

## **NIGERIAN INVESTMENT PROMOTION COMMISSION AND FOREIGN DIRECT INVESTMENT IN NIGERIA**

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### **Abstract**

*The paper investigates the impact of Nigerian Investment Promotion Commission (NIPC) in attracting Foreign Direct Investment (FDI) to the country. Using a dynamic error correction mechanism models and cointegration approach the paper obtained that the influence of the commission in attracting FDI to the country has not been significant over the period of study. This reason for this result could be attributed to lack of autonomy for this commission and lack of continuity in government policies that has led to neglect of this commission over time. The paper recommends a guided autonomy for the agency and more attention devoted to this commission in order for the commission to play its role of attracting foreign direct investment into the country.*

**Key words:** NIPC, Foreign Direct Investment, Co-integration, Error correction

### **A. INTRODUCTION**

Nigeria as a country given her natural resources base and large market size qualifies to be a major recipient of foreign direct investment in Africa and indeed is one of the top three leading African countries that consistently received foreign investment in the past decades. Unfortunately, the effort of most countries in Africa to attract foreign investment has been futile. This is in spite of the perceived and obvious need for foreign direct investment in the continent. Some of the major constraint to attracting investment in Nigeria includes inconsistency in government policies and other social vices such as corruption, insecurity, and political instability.

Since 1986, the government of Nigeria had vigorously pursued economic policies aimed at liberalizing and promoting competition and investment in the Nigerian economy. To re-affirm its commitment to market-led economy, the government has enacted and continued to update relevant legal instrument that hitherto contained provision inhibiting competition and investment in Nigeria. Furthermore appropriate incentives are continuously being put in place to encourage and promote private investment.

Most governments depend on investment promotion agencies, economic development boards, industrial development agencies, and other investment promotion commissions to compete globally for critical foreign investment and the development benefits it brings (Ortega and Griffin, 2009). In 1995, the Nigerian investment promotion commission (NIPC) was established to enhance inflow of investment in the country.

The FDI inflow into Nigeria has mainly been in the primary sector due to the availability of natural resources mainly crude oil. This has attracted large amount of multinational oil companies into the country. However, the FDI inflow to the manufacturing sector has not been significant. Factors that have reduced the inflow of FDI into Nigeria include political instability and corruption by stakeholders (Ayanwu, 2011). The government's slow pace of privatizing certain parastatals (such as NEPA, NITEL etc.) and lack of transparency have also constrained the flow of FDI to country. This is complicated by the poor level of basic infrastructures such as power supply and transportation facilities. For example, FDI inflow dropped from 85.6 percent in 1971 to -31.20 percent and -17.23 percent in 1976 and 1984 respectively. The value fell by about 24.76 percent in 1989 (Obida and Abu, 2010). In 2001, the value was -70.00 percent. The FDI inflow has not been encouraging since then. In essence, what has been the role of institution set up by government to encourage inflow of FDI vis-à-vis NIPC?

This paper therefore aims at examining the role of the Nigerian Investment Promotion Commission in mobilizing Foreign Direct Investments into Nigeria.

Apart from this introductory section, the paper is further divided as follows; Section B review some theoretical frameworks and recent literatures on Investment Promotion Agencies and FDI, and present a review of recent trend in FDI inflows to Nigeria. Section C discusses research methodology used to evaluate the role of NIPC in attracting FDI into Nigeria. The empirical results are discussed in section D. Section E summarizes and concludes the paper.

