



THE CHALLENGES FACING FOREIGN DIRECT INVESTMENT IN THE NIGERIAN CONSTRUCTION SECTOR

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Abstract: *The study examined the challenges facing the inflow of foreign direct investment (FDI) in Nigerian construction sector. Questionnaire and interviews were structured to elicit information from the respondents. A total of 194 questionnaires were administered to construction professionals, contractors and public clients knowledgeable and experienced in FDI and FDI related projects located in Lagos and Abuja, Nigeria. 155 were retrieved and used for analysis. Severity weighting was computed and variables were ranked based on the weighting. The Kendall's Coefficient of Concordance was used to determine the significance agreement on the ranking. The result revealed the factors that cause low FDI to include low presence of infrastructure development by the government and long time for return on investment among others. Lack of policy framework, insecurity and terrorism were identified as the most severe hindrances to inflow of FDI to construction while the most severe effects of low FDI were felt on contribution of construction to GDP. The result also revealed significant agreement amongst stakeholders on the ranking of the causal factors to low FDI, hindrances to FDI and the effects of low FDI. Therefore, the Nigerian government should create an enabling environment and set up construction free trade zone in addition to establishing construction development bank to act as a panacea for affordable infrastructure development in Nigeria.*

Keywords: *challenges; construction sector; foreign direct investment; infrastructure development; Nigeria.*

I. Introduction

Foreign direct investment (FDI) has been described, as an integral part of the international economic system and a major catalyst for development [1]. It is the flow of capital and human resource from one country to another and is regarded as a strong indicator of the economic strength of a country. The United Nations defines FDI as investment in enterprise located in one country but effectively controlled by residents of another country [2]. Ekpo [3] posits that FDI is not simply (or even primarily) an international transfer of capital but rather, the extension of an enterprise from its home country into foreign host country. The extension of enterprise involves flows of capital, technology, and entrepreneurial skills and, in more recent cases, management practices to the host economy, where they are combined with the local factors in the production of goods and services [4]. However, since domestic savings cannot solely finance a country's infrastructure, especially the developing economy, there is therefore need for foreign direct investment (FDI) and foreign portfolio investment (FPI) because of advantages accruing from it, such as managerial skills, marketing connection, technical knowledge, training of local work force, transmission of hard currency into the country with other financial resources, and more importantly, it does not create debts to the government. Thus, the significance of FDI for the provision of infrastructure development cannot be overemphasised.

As the pillar of growth in Africa, Todero [5] bewails that infrastructure is generally inadequate and of poor quality when compared to developed nations of the world. Foreign capital has long been accepted as an inevitable input in the development process, given the fact that no country is an island with self sufficiency on her in terms of needed resources, to stimulate economic growth and development [6]. Therefore, as a vital infrastructural sector, construction occupies a focal position in the economy of any nation because it is an important contributor to the process of development [7]. In the conduct of economic activities, the construction sector is always used by government as the stimulus for the buoyancy of the economy and reviving a depressed one [8]. The construction industry is thus a critical factor in the drive for economic advancement of nations, especially the Less Developed Countries (LDCs) such as Nigeria.

Consequently, Nigerian needs substantial amounts of foreign investment to speed up her economic growth most especially, in the area of building and construction investment and to promote development, which will in turn boost GDP. Foreign direct investment is known for improving economic efficiency through gains resulting from increases in international trade, international competitiveness and improved access to foreign markets for domestic products and training of labour force. Considering the fact that domestic capital formation (i.e. Domestic Investment Resources (DIR) is still at its infancy and is relatively low in developing nations, like Nigeria [9].

Regrettably, Ebekozi, Ugochukwu and Okoye [10] found that over the years, the inflow of FDI into the Nigerian construction sector has been far from encouraging. Ebekozi *et al.* [10] established that the Nigerian construction sector has a poor flow compared to manufacturing and processing, mining and quarrying and other miscellaneous sectors of the economy. This is not good for Nigeria, bearing in mind that the pillar of any economy is the presence of infrastructural facilities.

Kolapo [11] attributes this to also lack of effective interplay between leaders of African countries to provide the support institutions and the dynamic domestic entrepreneurial class which is a key success factor for attracting foreign direct investment. For Eboh [12], foreign investors are not even aware of the strides taken by African countries towards development, as many of them limit their focus to political stability, corruption and weak infrastructure.

