Sapientia Global Journal of Arts, Humanities and Development Studies (SGOJAHDS), Vol.5 No.2 June, 2022; p.g. 251– 260; ISSN: 2695-2319 (Print); ISSN: 2695-2327 (Online)

TRENDS AND PATTERNS OF FOREIGN INVESTMENT INFLOWS IN NIGERIA

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Abstract

This study analysed the trends and patterns of foreign investment inflows in Nigeria from 1985 to 2020. This was with a view to understanding interesting dynamics about the Nigerian economy. The dynamics relate to how the economy has fared in attracting inflows of foreign investmentas well as how the sectoral patterns of the inflows are leaning increasingly towards the drive for diversification. The analysis was conducted using data on the two components of foreign investment, namely, foreign direct investment and foreign portfolio investment which were sourced from the Statistical Bulletin of the Central Bank of Nigeria. The study also made use of data on the sectoral distribution of foreign investment inflows. The sectors covered are mining and quarrying, manufacturing and processing, trading and business, transportation and telecommunication, building and construction, as well as agriculture. The sectoral data were also sourced from the Statistical Bulletin of the Central Bank of Nigeria. The descriptive approach involving the use of tables and graphs was adopted by the study. Findings showed that not much success has been recorded in attracting foreign investment into the country. The study also found that the low FDI inflows into the country have concentrated on oil and gas, communication as well as construction sectors, while sectors such as agriculture, tourism, manufacturing that are regarded as crucial for promoting economic growth and alleviating poverty have been largely neglected. The study concludes that the inflows of foreign investment into the economy are very low and that there is a need for increase in flow of foreign investment in the country. It is, therefore, recommended that the government needs to intensify efforts

in creating a conducive policy environment for investment in productive capacities and industrial diversification. This is with a view to attracting more inflows of FDI and FPI particularly in those sectors that are capable of contributing to economic growth and poverty alleviation.

Keywords: Foreign Investment, Foreign Direct Investment, Foreign Private Investment.

1.0 Introduction

The roles that foreign investment flows play in capital-deficient countries cannot be over-emphasised. These flows constitute important sources of external finance to such countries and are therefore, regarded as being critical to their sustainable growth and development. On one hand, they are often cited as part of the criteria for assessing how globalised economies are, while on the other hand, they serve as a measure of the vulnerability of the countries to external shocks, especially the negative ones such as the global financial crisis. International financial institutions and other development partners have also recognised the importance of these flows to the achievement of the sustainable development goals (SDGs). It is in the light of this that United Nations Conference on Trade and Development (UNCTAD, 2022) pointed out that investment in sectors such as renewable energy, water and sanitation, as well as transport infrastructure are relevant to the achievement of the SDGs. Hence, those institutions place so much premium on the ability of less developed countries (LDCs) to attract foreign investment flows into these sectors.

Foreign investment flows are made up of two main components, namely, foreign direct investment (FDI) and foreign portfolio investment (FPI). FDI refers to the investment undertaken by multinational companies, whose headquarters are usually in developed countries, in countries other than their own (Gregorio, 2013). FPI consists of transactions in marketable securities which include bonds, stocks and money market instruments. These flows reflect global investors' confidence in any economy. Like other developing countries, Nigeria has formulated policies geared towards attracting FDI and FPI as a strategy for achieving the much desired economic growth and development. However, it has been argued that the inflows of foreign investmentinto the country in the form of FPI and FDI have been limited by the infancy of the country's capital and money markets as well asthe absorptive capacity. It is believed that although the markets have undergone considerable growth and development in absorptive capacity in recent years, they are not yet as developed, vibrant and sophisticated as their counterparts in theindustrialised nations. As such, they cannot compete favourably with their developed counterparts for investment funds. Other factors that have been cited to be responsible for why the Nigerian economy may be experiencing dwindling fortunes in attracting foreign investment particularly in the last few years are insecurity and lack of critical infrastructure such as power. Within the first three months of this year alone, for example, about three thousand people had been killed through the activities of criminal elements. Also, the cost at which companies manufacture their products has skyrocketed due, in part, to the need to generate own power. As a result of the adverse effects that these factors have on private businesses, a number of foreign companies have relocated their businesses from Nigeria to other African countries.

