# FACILITATION OF FOREIGN DIRECT INVESTMENT: EVIDENCE FROM CROSS RIVER STATE, NIGERIA

Lionel Effiom
Department of Economics
University of Calabar
Calabar, Cross River State

and

Samuel Etim Edet
Department of Business Management
University of Calabar
Calabar, Cross River State

## Abstract

*This is a study on foreign direct investment in one of Nigeria's subnational unit – the Cross River State (CRS). With an overarching desire to attract private investment into its domain, this study investigates private investment facilitation strategy of CRS. It sought to determine the impact of this strategy on investment generation in the State. It further sought to discover the extent to which the State has 'sold' itself to the world of investors as the number one destination of choice for investment. The methodology employed was both qualitative and descriptive. Findings show that though CRS has established the Cross River State Investment Promotion Bureau (CRSIPB) as the main mechanism with a mandate to market or "sell" the State as a prime location for private sector investment, the reality however is that Cross River State has limited visibility. It is relatively unknown as an investment location and its attractiveness and competitiveness as an investment location is unclear and not well recognised among investors. Put simply, the State does not typically appear on the long-list of location alternatives for active consideration by investors, let alone it being a preferred location in Nigeria. The study recommends, inter alia, that CRSIPB should consolidate its investment generation activities by developing, identifying and targeting individual companies, which fit with the State's investment priorities and targets and initiate constructive and proactive relationship building with such businesses.*

*Keywords:* Foreign direct investment, Cross River State, Investment promotion and facilitation, Capital importation.

## Introduction

The interconnectedness of economies catalyzed by forces of globalization and liberalization of sectors hitherto considered exclusive for state-control in many countries has inevitably brought issues on Foreign Direct Investment (FDI) to the front burner of economic and political discourse. Besides the ubiquitously dynamic forces of globalization, local constraints in mobilizing financial resources for development has necessitated the drive for FDI to complement the widening resource gap of developing economies. Consequently, developed as well as emerging economies in particular are all scrambling to attract FDI. In affirmation of these sentiments, Azhar and Marimuthu (2012), and Tong (2001) opined that the quest for FDI is to supplement investments generated by local investors, bridge the capital shortage gap (especially when it is directed at high risk areas where domestic resource is

limited for new firms), accelerate economic development, provide opportunities for technology transfer, as well as access to global managerial skills and practices.

Velde (2006) stresses the existence of divergence of opinions on the imperatives of FDI. On the one hand is the belief that FDI leads to economic growth and productivity increases in the economy as a whole, accounting for differences in economic growth and development performances across countries. Others emphasize the risk of FDI destroying local capabilities and extracting natural resources without adequately compensating poor countries. The later premise arguably finds justification in the activities of Multinational Corporations (MNCs) in resource rich countries but with weak governance and institutional structures. Still, a third and perhaps an emerging strand of research on FDI shifts emphasis to type of FDI, firm characteristics, economic conditions and policies. It argues that the type and sequencing of general and specific policies in areas covering investment, trade, innovation and human resources are now seen as crucial in affecting the link between FDI and development rather than the broad dichotomous perception of positive or negative contributions of FDI. It argues further that although FDI inherently offers superior capital and technological inflow, domesticating the accruable benefits is not an automatic process.

In view of the relevance of FDI to national economic growth and development, the Nigerian government has over time formulated and implemented radical and pragmatic policies, legal and institutional reforms to enhance the attractiveness of Nigeria's investment opportunities and foster confidence in the economy as a destination of choice within the sub-region for FDI (Aremu 1997; Ojo, 1998). The return of Nigeria in 1999 to democratic governance, heralded aggressive privatization and commercialization of public enterprises both at national and sub-national levels. The liberalization of sectors (oil and gas, financial services, mining and solid minerals, tele-communications, power, agriculture etc.) considered strategic to national development and largely shielded from private investment was vigorously pursued to allow for foreign investment, ownership and/or control. Also, concerted efforts and resources were channeled to establishing new investment opportunities, as well as strengthening the capacity of existing institutions and agencies to cope with the changing paradigm. Umah (2007) noted that by eliminating bureaucratic obstacles which hinder private sector investments, these reforms stimulated and increased private sector participation in the country.

Generally, studies on FDI in Nigeria focus more on national efforts in attracting FDI, almost to the exclusion of the complementary but significant roles played by subnational units (see for instance Nabine, 2009; Ugochukwu, Okore, & Onoh, 2013; and Obi, 2017). However, as Effiom and Ebi (2016) observe: “the macroeconomic fundamentals of the Nigerian economy are as strong as the micro-dynamics of investment in the component states” and therefore states' drive for FDI matter for overall national development. The overarching relevance of FDI at whatever level means that conscious deliberate efforts must subsist to make Nigeria and her subnational units locations of choice for FDI inflow. In Effiom and Ebi (2016), it was shown that Cross River State as a major driver and competitor for FDI amongst other states in the federation lacks an investment policy framework, one of the crucial benchmarks advocated by the Organization for Economic Cooperation and Development (OECD) as conditions necessary to attract private investment. Besides investment policy, other equally significant components of the OECD framework include investment promotion and facilitation, which ensures that a location is investor friendly. This element seeks to sell that location to investors in order to attract, capture and retain investment. Others include investment incentives, infrastructure development,

access to justice, access to land, business linkages and small and medium enterprises development, as well as gender issues which defines the extent to which women are integrated into the development process.

Our present effort takes up the additional challenge of providing insights into the investment promotion and facilitation component of the OECD framework, using Cross River State (CRS) as a case study. We contemplate answers to the following questions: Does CRS have an investment promotion strategy? How consistent is it with that of the OECD? Are there mechanisms and targets for investment promotion delivery in CRS? What impact has the State's investment and promotion strategy had on private investment in CRS? How does the State deliver on its investment promotion strategy? To what extent has CRS 'sold' itself to the world of investors as the number one destination of choice for investment?

