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INVESTMENT CLIMATE REFORM AS A CATALYST FOR INCLUSIVE DEVELOPMENT IN NIGERIA: MYTH OR REALITY?

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Abstract

The study examines the degree at which investment climate reforms perform a catalytic role for inclusive development in Nigeria. In the last two decades, a number of policy reforms which targeted improved ease of doing business, foreign direct investment attraction as well as stimulation of growth in the private sector have been pursued by the national government of Nigeria. Nonetheless, the real impact of such moves on reducing poverty, creating employment and equitable access to economic opportunities remains questionable/undesirable. Using descriptive statistics and regression methodology, the study investigates the relationship between regulatory improvements like efficient business registration, tax incentives including reforms in financial sector and measures of inclusive development across different socioeconomic groups and regions within Nigeria. From the findings, a modest economic benefit and investors' confidence growth have been achieved, but the distribution of such gains remains uneven. The study unveiled factors like structural bottlenecks, weak institutional capacity, and regional disparities continue to limit the trickle-down effects of such reforms. Hence, a more targeted and integrated policy approach are proposed as effective response to the critical question: Are Nigeria's investment climate reforms a genuine engine of inclusive growth or just a well-crafted myth?

Key words: Investment Climate, Reform, Inclusive Development, Myth, Reality

JEL: O15, O16, O43, E22, D63, B40

1. Introduction

In recent decades, the concept of an enabling investment climate has emerged as a critical determinant of economic growth and development, particularly in developing countries. For Nigeria, a country richly endowed with human and natural resources but grappling with deep-rooted structural challenges, investment climate reform has been positioned as a key strategy for unlocking private sector potential and fostering broad-based development. Successive governments have introduced various reform initiatives aimed at improving the ease of doing business, strengthening regulatory frameworks, attracting foreign direct investment (FDI), and enhancing competitiveness. For example, the Presidential Enabling Business Environment Council (PEBEC) and reforms to the Companies and

Allied Matters Act (CAMA) are efforts to attract investment through climate improvements (PEBEC, 2021)

Despite these efforts, questions persist about the actual impact of these reforms on inclusive development. Statistics have shown that 63% of people living in Nigeria are multidimensionally poor. The data further specified that 65% of the stated category of poor individuals reside in the northern part of the country, whereas, 35% live in the southern Nigeria. But generally, 40.1 % of Nigeria's population is poor (National Bureau of Statistics, 2022). Also, unemployment rate registered by the country in 2020 was 5.39 %, which increased to 5.71% in 2021, however, in 2022, a decline of 1.57% was registered as unemployment rate declined to 3.83% and further to 3.07% in 2023 (Macrotrends, 2025). The country's ranking on ease of doing business improved in 2020 to 131st position with 56.9 general score. This was a remarkable improvement from its 146th position in 2018 as Nigeria performed relatively well in the area of starting a business and getting credit (Statista, 2024). On financial inclusion, a growth was recorded at 64% in 2023 from its 56% record of 2020 which signified a broader reach of financial services, nonetheless, only 6% of the adults utilized credit products from regulated institutions in 2023 (EFinA, 2024). While macroeconomic indicators may show periods of growth or rising investment inflows, the lived realities of many Nigerians characterized by high unemployment, rising inequality, and regional disparities, suggest a disconnect between policy intentions and developmental outcomes. The fundamental question, therefore, is whether these investment climate reforms are genuinely serving as a catalyst for inclusive development or whether they remain a myth in Nigeria's development narrative. Going by verifiable facts, regulatory efficiency of Nigeria averaged -0.92 between 1996 and 2023. Though an improvement was recorded in 2021 (-0.94) from its 2020 -1.02 points, the indexed declined to -1.16 in 2022, however increased to -0.94 points in 2023, whereas, the World Bank average is -0.03 points based on data from 193 countries (The Global Economy, 2025)

Given the foregoing, this study seeks to critically examine the effectiveness of Nigeria's investment climate reforms in promoting inclusive development. It aims to unpack the linkages between regulatory and institutional improvements and socio-economic outcomes such as poverty reduction, job creation, and equitable growth. By assessing both the achievements and limitations of recent reform efforts, the research will contribute to the ongoing discourse on whether Nigeria's investment climate agenda is genuinely transformative or merely symbolic.

Despite Nigeria being categorized as the largest economy in Africa in relation to gross domestic product (GDP), it continues grabbling with enormous structural and policy issues that weaken the effectiveness of reforms on investment climate aimed at promoting inclusive development. While successive governments have introduced several reforms to improve the investment environment, such as initiatives on ease of doing business, regulatory changes including tax incentives, the results are still inequitable and, in most cases, exclusionary.