This study is, therefore, conducted to provide insight into interesting dynamics about the Nigerian economy against the backdrop of the unfavourable financial and business climates.

It seeks toshed light on how the economy has fared in attracting foreign investments as well as sustaining them in the last three decades. Specifically, it analyses the trends and patterns of foreign investment flows in Nigeria between 1985 and 2020. In analysing the trends of the flows, the study focuses onboth FDI and FPI flows. In analysing the patterns of foreign investment, the inflows of foreign investment by sectors are considered.

2.0 Brief Review of Recent Studies

Quite a sizable number of studies have examined the dynamics of foreign investment flows in Nigeria. However, only a handful of the recent ones have attempted to shed light on the extent to which the sectoral patterns of these flows are leaning increasingly towards the drive for diversification. Notable among those that focused on FDI is the study by Ebekozien, Ugochukwu and Okoye (2015). The authors analysedthe trends and patterns of the inflow of FDI as well as their implications for the construction industry in Nigeria. Their results revealed that there is poor flow (or an insignificant flow) of FDI into the construction sector when compared to other sectors of the economy. Also, Oyero (2019) used table of frequencydistribution, bar chart, graph and correlation analysis to understand the trend of FDI in Nigeria. The author found that prior to the economic recession, Nigeria experienced continued increased in FDI. Furthermore, Ayoola (2022) examined how insecurity has affected the patterns of FDI in Nigeria from 1999 to 2014. His results revealed that the nature and trend of insecurity negatively impacted on the patterns of FDI in Nigeria both in the oil and non-oil sectors.

With regards to the other component, Oyelade and Akintayo (2019) examined the trend of FPI in Nigeria over the period 1986 to 2015. The study found out that the inflow of FPI into Nigeria have been limited by the infancy ofNigerian capital and money market. In addition, the study by Ezeanyeji and Ifeako (2019) onthe trend of FPI in Nigeria revealed that there has been inconsistency in the trend of Nigeria's FPI flow.

The brief review above shows that only a few studies have been conducted on the trends and patterns of the inflows of foreign investment in Nigeria.More importantly, serious attention has not been paid to the extent to which the sectoral patterns of both components of foreign investments are leaning increasingly towards the drive for diversification. This is the major gap that this study intends to fill with a view to helping the government understand the sectors to focus attention on in their efforts in attracting more foreign investments into the country. Outcomes of the analysis will show the sectors that have enjoyed the largest concentration of foreign investments as well as the relative changes on sectoral basis over the study period (with special emphasis on the period of the global financial crisis). More importantly, the analysis will shed light on the sectors that are preferred by foreign investors and the extent to which the sectoral patterns of both components of foreign investments are leaning increasingly towards the drive for diversification and are thus establishing the production structure prevailing in the country. This is because moving the country's production structure away from mining (primary sector) towards manufacturing (secondary sector) and services (tertiary sector) is an important precursor or prerequisite for sustainable growth.

3.0 Methodology

The study usessecondary data as well as the descriptive approach in its analysis in the form of tables and graphs. For the purpose of the trend analysis, annual time-series data ontotal FDI as well as FPI over the period 1985-2020 are collected from the Statistical Bulletin of the Central Bank of Nigeria (CBN). Both variables are measured in millions of naira. For the purpose of pattern analysis, on the other hand, the study collects data on the sectoral distribution of foreign investment inflows in percentages of the total over the study period also from the Statistical Bulletin of the CBN. The sectors are mining and quarrying, manufacturing and processing, trading and business, transportation and telecommunication, building and construction, as well as agriculture.

