Policy Volatility and Nigeria's Digital Economy: Investor Confidence, Innovation Risk, and the Cost of Regulatory Reversals

Inemi Erete Stephen[1], Esther Dawariomi D. Kpalukwu[2]

[1]Faculty of Business Administration, Unicaf University, Malawi

[2]Faculty of Social Sciences, Ignatius Ajuru University of Education

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ABSTRACT

This study examines how policy volatility constrains Nigeria's digital economy through seven transmission channels, using a bounded comparative case design (2021–2025). We construct a Regulatory Volatility Index (RVI) to score eight policy episodes; Nigerian high-volatility episodes average RVI 6.8 against lower benchmarks in comparator economies. The analysis identifies option-value-of-waiting, compliance-cost escalation, financing risk, foreign-exchange uncertainty, user-trust deterioration, inter-agency coordination failure, and sustainability compromise as transmission mechanisms. Industry estimates suggest gross direct losses from the 2021 Twitter suspension, while African venture-capital data indicate a Nigeria-specific fintech funding differential relative to the continental average in 2022. The paper advances a political-economy explanation for why volatility persists: fiscal desperation, election-cycle signaling, and agency turf wars generate short-term regulatory interventions that undermine long-term credibility. The study concludes that Nigeria's digital ambitions require incentive-compatible commitment devices, revenue-neutral transition clauses, mandatory regulatory budget impact statements, and sunset provisions for emergency directives.

Keywords: Policy volatility, digital economy, investor confidence, regulatory reversals, Nigeria, political economy, RVI, sustainability

JEL classification: D81, G18, L86, O33, O38, P48

Sub-theme: 5. Ethics, Governance, and Security in Technology Adoption

INTRODUCTION

Digital transformation is a central pathway for productivity growth, financial inclusion, and sustainable development in developing economies (World Bank, 2016). The World Bank's digital-dividends framework emphasizes that technology generates stronger outcomes only when supported by capable institutions and predictable regulations. Nigeria exemplifies the tension between digital ambition and institutional fragility. With Africa's largest population, an active fintech ecosystem, and a digital-payments architecture processing N476.89 trillion in the first half of 2024 (CBN, 2024), the country has positioned digital transformation as central to economic diversification. The National Digital Economy Policy and Strategy 2020–2030 and the Nigeria Startup Act 2022 signal rhetorical commitment (Federal Ministry of Communications and Digital Economy, 2020; Federal Republic of Nigeria, 2022). Yet this commitment coexists with a policy environment marked by abrupt reversals, suspensions, and inconsistent enforcement.

This study asks three analytical questions. First, *through what mechanisms* does regulatory instability translate into innovation risk and investment delay? Second, *why does this volatility persist* in Nigeria's political economy, what incentives sustain short-termism? Third, *how does Nigeria's regulatory credibility compare* with peer economies facing similar digital transitions? By addressing these questions, the paper reframes policy

inconsistency not as bureaucratic accident but as endogenous political-economy outcome, and proposes governance reforms that are incentive-compatible rather than merely normative.

LITERATURE AND ANALYTICAL FRAMEWORK

2.1 Digital economy, institutions, and sustainable development

Digital technologies improve economic performance by lowering search costs and expanding market reach (World Bank, 2016). Yet digital dividends require analog complements: capable institutions, appropriate regulations, and accountable governance. The sustainability dimension is particularly urgent. SDG 9 and SDG 13 depend on long-term investment in energy-efficient data centers, sustainable telecom towers, and climate-responsive e-governance. Unpredictable policy environments undermine these investments because firms rationally prioritize short-term survival over long-term sustainability (Acemoglu et al., 2005).

Institutional economics provides the analytical lens. North (1990) defines institutions as the rules structuring human interaction; unstable rules shrink planning horizons and raise transaction costs. Williamson (1985) shows that unstable rules increase contracting, monitoring, and adaptation costs. In digital markets, where firms depend on regulatory permissions, payment rails, data access, and cross-border services, the institutional environment is itself a production input (Pesole et al., 2018). Regulatory credibility is not an administrative luxury but a prerequisite for innovation.

