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Impact of Fiscal Policy Instability on Foreign Direct Investment in Nigeria

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Abstract
Fiscal policy is the planning of revenue and expenditure levels and pattern by government to influence the circular flow, or specifically to promote full employment production, price stability and national welfare. The need for a more stable macro-economic environment in Nigeria through sound fiscal and monetary actions is still paramount. This study investigated the impact of fiscal policy instability on Foreign Direct Investment (FDI). The objective of this study was to find out if measures of fiscal policy a significant effect on the FDI instability. The data used for this study was obtained through secondary source. This data included Nigeria's gross domestic product, foreign direct investment, government revenue, government expenditure, balance of payment and government total debt from 2000-2014. Data showing the Foreign Direct Investment (FDI) from 2000-2014 was also obtained. The regression analysis technique was used to test the hypotheses. The study founded that coefficient of determination R^2 explained a total variation of 93% (percent) of the dependent variable (FDI) which means that measures of fiscal policy instability are important predictor of FDI. The study revealed that fiscal policy measures of the federal government have not significantly improved FDI. The study concluded that Fiscal Policy instability on FDI could be as a result of the insufficient domestic investment to accelerate growth, hence, recommended that there should be improvement in the overall fiscal operations of the Federal Government to ensure sound and stable macroeconomic environment that will attract investors.
Keywords: Fiscal Policy, FDI and Macroeconomic Environment

1.0 INTRODUCTION

The need for a more stable macro-economic environment through sound fiscal and monetary actions is still paramount in the world of research. Besides the challenges posed by globalization to the domestic economy, it has been empirically argued that instability and uncertainty in any economy impede long term growth (Akanni and Osinowo, 2013:124). Yosra, Anis and Houria, (2013) state that countries seeking to attract FDI should create a more favourable climate for Multinational Enterprises through the improvement of political institutions and economic policies that stimulate FDI inflows. On the other hand, there are several factors such as corruption, political instability, macroeconomic instability that affect the investment climate. Ndem, Okoronkwo and Nwamuo (2014) stress that the factors influencing FDI decisions are very varied, and while not an exhaustivelist, fiscal policy to Antionio, Jose and Luis (2014), is believed to be one of the factors may affect foreign direct investment (FDI) decisions and investment climate. Eze and Ogiji, (2013), therefore, sees fiscal policy as the use of government revenue collection (taxation) and expenditure (spending) to influence the economy. In furtherance, the two main instruments of fiscal policy are government taxation and government expenditure. It can also be seen as government spending policies that influence macroeconomic conditions. These policies affect tax rates, interest rates and government spending, in an effort to control the economy.

Peter and Simeon, (2011 in Eze and Ogiji, 2013:35) believe that following the stale performance of the Nigerian economy, which was seen as a growing concern, government policies began to show more concern on the management and improvement of the economy. The government over the years has embarked on various macroeconomic policy options to grow the economy in terms of growth and development and the policy option employed is that of fiscal policy. Mahmood and Khalid, (2013) affirm that the government in a bid to regulate the level of spending and manipulate the economy of the country, has made use of fiscal instruments. Nevertheless, in order to attract FDI and more generally, encourage investment-developing countries and economies in transition need to enhance their locational assets, which means investing in health, education, power, transport etc. (United Nations, 2004), and change their tax regime. In spite of these efforts coupled with the enormous benefit, host countries stand to gain from FDI the flow of foreign capital in form of foreign private capital to developing countries and Nigeria especially over the years have been strongly marginalized (Akanni and Osinowo, 2013). Idowu and Abe (2013) fear that FDI in Nigeria have not been encouraging, as a result of major domestic flaws in the country such as high inflation, poor infrastructure, corruption and insecurity that reflect on the nominal growth of the country, low interest rate, unfavourable exchange rate and unnecessary barrier to trade and inflows of capital that mainly come in the form of legal requirement, tariff barriers, duplicated tax system, etc. Also, the fear of future burden to be born in form of higher tax and levies to redeem huge debts especially, external debts seem to deter the inflow of FDI the country. UNCTAD (2001) in Ndem, Okoronkwo and Nwamuo (2014), also agrees that Nigeria share in FDI flow has steadily declined in recent times.