4.0 Trends and Patterns Analysis

This section focuses on achieving the objective of the study which is to analyse the trends and patterns of foreign investment flows in Nigeria over the period 1985-2020.

4.1 Trends of Foreign Direct Investment

Theinflows of FDI in the Nigerian economy have been fluctuating over the years as can be seen in Figure 4.1. From a value of₦434.10 million in 1985, which is the lowest over the study period, theFDI inflowwas relatively stable over the first nine years. The seeming stability in the trend of the inflow from 1985 to 1994actually masked the sharp increase of over 700 per cent from 1988 to 1989 when it became₦13.88 billion. This sharp increase has been attributed to theintroduction of the Structural Adjustment Programme (SAP) in 1986 which led to the subsequent liberalisation of some aspects of the Nigerian economy. From ₦22.23 billionin 1994, the flow followed an upward trend over the next two years to reach ₦111.29 billion in 1996.It then when on a gradual decline for the next two years to become ₦80.75 billion in 1998. It followed an upward trend between 1998 and 2003 to reach ₦258.39 billion, representing an increase of more than 200 per cent. This upward trend may be due to the political stability that Nigeria started enjoying in 1999, although the process actually took off in 1998.The value declined by about 3 per cent between 2003 and 2004 which may be attributed to the presidential election that took place around that period. It picked up the following year as it increased by about 164 per cent from ₦248.22 billion to ₦654.19 billion, but declined again a year laterto ₦624.52 billionin 2006 representing a decrease of about 5 per cent.

FDI rose steadily from ₦624.5 billion in 2006 to ₦1.27 trillion in 2009, representing an increase of about 104 per cent. Between 2009 and 2010, it declined by 26.2 percent, i.e., from ₦1.27 trillion to ₦905.7 billion. This decline can be attributed to the lingering challenges posed by the poor state of infrastructure. It picked up the following year as it increased by about 50 per cent to reach its highest value of ₦1.36 trillion in 2011.It declined by about 55.7 per cent over the next four years, but rose by 86.7 per centbetween 2015 and 2016 to reach ₦1.12 trillion. The upward surge was partly due tothe injection of fresh equity capital into Nigerian companies to the tune of ₦714.1 billion and partly due to the effect of exchange rate depreciation (CBN, 2016). The inflow declined by 4.9 per cent to ₦1.07 billion from 2016 to 2017, which was due largely to lower inflow of fresh equity capital in the wake of the economic recession (CBN, 2017). It declined further a year later by 42.9 per cent to ₦610.3 billion, which was due largely to lower inflow of new equity capital, owing to uncertainties, ahead of the 2019 general elections and the lingering effect of the 2016-2017 economic recession (CBN, 2018). It rose over the last two years, first by 15.9 % from ₦610.3 billion in 2018 to ₦707.7

billion in 2019, and finally by 28.4 per cent as it settled at ₦908.8 billion in 2020. The increase in 2019 was due largely to higher inflow of new equity capital, occasioned by stable macroeconomic conditions, improved ease of doing business and policy consistency. The increase in 2020 was as a result of inflow of fresh FDI equity and other capital, despite the global economic challenges of COVID-19 pandemic (CBN, 2020).

