**FOREIGN DIRECT INVESTMENT AND THE DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES IN ENUGU STATE (2007-2017)**

**BY**

**UZUEGBUNAM, FRANCIS UCHENNA  
U14/MSS/POL/059  
POLITICAL SCIENCE**

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**THE DEPARTMENT OF POLITICAL SCIENCE AND INTERNATIONAL RELATIONS,   
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**THE AWARD OF BACHELOR OF SCIENCE (B.SC) DEGREE IN POLITICAL SCIENCE.**

**SUPERVISOR: MR ONYISHI, A. U.**

**JULY, 2018.**

**DECLARATION**

I, UZUEGBUNAM, FRANCIS UCHENNA, an undergraduate student in the Department of Political Science and International Relations with registration number U14/MSS/POL/059 hereby declare that this project work is written by me and that the work embodied in this project is original and has not been submitted in part or full for any other Diploma or Degree of this or in any other University. All liabilities arising from this study are entirely mine and not of my supervision and for the university.

…....……………………….

**U14/MSS/POL/059**

**Researcher**

**CERTIFICATION**

This is to certify that Uzuegbunam, Francis Uchenna, an undergraduate student in the Department of Political Science and International Relations and with the registration number U14/MSS/POL/059 has satisfactorily completed the requirement for project research in partial fulfillment for the Award of Bachelor of Bachelor of Science Degree (B.Sc) in Political Science.

………………………………. **Date……………………………  
Mr Onyishi, A. U**

**Project Supervisor**

**………………………………. Date…………..……………….  
Okonkwo, W. O**

**Head of Department**

**……………………………...... Date…..…............................**

**Prof. Onyema Ocheoha**

**Dean, Faculty of Mgt. and Social Sciences**

**……………………………...... Date…………………………**

**Prof. Ugwu**

**External Examiner**

**DEDICATION**

I dedicate this work to my parents and siblings whose passion and support for quality education shaped me into being the best that I can ever be in and out of the university. God bless you all.

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I am indebted to a number of people who have supported me intellectually, academically, spiritually, and financially in the process of undertaking this project. My profound gratitude goes to God Almighty for everything He has seen me through; for who I am today and what I will become tomorrow. I am most grateful to my indefatigable parents Chief Ikechukwu Simeon Nwakalor and Mrs Uduoba Mabel Ikechukwu Nwakalor for their unalloyed support, training and prayers all these years of my existence. My special thanks to Chief Sir Mike Edoziuno Asigwe Nwakalor and Chief (Lady) Anthonia Asigwe Nwakalor, for their prove of love and support for education and wellbeing upon me.

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**ABSTRACT**

*The issue of Foreign Direct Investment (FDI) has been an age long issue for quite some decades especially in Small and Medium Enterprises (SMEs) in Enugu state, Nigeria. However, little or no attention has been given to the importance of foreign direct investment to the development of SMEs in the state. SMEs are the major drivers of employment in Enugu state and Nigeria at large, because statistics has it that 60% of Nigeria’s workforce comes through small and medium scale enterprises. Despite the significance attached to inflow of foreign direct investment and the development of small and medium scale enterprises as essential driving forces for economic growth, the extent to which SMEs have developed in response to this inflow has remained an issue of concern, given Nigeria’s poor economic predicament. Thus, this study investigates whether FDI undermines SMEs development in Enugu state, Nigeria. A survey research design was adopted for this study. The study utilized Marxian Political Economy Theory to unearth the philosophical underpinning behind the government’s role as an instrument in undermining the development of SMEs. The data collected from the questionnaire instrument were analyzed using chi square, as well as percentages and frequencies. The research findings show that Foreign Direct Investment undermined the development of Small and Medium Enterprises in Enugu state. The study recommends that the state government should formulate policies aimed at promoting the interests of the SMEs. However, while it is important for government to woo foreign investors into a state, it should not be at the detriment of the local businesses such as the SMEs. Thus, the economic policies of the state should be geared towards maintaining a balance between the growth of SMEs and the activities of foreign investors.*

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**CHAPTER ONE**

**INTRODUCTION**

* 1. **BACKGROUND OF THE STUDY**

While in theory the nexus between FDI and growth (in terms of output and productivity) is in general positive, the empirical literature is far less conclusive. Some studies find positive effects from outward FDI for the investing country (Van Pottelsberghe and Lichtenberg, 2001; Nachum et al., 2000), but suggest a potential negative impact from inward FDI on the host country. This results from a possible decrease in indigenous innovative capacity or crowding out of domestic firms or domestic investment. Thus, in their view and in line with the standard literature on the determinants of FDI (i.e. Dunning’s OLI paradigm, see Dunning 1988) inward FDI is intended to take advantage of host country (locational) characteristics instead of disseminating new technologies originating in the sending country. Other studies report more positive findings: Nadiri (1993) finds positive and significant effects from US sourced capital on productivity growth of manufacturing industries in France, Germany, Japan and the UK. Also Borensztein et al. (1998) finds a positive influence of FDI flows from industrial countries on developing countries’ growth. However, they report also a minimum threshold level of human capital for the productivity enhancing impact of FDI, emphasizing the role of absorptive capacity. Absorptive capacity or minimum threshold levels in a country’s ability to profit from inward FDI is often mentioned in the literature (see also Blomström et al. 1996). Consequently the effect of FDI depends among other things to a large extent on the characteristics of the country that receives FDI.