Our methodology is qualitative and descriptive, relying on documents and data obtained from the CRS Planning Commission, the CRS Investment Promotion Bureau, National Planning Commission, National Bureau of Statistics, CR State Economic Empowerment and Development Strategy, CR-SEEDS 2, and World Investment Report. This study draws inspiration from the OECD's Policy Framework for Investment, which focuses on a number of policy components related to the State's investment policy position. Our findings and conclusions are borne out of inputs from a combination of sources, including responses from and follow up discussions with, a cross section of stakeholders to a series of questions and issues for each of the policy components. Following this introduction, section 2 reviews theoretical and empirical literature. Section 3 appraises the stylized facts on FDI inflow into Nigeria generally and specifically into CRS, while section 4 explores investment promotion and facilitation policy in CRS as well as the State's investment promotion strategy. Section 4 evaluates the State's investment promotion coordination and governance. In section 5, the study highlights the salient findings, while section 6 concludes with policy recommendations.

## Theoretical and Empirical Literature

Several theories are relevant in discussing issues of FDI. These include the product cycle hypothesis (PCH), the flow theory of capital movement, the two gap theory, and the Dunning's Eclectic theory. Regarding the PCH, Vernon (1966) maintains that a firm transmutes to a multinational corporation (MNC) once it reaches a certain stage in its growth process. Initially, the firm grows by expansion of its exports in overseas market and by exploiting differences in technological capability among nations and industries. Because of the persistence of international demonstration effects of rich countries, new markets develop and expand. The theory suggests that once the firm standardizes its production process, it seeks for lower production cost and new markets overseas. This it does by allocating component production and assembly to different plants across several countries. As the MNC matures, it is able to create new markets through price reductions and product differentiation. In spite of its theoretical elegance, the PCH offers no explanation as to why MNCs prefer to use FDI instead of licensing their technology to foreign firms.

The flow theory of capital movement states that in a world consisting of two countries (the foreign country and the local economy or the developed and the developing world), a rise in the domestic interest rate relative to foreign interest rate would culminate in an increase in capital flow from foreign country to the domestic economy to exploit advantages of higher return differentials between the two countries. Put differently, capital flows is an increasing function of domestic interest rate and a

decreasing function of foreign interest rates. A major downside of the theory lies in its assumption that a country can stimulate foreign capital inflow indefinitely by merely raising rates beyond those of other countries. It lays undue emphasis on interest rates as the dominant variable influencing capital inflow into an economy, when clearly other socio-political factors are equally significant. These include political as well as exchange rate stability. The theory also implicitly but erroneously discounts the role of risk in influencing private investment decisions.

Mckinnon (1964) develops the two gap theory which provides a scholarly justification for the existence of FDI. The theory postulates that given the relevance of financial capital in economic development, capital constrains may hinder developing countries from executing their development programmes. The theory identifies two gaps which include the savings and foreign exchange gap. These gaps exist because of a recurring cycle of low income and therefore low savings, which in turn leads to low investment, leading again to low productivity growth and income. Again, because of the crippling effect of high debt burden on developing countries, and their dependence on primary exports characterized by price fluctuations, a foreign exchange gap ensues which results because of their inability to have enough foreign exchange to pay for its imports. Thus, FDI is needed to narrow these gaps.

It is however the Dunning (1993) eclectic theory (DEC) that comprehensively captures the justification for the existence of FDI. The DEC is an attempt to integrate the various theories seeking to explain the determinants of FDI. Also referred to as the ownership, locational and internalisation (OLI) paradigm, the theory posits that for a country to be a source or host of FDI, three conditions must exist concurrently, namely, Ownership advantages, Locational advantages and Internalisation gains. By the first is meant that firms must be assured that they would assume ownership rights over their patents, property, expertise, and real assets on similar terms as domestic firms. The second, locational advantage, suggest that firms consider and evaluate critical variables within the host country. These considerations include transportation costs, existence of raw materials, import restrictions, and the ease with which the firm may be allowed to operate in another country. Other considerations include tax policy, existence of basic infrastructure, as well as political and macroeconomic stability. Finally, Internalisation gains places emphasis on those factors which encourage profitable transactions within the firm as against external markets. These could result as market imperfections (tariffs, exchange control, subsidies, scale economies, uncertainties, etc.) are eliminated. Indeed, it is the OLI paradigm that aptly captures the essence of the drive of FDI into Cross River State and Nigeria at large.

The periodic volatility of crude oil prices in the international market and the frequent disruption of production in the Niger Delta region of Nigeria exposed the dangers inherent in reliance on crude oil as the major source of foreign earnings for the country. As such, Nigeria is often faced with broad macro-economic challenges manifesting in foreign exchange shortages and persistent inflation. Inadequate infrastructure, collapse of key sectors such as agriculture and manufacturing, as well as the neglect of the solid mineral sector meant that foreign exchange earned through crude oil sales are in turn spent on the importation of products/services, some of which can be produced locally. Additionally, the failure of government to stimulate the value chain in agriculture and the dominance of the petroleum sector by multi-national firms further constrain the capacity of the oil sector to contribute beyond its traditional threshold to national economy. The foregoing shows that the Nigerian economy is in dire straits, thus requiring exogenous sources of investments that will ensure the diversification and decoupling of the economy from oil sector dominance and ultimately improve Nigeria's balance of payment through a diversified and sustainable foreign exchange sources.

Okafor, Ugwuegbe, Ugochukwu, and Chijindu (2016) posited that in developing countries, foreign capital inflow (i.e. FDI) has been relied upon to supplement domestic resources, as local resources are often inadequate to spur economic growth and development. Foreign direct investment could come to host country as a subsidiary of a foreign firm, or through establishment of a company in which a firm in the investing company has equity holding or the creation of fixed assets in the other country by the nationals of the investing country (Obadan 2004). Uma (2007) submits that FDI is the physical investment or acquisition of lasting management interest in business venture by individuals, organizations or the government of one country in another country. It is international capital flow in which one country's firm creates a subsidiary in another country. It involves the acquisition rights and transfer of resources in host country. As global economies are growing and becoming liberalized due to relaxation of regulations on international trade, integration among countries has also increased resulting to global capital movement flows which are normally facilitated by the operations of MNCs (Jilenga, Xu & Gondje-Dacka, 2016). As such, FDI is considered as an important source of financing investments especially in emerging and developing economies, although, its real contribution to economic development has been a subject of debates in recent times.

