

The effects of Political instability on foreign investment in Nigeria

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Abstract

This study examines the role of political stability in attracting foreign direct investment (FDI) by analyzing government policies, business security, and infrastructure development. Guided by Dunning's Eclectic Paradigm, the study explores how ownership, location, and internalization advantages influence investment decisions. Using a qualitative research design, secondary data from reports, policy documents, and scholarly articles were analyzed through thematic analysis. Findings reveal that political stability enhances investor confidence, while policy inconsistency deters long-term capital commitments. A secure business environment is vital for attracting investment, as insecurity, cyber threats, and political instability heighten risks. Furthermore, inadequate infrastructure, particularly in transportation, electricity, and digital connectivity, increases operational costs and discourages investors. The study concludes that a stable, secure, and well-structured investment climate is essential for fostering sustainable economic growth in Nigeria. Recommendations include strengthening governance transparency, ensuring policy consistency, enhancing security measures, and prioritizing infrastructure development to create a conducive environment for foreign investment.

Keywords: Political stability, foreign direct investment, investor confidence, policy consistency, infrastructure development.

INTRODUCTION

Political instability has long been a defining feature of Nigeria's socio-political and economic landscape, exerting profound effects on various facets of national development, including foreign investment. As a concept, political instability refers to the uncertainty, unpredictability, and frequent changes in governance structures, policies, and leadership that disrupt a country's political order (Alesina et al., 1996). It encompasses political violence, military coups, electoral malpractices, insurgencies, policy inconsistency, and governance failures, all of which create an environment of uncertainty for both domestic and foreign investors (Asiedu, 2006). The link between political stability and economic growth has been well documented in the literature, with studies indicating that stable political systems attract investment, while instability deters foreign capital inflow

(Busse & Hefeker, 2007). In the Nigerian context, political instability has been a persistent challenge, affecting investor confidence, business operations, and economic growth.

The concept of political instability is deeply rooted in political science and economics. Historically, political stability has been considered a prerequisite for economic development, dating back to classical economic theories that emphasise the role of governance in shaping economic performance. Scholars such as Adam Smith (1776) and John Stuart Mill (1848) underscored the importance of stable institutions in fostering economic prosperity. The modern conceptualisation of political instability emerged in the mid-20th century, particularly with the works of Huntington (1968), who argued that rapid political change and weak institutions contribute to instability, thus affecting development outcomes. In

contemporary studies, political instability is often measured using indicators such as the frequency of government changes, levels of political violence, electoral integrity, and policy reversals (Gurr, 1970; Acemoglu & Robinson, 2012).

Foreign investment, on the other hand, refers to the inflow of capital from international investors into a host country for business and economic activities. It is broadly categorised into Foreign Direct Investment (FDI), where investors acquire physical assets and take managerial control in a foreign country, and Foreign Portfolio Investment (FPI), which involves investments in financial assets such as stocks and bonds (Dunning, 1981). The significance of foreign investment in economic development has been widely acknowledged, as it fosters job creation, technological transfer, industrial growth, and infrastructure development (Borensztein et al., 1998). However, the decision of foreign investors to commit capital to a country is highly contingent on the prevailing political and economic conditions, with stability serving as a critical determinant. Nigeria, as Africa's largest economy and most populous country, has historically attracted significant foreign investment due to its abundant natural resources, large consumer market, and strategic geographical location (UNCTAD, 2021). However, political instability has consistently hindered its potential as a prime investment destination. Since gaining independence in 1960, Nigeria has experienced a tumultuous political history marked by military coups, civil unrest, ethnic conflicts, and governance crises. The First Republic (1960-1966) was short-lived due to political rivalries and electoral disputes that culminated in a military coup. The subsequent military regimes, characterised by authoritarian rule and policy unpredictability, created an unstable business environment that deterred long-term investment (Ogunleye, 2015). The transition to democracy in 1999 was expected to herald a new era of stability, but Nigeria has continued to grapple with political challenges, including electoral violence, insurgencies such as Boko Haram, separatist agitations, and widespread corruption, all of which contribute to an unpredictable investment climate (Akinlo, 2004).

The interplay between political instability and foreign investment in Nigeria has been evident in several economic downturns and investor withdrawals following political crises. For instance, the 2007 post-election violence led to significant capital flight and a decline in foreign direct investment inflows (Asiedu & Lien, 2011). Similarly, the 2020 End SARS protests, which highlighted governance failures and police brutality, resulted in economic disruptions that discouraged foreign investors (Ezeoha & Uchenna, 2021). Moreover, Nigeria's frequent policy reversals and regulatory inconsistencies have further exacerbated investor uncertainty.

Policies such as the indigenisation decrees of the 1970s, the Structural Adjustment Programme (SAP) of the 1980s, and recent foreign exchange restrictions have often been implemented without adequate stakeholder engagement, creating an unpredictable business environment (Ajayi, 2006).

