PROMOTING FOREIGN DIRECT INVESTMENT IN NIGERIA: OPPORTUNITIES AND CONSTRAINTS

FINAL REPORT

Bureau for Asia and Private Enterprise
U.S. Agency for International Development

Prepared by: *Bureau for Africa*
Office of Market & Development Investment

Prepared by: *Miles Wortan and*
The Services Group

Sponsored by: *Private Enterprise Development Support Project II*
Project Number: 940-2028.03
Prime Contractor: Ernst & Young

October 1990

TABLE OF CONTENTS

EXECUTIVE SUMMARY

I. The government of Nigeria has moved to implement major reforms of the economy that have improved the environment for business in Nigeria.

A. The 1986 Structural Adjustment Program and the 1989 new Industrial Policy is changing the Nigerian economy from one dependent on imports to one that seeks to generate non-petroleum exports.

B. Most restrictions on foreign investment regulation have been removed and the investment approval process has been streamlined through the creation of the Industrial Development Coordinating Committee (IDCC). Access to foreign capital has been facilitated and procedures for dividend repatriation streamlined.

C. The reforms have greatly improved the overall policy environment on paper. Still, major barriers exist in practice to deter foreign investment. Since enactment of most of these policies over the past two years, detailed implementation arrangements have not been announced. Where these policies have been implemented, the implementation has been characterized by an ad hoc, case-by-case approach, which continues to leave substantial discretionary power in the hands of the government bureaucracy. Many areas of the bureaucracy do not understand the new regime and resist its implementation.

II. Large, U.S. businesses with long, overseas experience and sufficient resources to develop a new venture will be able to function in the new Nigerian environment. However small and medium-sized firms do not have the resources, experience or contacts to initiative a direct foreign investment in Nigeria.

A. Even in the best of circumstances, any non-oil investment by small and medium business would be very risky because of the high cost of establishing a presence in the nation. Without experience, capital and networks in Nigeria, firms must expect a minimum of two years start-up time before an investment can be approved and more, before operations can begin. Given the ongoing changes in the domestic economy and political structure and competition abroad, such delays prohibit investment.

B. Possibilities for large foreign investment (ex-petroleum) exist in agriculture, agroprocessing, mining, textiles, and leather processing. Most investment must have a strong export component to be successful.

C. New large foreign direct investment outside of the petroleum sector is now virtually at a standstill. There have been no major investments, without World Bank or bilateral assistance, from any European, American or Japanese company. Domestic investment is negative, because of capital flight.

D. However, investment interest is beginning to stir as the domestic economy improves. Companies with established businesses are adjusting and expanding their operations. Lebanese, Chinese and Indian firms have increased activity in textile production and leather products. Investment missions are being held in late 1990 from Japan, Korea, Taiwan, and Britain. MIGA is considering a mission.

III. Since 1986, the government has promulgated a series of measures designed to facilitate investment. However, many of these have not yet been fully implemented because of bureaucratic obstruction and conflicts in policy. Among the major measures are:

A. 100% foreign ownership is now allowed.

B. Investment approval is now handled by a "one stop shop," the IDCC, rather than a series of offices. While this is an improvement, the process remains cumbersome and time-consuming.

C. The import-licensing System has been removed, replaced with an auction to establish availability and markets for hard currency.

D. Tax incentives for investors, including tax-holidays for pioneer status, investment allowances for capital expenditures, and a variety of incentives for the development of raw material. However, an excess profits tax increases the tax burden.

E. Export incentives have been approved. Among them are retention of foreign earnings for approved uses, a duty/drawback scheme, an export credit and guarantee scheme, and export development funds. Most of these measures have not been implemented for bureaucratic reasons.

F. A debt-equity conversion program has been implemented.

G. Investment guarantee treaties have been signed with France and are in the process of being negotiated with the U.S. and U.K. MIGA and OPIC agreements are in force.

IV. While the Nigerian government has accepted foreign investment as a requisite for national growth, in practice, it has not yet accepted the need to adjust policies and to promote investment on an ongoing, active basis. It either does not appear to understand the prerequisites for an economy in which investment flows freely, without bureaucratic obstruction or it has not firmly decided on the role of the private sector in the new Nigeria. Consequently, investment promotion assistance should be tied to assistance in institutional development at the national level to facilitate awareness of the investment promotion process and communication between potential investors and regulators.

A. Perhaps the most important contributor to continued investment resistance is the attitude, held at the highest levels of government, that simple legislative reforms are sufficient to reverse twenty years of anti-investment policies. Initiatives must be actively promoted. It has yet to accept the idea that Nigeria is in competition for investment money with Eastern Europe, sections of Latin America and Asia, and an increasing number of African countries.

B. The government does not maintain an active dialogue with investors to see where improvements can be made in policy. Rather, it maintains an attitude that the improvements have been completed, now investment should come.

C. Nominally, investment promotion falls within the purview of the IDCC, but the office to handle promotion has not yet been staffed. Publicity materials are lacking. The government seeks to hold major missions to the US, Great Britain and elsewhere. But the nature of these missions, and investment strategy as a whole, are not well defined. These missions will not succeed to attract attention until the strong administrative support for investment promotion is established.

D. An attitude of "we versus them" exist towards business at many layers of government. Ministers jealously guard their prerogatives and create huge layers of bureaucracy to attempt to control commercial practices that, in the end, they are incapable of controlling. Typically, most government bans are avoided through smuggling and increased corruption at the lower, bureaucratic level.

E. The government resists the notion of increased private sector involvement in the regulatory system, through partial participation in the administration of trade and investment incentives.

V. Major informal barriers remain to foreign investment. While investment can be accomplished, the barriers cause significant problems that limit the potential to develop the Nigerian economy.

A. Bureaucratic obstructionism of productive enterprises exists at all layers of government from the initial investment approval process, through trade, licensing, and any area where government regulates. While informal payments ("dash") are a minor problem, they are not as serious a barrier to investment as the constant changes and delays in procedures which causes major loss of time and opportunities. There is a lack of impartiality in regulatory procedures. Trade and investment policies which, on paper, provide strong incentives are not implemented because the bureaucracy appears unable to enforce new reforms. Bureaucratic and legal consistency is lacking. One administrator's decisions are frequently not followed by his successor.

B. Nigerian business resists long-term commitment to investments, making joint-ventures difficult at best. In this "nation of traders," capital flows into financial markets or into investments that have a quick turnaround. Even during the best of times, Nigerian business tends to keep its excess capital outside of the nation.

C. The memory of the rapid economic decline of the 1980s that caused severe losses and divestiture is still fresh for many investors. The devaluation of the 64 percent devaluation of the Naira (in real terms) caused a major, hard-currency loss in the value of all firms. Today, Nigeria is in recession. The weak local market does not merit new investment and the low value of the Naira renders the cost of imported goods prohibitively expensive. Consequently only export-oriented investment is likely over the mid-term.

D. Both domestic and foreign investment is unsure of the policy environment in a politically unstable situation. Within twelve months there have two major ministerial shake-ups and one attempt at a coup d'etat. Over the next two years, political uncertainty will increase as the nation approaches a change in government in 1992. At the state and local level, the change will take place in 1991.

E. Nigeria has severe infrastructural problems. Poor administration and the lack of resources has led to a decline in the nation's ports, rail and road networks. The telephone system is in crisis. Typically, the private sector provides its own water and power to avoid reliance on the state system. Government refuses to consider any move to privatize the administration of these services.

F. Nigeria's poor reputation, earned in the 1970s, will take time and practice to disappear.

G. U.S. investors, unlike their European counterparts, have less experience in an African environment and are therefore operating at a competitive disadvantage. The attitude of most American companies towards investment in Africa is not good, because of past, unsuccessful experiences.

I. NIGERIA: THE OUTLOOK FOR INVESTMENT

A. OVERVIEW

Nigeria's investment climate is improving but remains weak because of a decade of severe economic fluctuations and poor economic performance due to global oil prices, overspending by government, debt crisis, political instability and then austerity and economic restructuring. The roller-coaster of growth, interest and inflation rates and currency valuation, sometimes up, sometimes down, is in itself a major disincentive for investment. Coup and coup attempts lead to political uncertainty. The positive development of the democratic process, with local elections in 1990, provincial elections in 1991 and national elections in 1992, lead potential investors to adopt a "wait and see" attitude.

While the Nigerian operating environment is still not good by North American standards, it has shown remarkable improvement. Large foreign investors have operated successfully in Nigeria since independence. Peugeot, Unilever, Pfizer, Sterling Drug, Vicks, and, most recently, Coca-Cola, are functioning and profiting. The oil sector has been able to develop a modus operandi with government officials. To be sure, they have substantial power to negotiate with government and officials and local businessmen using the threat of suspension of production. On the other hand, they are also functioning in downstream activities, plastics and merchandising.

1. Increased FDI Interest

Interest in Nigeria is likely to pick up if the current rise in oil prices and demand for Nigerian petroleum production stay high. The domestic economy is likely to see substantial growth -- for the first time in a decade -- that should further stir investment interest. Now that the import-licensing system is abolished, currency allocation is predicated on price, allowing productive sectors of the economy to compete on more favorable terms for foreign exchange via an auction system.

Some foreign companies with long experience in the nation are expanding their operations as growth picks-up, the consequence of higher oil prices and production. They indicate that they will expand their local operations to take advantage of export opportunities in agro-industrial areas. But these companies -- Unilever, in particular -- have decades of experience in Nigeria and are virtually Nigerian operations. Small, Lebanese, Indian and Chinese textile and trading firms are increasing activity. Informal activity has also picked up, as smuggling to neighboring ECOWAS nations of Nigerian-produced textiles, cement, petroleum products, and agro-industrial goods increases. There is initial stirrings of interest in the form of investment missions and inquiries from individual firms. However, medium and large-sized companies, outside the petroleum sector, have yet to show meaningful investment interest. There is little or no new investment coming from any European or American country or Japan, their missions report.

2. Impediments to New Investment

Through 1992, major impediments to large-scale foreign investment will remain. Cultural, bureaucratic and political institutions resist change in a nation that has had a long history of capital flight, conspicuous consumption among wealthier classes, corruption, and reliance upon oil and government for survival. Nigeria's past reputation, among many private sector groups, has not been good. The infrastructure for growth -- telecommunications, power, water, roads, rails and ports, are in bad disrepair. While SAP and other policy initiatives are moving the country in the right direction, erratic trends in policy and economic performance -- that result from change -- serve as a negative incentive for investment.

Given the economic recession and structural adjustment of the 1970s, non-petroleum foreign investment has shown a net loss. Among those who have disinvested are British Leyland, Wiggins Teape, Tate and Lyle, Sanyo and ICI. Continental Can has ended its operations. Most U.S. financial institutions have left the country.

