Analysis of Investment Climate Reforms on Foreign Direct Investment (FDI): The Case of Nigeria

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Abstract: *This study makes an in-depth analysis of the importance of investment climate reforms in Nigeria. It also examines how good policy on investment climate facilitates the growth and development of private sector driven economy as well as the impact it will have onforeign Direct Investment (FDI) and cost of doing business in Nigeria. The study problem is centered on two research issues; firstly, policy inconsistency or summersault in investment climateexhibited by successive administration and secondly, the inadequacy of studies on the relationship between investment climate, economic growth, globalization and ICT. The study by its nature is descriptive and will employ the use of secondary sources of data. Content analysis was used as the instrument in analyzing the data. The objective of the study is to highlight the various reforms the government of Nigeria has taken over the years in order to make Nigeria a proper investment destination in Africa.The findings have shown that, in Nigeria, the cost of a poor business environment is significant and investment climate constraints add substantially to the cost of doing business. The study concludes that investment climate in Nigeria is still poor, largely due to infrastructural deficit and administrative bottlenecks which add to the cost of doing business. The paper recommends power supply and financing should be improved, corruptionvigorously tackled and policy inconsistencies stopped in order to attract investors, reduce cost of doing business and increase economic growth.*

Keywords: *Investment Climate Cost of Doing Business, Reforms, Foreign Direct Investment (FDI).*

1. Introduction

Nigeria is Africa's most populous nation with an estimated population of over 170 million people. 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 the market potential is still untapped and unrealized. Impediments to investment include inadequate infrastructure, corruption, inefficient property registration system, inconsistent regulatory environment, restrictive trade policies, lack of security, slow and ineffective courts and dispute resolution mechanisms (Global trade,2010). For foreign direct investment (FDI) to flow and be sustained in any economy it is important that the investment climate is friendly and conducive for business. Bartholomew (2010) argued that the on-going liberalization and globalization had entrusted the private sector with the economic role of wealth creation and employment generation. This study shares the view that, one cardinal thrust of economic reforms in Nigeria is growing the private sector as the engine of growth and prosperity. However, for the sector to play this role effectively it requires competitiveness of enterprises and enabling environment for investment to strive.

The Nigerian Investment Promotion Commission (NIPC), created by an act of parliament, act No.16 of 1996, is saddled with the responsibility of overseeing or regulating foreigninvestment. The flows of FDI can be largely explained by the abrogation of certain laws and subsequent entrenchment of investment friendly laws as well as the introduction of structural reforms (SAP), facilitated the substantial flow of capital. Until 1986, Nigeria did not record any figure on portfolio investment (inflow or outflow) in her balance of payment (BOP) accounts. This was attributable to the non-internationalization of the country's money and capital markets as well as the non-disclosure of information on the portfolio investments of Nigerian investors in foreign capital/money markets.

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 UNIDO (2005) study revealed that the productivity of Nigerian workers was only 10 percent of 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, a poor investment climate and low capacity utilization. Average capacity utilization in the manufacturing sector declined from a peak of nearly 80 percent in 1978 to less than 30 percent in the 1990's before rising marginally at the end of the decade. (Giuseppe, Mousley, Ismail &World Bank, 2009).

According to Khan (2002), the current policy consensus is that a good investment climate is characterized by standard good governance requirements together with the adequate supply of certain types of infrastructure, such as electricity, telephone lines, good road, effective and efficient transport system. Good governance in turn is measured by the stability of property rights 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 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 (nationalization). These conditions, it is argued, are essential for ensuring rapid economic growth and sustained poverty reduction. These key policy goals, identified in the new consensus on investment climate, are best attained by policies that promote a service delivery state. This is a statethat protects property rights, is subject to the rule of law, does not intervene in markets, and provides key services such as electricity, good roads and telephone lines.

Investment climate reform is the provision 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 importance of this study will be further amplified by the fact that Nigeria has initiated series of economic 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 Federal government of Nigeria has identified the private sector as key to economic growth and development. For that reason, there have been series or a wide range of policy papers as well as researches conducted over the years regarding how to entrench good policies on investment and business environment with the aim of attracting or inducing both local and foreign investors to come to Nigeria and invest. Nigeria as a country, as argued by Adelegan (2000), given her natural resource base and large market size, qualifies to be a major recipient of FDI in Africa and indeed is one of the top three leading African countries that consistently received FDI in the past decade. However, the level of FDI attracted by Nigeria is mediocre compared with the resource base and potential need.

