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Effect of foreign private investment on the development of small and medium enterprises in Nigeria

Victor. A. Idehen^(a) Osarumwense.V. Iguisi^(b)

^(a,b) Department of Entrepreneurship, Faculty of Management Sciences, University of Benin, Benin City, Nigeria

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ABSTRACT

This study sought to examine the effect of foreign private investment on the development of small and medium scale enterprises (SME's) in Nigeria. The study adopted a longitudinal research design which made the use of secondary data imperative. The study employed data on the foreign private investments and development of SMEs in Nigeria covering 1991-2018. The variables used are Net Foreign direct investment, Net Foreign Portfolio investment, percentage of foreign direct investment in Gross Domestic Product (GDP), and development of SMEs in Nigeria. The technique adopted in this study is multiple regressions to test the hypotheses. E-view econometric software 3:1 was used for the analysis. The result revealed that the value of Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) have a negative relationship with the development of SME's and Foreign Direct Investment (FDI) in the percentage of gross domestic product and exchange rate have a negative and significant impact on the development of SME's in Nigeria. It was recommended among others that government should increase its funding of small and medium scale enterprises, SME's should be encouraged to go on public offer to expand the scope of funds, the exchange rate must be strengthened to encourage SME's to attract funds and the needs to stabilized the economy to discourage divestment.

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Introduction

Oil was discovered in Nigeria on 15th January, 1956. At the time of independent in 1960, Nigeria was mainly an agrarian nation which contributes hugely to government revenue and foreign exchange. As exploration and exportation of oil continues, agriculture diminished while crude petroleum replaced it as dominant source of revenue and export earnings. The period marked inflow of foreign private investment into Nigeria. The period also witnessed excessive repatriation of profits to countries of origin. By 1972, it was clear that Nigerian entrepreneurs did not have the money, technology and managerial capacity to compete with foreign investors. This led to the indigenization policy of 1972 which was further amended in 1977.

The policy encouraged divestment of foreign equity share holding to a certain limit (60% and 40% respectively) in favour of interested Nigeria in sensitive business. Most foreign investors reacted by divestment of their shares, for example United Africa Company, Lever brothers and Dunlop. Some pull out completely (Chase Manhattan Bank, Citi group and IBM among others). Between 1980-1985, Nigeria economy came under serious distress due to glut in oil price. This period coincided with global economic recession which affected Nigeria foreign exchange earnings, balance of payment disequilibrium, widening savings-investment gap, high rate of domestic inflation, huge budget deficit, micro economic imbalances and unemployment. As a result, the manufacturing sector was severely hit. The dwindling world oil price and foreign exchange earnings left industries in need of foreign exchange to import new materials and parts (Chete et al, 2014). The global recession exposed weaknesses in Nigeria's industrial structure. This period cumulated in the enactment of structural Adjustment programme of 1986.

The structural Adjustment programme (SAP) embarked upon by the federal government in 1986, was directed at deregulating the economy in the direction of market determined pricing. The structural Adjustment programme objective was met to promote investment, stimulate non- oil export and provide a base for private sector led development, promoting the efficiency of Nigeria industrial sector, developing and utilizing domestic technology by encouraging accelerated development and use of local raw

* Corresponding author. ORCID ID: 0000-0003-1708-3351

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materials and intermediate import rather than imported ones (Chete et al, 2014). Such deregulation resulted in considerable increase in foreign private investment into the country which saw the expansion of the country SME's.

In 1989, the trade and financial liberalization policy was enacted with the objective of promoting efficiency with the aim of reducing both tariff and non-tariff barriers, scrapping the commodity marketing boards and market determination of the exchange rate as well as the deregulation of interest rates, meant to foster financial efficiency and industrial productivity. The National Economic Reconstruction Fund (NERFUND) was set up in the same year as a complement to industrial policy. The NERFUND objectives among others were met to reverse some of the provisions of the Nigerian indigenization policy, open up the economy for foreign investors, address the medium and long term financial constraints experienced by small and medium scale entrepreneurs, provide the required financial resources to participating merchant and commercial banks to lend to small and medium scale firms and provide naira or foreign denominated loans to participating firms (Chete et al, 2014)