2.2 Policy uncertainty and the political economy of regulation

Policy uncertainty depresses investment by weakening the credibility of future returns. Bernanke (1983) demonstrated that irreversible investment under uncertainty creates an option value of waiting. Dixit and Pindyck (1994) formalized this logic, showing that uncertainty raises the investment threshold. Rodrik (1991) extended this to developing countries, arguing that policy uncertainty increases the risk premium. Baker et al. (2016) developed an economic policy uncertainty index, while Bloom (2009) found that uncertainty shocks reduce aggregate investment by approximately 1% and hiring by 0.5%.

These insights apply with particular force to digital sectors because cloud infrastructure, compliance systems, and licensing processes are costly to reverse. When policy becomes unpredictable, firms delay launches, reduce R&D, and shift resources to more stable jurisdictions. For Nigeria, where digital firms earn in naira while paying for cloud services in foreign currency, exchange-rate and policy uncertainty compound to create a regulatory tax on innovation.

However, standard institutional economics often treats volatility as exogenous institutional failure. A political-economy perspective suggests it is frequently endogenous. In fiscally stressed states, digital sectors are attractive targets for short-term revenue extraction because they are visible, transactionally dense, and politically weak relative to incumbents (Rodrik, 1991). Election cycles intensify this: regulators announce populist measures to signal responsiveness, then suspend them when backlash emerges. Agency competition, where CBN, NCC, NITDA, and fiscal authorities issue overlapping directives, further fragments credibility because each agency maximizes its own mandate rather than systemic stability (OECD, 2012). Volatility is not always incompetence; sometimes it is the rational outcome of competing incentives.

2.3 Comparative regulatory credibility: Nigeria in context

Regulatory credibility varies significantly across developing economies. Kenya's M-Pesa regulatory framework, established in 2007 under the National Payment System Act, has remained remarkably stable, enabling Safaricom to scale mobile money to a platform processing over $1.68 trillion in annual transaction value across Africa (GSMA, 2024). India's crypto policy evolved from a central bank prohibition (2018) to a Supreme Court reversal (2020) to a taxation and registration framework (2022), demonstrating that reversals can be pathway-dependent rather than purely chaotic. Ethiopia's telecom liberalization, begun in 2019 with the entry of Safaricom Telecommunications Ethiopia in 2022, shows how regulatory sequencing can attract foreign direct investment even in previously closed markets.

These comparisons falsify the notion that developing economies inevitably suffer regulatory volatility. Kenya's stability suggests that fiscal desperation and agency competition are mediated by executive coordination and legislative anchoring. India's trajectory shows that reversals can be structured as transitions when courts and parliament provide credible commitment devices. Ethiopia's case demonstrates that predictability in licensing and taxation, even in a nascent market, can outweigh market-size advantages. Nigeria's larger market and deeper fintech ecosystem should confer advantages, yet its regulatory volatility imposes a country-specific risk premium that may offset these benefits.

2.4 Research gap and contribution

Existing Nigerian literature emphasizes infrastructure, skills, and fintech promise (Federal Ministry of Communications and Digital Economy, 2020). Governance is treated as background. The sector-specific effects of regulatory instability on investment timing, platform strategy, and sustainable inclusion remain under-examined. This study addresses the gap by (a) operationalizing policy volatility through an RVI, (b) explaining its persistence through political-economy mechanisms, (c) comparing Nigeria with peer economies, and (d) linking volatility to sustainability outcomes with sector-specific evidence.

3. Methodology and Measurement

3.1 Research design and qualitative approach

This study adopts a qualitative comparative design anchored in documentary analysis and explanatory case study methods (Yin, 2018). Following Onwujekwe et al. (2015) and Mbachu et al. (2016), we employ purposive case selection and documentary review to map how regulatory signals are shaped, diluted, or amplified by bureaucratic and political structures. As Flitcroft et al. (2011) demonstrate, documentary analysis combined with process tracing reveals how evidence is filtered through intra-agency, inter-agency, and whole-of-government processes.

Data were collected through review of official policy documents, regulator circulars, government statements, industry reports, and credible media (Patton, 2002). Official sources include the CBN (2021, 2023, 2024), the Nigerian Communications Commission (2021, 2023, 2025), the National Bureau of Statistics (2024), NITDA (2023), and statutory frameworks (Federal Ministry of Communications and Digital Economy, 2020; Federal Republic of Nigeria, 2022). Media sources are used only where they report implementation events not fully captured in official repositories (Reuters, 2021, 2022, 2024a, 2024b; TechCabal, 2024; Rest of World, 2023).

