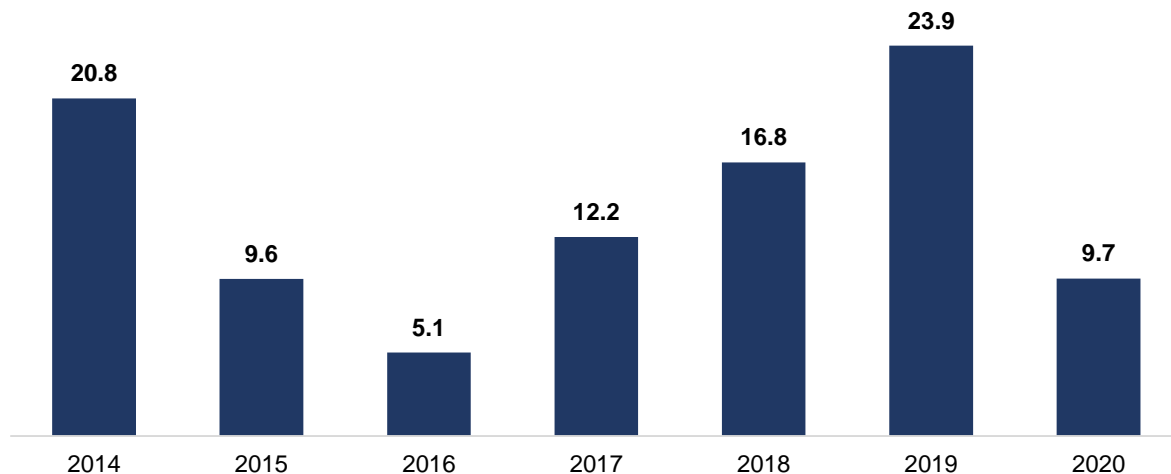


Overall investment inflows into Nigeria succumbed to COVID-19, plunged by 59.7% in 2020

According to National Bureau of Statistics (NBS), foreign investment inflows fell more than double to \$9.7 billion in 2020 from \$23.9 billion in 2019. This marks a reversal of the yearly increase since 2017. The weak inflow of foreign investments starting from the second quarter of 2020 was fuelled by uncertainty associated with the spread of COVID-19, weak external reserves position and low interest rate environment. The illiquidity of the foreign exchange market (forex) and negative real returns on investment largely served as a disincentive to foreign investment inflows.

Figure 1: Trend of Foreign investment inflows (US\$ billion)



Data: NBS; Chart: NESG

Huge decline in FPI drives down the overall foreign investment inflows

On a disaggregated basis, the decline in total investment inflows was largely driven by a sharp fall in foreign portfolio investments (FPI) to \$5.1 billion in 2020 from \$16.4 billion in 2019. Correspondingly, the share of FPI in the overall foreign investment inflows dropped to 53% in 2020 from 68% in 2019. On the other hand, foreign direct investment (FDI) and other forms of foreign investments witnessed a rise in their contributions to total investment inflows at 11% and 36%, respectively, in 2020. This could be attributed to their relative stability during crisis period (such as, COVID-19) over FPI, which is more vulnerable to sudden capital outflows. The CBN's FX rationing among end-users in most part of 2020 largely doused investors' confidence in Nigeria's market for equities and fixed income assets.

Figure 2a: Composition of Investment inflows in 2020

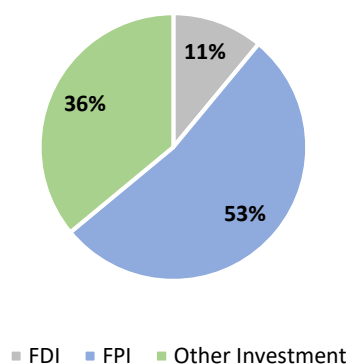
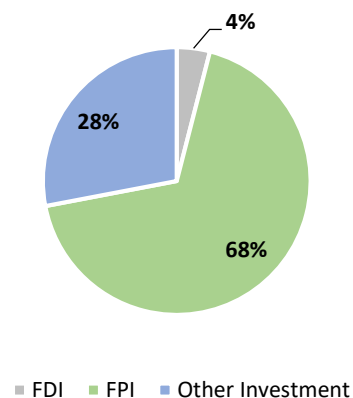