For instance, Ugochukwu, Okore, & Onoh (2013) and Romer (1993) argue that the benefits of FDI to host country are multi-faceted adding however that such benefits are not automatic and evenly distributed among countries, sectors and local communities. Specifically, FDI facilitates the exploitation and utilization local raw materials, enhances the introduction of modern techniques of management and marketing, and eases the access to new technologies. Increased employment, tax revenue, technology spillover and innovation that FDI attracts can have a positive effect on growth in developing countries by helping them bridge their resource gap. In spite of this optimism, Pack and Saggi (2001) maintained that such expectations are only feasible if the economy is expected to grow at a faster rate, thus guaranteeing higher returns on investment. The study cautions that MNCs penchant to raise substantial share of needed capital in the host economy may erode the anticipated capital inflow often associated with FDI. Uma, Eboh and Nwaka (2015), assert that foreign investment creates income inequality, discourages self-reliance, and therefore capital repatriation to the home country makes the quest for growth by developing countries a mirage. Umah (2007) and Anyanwu (1993) argue that FDI is deployed as tool for exploitation and imperialism through their systematic stifling of local firms and entrepreneurial capacity, rising unemployment due to adoption of capital-intensive technology and the gradual loss of political sovereignty. Colen, Maertens and Swinnens (2008) as well as Castellen and Zanfei (2006) maintain that the much hyped technological transfer associated with FDI would only be feasible where knowledge gap between investor and host country is narrow. They believe that a wide gap slows down knowledge and technological spillover and ultimately increases the possibility that MNCs would crowd out local competitors and suppliers. Notwithstanding some misgiving associated with FDI, most countries are actively evolving strategies to attract and retain a sizable share of FDI.

Although, countries seek FDI, the volume and nature of FDI flow to an economy is contingent on a myriad of factors. Bengos and Sanchez- Robles ( 2003), Kim and Seo (2003) stated that although there exist a positive relationship between FDI and economic growth, economic stability, market liberalization, market-demand conditions, investment regulations, labour and transportation cost are paramount to corporate management when considering overseas investment option. Masry (2015) buttressed that cumulative national human resource capability, infrastructure, market size, exchange

rate, proximity to major markets, the degree of openness to the outside world, tax incentives, monetary policy, political stability, investment environment, transparency in the judiciary, regulatory framework, bureaucratic hurdles, and level of corruption in the host country are major drivers of FDI. Bhattacharya, Montiel and Sharma (1996) as well as Banga (2009), noted that market growth, evidence in GDP growth rate is the most significant for attracting FDI in sub-Saharan Africa. Bende-Nabende (2003) identified four critical determinants of FDI namely: factors associated with improvement in business and investment environment; secondly, those associated with cost; thirdly, those linked to development strategy pursued by the host country; and lastly, those linked to governments' handling of critical macroeconomic variables.

## Overview of FDI in Nigeria

In this section, a brief overview is made of the volume, patterns and trajectory of FDI and capital importation into Nigeria, especially into the subnational units. The aim is to provide a comparative context regarding the relative attractiveness of states as investment locations. We show that while Nigeria remains one of the leading contenders for FDI in sub-Saharan Africa, Lagos State blazes the trail as a sticky destination of choice for private sector investment.

### *Recent Trends in FDI inflow in Nigeria*

The return of political structures, institutions and governance in Nigeria to democratic rule in 1999 marked a watershed in the general economic and investment climate in the country. Political events in the country before this time earned her the infamous status of a pariah state, deserted by many nations. Thus, FDI inflow to Nigeria witnessed a remarkable improvement from the 2000s forward, though punctuated irregularly by recessions and other structural rigidities in the economy. Figure 1 summarizes FDI trend for Nigeria in recent selected years.

From a whopping $532million in 1993, FDI experienced a consistent and sharp decline in the three succeeding years. It must be recalled that this period marked one of the most turbulent years in Nigeria's political history with the annulment of the June 12 1993 Presidential elections as well as the sordid aftermath and impasse that engulfed the nation.

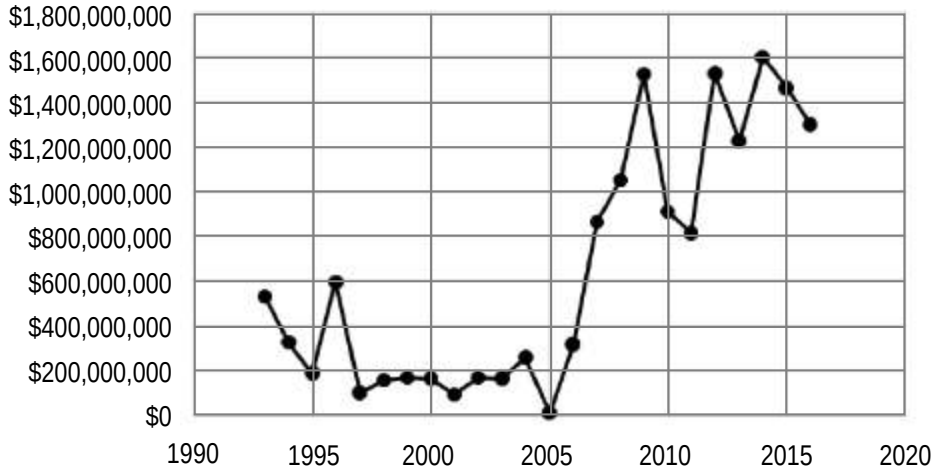


Figure 1: FDI for Nigeria: 1993-2016. Source: Computed from UNCTAD, 2018

However, by 1996, there was a sudden increase in the inflow of FDI to $597 million. This astronomical increase was however unsustainable in view of the unfolding political turmoil and uncertain economic climate in the country. Thus, from 1997 to 2005, the performance of FDI could best be described as both unstable and mediocre. In 2005, Nigeria secured a historic debt relief from the Paris Club of Creditors, with attendant positive perception on her credit rating and macroeconomic environment. This perhaps explained why FDI inflow into Nigeria from that year assumed an acute and upwardly consistent trajectory, reaching a peak of $1.5billion in 2009 before plummeting sharply again to its nadir value of $816million in 2011. From thence onwards, FDI inflow has been unstable.

