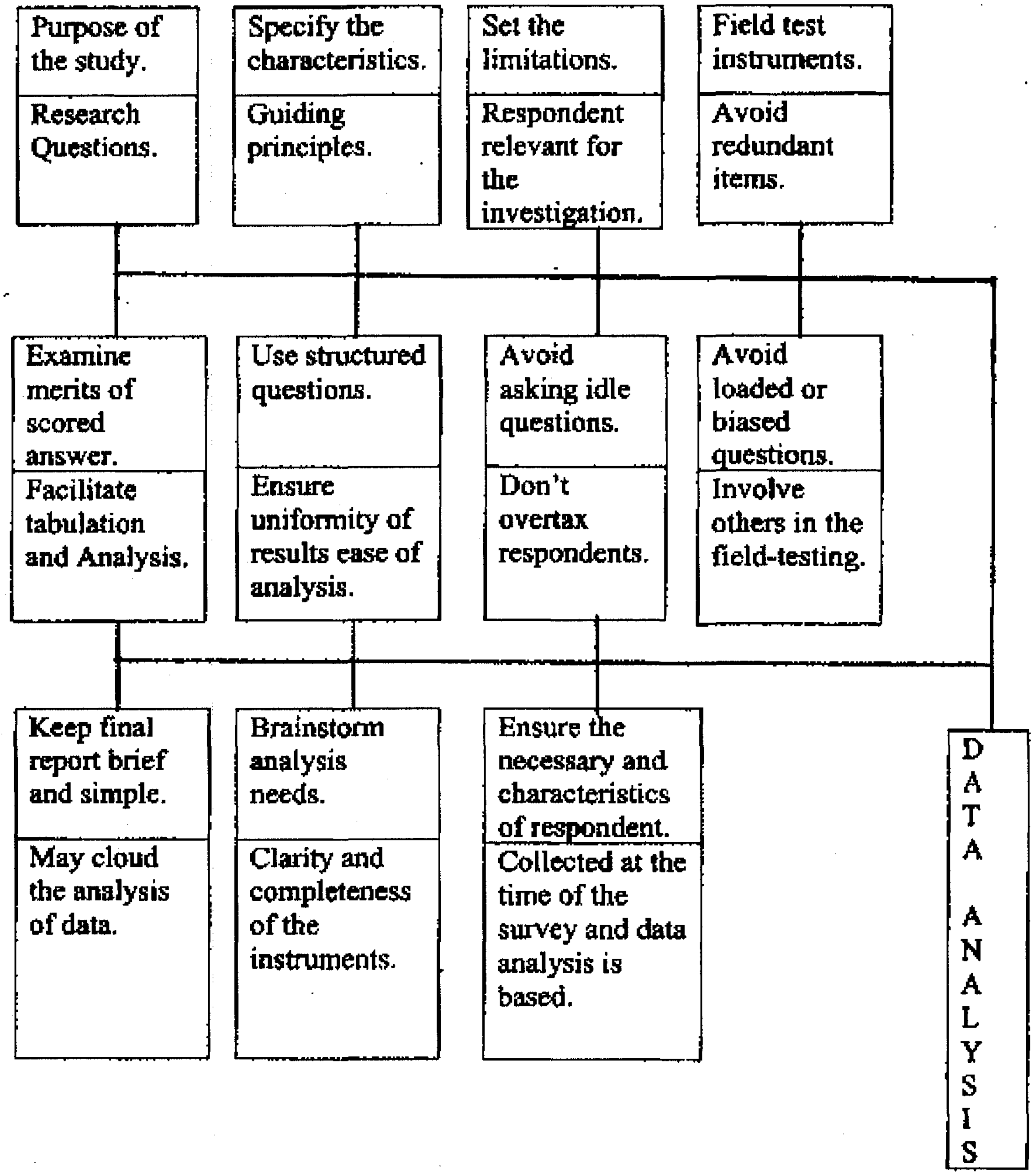
The theoretical framework that was set up to research foreign direct investment and its correlation to economic development of Nigeria is multivariate. It is multivariate because it encompasses more than one independent variable (Hair, Tatham & Black, 1998). In this study, a survey instrument was developed to examine the issues surrounding foreign direct investment as an indicator of global economic health and stability and the correlation to Nigeria and SSA's economic development. It was used to answer the research questions.

The dependent variable and independent variables were selected from prior research done by several scholars in the field of foreign direct investment (Allaoua & Atkins, 1993; Asiedu, 2001; Bhattacharya, Montiel & Sharma, 1997; Drum, 1993; Gardiner, 2002; Hanson, 2001; Pigato, 2001; Wilhelms, 1998). The work of the above researchers provides helpful insight into the understanding of foreign direct investment and economic development. For example Hanson stated that "the optimism about the economic consequences of foreign direct investment coupled with heightened awareness about the importance of new technologies for economic growth, have contributed to wide reaching changes in national policies towards FDI" (Hanson, 2001, p. 3).

Many models have been designed to test the impact of foreign direct investment in economic growth and stability. Foreign direct investment survey is frequently used in studies in testing the determinant factors of FDI and the effects or impacts of these factors on FDI inflows and consequently on the economic development of the host country.

Blomstrom et al. (1994) and Borensztein et al. (1998) studies indicate that the direction of causation between FDI and growth may depend on existing factor endowments and scale effects, such as the fact that larger economies are more attractive to FDI than smaller ones. The scale effects seem to be an important factor explaining MNC investment, along with geographical location and infrastructure. It is not just that a large economy has a large consumer market; in addition, it also can host a wider range of foreign investment. This type of economy tends to have a more diversified productive base and hence broader options of domestically produced inputs and know-how needed for foreign investment to take place. Therefore, the direction of causality between FDI and growth seems to depend to a great extent on the determinants of FDI. If the determinants have a strong association with growth, growth may be found to cause FDI. On the other hand, the determinants of FDI may be present in the recipient economy and, only after FDI takes place, does output grow faster due to externalities and productive spillovers associated with FDI-related productive gains.

Figure # 1 Research Design

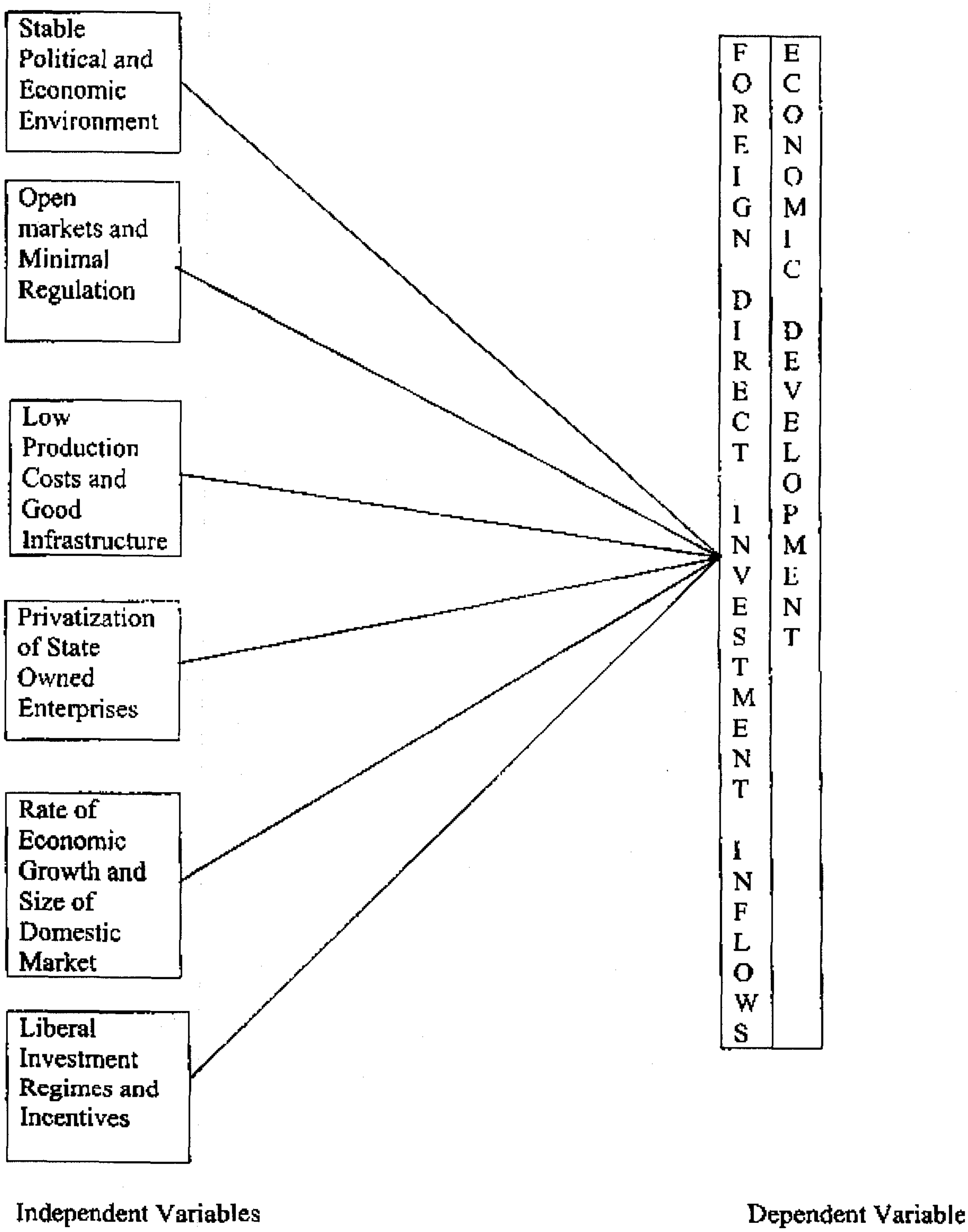

Purpose of the study.
Research Questions.
Specify the characteristics.
Guiding principles.
Set the limitations.
Respondent relevant for the investigation.
Field test instruments.
Avoid redundant items.
Examine merits of scored answer.
Facilitate tabulation and Analysis.
Use structured questions.
Ensure uniformity of results ease of analysis.
Avoid asking idle questions.
Don't overtax respondents.
Avoid loaded or biased questions.
Involve others in the field-testing.
Keep final report brief and simple.
May cloud the analysis of data.
Brainstorm analysis needs.
Clarity and completeness of the instruments.
Ensure the necessary and characteristics of respondent.
Collected at the time of the survey and data analysis is based.
D A T A A N A L Y S I S

To explore the applicability of the existing FDI models that address issues of economic health and stability, a theoretical framework was developed based on prior studies (figure #2). The variables that comprise the theoretical framework were obtained from research that showed FDI inflow (Allaoua & Atkins, 1993; Asiedu, 2001; Gardiner, 2002; Hanson, 2001) and its determinant factors have impact on economic development.