Given the critical role of entrepreneurship in economic growth of any nation and considering the absence of adequate technology in developing countries, it is essential to seek for technology transfer. More so, market and access to expertise are crucial to the survival and growth of small and medium enterprises (SMEs) in developing countries. Access to expertise allows SMEs to undertake productive investments efficiently and to acquire the latest technologies, thus ensuring their competitiveness and that of the nation as a whole. As opined by Dutse (2008), these latest technologies can be attained through the spill-over effects of FDI. This is because FDI is one of the major channels for transferring new scientific knowledge and related technological innovations. From a priori FDI is therefore an essential impetus to small and medium scale entrepreneurship development in the country. In this regard, FDI facilitates access to markets, access to expertise and most of all access to technology. However the willingness of Multinational Corporations to open their global value chains to local firms has not really metamorphosed into meaningful SMEs development. This therefore raises the question of why the abysmal performance of the SMEs in Nigeria? Furthermore, the pattern of the FDI inflow is often skewed towards extractive industries, meaning that the monumental rate of FDI inflow into Nigeria has been adduced to natural resources, although the size of the local market may also be a consideration (Asiedu, 2001). Invariably there is very little hope of economic development and growth for the country due to problems of socio-economic, political and religious factors. Historically Nigeria is one of the economies in Africa with enormous demand for goods and services and has attracted some FDI over the years. The amount of FDI inflow into Nigeria has reached US$2.23 billion in 2003 and it rose to US$5.31 billion in 2004, this figure rose again to US$9.92 billion in 2005. The volume however turns down vaguely to US$9.44 billion in 2006 (CBN, 2009). The question that comes to mind is do these FDIs essentially contribute to small and medium scale business development in Nigeria? If FDI effectively contributes to growth, then the sustainability of FDI is a worthwhile action and a way of achieving its sustainability is by identifying those factors contributing to its growth with a view to ensuring its enhancement.

Again, most studies on FDI and growth are cross-country studies. However, FDI and growth debates are country specific. Earlier studies (for instance, Otepola, 2002; Oyejide, 2005; Akinlo, 2004) examine only the importance of FDI on growth and the channels through which it may be benefiting the economy. This study however examines the contributions of FDI to Small and Medium scale businesses with much emphasis on agriculture and transportation sector from 1981 to 2009.

According to a publication on [www.thisdaylive.com/index.php/2016/11/22/](http://www.thisdaylive.com/index.php/2016/11/22/)

“The Federal Government’s economic diversification programme may have recorded a head-start as investment groups gather for the ground breaking ceremony of the Enpower Free Trade Zone (ENPOWER FTZ) scheduled by the end of this month with a target to attract N240 billion Foreign Direct Investment (FDI) and 20,000 jobs Governor Ifeanyi Ugwuanyi who consolidates on foundation efforts of former Governor Sullivan Chime on the project, was quoted as saying in a statement at the weekend that the ground breaking ceremony for the facility would bear the first set of investment fruits which will give highly needed momentum to his government’s economic diversification programme. According to him, “Enpower FTZ has put in substantial efforts into attracting specific, targeted high-profile investors right from the outset. These anchor investors play an important signaling role to other potential investors, and we expect them to attract a network of suppliers and partners.”The ceremony which holds at the Akanu Ibiam Airport site of the Free Zone is expected to attract up to $500 million (N240 billion) worth of foreign direct investments (FDI) from leading global manufacturing companies. Activities of the industrial clusters hosted in the free zone are also expected to create over 20,000 jobs across three major regions in the country. Licensed by the federal government to operate as a free trade zone in December, 2015, ENPOWER FTZ is a Public-Private initiative with the Enugu State government offering international and domestic investors the benefits of connecting to business opportunities from the South-Eastern cluster, which according to Canback & Company and the McKinsey Global Institute, is the second largest economic cluster in Nigeria, outside of the Lagos Cluster”.

In the world today, it becomes difficult for business to survive without a form of exchange or another which involves money, ideas, product and technology. As a result, every economy is affected either positively or negatively. Trade can be drawn from the need to exchange, which developed from the barter arrangement to the currency method. Trade in Nigeria, nevertheless, became general with the introduction of the imposing regulation, which brought in their merchandises and made Nigerians their middle men. The implication of this is that Nigerians came to comprehend the necessity for trade both domestically and internationally. International business has remained an area of concern to policy makers. Its significance lies on the capacity to acquire goods which cannot be manufactured in a country or which can only be manufactured at a higher cost. Similarly, it allows a nation to trade its locally produced goods to other countries of the world. The performance of a given economy in terms of growth rates of output and per capita income has not only been based on the domestic production and consumption activities but also on international transaction of goods and services (Jhingan 2006). Small and Medium-scale Enterprises (SMEs) play very important roles in the process of industrialization and sustainable economic growth (Aremu & Adeyemi, 2011; Terungwa, 2012). Since the 1960s to date, SMEs are being given due recognitions especially in the developed nations for playing very important roles towards fostering accelerated economic growth, development and stability within several economies (Gunu, 2004; Onugu, 2005; Aremu, 2010). They make up the largest proportion of business all over the world and play tremendous roles in employment generation, provisions of goods and services, creating a better standard of living as well as immensely contributing to the Gross Domestic Products (GDP) of many countries (Paul, 2010; Ojeka&Mukoro, 2011). In Nigeria, SMEs account for fifty percent to employment on average and also fifty percent of its industrial output. SMEs represent about ninety percent of the industrial sector in terms of number of enterprises or firms, and, however, they contribute a meager one percent of GDP (Ariyo, 2004). Industrial and economic developments are flourished by SMEs in the country through efficient utilization of local resources; production of intermediate goods and services; transformation of rural technology. SMEs are the backbone, and they play a significant role in the business landscape of any country, but there are also faced with a lot of obstacles that make the sector not to contribute optimally to the economy. In this regard, Aregbeyen (1999) argues that the industrial development of Nigeria depends, to a large extent, on the growth and development of SME potentials.

