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The Impact of Investment Incentives on Foreign Investment in NIGERIA

*[1]Ezeh, C. P, and [2]Nwaezeku N.C
[1&2] *Department of Financial Management Technology, School of Management Technology, Federal University of Technology Owerri, Imo State, Nigeria*

Abstract
This study investigated the impact of investment incentives on foreign investments in Nigeria. The specific objective seek to find out the extent to which tax relief, deregulation and privatization, capital market internationalization as investment incentive have on foreign investment in Nigeria. Data were collected from central bank of Nigeria, Bureau of national statistics, Acts and other relevant sources. A thirty year period was studied. A linear regression analysis and T-test was used on the thirty year data to determine the relationship between investment incentives and foreign investment, and also to determine whether a difference exits between the pre investments incentives periods and investment incentive periods in Nigeria.
Regression test confirmed that a strong relationship exist between foreign investment incentives and foreign investment, while T-test also showed a very high percentage increase in foreign investment after the introduction of incentives. Study recommend that
With the above statistical analysis, it can be clearly stated that the impact of investment incentives on foreign investment is strong or high and therefore should be encouraged if foreign investment is needed.

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I. Introduction

The objective of every responsible government includes among others; the attainment of economic growth, which could be brought about by a productive utilization of resources available to the economy both from domestic and foreign sources.This is even more evident among developing nations especially Nigeria where foreign investments are encouraged in order to augment the available local resources to achieve greater economic growth. Among the available strategies for developing nations to join emerging global economy,researchers have consistently suggested increasing the level of cross nation investments so as to attaina higher level of foreign direct investment (FDI) (Olagbaju and Akinlo, 2018; Masanja, 2018).

Foreign investment which comprises of foreign direct and foreign portfolio investments is aimed at providing the capital that nations require to finance long term developmental projects and is usually characterized by activecross boarderflow of resources(Steinbock, 2013). Several researchers have demonstrated that FDI is essential for sustainable development (for example, Campus, 2000; Ayanwale and Bamire, 2001; Ayanwale, 2007; Oyatoye, Arogundade, Adebisi, and Oluwakayode, 2011). The studies all concluded that FDI in Nigeria contributes positively to economic growth.

The importance of foreign investment in sustaining economies has made governments to prioritize policies aimed at attracting FDI. Thus, in other to make available an environment that is favorable and to facilitate growing and advancement of businesses, encourage foreign Investors to invest in Nigerian economy (FDI), protect existing investment and motivate the growth and development of locally manufacturing capability; the Government of Nigeria has prepared a bundle of incentives for different sections of the economy. Economic growth, decrease in poverty rate and resuscitation of the economy among other things are the target of these incentives. For example, regulations which before now slowed down individual investors, in some cases are abolished or replaced with new laws, modified for stability. Furthermore, new council or commissions are set up to oversee privatization or orderly transformation to private operators in key areas of the economy such as telecommunications, mining, transportation, petroleum and gas and electricity.

Huge opportunities have been created by Nigerian government's policy of deregulating her economy with almost all investors desiring to invest in the country's economy having equal chance (Asiedu 2001). To further increase these chances, a market driven exchange rate and interest rate regime that supports the real sector of the economy are the major objective of government policies. By strengthening and reorganizing security agencies to ensure safety of life and property, the government also shows commitment to fulfilling its objective.

Furthermore, an office created to single handedly clear all the necessities for investment in the economy has been empowered in the name of the Nigerian Investment Promotion Council (NIPC). The way tariff is structured is not left behind as there are reforms with a vision of improving local production.A policy know as (Visa Policy) which permits honest foreign investors obtain VISA within a short period of complete submission of necessary documents was also introduced by the Government.Nigeria Investment Promotion Council (NIPC) now oversees work permit in collaboration with Nigeria immigration services for foreign nationals working in Nigeria thereby switching the usual expatriate quota to enable easy of business.

Furthermore, the establishment of "New Partnership for Africa's Development" (NEPAD) demonstrates Nigeria willingness in particular and Africa in general as they joined the rest of the world in seeking FDI, which is intended to allure foreign investors to Africa as a major component. Although Foreign Direct Investment has been regarded by many as dependent and negatively affecting the development of local businesses for export advancement the extensive exterior transfer of technology, advancement of human resources and permitting foreign interference in the local economy global players, have changed people's view about FDI (Bende-Nabendu and Ford (1998). This study investigated how investment incentives put up by Nigerian Government (such as the Petroleum Profit Tax (PPT), Companies Income Tax (CIT), Customs and Excise (CUS & EXC), Paid up Capital (PupC) and Foreign Liabilites (FL)) has impacted on Foreign Investment. Specifically, the study compared Foreign Investments between the pre investment incentive period (1980-1994) and investment incentive period(1995-2009).For sometimes now, the impact of foreign investment on the national economy has become a controversial topic both on the magazines and the academic circles. The enormous importance underscores the need to critically examine the consequences of the level of foreign investment in a developing economy like ours.This research will be useful to future researchers as well as policy makers on issues boarding on investment incentives on foreign investment and also help in policy monitoring and control processes.

