

## **Impact of Investment Climate Reforms on Business Operations in Nigeria**

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### **Abstract**

*Nigerian investment climate since the return of democratization in 1999 has gone through so many reforms with the sole aim of attracting local and foreign investors from every part of the globe in order for private investment to thrive in Nigeria. An unfavourable investment climate is one of the many hindrances faced by developing and underdeveloped nations including Nigeria. This may be largely due to some structural and administrative bottlenecks, corruption, inconsistency in policy making, lack of rule of law, lack of security and poor infrastructure among others. But over the years, a lot of reforms were introduced in order to make investment climate in Nigeria, Investor friendly. Therefore, regulatory reform is often a key component of removing the barriers to investment. The study highlighted the various reforms the government of Nigeria have implemented over the years in order to make Nigeria a prefer investment destination in Africa. The study is qualitative and descriptive in nature and used secondary data to test the efficacy of some of these reforms in some small, medium and large manufacturing sector to see whether or not reforms in Nigerian investment climate have or otherwise improved the level of Foreign Direct Investment (FDI), translate to economic growth and development, and reduces the cost of doing business in Nigeria.*

**Key words:** Investment Climate Reforms and Business operations

### **1.0 Introduction**

Nigeria is Africa's most populous nation with an estimated population of over 200 million. It offers investors a low-cost labour pool, abundant natural resources, and potentially the largest domestic market in sub-Saharan Africa. Despite these advantages, much of that market potential is still untapped and unrealized. Impediments to investment include inadequate infrastructure, corruption, inefficient property registration system, inconsistent regulatory environment and restrictive trade policies, lack of security and slow and ineffective courts and dispute resolution mechanisms. For foreign direct investment to flow and be sustained in Nigeria economy it is important that its investment climate is friendly and conducive for business.

Investment climate can be define as about the environment in which firms and entrepreneurs of all types- from farmers and micro-enterprises to local manufacturing concerns and multinationals- have opportunities and incentives to invest productively, create jobs and expand (The World Bank, 2005). It consists of location specific factors that shape the enabling environment for firms to invest productively and grow (Smith and Hallward-Driemeier, 2005).

Investment climate as observed by the researcher refers to the environment in which firms of all types and sizes invest and grow. Determinants of this environment can be classified into macroeconomic factors, governance issues and infrastructure (Bangladesh Enterprise Institute and the World Bank, 2003). Given the heterogeneity of firm's behaviour, investment climate reform has a micro dimension and so covers in addition issues critical to the growth of individual firms. These include human resources, access to finance, among others (Caves, 1998; Bartelsman and Doras, 2000; Ahn, 2000). During the past decade Nigeria's manufacturing sector has stagnated as productivity (measured in value added per worker) lagged behind that of many African countries.

A United Nations Industrial Development Organization (UNIDO) study revealed that the productivity of Nigerian workers was only 10 percent of that in Botswana and 50 percent of that in Ghana and Kenya. The deterioration of the manufacturing sector in recent years can be attributed to a number of factors, largely among them poor investment climate and low capacity utilization. The average capacity utilization in the manufacturing sector declined from a peak of nearly 80 percent in 1978 to less than 30 percent in the 1990s before rising marginally at the end of the decade. It still hovers at about 65 percent. (Giuseppe, Mousley, Ismail, World Bank, 2009). To therefore speed up economic development, Nigerian government has to embarked on some measures to reform their investment policy framework, empower investment promotion agencies and generally reposition their economies for global competitiveness.

The objective of this study, therefore, is to review investment climate reforms in Nigeria towards achieving faster growth. In particular, the issues reviewed include governance, dispute resolution, corruption and multiplicity of taxes. The importance of the study was further amplified by the fact that Nigeria has initiated series of reforms and an investment climate reform at this time, would maximize, as well as, sustain the gains so far achieved.

