Impact of Nigerian Investment Promotion Commission on Nigeria Trade and Investment Policy

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Abstract

Nigerian Investment Promotion Commission has created an investment centre. It has also been involved in stimulating investment at the state level which affords investors to register their businesses on the spot without any hassle. It is against this background this study investigated the effects of NIPC on Nigeria's trade and investment policy reform in order to see whether NIPC has positive or negative effects on domestic and foreign investment.Therefore, the study aims at examining weather NIPC can encourage increased private sector investment and contribute to growth and development of Nigerian economy. For this study, descriptive method of research wasadopted of which data were collected using questionnaire and personal interview. The formulated hypothesis was tested using chi square and the result supports the alternative hypothesis. The findings of the study revealed that NIPC impacted positively in foreign trade and investment in Nigeria. The study concludes that NIPC can also train the organized private sector on what to do to attract foreign investors. Based on the findings, the study recommended that NIPC should team up with trade and investment agencies to make the Nigerian investment climate conducive to foreign investors byenacting favorable trade and investment laws for the survival of the private sector.

Key words: Growth, Investment, Promotion, and Trade.

Introduction

For a country to develop rapidly, it has to industrialize. For a country to industrialize, there must be investment. Hence, the industrialized countries appear to be the most developed.However, to do this, a country requires substantial capital injection, which is possible through either earnings of foreign exchange from exports, borrowing in the international financial market, or allowing foreign businessmen to invest in her economy. Since the dawn of the new democracy in Nigeria on 29th May, 1999, the expectation of the Nigerian people has been high for a turn-around of the economic fortunes of the nation for the better. The full exploitation of the natural resources of the nation ranging from agriculture to solid minerals and petroleum deposits and others too numerous to mention require a massive injection of investment capital. Suffice it to say here also, that the existence of a market for over 100 million peoplerequire the provision of adequate communications, power and transportation services which further extends the demands for investment in Nigeria. In the Nigeria's effort to improve foreign investments, substantial achievements have been recorded in many sectors of the broadly conceived investments process.

However, such achievements would not have materialised without the efforts of the Nigerian Investment Promotion Commission (NIPC). It is a known fact in Nigeria today that the growth and development of the country's economic sector was started by foreign companies and investors who operated through wholly owned subsidiaries. It must be emphasized that the contributions are not only in the provision of capital but also more particularly in the transfer of technology and managerial talents.The federal government of Nigeria has made good intention to attract foreign investors in the nation's mineral deposits. To this end, it has through the Nigerian Investment Promotion Commission (NIPC), concluded plans to market the abundant investment opportunities in the sector by displaying all mineral deposits in each state of the federation in the commission's office.The federal government of Nigeria stance towards the attraction of more investment resources is indicated by its resolve to expand and consolidate the economic liberation and globalization structures already on the ground. Renewal of government's commitments to the privatization programme has opened new opportunities for business. The Nigerian Investment Promotion Commission therefore, in line with its mandate to constantly provide up-to-date information on investment opportunities offer new investors, documents on business opportunities in Nigeria. The evolving opportunities in the communications, power and steel, transportation, solid mineral, and maritime sectors and others speaks volume. The commission is more than ever committed to providing investors the reliable and trusted back-up services to facilitate the establishment of new enterprises in Nigeria.

In the Pre- Structural Adjustment Programme (SAP) period, foreign investors were free to set up companies and manage it themselves or into partnership with the Nigerian state or federal government. Investment activities took place in the country with the ownership largely concentrated in the hands of foreign investors which resulted in the large repatriation of funds abroad. Due to the increase in repatriation of funds abroad, government promulgated a decree known as Nigerian Enterprise Promotion Decree of 1972, which was amended in 1977. The Decree deliberately reserved certain area between Nigeria and Foreigners. The Decree stated that Nigeria must not own less than sixty percent (60%) in the enterprises or company's shares. It should be mentioned that it is one thing to own a business and it is another to control and manage it for various reasons. Despite the indigenization decree "the management of a good number of companies are still in the hands of foreigners.

The Nigerian Investment Promotion Commission (NIPC) is an agency created for exploiting and planning foreign investments and new businesses in Nigeria. Nigeria's leading business cost advantages make it a natural market entry point for West Africa and a global magnet for Business Process Outsourcing (BPO) and other international businesses.Due to the numerous roles of the NIPC in relation to trade and investment in Nigeria, this necessitated the study to focus on evaluating the impact of NIPC on Nigeria's trade and investment policy. Inspite of the efforts of the Nigerian Investment Promotion Commission (NIPC) to encourage investment, there is a great decline in the level of investment by Nigerians and foreigners. This is manifested as global indicators showed that Nigeria is still ranked as one of the poorest countries of the world. The growth and development of business in the last decades also received serious attention (Julius, 2003).