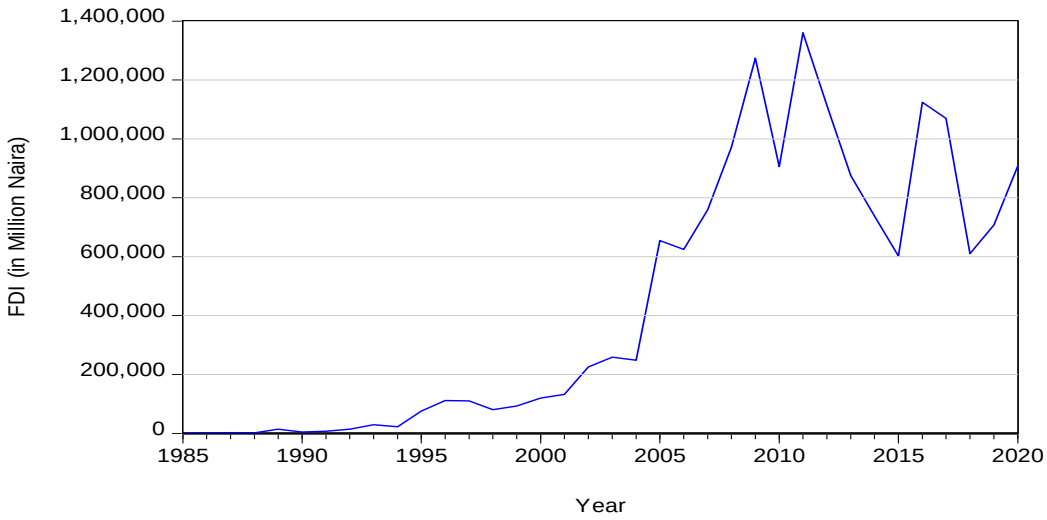


Figure1: Foreign Direct Investment Inflows in Nigeria (1985-2020)

4.2 Trend of Foreign Portfolio Investment

The inflow of FPI into the Nigerian economy has been limited by the infancy of the country's capital and money markets. Although the markets have undergone considerable growth and development in recent years and this has contributed greatly to the increase in the flow of FPI in recent years (Oyelade&Akintayo, 2019). In 1986 FPI in Nigeria was ₦151.6 million which rose to ₦51.07 million in 2000. By 2005, there was a tremendous increase in the FPI figure in Nigeria. It increased from ₦51.07 million to ₦116.03 million from 2000 to 2005, a growth rate of 127.17 percent. FPI surged to ₦360.3 billion in 2006 owing to equity participation in the initial public offers of deposit money banks, but later declined by 7.7 per cent to ₦332.5 billion in 2007. The build-up in portfolio investment, especially during 2005-2007, was largely due to the consolidation of the financial sector and the liberalisation of the money market which allowed foreign investors to invest in treasury bills of at least one year. However, the global financial crisis of 2007/2008 resulted in the decline to ₦157.16 billion in 2008 (CBN, 2009).

Also, the FPI declined to ₦70.93 billion in 2009 and rose to ₦556.58 billion in 2010 this was due to the rekindled investor confidence in the financial markets especially in the bond and equity markets, resulted in a significant growth of 87.2 per cent in portfolio investment (CBN, 2010). It further increased from ₦556.58 billion in 2010 to ₦792.36 billion in 2011, registering an increase of42.4 per cent over its level in the preceding year. The increased inflow was accounted for by equity securities, (49.9 per cent) and debt securities (50.1 per cent), of total FPI in the economy. FPI increased remarkably over its level in the preceding year to ₦2,687.2 billion in 2012. This development was as a result of higher returns on domestic financial assets and the further liberalisation of some aspects of the financial account, especially the removal of the one year cap placed on foreign investment in domestic financial assets (CBN, 2012).

FPI witnessed lower capital inflow, from ₦2,130.2 billion in 2013 to ₦832.4 billion in 2014, mainly as a result of the conclusion of the Fed tapering following the improvement in the US economy. Further analysis revealed that, the contribution of debt securities to FPI overwhelmed investment in equity and accounted for 80.3 per cent of the total, while equity securities accounted for the balance (CBN, 2014). Inspite of the higher returns on investment following the upward adjustment of the monetary policy rate, FPI declined by 4.2per cent from ₦498.13 billion in 2015, to ₦477.00 billion in 2016 equivalent to 0.6per cent of GDP and represented 29.8per cent of total capital flow (CBN, 2016). In contrast, FPI surged to ₦2,604.33 billion or 2.3 per cent of GDP, compared with ₦477.00 billion (0.5% of GDP) in the preceding period as seen in Figure 4.2.