Statistical indicators show a contradiction between investment reform efforts and real development results. For example, the nation's position in ease of doing business improved to 131st in 2020 from its 169th position in 2017, which indicated significant strides in business regulatory reforms (World Bank, 2020). Nevertheless, this improvement is yet to translate to widespread social and economic inclusion. The National Bureau of Statistics (NBS) reported that the multidimensional poverty rate reached 63% in 2022, affecting more than one hundred and thirty-three million Nigerians. This suggests that most of the population is still excluded enjoying benefits accrue to economic growth (NBS, 2022).

Evidently, also, there has been a wide spread disparities in gender and regions in accessing investment benefits. ILO (2021) reported that though the informal sector of the economy is responsible for more than 65% of employment, it still operating basically outside the coverage of formal investment policies. Youths and women continue to suffer unequal barriers to accessing land, finance, even business support services, though representing two key demographics for inclusive development (AFDB, 2022). The existing paradox between policy intents and real-world outcomes demands further investigation to unravel if Nigeria's investment climate reforms are catalytic inclusive development or perpetuating a myth of progress. Consequently, aimed at investigating how real or myth investment reform can be catalyst to inclusive development in Nigeria.

2. Literature review

This section conceptualized the key concepts of the study for deeper insight and their usage in this study. It also provided the theoretical underpinning of the study which clearly links the variables of interest and empirical literature reviewed related literature on the subject matter.

Conceptually, **investment climate** refers to the broad set of policies, institutions, infrastructure, and conditions that govern the environment for private sector investment. According to the World Bank (2005), it encompasses factors such as property rights, rule of law, access to finance, tax regimes, and the ease of doing business. A favourable investment climate reduces transaction costs and risks, thereby incentivizing both domestic and foreign investments. Reforms in the investment climate typically aim to eliminate barriers to entry, streamline bureaucratic procedures, and enhance transparency and regulatory certainty (Campos & Nugent, 2003). **In the same vein, inclusive development** moves beyond traditional GDP growth metrics to encompass equity, social inclusion, and access to economic opportunities. It ensures that the benefits of growth are broadly shared, particularly among marginalized and vulnerable groups (Ranieri & Ramos, 2013).

The theoretical underpinning connecting investment climate reform to inclusive development rests on the **private sector-led growth model**. Proponents argue that by improving the ease of doing business and encouraging entrepreneurship, governments can stimulate job creation, innovation, and poverty alleviation (Stern, 2002). When reforms are effectively implemented, they reduce inequality by expanding access to economic opportunities. However, the relationship is **not automatic.** Critics argue that reforms often benefit larger, formal sector enterprises while neglecting small and informal

businesses that employ the majority of the poor (Rodrik, 2005). In Nigeria, despite improvements in the investment climate, unemployment and inequality remain high, raising doubts about the inclusivity of such growth (NBS, 2023). Furthermore, **regional disparities** in infrastructure, security, and governance mean that benefits of reform are often concentrated in a few urban centres like Lagos and Abuja (Akinlo, 2015). This undermines the national reach and inclusiveness of development outcomes. In policy discourse, inclusive development in Nigeria includes targets like job creation, poverty reduction, gender inclusion, and regional economic balance. The National Development Plan (2021–2025) frames inclusivity as a core objective, emphasizing the need to link investment-driven growth with human development indicators (Federal Government of Nigeria, 2021).

Empirical studies have examined how reforms in Nigeria's investment climate impact economic performance. Akinlo (2011) conducted a time-series analysis covering the period 1980–2008 and found a positive and significant relationship between foreign direct investment (FDI) and economic growth, particularly in manufacturing and telecommunications. His study highlighted the importance of stable macroeconomic policies and regulatory reforms in attracting productive investments. Similarly, Okafor and Ujah (2020) used a panel data approach across Nigeria's 36 states to evaluate how improvements in ease of doing business indicators, such as property registration and business licensing, correlate with new business start-ups and job creation. Their results indicated that regulatory simplification significantly increased entrepreneurial activity, especially in urban centres. However, both studies caution that reforms tend to concentrate benefits in areas with pre-existing economic advantages, suggesting a limited reach of reform outcomes.

Ogun (2010) investigated the impact of investment climate indicators on poverty in Nigeria using a Computable General Equilibrium (CGE) model. The study found that improvements in infrastructure and reduced cost of doing business could significantly lower poverty incidence, especially in rural areas. Nonetheless, the study emphasized that unless complemented by social safety nets and rural-targeted policies, such reforms could increase urban–rural inequality. In another study, Anyanwu and Yameogo (2015) assessed the impact of foreign investments on poverty reduction in West Africa, including Nigeria. Using cross-country data from 1990 to 2012, they concluded that while FDI contributes to GDP growth, its direct effect on poverty is weak unless mediated by human capital development and labour-intensive sectors.