A slightly different perspective can be gleaned from Table 1, where inward and outward flows of FDI into Nigeria is presented as well as its comparative measurement in relation to both gross fixed capital formation (GFCF) and GDP. For instance, inward flow of FDI as a percentage of GFCF maintained a consistently downward decline from 10.4% in 2012 to 4.2% in 2015. Its sharp rise to 9.2% was short-lived as it fell marginally to 7.2% in 2017. The same lack-lustre performance can be gleaned from the latter, where for the seven year period beginning from 1995 and 2012- 2017, FDI as a ratio of GDP remained at an average of 15.4%, which was not significantly different from its 1995 level. Indeed UNCTAD (2018) reports a decrease of FDI inflow to Nigeria by 21% in 2017. In real terms, this is precisely $3.5billion. Aggregately, FDI inflow in Nigeria for the same year was estimated at $97.6billion, representing 24.4% of GDP. This loss was reversed in the second quarter of 2018 where FDI grew by 5.9% ($261.35m) compared to the first quarter of the same year. The message here is simple: There is a huge correlation between investment (from which ever source, whether local or foreign) and general economic performance. Indeed it is not strange that the poor performance of the economy in recent years bears resonance to the downturn in FDI inflow in Nigeria. This is strongly corroborated by UNCTAD (2018) which avers that the number of Green Field Investments in Nigeria dropped steadily from 53 projects in 2015 to 36 in 2017. Green Field investments "are a form of FDI where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up".

*Table 1:* FDI OVERVIEW FOR SELECTED YEARS (Millions of dollars and percentages)

| FDI FLOWS | 2005-2007 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|
| Inward | 5321 | 8915 | 7127 | 5608 | 4694 | 3064 | 4449 | 3503 |
| Outward | 404 | 824 | 1543 | 1238 | 1614 | 1435 | 1305 | 1286 |
| FDI FLOWS AS A PERCENTAGE OF GROSS FIXED CAPITAL FORMATION | | | | | | | | |
| Inward | 14.2 | - | 10.4 | 7.4 | 5.5 | 4.2 | 9.2 | 7.2 |
| Outward | 1.1 | - | 2.3 | 1.6 | 1.9 | 2.0 | 2.7 | 2.7 |
| FDI STOCK | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Inward | | 69242 | 76369 | 81977 | 86671 | 89735 | 94184 | 97687 |
| Outward | | 5865 | 7407 | 8645 | 10259 | 11694 | 12999 | 14285 |
| FDI STOCK AS A PERCENTAGE OF GDP | | | | | | | | |
| | | 1995 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Inward | | 15.1 | 16.3 | 15.7 | 15.1 | 18.2 | 23.2 | 24.4 |
| Outward | | 2.7 | 1.6 | 1.7 | 1.8 | 2.4 | 3.2 | 3.6 |

Source: UNCTAD, World Investment Report, 2018

Besides a drop in FDI, a recent report by the Nigerian National Bureau of Statistics (NBS, 2018) reveals that capital importation (CI) into the country was $5,513.55 million as at the second quarter of 2018, representing a decrease of 12.53 percent when compared to the first quarter of 2018. CI represents the inflow of foreign currency, equipment or raw materials imported into the country. It consists of FDI, portfolio investment and other investments in their respective sub-categories. The decline, according to the Report, was attributable to a decrease in portfolio and other investments which dropped by 9.76 percent and 24percent respectively. However, portfolio investment still remained the largest component of CI within period.

*Current Trends of Capital Importation into States*

The macroeconomic environment assumes a significant factor in determining the flow of investments into subnational units. Thus the average performance of national FDI is indicative of what to expect at the state-level. Generally, disincentives to FDI attraction into Nigeria conspire to constrain same in the states. These include poor state of energy and transport infrastructure, resulting in huge costs of operations for businesses; inept public institutions and corruption; a judicial system that is inefficient, huge tax burden, insecurity arising from Fulani herdsmen and farmers clashes, Boko Haram, etc. as well as defective dispute resolution mechanisms. Table 2 presents an overview of CI into the states. Our focus is to evaluate how CRS has fared in relation to other states.

*Table 2:* Capital Importation by States 2007 -2017

| S/N | STATES | Capital importation $US(Million) | S/N | States | Capital importation $US (Million) |
|---|---|---|---|---|---|
| 1 | *Lagos | 130247.19 | 15 | Kaduna | 22.33 |
| 2 | FCT | 2848.40 | 16 | Bauchi | 20.88 |
| 3 | Akwa Ibom | 2305.51 | 17 | Niger | 16.92 |
| 4 | Ondo | 400.00 | 18 | Sokoto | 13.13 |
| 5 | Oyo | 215.08 | 19 | Borno | 13.09 |
| 6 | Delta | 160.94 | 20 | Abia | 9.71 |
| 7 | Enugu | 160.11 | 21 | Osun | 7.13 |
| 8 | Anambra | 146.76 | 22 | Kogi | 4.55 |
| 9 | Ogun | 132.80 | 23 | Imo | 0.53 |
| 10 | Rivers | 107.29 | 24 | Kwara | 0.38 |
| 11 | *CRS | 94.81 | 25 | Adamawa | 0.37 |
| 12 | Ebonyi | 47.79 | 26 | Benue | 0.15 |
| 13 | Kano | 29.85 | 27 | Katsina | 0.14 |
| 14 | Edo | 25.16 | 28 | Yobe | 0.06 |

*Source:* National Bureau of Statistics, 2017: Nigerian Capital Importation Report

Table 2 is very instructive. It shows Lagos State maintaining its leading position as investors' haven in Nigeria, raking in over $130million worth of capital into its economy. The Federal Capital Territory (FCT)

came a distant second, while Akwa Ibom State took the third position with $2305million CI. Sadly, CRS took the 11th position with $94.81million worth of capital inflow into the state. Imo, Kwara, Adamawa, Benue, Katsina and Yobe were dismal in their CI profile as they all managed with an inflow of less than a million dollars.