This reflected the resurgence of the Nigerian capital market, following a huge inflow of capital for the purchase of equity securities worth ₦892.74 billion, in the 2017, compared with ₦82.16 billion in 2016, signifying renewed investors' confidence on the Nigerian economy. Similarly, FPI, in respect of debt securities (mainly in form of government bonds), increased to ₦1,711.59 billion, above the ₦394.84 billion in 2016. This was attributed, largely, to the issuance of the Euro and Diaspora bonds by the Federal Government and high returns on investment (CBN, 2017).

FPI in respect of debt securities (mainly government bonds and money market instruments), increased by 84.6 per cent to ₦3,160.34 billion, compared with the ₦1,711.59 billion in 2017, reflecting its attractiveness, compared with other jurisdictions, particularly Europe (CBN, 2018). Inflow of FPI also increased by 44.1% to ₦5,532.22 billion (4.3% of GDP) in 2019. This was as a result of 79.3% increase in the purchase of money market instruments, driven by high returns on investment (CBN, 2020). Inflow of FPI declined to ₦109.64 billion in 2020 as seen Figure 4.2. This was as a result of the sale of both equity and debt securities during 2020. Global financial market volatility, price adjustments, liquidity crunch and increased risk aversion precipitated this huge of outflow (CBN, 2020)

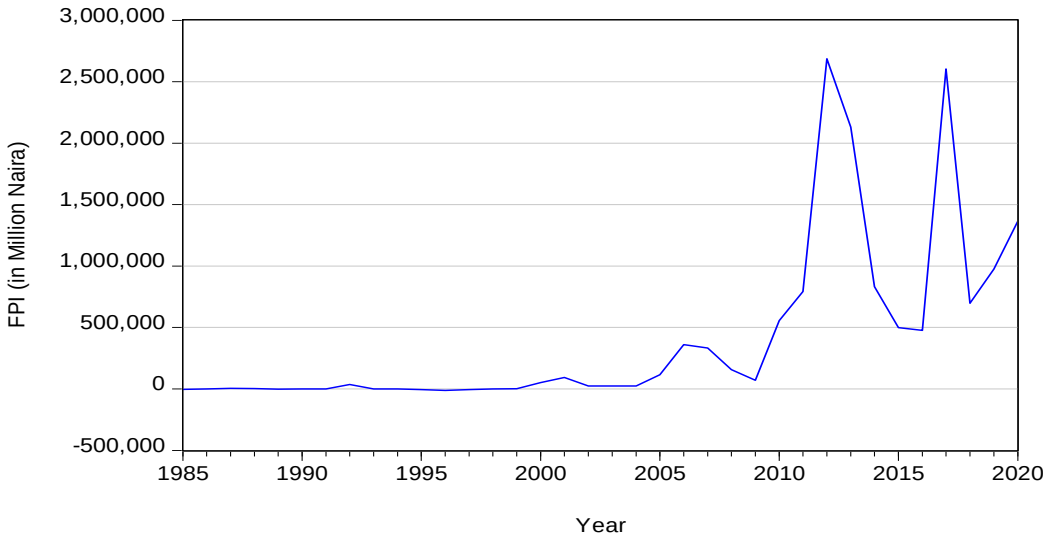


Figure 2: Trend of Foreign Portfolio Investment (1985-2020)

4.3 Pattern of Foreign Investment Inflows into Nigeria economy over the period 1986-2020

The pattern at which foreign investment flows into Nigeria economy come in different ways but this study will focus on the sectorial distribution of foreign investment into the economy. Table 1 shows the sectorial distribution in percentage of foreign investment from 1985-2020. The sectorsdiscussed under this study are agriculture and fisheries, mining and quarrying, manufacturing and production, transport and telecommunication, building and construction, trading and business as well as miscellaneous activities.