Any large, new investment in Nigeria will likely derive from bilateral or multilateral sponsorship. World Bank, Japanese, South Korean and French funds exist to promote investment.

B. INVESTMENT OPPORTUNITIES

Formal and informal barriers limit small and medium investment. They lack the resources to deal with time-consuming and expensive processes involved in Nigeria. Investment is possible by large, multinational corporations that have the experience and staying power to develop new enterprises.

Large multinational corporations understand that, unlike many other African nations, Nigeria possesses a wealth of human and natural resources upon which investment can build, given the right environment. The wage base is competitive with relative international markets (the minimum wage is likely to be set at N275 or US$29/month) and the labor environment is peaceful. Domestic petroleum prices are far below international levels and serve as an incentive for energy-intensive production. Rich agricultural lands can be cultivated. Mines are available for exploitation.

For the moment, most investment must be aimed at exports, but over time, as the Nigerian economy grows and reforms take hold, the nation of 100 million people represent the largest single market in sub-Sahara Africa. The potential for growth and investment is therefore enormous, if political and economic structures can be converted into productive forces.

Among the major areas where investment currently yields the greatest potential
are:

- Downstream petroleum activities.
- Agriculture: maize, millet, sorghum, rice, soya beans, ground-nut tomatoes, palm products (oil) and cotton.
- Agro-processing: food products for domestic consumption and export to the regional, ECOWAS market.
- Mining: Coal, special clays, gold, lead, zinc, copper and tin ore, among others.
- Textiles and leather processing.

C. THE ROLE OF FOREIGN INVESTMENT IN NIGERIA

Foreign investment plays a large role in the formal Nigerian economy. Among non-oil manufacturers, the major investments are held in soft drinks, brewing, cotton textiles, synthetic fibers, paints and vehicle assembly. Of these, only synthetic fabrics have shown any many growth over the decade. Vehicle assembly is operating at 15 percent as a result of the recession.

Most investment is typically 60 percent Nigerian-owned and 40 percent foreign-owned as a result of indigenization legislation in the 1970s. Management control in most foreign investment remains in foreign hands. New legislation (see below) now permits majority ownership up to 100 percent. The government has not released hard data on the level of investment. In 1988, one estimate of new foreign investment was US$355 million, almost all in the energy sector.

Foreign oil companies have largest stake in oil development in the nation and also maintain some, small downstream activities. Among American companies, Mobil, Chevron, Texaco and Ashland oil are major presences. Shell, Agip and Elf are the other large foreign investors. Mobil is participating in the US$1 billion Oso petroleum condensate scheme with French, World Bank and IFC participation.

American companies may play a role in the developing liquefied natural gas project that could see fruition by the end of the

1990s. Japanese investment, with large Japanese government assistance, will be the greatest participant in a major petrochemical project. M.W. Kellogg, that has many years of experience working in Nigerian petrochemicals, is likely to expand its fertilizer operation, in joint-venture with the Nigerian agency, National Fertilizer Company (Nafcon) and Daewoo. The current fertilizer facility became operational in 1987 but infrastructural problems in distribution -- a government monopoly -- has harmed the effort. Phillips Petroleum of the US was involved in the establishment of an LNG plant at Bonny, but withdrew in 1981. Now under government operation, the Bonny facility is generally considered to be functioning poorly.

Other large, international investments are concentrated in a broad variety of areas. Among the largest are:

- Construction. The German construction firm, Jules Berger, is playing the dominant role in the construction of the new capital at Abuja.

- Food Processing. Unilever has a long standing presence in the nation in its subsidiaries Lever Brothers and UAC (United African Company) as does John Holt (Lonrho). Coca-Cola has a new, 100 percent-owned investment. Cadbury and Nestle are major presences.

- Automobiles. Peugeot has a large assembly operation in Kaduna, operating at minimal capacity. Other major companies have smaller, CKD kit assembly plants. Suzuki motorcycles also has an assembly operation. Dunlop and Michelin are the major tire producers in Nigeria.

- Pharmaceutical companies. Many companies have formulating plants in Nigeria. Pfizer and Sterling Drug are the two most prominent U.S. firms. Procter and Gamble, through its Vicks subsidiary, has a small manufacturing facility in Nigeria.

- Manufacturing. British foreign investment, in particular, has long experience in the manufacturing area. The major presences are UAC of Nigeria (Unilever), West African Portland Cement (Blue Circle), Metal Box, CFAO Nigeria and PZ Industries. Eveready Batteries have a facility in Nigeria but is troubled by smuggling and low domestic demand. Lebanese, Indian and Chinese groups all have smaller manufacturing presences.

- Textile firms. The textile industry has always been strong in Nigeria and a large number of foreign firms are involved in the sector. Most of these are small to medium size and are typically owned by Indian, Lebanese or Chinese groups. Increased Nigerian production has led to sizable trade with the US in this area.

- Agriculture and Agribusiness. Foreign presence in agriculture is minimal, given the size of the sector and is usually linked to trading groups. American-owned Seaboard and Cargill are involved in the trade of grains. Seaboard, however, is a major producer of sacks for agricultural produce. Indian-owned Inlaks has some agricultural holdings linked to its canning and fish operations. Foreign firms had invested in showcase farms in the past for political reasons but most of these operations are now moribund. UAC of Nigeria, John Holt, Leventis and oil companies acquired rights to substantial areas of land, in Bendel and Kaduna states, planting mostly maize and taking interest in oil palm plantation development in coastal areas. However, many of the schemes have failed, due either to poor project conception and inexperience agriculture or because the initiatives have been little more than public relations exercises. The investment costs of local commercial production of industrial raw materials are high and there is a need for much greater technology transfer than Nigeria has so far achieved.

- Mining. Soviet, French and West German companies are involved in iron ore investment, much of which is not functioning. The French are active in steel production.

- Merchandising. The English groups, UAC, Leventis and Mandilas, play a major role in the formal sales sector, maintaining stores throughout the nation.

- Services. A number of major foreign banks and insurance companies are represented in Nigeria. Over the past two years, many foreign banks have divested. The general difficulties of US banks throughout the world was a major factor. But also important was the old regulations forcing increased local participation in bank management, after a number of years of operation, that was coming into force. Hilton, Sheraton and Meridian have service contracts.

- Miscellaneous. Many American firms have local representative or licensing arrangements that do not represent sizable foreign investment. GM and Caterpillar (through Unilever) have sales licensees. Pepsico has a major local presence through its local representative. Many American firms' products are sold in Nigeria, introduced through the trade network.

- Quasi "Foreign Investment" There are a variety of projects that had been developed in joint-venture with Eastern European "companies," E.g. parastatal agencies. These foreign investments are in the areas of chemicals and food processing. Given the changes in Eastern Europe, there is little likelihood for expansion in this area.

Many of these foreign investments must combine a combination of local manufacturing and imports. The automobile sector must import over 65 percent of its components. Pharmaceuticals bring in most of the critical material for formulation. Thus, even though many foreign firms have not shown profits locally for some time, revenue to the firm is reflected in trade accounts.

II. THE FORMAL CLIMATE

A. THE OVERALL POLICY ENVIRONMENT

Nigeria's economic policy environment has historically been perceived by foreign investors as generally hostile and unpredictable, due in large measure to the FMG's past policies of encouraging import substitution-based industrialization and "indigenization" of investment. The government of Nigeria has accepted the need for a change in direction to provide a more effective environment for investment. It has moved to restructure public-sector productive enterprises, streamline the bureaucratic process and democratize the nation. While these changes are only beginning to take hold, they will have long-lasting effects.

Since the implementation of the Structural Adjustment Program (SAP) in 1986, substantial progress has been made in liberalizing the policy environment towards the private sector in general, and foreign direct investment (FDI) in particular. Major policy reforms undertaken include the following:

- devaluation of the overvalued Naira and maintenance of a realistic exchange rate;
- implementation of a tight monetary policy to bring inflation under control;
- restructuring of foreign and domestic debts and implementation of debt-conversion programs;
- liberalization of procedures for access to foreign exchange;
- elimination of import licensing requirements which was hitherto based on influence and patronage;
- reform of the trade regime, including tariff reduction, and rationalization of import policy;
- formulation of a comprehensive set of incentives to promote non-oil exports; development of an export processing zone, slated for Calabar;
- implementation of a policy for widespread privatization and commercialization of state-owned enterprises.

B. FOREIGN INVESTMENT POLICY REFORM

The Industrial Policy of Nigeria adopted by the FMG in 1989, include special efforts to promote FDI, consisting of three basic initiatives: (a) liberalization of access to foreign exchange through the establishment of the interbank foreign exchange market (IFEM), and easing of capital and dividends repatriation procedures; (b) increasing the number of activities open to foreign investors, and reducing barriers to foreign ownership; and (c) streamlining foreign investment approval and formation procedures through the creation of the Industrial Development Coordinating Committee (IDCC), a "one-stop" investment approval center. Specific measures include:

- elimination of most restrictions on foreign investment;
- 100 percent foreign ownership investment permitted;
- reduction in the corporate income tax;
- tax-free dividends in priority sectors: petrochemicals and liquefied natural gas and industrial and agricultural machinery;
- implementation of a strong debt conversion program;
- easing of entry, remittance and repatriation of capital and investment procedures;
- introduction of a tariff structure with a seven year lifespan to avoid frequent modifications;
- establishment of a centralized investment registration center;
- liberalization in expatriate employment quota system;

In addition, the FMG has ratified the Multilateral Investment Guarantee Agency (MIGA) agreement to protect companies against non-commercial risks and is in the process of negotiating investment protection treaties with France, the U.K. and the United States. The FMG also disbanded agricultural marketing boards. However, recent moves to restrict the import of wheat and the export of cocoa raises question about the durability of government reforms.

While the broad liberalizations enacted have greatly improved the overall policy environment on paper, barriers still exist in practice to deter foreign investment. Since their enactment, detailed implementation arrangements have still to be announced. Where these policies have been implemented, the implementation has been characterized by an ad hoc, case-by-case approach that continues to leave substantial discretionary power in the hands of the government bureaucracy. Many areas of the bureaucracy do not understand the new regime and resist its implementation.

Despite the many policy pronouncements made, FMG FDI policy has not been clearly articulated or consistently applied. Nigeria has not been able to define what types of foreign direct investment it wants. Its stated investment objectives are vague and general, often in conflict with each other. There does not appear to be a clear-cut consensus within the Government on what role FDI should be expected to play in the country's economy. This has constrained government policy-makers from clearly linking the strong endorsement of FDI apparent at the highest levels with an effective strategy for implementation at lower levels of government.

As a result, further improvement is necessary to translate the liberal policy intentions into concrete implementation actions. The broad policy improvements enacted are only the first step in a longer-term program to establish industrial policies and procedures that are conducive to the promotion of foreign direct investment.