The research gap in this study is centred on two research problems; (i) policy inconsistency or summersault by Nigerian government and (ii) the inadequacy of studies on the relationship between investment climate, economic growth, globalization and ICT. Firstly, the issue of policy inconsistency exhibited by successive administrations has resulted in hinderinginvestment flow, especially FDI; which has the multiplier effect of growing the economy. Sub-Saharan Africa has to depend very much on FDI for a number of reasons as amplified by Adelegan (2000). One of the pillars on which the New Partnership for Africa's Development (NEPAD) was launched was to increase the availability of investment capital. The NEPAD initiative was to be raised to US$64 billion through a combination of reforms, resource mobilization and an enabling environment for FDI (NIPC, 2008).

Secondly, the inadequacy of studies on the relationship between investment climate and economic growth, globalization and ICT, that has played a crucial role in shaping the way we do business here in Nigeria. One of the most salient features of today's globalization drive is conscious encouragement of cross-border investments, especially by transnational corporations and firms (TNCs). Many countries and continents (especially developing) now see attracting FDI as an important element in their strategy for economic development. This is most probably because FDI is seen as an amalgamation of capital, technology, marketing and management. The importance of FDI can be seen as closing the capital-gap, as the main obstacle facing developing countries like Nigeria trying to catch-up with advanced countries. This gap however, is more in knowledge or human capital, than the gap in physical capital.

This study attempts to outline some of the policy inconsistencies and institutional defects that contributed largely to the economic imbalances in Nigeria. It will examine some of the reforms undertaken by successive administrations to address these imbalances. Specifically, the study seeks to provide answers to the following research questions: (i) to what extent can flow of FDI in Nigeria explain the drive for the growth of private sector investment? (ii) What discernible factor explains impediment to reducing cost of doing business in Nigeria? (iii) What significant impact has investment climate reforms on FDI?

1.2 Objectives of the Study

The main objectives of the study is to address some major policy reforms that were introduced in order to make doing business in Nigeria as easy as any developed country as the nation strategizes to become one of the 20 greatest economies by the year 2020. The specific objectives are to:

1. Identify the various regimes of investment policies in attracting FDI in Nigeria.
2. Determine areas that act as impediments to reducing cost of doing business in Nigeria.
3. Assess the impact of investment climate reforms on FDI.

2. Literature Review

2.1 Theoretical and Conceptual Framework

Literature on investment climate reform is scanty. This is mainly because it was not until 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).

Soludo (2004) opined that for Nigeria, investment is negatively associated with growth. Though, Soludo's conclusion in the opinion of the researcher looks somehow myopic, because forevery investment decision a country undertook, the aim is to accelerate the growth rate of its economy; and for Nigeria that has been translated recently by rebasing its GDP which saw it as the biggest economy in Africa overtaking that of South Africa.

The literature reviewed highlighted some of the notable reforms the government of Nigeria has instituted with the sole aim of making investment climate in Nigeria an investor friendly and the final destination in terms of investment in Sub-Saharan Africa taking into consideration Nigeria's population (which translate to a bigger market opportunities), abundant human and natural resources as well as an emerging economy (in view of projections to be among the 20 industrialized economies by the year 2020).

2.2 Concept of Investment Climate

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 Vision 20:2020 which comprises; Seven Point Agenda and transformation agenda, of the present administration, which focuses on power and energy, food security and agriculture, wealth creation and employment, mass transportation, land reform, security, educational reforms and economic transformation which all form the basis of good investment climate. A robust investment reforms and friendly laws will send a signal to the international and local business investors that the country is improving its investment and business climate horizon which will attract 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.

Investments according to a Keynesian terminology simply refer to real investment which adds to capital equipment. It leads to increase in the level of income and production by increasing the production and purchase of capital goods. Investment thus includes new plant and equipment, construction of public works like dams, roads, and building among others, net foreign investment, inventories, stock and shares of new companies. Joan Robinson (as cited in Jhinghan, 2012), defines investment as an addition to capital, such as when a new house is built or a new factory is built. Investment means making an addition to the stock of goods in existence. To be more precise, investment is the production or acquisition of real capital assets during any period of time. From Finance point of view; investment is simply putting money in a financial asset with the aim of capital appreciation, dividend or interest rate.

Investment could also be induced or autonomous (Joan, 2010). Induced investment is profit or income motivated. Factors like prices, wages and interest change which affect profits and influence induced investment. Autonomous investment is independent of the level of income and is thus income inelastic. It is influenced by exogenous factors like innovations, inventions, growth of population, war, revolution, labour force and researches. Autonomous investment is not influenced by changes in demand rather it influences demand. Investment in economic and social overheads whether made by government or the private enterprise is autonomous. Looking at the various investments so far in Nigeria, the researcher is of the opinion that induced investment is what obtained in Nigeria as the motive of the investors is to make more profits. Investment climate therefore 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 also 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 (BPE, 2010).