Figure 2b: Composition of Investment inflows in 2019

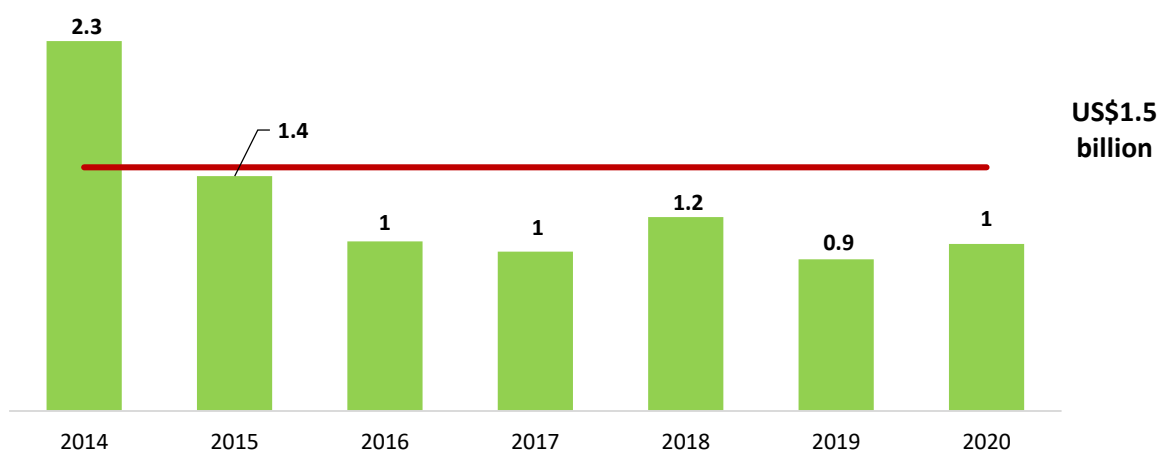


Data: NBS; Chart: NESG

COVID-19 outbreak tested the resilience of FDI inflows in 2020

Unlike other forms of investment inflows, Foreign Direct Investment (FDI) – which is a relatively stable source of investment flows – stood at \$1 billion in 2020, 10.1% above its level in 2019 (\$934.3 million). It is worthy of note that FDI inflows rose sharply to \$414.8 million in the third quarter of 2020 from \$148.6 million in the second quarter of 2020. This surge coincides with a jump in the monetary value of investment announcements to \$3.9 billion in the third quarter of 2020 from \$250 million in the previous quarter¹. Meanwhile, FDI inflows have stayed below the \$1.5 billion mark since 2015. Unless key structural challenges, including: policy inconsistency, foreign exchange controls, as well as, infrastructure and logistic bottlenecks are addressed, Nigeria would not be able attract a sizable amount of global FDI to be at par with its African peers, such as, Egypt, which remained the largest recipient of FDI in Africa with a share of 15% of total inflows into the continent (equivalent to \$5.5 billion) in 2020².

Figure 3: Trend of FDI Inflows (US\$ billion)