The question confronting NIPC includes why foreign investors are storming Malaysia, Singapore and South Africa and not Nigeria. What do those countries which are ForeignDirectInvestment (FDI) destination offer investors that Nigeria need to know?. Therefore, the specific problem which the study intends to address is what NIPC can do to encourage increased private sector trade and investment in the economy in order to boost growth and development in the system. It is against this backdrop that the study focuses on evaluating the impact of Nigerian Investment Promotion Commission on Nigeria's trade and investment policy in order to encourage private sector investment in Nigeria.

In order to achieve the objective of this study, the following research questions are proffered withanswers;

- What significant impact has Nigerian Investment Promotion Commission made in the area of trade and investment?
- What would have been the economic position of Nigeria if there is nopolicy on trade and investment?
- What is the position of the economy after the enactment of Nigerian Investment Promotion Decree number 16, 1995?

Notwithstanding, the hypothesis below is formulated and tested to also achieve the main objective of this paper.

H_{o1}: The Nigerian Investment Promotion Commission have no significant impact on Nigeria trade and investment policy.

H_{A1}: The Nigerian Investment Promotion Commission have no significant impact on Nigeria trade and investment policy.

Literature Reviews

Theoretical Framework

An evaluation of NIPC required in this study can be viewed from at least two perspectives which are more of two sides of the same coin. First, the evaluation may be conducted with a view to ascertaining whether or not the objectives for the NIPC was set out to achieve were realized and to explain the observed performance relative to these goals. A thorough analysis is then required if observed performance relative to the set goals and objectives are at variance. It is at this stage that the level of ambition, the design and the rate and sequencing of implementation are examined.

Evaluation of the impact of NIPC can be guided by theories. In this case, the channels through which NIPC impact on the structure and performance of the economy can be traced. However, in order to have better understanding and for us to put future trade and investment reforms in the proper perspective, there is the need to explore channels through which NIPC are expected to impact on the performance of an economy. Specifically, the first level of analysis is ex-post and the second level of analysis though basically is ex-ante drawn inference from the ex-post analysis. The impact of NIPC on growth is neither direct nor automatic. NIPC works through some intermediate variables to affect growth. Some studies have focused on these intermediate variables such as employment, investment, productivity, industrial development etc. Nevertheless, these variables are the channels through which NIPC impacts on growth or performance of an economy. Some studies have examined the impact of NIPC on poverty thus, incorporating distribution issues into the possible trade-induced growth.

While few of these studies focus on trade-investment-growth nexus, an emerging consensus is that the impact of trade reform on economic performance works through investment. Thus, factors inhibiting the response of investment to trade liberalization are capable of limiting the potential benefit from trade reform. Wacziarg (2001) identified and analyzed some channels through which NIPC impact on growth to include government policy (macroeconomic policy and size of government), allocation and distribution (price distortion and factor accumulation) and technological transmission (technology transmission) and foreign direct investment.

Factor accumulation (investment) is a channel through which trade liberalization impact on the performance of the economy. Levine and Renelt (1992) Baldwin and Seghezza (1996) and Wacziarg (2001) among others have shown that an increase in wage-rental ratio, as a result of an adoption of liberal trade regime will lead to an increase in the rate of investment. The impact of trade liberalization on investment has also been explained through the big push hypothesis. That is, liberal trade regime removes constraints of market size and thus generates impetus for new investment. Put differently, 'the entry of new firms on export markets, after an episode of liberalization, may well entail large fixed investment, Wacziarg (2001) Liberal trade regime may as well remove or relax structural constraint to capital goods imports.

Foreign direct investment (FDI) is another channel through which foreign technology permeates domestic economy. Irrespective of the type of FDI, various stakeholders tend to acquire one form of technological capabilities or the other. It has been argued that capital goods imports tend to promote technological capabilities more than FDI. Once capital goods are imported indigenous technologist are responsible for their operations, maintenance and repair. In some cases, they modify and extend the imported machinery and equipment. In the case of FDI, even if indigenous hands carried out all these activities, they are subject to control by the parent companies (Ogunkola, 2002). In any case, the effect of NIPC on FDI is not a priori clear. Changes in the level of FDI depend on the type and structure of FDI in the pre-reform period and the content and level of implementation of reform and other complementary policy reform. In a situation where NIPC increases the level of FDI, it's effectiveness interfering technology has the greatest potential of impacting positively on growth.