The decade of the 1990s marked the proliferation of SME's in Nigeria. Foreign presence in the economy was significant. In 1995, the Nigeria investment promotion commission (NIPC) established through Decree No16 of 1995 provides for foreign investors to set up a business with 100% ownership (with the exception of the petroleum sector, where FDI is limited to joint ventures or production sharing constraint) which guarantees foreign investments against Nationalization and expropriation by the government (UNCTAD, 2009)

In late 2004, the Chinese companies Funsho Kupolokum and Sinopec have both signed agreements with the Nigerian National Petroleum Corporation for the exploration of new oil fields and constructions of new refineries. The extent to which this has materialized although doubtful but there was also evidence of more interest in non-oil investment from China and India. FDI also had a notable impact on the expansion of mobile telephone in Nigeria since the launch of global system for mobile (GSM) licensing in January, 2001. So many South African companies are today present in Nigeria ranging from construction, telecommunication and entertainment to revenue collection and aviation (UNCTAD, 2009). Heineken invested \$390, million in purchasing and expanding Nigerian Brewing in 2004. All of these led to the rejuvenation and growth of SME's that belongs to that sector.

The main objective of this study is to establish if there is a relationship between Foreign Private Investment (FPI) and growth of small and medium scale business (SME's) in Nigeria. Foreign Private Investments refers to short- and long-term investment in the domestic economy and the subsequent reinvestment of earning derived from initial investment into the domestic economy (World Bank, 2017). They are often decomposed into foreign portfolio investment (FPI) and foreign direct investment (FDI) including the reinvestment of foreign owned multinationals in host countries (UNCTAD, 2015).

In view of the above, the research question therefore is to ascertain the extent to which foreign private investment impact on SME's development in Nigeria?

Literature Review

Conceptual background

Foreign portfolio investment is an investment in the securities of another country such as stocks, bonds and money market instrument. Such investment is usually for a short term because it can be sold off quickly. Such investment does not result in foreign management, ownership or local control. Foreign direct investment is a direct investment into production or business in an economy for the purpose of controlling the production, distribution and other activities of a firm in another country. UNCTAD, 2019 described it as an investment made to acquire a lasting management interest of at least 10% of voting in a business enterprise operating in a country other than that of the investor. FDI does not include capital raised locally.

FDI encourage backward and forward linkages in its host community. Sayek and Koymen (2009) define backward linkages as when domestic firm operates as the input supplier of the sector that multinational operates in. Backward linkages from FDI are beneficial to local suppliers in terms of increase output and employment, improved production efficiency, technological, managerial capabilities and market diversification (Liu & Lin, 2004 as cited in Lugemwa, 2014). FDI promote the movement of experienced workers, technology, foreign capital, innovative capacity, skills, managerial competencies, forward linkages; multinational operates as the input supplier of the domestic firm (Soyek & Koymen, 2009). Forward linkages may include marketing outlets like petrol stations. Such gestures can affect the labour, capital market, trade patterns and economic growth of the host country.

Small and Medium Enterprises Development Agencies of Nigeria (SMEDAN) (2007) Posits that micro enterprises are business with less than 10 employees and less than N5million assets.

Small scale enterprises are those business that have 10 to 49 employees with N5million and N10million assets, while medium scale enterprises is an enterprise with employees of 50-199 with total asset value of N50million to less than N500million. Small and medium scale enterprises are meant to stimulate economic growth through their contribution to gross domestic product (GDP), Poverty reduction and employment creation. Evident from advanced economy where SME's have been responsible for more than 70% export and account for an average of 60% to 70% of total employment, 50% of GDP of any economy and small and medium scale enterprises make up over 90% of all firms (NBS, 2018).

Gross domestic product (GDP) is the sum of the market values or prices of all goods and services produced in an economy during a period of time. GDP growth should enhance greater utilization of local raw materials, employment generation, encouragements of rural development, development of entrepreneurship, mobilization of local savings, linkages with bigger industries (Otugo et al, 2018). Unfortunately, Nigeria economy is characterized by heavy dependent on oil, low/average agricultural production, high unemployment, low utilization of industrial capacity, high inflation rate, lack of industrial capacity, and lack of industrial infrastructural base (Muritala et al, 2012).