The template of CI into states presented above assumes a different picture when compared to current trends of CI at the end of 2018Q2. The FCT, Abuja after surpassing Lagos in 2017Q4 maintained the lead in CI, raking in $2,547.73 million. This alone was precisely 46.21% of aggregate CI into the country within the period. Lagos state came second with $1,267.65 million, representing 30.08% of the total. Besides Abia, Akwa Ibom, Ogun and Enugu states which raked in a substantial proportion of the total CI import, CRS along with 24 other states attracted zero capital importation in 2018Q2. Indeed, the combined capital importation of Abia, Lagos and Abuja alone in the 2018Q2 constituted more than 99% of the total.

## Investment Promotion and Facilitation Policy in CRS

*Does CRS have an investment promotion strategy?*

Private sector investment, especially foreign direct investment (FDI), is a key component of location strategies to achieve sustainable economic and social development. This is because of the economic benefits investment can bring to a host location's economy. To obtain the benefits from investment, locations have realised that they need to be both attractive for investment and be able to attract investment. They have, therefore, focused on implementing two broad strategies:

- Improve the location supply offer – to build a conducive environment for investment to enhance the competitiveness and attractiveness of the location.
- Market (sell) the location supply offer (rather than to regulate investors) – to promote the location as competitive and attractive and to deliver high quality marketing and promotion support to investors to influence investment decisions.

When locations use these strategies in combination, they can provide a powerful inducement for investors to consider a particular location.

*State Government's investment promotion strategy*

Investment promotion and facilitation in CRS exhibit a number of consistent good practice characteristics in relation to investment promotion policy and strategy:

Government places a high priority on supporting (foreign) investment and promotion of the host economy as an investment location – this reflects and is consistent with broader development objectives, priorities and policy, strategy, legislations and implementing regulations.

Investment policy, and an associated programme for investment promotion, is based on and linked with the location's broader development objectives and priorities – this provides clarity of objectives for investment promotion with a clear supporting logic.

There appears to be a well-defined and coherent development plan in place for Cross River State. The plan and its associated policies, aims and strategies are designed to underpin and are consistent with the State's future development. The extent to which the plan is widely understood and supported is less clear.

Cross River State Economic Empowerment and Development Strategy (SEEDS 2) indicates that the State Government considers investment promotion a key component of its overall development strategy. The strategy specifies a direct link between Cross River State's development objectives and the promotion of the State as a location for investment and the attraction and facilitation of investment in the State. Specifically, CR SEEDS indicates the intention to implement a number of initiatives, the aim of which is to make the State the nation's investment hub. CR SEEDS 2 also provides specific guidance on performance targets for investment promotion and on sector priorities for promotional activities. Table 3 summarises Cross River State's three main objectives and 11 associated initiatives for investment promotion. From this table, we draw conclusions in the positive that there exists an investment promotion strategy in CRS.

*Table 3:* Cross River State investment promotion objectives and initiatives

| Objectives | Performance target |
|---|---|
| Increase the level of investment inflow to the State | From $20mn to $1.5bn in key socio-economic sectors |
| Achieve a reduction in turnaround time for business entry | 75% reduction (120 days to 30 days) |
| Provide support for the growth of local enterprises | 232 local enterprises by 2012 |

Initiatives

1. Set up a professional investment promotion bureau with specialist and proven skills
2. Assess key MDAs and their operations to consider how each can graduate into high, medium and low investor categories
3. Identify Investors to assess the basis for potential investment interest in relevant sectors
4. Develop a policy and incentives framework to attract potential investors with an identified interest in relevant sectors (Agriculture, Tourism, Education, Health and Infrastructure)
5. Develop and implement a targeted local and international marketing campaign aimed at investors with an interest in Cross River
6. Establish and provide support for a One Stop Investment Centre to reduce business entry turnaround time
7. Provide finance windows to generate available credit for enterprises (up to NGN4bn for 359 enterprises)
8. Provide infrastructure and technical support to incubate MSMEs (232 MSMEs)
9. Provide support for the establishment of referral clinics for producing drugs for HIV/AIDS, malaria, mosquito nets and other accessories under PPP arrangements
10. Enhance service delivery and operating efficiency of the CRSIPB
11. Maintain a special unit for packaging investment projects into viable projects for women and disadvantaged groups (with Ministries of Women's Affairs and Social Welfare and Development)

*Source:* CR SEEDS 2.

*Investment promotion coordination and governance*

How is CRS investment promotion strategy consistent with that of the OECD?

The governance and organisation design of an investment promotion are critical to its successful delivery. International good practice suggests that, typically, locations establish an Investment Promotion Agency (IPA) as the main delivery mechanism. The IPA will then have a clear mandate that is promotional (selling) rather than regulatory (directing and controlling) in nature. The type of IPA established varies depending on circumstances within a location. The most prevalent institutional type is an Independent public agency or authority. Locations often underpin the establishment of an investment promotion programme and IPA with legislation. In terms of associated governance arrangements, investment promotion programmes and IPAs in other locations are typically:

Autonomous of government –they operate independently of, and with minimal interference from, government.