Dependent Variable: Economic Development.

This is the process that leads to enterprise expansion, location, or startup in a place positioned to accommodate it. It occurs when a job is created and/ or when an enterprise takes an action that increases the economic vitality of a community. This is the location-response side of the business expansion, facilities location, site selection and new-venture startup processes (www.economicdevelopment.net). It can be translated into the fact that national developmental policies should be formulated in conformity with national needs, conditions and development priorities. The process should take into account the lessons learned from decades of development experience. Among them are the fact that dynamic role of the private sector and contribution of human resource development in creating wealth should figure prominently. To this end, governments of Nigeria and Sub-Sahara Africa should encourage a supportive environment for the private sector, these include active competition policies, the application of the rule of law, an open framework for trade and investment and sound fiscal and monetary policies. Therefore, the challenges for public authorities are to develop and implement policies that are conducive to prosperity, eradicate poverty and conserve the environment (www.un.org).

Figure # 2 FDI Theoretical Framework



Independent Variables: Stable Political and Economic Environment.

The ranking of the political situation among the determinants is not clear. In a situation where the host country possesses natural resources, no further incentive may be required, as is the case in Nigeria and Angola, two politically unstable countries, where high returns in the extractive industries seem to compensate for political instability. Jesperson et al (2000) and Hausman and Fernandez-Arias (2000) found no relationship between FDI flows and political risk while Shneider and Fry (1985) find an inverse relationship between the two variables. In addition, Loree and Guisinger (1996) found that political risk had a negative impact on U.S. FDI in 1982 but no effect in 1977. The two indices used to measure political risk are political instability, which measures the probability of a change of government and political violence, which is the sum of the frequency of political assassinations, violent riots and politically motivated strikes.

In general, so long as MNC's are confident of being able to operate profitably without undue risk to their capital and personnel, they will continue to invest. Large mining companies overcome some of the political risks by investing in their own security forces. Moreover, these companies are neither limited by small local markets nor by exchange rate risk since they tend to sell almost exclusively on the international market at hard currency prices. Specific variables have proved significant in some studies, but these estimates can capture only some aspects of the qualitative nature of political risk. The survey done by IMF in 1997 in Sub-Sahara Africa appear to indicate that political instability expressed in terms of crime level, riots, labor disputes and corruption, is an important factor inhibiting substantial foreign investment.

Independent Variables: Open Markets and Minimal Regulation.

Some countries in the region have recently relaxed most of the regulations regarding foreign direct investment. This is seen as contributing to the increased FDI flows in the last few years. However, the lack of transparency in investment approval procedures and an extensive bureaucratic system are still deterring foreign investors; hence the relative low FDI/GDP ratios. Nigeria, in contrast, continues to attract foreign direct investment as an oil-exporting nation despite its erratic and relatively unwelcoming policies.

As it relates to the rest of the countries in SSA with small FDI inflows, surveys depict that lack of a clear-cut policy with respect to foreign direct investment and excessive delays in approval procedures are among the most important deterrents. In spite of the fact that a number of countries in the region instituted one-stop investment shops in the 1980s in order to simplify approval procedures, the increased workload created bottlenecks.

In the literature, the ratio of trade to GDP is often used as a measure of openness of a country's economy. The ratio is most of the time seen as a measure of trade restrictions. The effect of openness on foreign direct investment depends on the type of investment. In situations where investments are market seeking, trade restrictions can have a positive impact on FDI. The reason is that tariff-jumping hypothesis will result. This hypothesis states that foreign firms that seek to serve local markets may decide to establish subsidiaries in the host country if it is difficult to import their products to the country. On the contrary multinational companies engaged in export oriented investments, might like to locate in a more open economy since increased imperfections that accompany trade protection generally results in higher transaction costs in the export industry.

Independent Variables: Low Production Costs and Good Infrastructure Facilities.

The empirical research done by ODI in 1997 found that relative labor costs to be statistically significant, especially for FDI in labor-intensive industries and for export-oriented subsidiaries. In Sub-Sahara Africa, the decision to invest has been heavily influenced by the existing low wage rate in some countries. On the other hand, labor market rigidities and relatively high wages in the formal sector have been reported as deterring any significant inflow into the export sector particularly in Southern Africa.

However, when the cost of labor is relatively insignificant, the skills of the labor force are expected to have an impact on decisions about FDI location. The productivity levels in Nigeria and SSA are generally lower than in Asian countries and efforts made to address the skill shortage by importing expatriate foreign workers have been dim by restrictions and delays in obtaining work permits. The lack of competent staff in the region is reported as holding back potential FDI, especially in manufacturing, which reduces the attractiveness of investing in productive sectors.

Good infrastructure increases the productivity of investments and as such it stimulates FDI flows (Asiedu, 2001). A good measure of infrastructure development should take into consideration both availability and reliability of infrastructure. Frankly speaking, infrastructure is of little use if it is not reliable. Hence, it is expected that infrastructure reliability is more important to foreign investors than infrastructure availability.

Surveys in Sub-Sahara Africa and Nigeria indicated that poor accounting standards, inadequate disclosure and weak enforcement of legal obligations have impaired the credibility of the financial institutions to the extent that they deter foreign investors.

Independent Variable: Privatization of State-owned Enterprises.

Although privatization has attracted some foreign direct investment inflows in recent years in Nigeria, progress is still slow; partly due to the divestment of state assets is a highly political issue. The organized labor has fiercely resisted privatization or other moves that threaten existing jobs and workers' rights. At a regional level, 1994 figure shows 8.8 percent of FDI flows went to SSA. A number of structural problems are constraining the process of privatization.

The SSA countries turned to privatization as a means towards economic adjustment and for accumulating investment capital (Drum, 1993). This means that as African governments (including Nigeria) become harder pressed to fund national budgets, privatization gathered momentum, as the solution to an effective economic adjustment and to mobilize highly needed investment capital. However, in order for privatization to work, there are lessons to be learned, first, each country has to tailor the privatization strategy to the particular circumstance within its boundary. Second, there is the need for support from the highest political level for the privatization process. Third, the fear of lack of finance or lack of potential investors for privatization in Sub-Sahara Africa is in most cases over exaggerated. Fourth, there is the need for transparency in privatization process and fifth, is the need to make full use of specialist consultants.

Independent Variables: Rate of Economic Growth and Size of Domestic Market.

As it relates to Sub-Sahara Africa as a whole, Bhattacharya et al. (1996) identified GDP growth as a major factor. On the average, FDI in SSA have earned high rates of return, the poor growth performance of Sub-Sahara have deterred broad-based FDI. The annual GNP growth in SSA averaged 2.3 percent during 1983-89 and 1.4 percent during the 1990-95 compared to 3.8 percent and 5.1 percent for all other developing countries during these periods.

Econometric studies by Bhattacharya, Montiel & Sharma in 1996 that compared a cross section of countries indicated a well-established correlation between FDI and the size of the market as well as some of its characteristics. Some studies found GDP growth to be a significant explanatory variable, while GDP was not, meaning that where the current size of national income is very small, increments may have less relevance to FDI decisions than growth performance, as an indicator of market potential. In addition, regional integration is often perceived as a positive means of compensating for small national markets. There is no clear evidence at the present time the degree of this influence on FDI flows.

Independent Variables: Liberal Investment Regimes and Incentives.

Most of the empirical evidence supports the idea that specific incentives such as lower taxes have no major impact on FDI, especially when they are seen as compensation for continuing comparative disadvantage (ODI, 1997). However, removing restrictions and providing good business operating conditions are generally believed to have a positive effect. The open-door policy and enhanced incentives for investing in special economic zones will contribute to the influx of FDI. In addition, incentives such the granting of equal treatment to foreign investors in relation to domestic investors and the opening up of new markets have been reported as important factors in encouraging FDI flows in recent years.

When compared with other developing regions like Asia and Latin America that have seen dramatic shifts to more outward-oriented and market-base investment regimes since 1985, SSA and Nigeria remain relatively inward-oriented, with foreign investment often subject to excessive and discriminatory regulation.

Selection of Subjects

This research includes a sampling of multinational companies doing business outside the United States but have their corporate headquarters in the U.S. A database of U.S. multinational companies with operations in Sub-Sahara Africa was obtained from the *Directory of American Firms Operating in Foreign Countries* (2000). The feeling is that studying a sample of U.S. multinational companies foreign direct investment policies as they relate to Nigeria will help to generalize the findings of FDI practices in the rest of Sub-Sahara Africa.

In terms of the composition of the survey group, on the aggregate, the 2000 annual sales of the companies' total U.S. $500 Billion and they employ nearly 2 million people. About ten of the world's largest 100 multinational companies are included in the respondents. Over 70 percent of the responding companies have annual sales of more than $1 billion; about 75 percent employ more than 6,000 people and 1 in 10 has over 40,000 employees. Manufacturing/processing companies comprise 45 percent of the respondent, Service companies comprise 30 percent and Extractive companies comprise of 25 percent.