The World Bank opined that developing countries should endeavor to attract more foreign direct investment because it encourages production improvement, contributes to the advancement in technology, boosts employment opportunities, bolsters business sector competition and creates export. Due to savings and investment disequilibrium in developing economy, there is need for substantial capital injection which is made possible through earnings of foreign exchange from exports, borrowing in the international financial market or allowing foreign business men invest in her economy.

Empirical Review and Hypothesis Development

Bosworth and Collins (1999) empirical evidence suggest that there exists a significant relationship between foreign investment and credits (FDI, portfolio investment and external loans) and domestic investments for 58 developing countries during 1978-1995. This study found that increase in foreign investments and credits result in 50 percent increases in domestic investment.

Buckley et al (2002) found that domestic firms in china benefited from technological transfer and accessibility to international markets from the foreign multinationals. Chandran and Krishnan (2008) empirically study also found inward FDI to have positive and significant impact on the growth of Malaysia's manufacturing sector using ECM and ordinary least square to test data set off 1987-2006 on the variables. Kamal (2004) empirically answered the questions on what is the dynamic effect of FDI on total investment or effect on FDI on domestic investment (DI) and the extent to it crowd in or out domestic investment. Using data on 16 emerging countries over a 30-year period and regression to test data result showed FDI has a positive and significant effect on domestic investment. Acar et al (2012) studied the effect of foreign direct investment on domestic investment for the period 1980-2008 in selected MENA countries, the results of their study showed a negative effect of FDI on domestic investment in 13 MENA countries as a group: Egypt, Israel, Jordan, Morocco, Tunisia and Turkey.

Apergis et al (2006) empirically analyzed the dynamic relationship between FDI inflow and domestic investment panel of selected countries-America, Europe, Asia, and Africa by means of panel cointegration techniques, it was found that FDI had a negative relationship with domestic investment in all the regions or areas combined but the results were mixed considering each region separately. Asia and Africa registered a spillover effect while America and Europe evidenced a crowding out effects of FDI and domestic firms. Akinlo (2004) investigated the impact of foreign direct investment (FDI) on economic growth in Nigeria, for the period 1970-2001. The ECM results showed that both private capital and lagged foreign capital have small and a statistically significant effect on the economic growth.

Review of Foreign Private Investment Development in Nigeria

In 1980, foreign direct investment contributed as much as 49.8 percent of total capital inflow which dropped drastically to 15.6 percent in 1984 which may be due to disturbance in the economy as a result of global financial crises and glut in the oil sector. As at 1985, it has slightly increased again to 21.9 percent. The foreign portfolio investment contributed 2.6 percent of total capital inflow in 1980, may be due to lack of confidence in the Nigerian financial market and increased tremendously to 13.3 percent in 1984 and declined drastically to 9.2 percent in 1985(see Table 1).

FDI from all-time low of 13.7 percent in 1986 rises to 38.6 percent contribution as at 1989, which may be due to effort of NERFUND. The foreign portfolio investment decreases from 21.7 in 1986 to 1.6 percent in 1988 and rises again to 4.5 percent in 1989. The other financial inflows which include loans, aids and grants together accounted for 47.6% total inflow in 1980(see Table 1).

FDI contribution rises from 23.8 percent (\$587,882,900) of total inflow in 1990 to all time high of 85.1 percent (\$1,959,220,000) in 1994 and 80.9 percent (\$1,539,446,000) in 1997(see Table 1 and Table 2).