Incentives here although cannot be measured in real terms, is measured by some forms such as Tax, the flow of FDI among other things. Some of these incentives are tax relief, Nigeria's fiscal tax laws, deregulation and privatization, capital market internationalization, and Nigeria enterprise decree no 16 of 1995.

Tax relief as a form of investment incentive has been used as a tool by the Nigerian government to attract investors to invest into the economy. It is described in community tool box as ways of reducing taxes for businesses and individuals in exchange for specific desirable actions or investments on their parts.

Nigerian Fiscal tax laws have always been designed bearing in mind to get investors to invest more as well as generate funds for government activities. The recently signed Nigerian Tax and Fiscal Law (Amendment) Bill 2019 readily comes to mind.

Deregulation and privatization on its part can be described as a major tool in the hands of Nigerian government. It is the simplification or dismantling of the legal and governmental restrictions in the operation of market forces, especially in relation to price-fixing (Ajayi and Ekundayo, 2008; Ojo,2010).

Consequently, this paper examines the effects these investment incentives have on foreign investment in Nigeria.

II. Review of Relevant Literature

2.1 Foreign Investment (FI) in Nigeria: Trends And Performance

Shortage of funds for investment is always experienced in emerging economies and this negatively affects such nation if not addressed properly. To address this Shortage of funds nations have concentrated on foreign direct investment thereby solving their economic problem, creating employment and leading to economic development. The difference between gross domestic investment and domestic saving is there by addressed by foreign direct investment.

Jenkin and Thomas (2002) affirm that by crowding in additional domestic investment, foreign direct investment facilitates economic development and in addition providing foreign capital. By promoting both forward and backward linkages with the domestic economy, additional employment is indirectly created and further economic activity stimulated.

Presently, emerging economies of the world consider growth and development of their economy as a vital goal buteventually without adequate resources locally they resort to foreign investors fund to bridge the gap there by working tirelessly to attract foreign investors. Here privatization and deregulation becomes some of the major tools employed (Afsar, 2007).

For the purpose of this work, foreign capital investment is generally classified into two;

(i) Foreign Direct Investment (FDI): The investment made directly as technological support and the establishment of new factories.

(ii) Foreign Portfolio Investment (FPI): Investments (except for foreign direct investment) made through passive holdings of security such as foreign stock, bonds or other financial assets in a foreign country with a purpose of gaining the highest earnings (Angel,2020).

It should be noted that even with some similarity existing between Foreign Direct Investment and foreign portfolio investment generally, they have a whole lot of differences between them. For instance, the major aim of portfolio investments is to achieve interest income and profit there by inducing foreign investors to invest in stocks, securities and shares.Basically, investing in stocks, securities and shares with the highest interest rate is the major drive when it comes to portfolio investments. This in turn increases the complexity of portfolio investments in comparison with foreign direct investments.

When resources that can be invested are transferred by foreign investors or nations, it is Foreign Direct Investment. Therefore, unlike portfolio investment, it includes the transfer of intangible asset such as trademark, technology and business management as well as the authorization given to the investor to control the investment (Koluman 2020).When foreign investors set up fresh companies or buy over companies already in existence outside their own countries, this can be said to be Foreign Direct Investment. As the case may be most of the time these foreigners manage and control these businesses either directly or indirectly.

According to the proponents of foreign Direct Investment, the higher amount of foreign investment a country can attract the bigger the portion it can take from global production and income and which translates into national wealth increase (Guaraks, 2003). A lot of empirical studies have been done so far on the effects of foreign investment on economic growth. Although these studies sometimes present conflicting results, most of them show that foreign capital mostly affect economic growth positively Whaced (2004).

Nevertheless, there exists in recent studies strong relationship between foreign direct investment and economic growth. Asiedu (2001) submits that the determinants of FDI in one region may not be same for other regions. It should also be noted that what influences foreign direct investment differs from one country, region or over a period of time.

Empirical studies in Nigeria on the relationship between FDI and economic growth are not in total agreement in their results.

2.1.2 The Effect of Decrees and Policy Measures on Foreign Investment to The Country

The Nigerian government has taken some decisive decisions in order to achieve some objective set towards economic development through foreign investment. Some of which are

- Commercialization and privatization of some government assets in some government enterprise in order to encourage private investors.
- According to Okeke (2006), the Nigeria enterprises promotion Decree was reviewed to allow greater room for foreign participation in the country.
- Infrastructure Provision and improvement.

According to Balogun 2002, to increase the rate of economic development will necessitate huge resources. Although the Nigerian authorities encourages and accept local individual funds invested in our economy, it as well recognizes the deficiencies associated it in terms of inadequacy.