Generally, policies and strategies of Nigerian government towards foreign investment are shaped by the demand for economic growth and development. Odozi (1995) as well as Essien and Onwioduokot (1998), argued that the sectoral analysis of foreign investment in the economy were more emphasised in certain sectors compared to the others. Foreign investment started flowing into the Nigerian economy especially into the mining and quarrying sector as well as Manufacturing and Processing sector in earlier years. In 1985-1990, the bulk of foreign investment flowed into manufacturing and processing sector at an average of 41.56% and this was due to the adoption of SAP in 1986.

Due to the programme, further effort was made by the government to create a favorable business environment through the provision of infrastructure facilities and the privatisation and commercialisation programme which encouraged foreign investment flow into the sector. However, data from the table revealed a diminishing attention from manufacturing and processing sector as it moved from 41.56% in 1985-1990 to 25.74% in 2006-2010. This decrease is as a result of hostile macroeconomic environment and political instability that encouraged capital flight.

On the average, foreign investment inflows have been traditionally concentrated in the mining and quarrying sector and the most prominent commodity under this sector is oil and gas. It continued to experience increase from 21.79% in 1985-1990 to 51.61% in 1996-2000. The subsequent sustained increase in foreign investment inflow was attributed to further commercialisation and privatisation effort of the government. The process of privatising and commercialising public enterprises by which the Nigerian Petroleum Corporation and its subsidiaries were put up for sale was responsible for the sharp upward into the oil sector between 1993 and 1995.

The upward trend was pushed further by the promulgation of Nigerian Investment Promotion Commission decree in 1995. Furthermore, deregulation of the downstream sector of oil industry opened up the sector to more foreign investment after the inception of civilian administration in 1999. In recent years, the flow of foreign investment into mining and quarrying sector declined to an average 0.68% in 2011-2015 compared to earlier years. This was as a result of the 2014 oil price crash, 2016 economic crisis and the coronavirus pandemic in 2020.

Agriculture, transport and communications, as well as building and construction remained the least attractive hosts of foreign investment in Nigeria. However, the transport and communication sector seems to have succeeded in attracting foreign investors, especially the telecommunication sector. In 1999, the government began the complete deregulation of the telecommunication sector by licensing GSM service providers. This brought about an upward

trend in the flow of foreign investment to transport and telecommunication sector as it increased from 1.39% in 1985-1990 to 7.37% in 2006-2010. In the sector, as a whole, subscriber numbers have grown from 35,000 to over 16 million subscribers by September 2005 (UNCTAD, 2009).

The flow of foreign investment into trading and business sector was an average 24.16% in 1985-1990 and it began to decline to an average of 5.76% in 2001-2005. Moreover, in recent years, a shift in foreign investment inflows began towards trading and business sector. An upward surge was seen in 2011-2015 of an average of 89.89%. The factors behind these are tradability of services that is the ability to produce in one place and consume in another place and the banking consolidation exercise also boosted the flow of foreign investment into this sector. Miscellaneous activities include sectors such as hotels, weaving, tanning etc. The flow of foreign investment into this sector recorded its highest in 1991-1995 at an average of 20.13 and its lowest in 1985-1990 at an average of 3.66%.

Table 1: Foreign Investment Inflows in Nigeria by Sector

Period	AG&FI (%)	MI&QU (%)	MA&PR (%)	TR&CO (%)	BU&CO (%)	TR&BU (%)	MSA (%)
1985-1990	1.2	21.79	41.56	1.39	6.23	24.16	3.66
1991-1995	0.98	37.82	29.91	2.5	3.08	5.57	20.13
1996-2000	0.44	51.61	24.5	3.66	2.06	4.74	12.98
2001-2005	0.35	41.51	27.92	6.76	2.62	5.76	15.08
2006-2010	1.02	33.24	25.74	7.37	2.51	17.49	12.63
2011-2015	0.27	0.68	3.58	2.82	2.55	89.89	0.21

NOTE:AG&FI denotes agriculture and fisheries, MI&QU denotes mining and quarrying, MA&PR denotes manufacturing and processing, TR&CO denotes transportation and communication, BU&CO denotes building and construction, TR&BU denotes trading and business, and MSA denotes miscellaneous activities.