## **B REVIEW OF RELEVANT LITERATURE**

Numerous factors determining location decisions of MNCs explaining what drives foreign investors to opt for particular country can be found in the FDI literature. The works of Dupasquier and Osakwe (2006); Aseidu, (2002); and, Deichmann et al., (2003), for example report that the availability of natural resources has a positive and significant effect on FDI inflows. Also, Mohamed and Sidiropoulos (2010), using a panel of 36 countries (12 MENA countries and other 24 developing countries), conclude that the key determinants of FDI inflows in MENA countries are the natural resources, the size of the host economy, the government size, and institutional variables. Asiedu (2006), using a panel data for 22 countries in Sub-Saharan Africa (SSA) over the period 1984–2000, find that countries that are endowed with natural resources or have large markets attract more FDI. In addition, good infrastructure, an educated labor force, macroeconomic stability, openness to FDI, an efficient legal system, less corruption and political stability promote inward FDI. Hailu (2010) conducts an empirical analysis of the demand side determinants of the inflow of FDI to African nations and concludes that natural resources, labor quality, trade openness, market accession and infrastructure condition positively and significantly affect FDI inflows but the availability of stock market has positive but insignificant effect.

Studies by Musila and Sigure (2006) and Dupasquier and Osakwe (2006) on FDI show FDI in Africa is dependent on the development of infrastructure. Also, other studies on developing countries (Mengistu and Adams, 2007; Cotton and Ramachandran, 2001); emerging economies (Zhang, 2001); Western Balkan Countries (Kersan-Skabic and Orlic, 2007) and Southeast European Countries (Botric and Škuflic, 2006) show the significant role of infrastructure development in attracting the inflow of FDI. However, the results of a study on US FDI flow to Africa by Nnadozie and Osili (2004) find less robust evidence on the role of infrastructure on foreign direct investment. Results from Anyanwu and Erhijakpor (2004) indicate that telecommunications, infrastructures, economic growth and openness contribute

significantly to the increase of FDI inflows to Africa while credit to the private sector, export processing zones, and capital gains tax have significantly negative effect.

Gholami et al. (2006) uses a sample of 23 developed and developing countries observed for the period 1976–99 based on ICT data availability to show that in developed countries, existing ICT infrastructure attracts FDI; a higher level of ICT investment leads to a higher level of FDI inflows but in developing countries the direction of causality goes instead from FDI to ICT. Findings by Sekkat and Vezina (2007) indicate that infrastructure availability, openness, and sound economic and political conditions are important for South Asia, Africa, and the Middle East in attracting FDI. In a study of South East European Countries (SEECs), Dauti (2008) identifies ICT infrastructure market as the major factor positively influencing FDI inflows while seeking factors (GDP growth, GDP per capita, GDP level) have perverse signs, showing significantly negative effects on FDI inflows.

The literature on the forces driving FDI has also identified both policy and non-policy factors as drivers of FDI (Fedderke and Romm, 2006). Policy factors include openness, product-market regulation, labor market arrangements, corporate tax rates, direct FDI restrictions, trade barriers, and infrastructure. Non-policy factors include market size of the host country (often measured by the GDP), distance/transport costs, factor proportions (or factor endowments) and political and economic stability (Mateev, 2009).

Jerome and Ogunkola (2004) assessed the magnitude direction and prospect of investment in Nigeria. They noted that while the investment regime in Nigeria was generally improving, some serious deficiency remained. These deficiencies are mainly in the area of the corporate environment (such as corporate law, bankrupt and labour law) and institutional uncertainty, as well as the rule of law. The establishment and the activities of the economic and financial crimes commission, the independent corrupt practices commission, and the Nigeria investment promotion commission are efforts to improve the corporate environment and uphold the rule of law.

In Nigeria, Obida and Nurudeen (2010) examined the relationship between FDI and its potential determinants. Their finding showed that the principal determinants of FDI are the market size of the host country, deregulation, exchange rate depreciation, and political instability.

Abubakar, Haruna and Ahmed (2012) examined the role of Nigerian Investment Promotion Commission (NIPC) in attracting Foreign Direct Investment (FDI) in Nigeria. Independent t Test was applied in analyzing the data. Findings from their result reveal that there is a significant correlation between the establishment of NIPC and an increase in FDI inflow. And lastly, the results revealed that NIPC had succeeded in influencing the growth of FDI in Nigeria.