Table 1: Capital inflow in Nigeria, 1980—2003

Year	FDI(percentage of total capital inflow)	FPI(percentage of total capital inflow)	OFI(percentage of total capital inflow)
1980	49.8	2.6	47.6
1981	36.7	3.8	59.5
1982	24.6	4.5	70.9
1983	19.5	5.5	75.0
1984	15.6	13.3	71.1
1985	21.9	9.2	68.9
1986	13.7	21.7	64.6
1987	17.3	15.6	67.1
1988	8.9	1.6	89.5
1989	38.6	4.5	56.9
1990	23.8	8.0	68.2
1991	45.4	3.8	50.8
1992	15.3	3.4	81.3
1993	56.2	0.9	42.9
1994	85.1	1.1	13.8
1995	31.6	2.5	65.9
1996	52.7	5.7	41.6
1997	80.9	4.0	15.1
1998	75.3	4.4	20.3
1999	77.6	4.3	18.1
2000	78.2	4.1	17.7
2001	79.1	3.9	17.0
2002	76.3	7.4	16.3
2003	77.8	6.7	15.5

Source: Central Bank of Nigeria Economic and Financial indicators (2002) and International Financial Statistic year book (IMF, 2004)) as in Edo, S & Ikelegbe, A (2014)

Table 2: FDI inflow to Nigeria

Year	Value (Dollars)
1991	712,373,400
1992	896,641,300
1993	1,345,369,000
1994	1,959,220,000
1995	1,079,272,000
1996	1,593,459,000
1997	1,539,446,000
1998	1,051,326,000
1999	1,004,917,000
2000	1,140,168,000
2001	1,190,619,000
2002	1,874,071,000
2003	2,005,354,000
2004	1,874,061,000
2005	4,982,534,000
2006	4,854,354,000
2007	6,036,021,000
2008	8,195,499,000
2009	8,554,741,000
2010	6,026,232,000
2011	8,841,114,000
2012	7,069,934,000
2013	5,562,874,000
2014	4,651,466,000
2015	3,137,319,000
2016	4,445,103,000
2017	3,497,233,000
2018	1,997,485,000

Source: International Monetary Fund, Balance of Payments data from United, 2019.

During this period SME's in Nigeria grew from 4.6 in 1991 to 4.66 in 1994 and 4.8 in 1997. FDI Net inflow rose from -\$712,373,400 in 1991 to -\$1,959,220,000 in 1994 and dropped to -\$469,577,000 in 1997. Within the period, the percentage of FDI in GDP rose from 1.450 to 5.7908 and dropped significantly to 0.8622 (see Table 3).

Table 3: DSME And Net FPI inflow

Year	DSME	FDI % OF GDP	FDI NET INFLOW IN U.S.A \$	FPI NET INFLOW IN U.S.A \$	EXR
1991	4.6	1.45	-712,373,400	61,109,599	9.91
1992	4.66	1.88	-896,641,300	-1,900,000,000	17.3
1993	4.66	4.85	-1,345,369,000	17,780,308	22.7
1994	4.66	5.79	-1,959,220,000	27,141,298	22
1995	4.74	2.45	-335,842,200	25,583,636	21.9
1996	4.79	3.12	-499,276,800	54,088,508	21.88
1997	4.8	2.83	-469,577,000	20,321,016	21.89
1998	4.81	1.93	-299,566,700	2,363,116	21.89
1999	4.84	1.69	-1,004,916,000	-11,000,000	92.34
2000	4.96	1.64	-1,140,168,000	-500,000,000	101.7
2001	4.96	1.61	-1,190,619,000	-830,000,000	111.23
2002	5.03	1.96	-1,874,071,000	-130,000,000	120.58
2003	5.07	1.91	-2,005,354,000	-180,000,000	129.22
2004	5.17	1.37	-1,874,061,000	-180,000,000	132.89
2005	5.21	2.83	-4,967,899,000	488,000,000	131.27
2006	5.21	2.06	-4,534,735,000	-1,300,000,000	128.65
2007	5.33	2.19	-5,168,340,000	-800,000,000	125.81
2008	5.4	2.43	-7,144,051,000	3,400,000,000	118.55
2009	5.44	2.93	-7,029,619,000	345,000,000	148.9
2010	5.59	1.66	-5,144,515,000	-260,000,000	150.3
2011	5.65	2.15	-8,024,349,000	-3,500,000,000	153.86
2012	5.73	1.54	-5,539,805,000	-15,000,000,000	157.5
2013	5.83	1.08	-4,335,436,000	-10,000,000,000	157.31
2014	5.89	0.82	-3,079,534,000	-1,800,000,000	158.55
2015	5.87	0.63	-1,628,965,000	-860,000,000	192.44
2016	5.84	1.10	-3,143,695,000	-1,700,000,000	253.49
2017	5.89	0.93	-2,216,822,000	-8,500,000,000	305.79
2018	5.94	0.50	-616,625,600	-13,000,000,000	306.08