Furthermore, Orji [6] observes that the infrastructural base of the Nigerian economy has remained weak in the past decades due to low gross domestic savings of Less Developed Countries (LDCs) such as Nigeria, which is a major limitation in financing infrastructure development. The above have further been substantiated by [9], [13] [14], [15] and [16] as they agreed that lack of policy framework, insecurity of lives, militancy and lack of infrastructure, among others are the main hindrances that determine the level of FDI inflow.

Notwithstanding, Mogbo [17] and Egolum [18] argue that past governments in Nigeria have made attempts in solving the problem by expressing determination to improve basic infrastructures as a means of promoting economic development through soft loans and grants from Multilateral Financial Institutions (MFIs) such as International Monetary Fund (IMF), World Bank and other lending nations. However, these loans and grants are normally characterised with conditions such as cut budgets in the social sectors; subsidy removal, leading to exchange rate crisis, massive devaluation of local currency and terms of trade determination, foreign content and expatriate usage, unemployment and underemployment.

Looking at the scenarios above, it is therefore pertinent to examine the challenges facing foreign direct investment flows to the Nigerian construction sector with a view to making viable recommendation that will form basis for developing policy framework towards improving FDI inflow in construction sector in Nigeria. Information generated from the study will also enhance the competitiveness and survival of the Nigerian construction industry on the global scene and ultimately improve its contribution to GDP. This is because Adelegan [19] opines that developing countries need to have reached a certain level of development in education, technology, infrastructure and health to benefit from a foreign presence in their markets.

Therefore, this study examines the challenges facing the inflow of FDI into the Nigerian construction sector with a view to strategising for its effectiveness in the country.

II. Methodology

A preliminary survey was carried out to determine the target respondents within the study population that have been involved in FDI and FDI construction projects in Nigeria. This was to ensure reliable responses, since they are knowledgeable about the issues covered in the survey. The target respondents comprised stakeholders in the Nigerian construction industry, namely: corporate and public clients, construction consultants/professionals, registered contractors with federation of construction industry in Nigeria. Categories of the public clients are the management staff of federal institutions like the Nigerian Investment and Promotion Commission (NIPC), Central Bank of Nigeria (CBN), Federal Ministry of Trade and Investment and the National Bureau of Statistics (NBS). The construction professionals comprise the quantity surveyors, architects, engineers and builders.

These respondents operate in two major cities in Nigeria, namely: Abuja, the federal capital territory and Lagos, the former capital of Nigeria. This is because these areas represent the hub of Nigeria's construction activities. The respondents were considered suitable for the study because the authors were guided by what the study considers 'unique cases' (experience in FDI projects), hence the likelihood of providing the requisite data or information.

A sample of 194 respondents was considered. The sample size was determined in accordance with Yamane [20], who opines that a census is attractive for small populations of 200 or less, although cost considerations make this impossible for large population. Since the population obtained from the preliminary survey conducted was less than 200, a census of the population was adopted.

Out of 194 questionnaire administered, 155 were returned, which represents a response rate of 79.90% which is above the 20-30% response rate for questionnaire survey in the construction industry [21], [22]. Table 1 shows the category of target respondents and questionnaire distribution for the study.

Table 1: Questionnaire distribution and response

Respondents	Location		Total
	Lagos	Abuja	
Public clients	13	22	35
Construction professionals/consultants	55	69	124
Contractors	23	12	35
Total	91	103	194

Three issues were considered when designing the questionnaire, namely: conformity with objectives, coverage and reliability. To ensure validity, a pre-test of the questionnaire was carried out on colleagues and potential users. Data were analysed based on the proposed tool for data analysis. The input and result generated from the data were used to refine the questionnaire before a wider survey was carried out. In addition to this, to ensure reliability of the questionnaire, the Cronbach's Alpha reliability coefficient was used for the 5-point Likert scale. The procedure used in analyzing the results was aimed at establishing the severity weights for the factors responsible for low FDI, the hindrances to the inflow of FDI and the effects of FDI. The score for each factor is calculated by summing up the scores assigned to it by respondents. Therefore, the levels of severity as indicated by the respondents were used to measure the severity weight (SW) of each factor. The severity weight (SW) was computed using equation 1:

$$SW = \frac{\sum_{i=1}^5 a_i \cdot n_i}{\sum_{j=1}^N x_j} \times 100 \quad (1)$$