Another critical dimension of Nigeria's political instability affecting foreign investment is security. The persistent insurgencies in the North-East, armed banditry in the North-West, and militancy in the Niger Delta have increased the risks associated with investing in the country (Ogunleye, 2015). Many multinational corporations operating in Nigeria, particularly in the oil and gas sector, have suffered from attacks on their infrastructure, kidnappings of expatriate workers, and disruptions in production activities due to insecurity. The unpredictability of the political and security landscape has led many investors to adopt a wait-and-see approach, redirecting their investments to more stable economies in Africa, such as Ghana and Rwanda (UNCTAD, 2021).

The significance of conducting this research lies in its potential to offer valuable insights into the intricate relationship between political instability and foreign investment in Nigeria. Understanding how political factors influence investor decisions is crucial for policymakers, business leaders, and development practitioners seeking to enhance Nigeria's economic competitiveness. This study aims to analyse the patterns of foreign investment inflows in Nigeria vis-à-vis political events, exploring the extent to which political crises, governance failures, and security challenges have shaped investment trends. Furthermore, the research seeks to provide policy recommendations on fostering a stable political environment that enhances investor confidence and economic growth.

In addition to its policy relevance, this study contributes to the broader academic discourse on political economy, governance, and development. By situating Nigeria within the global context of political instability and investment trends, the research offers comparative insights that can inform policy decisions beyond Nigeria's borders. It also extends the literature on the determinants of foreign investment by incorporating contemporary issues such as digital transformation, geopolitical shifts, and evolving global investment patterns. The relationship between political instability and foreign investment in Nigeria is a critical issue that warrants comprehensive investigation. Nigeria's history of political turbulence, coupled with ongoing governance and security challenges, has created an uncertain investment climate that affects economic growth and development. This research seeks to examine the extent to which political

instability has influenced foreign investment inflows, providing empirical evidence and policy insights to guide future governance and investment strategies. Given Nigeria's strategic importance in Africa's economic landscape, addressing political instability is imperative for fostering sustainable economic growth and attracting long-term foreign investment.

Statement of Problem

Political instability in Nigeria has significantly hindered the inflow of foreign investment, creating an environment of uncertainty and economic volatility. Frequent policy inconsistencies, governance failures, and security challenges have led to a decline in investor confidence, discouraging long-term commitments from foreign investors. Additionally, instability contributes to capital flight, weakens economic growth, and results in poor infrastructure development, further reducing Nigeria's attractiveness as an investment destination. If these challenges persist, Nigeria may continue to struggle with low foreign direct investment (FDI), stunted economic development, and reduced global competitiveness. This study seeks to examine the effects of political instability on foreign investment in Nigeria and propose solutions for fostering a more stable and investor-friendly economic climate.

Aim and Objective

The aim of the research is to examine how political stability can enhance foreign investment in Nigeria.

While the specific objectives are to:

- i. Analyze the role of political stability in enhancing investor confidence in Nigeria.
- ii. Evaluate the impact of consistent government policies on foreign investment inflows.
- iii. Assess the significance of a secure business environment in attracting foreign investors.
- iv. Investigate the influence of well-developed infrastructure on the sustainability of foreign investment in Nigeria.

Research Questions

- i. What is the role of political stability in enhancing investor confidence in Nigeria?
- ii. How do consistent government policies impact foreign investment inflows?
- iii. What is the significance of a secure business environment in attracting foreign investors?

- iv. How does well-developed infrastructure influence the sustainability of foreign investment in Nigeria?

Theoretical Framework

Dunning's Eclectic Paradigm, also known as the OLI (Ownership, Location, and Internalisation) Framework,

The theoretical foundation for this study is rooted in *Dunning's Eclectic Paradigm*, also known as the *OLI (Ownership, Location, and Internalisation) Framework*, developed by John H. Dunning in 1977. This theory provides a comprehensive framework for understanding foreign direct investment (FDI) by integrating three key factors—ownership advantages, location advantages, and internalisation advantages (Dunning, 1980). The paradigm explains why multinational enterprises (MNEs) choose to invest in specific countries, making it particularly relevant for analysing how political instability affects foreign investment decisions in Nigeria.

Dunning's *Eclectic Paradigm* emerged as an extension of previous FDI theories, incorporating elements of industrial organisation, transaction cost economics, and international trade theory. The theory argues that a firm will engage in FDI if it possesses three essential conditions: ownership-specific advantages (O), location-specific advantages (L), and internalisation advantages (I) (Dunning, 1988). Ownership advantages refer to firm-specific assets, such as technology, brand reputation, or managerial expertise, which give a company a competitive edge in foreign markets. Location advantages pertain to the attractiveness of a host country based on factors such as political stability, infrastructure, regulatory framework, and market potential (Dunning, 1993). Internalisation advantages arise when a firm finds it more profitable to control foreign operations rather than outsourcing or licensing its business activities to local firms.