The focus of this research is the impact of foreign direct investment on economic development of Nigeria; therefore, the assistance of the chief executive officers (CEOs) of the multinational companies was essential. These executives were asked to provide company information on FDI policies worldwide and on Nigeria. In order to have a better understanding of the impact of FDI on Nigeria and SSA economies, specific questions were asked as they pertain to the region?

Instrumentation

A questionnaire was developed for use in obtaining data for this study. The CEOs were asked to respond to survey regarding FDI policies on worldwide basis in general and Nigeria/SSA in particular. In responding to the survey instrument, the CEOs were asked to utilize data from companies' records.

The responses from the questionnaire were operationalized by assigning numerical values to the responses given to the questions on the survey instrument. A custom database was developed to capture and tabulate the aggregate results of the study. All individual company data remain confidential. Due to the fact that data was obtained from MNCs office records, the data can be said to be objective. Although objective data are easily measurable, it is always good to check the consistent reliability of the independent and dependent variables. Hence, Cronbach's alpha reliability analysis was used for this procedure.

A pretest was done in this study by sending questionnaire to 10 chief executive officers of multinational companies asking for their input on the instrument's a) readability b) ability to give response and c) ability to measure the variables. The survey instrument consists of twenty (28) items and it is divided into two parts. The first part of the survey entails FDI activities and the second part entails how these activities affect the FDI decisions about Nigeria and Sub-Sahara Africa. The questions in this survey instrument were obtained from existing literature in the field of FDI that identified the activities of stable political and economic environment, open markets and minimal regulation as having impact on FDI. Moreover, it identified low production costs and good infrastructure facilities, privatization of state owned enterprises, rate of economic growth and size of domestic market and liberal investment regimes and incentives as having impact on FDI flows and consequently on economic development.

Questions 1-3 of the survey take into consideration the types of firm, the plan to expand overseas and the mode for overseas expansion. These questions asked 1) what is the best way to categorize the type of operation your firm is involve in? 2) Your firm plans to expand overseas to both developing and developed country location in the near future and 3) build/lease describes the strategy your firm uses in overseas expansion? Prior research by (Bhattacharya, Montiel & Sharma, 1997; MIGA & Deloitte & Touche, 2002) suggested that the composition of the firm, the near term investment plans and the mode and method of expansion weigh heavily in the decision by the MNCs to expand overseas.

Questions 4-15 of the survey takes into consideration the firms' investment objectives, planned investment destination in developing and emerging economies, the factors that influence site selection and cancellation or postponement of projects in response to global economic downturn. The questions asked what is your firm's investment objectives, does your firm have planned investment destination in developing and emerging economies, what factors influence your firm's site selection and will your firm cancel or postpone projects in response to a global economic downturn? Strong evidence exists that showed investment objectives, planned investment destinations, site selection and investment prospects in the global economy play a significant role in transnational companies' decision to expand overseas on long term basis (Asiedu, 2001; Deloitte & Touche, 2002; Gardiner, 2002; Pigato, 2001).

Questions 16-19 of the survey looked at the perception of Sub-Sahara by the MNCs, the ranking of the risk of investment inflow, the stable political and economic environment, the open market and minimal regulation. These questions asked is your firm's perception of Africa a reflection of the decision to invest or not to invest in the region, how would your firm rank investment inflow into Nigeria/SSA? It also asked does your firm choose investment destinations based on stable political and economic environment and does your firm make investment based on open markets and minimal regulation?

The survey by Bhattacharya et al 1997, showed that investors perceive risks to be higher in SSA than other regions and face greater impediments to identifying and exploiting profitable opportunities in Sub-Sahara Africa than elsewhere. Large structural fiscal deficits, erratic monetary and exchange rate policies and weakness in financial systems in many SSA countries have resulted in high and variable inflation and interest rates and high degree of volatility in real exchange rates.

Questions 20-23 of the survey deal with the issue of production costs and good infrastructure facilities, judicial system and curbing corrupt practices and the progress of privatization of state owned enterprises and rate of economic growth and size of domestic market. The questions asked, are low production costs and good infrastructure facilities essential in your firm's decision to invest, are reforms in the judicial system and curbing corrupt practices important in your firm's decision to invest. It also asked, does your firm take into consideration progress in privatization of state owned enterprises when making decisions and does your firm consider the rate of economic growth and size of domestic market in investment decisions?

Prior studies (Drum, 1993; Nyikuli, 1999; Morisset & Neso, 2002) indicated that FDI is largely concentrated in the primary sectors in Africa and as such have high rates of return, however, the poor growth performance of Sub-Sahara Africa and the limited size of its domestic markets have deterred broader based FDI. Moreover, SSA's physical, financial, human and institutional infrastructures are all generally less developed than in other regions and have actually deteriorated in recent years.

Questions 24-28 of the survey looked at the liberal investment regimes and incentives, high labor productivity and competitive wages, strong presence of intellectual property regimes, presence of market-based interest and exchange rates and presence of open and transparent bidding process. The questions asked does your firm consider the liberal investment regimes and incentives in FDI decisions, does your firm consider high labor productivity and competitive wages and does your firm take into consideration strong presence of intellectual property regimes? It also asked does your firm consider the presence of market-based interest and exchange rates and does your firm consider the presence of open and transparent contract bidding when making investment decisions?

The ODI, 1997 study indicated that labor cost is statistically significant especially FDI in labor-intensive industries and export-oriented subsidiaries. Moreover, the study also indicated that there is support for the notion that specific incentives such as lower taxes have no major impact on FDI; however, removing restrictions and providing good business operating conditions are generally believed to have a positive effect.

Assumptions and Limitations

In a research study such as this, there are contaminating factors that may threaten the validity of the study. Even when one works so hard to make sure that every aspect of the study is carried out to the best of his/her ability. An effort has been made to collect data from U.S. companies that have operations in Nigeria and Sub-Sahara Africa. In the process of data collection, it appeared that some respondents that have operations in Nigeria have divested their business ventures elsewhere and some of the respondents reported data that are outside Sub-Sahara Africa.

The other threat to validity is in the data collection technique. A self-reported questionnaire approach was used to collect data. In this method, there is always the possibility of respondents not reporting what is the proper representative of their organization's situation. Therefore, it could be said that there is no inexpensive approach to reduce the possible threat to the validity of this research study.

On a final note, this research study was conducted within a three-month period and on respondents of U.S. companies only; the possible inclusion of U.S. companies that have their base of operation outside the U.S. may change the result and validity of this study.

Procedures

A letter was sent to each of the chief executive officers of the population of the transnational companies requesting their participation in this study. About two weeks after the expected receipt date of the letter, a telephone call was made to discuss the study and to encourage the subjects' involvement. These CEOs were asked to provide company information on foreign direct investment policies in Nigeria and SSA and how these policies have aided in economic development.

The CEOs were made aware of the starting and ending dates of this segment of the study. The researcher sent to the subjects through the postal system the mail questionnaire along with self-addressed stamped envelope for it return. A copy of the letter and questionnaire are included in the appendices. The participating subjects were asked to return the survey within fifteen days of its receipt and the collection of the data did not exceed thirty days.

The returned surveys were reviewed for completeness and incomplete surveys were not used in the study. The data from the completed surveys were analyzed using SPSS 11.0. The confidentiality of the subjects was maintained throughout the study.

Data Processing and Analysis

After the questionnaires were returned, the data was edited for completeness. If the researcher has determined that only one or two items were left blank on a questionnaire, assuming an omission on the part of the respondent, the respondent was given a follow-up call to get the correct data. On the same token, if more than two questions were left blank on a questionnaire (over 15%) that survey was not included in the study.

The data was then coded, categorized and entered into the database SPSS 11.0 for analysis. After the data was edited, the researcher proceeded to see if they help to answer the research questions on chapter one of this study. Then correlation was obtain and multiple regression equation is as explained below:

$Y = b0 + b1x1 + b2x2 + b3x3 + b4x4 + b5x5 + b6 + x6 + e$

Applying this equation to the multiple regression model, which includes the dependent and the independent variables, gives us:

FDI inflow and economic development = b0+ b1 (SP& EE) + b2 (OM& MR) + b3 (LPC& GIF) + b4 (POE) + b5 (REG& SDM) + b6 (LIR & I) + e

Where:

Y= Economic development

x1= Stable Political & Economic Environment

x2= Open markets & Minimal Regulation

x3= Low production costs & Good infrastructure

x4= Privatization

x5= Rates of economic growth and size of domestic market

x6= Liberal investment regimes and incentives

b0= Constant

b= The slope of the predictor (weight of independent variable)

e= Random error.

Five research questions were generated in this study. They are as follows:

(i) What factors attract FDI to developing countries?

(ii) Are these factors applicable for FDI into Nigeria and SSA?

(iii) Why have Nigeria and SSA attracted low level of FDI inflow?

(iv) Why has Nigeria been unsuccessful in attracting FDI in non-oil sectors despite policy reform?

(v) Are Nigeria and SSA different?

The six independent variables of stable political and economic environment, open markets and minimal regulation, low production costs and good infrastructure, privatization, rates of economic growth and size of domestic market and liberal investment regimes and incentives help to explain the pace of economic development in Sub-Sahara Africa and Nigeria.

CHAPTER FOUR

FINDINGS

Restatement of the Purpose of the Study

In prior studies, it was indicated that foreign direct investment inflows aid in economic development of the host country. Those studies suggest that stable political and economic environment, open markets and minimal regulation, low production costs and good infrastructural facilities, privatization of state-owned enterprises, rate of economic growth and size of domestic market and liberal investment regimes and incentives are predictors of FDI inflows that result in economic development. The purpose of this study was to apply the aforementioned variables in an attempt to determine how they correlate to economic development of the host nation.

Restatement of the Research Questions

The basic research question asked in this study is, do factors such as stable political and economic environment, open market and minimal regulation, low production costs and good infrastructure, privatization of state-owned enterprises, rates of economic growth and size of domestic market and liberal investment regimes help to generate FDI inflows that in turn accelerates the pace of economic development? To accomplish this end five questions were investigated in this study and these questions are:

(1) What factors attract FDI to developing countries?