As a result, government consequently canvases for foreign investment into the economic sections; it can be said that one of the major intention behind, (SAP) is to intensify flow of foreign direct investment (FDI).

Liberation of access to foreign exchange therefore can be said to be one of the major tools used by the government to strategically attract foreign capital into the local economy both of private investors and business entities. A crucial condition is creating a favorable, enabling environment for investment but politically and economically. The attitude of foreign investors is that of “wait and see” as it is expected that they would rather engage in reputation of profits, dividend and even capital. At least for now, some Acts were recently signed into law to improve easy of doing business and also monitor foreign exchange transactions in the country. These are The CAM Bill 2018, Finance Bill, 2019 To Introduce Significant Changes to the Provisions of the Tax Laws the investment promotion commission decree and foreign exchange (monitoring and miscellaneous provision Act).

Employment Generation is considered as one of the reasons for inducing private foreign investment is to create employment in the country. Advancement of small scale and medium scale business is one of the major ways by which government tend to achieve providing employment to its citizens. Zoaka (2006) believes that the exclusion of expatriates from some businesses exclusively reserved for Nigeria’s clampers the inflow of foreign direct investment.

According to Okeke (2006), in 1989, a new national industrial policy was introduced with the objective of increasing the local content of Nigeria industries, expand the nation’s industrial production capacity and develop manufacturing export. Under the policy, battery of incentives were put in place to foster the realization of various objectives.

2.1.3 The Impact of Globalization and Deregulation in Nigeria Economy

Meritoriously, enterprise registered and operated in Nigeria does not have any constraints as it concerns holdings of foreign shares in such enterprise. The Nigerian Enterprises Promotion Acts provided for such

gesture. However, some businesses are still restricted from holdings of foreign shares such as the Production of Arms and Ammunition.

The Nigeria Investment Promotion Commission which is an offshoot of The Nigeria Investment Promotion Commission Decree No. 16 1995 (NIP Decree) established the Nigerian Investment promotion Commission as successor to Industrial Development Coordination Committee (IDCC). With its well-articulated functions and powers of the commission, changes have been made in the domestic economy in attracting foreign investors.

With the establishment of this Act, many foreign investments have endlessly flowed into our economy. This Act favours foreign investors as also provide that “A non-Nigerian may invest and participate in the operation of any enterprises in Nigeria”.

Deregulation has contributed so much in areas such as telecommunication, power generation, oil sector (down stream) as Nigerian economy has earned billions of dollars due to deregulation of her economy. Nigeria, African’s most densely inhabited nation has engaged in serious privatization and deregulation of her economy. Eventually realizing what it takes to achieve the growth her local economy, boost local infrastructure, and increase employment, the government has progressively and consistently embarked in privatization and deregulation as a tool to achieving her goals.

Since some government owned institution entrusted in the hands of private investors are successful, Privatization and deregulation has become a reality in Nigeria which has led to increased government policy of deregulating other major sectors of the economy in the years.

UNCTAD 2000 believes “The present policy must be contrasted with erstwhile nationalistic polices enforced in the 70’s and early 80’s which greatly restricted the infusion into Nigeria economy and passage of foreign capital, superior technology and proven managerial skills”.

The abolishment of 1995 of the Exchange Control Act which as it is known controls the financial sector and flow of foreign currency is a mile stone in liberation process of the Perhaps the single most significant occurrence in the nation’s liberation process Privatization and deregulation having been substituted by the Foreign Exchange (Monitoring & Miscellaneous Provisions) Decree of 1995, this allows corporate bodies or individual to invest in Nigeria economy with capital imported into Nigeria through an Authorized Dealer licensed by the Central Bank of Nigeria or any other legal mean allowed in the country by the CBN.

Besides financial deregulation, the government also embarked on other revolutionary acts and policy change such as export processing zones. This permits manufacturers to produce in designated zones and export their product tax free over a particular period. Nigeria’s ratification and subsequent membership of the WTO also marked the nation’s commitment to liberation and free trade.

2.14 The Effect of Nigeria Enterprises Promotion Decree of 1995 on The Foreign Investment Decision

Before independence in 1960, the Nigerian economy had no distinctions between local and foreign investors in all sectors of the economy. After independence, Nigeria became increasingly aware of the need to put in place policies that would enable government maximize absolute control of the economy to the benefit of the citizens. Thus, in other to promote self-reliance, government designed policies ad regulations aimed at promoting rapid industrial and general development.