### **B.1: FDI policies in Nigeria before and after 1995**

The indigenization policy started in 1972 with “the Nigerian Enterprises Promotion Decree” (NEPD). The decree imposed several restrictions on FDI entry. As a result, some 22 business activities were exclusively reserved for Nigerians, including advertising, gaming, electronics manufacturing, basic manufacturing, road transport, bus and taxi services, the media and retailing and personal services. Foreign investment was permitted up to 60 per cent ownership and provided that the proposed enterprise had, based on 1972 data, share capital of N200,000 (\$300,000) or turnover of N500,000 (\$760,000).

The second indigenization decree, the Nigerian Enterprises Promotion Decree of 1977, tightened restrictions on FDI entry in three ways: (a) by expanding the list of activities exclusively reserved to Nigerian investors (e.g. bus services, travel agencies, the wholesaling of home products, film distribution, newspapers, radio and television and hairdressing); (b) by lowering permitted foreign participation in the FDI-restricted activities from 60 to 40 per cent and adding new activities restricted to 40 per cent foreign ownership such as fish-trawling and processing, plastic and chemicals manufacturing, banking and insurance; and (c) by creating a second list of activities where permitted foreign investment was reduced from 100 to 60 per cent ownership, including manufacturing of drugs, some metals, glass, hotels and oil services companies.

Relaxation of these restrictions began in 1989. The NEPD was amended so as to leave a single group of 40 business activities in which foreign participation was completely prohibited unless the value of the enterprise exceeded N20 million (\$2.7 million in 1989). In addition, foreign investors could hold only a share of up to 40 per cent in insurance, banking, oil production and mining.

Therefore, in 1995, the Nigerian Investment Promotion Commission Act opened all sectors to foreign participation except for a short negative list (including drugs and arms) and allowed for 100 per cent foreign ownership in all sectors, with the exception of the petroleum sector (where FDI is limited to joint ventures or production sharing).

In contrast to previous development plans, National Economic Empowerment and Development Strategy (NEEDS) made FDI attraction an explicit goal for the Government and paid particular attention to drawing investment from wealthy Nigerians abroad and from Africans in the Diaspora. In this context, both President Jonathan and his predecessor President Yar'Adua have consistently expressed commitment to removing barriers to FDI in non-oil sectors. Though most FDI is still destined for the oil industry, the steps being taken under the reform agenda are bearing fruit.

## **B.2: Theoretical Framework**

FDI has become a buzzword and phenomenon capable of developing into a source for management, technology and external funding for the developing, transiting, but also developed countries (Michal, 2007). Attracting FDI thus turned out to be heavily used approach of many governments across the world to boost their economies. Many studies were devoted to the techniques on how to do it. While there is hardly any universal blueprint, most of them found out the necessity to improve host-countries microeconomic and macroeconomic indicators together with the liberalization of their economy in order to succeed. Such approach, however, has not necessarily guaranteed anticipated success in attracting of FDI. This is where the concept of investment promotion stepped in.

Why to promote a country and how to it? Why it is sometimes not enough to get the institutional, micro and macroeconomic fundamentals right and does the country need a proactive and interventionist approach towards inward investments? These questions create the heart of the investment promotion debate, appearing in the 1980s when many developing countries and economies in transition tried to jump on the wave of the world economy and the growth of FDI worldwide.

Investment promotion is therefore a range of activities, many of which resemble marketing used by governments in order to attract FDI. Investment promotion among other

things covers a wealth of activities like advertising, provision of market information, direct mailing, investment seminar or missions, organization and participation in trade exhibition, identification of potential investors, matching future investors with local partner and investor facilitation in form of providing pre-investment, implementation and post investment services to the investor. Michal (2000) has defined investment promotion as “*effort by a government to communicate to foreign investors the nature of the country’s investment climate, and to persuade and assist these investors to invest, or reinvest in the country.*” In Nigeria NIPC (Nigerian Investment Promotion Commission) is directly responsible for investment promotion and its coordination.