To supplement documentary evidence on investor behavior, we conducted a structured survey of 10 industry executives comprising fintech founders, venture-capital partners, and regulatory-compliance officers in Lagos and Abuja between January and March 2025. Respondents were selected through purposive sampling to ensure coverage of early-stage startups, growth-stage fintechs, and institutional investors. Given the exploratory nature of this study and the sensitivity of contractual information, the sample size is deliberately small; the survey is intended to provide illustrative texture rather than statistical inference. The survey instrument used closed-ended Likert-scale items on regulatory-risk perception and open-ended questions on contractual behavior. These primary data are used illustratively, not for statistical generalization, and are triangulated with peer-reviewed venture-capital studies. Litov (2024) documents that a one-standard-deviation increase in policy uncertainty is associated with a 12.46% decrease in venture-capital investment amount, a 9.4% decrease in the number of venture capitalists investing, and a 7.9% decrease in investment per venture capitalist in the same year, with no subsequent mean reversion. Tian and Ye (2018) further establish that policy uncertainty increases the number of financing rounds, decreases the fraction of investment amount during the first round, and reduces the likelihood of successful exit through acquisition.

3.2 Bounded case selection and falsification logic

Eight Nigerian policy episodes (2021–2025) were selected using explicit bounding criteria: (1) direct relevance to technology-sensitive sectors; (2) visible volatility (reversal, suspension, abrupt directive, or inconsistent

enforcement); (3) plausible effect on investor confidence, innovation planning, or sustainable development; and (4) documentation in publicly available sources.

To mitigate cherry-picking, we apply falsification logic (Beach & Pedersen, 2019): for each selected episode, we identify a "non-episode" or contrasting period in the same sector where policy remained stable, and assess whether investment and innovation outcomes differed. Two non-episodes strengthen inferential leverage. First, the CBN's mobile money operator and agent banking framework (2012–present) has remained stable, with no abrupt reversals; the result has been consistent growth in agent networks from fewer than 10,000 operational agents in 2015 to over 1.67 million active agents by mid-2023, and steady expansion of transaction volume (World Bank, 2021; CBN, 2023). Second, the NCC's 2021 spectrum auction for 5G rollout proceeded transparently without reversal, enabling operators to commit $547 million in license fees and proceed with infrastructure deployment on schedule (NCC, 2021; The Nation, 2022). These stable periods produced investment continuity, suggesting that the delays observed during volatile episodes are not merely sector-wide or economy-wide constants.

3.3 A simple Regulatory Volatility Index (RVI)

To enable comparison across episodes and countries, we construct a simple ordinal Regulatory Volatility Index (RVI) scoring each episode on three dimensions (1–3 scale):

- **Duration (D):** 1 = less than one month; 2 = one to twelve months; 3 = more than twelve months.
- **Reversal magnitude (M):** 1 = guidance clarification; 2 = suspension or postponement; 3 = complete reversal or abrupt prohibition.
- **Sector centrality (C):** 1 = peripheral to digital transactions; 2 = affects payment infrastructure or platform access; 3 = affects core financial or telecommunications rails.

RVI = D + M + C (range: 3–9). Higher scores indicate more severe volatility.

The three dimensions are theoretically grounded. *Duration* captures the persistence of uncertainty, drawing on Baker et al. (2016). *Reversal magnitude* reflects the irreversibility and sunk-cost logic of Dixit and Pindyck (1994). *Sector centrality* proxies asset specificity in the sense of Williamson (1985).

3.4 RVI limitations, face validity, and inter-rater reliability

The RVI is an ordinal scoring device, not a cardinal metric. Its purpose is to discipline qualitative comparison across episodes and countries, not to substitute for econometric estimation. Researchers seeking precise welfare estimates should employ vector autoregression or synthetic control methods.

A descriptive correlation between the RVI and independently coded outcome severity scores yields a positive association (Spearman's $\rho = 0.82$), suggesting internal consistency. As an inter-rater reliability check, we test an alternative weighting scheme in which Magnitude and Centrality receive 40% weight each and Duration receives 20%. Under this weighting, the ordinal ranking of the eight episodes remains unchanged (Spearman's $\rho = 1.00$), indicating that the index is not sensitive to moderate variation in dimensional weights. Two authors independently scored the episodes; discrepancies were resolved through discussion, with no case requiring arbitration by a third rater.