(2) Are these factors applicable for FDI into Nigeria and SSA?

(3) Why have Nigeria and SSA attracted low level of FDI inflow?

(4) Why has Nigeria been unsuccessful in attracting FDI in non-oil sectors despite policy reform?

(5) Are Nigeria and SSA different?

Procedures

The population of this research study comprise of U.S. MNCs with business operations in Nigeria and Sub-Sahara Africa. According to the *Directory of American Firms Operating in Foreign Countries (2000)*, 300 U.S. MNCs have operations in Nigeria and the rest of Sub-Sahara Africa. All the 300 companies were sent questionnaire asking for their participation in the foreign direct investment policies study. 150 usable surveys were received (50%) which qualify the sample as being representative of the total population.

In this chapter, data obtained with regards to both the dependent variable and the independent variables are analyzed and presented. In addition, the results of the study, which include research questions, were answered through the analysis done, together with the multiple regression that are presented. The respondents (n = 150) were asked to categorized the type of operation their firm is involved in Nigeria and Sub-Sahara Africa

Results

In the results on table 1 about 45 percent of the respondents are manufacturing/processing companies, 30 percent are service companies and 25 percent of the respondent are extractive companies.

Table 1: Survey Respondents by Industry in Percentage.

Type of Operation	Percentage
Manufacturing/Processing	45%
Service	30%
Extractive	25%
	100%

The respondents were asked to respond to questions/statements 2 through 28 by choosing one out of a 5-point response scale. The scale ranges from strongly disagree, disagree, neutral, agree to strongly agree. Code is assigned to each response as follows: 1 point for strongly disagree, 2 points for disagree, 3 points for neutral, 4 points for agree and 5 points for strongly agree.

First, on the expansion strategies to both developing and developed country locations, about 60 percent of the survey respondents are planning to locate a new operation or expand their facilities outside the United States. About 30 percent of the respondents do not plan to expand to both developing and developed country in the near future. The remaining 10 percent are unsure of their expansion plan in the near future.

Table 2: Ranking of the FDI Related Factors.

Factors	1	2	3	4	5
Expansion strategy	30%	-	10%	-	60%
Build/Lease Strategy	20%	10%	20%	10%	40%
Merger& Acquisition	10%	10%	10%	25%	45%
Market Access	5%	10%	15%	20%	50%
Lower Cost	-	-	10%	20%	70%
Innovation	10%	10%	10%	20%	50%
Inv. in Dev./Emerg. Mkts	10%	10%	10%	25%	45%
Mkt. Access/Site Select.	10%	10%	10%	30%	40%
Labor Rel./Union	20%	10%	10%	20%	40%
Labor Mkt./Site Select.	-	25%	10%	15%	50%
M&A/Site Selection	10%	10%	15%	20%	45%
Security Concerns	-	-	10%	20%	70%
Banks/Acct./Loc. Analys.	15%	10%	10%	20%	45%
Postponement of projects	50%	20%	10%	10%	10%

A substantial majority of manufacturing/processing, service and extractive companies have plan for overseas expansion within the next three years, with manufacturing companies likely to expand by a small margin. In addition, larger companies are likely to expand than smaller companies. The responses by companies that do not have plans to expand appear to differ slightly from the one that have plans to expand in the next three years.

Second, on the mode of investment, 40 percent of the respondents strongly indicate that build/lease strategy will be their mode of expansion. About 10 percent indicate that this method seems appropriate, 20 percent are neutral on this expansion strategy while 10 percent and 20 percent objects and strongly objects to this strategy. The manufacturing/processing companies indicated that they are likely to invest on existing facilities.

Third, on the matter of merger and acquisition, 45 percent of the respondents strongly indicate this strategy to be their likely choice, about 20 percent indicate that it is likely to be their choice, while 10 percent indicate that they are neutral on this choice. About 10 percent of the respondents oppose this strategy and the other 10 percent strongly oppose this strategy. The service and extractive companies use the M&A option as opposed to manufacturing/proceeding companies. In addition, the service companies are more likely to build or lease new facilities.

Fourth, on the matter of objectives in investing internationally, the majority of the respondents (50 percent) strongly agreed that improved market access is an important objective in their foreign expansion strategies. About 20 percent agreed that market access is an important objective while 10 percent are neutral on this choice, 10 percent disagree with this objective and the other 10 percent strongly disagree on the overall idea of market access. It should be noted that the majority of the firms in both the manufacturing and service sectors rates improved market access as a pivotal factor yet the two sectors have different levels of objectives.

Fifth, the issue of lower costs generated an overwhelming majority (70 percent) of the respondents strongly favor this strategy as an important objective in international expansion. It also generated about 20 percent of the respondent agreeing to this strategy as an important objective in international expansion and 10 percent neutral on the issue of lower cost as an important factor in international expansion.

The manufacturing companies are much more likely to cite reducing operating costs and sourcing raw materials as the means to achieve above objectives. The service companies indicated that developing new products is an important objective in their overseas investments. In addition, the extractive industry emphasized more on reducing operating costs as a means of achieving their objectives in international investments.

Sixth, regarding product innovation, majority of the respondents (50 percent) strongly agreed that improved product/technological innovation is an important factor in international expansion strategy. About 20 percent of the respondent agreed to the importance of product innovation, while 10 percent is neutral on the idea of product innovation, 10 percent disagreed and the other 10 percent strongly disagreed on this strategy as an important factor in international expansion. The service companies rank developing new products as an important objective in their international expansion.

While manufacturing companies rank consolidating operations as important objective in this category.

Seventh, on the idea of investment in developing and emerging markets, about 45 percent of the respondents strongly identifies their companies as having this plan in the immediate future. About 25 percent of the respondents identified their companies as having this strategy, 10 percent are neutral on this issue, then 10 percent agreed with this idea and the other 10 percent strongly disagrees with the idea of investment in developing and emerging markets.

Most companies indicated that when locating operations internationally, access to customers leads the field followed by a stable social and political environment. About 40 percent of the respondents strongly agreed to the combination of market access and site selection, 30 percent agreed with this strategy, about 10 percent is neutral on this issue, while 10 percent disagrees and the other 10 percent strongly disagrees with this strategy.

Eighth, on the matter of labor relations/union activities, lager companies are less likely to identify labor relations and unionization as critical location factors and are more focused on labor costs. These companies are more likely than smaller companies to see national taxes as an essential factor. About 40 percent strongly agrees with the idea of unionization and labor relations, 20 percent are neutral on this issue, 10 percent disagree with the idea of union activities and the other 20 percent strongly disagrees with the idea of labor relations/union activities.

Ninth, on the matter of labor market as it relates to site selection, 50 percent of the respondents strongly agreed with the idea that labor market is an important factor in site selection. About 15 percent agreed to the importance of labor market in site selection, 10 percent of the respondents are neutral on this factor and 25 percent disagreed on the idea of labor market when it relates to site selection in international expansion.

Larger companies indicated preference for expatriates when it comes to international expansion. However, they can modify their decisions if the rules and regulations guiding expatriate employment in the host country are adverse. These companies will view labor issues such as the ability to hire skilled labor, labor relations, labor regulations, the availability of university graduates and the availability of technical labor as very important location factors. The smaller companies also selected the ability to hire skilled laborers, technical professional and management staff as very important issue.

Tenth, on the matter of merger and acquisition as they relate to site selection, 45 percent of the respondents strongly agreed that M&A is an important factor in the site selection for international expansion. About 20 percent agreed to the fact that merger and acquisition is an important factor in international investment decision, 15 percent are neutral on this topic, 10 percent disagree on the idea and the other 10 percent strongly disagree on this subject.

The companies that prefer a merger/acquisition expansion strategy are generally less likely to indicate reducing costs as a primary factor, less interested in factors pertaining to real estate and the labor market. However, they are more focused on market access issues and national taxes.

Eleventh, on the subject of security concerns, an overwhelming number of respondents 70 percent strongly agreed that security concerns are important factors in international expansion strategy. About 20 percent agreed that security concerns are important factors in international investment strategy and 10 percent is neutral on the idea of security concerns. When companies are evaluating foreign investments, they are generally concerned with the entire key potential risks indicated below. These risks are physical security of staff, war and civil disturbance.

Twelfth, on the matter of the use of banks and accounting firms in location analysis, about 45 percent of the respondent strongly agreed with the idea of using banks and accounting firms in location analysis. 20 percent of the surveyed companies agreed with the idea of the use of banks and accounting firms in location analysis for international investment. About 10 percent are neutral on this idea and 15 percent are in strong disagreement with the idea of the use of banks and accounting firms in investment decision internationally.

Services companies showed a big preference for investment banks and the Big Five accounting firms. Smaller companies showed preference for specialist in site selection and manufacturers relied more on government agencies for the same purpose.

Finally, on the issue of postponement of projects, about 50 percent strongly disagreed that postponement of future investment is on their agenda. 20 percent disagreed with the idea of postponement of projects, 10 percent is neutral on this issue, 10 percent agreed with the idea of postponement of projects and the remaining 10 percent strongly agreed with postponement of projects in the near future as a result of worldwide economic downturn.

It should be noted that while worldwide economic uncertainty is leading some companies to become more conservative in their investment pattern, they are very much committed to foreign investment as an appropriate strategy for market development. This is especially true for companies operating in developing countries that are looking to develop new operations and markets abroad. These companies doing business internationally have indicated that they try to balance the need for access to new markets with the desire to minimize risk.

Table 3: Ranking of Nigeria/SSA FDI Related Factors.