Challengesand Opportunitiesof Investment Environment In Nigeria

It was against the background of the problems in the investment environment that the government of president Obasanjo articulated the guide line policies for revitalizing the Nigerian economy and the promotion of FDI into the country. Some of the key aspects of the government policies directed at addressing these problems include the following:

a. Rehabilitation of socio-economic infrastructure

Electricity: the rehabilitation of socio-economic infrastructure has remained an activity of high importance to the government of Nigeria since 1999. for example, the enhancement of the generating capacity of the national electric power authority (NEPA) is an area where the government has recorded substantial success. During the last three years the government has upgraded generating capacity from below 2,000MW to 4500MW. Marubeni Corporation and other Japanese companies are major players in this rehabilitation program.

The government aims at ensuring a minimum of 10000MW- power generation capacity and uninterrupted power supply to at least 60% of the population by 2005. To achieve this goal, a specific power supply program directed at providing the electricity needs of investors have been implemented in major industrial cities in the country as well as increased government spending in the sector. From 1989-1994 government spending in the power sector averaged about $6million but that figure has since improved with government spending US$450 million in 2001 to rehabilitate the sector.

In addition, the government is promoting independent (private) power producers (IPPs) to augment its efforts at expanding generation and distribution of electricity. The major oil companies in Nigeria –Mobil, Chevron, Shell, etc., are involved in establishing such private power generation capacities with natural gas from the oil fields in Nigeria. Furthermore, the Nigerian government is working on the restructuring and privatization of the government electricity monopoly during this decade.

TELECOMMUNICATIONS: The major improvement in government's plans to address the problems of infrastructure in Nigeria can be seen in the telecommunication industry. Tele-density has been greatly enhanced with the presence of private telecommunication operators. By the end of 2002, the Nigeria Communications Commission (NCC) had licensed twelve (12) fixed wireless operators with 363,284-installed capacity and 120,771 subscribers. NCC has also licensed two mobile operators (GSM) with a combined installed capacity of 1,223,942 lines and 1,004,592 subscribers. In addition, a second national carrier has been licensed and is expected to commence operations during the first half of this year. When these figures of private sector new telecommunication capacity is added to that of the former state monopoly.

NITEL – which has installed fixed line capacity of 745,998 and subscribers of 545,875 and a mobile capacity of 153,574 and subscribers of 143,936. It is clear that the Nigerian telecommunication industry is amongst the fastest growing in the world.

Railway/Roads/Airports: The oil boom of the 1970s and the eventual dependence of Nigeria on crude oil as a major revenue earner saw the demise of the rail system as a major means for transporting goods and people. The current necessity to diversify the Nigerian economy has made for the renewed interest in revitalizing the rail network. In this context, the present Nigerian government has unveiled a comprehensive Transport Master Plan involving the road, rail, and air transport. With the Plan, the present rail system is to be rehabilitated with the standard gauge. New lines are to be added to link up various parts of the country. The new rail system is mainly to serve commercial and industrial needs.

In addition, the government has began the rehabilitation of roads – so far over 3,000 km of roads have been turned into all season roads. This involves making single lane inter-state highways into dual carriages. Government has also rehabilitated improved services at the two major international airports in Lagos and Abuja, thereby making entry and departure from the country a more pleasant experience than it was in the pre 1999 period.

Human Infrastructure: In Africa, Nigeria probably has the highest pool of skilled and highly educated manpower. This opinion was corroborated by a survey carried out by the African Competitive Report 2000/2001, which ranked Nigeria second in terms of availability of local labour market that satisfy business/hiring needs of investors. To sustain this trend, government has initiated the Universal Basic Education Program to ensure that equal educational opportunities are given to all citizens of the country. Moreover, being encouraged at all levels of the educational structure. The aim of making the sector more competitive is to develop an entrepreneurial class that is innovative, competitive and technology driven.

b. Anti-Corruption Commission: When President Obasanjo was sworn in on May 29, 1999, one of the cardinal points of his administration is to stamp out corruption in Nigeria in order to create an enabling environment for investors. To this end, the Anti Corruption and other related Offences Act of 2000 was signed into law. This Act established the Independent Corrupt Practices and other Related Offences Commission (CPC) that has wide powers to investigate and prosecute those suspected of corrupt practices. So far, the Commission has addressed a number of cases. The anti corruption stance of the Nigerian government is serving as a major deterrent to corrupt practices that had been rampant in government, especially during the period of military regimes in Nigeria.

c. Security of Life and Property: In order to ensure security of life and property, the government has made the funding, equipping, training and retraining of officers and men of the internal security agencies, especially the police force, a matter of priority. In order to increase the ratio of police officer to the population, the government has embarked on a program of recruiting 40,000 men per year into the police force. The budget for the police force is amongst the top three budgetary allocations made in the last three financial years. The overall effect of government's effort in this area is the drastic reduction of violent crimes, which had been the hallmark of Nigerian cities like Lagos.

d. New Regulatory and Institutional Environment: In order to bring Nigeria into more competitive position for FDI, the government has legislated two major laws to guarantee investments against nationalization by any tier of government, and to ensure the free transfer and repatriation of funds from Nigeria. The two laws in question are the Nigerian Investment Promotion Commission (NIPC) Act 16 and the Foregin Exchange (Monitoring and Miscellaneous Provision) Act 17, both of which were enacted in 1995.