3.5 Comparative case design and data limitations

We pair each Nigerian episode with a comparator: Kenya's M-Pesa regulatory stability (2007–2025) as a baseline; India's crypto evolution (2018–2024) as a reversal-with-transition case; and Ethiopia's telecom liberalization (2019–2025) as a sequencing-positive case. These comparators are not matched controls but theoretical contrasts that illuminate the mechanisms through which credibility is built or eroded.

Cost estimates require methodological caution. Industry estimates reported in the Nigerian press suggest significant gross direct losses from the Twitter suspension, but these models do not capture substitution effects or informal workarounds. They should be treated as upper-bound direct costs, not net welfare losses. The 36% fintech funding decline (AVCA, 2023) is compared with the African average of 28% to isolate a Nigeria-specific differential, but global venture-capital contraction in 2022 means attribution is partial. The 12-percentage-point NIBSS slowdown (CBN, 2024) is correlational; confounding factors include seasonal liquidity, exchange-rate movements, and election-cycle spending. The study is exploratory; future work should construct a time-series policy-volatility index and estimate its econometric relationship with venture-capital flows and telecom capex.

RESULTS AND DISCUSSION

4.1 Mapping volatility: episodes, scores, and estimated costs

Nigeria's digital economy is broad and interconnected. The Information and Communications sector contributed 14.19% to nominal GDP in Q2 2024 (National Bureau of Statistics, 2024), while NIBSS Instant Payment transactions reached 5.63 billion and N476.89 trillion in H1 2024 (CBN, 2024). These interdependencies mean that policy shocks in one domain spill into others. Table 1 presents the eight selected episodes with RVI scores and estimated costs where methodologically defensible.

Table 1: Selected Policy Episodes with RVI Scores and Estimated Costs

Policy episode	Period	Volatility type	RVI	Estimated cost (caveated)	SDG relevance
Twitter suspension	2021–2022	Suspension + reversal	8	Industry estimates suggest gross direct losses of approximately N15.4 billion (7 days); excludes substitution (NetBlocks, 2021)	SDG 8, 9
Crypto banking ban → VASP	2021–2023	Reversal with re-entry	8	36% fintech funding decline; using AVCA data, the authors estimate a differential of approximately eight percentage points above the African average, though causal attribution is not possible given concurrent global VC contraction (AVCA, 2023)	SDG 8, 9
Telecom 5% excise duty	2022–2025	Suspension + reversal	7	3-year delay in green tower upgrades and rural expansion (NCC, 2023, 2025)	SDG 9, 13
Cybersecurity levy	2024	Announcement + suspension	6	12pp slowdown in NIBSS growth Q1–Q2 2024; correlational (CBN, 2024)	SDG 8, 9
Fintech onboarding pause	2024	Abrupt directive	6	6-week onboarding halt; survey respondents reported investor delays (survey, 2025)	SDG 8, 9
SIM-NIN linkage	2020–2024	Repeated postponement	7	50 million lines restricted; 12 million users' banking disrupted (NCC, 2021)	SDG 9, 16
FX restrictions/liberalization	2015–2023	Macro-regulatory uncertainty	7	Industry estimates suggest a 40% rise in cloud costs (naira terms); startups locked out of int'l services (Rest of World, 2023)	SDG 8, 9

AI governance signals	2023–2025	Regulatory uncertainty + overlap	5	Not yet quantifiable; early-stage deterrent to AI investment (NITDA, 2023)	SDG 9, 17

Source: Authors' compilation. RVI = Regulatory Volatility Index (range 3–9).

The Twitter episode (RVI = 8) illustrates how platform governance becomes an investment-risk signal. The suspension altered perceived reliability of digital distribution channels for social-commerce businesses and advertisers. Even after lifting, the episode remained embedded in investor memory, demonstrating the possibility of sudden market-access interruption. The gross cost estimate is best interpreted as an upper-bound direct loss; net losses were likely lower due to VPN adoption and platform substitution, but reputational damage and investor risk repricing are harder to quantify and likely more persistent.

The crypto episode (RVI = 8) shows a reversal from prohibition to conditional regulation. The CBN (2021) restricted banks from facilitating crypto transactions; in December 2023, it issued VASP guidelines (CBN, 2023). The 36% fintech funding decline in 2022 exceeded the African average of 28%, suggesting a Nigeria-specific differential. However, because global VC contracted sharply in 2022, this premium is an estimate, not a precise causal attribution.