According to the World Bank (2005), Investment climate can be defined 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. It consists of location specific factors that shape the enabling environment for firms to invest productively and grow (Smith &Hallward-Driemeier, 2005). Investopedia (2010), see investment climate as the economic and financial conditions in a country that affect whether individuals and businesses are willing to lend money and acquire a stake (invest) in the businesses operating there. The researcher adapted this definition because it largely enumerates those areas that needed to be reformed for investment to flourish. 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. Therefore good investment climate requires a policy that identifies the precise conditions that make up a good investment climate. Investment climate reform is also the provision 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 by a government through a public policy.

The investment climate in Nigeria has recently witnessed a number of reforms being put in place through the regulatory framework to encourage both the inflow of FDI to Nigeria and reduce cost of doing business. In particular, Nigeria's investment regime offers a plethora of incentives including tax holiday, reduced taxes, capital allowances, capitalization of expenditure, import duty rebate (waivers), 100% repatriation of and transferability of funds (Oyeranti, Babatunde, Ogunkola, Bankole,2010).

2.3 Constraint to Doing Business in Nigeria

Doing Business according to World Bank report (2012), is recording all procedures that are officially required to start-up and formally operate a commercial or industrial small or medium to large-size limited liability Company. These include obtaining the necessary licenses and Permits and completing all required notifications, verifications, and registrations for the company and its employees with the relevant authorities. Institutional barriers to doing business as well as perceived corruption in government are critical determinants of private sector development and prospects for sustainable growth (World Bank, 2012). *Doing Business* investigates the regulations that enhance business activity and those that constrain it. Regulations affecting 4 stages of the life of a business are measured at the sub-national level in Nigeria: starting a business, dealing with construction permits, registering property, and enforcing contracts. These indicators are used to analyze economic outcomes and identify which reforms have worked, where, and why (World Bank report, 2010).

Despite all these reforms the investment climate in Nigeria is largely poor when compared to other neighbouring countries in Africa and some of our peers at the international level. For example the World Bank's Composite Doing Business indicators for 2010, 2011, and 2012 ranked Nigeria at an unsatisfactory 108 out of 175 world economies. In order to increase private-sector activity, the incorporation requirements must be easy, fast, and inexpensive. Research by World Bank (2012) shows that the number of new firms increases and employment grows when business entry becomes easier and all barriers for sound investment removed.

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, et al, 2010). It is 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 economy's 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 (MNC's) 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 one. This is the issue of location.

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 (Joan, 2010). On the other hand, push-factors are the host-county 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 influence the overall size of FDI (Adelegan, 2000). 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. Based on the above, a popular theoretical model that link investment climate with FDI and economic growth is the capital mobility theory (CMT). Therefore, CMT is adopted as the underpinning theory that best suits this study.

3. Research Design

The research design of this study is qualitative and descriptive in nature, and content analysis is used in analyzing the data employed. The nature of the study necessitated the use of secondary data. The secondary data were obtained from the records of the Nigerian Investment Promotion Commission (NIPC), World Bank, CBN and National Bureau of Statistics (NBS) 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.

4. Data Presentation

Thestudy used two parameters in analyzing the secondary data. That is cost of doing business and foreign direct investment (FDI). The following are the variables for this study:
Dependant Variable is: Investment Climate reforms (ICR)
Independent Variables are: Foreign Direct Investment (FDI) and
Cost of doing business

Table 2: Percentage of firms reporting major or very severe constraints (ease of doing business) in manufacturing Sector in Nigeria

Firm size **Constraint**	**Small**	**Medium**	**Large**	**Total by Average**
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%	29%	32%
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, 2010, 2011&2012)*

Table 1, shows an adverse business environment in Nigeria with result showing severe constraint in the area of electricity leading with 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 followed by corruption which surprisingly from the survey carried an 18 percentage point which is the lowest. The power outages in Nigeria resulted in losses equivalent to 10 percent of total sales and our finding is consistent with the World Bank report of 2010, 2011 and 2012. For that reason, all Nigerian firms experience power outages on average of 12-18 hours a day. The implications of this severe constraint to the cost of doing business in Nigeria, shows that a significant indirect cost will be borne out by all the firms regardless of their sizes which will add cost to their production and this ultimately pass to the final consumerof their goods and services.