Data: NBS; Chart: NESG

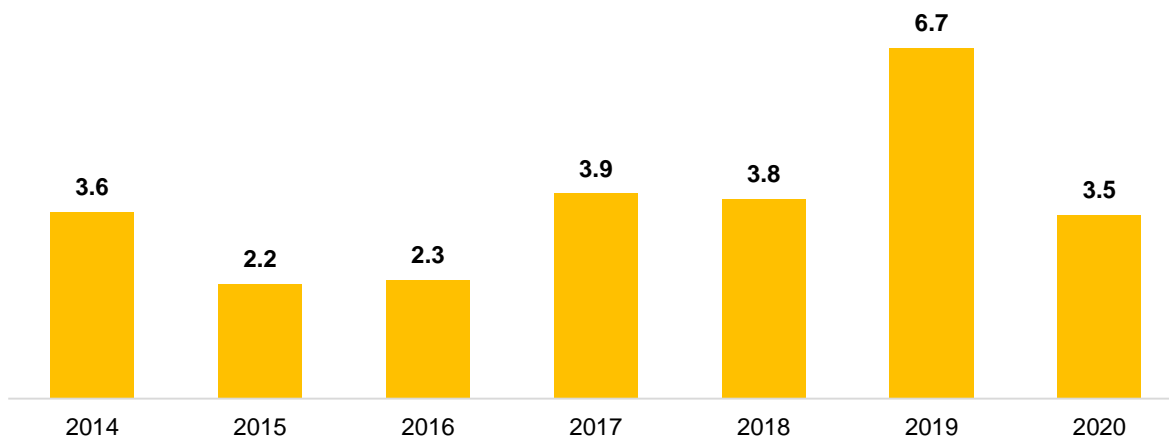
¹See, Nigerian Investment Promotion Commission’s “Report of Investment Announcements in Nigeria from January to December 2020”, retrievable via: <https://nipc.gov.ng/2021/02/08/>

²See, UNCTAD’s “Investment Trend Monitor for 2020”, retrievable via: https://unctad.org/system/files/official-document/diaeiainf2021d1_en.pdf

“Other” Foreign Investment Inflows down by 48% in 2020

Similar to FPI, the amount of other categories of foreign investments - covering foreign loans, trade credits, currency deposits and other claims - fell to N3.5 billion in 2020 from a peak of \$6.7 billion in 2019.

Figure 4: Trend of Other investment inflows (US\$ billion)



Data: NBS; Chart: NESG

In terms of composition, foreign loans predominate Nigeria’s other categories of foreign investment at 76% of the total in 2020. This is not unexpected as Nigeria sought concessional loans from multilateral organizations in 2020. Specifically, The Nigerian government secured the IMF’s approval for \$3.4 billion emergency loan in April 2020.

Figure 5a: Composition of Other investment inflows in 2020

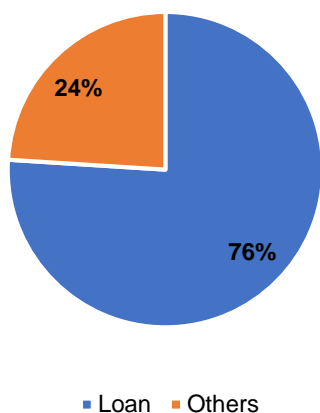
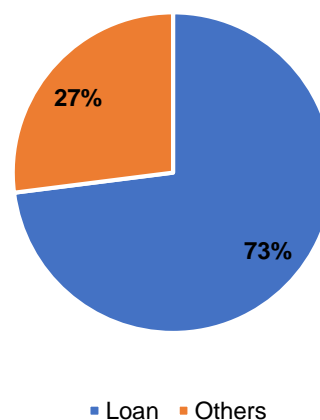


Figure 5b: Composition of Other investment inflows in 2019



Note: The category “Others” include trade credits, currency deposits and other claims.
Data: NBS; Chart: NESG

United Kingdom remains Nigeria’s largest source of foreign investments

In spite of the adverse impact of COVID-19, the United Kingdom maintained its position as the largest source of investments inflows into Nigeria at 46% of the total (equivalent to \$3.7 billion) in 2020. While

South Africa, the United Arab Emirates and the United States featured among the top five investment sources in 2019 and 2020, the Netherlands lost its position to Singapore in 2020. South Africa is the only African country that has consistently contributed significantly to foreign investment inflows into Nigeria.