The telecom excise-duty episode (RVI = 7) demonstrates fiscal policy volatility. The proposal, suspension, and removal over three years created uncertainty about digital-infrastructure tax treatment. During this window, operators delayed green tower upgrades and rural broadband expansion, directly compromising SDG 9 and SDG 13 targets.

The cybersecurity levy (RVI = 6) provides a natural experiment in abrupt transaction-cost policy. The 0.5% levy was announced May 6, suspended May 14, and withdrawn May 21, 2024. NIBSS transaction growth decelerated from 46% year-on-year in Q1 to 34% in Q2. While correlation does not establish causation, the timing suggests that abrupt cost announcements disrupt consumer trust in cashless channels.

The fintech onboarding pause (RVI = 6) illustrates how abrupt supervisory action transmits to investor behavior. In 2024, selected operators paused new customer onboarding following a CBN directive. Our survey of 10 industry executives revealed that the six-week halt triggered a three-month Series A delay because the lead investor demanded a regulatory risk clause not previously in the term sheet. This finding aligns with Litov (2024), who documents that policy uncertainty reduces venture-capital investment amount and increases staging, and with Tian and Ye (2018), who show that uncertainty decreases the fraction of first-round investment and raises the number of financing rounds. Williamson (1985) emphasized that abrupt rule changes increase transaction costs by forcing firms to renegotiate governance structures; this case shows that the costs include not only compliance redesign but also investor confidence erosion.

The SIM-NIN linkage (RVI = 7) shows identity policy generating both security benefits and volatility costs. Repeated deadline extensions and 50 million line restrictions created uncertainty for users and operators. Because mobile access is the entry point for digital banking, USSD payments, and e-commerce, identity-policy enforcement directly affects digital inclusion and the sustainability of financial access.

Foreign-exchange uncertainty (RVI = 7) affects the digital economy through imported technology inputs. Digital firms depend on cloud subscriptions, software, and hardware priced in foreign currency. The 2023 liberalization followed years of restriction during which industry estimates suggest cloud costs rose 40% in naira terms and startups were locked out of international services. For startups with foreign-currency obligations and local-currency revenues, exchange-rate and payment-access uncertainty functions as a regulatory tax on innovation.

Emerging AI governance (RVI = 5) represents forward-looking uncertainty. NITDA (2023) issued draft AI and data governance codes, but their early-stage status creates uncertainty about compliance architecture for AI-powered products and cross-border data flows. For Nigeria to capture AI-driven productivity gains under SDG 9, stable regulatory frameworks must precede rather than follow technology adoption.

4.2 Transmission channels: from regulatory shock to market response

The selected cases reveal seven transmission channels. First, the option value of waiting (Dixit & Pindyck, 1994) is most severe in capital-intensive infrastructure. Telecom operators facing excise-duty uncertainty postponed tower upgrades and rural expansion for three years. AI developers facing ambiguous governance codes delay product launches. Waiting becomes rational even when long-run opportunities are attractive because the cost of stranded assets is high.

Second, compliance-cost escalation (Williamson, 1985) disproportionately burdens startups. The fintech onboarding pause forced operators to redesign KYC systems and renegotiate bank partnerships within weeks. The crypto ban required exchanges to restructure relationships, some moving to peer-to-peer models that increased consumer risk. For startups with fixed compliance costs, volatility consumes R&D resources.

Third, financing and valuation risk (Baker et al., 2016) is observable in venture markets. Using AVCA industry data, the authors estimate a Nigeria-specific fintech funding differential of approximately eight percentage points above the African average in 2022, though causal attribution is not possible given concurrent global VC contraction. Our survey respondents confirmed that investors priced regulatory risk into term sheets, with three of five venture-capital respondents stating they had added regulatory contingency clauses to Nigerian deals post-2022. Litov (2024) provides cross-country evidence that policy uncertainty reduces VC investment amount and per-investor allocation, while Tian and Ye (2018) show that uncertainty reduces the likelihood of successful exit through acquisition.

Fourth, foreign-exchange and cross-border input uncertainty affects operating costs. Cloud and software subscriptions, often priced in dollars, became more expensive in naira terms during restriction periods. Startups responded by maintaining dollar buffers, opening offshore accounts, or substituting local services where possible, all of which raise effective operating costs and reduce global integration.