* 1. **STATEMENT OF THE PROBLEM**

The underdeveloped/developing nature of the Nigerian economy that essentially hindered the pace of her economic development has necessitated the demand for Foreign Direct Investment into the country. Aremu (2007), noted that Nigeria as one of the developing countries of the world, has adopted a number of measures aimed at accelerating growth and development in the domestic economy, one of which is attracting foreign direct investment (FDI) into the country. According to World Bank (2006), FDI is an investment made to acquire a lasting management interest (normally 10% of voting stock) in a firm or an enterprise operating in a country other than that of the investor defined according to residency. However, Foreign Direct Investment (FDI) is often seen as an important catalyst for economic growth in the developing countries because it affects the economic growth by stimulating domestic investment, increase in capital formation and also, facilitating the technology transfer in the host countries. (Falki, 2009) It is in view of the above that the researcher intends to investigate influence of foreign direct investment and the development of small and medium scale enterprise in Enugu state, Nigeria.

* 1. **OBJECTIVE OF THE STUDY**

The main objective of this study is to examine foreign direct investment and the development of SMEs in Enugu state. But to aid the effective completion of the study, the researcher intends to achieve the following specific objective;

1. To examine whether Foreign Direct Investment undermined the development of SMEs in Enugu state, 2007-2017.
2. To examine whether the Enugu state government provided an enabling environment for the development of SMEs in the state, 2007-2017.
   1. **RESEARCH QUESTIONS**

The following research hypotheses were formulated to aid the completion of the study;

1. Did Foreign Direct Investment undermine the development of SMEs in Enugu state, 2007-2017?
2. Did the Enugu state government provide an enabling environment for the development of SMEs in the state, 2007-2017?
   1. **RESEARCH HYPOTHESES**

The following hypotheses were formulated to proffer answers to the research questions;

1. Foreign Direct Investment undermined the development of SMEs in Enugu state, 2007-2017.
2. Enugu state government provided an enabling environment for the development of SMEs in the state, 2007-2017.
   1. **SIGNIFICANCE OF THE STUDY**

It is believed that at the completion of the study, the findings will be of great importance to the Enugu state economic planning committee as the study seek to explore the merit of FDI and the merit if any on the growth of SMEs in the state, the study will also be useful to the management of Enugu state investment and development committee as the study will help them formulate policies that will attract FDI to the state. The study will also be useful to researchers who intend to embark on a study in a similar topic as the findings of the study will serve as a reference point for further study. Finally, the study will also be useful to academia’s, researchers, students, teachers and the general public as the study will contribute to knowledge and the pool of existing literature.

* 1. **SCOPE AND LIMITATION OF THE STUDY**

The scope of the study covers foreign direct investment and the development of small and medium scale enterprise in Enugu state, 2007-2017, but in the cause of the study, there were some factors which militate against the scope of the study;

**a) Availability of Research Material:** The research material available to the researcher is insufficient, thereby limiting the study.

**b) Time:** The time frame allocated to the study does not enhance wider coverage as the researcher has to combine other academic activities and examinations with the study.

**1.8 DEFINITION OF TERMS**

**Foreign Direct Investment**

A foreign direct investment is an investment in the form of a controlling ownership in a business in one country by an entity based in another country. It is thus distinguished from a foreign portfolio investment by a notion of direct control.

**Productivity**

Productivity is an economic measure of output per unit of input. Inputs include labor and capital, while output is typically measured in revenues and other gross domestic product (GDP) components such as business inventories.

**Small Medium Enterprises**

The [Central Bank of Nigeria](https://en.wikipedia.org/wiki/Central_Bank_of_Nigeria) defines small and medium enterprises in Nigeria according to asset base and number of staff employed. The criteria are an asset base that is between [N5](https://en.wikipedia.org/wiki/Naira) million to [N500](https://en.wikipedia.org/wiki/Naira) million, and a staff strength that is between 11 and 100 employees.

**Development**

Development in this context is the process of promoting the growth of small and medium enterprises. Simply put, to further or advance the growth of something.

**Enugu State**

Enugu state is a state in the Southeastern part of Nigeria, created in 1991 from part of the old Anambra State. Its capital and largest city is Enugu, from which the state derives its name. The state shares borders with Abia State and Imo State to the south, Ebonyi State to the east, Benue State to the northeast, Kogi State to the northwest and Anambra State to the west.