Source: World Bank, World Development Report, 2020

The comparative analysis of the above variables showed the same impact. However, in subsequent years, the contribution in 1998 and 1999 was 75.3 percent (\$1,051,326,000) of total inflow and 77.6 percent (\$1,004,917,000) respectively. FDI Net inflow increased from -\$299,566,700 to -\$1,004,916,000 in 1998 and 1999 respectively. The percentage of FDI in GDP dropped from 1.93 to 1.69. The growth of SME's rose significantly from 4.81 to 4.84 in 1998 and 1999 respectively (see Table 1, 2 and 3 above).

The FPI decreased from 8.0 percent in 1990 to 1.1 percent in 1994 with Net FPI inflow of \$61,109,599 in 1991 to \$27,141,298 in 1994. It picked up again in 1995 at 2.5 percent to 4.3 percent in 1999. Within the period Net FPI rose from \$25,583,636 in 1995 to \$54,088,508 in 1996 with development of SME's from 4.74 to 4.79 (see Table 1 and 3 above).

The decade 2000s marked further increase in FDI contributions which rose from 78.2 percent (\$1,140,168,000) of total inflow in 2000 to 79.1 percent (\$1,190,619,000) in 2001 and dropped to 76.3 percent of total capital inflow in 2002 with actual FDI inflow of \$1,874,071,000 and increase again to 77.8 percent in 2003 with actual FDI inflow of \$2,005,354,000 (see Table 1 and 2 above).

The Net FDI inflow rose from -\$1,140,168,000 in 2000 to -\$2,005,354,000 in 2003 with corresponding growth of SME's from 4.96 to 5.07. The percentage of FDI in GDP rose from 1.6417 in 2000 to 1.9114 in 2003, which also show a corresponding effect on SME's (see Table 3 above).

FPI contribution rose from 4.1 percent of total inflow in 2000 to 6.7 percent in 2003 with net FPI inflow of -\$502,264,890 in 2000 and -\$182,894,058 in 2003 (see Table 2 and Table 1 above).

From 2004 to 2018, FDI inflow reached its highest of \$8,841,114,000 in 2011 and lowest of \$1,874,061,000 in 2004. The actual net inflow has its lowest of -\$1,874,061,000 in 2004 and highest pick of -\$8,024,349,000 in 2011 with a corresponding development of SME's at its lowest of 5.17 in 2004 and highest pick of 5.94 in 2018 within the period 2004 to 2018. The percentage of FDI in GDP

has its pick of 2.9309 in 2009 and its lowest of 0.5028 in 2018 and the development of SME's in 2018 was 5.94, which was the highest (see Table 1, 2 and 3 above). This outcome may be due to large budgetary contribution by other sectors.

Net inflow of FPI within the period 2004-2018 was at its lowest of -\$180,000,000 in 2004 and highest of -\$13,000,000 in 2018 (see Table 3 above).

In order to bridge the gaps occasioned by low investment- savings and their negative consequences on SME's development, proponents of gap model suggests that a country should strategies to attract foreign capital and investments. This will help relieve the countries of the burden of scarce domestic savings, foreign exchange as well as budget which tend to accentuate gaps in the economy deficit.

In view of the above, the following hypotheses are stated in null form;

H₀₁: there is no causal relationship between foreign direct investment and growth of SME's in Nigeria.

H₀₂: there is no causal relationship between foreign portfolio investment and growth of SME's in Nigeria.

H₀₃: there is no causal relationship between percentage of foreign direct investment in GDP and growth of SME's in Nigeria.