Factors contributing to this lag in FDI flows to Nigeria relative to other countries of the world according to UNCTAD include; high level of corruption, poor governance, inadequate infrastructure among others, which arguably emanated from the fiscal instrument. Furthermore, they argue that despite the role that infrastructure could play as incentive to attract FDI, evidence points to the fact that delay in infrastructure in Nigeria social, economic and finance are on the verge of collapse. Recently many industries in Nigeria, like Unilever, Nestle food, etc., relocated their main factories to Ghana because of regular power supply in Ghana. The Nigerian major roads are largely not motor-able and electricity generation problem has remained a recurring decimal.

Several empirical studies supported the view that macroeconomic instability as witnessed in budgetary deficits is unfavourable to capital accumulation and economic growth, the most important finding is undoubtedly that the positive impact of FDI on economic depends on macroeconomic stability environment (Mustapha, Monnet and Rene, 2008). Obiyeluaku, (2006 in Akanni and Osinowo, 2013:124) puts forward that macroeconomic dynamics in Nigeria have been dominated in the past by fiscal instability. There has been a strong deficit stemming from government revenue volatility. As a result, monetary authority has been forced to neutralize policies leading to macroeconomic instability. To lend further credence, since the drastic oil price fall of 1980s, fiscal policy in Nigeria has lost the desirable characteristics required for its effectiveness as a vehicle of economic growth and tool for stabilizing the economy; it still has a yearly contribution to the economy either positively or otherwise (Ibid). Cleeve (2004) is of the view that Africa's image as a high-risk investment region has to be dispelled, as the flow of FDI is highly sensitive to economic and political risks. However, the fiscal incentives, the most popular instrument for attracting FDI in Africa, have failed to deliver the expected increase in FDI inflows. Campos and Kinoshita (2003 in Sahoo, Nataraj and Dash, 2013) have argue that good infrastructure is necessary condition for foreign investors to operate successfully, regardless of the type of FDI. Therefore, when developing countries compete for FDI, the country that is best prepared to address infrastructural bottlenecks will secure a greater amount of FDI. More so, government finance is an important issue that affects FDI flows. A high fiscal deficit leads to more government liabilities and therefore more taxes and defaults on international debts. Fiscal discipline is a key ingredient and determinant of FDI. Amirahmadi (1994 in Schoeman, Clausen Robinson, and de Wet, 2000) emphasises the importance of fiscal incentives to attract FDI. Such incentives include tax breaks and tax holidays, and fiscal discipline when it come to the implementation and prioritization on infrastructural projects that can promote FDI in a country.

1.2 PROBLEM STATEMENT

There has been a surge of FDI as a result of globalization. Multinational companies are increasingly looking to invest where the institutional environment is favourable and in host countries with a transparent institutional framework characterized by a coherent fiscal policy. On the other hand, countries are increasingly seeking to attract FDI, and have sought to create a more favourable climate for Multinational Enterprises through the improvement of political institutions and economic policies that stimulate FDI inflows. On the other hand, there are several factors that are being addressed such as corruption, political instability, macroeconomic instability that affect the investment climate. But, FDI flows have steadily declined in recent times. Arguably, this lag in FDI flows to Nigeria relative to other countries of the world emanated from the fiscal instrument. Furthermore, despite the role that infrastructure could play as incentive to attract FDI, evidence points to the fact that delay in infrastructure in Nigeria social, economic and finance are on the verge of collapse. Sequel to this, it became pertinent for this study to investigate the impacts of fiscal instability on FDI flows in Nigeria.

1.3 STUDY OBJECTIVES

The main objective of the study is to ascertain the impacts of fiscal instability on FDI flows in Nigeria while the following are the specific objectives:

i. To determine the effect of Gross Domestic Product on foreign direct investment from 2000-2014.
ii. To examine the effect of government revenue on Foreign Direct Investment
iii. To ascertain the relationship of government expenditure on foreign direct investment flows in Nigeria
iv. To determine the effect of Balance-of-Payments (Current Account Deficit) on foreign direct investment flows in Nigeria
v. To investigate the relationship between total government's debt on foreign direct investment flows in Nigeria.

1.4 Research Questions

i. What is the effect of Gross Domestic Product on foreign Direct Investment?
ii. How does government revenue affect Foreign Direct Investment?
iii. What is the relationship between government expenditure and foreign direct investment?
iv. What is the effect of balance of payments on foreign direct investment?
v. What is the relationship between total government debt and foreign direct investment flows in

Nigeria?