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

**2.0 INTRODUCTION**

Agreement in the literature supported by several empirical evidences seems to be that foreign firms through FDI do transfer technology to their affiliates; a process that can equally allow spill over to unaffiliated firms in the host economy which in turn augments growth through productivity and efficiency gains by local firms (Ayanwale and Bamire, 2001; Girma, et. al, 2001 and Ayanwale, 2007). In Dutse (2008) opinion, FDI facilitates productivity in Nigeria by generating both technological and efficiency spill over to local firms, encouraging innovation in the small and medium scale businesses, allowing technology adoption and developing human capital. In addition to this, Ayanwale and Bamire (2001) report a positive spill over of foreign firms on domestic firms’ productivity that are dominated by the small and medium scale businesses. Ayanwale (2007) results suggest that the determinants of FDI in Nigeria are market size, infrastructure development and stable macroeconomic policy. But out of these determinants only the market size slightly induced FDI into Nigeria since the others are lacking. FDI in Nigeria contributes positively to economic growth but its overall effect on small and medium scale businesses has not been that significant due to lack of infrastructure and unstable macroeconomic policies. UNCTAD (2000) maintains that FDI contributes to economic growth through technology transfer with the multinational firms transferring technology either directly to their foreign owned enterprises or indirectly to domestically owned and controlled firms in the host country. Following Lucas (1988) argument, FDI spurs long-run growth through such variables as research and development (R&D) and human capital. It is suggested that through technology transfer to their affiliates and technological spill-over to unaffiliated firms in the host economy, foreign companies can speed up the development of new intermediate product varieties, raise product quality, facilitate international collaboration on R&D, and introduce new forms of human capital. Other empirical studies conclude that FDI contributes to total factor productivity and income growth in host economies, over and above what domestic investments would trigger (Keller, 2003). The studies found out that policies that promote indigenous technological capability, such as education, technical training, and R&D, increase the aggregate rate of technology transfer from FDI and that export promoting trade regimes are also important prerequisites for positive FDI impact that would reduce the technology gap existing between developed wealthy and undeveloped poor nations. Moreover, there are other related observed evidences on positive direct technology transfer from a foreign firm to its local affiliates in terms of higher productivity levels and growth in developed as well as developing countries (Girma, et. al, 2001; Saggi, 2003). Further study suggests that technical change and technological leaning are main determinants of growth either of SMEs or other sector of the economy. Ikiara (2003) opines that foreign firm may allow local firms to appropriate its technology if this guarantees it access into some of the benefits available in the host country such as access to valuable local technology and possibility of receiving commercial advantages. Nunnenkamp and Spatz (2003) however criticize the view that developing countries should draw on FDI to create economic development. The authors conclude that the growth impacts of FDI are ambiguous because of highly aggregated FDI data. By disaggregating FDI and considering the compatibility of different types of FDI on economic conditions prevailing in the host country, the positive growth effects of FDI are doubtful. Host country and industry characteristics as well as the interplay between both sets of characteristics determine the growth impact of FDI in developing nation.

Alfaro et. al. (2003) analyze the role of local financial markets in enabling FDI to promote growth through backward linkages. They assert that to operate intermediate firms in the goods sector, the entrepreneurs require upfront capital investments. The more developed the local financial markets is, the easier it is for credit constrained firms to operate. The increase in the varieties and quantities of intermediate goods leads to positive spillover to the final goods sector. Due to this, the financial markets guarantee the backward linkages between foreign and domestic firms to turn into FDI spill-over. Their calibration results indicate that holding foreign presence constant, financially well developed economies perform almost as twice as economies with poor financial markets in term of growth. FDI contributes more in an economy with well developed financial system than in an economy with less developed financial system. Lastly, local conditions such as market structure, human capital are also important to generate a positive effect of FDI on economic growth. Nigeria as a country, given her natural resource base and large market size, qualifies to be a major recipient of FDI in Africa and indeed is one of the top three leading African countries that consistently received FDI in the past decade. However, the level of FDI attracted by Nigeria is very low compared to its resource base and potential need (Asiedu, 2001). Also, the empirical linkage between FDI and economic growth in Nigeria is yet unclear despite the numerous studies that have examined the influence of FDI on Nigeria’s economic growth with varying outcomes (Adelegan, 2000; Akinlo, 2004). Carkovic and Levine (2002) further note that the economic rationale for offering special incentives to attract FDI frequently derives from the belief that foreign investment produces externalities in the form of technology transfers and spill-over. In another vein, De Gregorio (2003) notes that FDI may allow a country to bring in technologies and knowledge that are not readily available to domestic enterprises and in this way increases their productivity throughout the economy. Corroborating these submissions, Jerome and Ogunkola (2004) assess the magnitude, direction and prospects of FDI in Nigeria. They observed that while the FDI regime in Nigeria was generally improving, some serious deficiencies are yet to be resolved. These deficiencies are mainly in the area of the corporate environment (such as corporate law, bankruptcy, labour law, etc.) and institutional uncertainty, as well as the rule of law. In line with this Akinlo (2004) discovers that foreign capital has a small and not statistically significant effect on economic growth in Nigeria. Olayiwola and Okodua (2005) further reveal that a unidirectional causality runs from FDI to non-oil exports. Responses of the economic growth, non-oil export and FDI to one standard deviation innovations were on the average, found to be dormant in the early stages of the out-of-sample forecast period but all demonstrated more pronounced responses after about seven years into the forecast period.

**2.1 CONCEPT OF FOREIGN DIRECT INVESTMENT (FDI)**

Foreign Direct Investment (FDI) is the process where people in one country obtain ownership of assets for the purpose of gaining control over the production, distribution and other activities of a firm in a foreign country (Moosa, 2002). The OECD Benchmark Definition of Foreign Direct Investment (OECD, 1996) defines FDI as “the objective of obtaining a lasting interest by a resident entity in one economy (direct investor) in an entity resident in an economy other than that of the investor (direct investment enterprise)”. The lasting interest reflects the continuation of a long-term relationship between the direct investor and the enterprise and a considerable level of influence on the management of the enterprise. The terms “influence” or “control” and “long-term” are used to make a distinction between FDI and portfolio investment because the latter is a short-term investment where the investor does not seek to control the firm. The influence over management decisions and productivity is also the part that differentiates FDI from other types of international investments. This influence implies for instance, that the investor has an ability to elect members on the board of directors of the foreign firm or subsidiary (Moosa, 2002).