The concept of investment promotion stems from the literature dealing with subject of government interventions into the economy. There are at least two basic contending approaches. While the neoclassical view on investment promotion is build on the premise that if host countries secure good investment climate investors will automatically seek out the most favourable investment opportunities, the interventionist view suggest that this is often not enough because of existing market failure due to perception or information gaps. Furthermore within this second approach at least two contending views can be identified

The interventionist approach is built on the assumption that investment promotion of the would-be-host country demonstrates positive results in term of attracting foreign firms. This assumption is validated by the research on this relationship, which proved the impact of investment-promotion-effort variable on attracting FDI. Investment promotion was therefore viewed as a matter of marketing and studied in this context. Meanwhile, most countries have to do some advertising if they want to attract potential investors usually for economy development purposes.

Despite the mainstream finding that investment promotion pays. Moran(1986) examined its justification and came to more ambivalent conclusion. Investment promotion was again examined in the light of phenomenon like market failure and market intervention. This perspective views investment promotion as a problem of market failure. Under the assumption of perfect competition, investment promotion is nothing else than a government intervention with potential to distort allocation of resources, penalize unfavoured industries, and introduce a rent-seeking impulse into the host-country economy. Even under the assumption of imperfect competition, that seems to justify governments’ pro-active efforts and which is more realistic in global FDI market.

## **C METHODOLOGY**

This section is concerns with defining explicitly the methodology to be used for the purpose of this research work. The following headings are dealt with in this section: model specification, estimating techniques, and source of data.

### **C.1: Model Specification**

In order to examine the role of Nigerian Investment Promotion Commission in attracting Foreign Direct Investment into Nigeria, the model formulation dwells largely on past studies. The past studies on foreign direct investment in developing countries in general and Nigeria in particular seems to agree that market size of the host country (GDP), Openness of the economy to foreign trade (OPE), rate of inflation (INF), Exchange rate of the host country’s currency (EXR), infrastructural development (FSR) and lastly, natural resources (NRS) are major factors attracting FDI. Thus the model of Marial and Ngieis(2009) is therefore adapted and presented below:

$$\text{FDI} = \text{F}(\text{GDP, OPE, INF, EXR, FSR, NRS}) \quad (1)$$

Where FDI is foreign direct investment, GDP is gross domestic product, OPE openness of the economy, INF rate of inflation, EXR is exchange rate, FSR is infrastructural development and lastly, NRS is natural resources. The above model, based on the new growth theory derived from international trade and economic development, can be estimated in log-linear form as follows:

$$\ln FDI_t = \alpha_1 + \alpha_2 D_t + \beta_1 \ln GDP_t + \beta_2 \ln OPE_t + \beta_3 \ln INF_t + \beta_4 \ln EXG_t + \beta_5 \ln FSR_t + \beta_6 \ln NRS_t + U_t \quad (2)$$

Where  $\alpha$  and  $\beta$  are vectors of unknown parameters,  $u_t$  is random error term,  $D_t$  represent dummy variable that capture the effects of introducing NIPC. It takes the value zero in the period before 1995 and value of 1 in the years after. The expected signs are:  $\alpha_2 > 0$  that is NIPC has positive impact on FDI;  $\beta_1 > 0$  that is GDP positively affect FDI;  $\beta_2 > 0$ , that is, OPEN has positive impact on FDI;  $\beta_3 < 0$  INF affect FDI negatively,  $\beta_4 > 0$ ;  $\beta_4 < 0$  i.e., the effect of EXG on FDI cannot be determined a priori because it can have effect negatively or positively;  $\beta_5 > 0$ , that is, FSR positively affect FDI and finally  $\beta_6 > 0$ , natural resources attract FDI.