C. GOVERNMENT POLICIES AND IMPLEMENTATION ARRANGEMENTS

1. Foreign Ownership

In the 1970s, strict limitations were placed on foreign equity ownership in most activities. The Nigerian Enterprises Promotion Decree of 1977 restricted foreign ownership to a maximum of 40-60 percent in most activities; a further 36 enterprises were reserved exclusively for Nigerians. In 1989, this legislation was repealed and replaced by a new decree which greatly liberalized foreign equity participation in most enterprises. Under the provisions of the Nigerian Enterprises Promotion Decree enacted in 1989, 100 percent foreign ownership is allowed in virtually all types of activities, as shown in Annex A. On a case-by-case basis, foreign ownership of scheduled enterprises (in principle reserved exclusively for Nigerians) is allowed in investments with a total capitalization is more than N20 million.[1]

While the new decree is an improvement over past policies, it still contains a number of weaknesses both on paper and in practice. One important deficiency is that the new arrangements do not apply to already existing companies registered under previous decrees. Existing companies cannot become 100 percent foreign-owned; foreign companies cannot buy 100 percent of an existing company. This is an unnecessarily restrictive provision that dilutes the impact of FMG policy, and discriminates against existing foreign and local firms who, are most likely to invest in Nigeria, given their presence in the market already.

Although FMG policies are not particularly restrictive on paper, other factors limit foreign equity participation in practice. Despite the fact that most parts of the economy are open to foreign investment, it is also well-known that the FMG generally prefers foreign investment in the form of a joint venture with a local private or public partner, which is widely regarded as a pre-requisite for success. This is a significant deterrent to many

---

[1] The reasons for inclusion of many of the activities contained in the list of scheduled enterprises presented in Annex A are not clear. The list groups a large number of relatively insignificant activities (such as cake making) with some very important activities, such as garment manufacture. In addition, by linking foreign participation in the enterprises to large-scale investment (N20 million), the Act promotes relatively capital-intensive activities which are perhaps less suitable for a labor-surplus economy such as Nigeria.

foreign (especially U.S.) investors who without 100 percent equity ownership, will refuse to invest. This preference for joint ventures is particularly significant in Nigeria because the supply of qualified local partners is quite limited, and the process of finding a reliable joint venture partner can be difficult and time-consuming. In general, FMG's mostly cumbersome and discretionary approach to implementing its investment policies sends a signal to potential foreign investors that FDI is tolerated more than welcomed.

2. Investment Incentives

Like many other developing countries, Nigeria offers a wide range of incentives to foreign investors, including fiscal incentives, such as tax holidays and accelerated depreciation; commercial incentives such as tariff stability and preferred access to inputs; and financial incentives, such as subsidized credit, cash grants, and low-cost financing through the debt-equity swap program. Among the most important are the following schemes.

a. Tax Incentives

Pioneer Industry Status. Companies qualifying for the "pioneer status" under provisions of the Income Tax Relief Act of 1958 (as amended) are given a corporate profits tax holiday of three years. Eligibility is limited to companies engaged in certain industries, as listed in Annex B. In general, manufacturing and other processing activities based on the utilization of local raw materials are eligible for pioneer status. In addition to the tax holiday, both dividends and bonus shares of pioneer companies are tax exempt; they also enjoy an indefinite loss carry-forward provision. Any agricultural or agro-related project using local raw materials is eligible for a minimum tax holiday of five years. Extensions of the initial tax holiday period of three years for other activities may be provided by an additional two years, on a case-by-case basis according to established criteria.

Excess Profits Tax. The normal rates of corporate income taxation in Nigeria have undergone several changes in the past two years. Since 1987, the normal corporate income tax rate is 40 percent; for smaller Nigerian companies engaged in manufacturing, agricultural production or mining with a total turn-over below N500,000 is taxed at 20 percent. In January 1989, however, the FMG imposed a special "excess profits tax" of 15 percent in addition to the normal income tax, which is highly restrictive. The impact of the excess tax is to penalize profitable companies at a time when high rates of inflation are boosting profitability artificially. This disincentive penalizes companies who comply with the laws of the country, relative to a growing number of tax evaders.

Investment Allowances. FMG allows companies to deduct from their taxable income a variety of capital expenditure allowances including expenditures on buildings, mining, plant, furniture, motor vehicles, housing, equipment, and the like. Additional deductions of up to 140 percent are allowed for approved research & development expenditures. Companies involved in agricultural production are also provided an investment allowance of 10 percent of expenditure on plant and equipment used, in addition to the normal capital allowance; an additional 5 percent initial capital allowance is also allowed. They also benefit from a liberal loss carry-forward provision. Interest on loans for agricultural or agro-related activities is tax-free.

Other Tax Relief. Additional tax incentives are available for companies engaging activities in the following areas: local raw materials development; increasing local value-added; labor-intensive processes; export-oriented activities; development of in-plant training; and investment in economically disadvantaged areas.

b. Export Incentives

A major focus of FMG policy has been the encouragement of non-oil manufactured exports. To that end, a large number of export promotion schemes have been drawn up including the following:

- retention of foreign exchange earnings. Exporters enjoy unlimited access to their foreign exchange earnings, and can retain 100 percent of their proceeds in foreign currency domiciliary accounts. Export proceeds can be used for certain approved transactions including financing imports; dividend remittances; or selling it to other exporters.

- import duty drawback/suspension scheme. Under current provisions, exporters can claim refund of duties paid for imported components used in producing exported products. For certain qualifying exporters with a track record, a duty suspension scheme backed by bankers guarantees is also available. Both schemes are operated by the Customs and Excise department and overseen by the Nigerian Export Promotion Council.

- export credit guarantee and insurance scheme. To protect Nigerian exporters from various types of risks including non-payment by importers, as well as to provide automatic rediscounting of letters of credit.

- export development and export expansion funds. Two funds providing financial assistance to cover promotional activities by bonafide exporters, as well as cash grants to manufacturers who have exported at least N50,000 of manufactured products are available.

- other incentives. Non-oil exporters are eligible for a wide variety of additional incentives including: tax-exemption on interest bank loans; an additional capital allowance of 5 percent on plant and machinery for manufacturers who export at least 50 percent of production, and have at least 40 percent local raw materials content or 35 percent value added; grant of pioneer status to manufacturing exporters exporting at least 50 percent of production. In addition, export licenses are not required for the export of manufactured or processed goods; all exports are exempt from excise taxes.

Despite the introduction of these schemes, non-oil exports actually fell from US$720 million in 1988 to US$307.5 million in 1989. In addition, a growing percentage of proceeds from non-oil exports are repatriated from Nigeria. The reason for this trend relates to the gap between liberal policy intentions in difficulties in policy implementation. The duty drawback scheme is a case in point. Although recently revitalized, only 2 out of 32 companies qualifying for the scheme had actually received refunds by end-1989. Most drawback claims have reportedly been outstanding for two years. The difficulties with the duty drawback scheme extends to the onerous paperwork requirements, cumbersome processing procedures, unresponsive bureaucracy and ad-hoc decision-making that characterizes the implementation of the export schemes. To address these issues, the FMG is in the process of strengthening the Nigerian Export Promotion Council and establishing an Export Processing Zone regime.

c. Trade Incentives

One of the major trade policy reforms undertaken by FMG gas been the elimination of the previous import licensing system, reduction of the import prohibition list, and reduction in the average nominal rate of protection. A new Customs Code based upon the Harmonized System has been recently adopted. The resulting tariff structure has been specified to not be altered for a period of seven years to provide some stability for investment decisions. Additional protection is available under the Customs Duties Act of 1958 which permits the imposition of special duty on any goods which are found to be dumped in Nigeria or subsidized by another government.

On the whole, import procedures have been greatly streamlined, but problems associated with Customs inspection of goods continue. On average, imports take about six weeks to clear Customs. Pre-inspection is required for imports above US$5,000. Reportedly, while the pre-inspection procedures conducted by three contractors are relatively efficient, cumbersome procedures continue to delay the clearance of imports.

One additional area of concern to foreign investors is the effect of FMG policies designed to promote import-substitution industries. By raising ad valorem duties for some imports -- starch, batteries, fluorescent tubes and bulbs, glass shells, jewelry -- to 200 percent, and banning the importation of some products such as wheat, maize and rice, wide-scale smuggling has ensued that is undercutting the production of established local manufacturers.[2]

Despite FMG stated intentions to create a stable investment environment, actual trade policies have been changed frequently in some cases. On the import side, the banned imports list has been modified each fiscal year. On the export side, FMG has adopted rather strong policies to encourage backward integration of various industries, through the adoption of outright bans on the export of raw hides and skins (effective January 1990) and cocoa beans and raw palm kernel (effective January 1991). The use of export bans to foster backward industrialization is of dubious effectiveness, and in the short run, causes unintended adverse economic effects. For example, it is likely that some 70,000 tons of raw cocoa to be exported will be wasted when the ban on cocoa bean exports goes into effect next year.

d. Foreign Exchange

A central part of the SAP has been the elimination of import licensing as a mechanism to allocate foreign exchange, and the adoption of a foreign exchange auction system. The foreign exchange system is also an example of the inconsistency of FMG policy. Under the previous system, banks competed freely to purchase foreign exchange at a rate determined by demand and supply. Under the current Interbank Foreign Exchange Market (IFEM), the exchange rate is determined by the Central Bank through a daily allocation of US$9 million, which is sold at the official rate to the more than 100 authorized banks. The commercial and merchant banks utilize the foreign exchange according to their own priorities. This means that some transactions are more attractive to the banks than others. The use of foreign exchange for repatriation of earnings, for example, is less attractive to banks

---

[2] Other banned imports include cigarettes; live poultry; vegetables; processed wood (excluding furniture); eggs; fresh and preserved; fruits; soft drinks and other beverages; textile fabrics; plastic wares; jewelry and precious metals; rice and rice products; gaming machines; vegetable oils; aluminum sulphate; retreaded tires. (See Annex D for current Customs tariff structure.)

because it is a net loss of foreign exchange and does not earn them a commission.

Although the Nigerian authorities have been able to maintain a realistic exchange rate on the whole, the fact that the IFEM is still an actively managed market causes periods of foreign exchange shortages and surpluses. At one point over the last year, the divergence between the IFEM rate and the parallel rate was over 100 percent before the FMG imposed strict controls to reduce liquidity in the market.

Foreign exchange is also freely available through a system of bureaux de change which can buy and sell foreign exchange at a free market rate (subject to limitations on permissible fees and commissions). The problem with this system is that the bureaux are thinly capitalized (single transactions rarely exceed US$5,000) and are limited to dealing only with cash and travellers checks.

e. Debt-Equity Conversion Program

An attractive financing mechanism is the debt-equity swap mechanism, where investors can purchase long-term debt instruments held by foreign private banks at a favorable discount ranging from 45-50 percent of the face value. Repatriation of dividends, interest and other invisibles derived from an approved investment made from the proceeds of a conversion cannot be made for a minimum period of five years; and capital repatriation is only possible (at a maximum rate of 20 percent per year) after 10 years.