**2.2 THE ORIGIN AND DEVELOPMENT OF FDI IN NIGERIA**

The origin and development of FDI in Nigeria can be traced to the activities of the Royal Niger Company (RNC) which was granted Charter in 1886 to ship palm oil from Nigeria to Liverpool and importing the processed palm oil back into the country in form of soap. The company merged with Africa and Eastern Trading Corporation to later form the United African Trading Company (UAC)) a subsidiary of Unilever in Nigeria. Other firms which made significant impacts in the development of the FDI in Nigeria are Shell BP in the oil sector exporting its first oil in 1958. This follows by gulf oil (now Chevron), Mobil, ELF, Agip, Texaco to mention a few. Others sector include John Holt, UTC, Julius Bergers, SCOA, etc (Baridam, 1990).

The post Civil war period in Nigeria witnessed the advent of oil companies and the period (1973-79) saw the influx of FDI giving the country its greatest revenue in history with annual revenue of about 7.5 US billion dollars. Based on this level of revenue, Nigeria was reckoned as the wealthiest black Africa Country. The third National Development plan (19975-1980) was considered as the testing ground for assessment of Nigeria with expenditure of N30 billion or N50 billion quotes. This level of expenditure became a fertile ground for investors both foreign and indigenous. The first ever international trade fair held in 1977 attracted 57 foreign countries and 300 Nigerian companies. Following this event, there were explosions of FDI in Nigeria including IBM, Dupon, Chase Mahathan, ITT, Ford Motor etc.

In the banking sector, the nationalization of two British Banks, Barclays Bank (Now Union Bank of Nigeria) and Standard Bank (now First Bank of Nigeria Plc) was seen as a healthy development in the economy in the Light of Nationalism. Direct investment in Nigeria dominated the economy until 1972 when the Nigerian Enterprise Promotion decree came into effect to check the activities of FDI in Nigeria. The upsurge of FDI was finally constrained by the Indigenization decree of 1977 which tried to make Nigerians shareholders of most of these FDI (The Union Bank of Nigeria Plc, 1995).

It has been noted that FDI, failed to reinvest most of their profits in the country thereby aiding capital flight out of the country. Even when FDI established manufacturing facilities in Nigeria, they still engaged in substantial importation of intermediate products; a product that helps to deplete foreign exchange technology often transfers the product of technology. FDI bring in capital but also take away capital. The important issue here is Net Capital flow (Amy, 1998). In fact, Akhter (1993) in his analysis conducted between 1971-1988 showed that Nigeria was clearly financing the developed countries. The FDI mostly concentrate on few sectors of the economy especially oil. According to Ake (1983) oil industry has few backward linkages and virtually all the forward were external thereby exacerbating the disarticulation of the Nigeria economy.

**2.2.1 SOURCES AND DESTINATIONS OF FDI**

Not surprisingly, the major sources of FDI are the high-income developed nations. These countries accounted for over 90 percent of out flowing FDI in the years 1987-1992 and for more than 85 percent in the period 1993-1998. The main recipients of FDI also turn out to be the advanced nations, which in the years 1988-1998 received over 70 percent of inflowing FDI. But even though it is clear that the developed countries are the main destinations for FDI, an interesting fact is that ten developing countries make up two-thirds of the total FDI inflow to all developing countries. Among these, China received 30.6 percent. From 1988 to 1997, China experienced a fourfold increase of FDI during the years 1988-1992, the country received 2.9 % of the total FDI in the world, which can be compared to over 12 percent during the years 1993-1997 (Brakman et. al., 2006). The development of the country has boomed and the growth rate is continuously increasing at a rate that economic history has never seen before. This clearly distinguishes China from other developing economies.

According to the study done by (Agrawal, 2000) on economic impact of Foreign Direct Investment in South Asia by undertaking time-series, cross-section analysis of panel data from five South Asian countries; India, Pakistan, Bangladesh, Sri Lanka and Nepal, that there exist complementarily and linkage effects between foreign and national investment. Further he argues that, the impact of FDI inflows on GDP growth rate is negative prior to 1980, mildly positive for early eighties and strongly positive over the late eighties and early nineties. Most South Asian countries followed the import substitution policies and had high import tariffs in the 1960s and 1970s. These policies gradually changed over the 1980s, and by the early 1990s, most countries had largely abandoned the import substitution strategy in favour of more open international trade and generally, market oriented policies (Agrawal, 2000). Carkovic and Levine (2002) also concluded in their econometric study on FDI and GDP growth that the exogenous component of FDI does not exert a robust, independent influence on growth. However, no consensus has yet been reached on the steady state as well as dynamic effects of FDI on growth. While some studies argue that the impact of FDI on growth is highly heterogeneous across countries with relatively open economies showing statistically significant results, the other studies maintain that the direction of causality between the two variables depends on the recipient country’s trade regime. However, most studies don’t pay any serious attention to the possibility of a bi-directional link between the two variables in reference. Renewed research interest in FDI stems from the change of perspectives among policy makers from “hostility” to “conscious encouragement”, especially among developing countries. FDI had been seen as “parasitic” and retarding the development of domestic industries for export promotion until recently. However, (Bende-Nabende and Ford, 1998) submit that the wide externalities in respect of technology transfer, the development of human capital and the opening up of the economy to international forces, among other factors, have served to change the former image.