Table 2 shows 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. The foreign direct investment inflow into Nigeria from 2005 to 2012 shows that the non- oil sector is still lagging behind in terms of FDI. Under the non-oil sector, the infrastructure recorded an impressive investment inflow from $9.16m in 2005 to $16.12m in 2006, which shows a significant growth rate of about 56% and decline to 28% in 2007 and thereafter rose sharply up to 2012 to $1.723.8 billion. 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 as one of the cardinal thrust of this administration and millennium development goals (MDG's) of 2015 will not be met despite its importance in improved GDP and being the mainstay of Nigerian economy.

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

Sector	Sub-sector	2005	2006	2007	2008	2009	2010	2011	2012	Total
Non-oil	Infrastructure	9.16	16.12	4.65	34.23	140.91	178.25	122.57	1,217.91	1,723.8
	Agriculture	8.44	1.15	11.4	6.00	7.45	8.6	6.98	6.97	56.99
	Services	22.69	14.69	22.29	77.48	86.12	147.75	786.27	40.23	1,197.52
	Solid minerals	0.1	0.07	-	-	-	10.02	10.80	-	20.99
	Chemical/Pharm.	0.13	0.08	0.08	0.04	0.08	0.4	0.36	8.32	9.49
	Manufacturing	90.85	86.19	62.25	79.03	94.66	260.5	334.80	160.93	1,169.21
	Others	21.8	24.87	6.16	22.75	12.37	49.09	67.86	21.46	226.36
	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
	GRAND TOTAL	**190.61**	**167.15**	**134.95**	**267.24**	**440.86**	**7,267.49**	**8,513.11**	**4,163.65**	**21,145.06**

***Source:** CBN, NIPC – Business Registration (2005 to 2012)*

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 been adequately tapped and the percentage in FDI of $0.099% is not encouraging at all. That could result from the hostile nature of the investment climate in that sector as the Federal Government has not done much to increase its investment profile in terms of incentives and enabling environment. The implication here is that many of the untapped mineral deposits will remain idle and illegal mining will flourish as the case of Zamfara State where illegal mining of Gold is going on unhindered and with its attendant health hazards. In the researcher's opinion, the only remedy for that is to reform our land system where people can have a mining field of their own, only to be paying royalty to the Federal government.

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 efforts need to be made to improve the business environment so that more investment can be flowing to that sector considering its importance in terms of generating employment and increase in GDP. The marginal performance of the manufacturing sector could be largely explained due to the harsh economic environment the companies are operating. For example, the constraint in terms of epileptic electricity supply which resulted in adding substantial indirect cost to their operations.

Finally, the Oil and Gas sector has shown 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. The implication of this is that FDI in that sector has a lot of incentive and the expected rate of return is equally higher. Therefore, the current Petroleum Industry Bill (PIB) before the national assembly if legislated properly and passed into law, more FDI will flow into the country and recent Local content bill passed into law will make more Nigerians to venture in that sector, which now is dominated by foreign interest.

Table 3: FDI Growth Rate (in percentage) on Sectoral Basis

Year	Infrastructure. FDI growth rate (%)	Agric. FDI growth rate (%)	Services. FDI growth rate (%)	SolidMineral. FDI growth rate (%)	Chem/Pharm. FDI growth rate (%)	Manufacturing. FDI growth rate (%)	Others FDI growth rate (%)	Oil & Gas FDI growth rate (%)
2005	-	-	-	-	-	-	-	-
2006	5.6	13.6	6.4	7	6	9	11.4	6.4
2007	2.8	10	6.5	0	1	7	2	11.7
2008	7.3	19	15	0	5	12	3.6	16.9
2009	2.4	12	3.4	0	2	11	5.4	20.8
2010	7.9	11	5.8	10	9	27.5	3.9	66.6
2011	6.8	8	5.3	9	23	12.5	7.2	10.8
2012	9.9	9	5	0		4.8	3.1	3.7

Source: *Author 2013 (note; annual FDI growth rate is calculated year-in -year to ascertain the increase/decrease of FDI and how the trend impacted the economic growth of Nigeria.)*

Table 3 shows the FDI growth rate in percentage terms based on sectoral basis.

Infrastructure: *Infrastructure* had a positive relation with FDI. This is expected and consistent with results of previous studies and therefore thisfactor will encourage FDI inflows. From 2005 to 2006 a 5.6% increase was noted and it slightly dropped to 2.8% in 2007 and rose marginally to 7.3% and the trend continues up to 2012.