In spite of these restrictions, the debt conversion program is a highly attractive mechanism for low-cost financing for foreign investors, whose popularity has grown recently as bank liquidity has decreased significantly, and interest rates have risen steeply. Currently, with an exchange rate close to N8 to the dollar, and a discount rate of about 50 percent at the auction, a US$10 million investment would purchase N125 million -- 56 percent more than the N80 million available at the official exchange rate.

Since inception, it is estimated that 12 auctions have retired some US$321 million worth of external debt in face value, at an average rate of 48 percent. In addition, more than US$120 million has been converted outside the auction.

f. Repatriation of Capital and Dividends

Repatriation of profits, dividends and capital is subject to approval from the Ministry of Finance, and any temporary ceilings applicable. Each foreign investor is required to register his investment -- either debt or equity -- with the Ministry of Finance under the Exchange Control Act of 1962. The Ministry of Finance must give prior approval of the investment; it also grants permission to non-residents to hold shares in companies registered in Nigeria.

Under the Second Tier Foreign Exchange Decree of 1986, foreign investors may freely remit earnings through access to the IFEM, on a transaction-specific basis. The transaction must be approved by the Ministry of Finance as evidenced by the "approved status" and Tax Clearance Certificate issued by the Ministry. Since the liberalization in the foreign exchange market, delays in repatriation of dividends have improved significantly. Limitations on the repatriation of invested capital, however, are significant, and act as a deterrent to foreign investors, especially in a relatively inflationary economy and a depreciating currency. The nominal foreign exchange value of invested capital (which is registered in Naira), in particular, greatly decreases as the Naira continues to depreciate.

Under the Income Tax Management Act of 1961 (amended in 1989), withholding tax on dividends, interest, rent or royalty paid is at 15 percent; they are exempt from any income taxes. However, an individual or company deriving dividends (from 1987) is tax-free if:

- the equity is imported into Nigeria between 1/1987 and 12/31/1992;
- the company paying dividends is incorporated in Nigeria, and
- the recipient's equity is at least 10 percent of the share capital of the company.

In addition to the above, if the company is engaged in agricultural production or agro-processing within Nigeria, the tax free period is five years.

g. Expatriate Employment

Expatriate employment (except as an employee of the Federal or State government) is permitted only by the Director of Immigration under the Immigration Act of 1962. The Industrial Development Coordinating Committee (IDCC) is the organization that currently reviews and grants "expatriate quota" to qualified enterprises, and the foreigner a residency permit. In theory, businesses with a total capitalization of N5 million are entitled to a maximum automatic quota of two positions; those above N10 million are entitled to four positions. All other cases are subject to a case-by-case decision-making process. The validity of the expatriate quotas ranges from 3 to 12 months.

According to most foreign investors contacted, the process of allocation of the expatriate quotas constitutes one of the most serious obstacles to foreign investment in the country, especially given the relative lack of qualified local personnel. The fundamental problem relates to the ambiguity of policy for investments not falling within the parameters defined above, as well as the difficulty in renewing the permits.

h. Investment Guarantees/Bilateral Agreements

The Nigerian constitution (article 40) offers protection against expropriation, except for the national interest. In such cases, Nigerian law stipulates prompt payment of compensation, but does not clearly protect foreign investment per se. Further protection is available through the International Center for Settlement of Investment Disputes (Enforcement of Awards) Act No. 49 of 1967, and membership in the Multilateral Investment Guarantee Authority. The FMG also has bilateral agreements with a number of countries serving to protect and guarantee the investments in Nigeria by citizens of those countries.

* * *

Despite the relative attractiveness of the incentives profiled above, considering the low levels of foreign direct investment in Nigeria, it is clear that the investment incentives offered have had little impact. One of the major reasons for this is that the incentives have largely been developed in an ad hoc manner over the past few years, with little knowledge of their impact on the investment decisions of foreign firms. More importantly, the implementation of the incentives by the Government has not been made in a transparent, consistent manner. The FMG has generally treated each foreign investor separately in negotiating a customized incentive package. As a result, there are significant distinctions among individual foreign investors, and between foreign and domestic investors in terms of the incentives received by similar investments.

3. Foreign Investment Approval Process

a. Institutional Framework

While the FMG's investment incentives at least appear to be positive on paper, their effectiveness is diluted by a cumbersome and bureaucratic administrative process of screening, evaluating and approving FDI proposals. This is especially notable given the establishment of the Industrial Development Coordinating Committee (IDCC) in January 1989 as a "one-stop" agency charged with foreign and local investment approvals, which centralized the previous functions of numerous ministries and government departments. The IDCC is comprised of Ministers of the following ministries: industries (Chairman); finance; internal affairs; trade and tourism; science and technology; agriculture; and employment, labor and productivity.

The IDCC has the following functions, as stated in the Industrial Policy of Nigeria:

- "provide approvals for the commencement of new businesses and relevant expatriate quotas for such businesses;
- grant approved status in principle for imported capital in new ventures;
- approve pre-investment technology transfer agreements;
- advise on the administration of government industrial incentives;
- make recommendations on pertinent policies including tariff and various measures aimed at ensuring the industrial development of the country;
- undertake other relevant functions assigned to the committee from time to time to facilitate meaningful industrial development."

According to its enabling decree, the IDCC "functions as a coordinating center for receiving applications from prospective investors, channelling such applications to the appropriate ministries for their comments and recommendations, and collating information received for briefing and decision-making." The decree guarantees that every application shall be processed within two months (sixty days).

b. Foreign Investment Approval Process

Despite the good intentions of the FMG in establishing the IDCC, the foreign direct investment approval process has remained problematic. Since establishment in January 1989, in its first nine months of existence, it was estimated by the FMG that the IDCC considered 167 applications, approving 36, and granting 23 companies 41 expatriate quotas. Less than half the firms seeking Pioneer status were approved, while only one in five of those seeking approved status were successful. As of June 1990, it was estimated that the IDCC approved only 75 of the 185 applications received to date, representing a total investment potential of N9.5 billion.

The record of the IDCC in terms of investment approvals is not reassuring. Despite official assertions to the contrary, there is growing indications that suggests that the average time period for approval of an FDI proposal is not the two months mandated by law, but at the very least six to nine months for the IDCC process. The investment by Coca-Cola, for example, took over one year to approve.

FIGURE 1
NIGERIAN BUSINESS ESTABLISHMENT/INVESTMENT APPROVAL PROCESS

Action		FMG Agency Involved
1.	Prepare a Joint-Venture Agreement unless the foreign company is envisaged to be wholly owned.	
2.	Incorporate a Nigerian company under the Companies Act.	Registrar of Companies
3.	Obtain a Tax Clearance Certificate.	Ministry of Finance
4.	Negotiate and Obtain Lease for Business Premises	State Governments
5.	Obtain a Business Permit.	IDCC
6.	Obtain Expatriate Quotas.	IDCC
7.	Obtain Approved-Status-in-Principle.	IDCC
8.	Obtain Pioneer Status (if applicable).	IDCC
9.	Obtain Approval of Terms of Remuneration for Technical, Trademark and Licensing Agreements (if applicable).	IDCC
10.	Obtain Final Approved Status.	Ministry of Finance
11.	Undergo Inspection and Obtain Approval of Capital Investment in Equipment.	Industrial Inspectorate, Division, Ministry of Industries
12.	Obtain Approval for Ratification of the Initial Allocation of Shares.	SEC
13.	File List of Directors.	SEC
14.	Issue Share Certificates.	SEC

While the relative youth of the IDCC and recentness of the liberalized foreign ownership policies play a role, a fundamental reason for the continuing delays in the foreign investment approval process is the multiplicity of government agencies that are still involved -- in addition to the IDCC. In theory, the IDCC has a "one window approach" to the granting of the FDI license. In practice, several FMG agencies are involved in a complex investment screening, evaluation and approval process. As depicted in Figure 1, there are three phases of the investment approval/business formation process for a foreign investor in Nigeria: (a) preliminary paperwork prior to the IDCC process; (b) the IDCC

FIGURE 2
DOCUMENTATION REQUIRED FOR IDCC APPLICATIONS

- 10 copies of IDCC Form 1
- 10 copies of revenue receipt of payment for IDCC Form 1
- 10 copies of IDCC Form 2
- 10 copies of revenue receipt of payment for IDCC Form 2
- 20 copies of Certificate of Incorporation
- 20 copies of Memorandum and Articles of Association
- 20 copies of current Tax Clearance Certificate
- 12 copies of feasibility study for the project
- 10 copies of revenue receipts of status of Share Capital of the Company
- 12 copies of evidence of intention or acquisition of proposed business premises
- 12 copies of the Training Program of the Company
- 12 copies of Development Plan of the Company
- Copies of Title Designation, functional roles and educational qualifications of requested foreign/expatriate personnel
- 12 copies of pro-forma invoices and other evidence of acquisition or commitments to acquire operational equipment and plant required for the Company's business

---

approval process; and (c) final approvals after the IDCC approvals have been received. There are delays reported at each aspect of the approvals process.

Pre-IDCC Approvals. The first step of incorporating and registering a company under the Companies Act of 1968, is theoretically the least time-consuming step. In practice, however, investors report that files are frequently "misplaced", and the process of registration can take as much as one to three months, depending on the investor's abilities and contacts.

The process of obtaining a Tax Clearance Certificate -- certifying that all taxes due for the three immediately preceding years of assessment have been settled in full -- from the Ministry of Finance can also be problematic. For new investors without a tax track record, the process of getting an exemption from this requirement is especially difficult.

The third step, of obtaining satisfactory evidence of intention of the acquisition for business purposes is important to curb land speculation, as all land is theoretically owned by state governments under the provisions of the Land Use Act of 1978. Frequently, this means that the investor must show an actual lease or sub-lease for the industrial facility to support his IDCC application; a certificate of occupancy issued by the state governor is a pre-requisite. Obtaining this documentation can be extremely time-consuming and leaves a lot of room for fraud. In many cases, exorbitant charges are being assessed for the certificate; other states routinely insist that local Nigerians be placed on the Boards of the company; in still other cases, investors have to deal with a middle man who -- after obtaining control of the land from the government at a nominal rate -- charges a hefty premium.

IDCC Approvals Process. After the necessary documentation has been obtained, the investor has to apply for the requisite approvals from the IDCC, by filling-out two forms: Form 1 (for the Business Permit and Expatriate Quotas), and Form 2 (for Approved-Status-in Principle, and specific types of incentives such as pioneer status, and technical and management fees, etc.). Figure 2 details the extensive and largely unnecessary documentation required to support the applications. After the applications are received, two technical sub-committees evaluate and appraise them and prepare a brief for each of the Ministers on the Inter-Ministerial Committee. The Committee which, by law, is supposed each month, rules on each application; the Minister of Industries provides final approvals based upon the minutes of the meeting.