1.5 Research Hypothesis

i. H_1: GDP has significant effect on foreign direct investment in Nigeria.
ii. H_2: Government revenue has significant effect on Foreign Direct Investment
iii. H_3: There is significant relationship between government expenditure and foreign direct investment.
iv. H_4: There is significant relationship between balance of payments and foreign direct investment.
v. H_5: Government debt has significant relationship with foreign direct investment

2.1 LITERATURE REVIEW

Fiscal policy has been defined as the planning of revenue and expenditure levels and pattern by government to influence the circular flow, or specifically to promote full employment production, price stability and national welfare (Fashola, 2001; Akanni and Osinowo, 2013). Governments directly and indirectly influence the way resources are used in the economy. Fiscal policy that increases aggregate demand directly through an increase in government spending is typically called expansionary or "loose." By contrast, fiscal policy is often considered contractionary or "tight" if it reduces demand via lower spending (Horton and El-Ganainy, 2009; Akanni and Osinowo, 2013). Government expenditure can provide an impulse for sector output growth, while on the other hand; it can be harmful if it results in budget deficits and leads to competition for scarce financial resources from the banking sector as the government seeks to finance the deficit (Ezeoha and Chibuike, 2005; Osinowo, 2015).The main instruments of fiscal policy are: federal government expenditure, Agriculture, Mining, Manufacturing, Building and Construction, Wholesale and Retail Trade, and Services sector, amongst others, in the economy.

Phillips (1997) examined Nigeria's fiscal policy, 1998–2010with a view to suggesting workable ways for the effective implementation of Vision 2010. He observes that budget deficits have been an abiding feature in Nigeria for decades. He notes that expect for the period 1971 to 1974, and 1979, there has been an overall deficit in the federal Government budgets each year since 1960 to date. The chronic budget deficits and their financing largely by borrowing, he asserts, have resulted in excessive money supply, worsened inflationary pressures, and complicated macroeconomic instability, resulting in negative impact on external balance, investment, employment and growth. He, however, contends that fiscal policy will be an effective tool for moving Nigeria towards the desired state in 2010 only if it is substantially cured of the chronic budget deficit syndrome it has suffered for decades (Osinowo, 2015).

Peter and Simeon (2011) investigated the impact of fiscal policy variables on Nigeria's economic growth between 1970 and 2009. The study employed Vector Auto Regression (VAR) and error correction mechanism techniques. The study revealed that there exist a long-run equilibrium relationship between economic growth and fiscal policy variables in Nigeria. Consequently, it was recommended that government should formulate and implement viable fiscal policy options that will stabilize the economy. This could be achieved through the practice of true fiscal federalism and the decentralization of the various levels of government in Nigeria (Osinowo, 2015).

Ogbole, Sonny and Isaac (2011) examined fiscal policy and its impact on economic growth in Nigeria. Secondary data used was sourced mainly from the Central Bank of Nigeria (CBN). Comparative analysis of the impact of fiscal policy on economic growth in Nigeria during regulation and deregulation periods was conducted as well as econometric analysis of time series data from Central Bank of Nigeria. The study adopted a comparative approach. Comparative analysis was made of the effectiveness of fiscal policy in stimulating economic growth under each of the regulation and deregulation periods of the Nigerian economy. The analysis involves stationarity test, cointegration test, and ordinary least squares (OLS) regression. The study found that there was a difference in the effectiveness of fiscal policy in stimulating economic growth during and after regulation periods. The impact was marginally higher (only N140 million or 14% contribution to GDP) during deregulation, than in the regulation period. The study recommended appropriate policy mix, prudent public spending, setting of achievable fiscal policy targets and diversification of the nation's economic base, among others.

Sikiru and Umaru (2012) investigated the impact of fiscal policy on economic growth in Nigeria. Annual data covering 1977–2009 were utilized. Unit roots of the series were examined using the Augmented Dickey-Fuller technique after which the cointegration test was conducted using the Engle-Granger Approach. Error-correction models were estimated to take care of short-run dynamics. The study found that productive expenditure positively impacted on economic growth during the period of coverage and a long-run relationship exists between them as confirmed by the cointegration test and recommended the improvement in government expenditure on health, education and economic services, as components of productive expenditure, to boost

economic growth (Osinowo, 2015).