Where x_j = sum of the j th factor; j = the factors 1,2,3,4,...,N; N = total number of factors ; a_i = constant expressing the weight given to the i th response; $i = 1, 2, 3, 4, 5$; a_5 = very high severity, a_1 = very low severity; n_i = the variable expressing the frequency of the i th response, n_1 = very high and n_5 = very low.

After computing of the SW of all factors, the weights were ranked for clients, consultants, contractors and other stakeholders. To determine whether there is a degree of disagreement among the groups with respect to their rankings of the factors, the Kendall's Coefficient of Concordance (W) was used. The Kendall's Coefficient of Concordance is a non-parametric statistic used to assess or measure agreement among the respondents. Kendall's W ranges from zero (no agreement) to 1 (complete agreement). It is done with three or more evaluators or groups.

Suppose that object i is given the rank r_{ij} by respondent number j , where there are in total, n objects or factors and m respondents, then, the total rank given to object i is:

$$R_i = \sum_{j=1}^m r_{ij} \quad (2)$$

Where i = individual items being ranked (1 through 6 for factors affecting DFI, 1 through 11 for hindrances to inflow of FDI and 1 through 6 for effects of low DFI); m = number of groups (for the study there are 3; clients, consultants and contractors).

The mean value of these total ranks is:

$$\bar{R} = \frac{1}{2} m (n+1) \quad (3)$$

Where n = number of items being ranked (6 for factors responsible for low DFI, 11 for hindrance to inflow of FDI and 6 for effects of low FDI).

The sum of the squared deviations is defined as:

$$S = \sum_{i=1}^n (R_i - \bar{R})^2 \quad (4)$$

This is the tally of the squared differences between the sum of the scores for each factor and the overall rank.

The Kendall's Coefficient of Concordance, W is determined with equation 5.

$$W = \frac{12S}{m^2(n^3 - n)} \quad (5)$$

W values close to zero imply no agreement, i.e. there is no overall trend of agreement among the respondents and their responses may be regarded as essentially random. W values closer to one imply agreement, i.e. all survey respondents have been unanimous and each of them has assigned the same order to the list of factors or objects. Intermediate values of W indicate a greater or lesser degree of unanimity among the respondents. To compute the test statistic ($T.S$) which comes from the data, $T.S$ is compared to the critical value to determine if there is concordance or not.

$$T.S = \frac{12S}{m(n^2 - 1)} \quad (6)$$

With n and the degree of freedom ($df = n - 1$) known, the chi squared X^2 with a confidence of $1 - \alpha$ (0.05 for the study) is used. For $n > 7$ the X^2 table is used, but if $n < 7$ the direct probability from the table of critical values is used.

Decision rule: Reject H_0 if T.S is greater than the critical value, otherwise ho not reject H_0 and conclude that there is a significant degree of agreement between the three groups with respect to how they rank the factors.