It was also felt that the citizens needed to be protected from the aggressive and stiff competition generated by their foreign counterpart. Due regulations relating to foreign direct investment were promulgated (like the Nigeria Enterprises Promotion Decree) and agencies for their implementation established like the Nigeria Enterprises Board. The first of such regulation was the Nigeria Enterprises Promotion Decree of 1972 which created three schedules A,B and C ownership of which was reserved 100%, 40% and 60% respectively for Nigeria citizens companies which fall within the category requiring Nigeria participation were expected to concrete that portion, 40% or 60% to Nigeria shareholders as the case maybe. The second Nigeria Enterprise promotion Decree of 1977 also had schedules A.B and C and reserved ownership for Nigerians at N100%, 60% Nigerians and 40% foreigners. Foreign shareholders in excess of the permitted levels had to be sold off either by private arrangements or on the floors of the Nigeria stock exchange.

The Nigeria Enterprise Promotion Act of 1989 reenacted, the 1977 decree, dissolved the Nigeria Enterprises Promotion board and created only one schedule of businesses exclusively reserved for Nigerians, foreign ownership of companies in this schedule was only allowed if the company has capitalization of not less than N20million. A company is said to be foreign owned if the entire capital or prospectively interest is owned and controlled by foreigners.

In addition to limitation on the level of shares, ownership, restrictive policies were also introduced on expatriates employment of foreign investment is in accordance with the national goals and objectives.

According to Zoaka (2006) in all ramifications the two decrees hampered the inflow of foreign investment into the country. The enterprises promotion act still deterred foreigners from investing in some

industries while the exchange control act continued to make repatriation difficult for those whoare already in the country.

Recently, the Nigeria enterprise promoting decree of 1995 has done wonders in regards with the foreign investors and their rights. This has gone a long way to attract foreign investors from every nook and cranny to bring about boom in Nigerian economy.

According to Okeke (2006), it is easy to appreciate the trend towards less state ownership and international in economic activities that came into vague being in the late 1980's. this is born our of the realization that the real engine of growth is the private sector and not the government.
However, for the private sector to perform this role, it requires the right environment. The provisions of which is the responsibility of the government. In this context, the government becomes the motivational force in the development process. As a catalyst, the government had the task of providing a conducive investment climate to support private sector activities.

III. Research Methodology

Logical conclusions drawn from techniques, processes and undertakings from this research are showcased here. It has to do with research design, characteristics of the study population, sample and sampling techniques, data collection schedule, and statistical tools used in the study.

3.1 Sources of data

Literature buttressed by secondary experiential research was carried out in order to achieve the purpose of this research. A literature review was performed to identify the performance assessment methods and practices followed and prescribed in the various incentives practices and guidelines, and to determine the factors affecting incentives attractiveness. These write ups are made up of publications published in doctoral theses accredited journals, articles in popular publications, guidelines and regulations. Secondary data is widely used here. The secondary data were manually gathered from Central Bank of Nigeria (CBN) publication on major economic, National Bureau of statistics, financial and banking indicators.

Also the CBN publications on monetary policy, surveillance activities and operations, CBN annual report and Federal Ministry of Finance reports, were reviewed. Some of the data were also extracted from Organization of Petroleum Exporting Countries (OPEC) annual statistical bulletin and UNCTAD reports for 1980 to 2010.

3.2 Description of Variables

The two main componets of Foreign Investment (FI) are Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). FDI is the investment made directly as technological support and the establishment of new factories while FPI isinvestments (except for foreign direct investment) made through passive holdings of security such as foreign stock, bonds or other financial assets in a foreign country with a purpose of gaining the highest earnings. Therefore, FDI + FPI = FI and this study examined general FI and components of FI (FDI and FP)I and they were considered as dependent variables.
The independent variables included in the model are:

1) *Petroleum Profit Tax (PPT).* This is a tax on the income of companies engaged in upstream petroleum operations in lieu of Companies Income Tax (CIT).
2) *Companies Income Tax (CIT).* This is tax on the profits of incorporated entities in Nigeria. It also includes the tax on profits of non-resident companies who accrue or derive profits from Nigeria or bring or receive their income in Nigeria.
3) *Customs and Excise (CUS & EXC).*These are customs duties imposed by the Customs and Excise Act 91 of 1964. They are levied on imported goods with the aim of raising revenue and protecting the local market. They are usually calculated as a percentage of the value of the goods (set in the schedules to the Customs and Excise Act).
4) *Paid-up capital (P-upC).* This is the amount of money a company has received from shareholders in exchange for shares of stock. Paid-up capital is created when a company sells its shares on the primary market directly to investors.
5) *Foreign Liabilites (FL).*This is the extent to which overseas investors have a claim over Nigerian assets.

The data on the dependent variable (FI) as well as the explanatory variables (incentives) (Tax relief (TR) Non indigenization policy act (NIP), Foreign Exchange act (FE) over 15 year period is presented in table 1. TR, NIP, and FE were all introduced in 1995 and that was when the effect was captured. Multiple regression test was used to ascertain the relative prediction of each of the independent variable on the dependent variable as reflected by their respective co-efficient.