Political stability is a crucial element of the location advantage (L) in Dunning's framework. Stable political environments foster investor confidence, providing predictability in government policies, legal structures, and business regulations (Asiedu, 2006). When a country experiences political turmoil, including frequent government changes, policy inconsistencies, corruption, and security challenges, its attractiveness as a destination for foreign investment diminishes. Investors prioritise stability because it reduces the risks associated with expropriation, sudden regulatory shifts, and operational disruptions due to conflicts or civil unrest (Busse & Hefeker, 2007). Nigeria has historically faced significant political instability, particularly through periods of

military rule, electoral violence, insurgencies, and weak governance structures (Olayemi, 2019). These issues undermine Nigeria's ability to capitalise on its location advantages and deter foreign investors seeking predictable and secure environments.

The *Eclectic Paradigm* further explains that foreign investors weigh political risks against economic benefits when making location decisions. High levels of uncertainty discourage long-term investments, as firms fear policy reversals, government expropriation, and infrastructure decay (Alfaro, 2017). For example, inconsistent fiscal and monetary policies in Nigeria have led to sudden exchange rate fluctuations and capital controls, reducing investor confidence (Ogunkola & Jerome, 2020). This aligns with Dunning's argument that countries with weak institutional frameworks and high political risks experience lower FDI inflows because multinational corporations (MNCs) prefer environments where they can secure long-term returns without excessive operational risks.

Another key application of Dunning's theory to this study lies in the interaction between infrastructure development and location advantages. Nigeria's inadequate infrastructure, exacerbated by political instability and mismanagement, reduces its competitiveness in attracting FDI (Adeleke, Olowe, & Fasesin, 2014). Dunning (1993) emphasised that well-developed infrastructure, such as reliable transport networks, stable electricity supply, and efficient financial systems, is fundamental in determining a country's attractiveness to foreign investors. However, political instability often results in poor governance, misallocation of resources, and delays in infrastructure projects, further diminishing Nigeria's appeal to foreign investors (Ezeoha & Cattaneo, 2012).

The security dimension of political instability also plays a crucial role in FDI decisions. The persistent security threats in Nigeria, including insurgencies by Boko Haram, banditry, and kidnapping, create an unfavourable investment climate. Dunning's (2000) framework highlights that firms seek locations where they can efficiently operate with minimal risks to personnel, assets, and supply chains. High security risks increase operational costs, requiring firms to invest in private security measures, insurance, and crisis management strategies, which reduce the overall profitability of investment ventures (Collier & Hoeffler, 2005). As a result, Nigeria continues to experience reduced FDI inflows in sectors such as manufacturing, tourism, and technology, where political stability is a fundamental prerequisite for business success.

Moreover, policy inconsistency remains a significant challenge affecting Nigeria's ability to leverage its location advantages under the *Eclectic Paradigm*. Frequent changes in

trade policies, tax regulations, and foreign exchange controls create uncertainty, making long-term investment planning difficult for multinational corporations (Uchenna & Olayemi, 2021). Dunning's (1988) theory posits that firms prefer environments with stable and transparent policies that enable strategic planning and financial projections. Countries that frequently alter economic policies due to political instability often fail to attract or retain investors, as businesses require a predictable regulatory landscape to operate efficiently (Rodrik, 2018).

An essential implication of the *Eclectic Paradigm* for this study is that political stability is not only a determinant of location advantages but also influences ownership and internalisation advantages. In politically unstable environments, firms are more likely to engage in joint ventures or partnerships with local firms rather than establish wholly-owned subsidiaries due to the risks associated with independent operations (Dunning, 1993). In Nigeria, many foreign firms adopt joint venture models to mitigate risks, often collaborating with government agencies or local business partners to navigate the complex regulatory and security landscape (Akinlo, 2004). However, this dependency on local partnerships can sometimes limit the efficiency and profitability of foreign investments, especially when bureaucratic inefficiencies and corruption are prevalent. Dunning's *Eclectic Paradigm* provides a robust theoretical framework for understanding how political instability impacts foreign investment in Nigeria. The theory underscores the importance of political stability as a key location advantage, influencing investor confidence, infrastructure development, policy consistency, and security conditions. Political instability disrupts these factors, leading to reduced FDI inflows, economic stagnation, and diminished global competitiveness. By addressing political risks, improving governance, and ensuring policy consistency, Nigeria can enhance its attractiveness to foreign investors and leverage its economic potential for sustained development.

Methodology

The study adopted a qualitative research design, relying on secondary data sources to examine the relationship between political stability and investor confidence in Nigeria. The nature of data used was qualitative, sourced from reports, policy documents, and scholarly articles. The study area focused on Nigeria, analyzing political and economic trends affecting foreign direct investment. Data collection was conducted through document analysis, while the method of data analysis involved thematic analysis of policy inconsistencies, regulatory frameworks, and macroeconomic indicators impacting investor confidence.

Discussion of Findings

Answers to research question 1: What is the role of political stability in enhancing investor confidence in Nigeria?