Factors	1	2	3	4	5
Econ. Growth. & Mkt.	5%	5%	10%	25%	55%
Open Mkt. & Min. Reg.	5%	5%	10%	25%	55%
Low Pr. Cost & Infr.	10%	10%	10%	20%	50%
Stabl. Pol.& Eco. Env.	-	10%	10%	20%	60%
Lib. Inv. Reg. & Incent.	10%	5%	20%	20%	45%
Privatization of SOEs	-	-	10%	20%	70%
Mkt. Int.& Exch. Rates	10%	10%	15%	10%	55%
Lab. Pro.& Comp.Wage	10%	5%	5%	20%	60%
Risk	-	-	10%	20%	70%
Jud. Ref.& Curb Corrpt.	5%	10%	10%	15%	60%
Int. Property Regimes	10%	-	5%	20%	65%
Open &Trans. Cont. Bid.	10%	5%	5%	20%	60%
Perception	10%	10%	10%	25%	45%

The second part of the survey result dealt with the ranking of Nigeria and Sub-Sahara Africa FDI related factors. First, on the matter of economic growth and size of domestic markets, about 55 percent of the respondents strongly agreed on the importance of these factors in international investment decisions. In addition, 25 percent of the respondents agreed to the importance of this factor while 10 percent of the respondents are neutral on the importance of the above factors in international investment decision-making process. About 5 percent of the respondents disagreed on these factors and the remaining 5 percent strongly disagreed on the importance of economic growth and the size of domestic markets.

The poor growth performance of Sub-Sahara African countries and the limited size of its domestic markets have deterred broader-based FDI. The exception is Nigeria where the size of the market estimated at 125 million people will offer investors markets for their products and services.

Second, in the case of open market and minimal regulation, a simple majority of the respondents (55 percent) strongly agreed that these factors are essential in making decisions about investing internationally. About 25 percent of the respondents agreed that these factors are essential in international investment decision, 10 percent are neutral on this issue, 5 percent of the respondents disagreed with these factors and the remaining 5 percent strongly disagreed with the importance of open market and minimal regulation in international investment decisions.

When compared with other developing regions that have seen dramatic shifts to more outward-oriented and market-based investment regimes, Sub-Sahara Africa has remained relatively inward-oriented. As a result, foreign investment is often subject to excessive and discriminatory regulation.

Third, in the case of low production cost and good infrastructure, half of the respondents (50 percent) strongly agreed that these factors are essential in international investment decisions, about 20 percent agreed that these factors are essential determinants and 10 percent of the respondents are neutral on this issue. In addition to the above results, 10 percent disagreed on low production costs and good infrastructure as important factors and the remaining 10 percent strongly disagreed on the importance of these factors in investment decision internationally.

In Sub-Sahara Africa, the overall costs of production are higher than in other regions. It almost doubled those prevailing in low-income countries in Asia. In addition, SSA's physical, financial, human and institutional infrastructures are generally less developed than in other regions. They have in most cases deteriorated since the 1980s. The heavy state intervention coupled with poor implementation capacity have resulted in limited success in expanding private provision of basic infrastructure.

Fourth, on the matter of stable political and economic environment, an overwhelming majority of the respondents (60 percent) strongly agreed that these factors are important in international investment especially in the Sub-Sahara Africa region. About 20 percent of the respondents agreed that these factors are essential in investment decisions internationally, 10 percent of the respondents are neutral on this factor and the remaining 10 percent disagreed with the idea of stable political and economic environment as essential factors.

The experience in other regions has shown that investors choose countries with stable political and economic environment. On one hand, in the past decade and half, a relatively large number of countries in the region have been affected by civil strife and this has brought FDI inflows to a stand still. On the other hand, several countries that have seen an end to civil conflicts have benefited from significant increases in FDI inflows during the last decade.

Fifth, on the matter of liberal investment regimes and incentives, about 45 percent of the respondents strongly agreed that these factors are essential in international investment decisions, 20 percent of the respondents agreed with these factors as essential in investment decision making internationally, 20 percent of the respondents are neutral on these factors. In addition, 5 percent of the respondents disagreed on these factors and the remaining 10 percent strongly disagreed that the factors of liberal investment regimes and incentives are crucial in their investment decision-making process internationally.

The institution of tax exemptions, tax holidays or tax reduction for foreign investors and similar incentives would play a positive role in attracting FDI into Sub-Sahara African countries including Nigeria. Some other incentives that may play important roles are guarantees against arbitrary treatment provision of such utilities as water, power and communication at subsidized prices or free of costs and elimination of import duties on inputs.

Sixth, on the matter of privatization of state-owned enterprises, an overwhelming 70 percent of the respondents strongly agreed that this is an essential factor in making international investments decisions. About 20 percent of the respondents agreed that this factor is essential in international investment decisions, while the remaining 10 percent are neutral on this issue.

SSA in contrast to many Latin American countries that have used aggressive privatization programs to boost FDI remained slow in privatizing state-owned enterprises. The period 1988-1994, the proceeds from privatization amounted to $2.4 billion in SSA compared to $63.4 billion in Latin America.

Seventh, in the case of market interest and exchange rates, a simple majority of the respondents (55 percent) strongly agreed that these factors are essential in investment decisions internationally. About 10 percent of the respondents agreed that these factors are essential in their decisions to invest internationally, 15 percent of the respondents are neutral on this issue, the other 10 percent disagreed with the topic of interest and exchange rates and the remaining 10 percent strongly disagreed that these factors are essential in international investment decisions.

In Sub-Sahara Africa, economic characteristics such as output growth, openness, and relative stability of real effective exchange rates have encouraged private capital flows. These factors have been crucial for drawing in FDI to any region in the world.

Eighth, on the matter of labor productivity and competitive wages, an overwhelming majority of the respondents (60 percent) strongly agreed that these are important factors in international investment decisions. About 20 percent of the respondents agreed that these factor are essential in international investment decisions, 5 percent of the respondents are neutral on this issue, the other 5 percent of the respondents disagreed with these factors as essential in international investment decisions and the remaining 10 percent strongly disagreed with these factors as essential in investment decisions internationally.

It should be noted that as a result of macroeconomic and microeconomic factors, wage costs in the Sub-Sahara Africa region tend to be high relative to productivity levels. The overall costs of production are generally higher than in Southeast Asia and Latin America.

Ninth, on the matter of risk as a factor in international investment decision, about 70 percent of the respondents strongly indicated that Sub-Sahara Africa is very risky region to invest and that it weighed heavily in their decision making process. The result also indicated that 20 percent of the respondents agreed to the idea that the region is highly risky and it features in their investment decisions about the region. The other 10 percent are neutral about the risky nature of the region.

Nigeria has one of the highest rates of investment returns in the emerging markets, estimated at 30 percent presently. However, in the literature it is stated that the flow of capital internationally reduces the risk face by capital owners by allowing them to diversify their lending and investment. The reduction of the risks on foreign investment seems to be Nigeria's biggest problem just like the other countries in SSA. Hence, risks are perceived to be higher in Sub-Sahara Africa than in other regions.

Tenth, in the case of judicial reform and curbing corruption, about 60 percent of the respondents strongly agreed that these factors are important in international investment decisions. In addition, about 15 percent of the respondents agreed that these factors are important to them in international investment decisions, while 10 percent are neutral on this issue, 10 percent of the respondents disagreed with the idea of judicial reforms and curbing corruption and the remaining 5 percent strongly disagreed with these factors as having effect in their decisions to invest in Sub-Sahara Africa.

In the case of Nigeria, decades of bad governance have almost crippled the national economy with corruption and misappropriation of funds becoming the norm rather than the exception. The judicial system needs complete overhaul because it is ravaged with corruption and lack of due process.

Eleventh, in the case of intellectual property regimes, 65 percent of the respondents strongly agreed that this factor is essential in international investment decisions, about 20 percent agreed that it is essential in their investment decisions internationally and 5 percent of the respondents are neutral on this issue. The remaining 10 percent of the respondents strongly disagreed with this factor as essential in their investment decisions internationally.

As far as Nigeria is concern, it is the largest market for pirated products in Sub-Sahara Africa. The losses sustained from inadequate intellectual property rights protection are enormous. The manufacture and sale of pharmaceutical products and auto parts are some of the emerging problems in the country.

Twelfth, in the case of open and transparent contract bidding, an overwhelming majority (60 percent) of the respondents strongly agreed with these factors as essential in their investment decisions internationally. About 20 percent agreed to the importance of open and transparent contract bidding in international investment decisions, 5 percent of the respondents are neutral on this issue, the other 5 percent disagreed on these factors as essential in investment decisions and the remaining 10 percent of the respondents strongly disagreed on this issue. In Nigeria's situation, the country does not use an open-tender system for awarding government contracts. The competition for government contracts continue to be made difficult by corruption and lack of transparency in the decision making process.

Finally, on the matter of perception of Africa and how it affects the investment decision in the region, about 45 percent of the respondent strongly agreed to the idea that the perception of Africa especially from the western perspective and the media weigh heavily in their investment decisions about the region. About 25 percent of the respondents agreed that perception of the region reflects in their decision to invest in the region, while 10 percent of the respondents are neutral on this factor. The results also showed that 10 percent of the respondents disagreed with the idea of perception of Africa as a troubled region and high investment risk and the other 10 percent strongly disagreed with the western perception of Africa.

Foreign investors perceive the risks to be higher in Sub-Sahara Africa than in other regions and face greater impediments to identifying and exploiting profitable opportunities in that region than any other place.

In addition to the response result of the survey, a multiple regression analysis was conducted to analyze the data received. It was used to analyze the relationship between economic development, which is the dependent variable and independent variables represented by stable political and economic environment, open markets and minimal regulation, low production costs and good infrastructure, privatization of state-owned enterprises, rates of economic growth and size of domestic market and liberal investment regimes and incentives. The main objective of this analysis is to use the independent variables that have known values to predict the dependent values that were selected in this research study (Hair, Anderson, Tatham & Black, 1998). The independent variables were weighted individually by the regression analysis procedure to make sure that maximal prediction from the set of independent variables was made.