Accountable (and report to) to the Prime Minister or a Senior Minister with an industry or investment related portfolio.

Guided by a non-executive Board – comprising public and private sector representatives.

Good practice investment promotion programmes also have supportive institutional arrangements in place. These enable an IPA to develop appropriate network and partnership arrangements with clients and other stakeholders, comprising:

Businesses (investors) – the main IPA client.

Private sector stakeholders – including location advisers, other information channels and influencers (e.g. chambers and business associations and independent business advisers, accountants, lawyers, recruiters etc.).

Public sector partners – MDAs responsible for business/investment related policy or business compliance (legislation and regulation).

An IPA uses these networks and partnership arrangements as a marketing method. IPAs also use these networks as a means of obtaining market intelligence and insights into sector developments and investor motivations and decision-making and developing advocacy positions for improvements in the investment environment for businesses.

In Cross River State, CR SEEDS 2 proposed establishing a specialised investment promotion bureau to deliver the investment promotion initiatives it proposes. The Government subsequently set up Cross River Investment Promotion Bureau (CRSIPB) in 2007. The Cross River Investment Promotion Bureau Law No. 19, 2007 established the CRSIPB as dedicated and autonomous implementation institution, underpinned by legislation (Cross River State Investment Promotion Bureau Law, No. 19, 2007), which provides it with the mandate for investment promotion. Box 1 summarises CRSIPB's mandate, which emphasises promotional rather than regulatory activities. Cross River State Investment Promotion Bureau Law has a provision for CRSIPB to operate with a joint public/private Board, which the State Governor appoints. This Board has responsibility for policy development and the recommendation of policies to the Governor, to support the CRSIPB's mandate and functions. The Chairman of the Board is also the CRSIPB's Chief Executive Officer. At present, there is no CRSIPB Board operating. CRSIPB's mandate, supporting legislation and Board structure provides it with autonomy from Government and the flexibility to implement its mandate.

*Box 1:* Cross River Investment Promotion Bureau mandate

Be the agency of the State Government to coordinate and monitor all investment promotion activities in the State.

Initiate support measures to enhance the investment climate in the State for investors.

Collect, collate, analyse and disseminate information about:

Investment opportunities

Sources of investment capital.

Advise on the availability, choice or suitability of joint venture partners.

Maintain liaison between investors and Ministries, Government Departments and agencies, institutional lenders and other authorities concerned with investments.

Provide and disseminate up to date information on incentives available to investors.

Assist incoming and existing investors by providing support services

Evaluate the impact of the Bureau on investments in the State and make appropriate recommendations.

Advise the State Government on policy matters, including fiscal measures, to promote the industrialisation or general development of the State.

*Source:* Cross River Law No. 19, 2007.

The networks with MDAs are evident in the establishment of the One –Stop Investment Centre (OSIC) in November 2008. The OSIC has five participating MDAs at the state level (Ministry of Agriculture, Ministry of Lands, Internal Revenue Service, Environment, and State Planning Commission). Initially operating as an office housing representatives from the MDAs, the OSIC now operates more as a facilitation and contact network. CRSIPB's relationship with the private sector has been developing. However, private sector businesses see CRSIPB as not communicating well with them. Thus, the establishment of the CRSIPB by the State Government is evidence of the domestication of international best practice consistent with the OECD benchmark. Whether or not the CRSIPB lives up to its established objectives is a subject of further empirical verification.

*Investment promotion delivery*

Are there mechanisms and targets for investment promotion delivery in CRS?

This sub-section evaluates the mechanisms and targets of investment promotion delivery in CRS, our third research question. Within a location's investment promotion programme, IPAs will have a clear and agreed objective. This objective is consistent with and linked to the overall development objectives and priorities of the location. To achieve their objectives cost-effectively, IPAs are increasingly placing emphasis on targeting. This reflects a combination of government development priorities and use of market segmentation techniques to identify and focus on a relatively small number of:

Sectors (typically about 6-10 industries/sector/clusters).

Source markets (typically 6-10 key markets).

Companies (e.g. specific companies with specific investment projects to fill gaps in existing clusters).

IPAs also deliver activities across four core promotion functions:

Image building and brand development – to improve the location's image within the investment community and correct misperceptions.

Investment generation – to turn investor awareness of the location into investment project leads and enquiries.

Investment facilitation and servicing (including aftercare) – to meet the needs of investors and their investment projects and to create satisfied customers (investors).

Advocacy – to formulate, influence and encourage improvements in the location investment environment.

Box 2 details CRSIPB's objectives, which reflect those in CR SEEDS 2.

Box 2: Cross River State Investment Promotion Bureau's objectives

1. To increase the level of investment inflow to the State from $20million in 2008 to $1.5billion in key socio-economic sectors.
2. Achieve a 75% reduction in turnaround time for business entry from 120 days to 30 days by 2012, especially in Agriculture, Tourism, Education, Health and Infrastructure.
3. Promote the development of Micro, Small and Medium Enterprises (MSMEs) sector in the State.
4. Improve power infrastructure for investors and residents of the State.
5. Package and present the State in the right perspective to the Bankers' Committee to attract relevant financial support for the State.

*Source:* Cross River State Investment Promotion Bureau Annual Reports, various.

Table 4 shows CRSIPB has a focus on selected sector and source market targets. These sector targets are consistent with the sectors in CR SEEDS 2, though CR SEEDS 2 did not identify potential source markets. However, it is unclear whether CRSIPB has undertaken any additional assessment to validate the sector targets. Neither is it clear on what basis CRSIPB has identified the source markets.

Table 4: Cross River Investment Promotion Bureau targets

| Sector | Source Market |
|---|---|
| Agriculture | India |
| Tourism | United Kingdom |
| Education | United States |
| Health | Iran |
| Infrastructure | China |

*Source:* Cross River State Investment Promotion Bureau Annual Reports, various.