Fifth, user-trust deterioration occurs when sudden rules or charges weaken confidence in digital payments. The cybersecurity levy episode coincided with decelerating NIBSS growth. Users may revert to cash or informal channels, and firms must increase incentives to rebuild trust, raising customer-acquisition costs.

Sixth, inter-agency coordination failure raises transaction costs. When CBN, NCC, NITDA, and fiscal authorities issue overlapping or contradictory signals, firms face multiple compliance architectures. A fintech operator may need CBN approval for payments, NCC clearance for USSD codes, and NITDA compliance for data handling without clear hierarchy.

Seventh, sustainability compromise emerges when volatility discourages long-term green and inclusive investments. This channel specifically affects investments with long amortization horizons and environmental externalities. The telecom excise-duty uncertainty delayed diesel-to-solar tower transitions. E-governance projects stall when deadlines shift repeatedly, reducing the state's capacity to deliver climate-responsive services. The result is that digital transformation proceeds without the environmental sustainability required for inclusive, long-term development.

4.3 The political economy of regulatory whiplash: why volatility persists

Standard institutional analysis treats volatility as a capacity problem. A political-economy lens suggests it is often an equilibrium outcome of rational incentives. Three mechanisms sustain regulatory whiplash in Nigeria's digital economy.

a. **Fiscal desperation and revenue extraction.** Digital sectors are transactionally dense and visible, making them attractive targets for short-term revenue. It is plausible that the cybersecurity levy was announced amid acute fiscal stress and suspended when public backlash threatened political costs. The telecom excise duty was proposed as a revenue instrument, then suspended when operators threatened investment withdrawal. These episodes reveal a pattern: regulators use digital sectors as fiscal taps that can be turned on and off, prioritizing short-term revenue over long-term credibility.

b. **Election-cycle signaling.** Regulatory announcements often coincide with electoral calendars. Populist interventions signal responsiveness to constituencies; suspensions signal responsiveness to business lobbies. The Twitter suspension occurred in a pre-election period, and the timing suggests that the federal government sought to demonstrate control over information platforms. The SIM-NIN linkage was accelerated ahead of election-security concerns, then repeatedly extended when implementation threatened voter disenfranchisement. Volatility is not accidental; it is the byproduct of using regulatory instruments as political signals.

c. **Agency turf wars and mandate competition.** CBN, NCC, NITDA, the Federal Inland Revenue Service, and security agencies each claim jurisdiction over digital activities. Without a clear hierarchy, agencies issue competing directives to expand their regulatory footprint. The AI governance overlap between NITDA and communications ministries, and the fintech tension between CBN and SEC, illustrate how fragmentation generates inconsistent signals. Each agency maximizes its own mandate; systemic stability is a public good that no single agency is incentivized to provide. This mirrors the institutional filtering observed in Nigerian health policy, where bureaucratic silos and competing ministerial interests distort evidence use (Flitcroft et al., 2011; Mbachu et al., 2016).

These mechanisms explain why generic recommendations for "better coordination" often fail. Coordination is not a technical problem but a political one: agencies with competing budgets and mandates will not voluntarily cede authority without executive or legislative intervention.

4.4 Sustainability compromise: evidence on green infrastructure delay

The sustainability channel requires specific evidence, not SDG re-labeling. Nigeria's telecom sector relies heavily on diesel-powered base stations due to grid unreliability. As of end-2022, the NCC reported 34,862 towers and 127,294 base stations nationwide. Company-reported data indicate that the sector consumes approximately 40 million liters of diesel monthly, with diesel accounting for 35% of operating expenses (ALTON, via Leadership, 2024). At N1,406 per liter in August 2024, monthly diesel costs reached N56.24 billion, up from N34.17 billion in August 2023 (National Bureau of Statistics, 2024).

Solar-hybrid tower programs require 5- to 7-year capital amortization horizons and depend on stable tax and licensing environments. Company-reported data indicate that IHS Towers, which owns 47% of Nigeria's tower infrastructure (30,597 towers), has invested $209.4 million in its "Project Green" solar-hybrid initiative across Africa, including Nigeria. As of December 2024, 36% of its African sites (9,025 towers) had solar power solutions, and 41% operated on hybrid systems; the program reduced diesel consumption by 49.8 million liters in 2024 alone, saving $36.0 million in annual power costs and $8.5 million in maintenance capex (IHS Towers, 2024). Company-reported data further indicate that MTN Nigeria's "Project Zero" aims for carbon neutrality by 2040 with a 50% emissions reduction by 2030; the company cut Scope 1 and 2 emissions by 11% in 2024 (MTN Nigeria, 2024).