Figure 6a: Capital Importation by Origin (Share of Total) – Top 5 in 2020

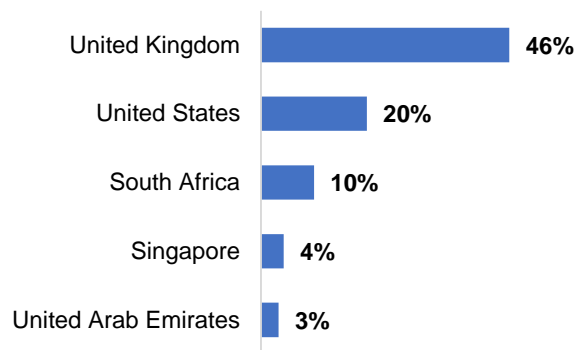
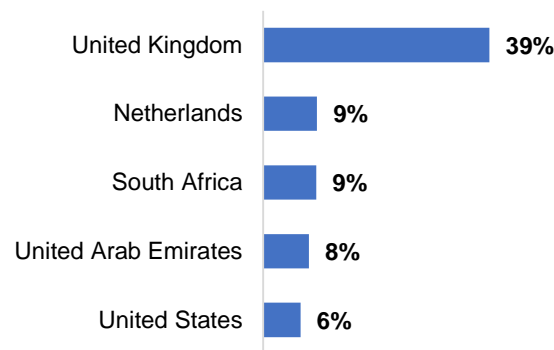


Figure 6b: Capital Importation by Origin (Share of Total) – Top 5 in 2019



Data: NBS; Chart: NESG

Lagos and Abuja remains major investment destinations in Nigeria

Accounting for a share of 86% in overall investment inflows in 2020 (equivalent to \$8.3 billion), Nigeria's commercial epicentre – Lagos - maintained its position as the most attractive investment destination in Nigeria. Similarly, FCT-Abuja remained the second largest investment destination at 26% (equivalent to \$1.3 billion).

Foreign affiliated banks largely facilitated foreign investment inflows

In 2020, 20 banks facilitated the inflow of foreign investments into Nigeria. 64% of total foreign investment inflows were facilitated by foreign affiliated commercial and merchant banks. Remarkably, Nigerian-owned commercial banks facilitated 35% of foreign investment inflows in 2020.

Conclusion

- **FDI is expected to improve on the backdrop of global economic recovery.** The recovery of the global economy in 2021 would hinge on mass production and distribution of COVID-19 vaccines across countries. The IMF and World Bank are optimistic that the global economy would return to a growth path in 2021 at 5.5% and 4%, respectively. This is likely to spur the inflow of FDI to developing countries, including Nigeria. Meanwhile, we do not expect FDI to exceed the pre-COVID levels in Nigeria unless key structural challenges hampering substantial inflow of FDI are addressed going forward.
- **Foreign portfolio investors would continue to adopt flight-to-safety approach.** Aside from the COVID-19 impact, foreign portfolio investors were largely discouraged by forex market illiquidity in 2020; a situation that pressured the CBN to resort to forex rationing among end-users. While we expect a gradual increase in FPI inflows in 2021 on possible improvement in oil prices and higher yields on fixed income assets (T/bills and government bonds), foreign portfolio investors would remain cautious in terms of their choice of investment outlets – equity and/or fixed income asset – and investment destination.

- **Foreign loans are expected to sustain its momentum in 2021.** As the inflows of FDI and FPI become constrained, developing countries including Nigeria is expected to look up to multilateral institutions, such as, International Monetary Fund, World Bank and African Development Bank for budgetary support³. This is not unprecedented as the Nigerian government has remained the largest beneficiary of foreign loans since 2017, accounting for over 70% of total inflows from loan⁴. Consequently, foreign loans will continue to gain traction pending the expected recovery of global commodities and financial markets going into year 2021.

About NESG

The NESG is an independent, non-partisan, non-sectarian organization, committed to fostering open and continuous dialogue on Nigeria's economic development. The NESG strives to forge a mutual understanding between leaders of thought to explore, discover and support initiatives directed at improving Nigeria's economic policies, institutions, and management.

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³Multilateral sources accounted for over 52% of total loan inflows into Nigeria in the third quarter of 2020, whereas commercial (Euro and Diaspora bonds), and bilateral sources accounted for 35.5% and 12.5% in the quarter (see CBN's Economic Report for Q3'2020, retrievable via: <https://www.cbn.gov.ng/Out/2020/>).

⁴2019 Edition of the CBN's Statistical Bulletin, retrievable via: <https://www.cbn.gov.ng/documents/Statbulletin.asp>