### **1.1 Statement of the Problem**

The government of Nigeria having identified the private sector as key to economic growth and development and designed some reforms gearing towards improving Nigeria's competitiveness for both domestic and foreign direct investment (FDI). Investment in Nigeria most especially foreign direct investment (FDI) has been very poor most especially in manufacturing and production sectors of the economy largely as a result of poor infrastructure like electricity, good and efficient roads, registering of a business, land ownership, corruption and multiplicity of taxation. But, despite all the reforms introduced the operating environment is still hostile and many businesses big and small are living the country to neighbouring country like Ghana, where they felt the business climate is more conducive and friendly for their businesses to grow. The recent relocation of Multinational Companies like Dunlop, Michelin and Unilever to Ghana is a lesson "Nigeria learnt in a hard way. Apart from losing a Foreign Direct investment, lost of job opportunities and acquisitions of skills, the country also has to contend with the high cost of importing those products from Ghana to Nigeria.

Therefore there is the need to examine these reforms and provide explanation for its implications on the cost of doing business, attracting foreign direct investment and the overall impact on the economy. Against this background, the following research questions were raised to provide the study with direction.

- i To what extent have Federal and State government driven the growth of private sector investment in Nigeria through the various investment climate reforms instituted?
- ii. What are some of the impediments that the Nigerian government have tried to overcome in order to enhanced investment climate friendly and attract direct foreign investment?
- iii. What significant impact has the investment climate reforms had on the Nigerian economy as a whole?

## **2.0 Literature Review and Theoretical Framework**

### **2.1 Introduction**

The literature on investment climate reform is mainly scanty because it is recently that policymakers and multilateral organizations began to emphasize the need for sound investment climate for promoting economic growth in developing countries (Stern, 2002). Previously, emphasis on investment as an engine of growth focused on the quantity rather than quality of investment under the assumption that a financing gap was the barrier to growth. This view has been criticized as too simplistic (Bangladesh Enterprise Institute and the World Bank, 2003). Indeed recent research shows little correlation between investment levels and growth rates at least in the short run (Easterly, 1997). Pindyck (1990) argues that if the goal is to stimulate investment; stability and credibility could be much more important than tax incentives or interest rates. Soludo (2004) concludes that for Nigeria, investment is negatively associated with growth. The literature review the concepts of investment climate, highlight some of the notable reforms the government of Nigeria have instituted with the aim of making investment climate investor friendly taking into consideration the relative population (which translate to a bigger market opportunities), abundant human and natural resources as well as an emerging economy (in view of the projection to be among the 20 industrialized economies by the year 2020 and finally the theoretical framework).

## **2.2 Concept of Investment Climate**

According to Investopedia (2010), investment climate is the economic and financial conditions in a country that affect whether individuals or groups and businesses are willing to lend money and acquire a stake in the businesses operating there. Investment climate is affected by many factors, including: poverty, crime, infrastructure, workforce, national security, political instability, regime uncertainty, taxes, and rule of law, property rights, government regulations, government transparency and government accountability. The researcher adapted the above definition because it largely enumerates those areas that needed to be reformed for investment to flourish. Since, investment climate reform, refers to the provisioning of the enabling environment for investment and operational competitiveness of economic agents. It is a deliberate and concerted effort at removing obstacles to investment and growth of firms.

The Nigerian investment promotion Commission (NIPC) saddle with the responsibility of overseeing or regulating foreign investment was created by an act of parliament. Though the agency was established by decree of 1995, it was subsequently made an Act in 1999 after returning the country to a democratic rule. The NIPC contributed immensely in attracting foreign direct investment (FDI) by creating a conducive environment for investment to thrive in Nigeria.