The NIPC (which is the government agency), was established to address the problems of multiplicity of government agencies which investors confront when they come to Nigeria. Thus, the commission assists investors in going through the formerly cumbersome process of pre-investment registrations within two weeks. In addition, the commission has taken the role of being a facilitator by guiding each investor through the processes that leads to the inception of an investment project – acquisition of land, telephones, electricity, and other approvals.

Other laws that were either reviewed or legislated to make regulatory conditions in the Nigerian investment environment to reflect world trends include –
The Companies and Allied Matters Act of 1990
The Securities and Exchange Act of 1999
The Banking Act of 1990.

e. Long Term Funds/Cost of Capital: The Nigerian government is addressing the problem/issue of local long-term fund for investment as a matter of high priority. In this regard, three development banks – the Nigeria Import-Export Bank. Nigeria Bank for Industry and Nigeria Bank for Agriculture, cooperatives and Rural Development – have been restructured and recapitalized to provide long term loans at low interest rates. In addition, government has established the Small and Medium enterprises Development Fund in which commercial banks put aside 10% of their pre-tax profit to fund small businesses. Recently, the government has frontally addressed the issues of high interest rate, which was in the 30 – 40% range, by mandating commercial banks to lend funds to enterprise at a maximum of 20% interest.

Methodology

For this paper, the research design chosen was descriptive design because it helped in analyzing the questionnaires administered to ascertain the harmonization of response.The population of study is the entire staff members of Nigeria Investment Promotion Commission and some core investors registered with the NIPC. The procedure used in this research for selection of sample is stratified random sampling method. The sample size therefore is 30 NIPC senior staff and 20 core registered investors with the NIPC.

For the success of the study, both primary and secondary data wascollected. The primary data was collected through the use of questionnaire which were distributed among the selected senior staffof Nigeria Investment Promotion Commission.Someselected management staff of the NIPC were interviewed to complement the information in the questionnaires.The secondary sources of data were collected from existing journalsand magazines likebusiness magazine, NIPC bulletin, and annual reports.

To achieve the objective of this study, data and information was analyzed using the simple percentage and chi-square (X^2) technique.

Data Analysis and Interpretations

The analysis of data from the respondents through questionnaire is presented in this section. They are presented in simple table. Fifty (50) copies of questionnaire were administered but forty (40) were filled and returned. This was achieved as a result of personal administeration of the questionnaires and continuous follow up to ensure collection of the questionnaire from the respondents. The questions are grouped into sub-headings for ease of presentation and summarization of finding.

Table 1:Distribution of respondents by designation

Description	No. Respondents	Percentage
Mangers	8	16
Officers	10	20
Supervisors	12	24
Investors	20	40
Total	50	100

Source: Fieldwork, 2012

Table 2: Foreign investment and Nigeria economy

Despondences	NIPC Staff	Investor	Total	Percentage
Great	23	5	28	70
Fair	5	7	12	30
Total	28	12	40	100

Source: questionnaire distributed 2012

Table 2 shows that 70% of the respondents said that foreign investment has contributed immensely to the Nigerian economy in term of increased trade and investment. It has done this in the domestic environment, the macro economy, infrastructure, the real sector, oil and gas, agricultural production, manufacturing, the financial sector banking, competitions and related development.

The interview conducted shows aggregateresponses forYes and No, depicting that foreign investments have improved the standard of living of the people. This dependend on how everyone view it. The investors will say no, the nationalists will say yes and the other citizens were indifferent to the questions. The investor whether a risk lover will claim "No" because he knows that what foreign investment does to him i.e. increasing his returns at a better rate compared to local investment. The nationalist will give a 'yes' response since all he is after is his independence. He will claim that foreign investment does nothing tangible but rather creates expatriation of profit, lack of employment and a denting of the technical know how and intelligence of citizens. The "others" never see or feel whether it causes an ailment in the economy. They are indifferent to the happenings in the investment world. In a nutshell, foreign investment has its ups and downs. If investments are on the positive, there could be little or no ailments in the economy but reverse is the case if otherwise. But then, the negativity of the investments on its own cannot cause ailments in the economy but only when supplemented by other detrimental factors.