Caves (2006) observed that the rationale for increased efforts to attract more FDI stems from the belief that FDI has several positive effects. Among these are productivity gains, technology transfers, introduction of new processes, managerial skills and know-how in the domestic market, employee training, international production networks, and access to markets. Borensztein et al. (2008) see FDI as an important vehicle for the transfer of technology, contributing to growth in larger measure than domestic investment. Findlay (2008) postulates that FDI increases the rate of technical progress in the host country through a “contagion effect” from the more advanced technology, management practices, etc., used by foreign firms. On the basis of these assertions governments have often provided special incentives to foreign firms to set up companies in their countries. Carkovic and Levine (2002) noted that the economic rationale for offering special incentives to attract FDI frequently derives from the belief that foreign investment produces externalities in the form of technology transfers and spillovers. Curiously, the empirical evidence of these benefits both at the firm level and at the national level remains ambiguous. De Gregorio (2003), while contributing to the debate on the importance of FDI, notes that FDI may allow a country to bring in technologies and knowledge that are not readily available to domestic investors, and in this way increases productivity growth throughout the economy. FDI may also bring in expertise that the country does not possess, and foreign investors may have access to global markets. In fact, he found that increasing aggregate investment by 1 percentage point of GDP increased economic growth of Latin American countries by 0.1% to 0.2% a year, but increasing FDI by the same amount increased growth by approximately 0.6% a year during the period 1950–1985, thus indicating that FDI is three times more efficient than domestic investment.

A lot of research interest has been shown on the relationship between FDI and economic growth, although most of such work is not situated in Africa. The focus of the research work on FDI and economic growth can be broadly classified into two. First, FDI is considered to have direct impact on trade through which the growth process is assured (Markussen and Vernables, 1998). Second, FDI is assumed to augment domestic capital thereby stimulating the productivity of domestic investments (Borensztein et al., 2008; Driffield, 2011). These two arguments are in conformity with endogenous growth theories (Romer, 1990) and cross country models on industrialization (Chenery et al., 1986) in which both the quantity and quality of factors of production as well as the transformation of the production processes are ingredients in developing a competitive advantage.

**2.2.2 INDUSTRIAL PATTERNS OF INWARD FDI**

Due to a lack of comparable data at the industry level, empirical research on the link between FDI and development has largely remained at the macro level, since comparable FDI data across countries are best available at this level. More recently, firm-level datasets have been released and, as a consequence, the number of studies using micro data has grown rapidly. However, in contrast to the macro-level analysis, which often takes a global perspective and analyses large cross-country data sets (in the cross-section dimension as well as in the panel dimension), many firm-level studies are constrained to one country or a homogenous group of countries (like the EU) due to issues of dataavailability and comparability. In order to get a good picture of the link between FDI and growth of individual industries, we combined several sources in the collection of our data base. Indicators like output, employment, gross fixed capital formation and wages are taken from the UNIDO Industrial Statistics Database 2003. Data for CEECs were taken from the wig Industrial Database 2004. Trade data were taken from the UN COMTRADE database. FDI data were collected from different sources: Data for OECD members dating back to 1980 are available from OECD for seven categories: food; textiles and wood; petroleum, plastics, rubber and chemicals; metal and mechanical products; office machinery; transport equipment; other manufacturing industries. The mineral and leather industries are not allocated in this scheme and is thus included in other manufacturing. In addition, a remainder category exists which we label “NA” (not allocated) and which picks up statistical discrepancies among other things. FDI data for nine Central and Eastern European countries (the new members states plus Croatia) are taken from the wig FDI Database (Hunya and Schwarzhappel, 2005), which reports the data at the NACE, Revisions 1, 2-digit level. Again industries were aggregated to match the OECD grouping. Finally, FDI data for Asian Countries are taken from UNCTAD’s World Investment Directory Volume VII (2000). More recent data for ASEAN members were available from the ASEAN Secretariat. The latter data refer to approved investment projects with foreign interest on total project cost basis. Where available, these data were compared to the figures reported by UNCTAD for FDI and they were found to match closely. In general, we used FDI stock data. In cases where only flow data was available, the PIM method was used to calculate stock data in form of cumulated dollar flows.

Additional FDI data for Taiwan and South Korea was obtained from Timmer (2003) and the Investment Commission (MOEA, 1993). In total, our data set contains more than 3000 observations for 28 to 35 countries, eight industries and 14 years (1987-2000). The data set is highly unbalanced, the number of countries varies over time, with data for 28 countries over the years 1987 to 1997 and data for 35 countries over the years 1998 to 2000. The ratio of inward FDI stock to output varies along all dimensions, across industries, years and countries. For the complete sample, the FDI to output ratio ranges from far less than 1% in the textiles and wood industry in Japan to more than 100% in the industry group comprising fuel, rubber, plastics and chemicals in Indonesia.