Similarly, the Nigerian government embarked on a medium-term economic reform program in late 2003 called the National Economic Empowerment and Development Strategy (NEEDS) for 2003-2007. NEEDS focused on privatization, good governance, macroeconomic stability, anti-corruption, and public service reforms. NEEDS has been modified to incorporate "Seven Point Agenda and transformation agenda," of the presence administration, which focuses on power and energy, food security and agriculture, wealth creation and employment, mass transportation, land reform, security, and educational reforms which all forms the basis of good investment climate. Because, if there is good governance, provision of electricity through power reforms, efficient and effective transport system as well as robust dispute resolution either through court or arbitration, it is a signal to the international and local business investors that the country is improving its investment and business climate horizon which will later translate into foreign direct investment. Investors generally, will invest their money where they felt their investment is guaranteed and protected and with a high degree of expected return. Therefore good investment climate requires a policy that identifies the precise conditions that make up a good investment climate.

## **2.3 Review of Notable Investment Climate Reforms in Nigeria**

The following are some of the notable investment climate reforms: privatization, legal framework, efficient capital market and portfolio investment, power sector reform, protection of property rights and land reforms, dispute resolution and good governance.

The privatization and commercialization Act of 1999 established the National Council on privatization, the policy making body overseeing the privatization of state-owned enterprises, and the Bureau of public Enterprises (BPE) to implement the programme. BPE has so far focuses on the privatization of key sectors of the economy including telecommunications, petroleum and power and has called for core investors to acquire controlling shares in formerly state-owned enterprises. The government in her effort to make the environment friendly repealed or amended decrees/Acts that inhibited competition or conferred monopoly powers on government parastatals firms. As a result, from 1999 to 2012, BPE has raised over \$12 billion by privatizing more than 140 enterprises, including cement manufacturing firms, Hotels, telecoms, petrochemicals plant, aviation cargo handling companies and vehicle assembly plant and of recent integrated power project (IPP) and the existing hydro and thermal power plant (BPE, 2012). The legal framework especially with the Nigerian Investment Promotion Commission (NIPC) decree of 1995 now an Act, also allows 100 percent foreign ownership of firms outside the petroleum sector, where investment is limited to existing joint ventures or production-sharing agreements. The Act prohibits the nationalization or expropriation of foreign enterprises except in cases of national interest (NIPC, 2011) and investor has a right to expatriate his profit 100 percent together with his dividends.

These laws applied equally to domestic and foreign investors alike. They include the CBN Act 2007, SEC Act 1999, the Foreign exchange Act 1995, and The BOFIA Act 1991 just to mention but a few. The NIPC Act of 1999 liberalized Nigerian's foreign investment regime, this has facilitated access to credit instruments provided by financial institutions. Foreign investors who have incorporated their companies in Nigeria now have equal access to all financial instruments.

Some investors consider the capital market, specifically the Nigerian Stock Exchange (NSE), a financing option, giving commercial banks high lending rate and the short maturities of local debt instruments. Also with the decline in trading activities in the Nigerian Stock Exchange as a result of global economic meltdown, the Nigerian government has through its Debt Management Office (DMO), restructure its domestic portfolio from short term to medium and long term instruments. And for this reason there has been renewed interest in bonds by investors since the decline of the equities market in 2008. But with the recent introduction of market makers (which serves as stimulus in injecting liquidity in the market), the capital market is now rebounding back as activities in the market are picking up.

The passage of Power Sector Reform Bill in 2005 created the Nigerian Electricity Regulatory Commission (NERC), a power regulator with the responsibility for tariff and technology regulation of the electricity supply industry. The NERC so far has issued twenty nine licenses to independent power producers in the electricity industry since its inception. The expected privatization of the power Holding Company of Nigeria (PHCN) through the electric power sector reform Act 2005 appears to have been concluded as the core investors had emerged. But still power outages are still rampant and adversely affecting various businesses and which contributed largely to their additional cost of doing business. It is estimated that the manufacturing sector in Nigeria has to bear additional indirect costs amounting to 16 percent of sales because of bottleneck in the business environment. Power outages amount to 10% percent of sales. This loses affect different types of firms in different ways. Electricity is more of a problem for small and medium - size firms in Nigeria. (Giuseppe, et al 2009, World Bank, 2009).