III. Results and Discussions

A. Results

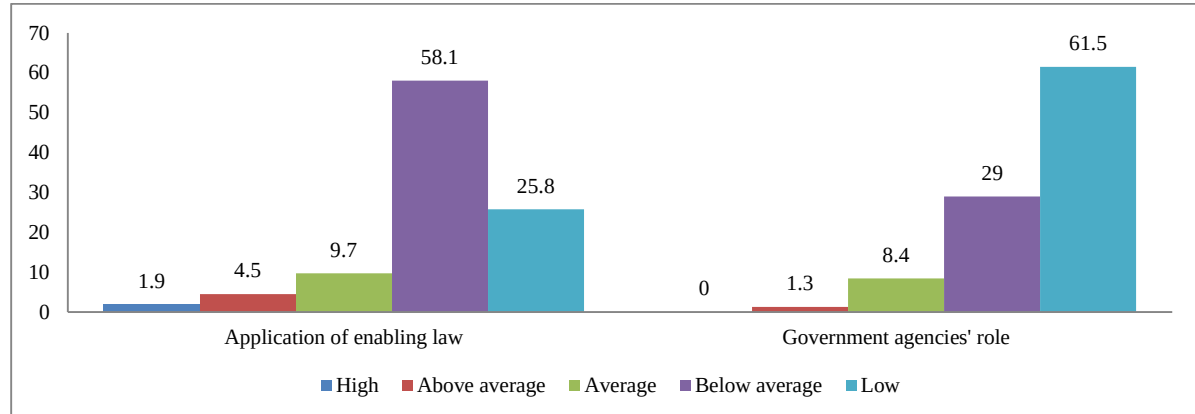


Figure 1: Percentage response on application of enabling laws and government agencies' role in inflow of FDI to the construction sector in Nigeria

From figure, 1 83.9% of the respondents indicated that the level of utilisation of enabling laws in enhancement of FDI inflows to the construction sector is below average. This has exposed how precarious the established laws and regulations in the country are. This however, would potent danger to the functioning of FDI in the construction industry which has already been engulfed with enormous challenges.

More so, it was revealed that 90.3% of the respondents were of the view that the role of MDAs of the Federal Government in encouraging inflow of FDI in the construction sector is below average. It was also observed that some of these agencies are not conversant with their role in enhancing the inflow of FDI to the construction sector in addition to low funding of the agencies by the government.

Table 2: Severity weights and ranking of the factors responsible for low FDI in the Nigerian construction sector

Factors	Clients		Consultants		Contractors		Overall
	SW	Rank	SW	Rank	SW	Rank	
Low presence of infrastructural development	4.39	1	4.59	1	4.32	1	1
Longer time for return on investment	4.39	1	4.59	1	4.32	1	1
High level of corruption in the sector	3.95	4	4.59	1	3.35	3	2
Lack of due process	3.86	5	3.60	6	3.25	4	5
Lack of managerial capability	4.25	3	4.23	4	2.23	6	4
Lack of technical capability	3.86	5	3.85	5	2.57	5	3

Table 2 indicated that low presence of infrastructural development in the country and longer time for return on investment were ranked first as the most severe factors responsible for low FDI in the construction sector. Moreover, it was shown that high level of corruption in the sector is another major factor responsible for the low investment in this sector. Lack of managerial capability and lack of due process are less severe, while lack of technical capability ranked third.

Table 3: Severity weights and ranking of the hindrances to the inflow of FDI into the Nigerian construction sector

Identified hindrances to FDI	Clients		Consultants		Contractors		Overall
	SW	Rank	SW	Rank	SW	Rank	
Lack of policy framework	4.20	1	4.30	1	4.30	3	1
Insecurity and terrorism	3.70	3	4.30	1	4.50	1	1
Militancy and youth restiveness	4.00	2	3.70	3	4.30	3	2
Political and economic instability	3.50	4	3.70	3	3.80	5	3
Global risks	3.50	4	3.20	7	4.35	2	4

Lack of infrastructure	3.30	6	3.50	5	3.40	6	5
Bribery and corruption	3.01	7	3.40	6	3.20	7	6
Obsolete land use Act	3.00	8	3.00	8	2.10	10	7
Absence of market	2.50	10	2.30	11	2.60	8	9
Discriminatory practices	2.70	9	2.60	9	2.30	9	8
Unavailability of natural resources	2.50	10	2.50	10	2.00	11	10

Table 3 showed that lack of policy framework and insecurity ranked first as the most severe factor that influenced the inflow of FDI into the construction sector in Nigeria. It was also revealed that militancy and youth restiveness, political and economic instability, global risks (comprising of political, legal, commercial and environmental risks) are other severe hindrances that influenced the low inflow of FDI to the construction sector. Obsolete Land Use Act, absence of market, discrimination and non-availability of natural resources (which ranked least) are of less severity. Obsolete Land Use Act, which is one the major problems militating against attracting FDI in Nigeria calls for the urgent need for the Federal Government to review it with a view to making it proactive, investor-friendly and easier for land to be used as collateral.