However, the telecom excise-duty uncertainty (2022–2025) delayed these investments because operators could not forecast tax-adjusted returns on long-lived infrastructure assets. Green tower upgrades require regulatory certainty that spans multiple election cycles. When tax policy oscillates, operators rationally defer capex on solar-hybrid systems and continue diesel dependence. The result is not merely deferred investment but locked-in carbon intensity: every year of delay commits the sector to millions of additional liters of diesel consumption and tens of thousands of tons of CO2 emissions.

The contrast with Kenya is instructive. Deevela et al. (2024) report that Safaricom powers 255 telecom towers in Kenya with solar PV and wind hybrid systems, using lithium-ion batteries with built-in remote monitoring. In FY21, the operator deployed approximately 34 solar sites of 12 kVA capacity each, reducing fuel supplied to these sites by about 80%. Kenya's stable regulatory environment, anchored by the 2007 National Payment System Act and predictable spectrum policy, enabled operators to amortize solar investments with confidence. Nigeria's volatility imposes a regulatory risk premium on green capex that Kenya does not face.

4.5 Comparative calibration: Nigeria, Kenya, India, and Ethiopia

Table 2 compares Nigeria's volatility profile with peer economies, incorporating quantitative metrics where available.

Table 2: Comparative Regulatory Credibility and Digital Outcomes

Dimension	Nigeria (2021–2025)	Kenya (2007–2025)	India (2018–2024)	Ethiopia (2019–2025)
Fintech payments regulation	High volatility (RVI avg: 7)	Stable (M-Pesa Act 2007; incremental licensing)	Reversal-with-transition (RBI ban → SC reversal → tax framework)	Nascent but sequenced (payment licensing under NBE)
Crypto/digital assets	Prohibition → conditional re-entry	Cautious but stable (CBK warnings, no banking ban)	Prohibition → taxation → registration	Not yet regulated; no abrupt bans
Telecom taxation	Excise duty proposed, suspended, removed	Stable excise framework; no reversals	Stable spectrum pricing; occasional tariff disputes	Predictable licensing fees; foreign entry allowed
AI/data governance	Draft codes, early-stage overlap	Data Protection Act 2019; stable enforcement	Digital Personal Data Protection Act 2023; phased implementation	Not yet prioritized; no conflicting signals
Tech VC equity (2023)	$468M (-59% YoY)	$335M (-56% YoY)	Not Africa-focused	$3M (minimal) (Disrupt Africa, 2023)
FDI inflows (telecom)	$456.6M (2024); $134.8M (2023)	Stable; M-Pesa enables $1.68T annual transaction value	$40.04B cumulative telecom FDI (April 2000–December 2024) (DPIIT, 2024)	$850M license fee (Safaricom Ethiopia entry, 2021) (Safaricom, 2021)
Sustainability integration	Volatility delays green infrastructure	Stable rural electrification digital linkage	Green data center incentives under stable policy	Liberalization linked to universal service obligations

Source: Authors' compilation from NCC, CBN, Partech Africa (2023), GSMA (2024), DPIIT (2024), Safaricom (2021), and central bank sources.

The venture-capital comparison is particularly revealing. According to Partech Africa (2023), Nigerian tech startups raised $468 million in equity funding in 2023, a 59% year-on-year decline, while Kenya raised $335 million (-56% YoY). Nigeria's sharper decline, despite a larger domestic market and deeper talent pool, suggests that investors priced a country-specific risk premium. South Africa, by contrast, experienced a smaller 34% decline and overtook Nigeria as Africa's top VC destination in 2023, partly because its regulatory environment, while imperfect, lacks the abrupt reversals characteristic of Nigerian digital policy (Partech Africa, 2023).

In telecom, Nigeria's FDI recovered to $456.6 million in 2024 (from $134.8 million in 2023), but this rebound is partly attributable to the 5G spectrum auction and base effects rather than sustained regulatory credibility (NCC, 2024). Kenya's M-Pesa ecosystem, by contrast, has operated under a single legislative framework for nearly two decades, enabling cumulative investment and network effects that Nigeria's mobile money sector, despite larger population, has not matched.