The government of Nigeria recognizes secured interests in property, such as mortgages. The recording of security and their enforcement are subject to the same inefficiencies as those in the judicial system. In the World bank's publication: *Doing business in 2010*, Nigeria was ranked 178 of the 183 countries surveyed for registering property, requiring 13 procedure and an average of 82 days at a cost of 20.9% of the property (World Bank, 2010). To overcome these challenges the government of Nigeria needs to review land tenure system in order to attract investment in the area of commercial agriculture, real estate and mining".

Nigerian civil courts handle disputes between corporate bodies and the Nigerian government as well as Nigerian businesses and foreign investors. However settlements in these cases are not always expeditiously paid or settled. But there are other alternative dispute resolution which is the Arbitration and Conciliation Act of 1998, which provides for a unified and straightforward legal framework for the fair and efficient settlement of commercial disputes by arbitration and conciliation. The Act allows parties to challenge arbitrators and provide that an arbitration tribunal shall ensure that the parties are accorded equal treatment, and that each party has full opportunity to present its case. Good governance is measured by the stability of property rights and adherence to the rule of law, and according to some, the depth of democracy and public accountability. The theory' is that stable property rights (measured by a number of factors, including a low risk of expropriation (nationalization) and a low level of corruption) induce high investment rates and ensure efficiency in investment allocation, while democracy signals that governments will not engage in ex-post expropriation. The researcher posits here that Nigerian government has not expropriated (nationalized) any foreign interest since the return on democratization in 1999.

#### **2.4 Theoretical Framework**

The theory of factor mobility has been analyzed as theory of trade using the concept of inter-temporal comparative advantage in production and trade. The basis for the cross border factor mobility is the differences in factor endowment, propensity to consume and preference between present and future consumption between or among nations. Oyeranti, Babatunde, Ogunbola & Bankole, (2010) argued that a labour abundant economy may witness unemployment of labour and low real wage which may lead to labour mobility since real wage may be low compared to what obtains elsewhere. It is also argued that a country that possesses a comparative advantage in future production of consumption of goods is one that without international lending and borrowing would have a relatively low price of future consumption as a result of high interest rate. This high interest rate corresponds to a high return on investment. This means that a high interest rate in the borrowing nation influences the lending nation to divert resources from current production or consumption to lending in order to enhance their economies future ability to produce or consume. Therefore, resources endowment, market size, real interest rate and wage are major factors determining capital and labour mobility respectively (Oyeranti et al, 2010).

An important part of capital mobility that has received more attention in research takes the form of foreign direct investment (FDI). It is seen as foreign capital flows in which a firm in one country establishes a subsidiary in another. FDI is characterized by transfer of resources and acquisition of control. Therefore Multinational Corporations (MNCs) have been seen as a vehicle for international capital mobility. The modern theory of multinational enterprise focuses on the analysis of two important issues: the first is the reason why a commodity is produced in two (or more) different countries rather than one. This is the issue of location. The second is the reason why production in different locations is carried out by the same firm rather than by separate firms. This is the issue of internalization (Dunning, 1999; Krugman & Obstfeld, 2000; Applyard & Field, 2004). The location (of production and trade) is determined by resources, transport cost and other barriers to trade. There are two views about the benefits of internalization. The first benefit it leads to transfer of technology from one country to another. The second benefits it enhances vertical integration.

Generally the theoretical and empirical analyses of determinant of FDI flows have been based on two main groups of factors or a combination of the two. These are the pull-factors (demand side factors) and the push-factors (supply side factors). The pull - factors are those factors that could induce multinational corporations (MNC's) to desire to create or expand their operations overseas. These factors explain why national firms evolve into MNC's and why they decide to locate their production in another country rather than licensing or exporting (Singh, & Jun, 1995).