Micro, small, and medium enterprises (MSMEs) are key to inclusive development. Abiola and Egbetokun (2018) used survey data from over 500 Nigerian SMEs to explore the constraints posed by the investment climate. Their findings showed that bureaucratic delays, corruption, and limited access to credit remained significant barriers to MSME growth, even after recent reforms. While regulatory reforms (e.g., online business registration) improved business formalization, access to capital and markets remained elusive for most MSMEs. These findings suggest that while business environment reforms may create an enabling framework, actual inclusion depends on institutional support mechanisms tailored to small enterprises.

Akpan and Effiom (2021) performed a spatial econometric analysis to understand the geographic distribution of investment benefits in Nigeria. Their research found that 70% of FDI and major business reform benefits are concentrated in just five states, notably Lagos and the Federal Capital Territory. Northern and oil-producing regions showed limited uptake of investment opportunities due to insecurity, poor infrastructure, and policy instability. This geographic imbalance raises questions about the inclusivity of investment-driven development and the need for region-specific policy interventions.

The rapid growth of Nigeria's fintech sector has been cited as an example of successful investment climate reform. According to the IMF (2022), regulatory sandboxes and improved digital infrastructure enabled the rise of companies like Paystack and Flutterwave, attracting millions in venture capital and creating jobs in tech hubs. Yet, Onuoha and Uche (2023) caution that this growth is urban-biased and benefits a small segment of the population, those with digital literacy and urban residency. They argue that inclusive growth requires parallel reforms in education and rural digital access.

In a related study on investment efficiency, Ogbuagu, Chijioke and Mba (2014) examined the impact of credit market development on investment efficiency in Nigeria exploring the standare error correction mechanism. The outcome of the study reemphasized the essential role of investment efficiency in channeling resources to core growth operations of the private sector. Hence, it suggested the exploration of interest rate in the management and promotion of investment efficiency. In a similar vein, Ogbuagu, Chijioke and Udah (2013) encouraged reduced interest rate as a means of encouraging project financing, hence, improving investment productivity in Nigeria.

3. Methodology

This section, provides the research design employed by the study as well as the type of data used. It further highlights the estimation methodology adopted in addition to sources of data used by the study. This study adopts a descriptive analytical and *ex-post facto* methods exploring the combination of qualitative and quantitative analyses. This design is chosen to capture both the measurable impacts of investment climate reforms on economic indicators and the lived experiences of stakeholders. The quantitative component analyzed macroeconomic data and investment-related metrics, while the qualitative component explored stakeholder perceptions, challenges, and reform implementation dynamics. Government officials involved in investment policy and economic development (e.g., Ministry of Trade, Investment, and Finance); private sector actors (especially MSMEs and large enterprises); Civil society organizations (CSOs) working on governance, business environment, or inclusive development; economic analysts and academics, in addition to development agencies (e.g., World Bank, UNDP).

The study adopted purposive sampling in selecting related data on economic indicators from the federal and state level from 2015 through 2025. In addition to the purposive, snowball sampling was employed in conducting key information interviews and focus group discussions with the view of

ensuring expert perceptions and stakeholder representation. Primary data were sourced with the aid of questionnaires, key information interviews and focus group discussions from micro-small and medium scale enterprises, policy makers, policy implementers, investment promotion officials, economists, business associations Civil Society Organizations that are development oriented. On the other hand, macroeconomic data were obtained from the publications of the Central Bank of Nigeria, National Bureau of Statistics, World Bank, UCTAD, International Monetary Fund (IMF) including policy documents on investment climate assessments.

Data on ease of doing business, regulatory burden, inclusion and access to finance were collected using a well-structured questionnaire, while, in-depth perceptions on the effectiveness of reforms were gathered through interviews. Further, observation checklists were explored to evaluate how reforms are implemented at specified government agencies like the Corporate Affairs Commission. For the quantitative data, the study engaged descriptive statistics in analyzing the survey responses, while regression analysis employed to evaluate the relationship between investment reforms and inclusive development. Again, a trend analysis of FDI and GDP per capita was performed within the study period.

This study carried out a pre-test of the questionnaires to ensure that they are clear and relevant to the study. In addition, data triangulation was explored so as to ensure the enhancement of the findings' reliability, whereas, the internal consistency of the questionnaire was tested using Cronbach alpha. Also, informed consent was obtained from every participant and the study ensured the confidentiality and anonymity particularly while interviewing and focus group discussions. Before the commencement of the fieldwork, the study obtained ethical approval from the relevant review board. The period of focus for this study is 2010 through 2025 which spanned national and selected regional reforms in Nigeria. The study was constrained by disaggregated development measures and potential response bias in self-reported survey data.

4. Results and Discussion

This section is divided into two sub-sections. While section one presents the descriptive statistics on the variables of interest in the study with their implications, the second subsection presents the regression result obtained with available data.