The problems experienced by foreign investors with the IDCC process are numerous:

- lack of clear criteria for evaluation of proposals. To a large extent, the investment applications are dealt with on a case-by- case basis, with no clear, transparent criteria for evaluation. This procedure gives a strong impression -- whether or not justified -- of uneven treatment.

- extensive and unnecessary documentation requirements. Much of the support documentation required by the IDCC is not necessary. It is not clear, for example, why a feasibility is required for each project since it is the investors that are assuming the commercial risk for the project with their own financing. Because of the documentation requirements, the majority of applications are rejected by IDCC officers for being "incomplete".

- lengthy and cumbersome review process. The review process itself is lengthy, due in large measure to the fact that the Inter-Ministerial Committee has not been able to meet every month as dictated by law. Because of this, there is a substantial backlog of applications awaiting review.

- inadequate structure of the review committee. The fundamental problem of the IDCC is that the FMG views the review process as one of investment evaluation and control and not one of simple registration of investment that meet simple criteria. What this means is that the technical, financial and economic viability of complicated projects is assessed by IDCC staff that are ill-equipped to do so. Frequently, applications are delayed because of technical issues, or nuances of law. This could be obviated if private sector representation was allowed on the Committee, and the review process transformed into a process of FDI registration.

Post-IDCC Approvals. After the preliminary approvals have been received by the investor, there are still a large number of permits and approvals that have to be obtained from the Ministry of Finance, Industries, Director of Factories and the SEC, as shown in Figure 1. What is most significant, is that the IDCC approvals are only preliminary, pre-investment permits. Final approvals are given by the Ministry of Finance and the Central Bank, after the investment has physically been made. Pioneer status, for example, is not actually conferred until after the investment has been made -- subject to the physical inspection of the business facilities and machinery.

The extraordinary number of steps that have to be completed before an investor can actually start operations represent a considerable deterrent to foreign investment, especially by smaller companies that do not have the resources to wait for the requisite approvals and "work" the system to their advantage. The net result of the bureaucratic process of business formation is continuing delays. According to most observers, a "flawless" investor application will at least require six months to begin operations; in most cases, the time period is over 9 months. The much vaunted Coca-Cola project, for example, has still to receive the final approval and permits, over one year after initiation of the project.

D. THE FORMAL CLIMATE: CONCLUSIONS

One of the most desirable effects of the SAP has been to promote the development of private industry according to a generally free market. In comparison to most Sub-Saharan African countries, Nigeria has developed an attractive set of investment incentives designed to promote export-oriented industrial production, based upon the utilization of local raw materials. Nigeria has offered a wide variety of investment incentives but these have been implemented with little apparent regard to the impact either the foreign investor's decision process. It appears that these incentives have been less successful in attracting additional flows of FDI.

Although the top levels of government is committed, there appears to be resistance from the civil service. The investment approvals process continues to be characterized by an ad hoc, case-by-case decision-making procedure, which leaves tremendous discretionary power in the hands of a bureaucracy. While the IDCC concept is good, it is still a peripheral organization, which continues to be dominated by narrow concepts of "control" and "regulation" of investment.

For a foreign investor, the process of applying for permission to establish and actually operate an operation in Nigeria is usually an uncertain, unpleasant and time-consuming experience, during which he is forced to deal with red tape. The problems related to this process has been at least partially responsible for the fact that only a small number of the foreign investment proposals have actually been implemented.

In other countries, it is generally seen that although a well conceived and executed investment approval does not per se guarantee the desired flow of FDI, they have been facilitated where the ground rules for approval of FDI are clearly delineated, where the institutional infrastructure is efficient, and where the procedures for approval are not cumbersome and are applied in a coherent and consistent manner.

Some other general impressions are that: (1) the amount of information required in the investment application could be significantly reduced and standardized; (2) the criteria for screening and evaluation could be simply stated and published; (3) the proposals do not have to evaluated for their financial and economic viability; the investment review process should be transformed from one of evaluation to one of registration of investment meeting clearly articulated criteria.

III. INFORMAL OBSTACLES TO FOREIGN INVESTMENT

Investors with a good knowledge of Nigeria and a strong domestic network are beginning to expand their operations. Small-scale textile production aimed at export and foundries for locally-sourced spare parts are emerging as a result of new economic and investment policies. Still, the huge potential of Nigerian market and natural resources is not being tapped. While some legislation needs to be modified, the greatest barriers to increased investment are informal, procedural, attitudinal and based on broader economic problems. Informal barriers are particularly a problem for U.S. investors who come to Nigeria for the first time.

A. INFORMAL BARRIER: THE LACK OF A GOVERNMENT INVESTMENT STRATEGY

The critical obstacles to investment are complex, related to policy implementation, general attitudinal resistance to FDI and resistance by elite groups. Perhaps the most important contributor to continued investment resistance is the attitude, held at the highest levels of government, that simple legislative reforms are sufficient to reverse twenty years of anti-investment policies. Initiatives must be actively promoted. It has yet to accept the idea that Nigeria is in competition for investment money with Eastern Europe, sections of Latin America and Asia, and an increasing number of African countries. Free competition for investment ranges from highly efficient productive areas like Malaysia and Taiwan to newly reformed economies like Mexico to the stock markets of the industrialized world. One result of this is that government surveillance of the performance of regulatory reforms regarding investment has been weak. If new investment is to succeed, considerable effort must be devoted to this area.

Nominally, investment promotion falls within the purview of the IDCC, but the promotion office has not yet been staffed. Although there are plans to develop the office in 1991, any results will be short-term at best because the government will change the following year, procedures will be altered and new officials put in place. The Ministry of External Affairs and Ministry of Trade and Tourism have performed some outreach but they do not have government authority to promote investment and do not have all the adequate information. Their efforts are mostly aimed at one-time, bilateral missions. A few government publications do exist that describe investment possibilities but their presentation and format, for a nation the size and complexity of Nigeria, is more of a disincentive rather than promotion of investment. New investors react to poorly prepared publications as a confirmation of their view that Nigeria is not a modern nation. This image must be change.

In most nations, successful investment policies are the result of ongoing communication between private and public sectors as to where measures are functioning and where they are not. The result of these communications is rapid policy and personnel change as to the successes and failures of ongoing policies. While there is some interaction between government and business, response from public authorities has been slow. Major policies written in law, such as trade incentives and rapid investment approval, have not been implemented effectively. Mid-level bureaucratic procedures, such as onerous filing requirements, are obstructing the commands of the highest level of government.

B. INFORMAL BARRIER: BUREAUCRATIC OBSTRUCTIONISM

While SAP creates a new economic structure and democracy is evolving, the bureaucracy has not changed either in values or in personnel. "Almost every area they have tried to deregulate," one businessman commented, "the bureaucracy has reached out and taken control back." Without regulatory reform, structural adjustment will fail as bureaucratic obstruction militates against macroeconomic strengths. Investment approvals and trade are mired in a maze of paperwork, payoffs and imprecisely understood procedures.

A small number of high-level managers control the legal regulatory system, but a poorly paid and inexperienced bureaucracy implements the laws and regulations. With little communication between the public and private sectors, the "learning curve" is broad and long. Since, typically, regulations change every two years and government officials change positions annually, it is difficult to install experienced procedures and staffing. In the deep recession, with declining purchasing power and facing a change in government in 1992, bureaucratic corruption is reportedly very high.

Among foreign investors, complaints about the regulatory environment are generally centered on the imprecision of procedures. While corruption ("dash") is accepted as a practice, the lack of firm procedures and the effort required to secure approvals prohibit expansion of most business. Large investors have the resources to operate in this environment, middle-size firms do not. This is particularly a problem since the private sector has little authority in the legal system. Domestic businessmen do not have a strong position in the political system, relative to other nations. Foreign businessmen have less. While their complaints are listened to at the highest level, day-to-day operational disputes in the bureaucracy can only be resolved in their favor with great difficulty.

The complaints against bureaucratic implementation are broadly-based and generally held by both Nigerian and foreign firms. Specifically, investment has been limited by:

- a long, tedious process to gain investment approval. Minimally, investments by the largest companies take one year because of formal administrative procedures. Land and infrastructural approvals, expatriate quotas and other related bureaucratic obstacles can delay approval for up to two years, prohibitively long for new investment.

- an irregular and imprecise regulatory environment that changes tariffs frequently and radically, and bans imports or exports of specific commodities for short-term periods.

- lack of impartiality in regulatory procedures.

- bureaucratic inability to enforce reforms or programs. Trade and investment policies which, on paper, provide strong incentives are not implemented because of bureaucratic problems.

- restrictions that limit legal imports or exports while, de facto trade exists through smuggling.

- high tax rates, supplemented by informal payments ("dash").

- major delays in capital repatriation, for bureaucratic reasons, leading to a loss of revenue because of currency fluctuation.

- long delays in the ports, for both imports and exports, leading to high inventory costs and slow payments for exports. Normal production schedules are impossible to maintain.

- reliance on government agencies for supplies. The petrochemical facility, upon which some investment had been made, barely functions. In agriculture, poor distribution of fertilizer, under government monopoly, renders large scale production difficult at best.

- a controlled currency market that, although liberalized, has been kept under government control, leading to imprecise currency valuation.

- the lack of "rule of law." Standing laws are not obeyed or avoided through bureaucratic fiat. Investment approval, under current regulations, is automatic 60 days after application. But the law is never obeyed. Past laws or regulatory determinations are frequently not followed when government officials change. This is a major issue at the state level. The states control all land and infrastructure services. Licenses for factory sites, received under one government, may not be followed by another government.

C. INFORMAL BARRIER: AN ISSUE OF PRIVATE/PUBLIC SECTOR ROLES

The bureaucratic problem is not that of personnel. Rather, it is one of management. Government attempts to control investments through requirements for feasibility studies, corporate balance sheets and trade projections that, typically, they cannot control, understand or efficiently administer.

Ministers jealously guard their prerogatives and hold a "we versus them" belief in regard to business involvement in regulation. Ironically, despite the overburdening bureaucratic procedures, government actions has been unable to halt the worst practices that it strives to control. Smuggling and capital flight is rife. Many Nigerians believe the informal economy is far larger than the formal (ex-petroleum) as a response to the rigid regulatory structure. By creating layers and layers of regulatory offices, government actions inhibit productivity while increasing corruption.

A solution to the regulatory problem is to involve the private sector in the regulatory structure. In other nations where similar situations existed, the private sector has become involved in both oversight and policy implementation, with government used for enforcement of regulations rather than oversight of their implementation. In a nation that has seen considerable turnover in its leadership and bureaucracy only business has sufficient resources, consistent experience and a greater understanding of the needs and processes of the productive sector.