On the other hand, push-factors are the host-country specific condition that influences the flow of FDI. These are factors that attract FDI when the decision to invest out of home country is conceived by the MNC's. Many socio-economic and political factors exist in the host country that determine available business opportunities and potential political risk, and all these influence the decision of MNC's to locate their activities in a particular country. It can be deduced that pull factors determine which country' receives what share of FDI, while push factors influences the overall size of FDI (Asiedu, 2002; Akinkugbe, 2003). Among this factors that are commonly cited in the standard economic literature in this area are distance from major markets, market size, infrastructure, labour cost, political stability, effectiveness of legal system, fiscal and tax incentives, interest rate, human capital, openness of the economy to foreign trade and natural resources endowments such as petroleum and other mineral resources.

All these factors enumerated above are what Nigeria government is doing or reforming in order to enhance its business environment there by attracting more international investors and even the local ones.

### ***3.0 Research Methodology and Data Presentation***

#### **3.1 Introduction**

This research is qualitative and descriptive in nature and the data used for the purpose of this study were obtained through secondary sources. The secondary data were obtained from the records of the Nigerian Investment Promotion Commission (NIPC), World Bank, and Central Bank of Nigeria (CBN) in order to ascertain the level of foreign direct investment, cost of doing business and economic performance of Nigeria over the years as a result of investment climate reforms embarked upon by the Federal government of Nigeria. The non oil and oil & gas sectors in Nigerian forms the population of the study. Using stratified random sampling techniques the small, medium and large manufacturing sector were used as the sample size based on their geographical location, large presence of manufacturing concern and trans-international trade.

#### **3.2 Data Presentation and Interpretation**

The data obtained are presented and analyzed as follows:

Table 1, showed an adverse business environment in Nigeria with result showing severe constraint in the area of electricity as high as 79 percent, followed by access to finance and cost of finance averaging 38% respectively. The transportation constraint has 32% then followed by access to land for either expansion or relocation with 24%. Tax rate took 22 percent and 18 percentages which is relatively low

**Table 1. Percentage affirms reporting major or very severe constraints in manufacturing Sector in Nigeria**

Constraint	Firm size			Total by average
	small	medium	large	
Electricity	82%	79%	76%	79%
Access to finance (e.g. collateral)	65%	37%	14%	38%
Cost of finance (e.g. interest rate)	55%	34%	23%	38%
Transportation	32%	35%	23%	38%
Access to land for Expansion/relocation	32%	21%	19%	24%
Tax rate	27%	27%	13%	22%
Corruption	28%	17%	9%	18%

Source: investment climate survey in Nigeria (World Bank report, 2011)

Table 2 showed the capital importation into Nigeria as a result of foreign direct investment (FDI) from 2005 to 2012. The figures shown are in dollar domination and based on sectoral basis.

**Table 2: Foreign Direct Investment statistics in Nigeria (2005 — 2012) [\$million]**

Sector	Sub-sector	2005	2006	2007	2008	2009	2010	2011	2012	Total	% Change
Non-oil	Infrastructure	9.16	16.12	4.65	34.23	140.91	178.25	122.57	1,217.91	1,723.8	8.2%
	Agriculture	8.44	1.15	11.4	6.00	7.45	8.6	6.98	6.97	56.99	0.27%
	Services	22.69	14.69	22.29	77.48	86.12	147.75	786.27	40.23	1,197.52	5.7%
	Solid minerals	0.1	0.07	-	-	-	10.02	10.80	-	20.99	0.099%
	Chemical/Pharm.	0.13	0.08	0.08	0.04	0.08	0.4	0.36	8.32	949	0.045%
	Manufacturing	90.85	86.19	62.25	79.03	94.66	260.5	334.80	160.93	1,169.21	5.53%
	Others	21.8	24.87	6.16	22.75	12.37	49.09	67.86	21.46	226.36	1.07%
	TOTAL	153.17	143.17	106.83	219.53	341.59	654.61	1,329.64	1,455.82	4,404.36	
Oil & Gas	Oil & Gas	37.44	23.98	28.12	47.71	99.27	6,612.88	7,183.47	2,707.65	16,740.70	79%
	Grand Total	190.61	167.15	134.95	267.24	440.86	7,267.49	8,513.11	4,163.65	21,145.06	

Sources: CBN, NIPC - Business Registration, 2005 to 2012

**Interpretation:** In the interpretation of results, the researcher observed that the main bottlenecks in the investment climate in Nigeria electricity, finance and transportation while others constraints vary across firms.