2.2 THEORETICAL FRAMEWORK

Economic theories suggest that an increase in government expenditure on socio-economic and physical infrastructures encourages economic growth. For example, government expenditure on health and education raises the productivity of labour and increase the growth of national output. Similarly, expenditure on infrastructure such as roads, communications, power, etc, reduces production costs, increases private sector investment and profitability of firms, thus fostering economic growth (Osinowo, 2015). Expansion of government expenditure contributes positively to economic growth (Abdullah, 2000; Al-Yousif, 2000; Osinowo, 2015). However, increasing government expenditure promotes economic growth, but rather agreed that higher government expenditure may slowdown overall performance of the economy (Abu and Abdullahi, 2010; Osinowo, 2015).

On the other hand, the Keynesian theory regard the economy as being inherently unstable and as such require active government intervention to achieve stability. They attach a low degree of importance to monetary policy and place a high premium on fiscal policy (Powel, 1989; Ajaude and Nkamare, 2016). Keynesian economics focuses in the rate of spending in the economy. Aggregate spending influences output and thus, support employment and income. They emphasize that, if we understand what determines the level of spending (aggregate demand), we will know what determines the level of output and income in the economy (Bowden, 1986; Ibi, Ajaude and Nkamare, 2016). Keynesian school of thought opined that there is positive relationship between deficit financing and investment. This means that fiscal policy could be a tool used to overcome fluctuation in the economy (Ibi, Ajaude and Nkamare, 2016).

Savers-Spenders theory of fiscal policy was propounded by Mankiw (2000) is the new theory developed to explain the behavioural of fiscal policy in the economy. The theory is based on some prepositions (Mankiw,2000; Ibi, Ajaude and Nkamare, 2016). The first proposition is that temporary tax changes have large effects on the demand for goods and services. This proposition states that the higher take-home pay that spenders received will be offset by higher tax payments, or by lower tax refunds. The implication is that consumers should realize that their lifetime resources were unchanged and therefore, should save the extra take-home pay to meet the upward tax liability (Eze and Ogiji, 2013; Ibi, Ajaude and Nkamare, 2016).

3.0 METHODOLOGY

3.1 RESEARCH DESIGN: The design used for this study was the ex-post factor research design. This design has been adjudged appropriate as the event under study had already taken place. The researcher had no control over the variables under study simply because they have already been manipulated before they were applied in this study**.**

3.2 SOURCES OF DATA: This study used secondary data sourced from 2014 Central Bank Annual Bulletin. This study employed annual secondary time-series data on fiscal policy variables that was sourced from 2014 Central Bank statistical bulletin. The data covered the period 1980 to 2014 focusing on federal government expenditure, Agriculture, Mining, Manufacturing, Building and Construction, Wholesale and Retail Trade, and Services sector output. Autoregressive Distributed Lag (ARDL) model bound testing approach was adopted to carry out co-integration among variable of interest.

3.3 SPECIFICATION OF THE MODEL: Fiscal policy can influence sectoral output, which can equally impact on the long-term economic growth (Ariyo, 1993; Akanni and Osinowo, 2013). The possible effect of fiscal policy will then depend on model specification. Assuming that the variables are related with simplex possible function, which is the relationship between Gross Domestic Product as dependent variable and independent variables of fiscal policy measures (government revenue, government expenditure and government total debt) is expressed below. Secondly, the relationship between Foreign Direct Investment as dependent variable and independent variables of fiscal policy (government revenue, government expenditure, government total debt and balance of payment) is also expressed as:

$Yti = \beta 0+GDP+ GovR+GovEx+GovTd+ BOP$

Where Yti = Foreign Direct Investment
$\beta 0$ = regression constant
GDP = Gross Domestic Product
GovR = Government Revenue
GovEx = Government expenditure
GovTd = Government Total debt
BOP = Balance of Payment

Hence, FDI = f (GDP+GovR+GovEx+GovTd+BOP)

3.4 ANALYSIS OF DATA: The estimated linear relationship is tested using simple regression Y = f(x) to find out the characteristics of the time series data. This procedure and the regression results is analysed and presented in tables, histogram and line charts among others.