Over time, the government must consider privatization of public services such as industrial parks, telecommunication, water and power supplies, if the environment for domestic and foreign investment is to improve.

D. INFORMAL BARRIER: ATTITUDES

There is a general lack of understanding of the value of foreign capital and its motives. While the outright hostility to investment of the 1970s has dissipated considerably and laws have been modified, many government officials and businessmen alike see investment as a right that must be earned rather than a national and business need that must be attracted. This attitude is manifested in the lack of a formal investment promotion program and in the general coolness of Nigerian business leaders to the idea of a private investment promotion system.

Foreign investment faces a dilemma: joint-ventures with Nigerian business are de facto requirements for an effective functioning investment because most new foreign investment need local partners to guide it through the regulatory maze. However, Nigerian businessmen, typically, do not seek to invest their funds in long-term projects. The traditional generalization that Nigeria is a nation of traders may not be completely true, but Nigerian businessmen clearly prefer the immediate gains of trade and finance to long-term investment. While they will provide talent or existing resources for new business, they will not provide capital, seeking to use their funds in short-term investments.

Even during the best of times, Nigerian business tends to keep its excess capital outside of the nation, the result of irregular and confiscatory government policies in the past. As SAP takes hold and confidence grows, Nigerian capital will return. But as of yet, this has not taken place. In addition, domestic businessmen who have the confidence and experience to join in joint investment -- rather than trade or sales arrangements -- with foreign groups are few, limiting the possibilities for small and mid-scale foreign investors, in particular.

E. INFORMAL BARRIER: PAST ECONOMIC PERFORMANCE

Even with an optimal regulatory environment, the deep Nigerian recession and the ongoing economic SAP change has rendered investment difficult at best. There is substantial evidence, however, to suggest that the macroeconomic trend is changing as oil revenues pick up and new, project-related investment funds flow into Nigeria. The purpose of the SAP is to change Nigeria's economy from one based on consumer demand for imports to an export-generating nation. Consequently, many investments based on import-derived goods, have ended. Now, Nigeria must attract new money to finance exports.

In the 1970s, when oil prices and government spending was high, non-oil foreign investment was a product of Nigeria's high-risk, high-return environment. Profits ranged from 30 percent to 50 percent of capital annually. With the drop in oil prices, debt crisis and implementation of the SAP, the nation entered recession. Per capita GNP went from US$1,090 in 1980 to around US$250 in 1989. Consumer demand declined dramatically. Many Nigerian companies went bankrupt, a natural result of adjustment as businesses that relied upon imports for their survival failed..

Today, many companies, Nigerian or foreign, have either reduced operations substantially or divested completely. The impact of the decade-long recession was massive on domestic and foreign investment. The Naira experienced a 69 percent devaluation (in real values) between 1984 and 1990, leading to an extraordinary rise in the cost of imports, and a large drop in the value of existing investment, expressed in dollar terms. Any new investment or infrastructural improvement that relies on external sourcing -- as virtually all does -- has soared concomitantly. Since Nigeria's manufacturing base is thin, most inputs are brought into the country, increasing the cost of virtually all spare parts and raw materials to prohibitive levels (e.g. most steel and aluminum inputs must be imported).

Local capital is scarce or non-existent, the result of large capital flight; interest rates are very high because of SAP's tight monetary policy. High taxation and other informal costs (e.g. corruption) increased the cost of doing business. Some knowledgeable businessmen estimate that investment costs are probably twice those of East Asia, with returns on investment far less than half those available on the Pacific rim.

With unemployment high and purchasing power low, few firms except the most established, had the ability to gain commercial advantage on the domestic market. Capacity utilization has shrunk to 30 percent, overall, according to government estimates. Peugeot's automobile plant is operating at 15 percent. Suzuki's motorcycle operation, at 3 percent as the cost of imports increase and the local market shrinks.

In 1990, the economy is turning around. Government spending has grown. An increase in the minimum wage will spur consumer spending. New, hard-currency investments in oil and other projects will increase employment and purchasing power. Investors, both Nigerian and foreign, are looking for consistency before any confidence returns to the market.

If Nigeria is to grow and investment increase, it must be based on agricultural production and export-based industries. But this will take some time. Farmers must develop confidence. Industrial inputs (steel, fertilizers, petrochemicals and LNG) must be brought on line and distributed efficiently.

Manufacturers are showing signs that they are more inclined to source their inputs locally, as a result in the change in relative prices, while the patronage of locally manufactured goods by consumers has sharply risen. There are signs that exports are increasing, especially in the textile, wood products and leather sectors. Palm oil and industrial starch investments are beginning. Still, the economic recession throughout other West African (ECOWAS) nations limits the potential benefits to be gained from exports to nearby markets. Competition in Europe and America is far more difficult, given the global economy.

F. INFORMAL BARRIER: ADVERSE MID-TERM MACROECONOMIC TRENDS

Government expectations of a rapid increase in non-oil investment, as a result of the Structural Adjustment Program, are unrealistic because economic factors constrain both domestic investment as well as foreign investment. Over time, these factors should change, leading to increased investment:

1. Investment for the domestic market is limited by the ongoing recession in which consumer confidence is weak. Domestic sources for capital are limited and very expensive, because of high interest rates, limiting investment capacity of domestic, joint-venture partners.

2. The fall in the Naira's value increases the cost of imported machinery, technology and services for new investment. Dollar-denominated investments are therefore economically viable, in most cases, for exports only.

3. Nigeria's manufacturing sector functions on a weak base, lacking basic raw materials and basic manufactures. While small foundries for spare parts and basic components ("nuts and bolts") are emerging, existing domestic industries is keyed to imported raw materials and does not seek to develop its own substitute materials. Nor does it have confidence in locally produced products.

4. Nigeria's experience with manufactured exports is limited, at best. Non-petroleum and non-agriculture exports account for about 2 percent of all Nigerian exports or about US$150 million.

G. INFORMAL BARRIER: POLITICAL CONCERNS

Political uncertainty mars the investment climate. The 1990 failed coup attempt and the 1992 change to democratic rule introduce a degree of uncertainty. While political change in the past has not played a major role in the performance of foreign business, investors fear a change in the regulatory environment as "new breed" politicians take control of the nation. Ministerial changes will likely lead to new policies and additional delays as new bureaucrats learns their jobs and procedures.

H. INFORMAL BARRIER: INFRASTRUCTURAL DEFICIENCIES

In the 1970s, oil resources financed major improvements in port capacity, roads, bridges and airports. Since 1983, economic recession, a decline in government revenue and poor and corrupt bureaucratic management has led to a decline in government service.

There has been virtually no major additions to capacity. Only the Kaduna to Kano expressway in the north has been built. Maintenance and rehabilitation work has also been very limited.

The failure of publicly controlled, infrastructural services is most telling in the agricultural sector, that area which the government's structural adjustment aims to improve. Spoilage, a key problem in Nigeria, is rooted basically in the inability to get food to market in a timely fashion. Refrigeration is difficult because of the weak rural electrification program. Road expansion and maintenance is required to open up lands for exploitation.

Ports. The ports represent the greatest bottleneck for investment, in a nation that relies heavily on both imports and exports. Typically, importers report that they must factor in six months to gain delivery of required materials, increasing the cost of inventory and production. Similarly, exports of manufactured goods require three months. In others words, companies must finance nine months of transportation costs, a difficult task in a nation that seeks to develop an export-oriented economy.

While much of the obstruction at the ports is due to bureaucratic problems, the declining condition of Nigeria's eight major port facilities also contribute to the problem. In the past, during the oil-boom years, the ports were clogged, making a free flow of trade difficult. But between 1983 and 1988, ship tonnage fell by two-thirds. Imports fell from 15 million tons to 5 million tons and exports grew only from 460 thousand tons to 1 million tons. Many ports are empty and the flow has only improved moderately.

Telephones. Run by the public company Nigeria Telecommunications Ltd (Nitel) the telephone system functions poorly In a nation with high population growth, the government lacks the capacity and the hard currency to finance line expansion or maintain telephone equipment. As with most other utilities, informal payment is the major factor in guaranteeing service. Telecommunications failure has been a major detriment to expansion in air service.

Railroads. The railroad network is small, with 3,500 kilometers of narrow gauge. In recent years, the Nigerian Railway Corporation (NRC) has been forced to cut service to minimal level. There is a serious shortage of rolling stock and freight rates and passenger fares have risen to excessive levels. Between 1984 and 1988, the amount of freight tons carried on rail lines fell from 1.5 million to 300,000 metric tons while the number of passengers drop by two-thirds.

Two routes crisscross the nation, connecting only the major metropolitan areas of the north and south. One line begins at Lagos and the other at Port Harcourt, in the south, and end at Nguru in the northwest and Maiduguri in the north east. The line is in poor repair and functions irregularly. Plans to upgrade the routes to standard gauge and double tracking have been postponed repeatedly for economic reasons.

Under law, investors must reach agreements with state (rather than federal) authorities to furnish power and water to industrial sites. In practice, most companies must pay these utility fees and develop their own services as well. The government lacks the resources to improve the infrastructure. It has shown little willingness to follow the example of other nations to privatize basic services. Thus, there is little likelihood that the infrastructural environment will improve over the mid-term.

Air Service. Debts and currency problems have plagued the operations of Nigerian Airways, the major, publicly-owned carrier. In 1988 and 1989, French and British authorities seized Nigerian aircraft and threatened to remove landing privileges because of non-payment of debts. Between 1984 and 1988, the number of passengers carried on domestic routes fell by half and on international routes by a third while total cargo in both sectors remained stagnant.

I. INFORMAL BARRIER: POOR REPUTATION

Nigeria does not have a good reputation among foreign investment who recall the forced nationalization of foreign resources (the Indigenization Act) 20 years ago and the massive bottlenecks and infamous corruption in Nigeria's ports and ministries during the oil boom. Government administration was regarded in may places as chaotic, expensive and not worth the large effort required to develop an investment.

In the United States, the change in the Nigerian regulatory environment runs up against the broad belief that the risk is too high and potential return, too small, to merit new funds. Consider, over the past decade, that because of the 64 percent Naira devaluation (in real terms), the value of all investments dropped substantially. Recent moves to divest by banks and some major English firms, has not helped the poor reputation. Incidents of fraud in the oil sector and imprecise legal regulations -- that change as payoffs are made -- do not help. An understanding of the new investment environment has not yet developed among foreign private groups. Indeed, the government faces a major task in persuading companies to come to Nigeria, an effort that is not yet appreciated.

J. INFORMAL BARRIER: U.S.-SPECIFIC BARRIERS

American investors, unlike their European counterparts, have less experience in an African environment and are therefore less likely to respond to investment incentives. U.S. non-petroleum investment in Nigeria is a fraction of that from either the UK or France. Information and contacts are consequently that more difficult to obtain.