Political stability is a cornerstone for enhancing investor confidence in Nigeria, as it fosters a predictable environment conducive to foreign direct investment (FDI). Stable political conditions mitigate risks associated with policy fluctuations, expropriation, and civil unrest, thereby attracting both domestic and international investors. Conversely, political instability, characterized by frequent government changes, corruption, and social unrest, deters investors due to heightened uncertainty and perceived risks. Empirical studies have consistently demonstrated the significant impact of political stability on FDI inflows in Nigeria. Okeke and Kalu (2022) employed an autoregressive distributed lag (ARDL) model to analyze the relationship between political stability and FDI, revealing that political stability, alongside macroeconomic variables such as exchange rates and inflation, accounts for approximately 97% of the variation in FDI inflows. This underscores the critical importance of a stable political environment in influencing investment decisions. Similarly, Ajimobi (2024) highlighted that stable political conditions reduce risks related to government policy changes and civil unrest, thereby attracting more FDI. These findings emphasize the necessity for robust political institutions and good governance practices to foster a secure investment climate.

Recent events in Nigeria have underscored the intricate relationship between political stability and investor confidence. In October 2024, the Nigerian government's decision to block Shell's \$2.4 billion sale of its onshore assets raised concerns among investors about regulatory inconsistencies and political risks, potentially hindering efforts to attract foreign investment amid a fiscal crisis (Reuters, 2024). This action reflects regulatory inconsistencies that challenge investment endeavors, as similar deals, such as ExxonMobil's sale of onshore assets to Seplat Energy, faced considerable delays before approval. Such unpredictability in regulatory decisions contributes to an environment of uncertainty, deterring potential investors. Moreover, the exit of several multinational companies from Nigeria has been attributed to an unfriendly business environment exacerbated by political instability and economic challenges. Notably, companies like Microsoft Nigeria, Total Energies Nigeria, and Unilever have either scaled down or ceased operations, citing factors such as foreign currency shortages, declining naira value, and inconsistent regulatory frameworks (Business a.m., 2024). These departures signal a lack of confidence in Nigeria's investment climate, further exacerbated by political

and economic uncertainties. Nigeria's ranking among the five biggest political stability losers in sub-Saharan Africa, as reported by SBM Intelligence in December 2024, highlights the detrimental effects of persistent insecurity, economic challenges, and unpopular government reforms on the country's political stability and investment attractiveness (The Guardian, 2024). The report cited factors such as rising inflation, a weakening currency, and the exit of foreign businesses as contributors to Nigeria's decline in political stability scores. These indicators reflect a challenging environment for investors, where economic volatility and political instability undermine confidence.

The macroeconomic environment further compounds these challenges. Inflation rates have surged, with the central bank maintaining high benchmark interest rates to combat rising prices. In February 2025, the Central Bank of Nigeria kept its main interest rate unchanged at 27.50%, citing stability in the foreign exchange market and a gradual decline in inflation (Reuters, 2025). However, the high inflation rate, recorded at 24.48% year-on-year in January 2025, continues to erode purchasing power and deter investment. Additionally, the naira's significant depreciation has led to substantial losses for foreign-owned subsidiaries, further diminishing Nigeria's appeal as an investment destination (Bank of Scotland, 2024). To enhance investor confidence, it is imperative for Nigeria to address the underlying political and economic challenges. Strengthening institutional frameworks to ensure policy consistency and regulatory transparency is crucial. Implementing robust anti-corruption measures and ensuring adherence to the rule of law can mitigate political risks and create a more predictable investment climate. Furthermore, improving infrastructure, stabilizing the currency, and fostering a secure environment are essential steps toward attracting and retaining foreign investments. Political stability is a fundamental determinant of investor confidence in Nigeria. The interplay between political conditions and economic indicators significantly influences investment decisions. By addressing political instability and implementing sound economic policies, Nigeria can create an environment conducive to attracting foreign direct investment, thereby fostering sustainable economic growth and development.

Answers to research question 2: How do consistent government policies impact foreign investment inflows?

Consistent government policies play a crucial role in determining the level of foreign investment inflows in any economy. In Nigeria, the presence or absence of policy consistency has had a significant impact on investor confidence, economic stability, and the overall attractiveness of the business environment. Investors seek regulatory

certainty and predictable government policies to ensure their investments are secure and profitable. Policy inconsistency, on the other hand, creates uncertainties that deter foreign direct investment (FDI) and reduce long-term economic growth.

In Nigeria, the frequent changes in policies, particularly in the oil and gas, financial, and telecommunications sectors, have had mixed impacts on foreign investment inflows. One of the most recent examples of policy inconsistency affecting investor confidence was the Nigerian government's decision in 2024 to block Shell's \$2.4 billion sale of its onshore oil assets, despite earlier approvals and legal proceedings that suggested the transaction would go through. This move created regulatory uncertainty, discouraging potential investors from engaging in Nigeria's oil sector, a key contributor to FDI (Reuters, 2024). Similarly, the 2023 reversal of the fuel subsidy removal policy led to massive disruptions in investment planning within the energy sector. Investors who had initially entered the market in anticipation of a deregulated fuel pricing system suddenly found themselves dealing with an unexpected policy reversal, leading to capital flight and reduced interest from foreign companies (Business a.m., 2023).