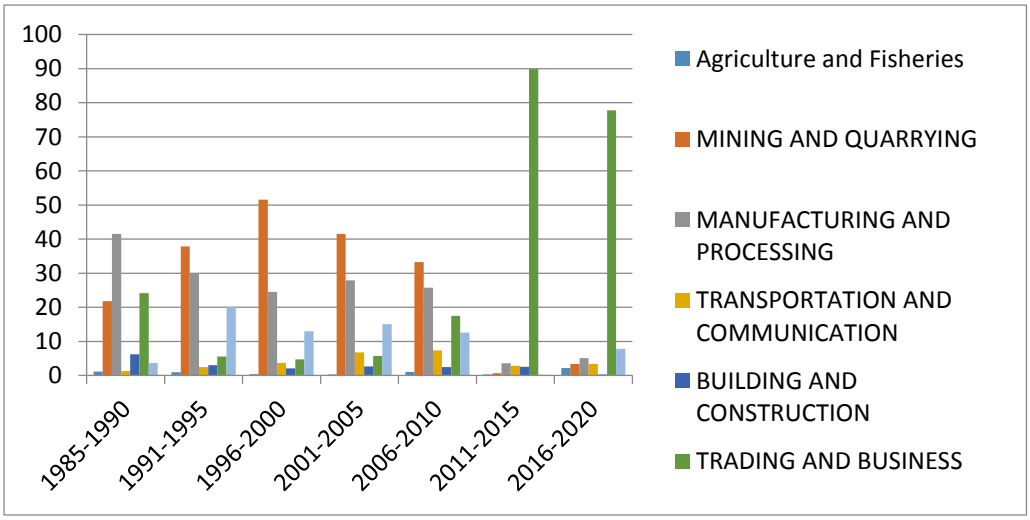


Fig 3: Foreign Investment Inflows in Nigeria by Sector

5.0 Conclusion

The trend analysis showed that the inflows of FDI and FPI was fluctuating in increasing and decreasing order showing a more stable increasing trend from 1999 which was due to stability in the political setting of the country. The economy also experienced decline at some certain period after 1999. The analysis the study showed that the percentage of FDI and FPI to GDP is very low. This showed that the contribution of foreign investment to the economy is very low and the need for increased flow of foreign investment. Based on this study, Nigeria has made some relevant steps towards improving conditions for foreign investment. But in practice, however, progress has been very slow. In an increasingly globalizing world, many of the traditional determinants of foreign investment including political and macroeconomic stability, availability of natural resources, and a large and growing market remain important. There is need to upgrade national laws and incentives to best practice levels; to lower transactions costs; to improve the supply of skills and infrastructure, and to further reform legal and judicial systems and institutions. According to the sectorial distribution, sectors such as agriculture and building and construction showed a low inflow of foreign investment. This paper therefore recommends that government should put policies in place that will help to attracts more foreign investment inflows and sectors that are lacking adequate amount of foreign investment should be made attractive so that foreign investors will want to investment in them.

Portfolio investment is a cluster of financial investment instruments which can easily be traded. These instruments include stocks, bonds, and money market instruments of different foreign and domestic businesses (Okonkwo, 2016). These instruments of portfolio investments are highly liquid in nature, which implies that they are easily convertible to currency at any time. Chaudry, Farooq and Mushtaq (2014) classified portfolio investments into two categories: first is portfolio investment according to financial instruments which are stocks, bonds and money market instruments; second is portfolio investment according to economic sectors which include government, banks, stock market and other sectors of the economy.

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