Research and Methodology

The study adopted a longitudinal research design which made the use of secondary data imperative. The data is a time series covering the period 1991 to 2018 which are readily available in World Bank data through World Development Report, 2020.

The study employed data on foreign private investments and development of SME's in Nigeria covering 1991 – 2018 because the decade of 1990 marked the establishment of Nigeria investment promotion commission that encouraged complete liberalization of business with 100% of ownership.

In generating the required data for analysis, Small and Medium Enterprises is the dependent variable of the study, Foreign Private Investment is operationalized as independent variable and exchange rate as control variable. Multiple regression was used to test the hypotheses. E-view econometric software 3.1 was used for the analysis. The need for further pre-estimation testing to determine possible intra- variable associations made the use of Augmented Dicky- Fuller (ADF) test for unit root imperative. Since all the variables are stationary that is no unit root at first difference, the study therefore diagnose for Granger causality relationship between the variables. That is to capture the direction of the causation between foreign private investments on the development of SME's. To enhance result, co-integration test using Augmented Dicky-Fuller (ADF) was done. The results show that there is a long run relationship between the dependent variables and the independent variables in our model. Aparsimonious Error correction model was employed which has a good fit of the explanatory power. The autocorrelation test was done using Durbin-Watson statistics.

Findings and Discussion

Data Analysis and Interpretation of Results

This section analyses and interprets outcomes of data (see Table 3) used for analysis.. These are analyzed and interpreted as follows:

Table 4: Descriptive Statistics of the Variables

	DSME	GDP	FDI	FPI	EXR
Mean	5.236429	2.047500	2.99E+09	-2.08E+09	119.1404
Median	5.190000	1.895000	1.98E+09	-3.43E+08	127.2300
Maximum	5.940000	5.790000	-3.00E+08	3.40E+09	306.0800
Minimum	4.600000	0.500000	8.02E+09	-1.50E+10	9.910000
Std. Dev.	0.459059	1.156689	2.35E+09	4.24E+09	81.93969
Skewness	0.201245	1.583139	0.650848	-1.894433	0.565958
Kurtosis	1.590285	5.930269	2.126039	5.628391	4.053182
Jarque-Bera	2.507511	21.71376	2.867925	24.80794	1.498072
Probability	0.285431	0.000019	0.238363	0.000004	0.472822
Observations	28	28	28	28	28

Source: Author's Computation (2020)

Table 4 Present the characteristics of the data and the summary of the descriptive statistics of the variables. There is evidence of significant variation in the trends of the variable over the period of consideration. This shows the large difference between the minimum and maximum values of the series, with the exceptions of foreign private investment. With the statistical distribution of series in view, the results show that the series are all positively skewed. The FDI in percentage of GDP, FPI, and EXR are leptokurtic in nature, since their values for kurtosis 5.93, 5.62, and 4.05 respectively, are greater than 3. This indicates for normal distribution. The Jarque-Berra statistics is a goodness of fit, where sample data have skewness and kurtosis matching a normal distribution. It is a test of normality that combines skewness and kurtosis. The P-value of the Jarque-Bera test reveals that most of the variables are normally distributed which is expected in the data with subsisting heterogeneous features in some variables. There is the need for further pre-estimation testing to determine possible intra-variable associations.

Table 5: Augmented Dickey-Fuller (ADF) Test for Unit Root

Variables	Level	First Difference	Second Difference	Order of Integration	Meaning
DSME	0.2434	-4.5748	-	1(1)	Stationary at first difference
GDP	-2.3757	-5.6643	-	1(1)	Stationary at first difference
FDI	-1.5665	-6.0199	-	1(1)	Stationary at first difference
FPI	-0.2358	-5.9065	-	1(1)	Stationary at first difference
EXR	0.8385	-3.6927	-	1(1)	Stationary at first difference

Source: Author's Computation (2020)

Table 5 reveals the result of the unit root test for stationary of time series property of variables. The criterion is that the Augmented Dickey Fuller results must be strictly greater than the critical value at certain level of significance to prove the presence of stationary pattern of variables. The unit root values for the variables under study shows that all variables DSME, FDI in percentage of GDP, FDI, FPI, EXR have no unit root (that is, they are stationary) at first difference respectively. This is because the ADF values of the variables are all greater than the critical value at 5% (see Table above). The study therefore will diagnose for Granger Causality relationship between the variables.