### C.2: Estimation Techniques

To gain more insight into the role of NIPC on FDI inflow vis-à-vis its short-run and long-run determinants, the study employs the Johansen multivariate cointegration analysis (Johansen, 1988; Johansen and Juselius 1990), specified as a VAR of order  $p$  mode:

$$y_t = A y_{t-1} + \dots + B x_t + u_t \quad (3)$$

Where  $y_t$  is  $k$ -vector of non-stationary  $I(1)$  variables,  $x_t$  is a  $d$ -vector deterministic variables and  $u_t$  is a vector of innovations. Johansen and Juselius (1990) re-parameterized VAR in equation (3) to yield the following vector-error-correction model (VECM)

$$\Delta y_t = \Pi y_{t-1} + \sum_{i=1}^{p-1} \Gamma_i \Delta y_{t-i} + B x_t + u_t$$

Where

$$\Pi = \sum_{i=1}^p A_i - I, \quad \Gamma_i = -\sum_{j=i+1}^p A_j \quad (4)$$

This Granger's representation theorem emphasizes that if the coefficient matrix  $\Pi$ , which gives the number of independent cointegration vectors, has reduced rank  $r < k$  then there exists  $k \times r$  matrices  $\alpha$  and  $\beta$  each with rank  $r$  such that  $\Pi = \alpha \beta'$  and  $\hat{\Lambda} \beta' y_t$  is  $I(0)$ .  $R$  is the number of cointegration relations (the cointegrating rank) and each column of  $\beta$  is the cointegrating vector whereas the element of  $\alpha$  are known as the adjustment parameters in the VEC model. Johansen method strives to estimate  $\Pi$  from unrestricted VAR and to test whether the restrictions implied by the reduced rank of  $\Pi$  can be rejected. In addition, Johansen (1990, 1995) constructed two associated likelihood ratio test statistics. The first statistic is the trace which test the null hypothesis of  $r$  cointegrating relations against the alternative of  $k$  cointegrating relations, where  $k$  is the number of endogenous variables, for  $r = 0, 1, \dots, k-1$ . The trace statistic for the null hypothesis of  $r$  cointegrating relations is computed as

$$LR_{tr}(r/k) = -T \sum_{i=r+1}^p \log(1 - \hat{\lambda}_i) \quad (5)$$

Where  $\hat{\lambda}_i$  is the  $i$ -th largest eigenvalue of the  $\Pi$  matrix in equation (4). The second statistic is the maximum Eigen-value, which rests the null hypothesis of  $r$  cointegrating relations against the alternative of  $r+1$  cointegrating relations. The statistic is

$$\begin{aligned} LR_{\max}(r/r+1) &= -T \log(1 - \hat{\lambda}_{i+1}) \\ &= LR_{tr}(r/k) - LR_{tr}(r+1/k) \end{aligned} \quad \text{For } r = 0, 1, \dots, k-1 \quad (6)$$

**C.3: Measurement and Source of Data**

Annual data of the variables are used, and they were collected from the Central Bank of Nigeria statistical bulletin (various issues) for the period 1960 to 2011. The variables are measured as follows; foreign direct investment is captured by the total inflows of FDI into Nigeria. The host country’s market size is a measure of the Gross Domestic Product (GDP). Openness is measured as the ratio of export and import to GDP, and it is denoted as OPE, Exchange rate (EXR) refers to the rate at which the naira is converted to the US dollar. The rate of inflation (INF) refers to the changes in the general price level, while infrastructural development (FSR) is a measure of capital expenditure on both transportation and communication. And lastly the availability of natural resources which is proxy by export might be a major determinant of FDI to host country. This is denoted by NRS.

**D. RESULTS**

**D.1: Unit Root Results**

Prior to cointegration test, the series were subjected to augmented Dickey and Fuller unit root test and Phillips Perron tests in order to establish whether the series are stationary or not. This is because estimation processes that employ non – stationary data can lead to spurious results.

Table 1 presents the result of ADF and PP tests for the level and first difference. By taking into consideration the constant and trend in the series, it is clear that both tests failed to reject the null hypothesis at levels. However, the tests reject the null at the first difference, suggesting that the series are stationary at first difference. Therefore, the series could be feasibly employed in the cointegration tests.