In order to achieve the objective of this work, a linear regression model was formulated and the tests were conducted on the formulated model. The first model was stated as follows:
FI = f (TR, NIP, FE) ………………………. (1)
This equation when transformed into a linear function becomes:
FI =b0 + b1 TR + b2 NIP + b3 FE + e ………………… (2)
Where :
FI = Foreign investment
TR = Tax relief
NIP = Non Indigenization Policy
FE = Foreign Exchange Act
b0 = constant
b1 – b3 = The coefficients of the explanatory variables
e = Error term
The same method was used for subsequent analysis. Thus, the second model was stated as follows:
FDI = f(TR,NIP,FE) ……………..(5)
This equation is transformed into a linear function as follows:
FDI = b0 + b1 TR + b2 NIP + b3 FE + e ………………. (6)
Where:
FDI = foreign Direct investment
TR = Tax Relief
NIP = Non Indigenization Policy
FE = Foreign Exchange Control Act
b0 = Constant
b1 – b3 = The coefficients of the explanatory variables
e = Error term
The third equation was stated as follows:
FPI = f(TR, NIP, FE) ………………… (3)
This equation is transformed into a linear function as follows:
FPI = b0 + b1 TR + b2 NIP + b3 FE + e …………… (4)
Where:
FPI = Foreign portfolio investment
TR = Tax Relief
NIP = Non Indigenization policy
FE = foreign Exchange Control Act
b0 = constant
b1 – b3 = The coefficients of explanatory variables
e = Error term

3.3 Analytical Framework

Regression analysis is a statistical technique for studying linear relationships. It begins by supposing a general form for the relationship, known as the regression model:
$Y = \alpha + \beta 1X1 + ... + \beta kXk + \varepsilon$.
Y is the dependent variable, representing a quantity that varies from individual to individual throughout the population, and is the primary focus of interest. X1,..., Xk are the explanatory variables (the so-called "independent variables"), which also vary from one individual to the next, and are thought to be related to Y. Finally, ε is the residual term, which represents the composite effect of all other types of individual differences not explicitly identified in the model.
Beside the model, the other input into a regression analysis is some relevant sample data, consisting of the observed values of the dependent and explanatory variables for a sample of members of the population. The result is summarized in the prediction equation.
$Ypred = a + b1X1 + ... + bkXk$.
Substituting for our data,
FI=b0+b1 TR + b2 NIP + b3 FE + e ……………… (1)
FDI=b0+b1 TR + b2 NIP + b3 FE + e ……………… (2)
FPI=b0+b1 TR + b2 NIP + b3 FE + e ……………… (3)
As explained in subsequent chapter.

3.4 Regression Test

To test the first hypothesis, a linear regression model was formulated and the test was conducted on the formulated model. The first model was stated as follows:

FDI = f (TR,NIP,FE) …………………………. (1)

This equation is transformed into linear function as follows:

FDI = b0 + b1 TR + b2 NIP + b3 FE+ e ………………………… (2)

Where FDI= Foreign Direct Investment

TR= Taxation (Tax Relief)

NIP= Non indigenization policy

FE = Foreign Exchange Control Act

b0 = Constant

b1 – b3 = The coefficients of the explanatory variables

e = Error term

Table 1.1: Table of Regression Coefficient for FDI and Foreign Investment Incentives

Model			Unstandardized coefficient		Standardized coefficient		
	R	R2	B	Std.error	Beta	t	Sig.
Constant	.974	.949	6255.034	881.503		7.096	.000
PPT	.974	.949	-.011	.004	-.405	-2.508	.025
CIT	.974	.949	-.094	.105	-.401	-.889	.389
CUandEXT	.974	.949	.065	.072	.539	.910	.378
P-up C	.974	.949	.681	.167	.983	4.081	.001
FL	.974	.949	.255	.205	.286	1.248	.233

The association between FDI and foreign investment incentives was found to be very strong (R = .974). Foreign investment incentives accounted for 93% (Adjusted R2) of the variation in the FDI. The regression coefficient for PPT was -.011 (B) and it was found to be negatively related to FDI and significantly predict FDI. [SE = .004, β = -.405, t = -2.51, P< .05]. P-up C was found to be positively related to FDI and also significantly predict FDI [B = .681, SE = .167, β= .983, t = 4.081, P< .001] P-up C is a stronger predictor of FDI than PPT. Other foreign investment incentives were not found to predict FDI.