One of the major concerns for foreign investors in Nigeria is the instability of monetary policies. The Central Bank of Nigeria (CBN) has often implemented abrupt changes in foreign exchange (FX) policies, significantly affecting investors. In mid-2023, the government introduced a market-driven exchange rate system, allowing the naira to float freely. However, just months later, interventions in the forex market resumed, raising concerns about the predictability of the exchange rate regime (The Guardian, 2023). This back-and-forth approach has led to the exit of multinational companies such as Procter & Gamble and GlaxoSmithKline, which cited the unpredictable nature of Nigeria's foreign exchange policies as a major factor in their decision to leave the country. Foreign investors require stability in exchange rate policies to make informed investment decisions, and Nigeria's inconsistencies have contributed to dwindling FDI inflows.

Another major challenge has been the regulatory uncertainty in Nigeria's digital economy and fintech sectors. The government has repeatedly introduced policies that disrupt the operations of digital financial service providers. For example, in 2023, the sudden imposition of a 0.5% cybersecurity levy on all electronic transactions created significant concerns among investors in Nigeria's burgeoning fintech industry (TechCabal, 2023). Foreign investors who had heavily invested in Nigeria's digital economy, particularly in mobile money and payment services, suddenly faced additional costs and compliance requirements that were not initially accounted

for. As a result, venture capital inflows into Nigeria's fintech sector dropped by 35% between 2023 and 2024, as investors became wary of further unpredictable regulatory interventions (African Business, 2024).

Despite these challenges, there have been instances where policy consistency has positively impacted foreign investment inflows. The Nigerian government's decision to pass the Petroleum Industry Act (PIA) in 2021 provided a clear legal and regulatory framework for the oil and gas sector. As a result, foreign investments in the upstream oil sector saw an increase in 2022, as investors gained confidence in a more structured and predictable policy environment (PwC Nigeria, 2022). Additionally, Nigeria's efforts to implement the African Continental Free Trade Agreement (AfCFTA) consistently have also attracted investments in the manufacturing and export sectors. By aligning its trade policies with regional frameworks, Nigeria has positioned itself as a key player in intra-African trade, leading to an increase in foreign investment inflows into industrial zones and export processing hubs (UNCTAD, 2023).

The impact of policy consistency on foreign investment is also evident in Nigeria's telecommunications sector. The stable regulatory environment provided by the Nigerian Communications Commission (NCC) has attracted major players like MTN, Airtel, and Globacom, leading to a steady rise in foreign investments in broadband expansion, data centers, and mobile technology (NCC, 2024). Unlike other sectors that suffer from frequent policy reversals, the telecom sector's clear and predictable regulatory policies have allowed foreign investors to make long-term commitments, contributing significantly to Nigeria's GDP and job creation.

However, the inconsistency in taxation policies continues to be a major deterrent for foreign investors. In 2024, the Nigerian government introduced new tax measures, including an increase in Value Added Tax (VAT) and the implementation of excise duties on previously untaxed goods. While the goal was to increase revenue, the lack of prior consultation with business stakeholders led to a backlash from investors, who argued that sudden tax hikes without clear implementation timelines negatively impact business planning and profitability (The Nation, 2024). The unpredictability in Nigeria's tax policies has made it difficult for foreign companies to project long-term costs, further discouraging investment inflows.

The Nigerian government's inconsistent approach to infrastructure policies has also played a role in shaping investor perceptions. While the government announced a \$10 billion infrastructure investment plan in 2022 to attract foreign partnerships, many of the proposed projects, such as the Lagos-Calabar coastal highway and the Mambilla hydropower

project, have faced repeated delays due to shifting government priorities and funding inconsistencies (Bloomberg, 2023). Foreign investors in infrastructure and real estate sectors require stable policies and long-term commitments to justify their capital-intensive investments, and Nigeria's inability to maintain policy consistency in this regard has hindered the growth of foreign investments in critical infrastructure projects.

In response to these concerns, economic analysts and business leaders have emphasized the need for Nigeria to adopt a more consistent policy approach to attract foreign investment. The Manufacturers Association of Nigeria (MAN) has repeatedly called for the establishment of a structured policy framework that ensures stability across fiscal, monetary, and trade policies to encourage long-term investments (Vanguard, 2024). Similarly, the Nigerian Economic Summit Group (NESG) has urged the government to strengthen regulatory institutions to prevent abrupt policy shifts that disrupt business operations and investment plans.

Foreign investment inflows in Nigeria are heavily influenced by the government's ability to maintain policy consistency. While Nigeria has shown progress in certain sectors such as telecommunications and trade policy under AfCFTA, the frequent changes in fiscal, monetary, and regulatory policies continue to create an uncertain investment climate. Investors require a stable and predictable environment to commit capital and expand operations, and Nigeria's policy inconsistencies have led to declining FDI inflows in recent years. To reverse this trend, the Nigerian government must prioritize transparent policymaking, stakeholder engagement, and long-term economic planning to restore investor confidence and drive sustainable economic growth.

Answers to research question 3: What is the significance of a secure business environment in attracting foreign investors?