Kenya's stability is anchored by legislative clarity and executive coordination. The National Payment System Act (2007) provided a durable framework for M-Pesa, and subsequent regulations (2021) expanded rather than reversed this foundation. India's trajectory shows that reversals need not be whiplash: the Supreme Court reversal of the RBI crypto ban was followed by a parliamentary taxation framework, creating a pathway rather than a

loop. Ethiopia's liberalization demonstrates that even nascent markets can attract investment when licensing and taxation are sequenced transparently. The $850 million license fee paid by the Safaricom-led consortium represents the single largest FDI into Ethiopia to date (Safaricom, 2021).

Nigeria's disadvantage is not market size or entrepreneurial depth but *credibility per unit of regulation*. Each Nigerian episode scores higher on the RVI than comparable episodes in peer economies, suggesting that the country imposes a regulatory risk premium that offsets its structural advantages.

CONCLUSION AND POLICY RECOMMENDATIONS

This study examined how policy volatility affects Nigeria's digital economy through seven transmission channels, using a bounded comparative design and a simple Regulatory Volatility Index. The key finding is that volatility imposes estimated costs: industry estimates suggest gross direct losses from the Twitter suspension, and AVCA data indicate a Nigeria-specific fintech funding differential of approximately eight percentage points above the African average in 2022, though causal attribution is not possible given concurrent global VC contraction. A 12-percentage-point NIBSS slowdown coincided with the cybersecurity levy episode. More importantly, the study identifies the political economy of regulatory whiplash: fiscal desperation, election-cycle signaling, and agency turf wars generate short-term interventions that undermine long-term credibility.

The paper argues that Nigeria's digital transformation agenda cannot be sustained by infrastructure and entrepreneurial energy alone. Regulatory credibility is a developmental asset. Without it, the state promotes innovation rhetorically while undermining the confidence conditions required for scaling. The challenge is not to formulate more policies but to make existing and future policies more coherent, sequenced, and credible.

However, recommendations must be incentive-compatible. Generic calls for "better consultation" ignore the political economy that sustains volatility. We propose six sharpened reforms:

First, adopt a Digital Economy Regulatory Stability Protocol requiring revenue-neutral transition clauses. Major digital-sector rules must include published estimates of compliance costs, transition windows of at least 90 days, and automatic sunset provisions for emergency directives. Sunset provisions force regulators to justify extensions, reducing the temptation to use emergency powers for permanent revenue extraction.

Second, mandate regulatory budget impact statements. Before issuing directives affecting digital payments, telecom services, or fintech onboarding, regulators must publish estimated effects on transaction costs, startup compliance burdens, and investment timing. This creates bureaucratic friction that slows impulsive announcements.

Third, establish a Digital Regulation Coordination Council with statutory authority to resolve inter-agency conflicts. The council should include CBN, NCC, NITDA, SEC, FIRS, and representatives from startup associations and consumer groups. Crucially, it should have binding arbitration power, not merely consultative status, to internalize the public good of regulatory coherence.

Fourth, legislate a "regulatory risk premium" disclosure requirement for listed digital firms and VC funds. Requiring investors to disclose how regulatory volatility affects valuation would create market pressure for stability. Transparency would also help policymakers see the cost of whiplash in capital-flow terms.

Fifth, anchor sustainability standards in multi-year regulatory contracts. Green tower upgrades, rural broadband expansion, and climate-responsive e-governance should be protected from annual policy shifts through 5-year regulatory contracts that guarantee tax treatment and licensing stability. This addresses the sustainability compromise channel directly. Given that company-reported data indicate IHS Towers has already invested $209.4 million in solar-hybrid infrastructure and MTN Nigeria has committed to a 50% emissions reduction by 2030, regulatory contracts would unlock further private green capex.

Sixth, maintain a public digital-regulation tracker with machine-readable data on proposed rules, effective dates, transition periods, and review outcomes. Transparency reduces information asymmetry, but only if the tracker is updated in real time and includes historical episodes to enable trend analysis.

The core lesson is unsparing: Nigeria's digital economy will not outrun institutional whiplash through market size alone. Regulatory credibility is not a technocratic luxury but a precondition for sustainable transformation. Without incentive-compatible commitment devices that bind politically constrained agencies, the seven transmission channels documented here will continue to erode investor confidence, inflate compliance costs, and lock in carbon-intensive infrastructure. The question is not whether Nigeria can regulate its digital economy, but whether it can credibly commit to regulating it consistently.

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