Empirical data on Gross Domestic Product, Foreign direct Investment, government revenue, government expenditure, Balance of Payment and government total debt from 2000-2014

YEAR	GDP	FDI	GOVREV	GOVEXP	BOP	GOVTD
2000	6713.6	115,952.2	1906.2	701.1	3720.0	3995.684
2001	6895.2	132433.7	2231.6	1018	3947	4193.291
2002	7795.8	225036.5	1731.8	1018.2	3450.5	5098.885
2003	9913.5	258388.6	2575.1	1226	2057.95	5808.029
2004	11411.1	248224.6	3920.5	1426.2	3547.8	6260.57
2005	14610.9	302753.4	5547.5	1822.1	4105.2	4220.972
2006	18564.6	573835.0	5965.1	1938	4578.7	2204.762
2007	20657.3	3229.42	5715.6	2450.9	5133.15	2608.491
2008	24296.3	3192.95	7866.6	3240.8	53000.36	2843.554
2009	24794.2	4595.40	4844.6	3453	42382.49	3818.437
2010	33984.8	759478.60	7303.7	4194.6	32,339.25	5241.637
2011	37409.9	928188.74	11116.8	4712.1	32639.78	6519.65
2012	40544.1	1155886.1	10654.7	4605.4	43830.42	7564.404
2013	42396.8	1348379.46	9759.8	5185.3	42847.31	8506.332
2014	60140.97	1740737.6	6070.5	4587.4	34241.54	7428.34

Source: Central Bank of Nigeria 2014 Annual Report.

4.0 TESTING FOR HYPOTHESES: The hypotheses were tested considering the dependent and independent variables, fiscal policy measures (independent variables) and FDI instability (dependent variable) using regression analysis.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.965[a]	.931	.893	178744.76389	.931	24.475	5	9	.000	2.465

a. Predictors: (Constant), GOVTD, BOP, GOVREV, GDP, GOVEXP
b. Dependent Variable: FDI
Note: r^2 = .931, F(5,9) = 24.475

.Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-584287.664	148975.140		-3.922	.004
	GDP	40.139	9.878	1.165	4.063	.003
	GOVREV	47.845	39.194	.270	1.221	.253
	GOVEXP	-197.453	173.409	-.573	-1.139	.284
	BOP	-7.091	5.377	-.252	-1.319	.220
	GOVTD	109.521	32.127	.382	3.409	.008

a. Dependent Variable: FDI

Correlations

		FDI	GDP	GOVREV	GOVEXP	BOP	GOVTD
Pearson Correlation	FDI	1.000	.871	.603	.744	.457	.771
	GDP	.871	1.000	.748	.930	.744	.585
	GOVREV	.603	.748	1.000	.886	.740	.405
	GOVEXP	.744	.930	.886	1.000	.859	.548
	BOP	.457	.744	.740	.859	1.000	.352
	GOVTD	.771	.585	.405	.548	.352	1.000
Sig. (1-tailed)	FDI	.	.000	.009	.001	.043	.000
	GDP	.000	.	.001	.000	.001	.011
	GOVREV	.009	.001	.	.000	.001	.067
	GOVEXP	.001	.000	.000	.	.000	.017
	BOP	.043	.001	.001	.000	.	.099
	GOVTD	.000	.011	.067	.017	.099	.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3909830449225.261	5	781966089845.052	24.475	.000[b]
	Residual	287547215560.371	9	31949690617.819		
	Total	4197377664785.632	14			

a. Dependent Variable: FDI

b. Predictors: (Constant), GOVTD, BOP, GOVREV, GDP, GOVEXP

The result revealed that coefficient of determination, R2 is 0.93% which means that the fiscal policy measures (independents variables) explained a total variation of 93% (percent) of the dependent variable (FDI). Therefore, the variables are important determinant of the predictor. This result indicates that measures of fiscal policy accounts for 93% of the FDI instability. It then follows that there is a direct relationship between measures of fiscal policy and FDI. Hence, increase in measures of fiscal policy leads to FDI stability and decrease in some of this factors causes FDI instability. The result also implies that there are about 0.07% other factors affecting the dependent variable (FDI) which were not captured by this study (Gap).

Hypothesis One

H_1: GDP has significant effect on foreign direct investment in Nigeria.

It is very clear that the result on the table above revealed that coefficient of GDP is positive (.87) at value of P < .05 (0.000 < .05). This implies that GDP is an important predictor of FDI. Hence there is a positive relationship between GDP and FDI instability, increase in GDP leads to increase in FDI and vise versa. This also implies that a negative GDP will negatively affect FDI causing instability. Since p value < 0.05, $H0_1$is rejected while the alternative hypothesis that GDP has a significant effect on FDI instability is therefore accepted.