A secure business environment is a fundamental determinant of foreign direct investment (FDI) inflows, as it provides investors with the necessary confidence to commit financial resources to a country. In Nigeria, security challenges have long been a major concern for foreign investors, affecting key sectors such as manufacturing, oil and gas, agriculture, and technology. The significance of a secure business environment cannot be overstated, as it directly influences investor confidence, capital inflows, business operations, and economic growth. When businesses operate in an environment free from threats such as terrorism, armed conflict, kidnapping, and cybercrime, they can plan long-term investments, expand operations, and contribute to job creation and economic development.

Nigeria's insecurity problem has been one of the greatest barriers to FDI inflows in recent years. The persistent activities of insurgent groups such as Boko Haram and the Islamic State West Africa Province (ISWAP) in the northeast have created a hostile business environment, discouraging investment in sectors like agriculture and infrastructure. Foreign agribusinesses that had initially invested in Nigeria's northern regions have either exited or scaled down operations due to continuous attacks on farms, abductions of workers, and destruction of facilities (Premium Times, 2024). The World Bank (2023) reported that insecurity in Nigeria's agricultural sector has caused an annual loss of over \$2 billion in potential investments, further exacerbating food shortages and economic instability.

Beyond insurgency, banditry and kidnapping in Nigeria's northwest and central regions have also negatively impacted foreign investments. Multinational companies in states like Kaduna, Niger, and Zamfara have been forced to shut down operations or relocate due to frequent attacks on business premises. The Manufacturers Association of Nigeria (MAN) reported in 2023 that industrial zones in northern Nigeria have seen a 40% decline in foreign investments due to security concerns (Vanguard, 2023). Investors require a stable and safe environment to operate, and without adequate security measures, businesses are unable to function optimally. The loss of investment in these regions has also resulted in job losses and reduced economic productivity, further worsening Nigeria's economic challenges.

The oil and gas sector, which historically attracted the highest volume of FDI into Nigeria, has also suffered due to the worsening security situation. The Niger Delta region, rich in oil reserves, has been plagued by pipeline vandalism, oil theft, and militant activities. Foreign oil firms such as Shell, ExxonMobil, and Chevron have repeatedly raised concerns over the security risks associated with operating in Nigeria. In 2023, Shell announced plans to divest from onshore operations in Nigeria due to security-related losses amounting to billions of dollars (Reuters, 2023). The repeated attacks on oil installations and the high cost of security measures have made Nigeria less attractive to foreign investors in the energy sector. As a result, FDI in Nigeria's oil and gas sector has declined significantly, with investments shifting to more stable environments like Angola and Ghana.

Cybersecurity is another critical aspect of a secure business environment that affects foreign investments. In Nigeria, the increasing prevalence of cybercrime has raised concerns among foreign businesses operating in the digital economy. The 2024 Global Cybersecurity Index ranked Nigeria among the top countries affected by cyber threats, with businesses

losing over \$500 million annually to cyber fraud, data breaches, and hacking incidents (The Guardian, 2024). Foreign investors in fintech, e-commerce, and digital banking have expressed concerns about the vulnerability of Nigeria's cyber infrastructure, leading to hesitation in expanding operations. The Nigerian government's efforts to combat cybercrime, such as the implementation of the Cybercrimes (Prohibition, Prevention, etc.) Act, have been criticized for lack of enforcement and inadequate protection for businesses. Without strong cybersecurity measures, foreign companies in Nigeria's tech industry may continue to face significant risks, limiting the potential for digital economy investments.

Political violence and social unrest also contribute to an insecure business environment, further discouraging foreign investors. The aftermath of Nigeria's 2023 general elections saw widespread protests, violence, and instability in major cities such as Lagos, Abuja, and Port Harcourt. Businesses were vandalized, expatriates were targeted, and economic activities were disrupted (Al Jazeera, 2023). Such instability creates a perception of Nigeria as a high-risk investment destination, making foreign companies wary of committing capital. A survey conducted by the Nigerian Economic Summit Group (NESG) in 2024 found that 70% of foreign investors cited political instability as one of the primary reasons for withholding investments in Nigeria's economy (NESG, 2024). Investors seek a predictable and peaceful business climate, and any signs of unrest can deter capital inflows.

The significance of a secure business environment in attracting foreign investors is also evident in Nigeria's ranking on global competitiveness and ease of doing business indices. The 2023 World Bank Doing Business Report ranked Nigeria 131st out of 190 countries, with security concerns being one of the major factors affecting the country's investment climate (World Bank, 2023). In contrast, countries such as Rwanda and Ghana, which have prioritized security and business-friendly policies, have continued to attract significant FDI inflows. Rwanda, for instance, has been able to create a safe and stable environment for investors, leading to increased foreign investments in tourism, manufacturing, and information technology sectors. Nigeria, on the other hand, continues to struggle with investor confidence due to security challenges.