In this analysis, three assumptions were addressed, they are that individual variables are linear, they have constant variance, and they have the characteristics of normality. In the first instance, the scatter plots of the individual variables did not indicate any non-linear relationships between the dependent variable and the independent variables. The test for heteroscendasticity indicated that none of the variables violated this assumption. On the test of normality, none of the variables were found to violate the statistical test.

Since the regression analysis is specific in terms of dependent and independent variables, and the sample is adequate for the objectives of this study and the assumption assessed for the individual variables, the model building process now commences to estimate the regression model and assess the overall model fit. The stepwise procedure was employed to select variables for inclusion in the regression variate. As soon as the regression model has been estimated, the variate will be assessed for meeting the assumptions of the regression analysis. On a final note, the observations were examined to determine whether any of them should be looked at as essential.

Statistical Results

First, multiple R, which is the correlation coefficient for the multiple regression of independent variables and the dependent variable showed that relationship exist between economic development and the independent variables mentioned above. The results are listed on table 4 as follows, .641 for independent variable rates of economic growth and size of domestic market, .810 for open markets and minimal regulation, .872 for low production cost and good infrastructure, .908 for stable political and economic environment, .948 for liberal investment regimes and incentives, and .963 for privatization of state-owned enterprises. The R square is the correlation coefficient squared, also known as coefficient of determination, which indicates the percentage of total variations of dependent variable explained by the independent variables. The values for the results are as follows, .411 for rates of economic growth and size of domestic market, .656 for open markets and minimal regulation, .761 for low production costs and good infrastructure, .825 for stable political and economic environment, .898 for liberal investment regimes and incentives and .927 for privatization of state-owned enterprises. The standard error of the estimate is the square root of the sum of the squared errors divided by the degree of freedom. This represents an estimate of the standard deviation of the actual dependent values around the regression line. The values of the results are as follows 1.782 for rates of economic growth and size of domestic market, 1.368 for open markets and minimal regulation, 1.144 for low production costs and good infrastructure, .982 for stable political and economic environment, .751 for liberal investment regimes and incentives and .638 for privatization of state-owned enterprises.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
Econ. Growth. & Mkt.	.641	.411	.407	1.782
Open Mkt. & Min. Reg.	.810	.656	.651	1.368
Low Pr. Cost & Infr.	.872	.761	.756	1.144
Stabl. Pol.& Eco. Env.	.908	.825	.820	.982
Lib. Inv. Reg. & Incent.	.948	.898	.895	.751
Privatization of SOEs	.936	.927	.924	.638

The calculation on table 5 explained the analysis of variance (ANOVA), which means that two independent estimates of the variance for the dependent variable are compared. The first one reflected the general variability of respondents within the groups and the other represents the differences between groups attributable to the treatment effects. Hence, the ratio of between-groups estimates and within-groups estimates is a measure of how much variance is attributable to the different treatments as opposed to the variance expected from random sampling. In addition, the significance test of the regression coefficient indicated that the samples are statistically significant .000 at alpha $< .01$ for all the variables in the regression analysis.

Table 5: Analysis of Variance (ANOVA).

Model	Sum of Squares	df	Mean Square	F	Sig.
Econ. Growth. & Mkt.					
Regression	328.767	1	328.767	103.477	.000
Residual	470.227	148	3.177		
Total	798.994	149			
Open Mkt. & Min. Reg.					
Regression	523.756	2	261.878	139.864	.000
Residual	275.238	147	1.872		
Total	798.994	149			
Low Pr. Cost & Infr.					
Regression	608.004	3	202.668	154.928	.000
Residual	190.990	146	1.308		
Total	798.994	149			
Stabl. Pol.& Eco. Env.					
Regression	659.106	4	164.776	170.798	.000
Residual	139.888	145	.965		
Total	798.994	149			
Lib. Inv. Reg. & Incent.					
Regression	717.760	5	143.552	254.470	.000
Residual	81.234	144	.564		
Total	798.994	149			
Privatization of SOEs					
Regression	740.724	6	123.454	302.967	.000
Residual	58.270	143	.407		
Total	798.994	149			

Since the model estimation has been completed, the regression variate specified and the tests that confirm the appropriateness of the results administered, table 6 showed the coefficients. The indication is that the level of economic development increases with proper administration of the six independent variables. This means that in addition to predicting the basis for economic development levels, the regression coefficients provides the means of assessing the relative importance of the individual variables in the overall prediction of economic development. All the variables are expressed on the same scale and that explains the direct comparison between independent variables (Isaac & Michael, 1995).

A direct comparison among the variables was made to ascertain their relative importance in the regression variate; rate of economic growth and size of domestic market was the most important followed closely by open market and minimal regulation. The independent variable privatization was notably the lowest in importance.

Table 6: Coefficients

Model	Unstandardized Coefficients		Standardize Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.009	.444		2.273	.024
Econ. Growth. & Mkt.	.731	.051	.362	14.412	.000
Open Mkt. & Min. Reg.	.686	.049	.339	13.966	.000
Low Pr. Cost & Infr.	.549	.039	.325	13.930	.000
Stabl. Pol.& Eco. Env.	.663	.055	.281	11.985	.000
Lib. Inv. Reg. & Incent.	.489	.044	.279	11.142	.000
Privatization of SOEs	.629	.084	.181	7.507	.000

a. Dependent Variable: Economic Development

The last topic (table 7) measured the degree and the impact of multicollinearity in the regression analysis. This is due to the fact that highly collinear variables can distort the results substantially or make them relatively unstable and thus not generalizable. Calculating the tolerance and VIF values performed the testing of the impact of collinearity. The tolerance value is one minus the proportion of the variable's variance explained by the other independent variables. Therefore, a high tolerance value means little collinearity and tolerance values approaching zero indicate that the variable is almost totally accounted for by the other variables. In this analysis, the tolerance values ranged from .877 to .989, this indicates little collinearity.

Table 7: (Calculation of Collinearity)

Model	Beta In	t	Sig.	Partial Correlation	Collinearity Statistics Tolerance
Stabl. Pol.& Eco. Env.	.386	7.007	.000	.500	.989
Open Mkt. & Min. Reg.	.503	10.205	.000	.644	.964
Low Pr. Cost & Infr.	.374	6.727	.000	.485	.988
Privatization of SOEs	.298	4.853	.000	.372	.917
Lib. Inv. Reg. & Incent.	.305	4.859	.000	.372	.877

Constant, Econ. Growth. & Mkt.
Dependent Variable: Economic Development

The final task of this analysis is the validation process of the regression model to ensure that the results are generalizable to the population and not specific to the sample used in estimation (Hair, Anderson, Tatham & Black). The approach used was the examination of the adjusted R squared value on table 4. The adjusted R squared value is .407 compared to .411 value for R squared for rates of economic growth and size of domestic market, .651 compared to .656 for open markets and minimal regulation, .756 compared to .761 for low production costs and good infrastructure, .820 compared to .825 for stable political and economic environment, .895 compared to .898 for liberal investment regimes and incentives and .924 compared to .927 for privatization of state-owned enterprises. These indicate that the estimated model is not over fitted to the sample and they maintain adequate ratio of observations to variables in the variate.

On the matter of the five research questions generated by this study, the responses to these questions were generated from the results of the analysis performed above. First, what factors attract FDI to developing countries? The literature on FDI provided us with the factors that were tested in the analysis. These factors are stable political and economic environment, open markets and minimal regulation, low production costs and good infrastructure, privatization of state-owned enterprises, rates of economic growth and size of domestic market and liberal investment regimes and incentives contribute to foreign direct investment inflows and that in turn contribute to economic development of the host country.

Second, are these factors applicable for FDI into Nigeria and Sub-Sahara Africa? Yes these factors are applicable to Nigeria and Sub-Sahara Africa because the central economic objectives of the region should be to establish strong, resilient and self-reliant, diversified economies with fortunes that are not determined by the vagaries of the international oil market. In order for this objective to be realized within the short period of time, these countries need and should welcome the participation of foreign investors especially in the manufacturing, agriculture and energy sectors of the economy.

Third, why have Nigeria and Sub-Sahara Africa attracted low level of FDI inflow? The reasons that Nigeria and Sub-Sahara Africa have attracted low-level of FDI inflow are because these countries have weak industrial base that are typified by capacity under utilization by industries. Nigeria and SSA lack the appropriate technologies due to low level of foreign direct investments coupled with a weak power supply and near collapse of the infrastructural services.

In addition to the above sectors, the Sub-Sahara region has stunted growth and high costs conditions in the economies that arose from depreciation of various currencies, high costs of funds indiscipline and inefficiencies in the system. There are high levels of unplanned inventories that result in reduction of the motivation to produce. There are distress in consumer demands that are caused by low purchasing power arising from volatile exchange rates, high inflation and depreciations of the national currencies. Finally, there are severe decline in real income that result in per capita incomes of below $300 as compared to $2000 twenty years ago.

Fourth, why has Nigeria been unsuccessful in attracting FDI in non-oil sectors despite policy reform? The country has been unsuccessful in attracting FDI in non-oil sectors despite policy reform because the present administration has not realize its goals of increasing the trust of industrial policy that is anchored on deregulation of the economy that emphasize the need for government to disengage from business activities.

In addition, empowering and facilitating the private sector to be the engine of growth has not been realized too. The federal government has not concentrated fully on provision of incentives, formulation of investment-friendly policies, provision of infrastructural support services and ensuring their confidence level in order to continue to inspire prospective investors, both foreign and domestic.