Table 4: Severity weights and ranking of the effects of low FDI inflow on Nigerian construction sector

Identified impacts	Clients		Consultants		Contractors		Overall
	SW	Rank	SW	Rank	SW	Rank	Rank
Low contribution of public investment to GDP	4.10	2	4.40	1	3.80	4	1
Low presence of infrastructural development	4.39	1	4.39	2	3.60	5	2
Lack of technological innovation	3.70	5	4.20	3	4.50	1	3
Low enterprise development	4.05	3	3.95	4	4.40	2	3
Lack of accelerated commercialisation	3.90	4	3.50	6	3.90	3	4
Discouraged trade and investment	3.13	6	3.70	5	3.20	6	5

Table 4 presented the ranking of the identified effects of low flow of FDI in Nigeria, from the respondents' view points. The analysis revealed that low contribution of public investment to GDP growth, is the most severe effect of low flow of FDI, while low presence of infrastructural development ranked second. Lack of technological innovation and low enterprise development were tied at third. Contractors, however, ranked lack of technological innovation as the most severe. Discouraged trade and investment and lack accelerated commercialisation are the least severe.

The study recognised that these effects are not healthy for Nigeria which is trying to become among the 20 most developed countries by the year 2020. It is widely accepted that FDI inflow to the construction sector is an important aspect of globalisation and therefore, an important driver of economic performance, since it is expected to improve industrial productivity growth by infusing new capital, technologies and managerial know-how, and also by improving the average skills and efficiency levels of the construction industry.

B. Test of hypothesis

H₀: There is no significant agreement among the respondents on the ranking in all the variables considered.

H₁: There is significant agreement among the respondents on the ranking in all the variables considered.

Table 5: Results of Kendall's analysis

Analysis summary	Factors responsible for low FDI	Hindrances to the inflow of FDI	Effects of low FDI inflow
n	6	11	6
m	3	3	3
R	9.50	17.50	10.50
S	175.80	937.30	71.80
W	1.00	0.90	0.50
df	5	10	5
T.S	20.10	31.20	8.20

Where: n = number of items or factors being ranked; m= number of respondent groups; R = mean value of the total ranks; S = sum of squared deviations; W = Kendall's Coefficient of concordance; Df = degrees of freedom; T.S = test statistic

From table 5, Kendall's W value of 1.00 indicated that all the survey respondents have been unanimous, and each group of respondent has assigned the same order to the list of factors. Furthermore, using the critical value table of Kendall's chi square approximation, X^2 with confidence of $1 - \alpha$, $df = n-1$ and $\alpha = 0.05$, the $X_{\alpha}^{2(n-1)} = X_{0.05}^{2(5)} = 11.07$. Since T.S which is 20.10 is greater than the critical table, the null hypotheses H_0 is rejected and

the alternative hypothesis H_a is accepted. It is therefore concluded that there is a significant degree of agreement among the three groups.

In table 5 also, a value of 0.90 obtained from Kendall's coefficient of concordance, W revealed a maximum agreement on the hindrances to FDI inflow by the respondents. Also, T.S = 31.20 is greater than the critical value of 18.30, hence the alternative hypothesis of a significant agreement among stakeholders on the hindrances to the inflow of FDI into the Nigerian construction sector is accepted.

As shown in table 5, a value of 0.50 obtained from Kendall's coefficient of concordance, W revealed a maximum agreement on the hindrances to FDI inflow by the respondents. However, T.S = 8.20 is less than the critical value of 11.07. This implies that there while there appears to be some agreement, it is not sufficient to conclude that the respondents agree.

C. Discussions

The study explored salient issues of the challenges and hindrances to the significant inflow of FDI in the Nigerian construction industry as well as the resultant effects of low FDI. From the study, 83.9% of the respondents agreed that utilisation level of the enabling laws in enhancement of FDI inflows into the construction sector in Nigeria is below average. This could be as a result of obsolete laws, which has lost touch with international standards and/or due to lack of enforcement mechanism on the part of government. The study also revealed that 90.3% of the respondents are of the view that those government ministries, departments and agencies (MDAs) role in enhancing the inflow of FDI to the construction sector in Nigeria is below average. This may be the reason why investors hesitate to invest in this sector that ought to be the second largest employer of labour after agriculture in a developing country like Nigeria.