Table 3:Position of the economy after the enactment of Nigerian investment promotion decree 16, 1995

Description	No. Respondents	Percentage
Comfortable	4	10
Fluctuating	32	80
Poor	4	10
Total	40	100

Source:Field survey, 2012.

Since the enactment of the decree, there has been positive reaction to investments in Nigeria. Even though a 100% positivity is anticipated, it is almost very impossible since the NIPC alone is not a determining factor for positivity. The anticipated positivity could be hampered by such things as political instability, communication gaps among countries, level of economic growth and the likes. But on the whole, the enactment of NIPC Act has revitalized the investable sectors to a more definite position.

The hypothesis formulated is tested using the chi-square (x^2) statistic given as

$$X^2 = \frac{(O - E)^2}{E}$$

Where:
X^2 = chi square
O = Observed frequency
E = Expected frequency
The hypothesis was tested at 0.05 significant level samples selected values ofx^2 distributed.

Table 4:computation of expected cell frequency onthe level of foreign investment activities to Nigerian economy:

Responses	NIPC Staff	Investors	Total
Great Fair	20 8	8 4	28 12
Total	28	12	40

Source: Fieldwork, 2012

Table 5. Contingency table

Responses	O	E	0 – E	$(0 – E)^2$	$(0 – E)^2$
Great					
NIPC Staffs Investors	23 5	20 8	3 (3)	9 9	0.45 1.125
Fair					
NIPC Staff Investors	5 7	8 4	(3) 3	9 9	1.125 5.25
Total	40	40	-	64	7.95

Source: Fieldwork, 2012

To make a decision at 0.05, and sincex^2 with degree of freedom is above 9.488, hence the computed value is less than the critical value, we therefore accept the alternative hypothesis.

Based on the analysis, the study foundthat the NIPC has contributed to the growth and development of Nigeria economy. Therefore, NIPC has impacted positively in foreign investment that lead to increase of employment and better utilization of both human and material resources.

Conclusion and Recommendations

Business linkages are recognized world over as a potential factor in economic development process. It requires planning, co-ordination of policies and programmes, process integration for better or enhanced economy of scale. Therefore, in an emerging economy like Nigeria, the need for synergies and linkages cannot be overemphasized. NIPC is a vehicle to development. It is the diver of globalization which is the reality of the present era, the age of a borderless world. Therefore, for a country or a region to fully realize its potentialities, for a country to grow its economy and liberate its citizenry from the grip of poverty, it must position itself as a destination for investment. NIPC provide avenue for sensitizing the investing public on investment opportunities and incentives available in the country.

NIPC has done quite well over the years. It has created the one stop investment centre, which affords investors the opportunity to register their businesses on the spot without any hassle.

The impact of trade and investment policy reforms on sectoral growth performance would eventually show up in the aggregate growth performance. It should be noted that different sectors may respond to trade and investment policy reforms differently, it should also be noted that trade and investment policy reform measures implemented in each sector is hereby to be different.

The simulation experiments shows that, following increase in export and import as a result of trade and investment policy reforms done by NIPC, the GDP is expected to grow on the average by 4.8% in 2005, and by about 5% in 2006 and 2007 and 5.4% in 2008. These growth rates result from the average of the sectors as stimuli on growth. In particular, the effect of investment and trade policy reforms on the manufacturing sector provide the largest stimulus for economic growth while that of the agricultural sector, provides a moderate stimulus for growth between 2005 and 2008.

Based on the findings, the study recommended thatNIPC is advised to organise training for members of the Organized Private Sector (OPS) on what to do to attract foreign funds. It can also team up with the appropriate trade and investment agencies to make the Nigerian investment climate conducive to foreign investors. Doing thisamongst others will quicken the realization of making Nigeria a destination for FDI, which is the rationale behind the establishment of National Conference on Investment (NCI).

Finally, the NIPC should create awareness programmes to enlighten the masses on the benefits of trade and investment and also enlighten many that have ill feelings towards trade and investments in Nigeria.

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Questionnaire

1. What contrubtion does foreign investment makes to the Nigerian Socio economic development…
2. What would have been the economic position of Nigerian, if Shell company did not invest millions of pounds in the oil industry.
3. What is the position of the economy after the enactment of NIPC Act 16, 1995
4. Is foreign investment responsible for the ailing economy?
5. What significant contribution does NIPC brought into the economic growth.
6. Does NIPC empower Nigerians to invest(Yes or No).