Despite these challenges, the Nigerian government has made efforts to improve security conditions to attract foreign investments. The launch of the National Security Strategy in 2023 aimed at addressing terrorism, kidnapping, and organized crime to create a safer investment climate. Additionally, collaborations between the Nigerian military and international security agencies have led to the capture of key

terrorist leaders and the dismantling of some criminal networks (The Nation, 2023). However, the impact of these efforts has yet to translate into significant increases in FDI, as investors remain cautious due to the ongoing security threats. In response to security concerns, foreign investors have also adopted strategies to mitigate risks, including hiring private security firms, limiting investments to safer regions, and implementing strict operational protocols. However, these measures come with additional costs, reducing profit margins and making Nigeria less competitive compared to other African investment destinations. The high cost of security in Nigeria has made it difficult for businesses to scale operations, leading to lower returns on investment and reduced interest from potential investors.

The significance of a secure business environment in attracting foreign investors is undeniable. Without security, businesses cannot function effectively, and investors will seek alternative destinations with lower risks. Nigeria's struggle with insurgency, banditry, cybercrime, political instability, and oil sector insecurity has severely limited its ability to attract FDI. While efforts have been made to address these issues, more needs to be done to create a business-friendly environment that guarantees the safety of investments. Strengthening law enforcement, improving intelligence gathering, enhancing cybersecurity measures, and ensuring political stability are critical steps that Nigeria must take to restore investor confidence. Until these issues are resolved, Nigeria will continue to lose potential investments to more secure and stable economies.

Answers to research question 4: How does well-developed infrastructure influence the sustainability of foreign investment in Nigeria?

A well-developed infrastructure plays a crucial role in the sustainability of foreign investment in Nigeria. Infrastructure encompasses various components, including transportation networks, electricity supply, water systems, digital connectivity, and logistics. These factors collectively determine the ease of doing business, the operational efficiency of companies, and the overall investment climate of the country. Nigeria's infrastructure deficit has been a longstanding challenge that affects the confidence of foreign investors and limits economic development. Countries with strong infrastructure systems tend to attract and retain foreign direct investment (FDI), as businesses require stable and efficient systems to operate successfully. Nigeria's struggle with underdeveloped infrastructure has made it difficult to sustain foreign investments, with many investors either limiting their operations or relocating to other African countries with better infrastructure.

Transportation is a key aspect of infrastructure that affects foreign investment sustainability in Nigeria. Poor road networks, limited rail connectivity, and inefficient ports create significant bottlenecks for businesses. The Nigerian Economic Summit Group (NESG) reported in 2024 that over 60% of businesses in Nigeria experience logistical delays due to poor road conditions and congestion at the ports, leading to increased operational costs (NESG, 2024). The Apapa Port, which handles a significant portion of Nigeria's imports and exports, has been plagued by congestion, corruption, and inefficiencies, resulting in extended delays for goods clearance. Foreign investors in the manufacturing and importation sectors have repeatedly expressed concerns over these inefficiencies. The Manufacturers Association of Nigeria (MAN) noted in 2023 that port delays cost Nigerian businesses approximately \$4 billion annually due to demurrage fees and lost business opportunities (Vanguard, 2023). The lack of efficient transportation infrastructure hinders the sustainability of foreign investment, as businesses struggle to move goods and raw materials efficiently.

Electricity supply is another major determinant of foreign investment sustainability in Nigeria. Reliable power is essential for industrial production, commercial activities, and digital operations. However, Nigeria's electricity sector has been plagued by frequent blackouts, inadequate generation capacity, and high operational costs. The World Bank (2023) reported that businesses in Nigeria lose approximately \$29 billion annually due to unreliable electricity supply, making it one of the most significant barriers to investment sustainability (World Bank, 2023). The dependence on alternative power sources, such as diesel generators, increases costs for foreign businesses operating in Nigeria. Multinational corporations like Unilever, Nestlé, and Procter & Gamble have had to invest heavily in private power solutions to sustain their operations. The high cost of energy significantly reduces profit margins, making Nigeria less competitive compared to countries with stable electricity supply. In 2023, the American Business Council in Nigeria (ABC) reported that 70% of U.S. firms operating in Nigeria cited power supply as a major constraint to business expansion and sustainability (The Guardian, 2023).

Digital infrastructure is another critical component influencing the sustainability of foreign investment in Nigeria. In an era where businesses rely heavily on digital technology, internet access, and telecommunications services, a well-developed digital infrastructure is essential. While Nigeria has made progress in expanding broadband penetration and mobile connectivity, the country still lags behind in providing consistent and affordable digital services. The 2024 Global Digital Competitiveness Index ranked Nigeria 85th out of 120

countries, citing issues such as slow internet speeds, high costs of data, and frequent network disruptions (The Nation, 2024). Foreign investors in the fintech, e-commerce, and technology sectors require stable digital infrastructure to operate effectively. Companies such as Amazon and PayPal have hesitated to enter the Nigerian market due to concerns over internet reliability and cybersecurity risks. The lack of a well-developed digital infrastructure hampers the sustainability of foreign investment, as businesses require efficient digital solutions to compete in the global market. Water supply and sanitation infrastructure also play a role in attracting and retaining foreign investment. Many industries, including manufacturing, food processing, and pharmaceuticals, require a consistent supply of clean water for production. However, Nigeria's water infrastructure remains underdeveloped, with many businesses relying on private boreholes and water tankers. According to a 2024 report by the Nigerian Bureau of Statistics (NBS), 55% of businesses in Nigeria face challenges related to water supply, affecting production processes and operational efficiency (NBS, 2024). The reliance on expensive alternative water sources increases production costs and reduces investment sustainability. Foreign investors prefer locations where basic utilities are readily available, allowing them to focus on business expansion rather than infrastructure challenges.