**2.2.3 THE IMPACT OF FDI ON OUTPUT GROWTH**

The results for the basic model show that a significant effect from FDI is seen in the food industry. This can be explained by the importance of marketing, brand names and the like for this industry. In two more industries the impact from FDI on output growth is significant: first in textiles and wood and second in the group containing the petroleum, chemicals, plastics and rubber industry (henceforth called PETCHEM). The result for textiles/wood is surprising. Since the industry category PETCHEM includes among others pharmaceuticals a strong effect from FDI can be expected. However, one would also have expected FDI in the electrical machinery industry to play a role for output growth. Still, it appears that the effect of FDI on output growth is not unique across industries. The effect from FDI seems to matter more in lower-tech, resource intensive industries according to these first results. Next, we interact FDI with investment, since it is often pointed out that a sufficient level of investment is important to bring out the positive effects of FDI. High investment implies newer vintages of the capital stock and as a result the structure of the capital stock is more suited to absorb new technologies. Thus, FDI in combination with high investment may result in highly favourable conditions for subsequent output growth. Conversely, the role for FDI may be severely limited when it is not accompanied by sufficient investment in general. This idea is captured by a multiplicative term of FDI growth and the investment share in our specification. The coefficient on the interaction term is expected to be positive. We further relate FDI with openness on the export side because the two are often seen as complements and again, FDI may have a qualitatively different impact in export-oriented industries as compared to domestic-market oriented industries. The sign on this interaction term is in principle ambiguous and partly related to the motive for FDI. Labour- or resource-seeking FDI is clearly associated with high exports, thus if this type of FDI promotes growth, the coefficient on the interaction term should be positive. However, such forms of FDI may be detrimental for the host country, as in the Nigerian example (Akinlo, 2004). In this case the coefficient would be negative. In the case of market seeking FDI no clear relationship between FDI and exports is expected in the first place (i.e. they may be complementary or substitutes), hence no clear predictions can be made about the sign of the coefficient on the interaction term.

The interactions with investment and openness both change the results greatly. It appears that a positive growth impact from FDI arises only in connection with high investment levels in almost all industries. The purely exogenous effect from FDI alone is mostly negative. With the interaction terms, a significant effect from FDI arises also in the transport industry. In other words, FDI leads to increased output growth only in the presence of high investment shares. Turning to the interaction with openness of an industry in some detail, the only industry with an additional significant impact from FDI alone is the PETCHEM industry which is a special industry group. It would be highly desirable to have detailed information on each individual industry contained in this group, since petroleum extraction is not only very capital intensive, but also very closely tied to endowments and thus not relevant for every country in the sample. Chemicals on the other hand cover a very wide spectrum of economic activities ranging from low-skill, resource intensive production to high-skill, technology intensive activities (such as pharmaceuticals). However, for the present sample, covering a wide range of countries, any further disaggregation was not possible. Again FDI in the electrical machinery industry, comprising activities such as the manufacture of computers and information and communication equipment, show no significant effect on output growth. Actually, it is surprising that for none of the three variables - FDI, investment and exports – a significantly positive coefficient was observed in this industry. We interpreted this finding as follows: International knowledge and technology spillovers (through FDI and/or trade) are either too small or too difficult to be absorbed in this high-tech and high-skill industry. In contrast, the medium skill intensive transport industry seems to be especially conducive for significant and positive spillovers from FDI. The coefficients on all three variables – FDI, investment, and openness - are often significant in less skill intensive industries, i.e. transport equipment. This specific result reflects the special importance that the transport sector in general and in particular outsourcing and international fragmentation in this sector receive in catching-up countries, especially in the OECD members among them (like Mexico, Spain, etc.). The same holds true for food and textiles. The specifications including the interaction terms indicate that FDI on its own does not show significant effects, it needs to be accompanied by something else in order to have statistically significant effects in almost all industries apart from PETCHEM. The question now arises what this “something else” is. In other words, it is not clear from our analysis whether the impact from FDI is tied to the level of investment in the industry, to the openness of the industry and how much other factors such as stage of development and human capital add to this link.

Given the importance attached to the stage of development as a determinant of the absorptive capacity of a country in the literature, we will now focus more on the role of absorptive capacity. we look at the interdependencies between the stage of development (as a more general determinant of absorptive capacity than human capital) and the two other controls, investment and openness. Since a three-way interaction would not lead to any meaningful interpretation of the coefficients, we divided our sample into two broad groups which can roughly be associated with differing stages of development. The first group contains advanced OECD member countries, while all other countries are classified as catching-up countries and subsumed in the second group (see Appendix Table A1 for a listing of countries and their grouping). These two groups of countries are relatively homogenous in terms of schooling, initial and current GDP.

**2.2.4 THE POTENTIAL OF GREEN FDI**

The scale of FDI‘s contribution to financing EGS sectors investment and transferring environmentally-friendly technology and practices has so far received less attention than, for example, ODA or trade. Yet, levels of FDI greatly outstrip the level of ODA in many countries. FDI also has the potential to contribute directly to transfer of know-how, whereas trade does so indirectly through embedded technologies. The Rio Earth Summit of 1992 asked that industrialized nations make an additional USD 125 billion available to developing nations to assist them on a path to sustainable development (Dauvergne 2008). While ODA is an important avenue for promoting development in general, and environmental sustainability in particular, its magnitude is limited by pressures on government budgets in donor nations and absorptive capacity in host countries. OECD estimates that ODA in support of climate change mitigation from members of the Development Assistance Committee (DAC) rose from USD 3.8 billion in 2007 - i.e. some 4% of their ODA (OECD 2009a) – to USD 8.5 billion in 2008 (8% of ODA) and above USD 9 billion in 2009. In 2007-2008, ODA from DAC member countries focused on environmental sustainability in general averaged USD 13 billion. In the last two decades, global FDI has increased dramatically relative to ODA. Although developing countries‘ share of global inward FDI has not grown , absolute levels of FDI going to developing countries have increased from USD 43 billion in 1990 to USD 621 billion in 2008 (OECD, 2010f). According to Corfee-Morlot et al (2009), considering ―mitigation-relevant industries that contribute most to global warming and other pollution (agriculture, forestry, mining, manufacturing, energy, transport and construction), FDI flows greatly exceed ODA and export credits specifically targeted at these industries. Nevertheless, ODA remains an important source of development capital and is a complement rather than a substitute for FDI, for 3 reasons. ODA was greater than FDI for 55 of the world‘s 70 poorest nations in the late 1990s; for 42 of those countries, ODA flows were double FDI flows (Zarksy and Gallagher, 2003). Foreign aid serves to develop local infrastructure, a pre-requisite for future FDI (Blaise, 2005). FDI performs at higher environmental standards in developing countries with strong environmental institutions, and ODA is an important funding source for strengthening environmental enforcement capability (OECD, 2002).