Finally, are Nigeria and Sub-Sahara Africa different? Nigeria and SSA region should not be different from the Latin America and Southeast Asia regions as long as they adhere to these common ground rules. First, they must establish institutional building to strengthen democratic governance in Nigeria and the rest of Sub-Sahara region. Second, Nigeria has given democracy a chance again and the country is being reintegrated with the international community in the most aggressive manner. The rest of Sub-Sahara Africa should follow suit. Third, these countries should develop new leaderships with clear focus and the will as well as the determination to put things in the right perspective. Fourth, Nigeria and SSA countries must strictly adhere to the principles of transparency, accountability and responsibilities being fully addressed, which will give hope and confidence to the international business community in a clear manner. Fifth, Nigeria and the rest of SSA region must wage a focused war on corruption and general indiscipline to ensure integrity, accountability within the system. Finally, environmental issues, expected consistent policies that will serve as key drivers and positive enablers to the region's economic recovery, investment promotion commission with powers to encourage, promote and coordinate investment in the region and removal of laws that deter foreign investments into the region have to be fully addressed.

Summary

The findings in this study have four policy implications. First, good infrastructure is relevant for non-natural resource base investments; hence Nigeria needs to improve its infrastructure in order to attract non-natural investments. Secondly, in order to increase FDI inflows, Nigeria needs to liberalize its trade regimes. This is because the full benefits of trade will be on its way when investors perceive reform as credible and not subject to reversal. This means that Nigerian government should develop mechanisms to uphold the credibility of the reform process. Third, the policies that worked in other regions may work in Nigeria as long as the impact of these policies are carefully weighed before implementation takes place. Finally, Nigeria and SSA countries are perceived as highly risky by foreign investors and as such it receives less FDI by virtue of its geographical location. The perception is partly attributed to ignorance about countries in SSA and one way that this negative image can be erased is that various governments have to embark on publicity campaigns regarding the potentials that their countries can offer to would be investors, foreign and domestic alike (Asiedu, 2001).

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary

This study examined the impact of foreign direct investment on Nigeria's economy and the residual effects it has on the rest of Sub-Sahara Africa. First, the research looked at the problems in the economy of Nigeria, such as inadequate and poorly maintained infrastructure, confusing and inconsistent regulation, endemic corruption and lack of confidence in the rule of law and how these factors deter foreign direct investment inflow into the country. The economic and social indicators in 1997 are substantially below the level at the time of independence in real terms. Examples are that the income per capita amounted to only U.S. $240 compared to $1200 in 1970, moreover half the population lives in absolute poverty, life expectancy is only 52 years and infant mortality rate is as high 84 per 1000 live births. The country also suffers from mismanagement of the resources, overregulation of the economy and price and exchange rate distortions.

Second, Nigeria has a resource-based economy, which is solely dependent on oil. Hence exports and government revenues are uncertain and highly volatile. The country is also exposed to exchange and interest rate uncertainty and volatility and these affect its debt service obligations. Third, private investment also suffered as well. Since the public expenditure expands and contracts at the whim of oil revenue, it increases the risks investors face in non-oil activities. This in turn reduced the volume of private investment and it slowed the growth of non-oil economy.

Fourth, the lack of intellectual property right protection made Nigeria the largest market for pirated products in Sub-Sahara Africa. Despite the active participation in international conventions, the Nigerian government's efforts have been ineffective in eradicating the wide spread production and sale of pirated tapes, videos, computer software and books.

Fifth, in terms of services barriers, the government of Nigeria still has a stronghold in the economy. It still owns stocks of some banks, despite the fact that it is selling off its commercial and merchant banks. In addition to the above stated barriers, investment barriers still exist, such as foreign enterprises are required to obtain series of investment approvals before they can operate in the country. Moreover, the establishment of the Nigerian Export Processing Zone Authority has not resulted in increased export generation activities.

Sixth, the privatization program has been a slow going process. The commitment of the Nigerian government to privatize all the state-owned enterprises as a way to realize its goals of increasing the trust of industrial policy that is anchored on deregulation of the economy that emphasize the need for government to disengage from business activities has not happen. Seventh, the purpose of the study was stated, which is to look into various elements of Nigeria's investment implementation policies that made it very difficult for foreign capital owners to invest in the economic future of that country. In addition, the research questions highlighted the essential factors that attract FDI to developing countries and whether these factors are applicable to Nigeria and the rest of SSA. It also asked why have Nigeria and SSA attracted low level of FDI inflow, why has Nigeria been unsuccessful in attracting FDI in non-oil sector despite policy reform and are Nigeria and SSA different. The definitions helped to explain all the terms used in the study.

The importance of the study was explained in three ways. First, with regards to FDI, Nigeria and SSA countries remained under researched. Second, to the extent that FDI contributes to sustainable development, it is important to know the factors that affect FDI inflow to developing region of Africa. Third, to the extent that FDI to Nigeria and SSA is determined by different factors, policies that are successful in East Asia and Latin America may work for Nigeria and SSA. Therefore, the research shed some light on ways that policy makers in Nigeria and SSA can attract FDI.

Eighth, the literature review chapter looked at the issues surrounding inflows of FDI into Sub-Sahara Africa region including Nigeria and all the important facts about FDI into the developing countries. Then the methodology chapter examined the research design used in this study and the theoretical framework for the dependent variable, which is economic development and the independent variables that include stable political and economic environment, open market and minimal regulation, low production costs and good infrastructural facilities, privatization of state-owned enterprises, rate of economic growth and size of domestic market and liberal investment regimes and incentives.

It also looked at the subject selection, which is sampling of U.S. MNCs doing business in Sub-Sahara Africa obtained from Directory of American Firms Operating Overseas (2000) edition. The instrumentation is a questionnaire used to obtain data for the study and assigning numerical values to them operationalized the responses. The survey instrument consisted of twenty-eight items divided into two parts. The first part deals with FDI activities and the second part deals with how these activities affect the

FDI decisions about Nigeria and SSA. Questions in the survey instrument were obtained from existing literature in the field of FDI that identifies that the independent variables mentioned above have impact on FDI inflows and consequently on economic development.

On the procedures, letters and survey questionnaires were sent to CEOs of the population of MNCs requesting their participation in this study, two weeks after then phone call were made to encourage the subjects involvement. The returned survey responses were reviewed for completeness and data from the completed survey were analyzed. The edited data was used to answer the research questions and the multiple regression analysis results helped to confirm correlation between the independent variables and the dependent variables. This means that stable political and economic environment, open market and minimal regulation, low production costs and good infrastructure, privatization of state-owned enterprises, rates of economic growth and size of domestic market and liberal investment regime and incentives help to explain the pace of economic development in Nigeria and Sub-Sahara African countries.

Ninth, the findings chapter looked at the survey respondent by industry and in percentage, the ranking of the FDI related factors and the ranking of Nigeria/SSA FDI related factors. Then, the multiple regression analysis, which sole purpose is to use the independent variables to predict the dependent values was also performed. In other words to analyze the relationship between economic development and the independent variables represented by stable political and economic environment, open markets and minimal regulation, low production costs and good infrastructure, privatization of state-owned enterprises, rates of economic growth and size of domestic market and liberal investment regimes and incentives. The calculation of the regression analysis yielded results in correlation coefficients, analysis of variance (ANOVA), coefficients and collinearity statistics and the validation of the results.

Finally, the five research questions were answered based on the results of the regression analysis. The findings has four policy implications, first, good infrastructure is relevant for non-natural resource based investment; hence Nigeria needs to improve its infrastructure in order to attract non-natural investments. Secondly, in order to increase FDI inflows, Nigeria needs to liberalize its trade regimes. This is because the full benefits of trade will be on its way when investors perceive reform to be credible and not subject to reversal.

Third, the policies that worked in other regions may work in Nigeria as long as the impact of these policies are carefully weighed before implementation takes place. Finally, Nigeria and SSA countries are perceived as highly risky by foreign investors, as such it receives less FDI by virtue of its geographical location. The perception is partly attributed to ignorance about countries in SSA and one way that this negative image can be erased is that various governments have to embark on publicity campaigns regarding the potentials that their countries can offer to would be investors, foreign and domestic alike (Asiedu, 2001).

Conclusion

This research study has brought more attention to the need for new ways to finance Nigeria and Sub-Sahara Africa's economic development based on more accountability and transparency. The Sub-Sahara Africa's future growth depends on a thorough examination and formulation of policies suited to boost economic growth and development. It must be understood that Sub-Sahara Africa is made up of many countries; as such each of these countries has different experiences and potential. This means that any attempt to present Sub-Sahara Africa in a negative way must be stopped. SSA like other regions must bear the responsibility of championing their own economic destiny. This is to say that prudent management and strict supervision, with the right amount of governmental control are necessary for an effective economic development policy (Nyikuli, 1999). The establishment of the New Partnership for African Development (NEPAD) in 2001 is an indication that great potential exists in Sub-Sahara Africa and that each nation is capable of achieving its development goals by pursuing specific policies that are more suitable for its own particular economic condition.

In the case of Nigeria as it relates to foreign direct investment, the country must put in place the financial infrastructure that is needed to efficiently absorb foreign capital. It needs to undertake speedy policy and structural reform to attract private capital flows. Nigeria has to take bold steps on many fronts like improve infrastructure, strengthen banking systems, develop capital markets by facilitating the pace of privatization and expanding the domestic investor base. Moreover, it needs to formulate an appropriate regulatory framework and a more liberal investment regime. Finally, the country needs to introduce competitive labor market policies while creating and maintaining institutions that will upgrade its human capital. There is every need for the country to reform the judiciary system and curb corruption.

Recommendations

In spite of the problems that make it difficult for Nigeria and other African countries to increase their share of global FDI, the region still has a chance for some opportunities and potentials to increase their share if decisive actions are taken. There are some factors that spell optimism and that Nigeria may be on the right track to create an environment conducive for FDI. These factors must be optimally balanced; in addition, actions taken towards proper promotion of investment opportunities in the country should be implemented. Those encouraging factors that create an enabling environment for FDI should be made known to potential investors, foreign and domestic alike.

First, Nigeria like most African nations have embarked on reform programs intended to regain macroeconomic balance, improve resource allocation and restore growth. The privatization program is opening the door to foreign and domestic businesses and better services. As already known, privatization is essential for FDI that choose merger and acquisition (M&A) as their entry mode (Ngowi, 2001). At the present time, there are new windows of opportunities emanating from Nigeria and it should exploit these opportunities properly if it hopes to increase its global share of FDI inflows and brightens its future economic activities.