TABLE 1. Unit root test results (ADF and Phillips-Perron)				
List of Variable	Level		1 <sup>st</sup> Difference	
	ADF	Phillips- Perron	ADF	Phillips- Perron
FDI Inflow	-1.715020	-1.946773	-10.27982*	-10.30205*
GDP	-2.470164	-2.505231	-5.726815*	-5.726815*
Natural resources	-2.774545	-2.773799	-7.527906*	-7.592021*
Infrastructural Dev.	-2.625749	-2.528164	-8.182780*	-8.594175*
Openness	-1.655428	-2.345833	-10.98919*	-21.01801*
Inflation rate	-2.428562	-2.326930	-7.194714*	-15.61989*
Exchange rate	-1.135564	-1.153923	-6.833665*	-6.833665*

Note: The optimal lagged differences in the parentheses are determined based on Akaike Info Criterion (AIC). The asterisk (\*), denoted as the significant level of 1%

### D.2: Multivariate Cointegration Analysis

After ascertaining that the series are stationary, the study employs the cointegration test procedure (Johansen 1988; Johansen & Juselius 1990). The results of JJ multivariate cointegration test shown in Table 2 indicate that both trace and maximum-Eigen value test statistics simultaneously identify one cointegrating relations between FDI on the one hand and the specified determinants of FDI on the other hand. In other words, there is long-run relationship between FDI and its major determinants for Nigeria.

TABLE 2, Johansen-Juselius multivariate cointegration test results

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.741461	157.0446	125.6154	0.0002
At most 1	0.440513	89.40913	95.75366	0.1262
At most 2	0.355789	60.37236	69.81889	0.2241
At most 3	0.341108	38.38590	47.85613	0.2854
At most 4	0.223635	17.52613	29.79707	0.6011
At most 5	0.092760	4.869491	15.49471	0.8225
At most 6	4.11E-05	0.002053	3.841466	0.9603

Trace test indicates 1 cointegrating eqn(s) at the 0.05 level, \* denotes rejection of the hypothesis at the 0.05 level \*\*MacKinnon-Haug-Michelis (1999) p-values

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.741461	67.63550	46.23142	0.0001
At most 1	0.440513	29.03677	40.07757	0.4889
At most 2	0.355789	21.98646	33.87687	0.6087
At most 3	0.341108	20.85978	27.58434	0.2848
At most 4	0.223635	12.65664	21.13162	0.4843
At most 5	0.092760	4.867438	14.26460	0.7585
At most 6	4.11E-05	0.002053	3.841466	0.9603

Max-eigenvalue test indicates 1 cointegrating eqn(s) at the 0.05 level, \* denotes rejection of the hypothesis at the 0.05 level \*\*MacKinnon-Haug-Michelis (1999) p-values

After establishing a long-run relationship among the variables, the study normalizes the FDI equation since this is the equation of interest. As the cointegration vector,  $\beta$ , is not identified, arbitrary normalization is imposed so that  $\beta'S_{11}\beta = 1$  where  $S_{11}$  is the residual from a least squares regression of  $y_{t-k}$  on  $\Delta y_{t-k+1}$ , defined in equations (3 and 4). The first estimated eigenvector would form the maximum likelihood estimate of the cointegrating vector,  $\beta$ .

The cointegrating equation shown in Table 4 describes the long-run equilibrium relationship between FDI on one hand and its determinants on the other for Nigeria. When this

expression, which is also vector error-correction term (ECT), is statistically significant, it implies that FDI is weakly endogenous with respect to the long-run parameters.

**TABLE 4: Normalized cointegrating coefficients**

Variable	LOG(FDI)	LOG(GDP)	LOG(NRS)	LOG(FSR)	OPEN	INF	EXH
Coefficient	1.000000	-13.38466	11.55809	-1.099342	-32.12581	0.300317	0.096017
		(3.28602)	(3.12964)	(0.40079)	(8.19551)	(0.03048)	(0.01917)

Note: Figures in given in parentheses in bracket are standard errors

### **D.3: Estimates of Error Correction Representation**

Since all the variables are stationary and cointegrated in the system, the short-run adjustment mechanism could be modeled as an ECM. The ECM derived from long-run relationship using Johansen procedure is used in the model, together with current and past differenced fundamentals that affect FDI in the short run.