- i. Electricity: Table 1, above showed that the major constraint in doing business in Nigeria was electricity supply with an average of 79% in both the small, medium and large firms. The power outages in Nigeria resulted in losses equivalent to 10% percent of total sales according to World Bank investment climate survey in Nigeria. For that reason, all Nigerian firms experience power outages on average of 12-18 hours a day. Large firms in the manufacturing sector are more adversely affected by such outages (World Bank, 2012). The implication of these power outages has resulted in increasing indirect cost of doing business and therefore significantly affects the capacity utilization of the manufacturing firms in terms of production. Faced with this situation, firms of all sizes have their own generating sets which produce their electricity needs.
- ii. Finance: Access to finance and cost of finance emerged second as the major constraints in cost of doing business in Nigeria, because of the collateral a firm has to pledge before a bank can extend a credit facility to it.

The percentage of access to finance and cost of financing are 38 percent respectively (table 1), with an interest rate charged as high as 18% - 20% based on the current prevailing bank interest rate. In terms of cost financing the largest firm enjoyed (23%) more of leverage compared to the lower firms like small and medium enterprises (SME's).

The implication here is that those small and medium enterprises that cannot afford the exorbitant high interest rate of the banks would have to close shop. For example, the folding of some textile and tannery industries in Kano, Kaduna and Zamfara states are all as a result of indirect cost associated with the financing needs which they cannot afford.

- iii. Transportation: As a constraint to the cost of doing business in Nigeria, transportation comes third with 32 percentage points. This is largely because of the indirect cost it generated due to breakages, spoilage or theft. The main causes of such cost are breakages and spoilage largely because of the deplorable condition of our roads nationwide. Roads remains the major means of supplying raw materials or industrial input in Nigeria due to the absence of efficient railways transportation system and inland water ways. According to the World Bank investment climate survey in Nigeria, firms import up to 40% of their input and it takes an average of 14 days for imported and 7 days for exported goods to be cleared by the customs officials which is a significant constraint to businesses in terms of cost and time.
- iv. Others: Access to land have 24% significant obstacle to business particularly for small firms. The researcher perceived land as a constraint because of the cost of land itself and the procurement process. Although the cost of land is an area in which intervention is difficult, the procurement process in the opinion of the researcher could be significantly improved through the intervention of the government reform land tenure system. Secondly, corruption is generally perceived to be higher in Nigeria most especially in areas of registering properties or procurement process but surprisingly the survey data by the World Bank in 2012 shows a complete departure. This shows that corruption which reflects 18% is the lowest among the major constraints in doing business in Nigeria. Finally, all around the world, business tend to complain about tax rate. Nevertheless in Nigeria, complaint about tax rates was not on top of the list as surveyed by the World Bank, as 22% imposed by the government of Nigeria and therefore the overall tax rate is lower considering the huge profits the Multinational companies and even domestic companies are making.

However, table 2 which is on the foreign direct investment in flow into Nigeria from 2005 to 2012 showed that the non- oil sector lagged behind in terms of FDI. Under the non-oil sector, the infrastructure recorded an impressive investment in flow from \$9.16m in 2005 to \$1.217b in 2012, which shows a significant increase of about 8% on average over the years. FDI in agricultural subsector still remain poor from \$8.44m in 2005 to \$6.97m in 2012 owing to the fact the Government of Nigeria had virtually abandoned agriculture with virtually 2% budgetary allocations in the period under study. The implication here is that poverty reduction one of the cardinal thrust of this administration and millennium development goals (MDG's) of 2015 may not be met despite its importance in improving Nigerian economy.