The second model was stated as follows:

FPI = f(TR,NIP,FE) …………………………. (3)

This equation is transformed into linear function as follows:

FPI = b0 + b1 TR + b2 NIP + b3 FE+ e ……………………… (4)

Where FPI= Foreign portfolio Investment

TR= Taxation (Tax Relief)

NIP= Non indigenization policy

FE = Foreign Exchange Control Act

b0 = Constant

b1 – b3 = The coefficients of the explanatory variables

e = Error term

Table 1.2: Table of regression coefficient for FPI and foreign investment incentives

Model			Unstandardized coefficient		Standardized coefficient		
	R	R2	B	Std.error	Beta	t	Sig.
Constant	.980	.960	2061.360	6756.723		.305	.765
PPT	.980	.960	-2.071	.034	-.945	-2.087	.051
CIT	.980	.960	-1.623	.808	-.798	-2.009	.064
CUandEXT	.980	.960	.502	.550	.476	.913	.377
P-up C	.980	.960	7.957	1.280	1.320	6.2171	.000
FL	.980	.960	2.374	1.568	.306	1.514	.152

The association between FPI and foreign investment incentives was found to be very strong (R = .980). Foreign investment incentives accounted for 94% (Adjusted R2) of the variation in the FPI. The regression

coefficient for PPT was -2.071 (B). PPT is negatively related to FPI and significantly predicted FPI. [SE = .034, β = -.945, t = -2.51, P< .05]. P-up C was also found to significantly predict FPI [B = 7.957, SE = 1.280, β= 1.320, t = 6.2171, P< .001] and is positively related to FPI. P up C is a stronger predictor of FPI than PPT. Other foreign investment incentives were not found to predict FPI.
The third model was stated as follows:
FI = f(TR,NIP,FE) …………………………. (5)
This equation is transformed into linear function as follows:
$FI = b_0 + b_1 TR + b_2 NIP + b_3 FE + e$ ………………………………… (6)
Where FI= Foreign Investment
TR= Taxation (Tax Relief)
NIP= Non indigenization policy
FE = Foreign Exchange Control Act
b_0 = Constant
b_1 – b3 = The coefficients of the explanatory variables
e = Error term

Table 1.3: Table of Regression Coefficient for FI and Foreign Investment Incentives

Model			Unstandardized coefficient		Standardized coefficient		
	R	R2	B	Std.error	Beta	t	Sig.
Constant	.981	.962	8315.986	7368.782		1.129	.278
PPT	.981	.962	-.083	.037	-.309	-2.214	.044
CIT	.981	.962	-1.716	.881	-.759	-1.948	.072
CUandEXT	.981	.962	.568	.600	.484	.946	.360
P-up C	.981	.962	8.638	1.396	1.288	6.189	.000
FL	.981	.962	2.630	1.710	.305	1.538	.146

The association between FI and foreign investment incentives was found to be very strong (R = .981). Foreign investment incentives accounted for 95% (Adjusted R2) of the variation in the FI. The regression coefficient for PPT was -.083 (B) and it was found to significantly predict FI. [SE = .037, β = -.309, t = -2.214, P< .05]. PPT was negatively related to FI. P-up C was also found to significantly predict FI [B = 8.638, SE = 1.396, β= 1.288, t = 6.189, P< .001] and is positively related to FI. P-up C tended to predict FI more strongly than PPT. Other foreign investment incentives were not found to predict FI.

3.5 T-TEST

T-test was used to test for significant difference in FDI, FPI and FI 10 years before and 10 years after the introduction of foreign investment incentives.

Table 1.4: Summary of T-test analysis for FDI

Year	N	X	SD	t	DF	Sig
1985-1994	10	8429.50	3602.88	-7.96	18	.001
1995-2004	10	23518.7	4795.94	-7.96	16.7	.001

From the mean table, it was found that the mean FDI 10 years after the introduction of foreign investment incentives (23518.70) was higher than that of 10 years before the introduction of foreign investment incentives (8429.50). The T-test analysis showed a significant difference in FDI between the two time periods with FDI being higher 10 years after the introduction of foreign investment incentives.

Table 1.5: Summary of T-test Analysis for FPI

Year	N	X	SD	t	DF	Sig
1985-1994	10	22904.39	24437.73	-9.67	18	.001
1995-2004	10	159113.15	37255.02	-9.67	15.54	.001

The mean FPI 10 years after the introduction of foreign investment incentives (159113.15) was higher than that of 10 years before the introduction of foreign investment incentives (22904.39). The T-test analysis showed a significant difference in FDI between the two time periods with FDI being higher 10 years after the introduction of foreign investment incentives. Hypothesis 5 was therefore rejected.

Table 1.6: Summary of T-test analysis for FI

Year	N	X	SD	t	DF	Sig
1985-1994	10	31333.89	27587.54	-9.58	18	.001
1995-2004	10	182632.95	41638.02	-9.58	15.63	.001

From the mean table, it was found that the mean FI 10 years after the introduction of foreign investment incentives (182632.95) was higher than that of 10 years before the introduction of foreign investment incentives (31333.89). The T-test analysis showed a significant difference in FI between the two time periods with FI being higher 10 years after the introduction of foreign investment incentives.