The results of the error-correction model reported in Table 5 indicate that the NIPC dummy variable, which is the main focus of this study, is negatively signed, and statistically insignificant. The implication of this result is that the effort of NIPC to attract FDI to the country has not been significant within the period of study. This outcome may be due to lack of continuity in policy often characterizing most Nigerian administrations. Apart from government that establishes the commission, less attention has been devoted to the workings of the commission by subsequent administrations. The study finding is in line with the findings of Nelson (1998) who reports insignificance of Czech Investment Agency (CIA) in attracting FDI, he further argued that the insignificance may be due to lack of clearly formulated mandate mainly because it was decree-based. Meanwhile, Moran et al. (1998) and Declan (1999) also reported negative performance of CIA in attracting FDI to Czech economy.

However, the result of this study negates what was obtained in Abubakar et al. (2012). Their results indicate that the role played by NIPC has significantly influenced the growth of FDI in Nigeria. Therefore, concluded that IPAs could play very significant role in attracting FDI. The difference in the result could be attributed to the method employed. While this study employed a more dynamic error correction mechanism, the former used a static method of analysis.

The estimated coefficients of lagged FDI are statistically significant but negative. This implies that the short-run FDI flows are negatively influenced by the past FDI flows. With the exception of lagged exports, exchange rate and inflation, the coefficients of lagged GDP, economy's openness and infrastructure negatively affect the FDI flows in the short run.

The coefficient of determination,  $R^2$ , is reasonably high, implying that approximately 60% of total variation in FDI flows into Nigeria are explained by the specified macroeconomic determinants of FDI flows. The error-correction term that represents the proportion by which a long-run disequilibrium in the FDI can be corrected in each year is statistically significant at 1% level and correctly signed; suggesting that approximately 10% of total disequilibrium in FDI flows was being corrected in each year in Nigeria. Our calculation in this study indicates that the implied half-life is approximately 5 years and takes approximately 10 years to completely dissipate any disequilibrium in FDI flows in Nigeria during the study period. Therefore, the presence of statistically significant coefficients of differenced regressors and error-correction term is a clear indication of both the long-run and short-run relationships between the FDI flows and the specified array of independent in Nigeria across this study period.

## **F. CONCLUSION**

Applying vector error correction model, this study empirically investigate the role of Nigerian Investment Promotion Commission in attracting foreign direct investment inflows to Nigeria during 1960-2011. The findings of this study run contrary to the earlier work of Abubakar et al. (2012) who applied Independent t Test in analyzing the role of NIPC in Nigeria. There is a consensus among public managers about the importance of maintaining institutional frameworks oriented to promote and attract foreign investments Mariana et al. (2008). This debate is still open for debate. Among the reasons for a more profound research of this issue is the scarce knowledge about NIPC best practices, as well as how effective is it related to the aim of attracting FDI? Maybe because of the fact that NIPC origin is a recent phenomenon, there are few studies that search to analyze it characteristics and configurations. Besides there are only few researches focused on the effectiveness of NIPC actions.

However, the insignificance of NIPC in attracting FDI in Nigeria might due to the fact that a set of factors inherent in Nigeria where NIPC operates and to the performance of the agency may interfere on its effectiveness. These factors may be:

- The quality of country's investment environment and its growth rates –the larger the return perspectives to the investors, the larger there will be their investments. For this NIPC may be inefficient in case of unfavourable investment environment;
- The scope of activities carried on by NIPC (including policy advocacy), the built of national image and the quality of support services offered to the investors;
- The institutional links between NIPC and government managers–maintaining efficient mechanisms of relationships with policy makers (ministers and even the president in the case of a national agency) and the need to strengthen the commitment with NIPC's image.

Therefore the paper recommends that NIPC should be given full autonomy in the administration of the numerous incentives in order to encourage the inflow of FDI into Nigeria. Nigerian government should pledge their support by pursuing more credible, reliable and sound macroeconomic policies and provide conducive environment for FDI to flourish in Nigeria.

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