4.1 Descriptive statistics

Table 1: Descriptive analysis result

Variable	Mean score (1-5)	Interpretation
Ease of doing business	3.2	Moderately improved
Access to finance	2.6	Poor

Regulatory transparency	3.0	Neutral
Infrastructure adequacy	3.0	Below average
Inclusiveness of reforms (e.g., gender)	2.5	Weak
Satisfaction with reform implementation	3.1	mixed

Source: Authors computation (2025)

The descriptive statistics depicted in Table 1 shows that business environment has moderately improved, however, access to finance and infrastructure constitute key constraints particularly for small enterprises and women-led businesses. Also, the result shows that the inclusiveness of the reforms within the study period have remained weak. Generally, the key findings of the investigation provide the complexity investment climate reform landscape of Nigeria within the study period. Whereas, improvements in business environment have been recorded, not much has been achieved in translating the reforms into broad-based inclusive development as it remains limited and uneven. Specifically, the outcome of the regulatory efficiency of ease of doing business (moderately improved) with the mean score of 3.2 is in alignment with the global ranking which shows that Nigeria has made progress in the Ease of Doing Business Index of the World Banke within this study period. But the reforms are urban-focused, consequently, the gains of the reforms are enjoyed by economically developed areas, particularly Abuja, Lagos, and a few states in the southern part of the country. The findings corroborate the findings of Akpan and Effiom (2021) who noted that regional inequalities in investment flows and business activity, where northern and rural districts are basically excluded as a result of insecurity, infrastructural deficit and inadequate access to financial services. In consonance with the findings of Abiola and Egbetokun (2018), the study shows that access to finance is the strongest indicator of inclusive development with the coefficient of $\beta = 0.35$ and the probability value of 0.001. this implies that irrespective of intense degree of regulatory framework, it is practically impossible for businesses to grow in the face of insufficient financial support.

4.2 Regression result

A multiple regression model was used to assess the relationship between **investment climate reforms (ICR), regulatory efficiency, access to finance, infrastructure improvement and policy consistency**. The result is presented in Table 2.

Table 2: Summary of regression result

Variable	Coefficient	p-value
Regulatory efficiency	0.29	0.003
Access to finance	0.35	0.001

Infrastructure improvement	0.22	0.015
Policy consistency	0.31	0.002

$R^2 = 0.64$
Adjusted $R^2 = 0.61$
F-statistic = 18.74($p<0.001$)
Source: Authors computation (2025)

Furthermore, the regression results in Table 2 noted that inclusive development outcomes is greatly affected by infrastructural quality and policy consistency with the respective coefficients $\beta = 0.22$ and $\beta = 0.31$; and p-values of 0.015 and 0.002. The respondents identified power failure, bad road networks as well as incessant policy reversal particularly tax and custom procedures as factors inhibiting investments, hence, limiting investments that are long term based and restraining small businesses and rural enterprises growth. More so, the result portends a weak inclusive index score which was 2.5 on the scale of 5 especially for women, youth and actors in the informal sector. According to the qualitative feedback, factors that contributed to the exclusion of these groups include: bureaucratic hurdles, digital literacy, inadequate outreach of reforms awareness campaign and high compliance cost. This finding aligns with the submission of Ogun (2010) socioeconomic inequalities. Despite the beneficial impact of reforms like employment generation within the formal sector, particularly in Fintech and ICT, the informal sector which inhabits a greater share of Nigeria's population have minimal effect of such reforms. The beneficial dichotomy raises the argument on the ability of reforms to catalyze widespread of inclusive development in Nigeria.

5. Conclusion and Recommendations

The concluding section of the study concludes the study and provides policy recommendations in line with the objectives of the study and the corresponding findings. It is subdivided into two subsections; conclusion and recommendations, respectively.

5.1 Conclusion

This study investigated the reality of investment climate reform serving as catalyst for inclusive development in Nigeria. Exploring both qualitative insights and quantitative data, the outcomes portend that though a significant improvement has been achieved in ease of doing business by simplifying regulations, service digitalization and investment promotion, the transformation of these reforms into broad-based inclusive development has remained partial and uneven. Major inclusive development enablers are still weak. Also, formal sectors and urban-situated businesses disproportionately gain from the reforms while informal businesses, rural dwellers, women and youths are alienated from the gains. The transformative potentials of the reforms are further limited by the disconnect between policy design and ground-level implementation. The study therefore conclude that

reforms of Nigeria's investment climate have potentials to catalyze inclusive development, however, their effectiveness is conditional and limited under current realities. Thus, the perception of the reforms as a catalyst is not a myth, though not a complete realized reality.

5.2. Recommendations

Given the empirical findings of the study in lieu of the stated objective, the study recommends the improvement of access to finance for informal sector and MSMEs; investment in infrastructure to bridge the regional gap; strengthen reform implementation and coordination, enhance inclusivity and participation; institutionalize policy consistency and legal reforms; build capacity for States and Local Governments; and promote data transparency and inclusive metrics.

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