Second, the other factor is the recent democratization process that the country experienced few years ago, that has resulted in sharp increase in the political participation in the country today (The Washington Times, 1999). This has opened up the door for greater public accountability and pressure from civil society for better management of public resources. There is more attention focused on proper management of the economy today than in the past administrations. This is an indication that the present government has attained the maturity level needed to address the weaknesses of the past policies.

Third, the next factor is globalization and new technology, which offers greater opportunities for Nigeria. The world markets are more open today than they were in the past, as such the pools of capital seeking diversified international investment is growing fast because of the demographic transition in economically advanced countries. The advances in the field of information technology present huge potentials for Nigeria.

The membership of Nigeria in Economic Community of West African States presents different continuum of RTBs. If these groupings are properly arranged and the potentials that they represent are properly taken advantage of, they can attract more market-seeking FDI.

Fourth, at the center stage of the recent efforts to modernize and improve Nigeria's ailing economy has been the focus on macroeconomic stabilization and the pursuit of a massive trade and investment liberalization program to encourage direct investment in the country. In order to achieve these objectives, it has relaxed most restrictions on current and capital transfers, introduce tax relief for those multinational companies willing to invest in the country, and improve access to foreign exchange at near market rates. In addition to the liberalization program has been the embarkment on a massive privatization campaign of public institutions aimed at attracting foreign investment with the hope that this would help to increase economic activity and bring much needed revenue.

This type of trade and investment liberalization is considered to be the right steps in the right direction. In terms of the revenue enhancement, large multinational companies do help to bring in the much-needed foreign exchange. These companies help to create the much-needed jobs by employing Nigerian citizens (Ariyo, 2000). However, one has to ask how much do they contribute to the nation's economic development and how much can they help Nigeria attain lasting and sustainable prosperity? Even as discussed earlier that trade liberalization is the right procedure to follow, however, if Nigeria is to reach its full potential in terms of economic and social development, it cannot afford to overlook the importance of its indigenous small and medium enterprises (SMEs) and the contributions that they make to the country's economy. Therefore, trade liberalization and encouragement of foreign direct investment has to be coordinated with a thorough and concentrated effort to help the growth and development of SMEs. It should be mentioned that Nigeria's SMEs at this time experience a lot of problems and hardship and it is not just because of the sluggish economy. There are a lot of impediments such as serious undercapitalization with difficulty in gaining access to bank credits and other financial markets. The other impediments are corruption and lack of transparency, very high bureaucratic costs and the most serious one is lack of government interest in and support for the part that SMEs play in national economic development and competitiveness.

The reason it is important that the new Nigerian administration puts small firms' policy at the top of it's priorities is that according to the study done by the Federal Office of Statistics, 97 percent of all businesses in the country employ less than 100 employees. This means that 97 percent of all businesses in Nigeria fall under the category small businesses, hence SMEs by definition. The SMEs provide on the average, 50 percent of the country's employment and 50 percent of the industrial output and this is why the present administration cannot afford to ignore such a high contributor to its economy.

Fifth, Nigerian government should understand and accept the fact that small firms are the backbone of the country's economy and reflect its acceptance and recognition of this reality, the government must have small business policy at the top of its priorities. It has to put in place concrete steps or procedures if they are to grow and prosper (Ariyo, 2000). The other useful step is the establishment of a Small Business Development Bank (SBDB) to concentrate specifically on funding of indigenous businesses. The SBDB will help to combat the problem of undercapitalization by providing the necessary cost effective and easily accessible funding for small businesses.

Finally, it is not the sole responsibility of the Nigerian government to provide financial assistance to small businesses. The establishment of National Small Business Office (NSBO), which will be responsible for small businesses just like the Small Business Administration in the United States, would definitely help look into how it can encourage the growth of equity funding in Nigeria. Equity funding or venture capital as it is widely known, is behind the growth of Silicon Valley and the mass number of fast growing high technology companies around that area. Since there are a lot of wealthy individuals who are Nigerian citizens, the National Small Business Office has to find a way to encourage them to invest their wealth in small up and coming businesses, hence helping them and the country to grow and prosper. The foreign multinational companies can only contribute to the extents that are within reason towards the Nigerian economy. However, to attain lasting and sustainable economic growth, the country has to accept that small firms are the real backbone in the economy of Nigeria. It is time to face the reality.

This research study looked at foreign direct investment inflows in Nigeria from 1981 to 2002 and the impact it has on the economic development of that nation. The extent, to which the present civilian administration in Nigeria has succeeded in encouraging and attracting foreign capital owners and domestic investors into the country in recent time, will constitute the next research study in this field of foreign direct investment. Nigeria is a nation that has the potential to be great economically and politically as well, but the only way this will become a reality is that the country through its future administrations will put its priorities in the right order. The balancing of its socioeconomic priority to its citizens and businesses alike will definitely help in these efforts. The education of its future leaders today and at the same time encouraging its human capital spread all over the world to find a way to return to Nigeria to contribute to the economic and social development of the country and its citizen will also help in this endeavor.

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APPENDIX A

Survey Instrument

Survey of

Foreign Direct Investment

Policies.

The purpose of this research is to examine the issues surrounding foreign direct investment as an indicator of global economic health and stability and the correlation to Nigeria and Sub-Sahara Africa's (SSA) economic development. By completing and turning in this survey, you are giving your consent for the research to include your anonymous responses in the data analysis. Your participation in this research is strictly voluntary. All responses will be treated confidentially. No individually identifiable information will be disclosed or published, and all results will be presented as aggregate summary data. If you wish, you may request a copy of the results of this research by writing to the researcher at: Donatus C. Ojide, 10 Cross Drive, East Hartford, CT 06118.

<u>PART I: FDI RELATED QUESTIONS.</u>

Please circle the correct choice for each question that comes closest to reflecting the policies of your firm.

(1) What is the best way to categorize the type of operation your firm is involved in?

(a) Manufacturing/Processing oriented

(b) Service oriented

(c) Extractive

(2) Your firm plans to expand overseas to both developing and developed country Location in the near future.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(3) Build /lease describes the strategy your firm use in overseas expansion.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(4) Mergers and Acquisition describes the strategy your firm uses in overseas expansion.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(5) Market access describes your firm's investment objective internationally.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(6) Lower costs describe your firm's investment objective internationally.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(7) Innovation describes your firm's investment objective internationally.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(8) Your firm has planned investment destination in developing countries and Emerging economies in the immediate future.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(9) Market access is a factor that influences your firm's site selection overseas.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(10) Labor relations/Union activities are factors that influence your firm's site selection.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(11) Labor market issues are factors that influence your firm's site selection.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(12) Mergers and Acquisition strategy are factors that influence your firm's site selection.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(13) Security concerns are factors that influence your firm's site selection.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(14) Use of banks and accounting firms in location analysis are factors that influence your firm's site selection.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(15) Your firm will cancel or postpone projects in the future in response to a global economic Downturn.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

PART II: NIGERIA/SUB-SAHARA AFRICA RELATED QUESTIONS.

For each of the following FDI related questions pertaining to Nigeria/SSA, please respond base on your firm's policy.

(16) Your firm's perception of Africa is a reflection of the decision to invest/not invest in the region.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(17) Risk is an important factor in the decision to invest in Nigeria/SSA.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(18) Your firm chooses investment destinations based on stable political and Economic environment.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(19) Your firm's investment decisions are based on open markets and minimal regulation.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(20) Low production costs and good infrastructure facilities are essential in your firm's decision to locate in Nigeria/SSA.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(21) Reforms in the judicial system and curbing corrupt practices are important in your

firm's decision to invest in Nigeria/SSA.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(22) Your firm takes into consideration progress on privatization of state owned enterprises (SOEs) when making investment decisions internationally.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree.

(23) Your firm considers the rate of economic growth and the size of domestic market when making investment decision internationally.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(24) Your firm considers the liberal investment regimes and incentives when making investment decisions internationally.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(25) Your firm considers high labor productivity and competitive wages when making investment decisions internationally.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(26) Your firm takes into consideration the strong presence of intellectual property regimes when making investment decisions internationally.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(27) Your firm takes into consideration the presence of market-based interest and exchange rates when making investment decisions internationally.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

(28) Your firm considers the presence of open and transparent contract bidding process when making investment decisions internationally.

(a) Strongly disagree (b) disagree (c) neutral (d) Agree (e) Strongly agree

APPENDIX B

Survey Cover Letter

Donatus C. Ojide
10 Cross Drive
East Hartford,
Connecticut 06118

Subject: Request company participation in research study

Dear Sir/Madam:

I am a doctoral candidate at Argosy University/Sarasota, presently conducting research with chief executive officers (CEOs) of multinational corporations that have business operations overseas. Specifically, I am exploring the Factors that Determine Foreign Direct Investment in Nigeria, a country in Sub-Sahara Africa.

My research will explore the policies in Nigeria and Sub-Sahara Africa that made it difficult for investors to commit their time and resources towards establishing business operations in that region.

I am writing to ask your company's participation in this study. The time needed to complete the twenty-eight (28)-question survey should be no more than twenty (20) minutes. Your responses to the survey will be mailed directly to this researcher and will remain confidential. No individually identifiable information will be disclosed or published and all results will be presented as aggregate summary data.

The findings of this study will be shared with all organizations that participate. It is anticipated this research will be very beneficial to companies and host countries alike in making FDI decisions.

I will call you in one week to discuss this research in more detail. Thank you in advance for your time, I look forward to speaking with you.

Sincerely

Donatus C. Ojide, Doctoral Candidate
International Business
(860) 568-2710
dojide@snet.net

APPENDIX C:

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STATEMENT OF UNDERSTANDING

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______________________________ ____________________

Signature of Author | Date