The major factors responsible for low investment of FDI in construction sector in Nigeria are: low presence of infrastructural development, longer time of return, high level of corruption in the sector, lack of due process, lack of managerial and technical capability. Longer time of return was revealed to be a major reason for low inflow compared to other major sectors like mining, manufacturing, to mention a few.

The study further identified lack of policy framework, lack of security and terrorism attack, militancy and youth restiveness, political and economic instability, risks, lack of infrastructure, bribery and corruption, obsolete Land Use Act, absence of market, discriminatory practices and non-availability of natural resources as significant hindrances to inflow of FDI in the construction sector.

Furthermore, the effects of low flow of FDI were identified to be: low contributions of public investment to GDP growth, low presence of infrastructural development, lack of technological innovation, low enterprise development, lack of accelerated commercialisation and discourage trade and investment.

This implies that the sector would continue to perform below its expectations unless a boost comes from the government which would be in form of re-formation of enforcement strategies and creation of conducive business environments for foreign investors.

IV. Conclusion and Recommendations

For an appreciable inflow into the construction sector, and for the full benefits of FDI to be derived, the challenges identified by the study must be properly addressed, less the adverse effects of low DFI on construction reaches an overwhelming level, and thereby making them almost impossible to curtail. Nigeria should market herself effectively and undertake consistent and systematic long term planning if it intends to remain an attractive destination for foreign investors and foreign direct investments.

This study has therefore unveiled the challenges and effects of low FDI inflow in the Nigerian construction sector. It has established that there is concordant agreement among various stakeholders in the industry on the precariousness of the construction industry with respect to FDI flow into the sector and identified government inactions and lack of enforcement of enabling laws as the progenitors of these challenges.

In view of this, the result of this study would be a veritable tool to the Nigerian government and construction industry players, in that it would help them towards making informed decisions with respect to FDI in the sector, providing policy frameworks for policy makers, and reducing the cumbersome nature and problems often associated with foreign investments in this sector. The competitiveness and survival of the Nigerian construction industry on the global stage would also be improved and this would in turn increases the contribution of the sector to the national economy.

Based on the foregoing study findings, the following recommendations are advanced:

- Policy makers should examine the existing laws, removing the bottlenecks and look for new ways of increasing foreign investment flow especially in the area of construction facility investment. This is inevitable because the extent of financing required to bridge the country's infrastructure deficit surpasses the supply of capital available from government. This could also be achieved in form of public private partnership (PPP). This is in addition to government intensified efforts towards strengthening its enforcement mechanisms.
- The economic regulators in collaboration with appropriate stakeholders should organise training regular workshops for law makers and other relevant agencies and sensitise them on the need to enact laws that will encourage foreign investors to invest more in this sector. The universal remedy for solving Nigeria infrastructural deficit crisis is massive investment by both the formal and informal sectors of the economy into

the construction sector of the economy as this will yield positive multiplier effects in all other sectors. Nigeria should therefore not just wait for foreign investors only, as government's investment in this sector can also be an avenue for open invitation from foreign investors since construction activity can also attract foreign direct investment.

- The relevant investment and monitoring institutions or agencies like the Nigerian Investment Promotion Council (NIPC) should be encouraged and empowered to evolve strategies aimed at assessing the progress made in adopting measures to create an investor-friendly environment mainly in areas of investor protection and investment facilitation. Government should be able to convince the investors regarding non-commercial risks, such as political risk, environment of uncertainty and perceived risks. Partnerships should be created that can help build investor confidence needed to tap the global pool of capital. Also, proper funding of these agencies cannot be over-emphasised.
- Government should not stop at just reviewing the existing laws and policies. It should make efforts to ensuring that these laws and policies are put in a form that they are easily accessible to both local and international investors. Also, policy makers should put in place laws that are friendly, to encourage intending investors.
- The government should set up a construction free trade zone authority, because a lot of foreign firms would like to operate within free zones to benefit from various incentives provided by the zones for investors. This free zone should be used as a platform for bringing in FDI into the construction sector in Nigeria. It should be a Federal Government agency charged with the responsibility of attracting FDI into the country with regards to construction sector.
- A construction development bank should also be established by the government to act as a panacea for not only accessibility to construction loans, but affordable infrastructure development in Nigeria

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