*Impact of CRSIPB on Private Investment in CRS*

The extent to which private sector investment is driven into CRS depends to a considerable degree on the effectiveness and activities of the agency set up for that purpose – the CRSIPB. In ascertaining its impact, Table 5 lists some of the CRSIPB's main activities and the level of implementation in recent years. This shows CRSIPB is involved in various activities across each of the four promotion functions (image, generation, servicing and advocacy). CRSIPB's activities are consistent with its overall objectives. In many cases, however, activities remain in the planning stage or the CRSIPB has not fully implemented them. Responses from CRSIPB indicate that the lack of implementation mainly reflects a combination of a lack of funding, limited availability of ICT equipment and a lack of requisite skills.

| Function | Activity | Implementation |
|---|---|---|
| Image | Website/web presence | Website established and content developed www.invest.crossriverstate.gov.ng |
| | Networking establishing contacts in target markets | Established contacts with potential investors in India, United Kingdom, United States, Iran and China |
| | Outward investment missions organising/hosting | Not implemented to date |
| Generation | Information for investors | Some content available on the website<br>Some printed brochure materials available but not yet distributed in strategic locations (e.g. Foreign Embassies) within Nigeria or in target markets |
| | Identify top 100 investors with interest in Africa | Not implemented to date |
| | Networking attending conferences, events and seminars | Attended at least 4 local / 2 international promotion events |
| | Conferences and seminars organising/hosting | Collaborated with Tourism Bureau TEMPO Team to host the Ambassadors Programme<br>Hosted Africa CEO Round -Table Summit & Conference on Corporate Sustainability and Responsibility |
| Facilitation | Information on registration, licensing and approvals | Some content available on the website<br>Some brochure materials available but not yet distributed in strategic locations (e.g. Foreign Embassies) within Nigeria or in target markets |
| | One stop registration, licensing and approvals facilities | OSIC network in place<br>Periodic (as needed) networking with key MDAs |
| | Introductions to/matchmaking with goods and services providers | Prepared a business directory for Cross River |
| | Aftercare visits to major investors | Not implemented to date |

| | | |
|---|---|---|
| Advocacy | Dialogue arrangements with the private sector | Monthly visits to key investors<br>Planned Business Forums for existing investors not implemented |
| | Review and advise on investment policy and incentives | Not implemented to date |

*Source:* Assessment of Cross River State Investment Promotion Bureau Annual Reports, various and website www.invest.crossriverstate.gov.ng.

The extent to which CRSIPB's activities are responsible for investors' interest in Cross River is debatable. There has been no evaluation and assessment of the impact of CRSIPB. Nevertheless, CRSIPB reports announcements of a number of investment projects in the State (see ). These projects provide a significant increase in projects relative to the State's past performance.

Table 6: Selected investment projects announcements for Cross River State

| Investor | Project | Investment (US$) |
|---|---|---|
| Artee Group / Spar | Shopping mall development | $180mn |
| Brentex Petroleum Services Ltd. | Pipe mill manufacturing plant | $300mn |
| Essar African Holdings Co. | 600-megawatt gas power plant to be built in two phases | NA |
| General Electric | Manufacture of generator turbines for power plants and training facility | $250mn |
| Golden Penny Integrated Foods | Flour processing facility | NA |
| OCICL/Cimpor | Cement production | NA |
| Lionsteel West Africa | Steel manufacturing | NA |
| Premier Feed Mills | Animal feeds processing facility | NA |
| Project Masters Nigeria. Ltd. | Manufacture of steel | $220mn |
| Unicem Ltd | Cement production expansion | NA |
| Wilmar Ltd. | Large scale, sustainable palm oil industry | $390mn |

*Source:* Cross River State Investment Promotion Bureau Annual Reports and media reports.

## Summary of Findings and Recommendations

First, our findings indicate that CRS has an investment promotion strategy, embodied in the establishment of the CRSIPB. Indeed the CRS government wants the State to become the nation's investment hub – an attractive and competitive location to private sector investors. It has established the CRSIPB as the main mechanism with a mandate to market or "sell" the State as a prime location for private sector investment.

However, the reality is that Cross River State has limited visibility. It is relatively unknown as an investment location and its attractiveness and competitiveness as an investment location is unclear and not well recognised among investors. Put simply, the State does not typically appear on the long-list of location alternatives for active consideration by investors, let alone it being a preferred location in Nigeria.

Second, our findings show that to a large extent the State's investment promotion, co-ordination and governance mechanisms are consistent with those proposed by the OECD framework. However, we also find that the impact of the State's investment and promotion strategy (epitomised by the activities of CRSIPB) on private investment in CRS leaves much to be desired. The State's economy is still largely public sector driven, with many private firms relocating to other locations because of several institutional factors which act as disincentives to investors. Finally, the effectiveness of CRSIPB in selling the state to the world of investors is compromised by a myriad of factors which are discussed alongside recommendations below.

Third, useful and useable information about the State as an investment location is sparse and many documents and information investors (and location advisers) expect are not readily available.

Fourth, challenges persist in areas of interagency coordination of investment promotion activities. Most staff of ministries, department and agencies (MDAs) within the State bureaucracy seem unaware of CRSIPB's role, functions and activities nor does there appear to be any effective interfacing within the CRSIPB and other MDAs.

Finally, CRSIPB has a focus on selected sector and source market targets. These sector targets are consistent with the sectors in CR SEEDS 2.

To support the promotion of the State and the functions of CRSIPB, the State Government might consider implementing the following recommendations.

a). Institutional structure and coordination

The State Government might further elaborate its economic development objectives for private sector investment by specifying priorities, preferences, types of investment and what outcomes are being sought (e.g. in terms of sectors, value of investment, etc.). CRISPB can then use this as a guide to articulate its strategy for investment promotion and aligning its activities more closely with these outcomes requirements. The CRSIPB Law 2007 provides for a Board to support and give guidance for CRSIPB. Consistent with good practice, the State Government should ensure that the Board is established. The State Government and CRSIPB should consider establishing a coordination mechanism in CRSIPB, especially with those MDAs within the identified sectors in the State development plan.