Table 6: Results of the Granger Causality Tests: Pairwise Granger Causality Tests

<i>Sample: 1991 2018.</i>			
<i>Lags: 2</i>			
Null Hypothesis:	Obs	F-Statistic	Prob.
GDP does not Granger Cause DSME	26	1.14890	0.3361
DSME does not Granger Cause GDP		5.36387	0.0131
FDI does not Granger Cause DSME	26	5.31816	0.0135
DSME does not Granger Cause FDI		1.44377	0.2585
FPI does not Granger Cause DSME	26	2.37038	0.1180
DSME does not Granger Cause FPI		5.09151	0.0157
EXR does not Granger Cause DSME	26	1.09215	0.3538
DSME does not Granger Cause EXR		4.88538	0.0181

Source: Author's Computation (2020)

Table 6 presents the results of the Granger Causality tests between the components of foreign private investment and the development of SME's in Nigeria. The test is carried out to capture the direction of the causation between foreign private investments and the development of SME. In other words, it is meant to show which out of the four variables drives the other and in which direction. The results show that FDI in percentage of GDP do not granger cause

Development relatively as SME does, whereas a unidirectional relationship exist between FDI and DSME; Likewise FPI and DSME show unidirectional relationship, while EXR and DSME does not granger cause each other. Furtherance to the Co-integration Test

result obtained below on the coefficient of DSME, GDP, FDI, FPI, EXR there is a clear prove as to magnitude and statistical significance of variables given the result of granger causality test result.

Table 7: Cointegration Test

Null Hypothesis: D(RESID) has a unit root

Exogenous: Constant

Lag Length: 0 (Automatic - based on SIC, maxlag=5)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-7.217713	0.0000
Test critical values:		
1% level	-3.737853	
5% level	-2.991878	
10% level	-2.635542	

*MacKinnon (1996) one-sided p-values

Table 7 shows the results of the Co-integration test using the Augmented Dickey-Fuller (ADF) technique. It revealed that the residual is stationary at the 5% level. This is because the ADF statistic of -7.217713 is greater than its critical value in absolute terms. Thus, there exists a long run relationship between the dependent variable and the independent variables in our model. Since, all the variables are integrated of order one, that is stationary at first differences and Co-integrated, there is a long run equilibrium relationship among the variables. Hence, the study can employ the parsimonious Error Correction Model.

Table 8: Error Correction Model

Method: Least Squares

Included observations: 25 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.058014	0.007424	7.814415	0.0000
DGPD	-0.017073	0.007246	-2.356400	0.0293
DFDI(-2)	5.66E-12	5.55E-12	1.018452	0.3213
DFPI(-2)	-2.89E-12	2.06E-12	-1.405503	0.1760
DEXR(-2)	-0.000738	0.000342	-2.155006	0.0442
ECM(-1)	-0.136461	0.048443	-2.816932	0.0110
R-squared	0.678648	Mean dependent var		0.051200
Adjusted R-squared	0.565135	S.D. dependent var		0.042458
S.E. of regression	0.031340	Akaike info criterion		-3.882265
Sum squared resid	0.018662	Schwarz criterion		-3.589735
Log likelihood	54.52831	Hannan-Quinn criter.		-3.801129
F-statistic	5.009518	Durbin-Watson stat		1.546090
Prob(F-statistic)	0.004289			

Source: Author's Computation (2020)