Hypothesis Two

H_2**:** Government revenue has significant effect on Foreign Direct Investment.

When government revenue is correlated with FDI, there is significant relationship at 5% since *P* value (0.009) is less than α (0.05) which makes the H_0 to be rejected, that Government revenue has no significant effect on Foreign Direct Investment. Thus, H_1 is accepted that Government revenue has significant effect on Foreign Direct Investment. In addition, the correlation table shows that an increase of 60.3% will also lead to a proportional increase in FDI and vice versa which may cause instability in FDI.

Hypothesis Three

H_3: There is significant relationship between government expenditure and foreign direct investment

When government expenditure is correlated with FDI, there is significant relationship at 5% since *P* value (0.001) is less than α (0.05) which makes the H_O to be rejected while the alternative hypothesis is accepted. In addition, government expenditure entered the model with a negative sign (-197.453). The negative sign could be as a result of very low investment in FDI which causes a decline in FDI as proved by the regression coefficient.

Hypothesis Four

H_4: There is significant relationship between balance of payments and foreign direct investment

When balance of payment is correlated with FDI, there is a significant relationship at 5% since *P* value (0.043) is less than α (0.05) which makes the H_O to be rejected while the alternative hypothesis is accepted. Again, balance of payment entered the regression model with a negative sign (-7.091). The indication is that Nigeria's balance of payment is in deficit which has a negative effect on FDI. The result is a further indication that a deficit or decrease in balance of payment has negative effect on FDI and vise versa causing FDI instability.

Hypothesis Five

H_5: Government debt has significant relationship with foreign direct investment

When Government debt is correlated with FDI, the result shows a significant relationship at 5% since *P* value (0.000) is less than α (0.05) which makes the H_O to be rejected while the alternative hypothesis that Government debt has a significant relationship with foreign direct investment is accepted. It is a further indication that increase in domestic debt to finance critical infrastructure by federal government has a positive relationship in attracting foreign direct investment and facilitates private sector growth.

5.1 DISCUSSION AND CONCLUSION

The correlation coefficient of the predictor and the dependent variable is 96.5% which shows that the relationship is very strong. The R. Square which is the coefficient of determination is 0.931; this indicates that about 93.1% of the variation of FDI is explained by the predictors.

Hence, the predictors accounted for 93.1% of the factors that causes FDI instability. However, there are other factors that affect the FDI instability, about 0.07% affecting the dependent variable (FDI) which was not captured by this study. Those factors are identified by this study as GAP.

The result above explains that absence of these fiscal measures will cause a decline in Foreign Direct Investment. A decrease in government expenditure and balance of payment reduces Foreign Direct investment. This implies that a decline in government expenditure and balance of payment will lead to decline in FDI. This result is a further indication that fiscal policy operations of the federal government has not significantly improved its FDI as shown by the regression coefficient. Instead measures of fiscal policy has caused its instability.

Regression coefficient B(-584287.664) implies that measures of fiscal policy have a significant effect on FDI which resulted in instability. Note that GDP, GOVREV and GOVTD entered the model with positive sign (40.139, 47.845 and 109.521 respectively) while GOVEXP and BOP entered the model with negative sign (-197.453 and -7.091 respectively). The summary of the table shows that these variables of fiscal policy cause FDI instability. Therefore, the variables are important determinant of the predictor. It then follows that there is a direct relationship between measures of fiscal policy and FDI.

However, the negative sign of GOVEXP and BOP could be as a result of the insufficient human capital development and domestic investment to accelerate growth.

5.2 RECOMMENDATION

The rationale for encouraging or attracting foreign investors to invest in developing countries are to fill the domestic capital formation gap to speed up economic growth which requires certain minimum level of foreign capital. The past and present administration in one way or the other has one time or the other evolved policies and campaign to attract foreign investment into the country, but much result is yet to be achieved. This study therefore recommends that an improvement in state infrastructure especially energy (power), ensuring sound, and stable macroeconomic environment, enthroning a stable social political environment among others to attract FDI flows. Furthermore, technological changes through knowledge acquisition should be encouraged. It is also recommended that various fiscal packages should be implemented to arrest the slowdown in economic activities, create the enabling environment for greater private sector participation in the economy and accelerate sustainable economic growth.

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