Agriculture: The percentage increase in FDI under agricultural sector has shown little correlation between investment climate reforms and level of FDI largely because not much has been done to make the sectors more attractive by the federal government. The investment in that sector and the percentage growth has continued to decrease. From $8.44m in 2006 to $1.15m in 2007 which show a decline of 10%; it moved to 19%, 12%, and 11% in 2008, 2009 and 2010 respectively and fell downward to between 8% and 9% in 2011 and 2012 respectively.

Services: The service sector has witnessed tremendous increase in FDI because of the liberalising of the telecommunication sector. From a modest increase in 2002 it astronomically increase in 2012, to $1.197.52m. This sector had helped in increasing the GDP of the country thereby improved the economic growth of Nigeria.

Solid Mineral: The rate of FDI growth in this sector has not been encouraging largely because the investment climate has not been friendly and therefore negatively impacted the economy.

Manufacturing sector: The FDI growth rate here has seen some slight increases because of the effect of poor infrastructure like power outage which add substantially to their cost of doing business. There was a modest increase from 2005 to 2006 and it fell sharply in 2007 and thereafter picked up in 2008, 2009, 2010, and 2011 before it finally fell down drastically in 2012.This finding confirms the work of Giuseppe, Mousley, Ismail (2009).

Oil and Gas sector: the oil and gas sector has shown significant increase in the inflow of FDI from 2007 to 2012. It almost increased by 60% in the period under review. This could be largely explained because of the opaque nature of the business and the rate of return on investment. Illegal bunkering and of crude oil has increased which has negatively affected the crude exported by the country and reduced revenue to the government. The PIB bill if passed into law will significantly increase the level of FDI investment in the country.

5. Summary, Conclusion & Recommendations

The summary of the findings for this study revealed that:

1. 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. These infrastructures include incessant power outages, inefficient transport system and bad roads.

2. Cost of financing is still a problem in terms of accessing bank loans which is negatively affecting small and medium enterprises in Nigeria and adding cost to their businesses. This finding is consistent with the recent publication by Financial Derivative Company, which noted that the uncertainties surrounding the Nigerian Macroeconomic environment have contributed to the slow growth in foreign investment inflows as a result of high interest rate/lending rate challenges in the country (Adeyemi, 2013).

3. Inflow of FDI has consistently increased in oil and Gas sector while the oil sector is witnessing decline most especially in the Agricultural sector and solid minerals

5.1 Conclusion

Conclusively, the paper reviewed investment climate reforms on foreign direct investment (FDI) in Nigeria. 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. In Nigeria the cost of a poor business environment is significant**.** This study has shown that investment climate constraints add substantially to the cost of doing business. Each year 16 percent of sales are recorded as loss as a result of unreliable power, transport delays, crime, and corruption. Our Study shows that in Nigeria, the three most important constraints to doing business are power, access to finance, and transport (see Table 1). Solving the electricity crisis must remain at the very top of the policy agenda**.** Electricity is by far the main obstacle. Every year almost 10 percent of sales are lost due to power outages. All types of firms, irrespective of size, location, export orientation, and ownership complain about electricity shortages. All firms experience power outages and 85 percent own a generator. This is higher than any of Nigeria's comparator countries (World Bank and IFC, 2013).

5.2 Recommendations

Based on the conclusions reached, the following recommendations are made:

1. Infrastructure should be improved most especially in the area of electricity, efficient and effective transport system which account among the major significant constraint in doing business in Nigeria. The issue of public private partnership (PPP) should be enhanced especially in the area of building roads, railway and inland water ways system in order to ease pressure on our roads.

2. The issue of financing should also be adequately addressed so that both the small and large firms can access loans from bank without much hassle.

3. For investors to come and invest most especially the much talked about foreign direct investment (FDI) the investment climate of the country should be enhanced and all bottlenecks removed. The issue of land accessibility should be simplified in such that both foreign and local investors should have equal access to land to build or expand their businesses. The multiplicity of taxes should also be streamlined such that investors should not be subjected to too many taxes. Here the joint Tax Board of the Federal Government should act and streamline the tax to be collected by the federal, state and local governments.

4. The Non-oil sector like Agriculture should be accorded priority by the Federal Government since that sector is the mainstay of the Nigerian economy contributing more GDP than the oil and Gas sector.

On a general note, the issue of political interference due to fiscal policy inconsistency need to be addressed by the government and also human capital in form of skills acquisition and higher education should form the fulcrum of our policy since it has been found to have significant impact on the level of investment and economic growth. Also security of recent have had a profound effect in our nations drive to attract FDI and needed to be tackled by the Federal Government of Nigeria.

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