IV. Conclusion and Recommendations

4.1 Conclusion

Six hypotheses were used to test the impact of foreign investment incentive on foreign investment in Nigeria. From the regression test result above, to test for significance parameter, if the probability value of t-ratio for co-efficient of the regression parameters (β) is less than 0.05 we accept the hypothesis and conclude that they are statistically significant, otherwise it is not significant. The result of the regression co-efficient for FDI indicates a very strong association with foreign investment incentives with foreign investment incentives accounting for 93% of the variation in FDI. This implies that if there is a 100% increase in foreign investment incentives, it will result to 93% increase in FDI and verse-versa.

Also the regression co-efficient for FPI indicates a very strong association with foreign investment incentives accounting for 94% of the variables in FPI. This also implies that 100% increase in foreign investment incentive will bring about 94% increase in FPI and verse-versa. Tax Holiday here is also the strongest predictor of FPI with other incentives predicting less.

Coming to overall regression of foreign investment incentives with Foreign Investment (FI=FDI+FPI), foreign investment incentives accounted for 95% variation on foreign investment indication that for instance if foreign investment incentives is increased by 100%, foreign investment will increase by 95% and verse-versa.

This regression test shows a strong relationship between foreign investment incentives and foreign investment.

Further to T-test, it was also used to determine the significant difference in FDI and foreign investment incentive for a period of 20 years. Therefore, from hypothesis one to three was rejected based on this. The T-test for foreign investment shows that there was a significant difference (179% increase) in FI 10 years before and 10 years after the introduction of investment incentives in Nigeria.

For FDI [$t = -7.955$, $df = 18$, $p < 0.01$] from 1985 to 1994, FDI is 8,429.5 while from 1995 to 2004, FDI is 23,518.7 showing an increase of 15,089.2 thereby rejecting the hypothesis.

For FPI [$t = -9.667$, $df = 18$, $p < 0.01$] from 1985 to 1994, FPI is 22,904.39 while from 1995 to 2004, FPI is 159,113.15 showing an increase (594% increase) of 136,208.76 thereby rejecting the hypothesis.

For foreign investment FI being the total of FDI and FPI, FI [$t= -9.579$, $df= 18$, $p < 0.01$]. from 1985 to 1994, FI is 31,333.89 while from 1995 to 2004, FI is 182,632.95 showing an increase of 151,299.06 there by rejecting the hypothesis. T-test generally shows a very high percentage increase in foreign investment after the introduction of incentives.

With the above statistical analysis, it can be clearly stated that the impact of investment incentives on foreign investment is strong or high and therefore should be encouraged if foreign investment is needed.

The results of the T-test and regression on this study were presented above. Three dependent variables under scrutiny namely FI (foreign investment), FDI (foreign direct investment) and FPI (foreign portfolio investment) and three independent variables namely Taxation, Nigerian investment promotion commission Act 1995, Foreign Exchange(monitoring and miscellanies) Act 1995. The purpose of testing is to determine the impact of investment incentives on foreign investment in Nigeria. 1995 was used as based year because it is generally believed to be the year when the most radical changes were made in Nigerian economy as it concerns foreign investment. Year 1995 was considerably, Nigeria economy allowed foreign investors to come in and invest in almost every field of the economy breaking the long time constraints on foreign investment. As a way of encouraging foreign investment, privatization, globalization, across-the-board transformations was implemented in almost every area of the economy among which are, labour law deregulations, privatization of major amenities, more recently, fiscal policies changes competition policy and taxation. An important effort to combat corruption at all levels is also taking place. (UN conference on trade and development 2009, p23)

The “indigenization” policy of 70s and 80s somehow slowed the pace of the growth of Nigerian economy though it encouraged indigenous investors. To level up with other nations of the world in the economic growth, Nigeria liberalized her economy in 1995, encouraging foreign investors and removing barrier saw foreign investors come into the country with human, capital and other resources.

Constraints on Foreign shareholding in Nigeria was eliminated by the Nigerian Enterprises (repeal) Act in 1995 while the Nigerian Investment Promotion Commission Act establishing (NIPC) was saddled with the

responsibility of encouraging and aiding foreign investors in the country. It can be said then that an increase in foreign investment incentives in the country will also lead to increase in foreign investment in Nigeria. However, there are other factors that need to tackle in other to establish direct link between the two. The issue of stability in government and corruption are some of them. Also, return on investment is also a considering factor. Nigeria also has serious flaws surrounding businesses such as grave shortages or absence of property registration and the ways business owners perceive law-breaking and insecurity limitations to businesses. For macro economy to be stable, All-encompassing monetary policy alongside fiscal policy is indispensable. Mere preaching it without sufficient practice cannot sustain growth. A vibrant market driven economy can be founded on rudimentary established institutions such as effectiveness in contract enforcement, security of right to own property and well-organized government supervisory settings which guarantees reasonable freedom in doing business. Financial institutions play a major role in mobilization and allocation of savings, transaction facilitation, and acceleration of risk management portfolio. Access to the global economy is the major aspect of a good enabling environment because the external sector is a source of potential markets, modern inputs, technology, and finance, as well as competitive pressure for improving efficiency and productivity. Infrastructural development is essential in facilitating investment, supporting trade and production. Lastly, it is essential for economies of third world countries to embrace and evolve in modern facilities in order to increase investment efficiency, attract resourceful foreign investment; inspire and retain foreign investors.