Table 8 shows the results of the short run estimates as presented in the ordinary least square model. The coefficient determination values of R-squared of 0.678 and adjusted R-squared of 0.565 showed that the estimated error correction model has a good fit of the explanatory power. Moreover, the adjusted R-squared of 0.565 revealed that about 57 percent of the systematic variations in the

dependent variable development of small and medium scale enterprises (DSME) are accounted for by the independent variables in the model. In similar manner, the value of F-statistics of 5.009 indicates that the estimated error correction model is statistically significant. This means that the independent variables have a joint effect on the dependent variable. The Durbin-Watson statistics value of 1.54 revealed that there is no autocorrelation in the model. This means that the residuals are not correlated and hence the model is well-specified. Analysis of the short run coefficients revealed that foreign direct investment (FDI) in percentage of gross domestic product (GDP) and exchange rate (EXR) have negative and significant impact on development of small and medium scale enterprises (DSME) in Nigeria. From the results, a 0.017 and 0.0007 percentage increase in development of small and medium scale enterprises would lead to an increase in foreign direct investment (FDI) in percentage of gross domestic product (GDP) and exchange rate (EXR) by 2 and 0 percentages in Nigeria, respectively.

While, value of foreign direct investment (FDI) and foreign portfolio investment (FPI) has a negative relationship with development of small and medium scale enterprises (DSME) in

Nigeria. This implied that FDI and FPI have no impact on development of small and medium scale enterprises in Nigeria. From the result, a N1 million decrease in value of foreign direct investment and foreign portfolio investment would led to a decrease in development of small and medium scale enterprises by N5.66 million and 2.89 million, during the considered period.

Implications

Analysis of the short run coefficients as presented in Table 8 reveals that foreign direct investment (FDI) in percentage of gross domestic product and exchange rate has a negative and significant impact on development of small and medium scale enterprises (DSME) in Nigeria. The exchange rate shows increasing negativity than the percentage of FDI in GDP. Which means most small and medium enterprises in Nigeria relies on government loans, loans from friends, Hire purchase, personal savings, family support and banks loans to drives their organization.

The exchange rate is also a critical determinant of the growth of small and medium scale enterprises. As Nigeria exchange rate worsen, small and medium enterprises development is impacted negatively.

The value of foreign direct investment (FDI) and foreign portfolio investment (FPI) has a negative relationship with the development of SME's. This implies that FDI and FPI have not impacted on the development of small and medium scale enterprises. May be most SME's do not go on public offer to access funds. Secondly, most of the multinational companies are large organization with little of backward and forward integrations. May be the multinationals depends on their nation's organization for inputs to drives their organization. Sometimes, the funds brought through foreign direct investment may be to acquire the 10% management interest voting stock. Foreign private investment funds may not be really large enough to cause a ripple effect on the development of SME's in NIGERIA. The ease of divestment at the slightest economic bubble or meltdown affects the liquidity level available to the SME's. Such funds could be very unstable and may not attract the SME's in Nigeria.

Loose of ownership may be another reason while SME's in Nigeria may not patronize foreign portfolio investment through the secondary market (NSE).

Conclusion

Foreign private investment has been a stimulus to most economies in the world. It stimulated the growth of most advanced economies, the magic it did in Asia country speaks volume of its impact. Most developing nations have been encouraged to liberalize their economy to attract foreign private investment which is the engine of economic growth and development. Small and medium enterprises have been known to be the hub, pivot or fulcrum of such progression.

Inability of our SME's to stimulate effective economic growth despite the huge increase in foreign private investment in the country spur a review of the impacts of foreign private investment on the development of SME's since 1991 to 2018. That is to what extent has SME's in Nigeria benefited from the huge investment of multinational organizations and foreign portfolio capital for development. The impact has been very low to stimulate the necessary growth in SME's in Nigeria hence the marginal performance of the SME's. On the basis of the empirical findings, the following strategic options are recommended; (i) Nigeria's government should increase its funding of small and medium scale enterprises in the country, (ii) Policies to encourage the banks to continue to set a percentage for the development of SME's in Nigeria, (iii) Policies to encourage NNPC to set aside a percentage of its earnings towards financing SME's, (iv) SME's should be encouraged to go on public offer to expand their scope of funds, (v) Nigeria exchange rate must be strengthened to encourage SME's to attract funds, (vi) Nigeria's government should strengthen the economy to discourage divestment, (vii) Nigeria's government to make adequate policies to attract more of foreign private investment.

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