The service sectors like Bank, telecoms shows a marginal increase in terms of FDI from \$22.6m in 1999 to 786.m in 2011 and it fell sharply to \$40.23m in 2012 with a 5 percentage change across the total sectors. Solid mineral subsector is still an area that has not being adequately tapped and the percentage in FDI of \$0.099% is not encouraging. This might have resulted from the hostile nature of the investment climate in that sector as the government has done little to increase its investment profile in terms of incentives and conducive atmosphere. The implication is that many of the untapped mineral deposit will remain idle and illegal mining will flourish (the case of Plateau, Kebbi and Zamfara states where illegal mining of Gold is ongoing).

Similarly, the chemical and pharmaceutical subsector is poor because of importation of fake drugs and substandard products which hinders the level of FDI in that sector. The manufacturing sector recorded a marginal increase from \$90.85m in 2005 to \$160.93m in 2012 in terms of FDI over the period under study. Though the level of FDI is encouraging but efforts need to be made to improve the business environment considering its importance to the economy. The marginal performance of the manufacturing sector could largely be explained the epileptic electricity supply which resulted in adding substantial in direct cost to business operations. The Oil and Gas sector has showed tremendous increase in FDI largely because of the expected rate of return and the opaque nature of their business. From an FDI of \$37.44m in 2005 to almost \$6,612b, \$7,183.47 in 2010 and 2011 respectively and the total FDI of \$ 16,740b within the period under study is significantly substantial.

This implies that FDI incentives and the expected rate of return high in the sector, therefore, the current Petroleum Industry Bill (PIB) before the National Assembly if passed into law will attract more FDI into the country. According to NIPC report of 2012, Nigeria is the 10<sup>th</sup> largest world reserves of crude oil and Gas with a proven reserved of 36.2 billion barrel of oil and 184 trillion cubic feet of natural gas waiting to be explored. It can be inferred that the economy of the country is at the verge of growth and cannot certainly be ignored by both the local and foreign investors.

### **3.0 Summary of Findings and Conclusion**

#### **3.1 Summary of Findings**

No country has a perfect investment climate neither is perfection a prerequisite for reaping the fruits of investment climate (Bathalomew, 2010). Nigeria already has the framework but the method still appears reactive and irregular. The finding of this study shows that:

- i. Major weaknesses in the business environment of Nigeria are in the area of reliable physical infrastructure which account to almost 30% of indirect cost incurred by the businesses.
- ii. A plethora of incentives including tax holidays, 100% repatriation of profit were introduced in order to encourage the flow of FDI to Nigeria.
- iii. Financing is still a problem in terms of accessing bank loans which is negatively affecting the small and medium scale enterprises in Nigeria and adding cost to the businesses.
- iv. Insecurity of recent has also had a profound effect on businesses in Nigeria as insurgency from the Northern part of the country has crippled businesses and kidnapping and oil bunkering in the south is posing a serious setback in our drive to attract FDI.

#### **4.0 Conclusion**

This study reviewed the impact of investment climate reforms and the challenges and prospects of attracting foreign direct investment (FDI) in Nigeria as well as cost of doing business. Investment climate is key to economic growth and poverty reduction, most especially in Nigeria. Government policies and behaviours shape investment climate and in the process play out over a wide field, from contract enforcement and business regulation to the provision of infrastructure, labour market policy, to fighting corruption and provision of financing, to some incentives all geared towards attracting both foreign and local investors.

Nigeria has initiated several reforms, and investment climate reform should be part of the whole reform programme which to a large extent has demonstrated that all is well. But still a lot need to be done in the area of infrastructure most especially electricity and also in the area of dispute resolution by our courts, insecurity and stemming the level of corruption.

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