In addition, co-ordination and communication between the Corporate Affairs Commission (CAC), Nigerian Investment Promotion Commission (NIPC) and CRIPB needs strengthening, to avoid overlaps of activities and to increase information sharing. CRSIPB could potentially seek the support of NIPC, as the latter benefits from its greater exposure to international markets and investors. NIPC has benefitted from capacity building and experience sharing programmes organised by inter-governmental organisations such as UNCTAD, UNIDO and the World Bank Group. NIPC is also a member of the World Association of Investment Promotion Agencies (WAIPA), which provides the opportunity for investment promotion agencies (IPAs) to network and exchange experience. Exchanges of investment promotion good practices should allow CRSIPB staff members to build and strengthen their capacities.

b). Resources

Increased funding of IPB to enhance capacity, competence, and accessibility of information by investors might help address the issue of transparency and better support investment location decisions. CRIPB should be strategic and targeted in the kinds of information it places at investors' disposal. Comparative strengths of the State economy could be a strong selling point. Key sectors already identified in the State's development plan should form the content of its message. CRSIPB staff need to update their skills and sector knowledge on a regular basis.

c). Image building

I. CRSIPB might consider further development of marketing materials, which it will use to communicate with investors and other network stakeholders. In the short term, these may include a Cross River general fact sheet and brochure, more detailed brochures on its target sectors, a set of investor testimonials and presentation slides. In the longer term, additional marketing material that CRSIPB should consider preparing is an investment newsletter and detailed investors guide and associated database (allowing a comparison between Cross River relative to competitor and other locations).

ii. Undertaking additional marketing of Cross River State as a profitable investment location within Nigeria in selected target markets (both domestic and international). In doing so, it should develop key messages and associated promotional material, which highlight Cross River State's comparative advantages for selected target sectors.

iii. Engaging in marketing can be expensive and time consuming. CRSIPB should therefore identify and use cost-effective methods of building the image of Cross River among target audiences such as networking and organisation of and participation in events (e.g. investors' seminars and conferences). A critical component of image building is CRSIP's website (http://www.crossriverstate.gov.ng/). Recently refreshed and updated, the website needs populating with useful and useable content for investors (and other users).

d). Investment generation

i. CRSIPB might consider enhancing its investment generation activities by developing, identifying and targeting individual companies, which fit with the State's investment priorities and targets and initiate constructive and proactive relationship building with such businesses.

ii. By far investment generation constitutes the most important and sophisticated function for CRSIPB. It consists in recognizing and categorizing individual companies potentially interested in Cross River and in initiating proactive and sustained relationship building with them. In this connection, CRSIPB staff require solid capacities in investor targeting, lead generation, and client relationship management (CRM) techniques, coupled with sector-specific knowledge. In targeting potential investors, emphasis should be given to companies in priority sectors or industries that have a track record of investment or interest in Cross River and Nigeria.

iii. CRSIPB could also consider introducing a programme to mobilise Cross River Diaspora, especially those based in key markets of the United States and the United Kingdom. CRSIPB could aim to attract entrepreneurial Cross Riverians and Nigerians living abroad who might be potentially interested to invest in the State. Synergy with NIPC may be important in achieving this.

e). Investment facilitation

i. CRSIPB should review the cost-effectiveness of its One Stop Investment Centre. A more

appropriate alternative might be to ensure that CRSIPBS provides investors interested in investing in Cross River assistance to meeting compliance requirements and coordinating introductions between investors and appropriate stakeholders.

ii. As part of its investment facilitation activities, CRSIPB might consider establishing an investor linkage programme. The aim of this is to encourage commercial relationships between investors and domestic companies, especially SMES, in association with Micro Enterprise Development Agency (MEDA).

f). Aftercare

i. Aftercare includes activities performed by an investment promotion agency (IPA) that involve proactive monitoring of challenges faced by investors after their establishment, as well as helping find solutions to respond to their specific needs. This function can potentially have a significant impact on retaining investors and encouraging them to reinvest. Typically, it is also more resource-efficient than investment generation, as it is less costly to win reinvestments through aftercare than to generate investments from new firms.

ii. Aftercare should thus be a key function of CRSIPB; It should be strategic and co- ordinated with NIPC's national aftercare activities. The CRSIPB aftercare work should thus be limited to a restricted number of companies, based on assessment of investors':

Propensity to reinvest in Cross River State.

Developmental impact, notably in terms of value of investment and direct and indirect job creation.

Investment projects in target sectors.

CRSIPB should also perform systematic and proactive consultations with selected investors to collect their feedback on a regular basis and assist them to address challenges they face.

g). Advocacy

CRSIPB should ensure it has a broad range of business interlocutors as a basis for identifying and developing appropriate solutions to, and advocating for, on-going reform. As additional inputs to developing advocacy positions, CRSIPB should also undertake periodic soundings of the private sector investment community. It can do this using a combination of surveys, interviews and roundtables.

h). Performance measurement and evaluation

CRSIPB should consider setting out clear indicators against which to assess its performance and the success of the State Government's investment promotion programme overall. Such performance reports and evaluation, made publicly available, will help to ensure that the CRSIPB and the wider programme deliver value for money and to identify areas for improvement.

Typical performance criteria that other sub-national IPAs use include:

Number of investors and investment projects attracted.

Number of direct jobs created by these investment projects dis-aggregated by gender.

Amount of capital investment inflows.

CRSIPB might also consider reporting against other relevant performance targets consistent with its mandate.

## Conclusion

This study was burdened with many questions which provided the basis for our investigation. Our findings, reported in the preceding section, offer insights into the challenges that CRS must grapple with if it is to attract any significant quantum of FDI into her economy. The recommendations proffered above are critical policy issues that demand the political will of the government as well as the commitment of CRSIPB to actualize.

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