Inadequate infrastructure also affects the competitiveness of Nigeria in attracting and retaining foreign investment compared to other African countries. For instance, Ghana, Kenya, and South Africa have made significant investments in infrastructure development, making them more attractive destinations for foreign investors. Ghana's Tema Port, for example, has undergone major upgrades, improving efficiency and reducing turnaround times for cargo shipments. As a result, many foreign companies that initially considered Nigeria have opted to establish operations in Ghana due to its superior infrastructure. Similarly, Kenya's investments in energy and transport infrastructure have positioned it as a regional hub for technology and manufacturing investments. Nigeria's failure to address its infrastructure challenges has led to capital flight, with many investors choosing more stable and efficient business environments. Despite these challenges, the Nigerian government has made efforts to improve infrastructure development through public-private partnerships (PPPs) and policy reforms. The National Infrastructure Master Plan (NIMP) was introduced to guide long-term investments in critical sectors such as transportation, energy, and telecommunications. Additionally, the government has implemented the Road Infrastructure Tax Credit Scheme, allowing private companies to invest in road construction in exchange for tax incentives. Some multinational corporations, such as Dangote Group, have taken advantage of these

initiatives to develop roads that facilitate business operations (BusinessDay, 2023). While these efforts are commendable, the pace of infrastructure development remains slow, limiting their impact on foreign investment sustainability.

Foreign investors have also adapted strategies to cope with Nigeria's infrastructure challenges, including investing in private power generation, using alternative logistics solutions, and leveraging technology to improve efficiency. However, these strategies come at additional costs, reducing the overall attractiveness of Nigeria as an investment destination. Without significant improvements in infrastructure, Nigeria risks losing more foreign investments to competing markets with better-developed facilities. The significance of well-developed infrastructure in sustaining foreign investment in Nigeria cannot be overstated. Poor infrastructure affects operational efficiency, increases business costs, and reduces investor confidence. The persistent challenges in transportation, electricity, digital connectivity, and water supply create obstacles for foreign businesses, limiting their ability to operate successfully. While the government has introduced policies to address infrastructure deficits, implementation remains slow, and progress is uneven. To improve the sustainability of foreign investment, Nigeria must prioritize infrastructure development through increased public-private collaborations, enhanced regulatory frameworks, and long-term investment strategies. Until these issues are adequately addressed, foreign investors will continue to perceive Nigeria as a high-risk destination, resulting in capital flight and missed economic opportunities.

Key Finding

1. Political stability is essential for enhancing investor confidence in Nigeria, as it reduces risks associated with policy inconsistencies and economic volatility, thereby attracting and retaining foreign direct investment.
2. Consistent government policies are crucial for attracting foreign investment inflows in Nigeria, as policy unpredictability increases investor risk and discourages long-term capital commitments.
3. A secure business environment is essential for attracting foreign investment in Nigeria, as insecurity, cyber threats, and political instability increase investor risks and deter capital inflows.
4. Well-developed infrastructure is essential for sustaining foreign investment in Nigeria, as inadequate transportation, electricity, digital connectivity, and water supply increase operational costs and deter investors.

Conclusion

In conclusion, political stability plays a fundamental role in fostering investor confidence in Nigeria by mitigating risks associated with policy inconsistencies and economic fluctuations. The presence of consistent government policies is crucial in ensuring steady foreign investment inflows, as unpredictability discourages long-term commitments. Additionally, a secure business environment is vital, as issues such as insecurity, cyber threats, and political instability heighten investor risks and deter capital inflows. Furthermore, well-developed infrastructure remains a key determinant of sustained foreign investment, as deficiencies in transportation, electricity, digital connectivity, and water supply increase operational costs. Collectively, these factors underscore the need for a stable, secure, and well-structured investment climate to enhance Nigeria's economic growth.

Recommendations

Based on the above findings, the study recommends the following:

1. The Nigerian government should strengthen political stability through transparent governance, policy consistency, and institutional reforms to enhance investor confidence and attract long-term foreign direct investment.
2. Policy consistency should be ensured by minimizing abrupt regulatory changes, improving policy coordination, and fostering investor-friendly economic policies to sustain foreign investment inflows.
3. Security measures should be intensified to combat cyber threats, insurgency, and political instability, creating a safer business environment that encourages sustained foreign investment.
4. Infrastructure development should be prioritized, particularly in transportation, electricity, and digital connectivity, to reduce operational costs and improve Nigeria's attractiveness to foreign investors.

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