Africa, as a generic category, does not attract immediate American investment interest. The relative distance between America and Nigeria, in comparison with Europe is, itself a barrier to business familiarity. Many American firms handle all of their African investments through European subsidiaries and do not concern themselves with African affairs. The need for education and communication in the United States is therefore greater than elsewhere.

A key informal barrier for Americans with no Nigerian experience is the lack of business contacts. Indeed, one of the most critical investment decisions that must be taken early on is the determination of business partners. American business, outside of the oil sector, does not know which Nigerians are strategically placed, commercially astute, and politically strong.

The role of "dash," or gift payments to public sector employees is prohibited in US legislation. American firms must determine if they can function legally without increasing business risks before undertaking any investment.

IV. USAID OPTIONS: FOREIGN DIRECT INVESTMENT PROMOTION

A. INTRODUCTION

New foreign investment in Nigeria is possible today by large American corporations interested in generating Nigerian exports. Consequently this sector should be the focus of any investment promotion effort over the short-term. Small to medium-sized foreign investment is not possible because of the high costs and complexities required to start new ventures in Nigeria. Most new investments aimed at the domestic market will also not be possible because of the low value of the Naira, rendering imports expensive in local terms and low demand in the domestic market. The only exception to this is in those sectors that seek to sell to domestic markets linked to export (e.g., shipping supplies, tourism, oil and mine service companies).

The success of recent Nigerian initiatives and policy changes to emphasize increased foreign investment is dependent upon a gradual evolution of institutions and the development of an understanding of the implication of the new policy by government officials. Most attempts to promote investment will inevitably fail because of institutional roadblocks and contradictory policies.

To date, Nigeria does not have an organized foreign investment promotion effort. This is a reflection of the general attitude, held by many government officials, that simple legislative reforms are sufficient to reverse twenty years of anti-investment policies. Government has yet to accept the idea that Nigeria is in competition for investment money with other areas of the world and must constantly review policies and procedures and make adjustments to reflect the needs of the economy and the investor.

Optimally, USAID efforts in investment promotion should have two, linked components:

1. An investment promotion effort that develops linkages with foreign firms, creates a promotion strategy and assists in developing publications and other publicity material; and

2. Institutional assistance that develops government awareness of the prerequisites for investment, improves procedures and criteria and suggests new policies and programs to attract foreign capital.

B. OPTIONS

A broad range of options exist for investment promotion, depending upon available resources and the willingness of other Nigerian and multilateral agencies. With minimal resources, assistance can be provided for technical support for investment promotion. A more ambitious program that aims to influence government actions in the FDI area will require substantially more resources.

Options for technical USAID assistance are divided into two, general categories with some overlap between the two: 1. Assistance to an investment promotion center to be developed by the Nigerian-American Chamber of Commerce (NACC); and 2. Assistance to the Ministry of Industry to assist the Industrial Development Coordinating Committee (IDCC) to develop policy and practices and investment promotion. Specifically, possible options for assistance are:

1. Investment Promotion

a. Option 1: Locally Based Investment Promotion Effort

Investment promotion assistance to the NACC in which a Nigerian investment promotion would be hired for the investment promotion center and receive technical assistance with the help of USAID. Some training would be provided in the United States. NACC would provide staff, office resources and most of the effort. The advantage of this option is longevity, in that a Nigerian is trained to perform investment promotion, and commitment, in that the Chamber is committed to a long-term effort. The difficulty is that the Chamber does not appear to have sufficient resources to support such an independent effort at this time.

b. Option 2: Link-up with the IESC

Investment promotion assistance to the NACC in which an International Executive Service Corps (IESC) expert is provided to advice the investment promotion center and create linkages to possible US investors through the IESC network. The IESC expert would work with a NACC investment promotion official, to be hired, to evaluate the potential success of projects, assist in the development of investment promotion material and activities and provide additional technical assistance as required. IESC experts in the United States would create linkages with American corporations. USAID would support the IESC expert's travel and expenses in Nigeria. NACC would provide administrative support, office space, local transportation as well as the maintenance of the Nigerian investment promotion expert. NACC would also fund all costs relating to investment promotion, including publications and meetings. The advantage of this option is the linkage with US investors and the on-site technical advice provided by IESC exports. The difficulty is NACC's lack of resources to fund such an effort at this time.

c. Option 3: Short-term Focussed Technical Assistance

USAID short-term consultancies to NACC to assist in the development of an investment promotion center. Expertise would assist in the evolution of procedures and publications. As NACC develops its financial resources, USAID could expand its cooperation leading to option 2: the placement of an IESC representative. USAID would fund all costs of the short-term consultancies and NACC would fund the costs of developing the investment promotion center. While short-term consultancies may be more expensive over the mid-term than an IESC representative, such a program would encourage the NACC to develop resources for the investment promotion center.

d. Option 4: Institutional Contractor

USAID would fund a consulting group specializing in foreign investment promotion that would provide a broad range of services in investment promotion either to NACC or the Ministry of Industry. Technicians in Lagos and elsewhere in Nigeria would develop investment possibilities and use their US resources and personnel to establish contacts with potential investors. The contractor would develop investment promotion materials and meetings for the local partner. The advantage of this option is the high visibility and rapid development of an investment promotion program. The disadvantages are the high cost to USAID and the lack of any Nigerian institutional and policy development.

2. Investment Promotion, Policy and Institutional Development

a. Option 5: Technical Advisor to the IDCC

A technical expert from a specialized consulting group would be attached to the Ministry of Industry and the IDCC to advice on investment approvals, policy, criteria and implementation. By linking investment promotion with policy, Nigerian officials will develop an understanding of strengths and weaknesses of ongoing programs and adjust policy. The expert would work with an IDCC investment promotion official to evaluate ongoing programs and the potential for new investment. Investment promotion material and activities would be developed. The organization's experts in the United States would create linkages with American corporations. USAID would support the technical advsisor's fully burdened professional fees and direct expenses. IDCC would provide administrative support, office space and local transportation. IDCC would also fund all costs relating to investment promotion, including publications and meetings. The advantage of this option is the linkage between policy and promotion and the development of a more effective investment program. The disadvantage is the apparent reluctance of the Ministry of Industry to work with such a bilateral program at this time.

b. Option 6: Joint Effort with the World Bank

US government resources would co-finance, with the World Bank an investment policy/promotion effort. Working with a Nigerian consultancy firm, US investment experts -- from an institutional contractor -- would advice the Ministry of Industries on an ad hoc basis. Advice would aim to adjust and render more effective investment policies, procedures and institutional structures. The World Bank would provide incentive for new investment for small to medium enterprises through an already existing US$270 million facility. The bank's program is currently administered through the Central Bank and private banks and only open to local Nigerians. But the Bank seeks to open the facility to foreign investors. It is also willing to cooperate in an investment policy effort.

The modality of such an effort would have to be developed in negotiations between the US embassy and the World Bank in Lagos. USAID would likely provide expertise and training to a Nigerian consultancy group that is close to the Ministry of Industry in cooperation with the World Bank. US experts would establish linkages with American companies and would closely monitor the progress of policy reform and its impact on investment for the government of Nigeria.

The advantage of this approach is that it provides the greatest amount of impact on investment policy and therefore on foreign investment. Since it is not a formal bilateral effort, the government would likely accept such technical advice in policy development. The cost of such an effort is variable, ranging from the participation of an IESC expert to a broad investment promotion contractor. Optimally, such an effort could also employ NACC resources to generate local investor interest as well as IDCC offices for investment promotion. If this option is to be considered, negotiations with the World Bank would have to be accomplished and the willingness of the government of Nigeria be further ascertained.

The ultimate objective of these efforts would be for on-going policy reform and simplification of the investment approvals and business formation procedures. In the short run, this would mean the de-bureacratization of the IDCC with private sector participation, and the development of transparent process for FDI approvals. The longer term goal would be to deregulate the business environment.

The specific modalities of these options and their likely impact will be examined further in the final report.

V. EVALUATION OF INVESTMENT PROPOSALS

A. OVERVIEW

In support of its overall objective of FDI promotion, the Federal Ministry of Industries has been collecting proposals from Nigerian companies interested in entering into a joint venture with foreign partners. Fifteen of these Industrial Project Profiles were submitted for review and evaluation by the U.S. investment consulting team.[3]

The project profiles reviewed covered several sectors, consisting of the following types of projects: Paper conversion/paper production (7 projects); rubber production (1 project); pre-stressed concrete products (1 project); production of ceramics (1 project); manufacture of paints (1 project); assembly of commercial vehicles; and assembly of refrigerators and other kitchen appliances (1 project).

The projects ranged in terms of total capitalization from N9 million to N160 million; the average project size is about N10 million. The projects are both totally new ventures as well as (apparently) already existing ones.

B. ASSESSMENT OF THE INVESTMENT PROFILES

1. Profile Format

The investment profiles provided a great deal of information in a four-page form, covering a number of areas of general importance to potential investors. In many respects, however, the documents lacked critical information:

---

[3] In addition, the team received an additional number of "opportunity studies" prepared by the Nigerian Industrial Development Bank that presented projects including the following: tractor assembly; agricultural hand tools; textile industry spare parts; domestic pumps; production of chlor-alkali, calcium hypochlorite, calcium carbide, sulfuric acid, urea- formaldehyde; industrial explosives; diesel engines assembly; cement and mining industry spare parts; shock absorbers; and bone-based chemicals. These studies were not reviewed by the team because insufficient information was presented: the team received only the first page of each profile which appeared to be "canned" project opportunity studies prepared for UNIDO.

- there is no general narrative outlining the fundamentals of the project, including the description of the proposal, its sponsors, the specific types of inputs being sought, etc. Such a general statement would greatly ease the process of assessing the profile.

- there is no date on the documents. This is of critical importance to potential foreign joint venture partners, especially in the context of a rapidly depreciating currency, and changing economic circumstances currently in Nigeria.

- critical underlying assumptions are missing. Most of the profiles neglected to include information that is critical to even a cursory assessment of the project, such as the price and sources of inputs; the extent of the potential market for the output; source and types of required imports; the degree of competition in the end-user market, etc. The provision of such information would allow the potential joint venture partner to at least make a preliminary "go/no go" decision.

- what are the key factors of success? It is not clear what the fundamental economics ensuring the viability of the project are based on. For example, in some cases, the project may be based on a (temporary) import ban or tariff protection that may be rescinded. The profiles must clearly indicate the project risks in order to be credible.

The addition of such information, however, is not enough to interest the U.S. investor, as discussed further below. In terms of format, however, it would be useful to append general articles or other information about the potential market. Finally, of utmost importance is the appearance of the document, especially for U.S. investors. The document must look credible, and therefore cannot appear to be a government document. (A suggested revised format for the profiles will be presented in the final report.)