4.2 Recommendations

Based on conclusion, the following recommendations are made:

I. The government should pay more attention to foreign investment incentives in other to attract foreign investors which will in turn boast the economy of Nigeria by further deregulation of the economy through privatization and reduction of government interference in economic activities; strengthening of the political institutions to sustain the ongoing democratic process; gradual depreciation of the exchange rate; and increased investment in the development of the nation's infrastructure.

II. Government should encourage foreign investment incentives by way of repelling policies that discourage foreign investment and enacting ones that encourage them.

III. Since foreign investment is the major source of FDI and FPI, conducive environment such as good roads, constant power supply, eradicate corruption etc that will enable these incentives actualize their aim.

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Appendix

Federal Government Tax Incentives

YEAR	PupC N'000	PPT N'000	CITN'000	CUS.&EXC DUTY N'000	FL N'000
1985	889.39	6,711	1,004	2,184	261.4
1986	973.23	4,811	1,101	1,728	819.6
1987	1,126.15	12,504	1,235	3,541	882.3
1988	1,413.23	6,815	1,551	5,672	344.7
1989	1,938.19	10,598	1,914	5,816	850.8
1990	2,453.86	26,909	2,997	8,641	248.0
1991	2,787.02	38,616	3,828	11,457	831.7
1992	3,178.51	51,477	5,417	16,055	1,252.3
1993	8,189.94	59,208	9,554	15,485	636.2
1994	8,619.44	42,803	12,275	18,295	610.5
1995	17,835.37	42,858	21,878	37,364	523.6
1996	18,767.3	76,667	22,000	55,000	343.5
1997	19,439.68	68,674	26,000	63,000	448.0
1998	19,562.33	68,000	33,300	57,700	2,067.9
1999	19,684.98	164,300	46,200	87,900	5,220.8
2000	19,693.29	525,100	51,100	101,500	14,866.8
2001	19,723.85	639,200	68,700	170,600	34,370.8
2002	23,668.62	392,200	89,100	181,400	18,951.4
2003	36,865.74	683,500	114,800	195,500	21,080.8
2004	45,438.88	1,183,600	113,000	217,200	18,883.2
2005	60,893.4	1,904,900	140,300	232,800	23,064.9

Source: National Bureau of Statistics (2007)
PPT= Tax Refund
CIT=Investment Tax Allowance
CUS & EXC= Reduced taxes on Dividend and Interest paid abroad
PupC= Tax Holiday granted

FL= Loss carried forward

Cumulative Foreign Portfolio Investment (FPI) in Nigeria

YEAR	(FPI) GRAND TOTAL N'000000	
1980	3,620.1	
1981	3,757.9	
1982	5,382.8	
1983	5,949.5	
1984	6,418.3	
1985	6,804.0	
1986	9,313.6	
1987	9,993.6	
1988	11,339.2	
1989	10,899.6	
1990	10,436.1	
1991	12,243.5	
1992	20,512.7	
1993	66,787.0	
1994	70,714.6	
1995	119,391.6	
1996	122,600.9	
1997	128,331.8	
1998	152,409.6	
1999	154,188.6	
2000	157,535.4	
2001	162,343.4	
2002	166,631.6	
2003	178,478.0	
2004	249,220.6	
2005	269,844.7	
2006	302,843.3	
2007	364,008.5	
2008	399,841.9	
2009	441,271.3	

Source: Central Bank of Nigeria Annual Statistical Bulletin (2009)

Foreign Direct investment (FDI) inward stock

YEAR	(FDI) GRAND TOTAL $'000000	
1980	2,457.3	
1981	2,999.6	
1982	3,430.2	
1983	3,794.7	
1984	3,983.8	
1985	4,469.4	
1986	4,662.6	
1987	5,273.2	
1988	5,651.9	
1989	7,536.1	
1990	8,538.6	
1991	9,662.5	
1992	10,819.2	
1993	12,697.3	
1994	14,984.7	
1995	16,255.8	
1996	18,446.4	
1997	20,088.9	
1998	21,299.0	
1999	22,476.7	
2000	23,786.4	
2001	25,063.8	
2002	27,104.0	
2003	29,275.4	
2004	31,402.5	
2005	34,805.8	

Source : (UNCTAD, FDI/TNC database. www.unctadstat.unctad.org)