2. Assessment of the Business Opportunity

As far as the fundamental viability of the business opportunities presented are concerned, a number of observations can be made:

- First and foremost, it is surprising to see a number of proposals that are based upon the simple assembly of imported CKD kits. In the present economic context, highly import-dependent operations that are not also export-oriented are unlikely to be profitable without some sort of import protection.

- Second, the financial impact of some projects appear inflated and unrealistic, with pay-back periods of only 2-3 years for rather large investments, and dubious capacity utilization projections, in excess of 90 percent. Such unrealistic claims detract from an otherwise attractive investment opportunity.

- Third, it is not very clear why foreign (and in particular, U.S.) equity investment is being sought. Many of the profiles seem to want only a minority cash or machinery contribution from the joint-venture partner. Much of this may result from the currently very high interest rates of debt financing (30-34 percent) and tight liquidity in the banking system currently. This is especially true for the several existing enterprises that are profiled who seem to only want cheap financing.

- Fourth, the terms of involvement by the foreign investor is either too restrictive or too ambiguous. Many profiles limit the potential foreign equity investor to only 40 percent ownership (which seems to suggest that these are older projects when FMG rules limited foreign investment). Others only want specific types of foreign contributions -- such as machinery or technology -- and seem to rule out other types of engagements. Such limitations are especially important to U.S. companies who typically like to control an investment and be involved in the management of the company. On the other hand, still other profiles are so ambiguous in terms of the foreign involvement sought that the project looks unattractive. Some middle ground must be found.

As a general observation, it is surprising to receive so many relatively capital intensive projects based upon imported raw materials in the current economic environment. It would seem that more labor-intensive, light manufacturing projects oriented in large measure to the export market and/or based upon the exploitation of local raw materials would present a more attractive investment opportunity in the short term. Such projects are conspicuous by their absence. Still, there are a couple of projects in the paper manufacturing and conversion sector that appear to be an attractive investment opportunities given the tremendous unmet demand for paper and paper products in Nigeria and the outmoded technology of existing plants. These projects will be identified and examined in detail in the final report.

ANNEX A
SCHEDULED ENTERPRISES RESERVED FOR NIGERIAN OWNERSHIP

- advertising and public relations business.
- all aspects of pool betting and lotteries.
- assembly of radios, radiograms, record changers, television sets, tape recorders and other electric domestic appliances not combined with manufacture of components.
- blending and bottling of alcoholic drinks.
- blocks and ordinary tiles manufacture for building and construction works.
- bread and cake making.
- candle manufacture.
- casinos and gaming centers.
- cinemas and entertainment centers.
- commercial transportation (wet and dry cargo and fuel).
- commission agents.
- department stores and supermarkets having an annual turnover of less than N2 million.
- distribution agencies excluding motor vehicles, machines, equipment and spare parts.
- electrical repair shops other than repair shops associated with distribution of electrical goods.
- estate agency.
- film distribution.
- hairdressing.
- ice cream making.
- indenting and confirming.
- laundry and drycleaning.
- manufacturers' representatives.
- manufacture of suitcases, brief cases, hand-bags, purses, wallets, portfolios and shopping bags.
- municipal bus services and taxis.
- newspaper publishing and printing.
- office cleaning.
- passenger bus services of any kind.
- poultry farming.
- printing of stationary.
- protective agencies.
- radio and television broadcasting.
- retail trade.
- singlet manufacture.
- stevedoring and shorehandling.
- tire retreading.
- travel agencies.
- wholesale distribution of local manufactures and other locally produced goods.
- repair of watches, clocks and jewelry.
- garment manufacture.
- grain mill products including rice milling.
- manufacture of jewelry and related articles.

ANNEX B
INDUSTRIES ELIGIBLE FOR PIONEER STATUS

- cultivation/processing of food crops
- cocoa manufacturing
- oil seed processing
- integrated dairy production
- ranching
- bone crushing
- fishing and processing
- lead/zinc mining
- iron and steel manufacturing
- non-ferrous base metals smelting
- oil well drilling materials manufacturing
- cement manufacturing
- glass manufacture
- lime production
- marble quarrying and processing
- ceramic products
- organic and inorganic chemicals, fertilizers, petrochemicals, synthetic textile fibers, caustic soda and chlorine
- pharmaceuticals
- surgical dressings
- starch from plantation crops
- yeast, alcohol and related products
- animal feedstuff
- paper-pulp, paper and paper-board
- processed leather and leather products
- textile fabrics and man-made fibers
- metal products
- machinery and equipment with significant local components
- rubber and mostly rubber products
- wheat flour milling
- oil palm and arabic gum plantation and processing
- integrated wood products
- commercial vehicle manufacture

H7

ANNEX C
INTERVIEWS CONDUCTED
(Alphabetical Order)

GOVERNMENT OF NIGERIA

Mr. O.A. Imianvan
Director
Policy, Planning and Research
Ministry of Industries

Dr. M.J. Jimeta
Director General
Federal Ministry of Industries

Mr. M.A. Jolugbo
Ministry of Finance

Mr. I.K. Komolofe
Liaison Officer
Ministry of Trade and Tourism

Mr. S.K. Manzo
Director
Industrial Development Coordinating Committee

Mr. Isaiah J. Udoyen
Assistant Director General
Ministry of External Affairs

Minister Senas Ukpanah
Minister of Trade and Tourism

Minister M. Yahaya
Minister of Industries

PRIVATE SECTOR

Dr. Ahmed Abdulai
Managing Partner
Abdulai, Taiwo & Company

Mr. Rene Z. Adad
General Manager
Coca Cola Nigeria Limited

Mr. Robert Agee
Managing Director
Rank Xerox (Nigeria) Limited

Mr. Festus Udala Akpati
Principal Partner
Dala Akpati & Company

Chief Samuel A. Alamutu
Executive Chairman
Modern Hotels Limited

Mr. Isaiah C. Balat
President
Kaduna Chamber of Commerce, Industry and Agriculture

Mr. 'Seyi Bickersteth
Arthur Anderson & Company

Mr. Tony Boulas
Boulas Enterprises Ltd.

Mr. Neville J. Bunnetta
Chief Liaison Officer
COTECNA International Ltd.

Mr. Carl Cabral
Texaco, Inc.

Mr. Tayo Ekundayo
Nigeria Telecommunications Ltd.

Mr. E. Tim Egbuson
General Manager
Onome Foods Ltd.

Mr. Farid M. El-Khalil
Vice Chairman & Managing Director
International Tobacco Company Ltd.

Mr. Faysal M. El-Khalil
Managing Director
Seven-Up Bottling Company Ltd.

Mr. Chinedum Ezebuiro
3C Promotions and Consultancy Services Limited

Chief Olusola Faleye
Partner
Coopers & Lybrand

Prince Lekan Fedina
Chairman/Chief Executive
Equity Securities Limited

Chief R.F. Giwa
Chairman/Managing Director
Lever Brothers Nigeria Limited

Mr. M.I. Igboanugo
Managing Director
Alhamra Limited

Mr. Richard Ikiebe
Executive Director
Nigerian-American Chamber of Commerce

Dr. 'Imo J. Itsueli
Managing Director
Dubri Oil Company Limited

Mr. John E. Jackson
Managing Director
IMNL- United Parcel Service

Mr. Richard L. Kramer
Arthur Anderson & Company

a4

Dr. Jonathan A.D. Long
Managing Director
First City Merchant Bank

Mr. J.D. Malkani
Managing Director
INLAKS Limited

Mr. Michel Mansuy
General Manager, Industrial Division
Peugeot Automobile Nigeria Ltd.

Chief Arthur C.I. Mbanefo
Arthur Mbanefo and Associates

Mr. John J. Needham
Managing Director
Nigerian-American Merchant Bank

Mr. Emmanuel Nwachukwu
Corporate and General Investments Ltd.

Mr. Sam Nwakohu
S.A. Nwakohu & Associates

Chief J.P.C. Obi
Managing Director
Vitalink Pharmaceutical Industries Ltd.

Chief Oforiokuma
NAACIMA
Calabar Chamber of Commerce

Mr. Graham Ogunleye
Concepts Director
Afukorist

Dr. Uzor E. Okeke
Director, Economics
Manufacturers' Association of Nigeria

Mr. Vincent S. Okobi
Secretary General & Director
Franco-Nigerian Chamber of Commerce and Industry

Mr. F.A. Okunola
Managing Director
Guiness Nigeria Limited

Mr. Ronald Oluketu
Financial Director
Afukorist

Mr. O.J. Oriekhoe
Director
Osagie Oriekhoe and Partners

Alhaji A.O.G. Otiti
Chairman
Securities and Exchange Commission

Mr. Ebisan S. Rewane
Managing Director
Seaboard Group of Companies

Mr. Omatsola C. Rewane
Executive Director
Seaboard Group of Companies

Mr. Denis L. Rodd
Managing Director
Crown Merchant Bank

Mr. Freddie Scott
West Africa Committee

Mr. Richard Sontag
Executive Director
Mobil Producing Nigeria

Mr. Yahaya Usman
Executive Secretary
Kaduna Chamber of Commerce, Industry and Agriculture

Mr. M.T. Williams
Managing Director
United Nigerian Textiles Ltd.

OTHER

Mr. Philippe Bossard
Africa Enterprise Fund
International Finance Corporation

Mr. John Ducker
Deputy Resident Representative
World Bank

Mr. Shakil Faruqi
Economist
World Bank

Mr. Frederic J. Gaynor
Commercial Counselor
U.S. and Foreign Commercial Service

Mr. Tariq Hussein
Resident Representative
World Bank

Mr. David Kaeuper
Political Counselor
U.S. Embassy

Ms. Deborah Schwartz
Economic Counselor
U.S. Embassy

ANNEX D
CUSTOMS IMPORT TARIFF RATES

COMMODITY	IMPORT DUTY (%)	
	1989	1990
Starch	35	200
R20 Battery	70	200
Fluorescent Tubes, Glass Bulbs	--	200
Glass Shells	40	200
Automotive Filter	10	25
Toothbrush	35	70
Hinges	30	50
Staples	20	40
Paper Clips	20	40
Office Pins	20	40
Wheel barrows	15	50-70
PVC Granules	25	35
Ink & Pigment	20	30
Jewelry	100	200
Motorcycle and Bicycle chain	20	30
Bicycle frame	30	50
Cold Rolled tubes	20	40
Aluminum fin stock	20	35
Tin plate	20	15
Sugar	50	40
Paper making machinery	30	10
Machine tools	20	10-15
Machine sleeves	--	10
Tissue paper in rolls	20	10
Carbonizing base paper	20	15
Pulp	20	10
Wood in rough	10	5
Spare parts for ships	10	5
Live animals (sheep, goat, cattle)	30	0