* + 1. **THE DETERMINANTS OF THE GREENING EFFECTS OF FDI**

Generally, strong environmental regulation and enforcement have been shown to be key drivers for firms to acquire environmental technologies and green their operations. Johnstone et al. (2007), for instance, finds that perceived stringency of the policy regime is the most significant influence on environmental performance of firms, based on a representative sample of 4000 manufacturing facilities. When it comes to foreign investment, the stringency of home country environmental regulation has also proved to have a significant influence on the greening capacity of FDI. In a context where multinationals serve markets with different environmental standards, it may be costly to design products to different standards across markets. Export-oriented FDI intended for markets with more stringent environmental regulations will tend to satisfy higher environmental standards. That way, standards tend to diffuse to countries with less stringent environmental regulation (Zarsky and Gallagher 2008). A number of statistical studies have examined the influence of environmental regulation on firm location choice, to test the significance of the pollution haven hypothesis (i.e. FDI seeks locations with weak regulations). While they cannot completely reject the hypothesis that increased regulation may, in some specific instances, shift the location of production, most studies have found little support for widespread, systematic pollution haven effects. For Neumayer (2001), the evidence for pollution havens is ―relatively weak at best and inconclusive or even negative at worst. Eskeland and Harrison (2003) found that foreign investment does not flow disproportionately into highly emitting industries.

According to OECD (1999b), while there are site- and industry-specific examples of pollution haven effects, there ―does not appear to be evidence corroborating the pollution haven hypothesis. However, Henna (2010) finds that the U.S. Clean Air Act Amendments have led to a small increase in U.S. multinationals foreign investment, consistent with the pollution-haven hypothesis. In an empirical reexamination of FDI flows between 27 source OECD countries and 99 host countries over the period 2001- 2007, OECD (2011b) finds that relatively lax environmental standards in the host country has a statistically significant positive effect on incoming FDI flows. This effect tends to exhibit an inverse U-shape, meaning that below a certain level of environmental stringency, the country loses its attractiveness as an FDI location. Overall, even when some support for the pollution haven hypothesis is found, the effects are usually described as small (Levinson 2009, Henna 2010, and OECD 2011). In addition to the impact of regulation, a number of governments have chosen to directly encourage green FDI by providing specific investment incentives, including subsidies. As an example, the German government both provides direct subsidies for the construction of renewable energy plants and requires power companies to pay a fixed rate to third parties which feed power back into the grid, making location in Germany attractive to foreign firms (Boston, 2009). Bakker (2009) identifies several major categories of tax incentives and provides a detailed compendium of policies for thirteen countries. Beyond the stringency of regulation and the existence of specific green investment incentives, investors regard an unpredictable and opaque regulatory framework as an additional risk. OECD (2010b) highlights the cost associated with frequently changing policy conditions, including the decrease in innovation in environmental technologies associated with uncertain environmental policies. The evidence suggests that foreign investors (as investors in general) favour ―transparency, accountability and predictability in the design and implementation of investment and environmental policies and regulations‖ (OECD 1999). The survey findings in OECD (2010) support the view that foreign investors favour predictable and transparent regulations regarding GHG emissions rather than the current fragmentation of regulation, especially for those companies that are at the forefront of climate-change-related innovation. Reciprocally, lack of transparency or the perception of arbitrary administrative decisions (including in the application of environmental regulations) have deterred environmentally friendly FDI in a number of countries, including in Russia (OECD 2008a, OECD 2011a).

In conclusion, FDI has the potential to contribute to the green growth objectives of countries as a source of much needed financing and a vector of know-how transfer between economies. However, the magnitude of this contribution is largely unknown owing to the lack of a common understanding of how to define and measure ―green FDI. There is nevertheless growing interest among countries in assessing the contributions of green activities to output, employment, and trade and in quantifying and monitoring countries‘ efforts to promote green growth, as notably recently illustrated by the OECD Green growth strategy. Such analysis requires a definition of green activities and the development of related indicators.

Defining ―green is not a simple task. As OECD (2010) notes, EGS defy a simple statistical categorization, and the available estimates differ greatly and are based on inconsistent concepts.

Despite the difficulty, the environmental dimension has been part of policy discussions on ODA for decades, and statistics on aid to environment have been collected since the 1980s. Similarly, efforts to define trade in EGS also date back to the 1990‘s. Lessons can be learnt from this experience. The task is difficult for several reasons. First, many goods and services have multiple uses, some of which are green and other not (e.g. test tubes, pumps). In addition, one firm may produce a variety of products, only some of which are green. In assessing the U.S. green industry, Becker and Shadbegian (2009) defines environmental product manufacturers as firms that had produced an environmental good within the last year. Most importantly, particularly for FDI, green economic activity is often not associated so much with a particular good or service, but rather with a process or technology, which is very difficult to apprehend statistically. There is an important greening role for FDI in sectors and industries that are not environmental by nature but where the potential for pollution abatement is important. The latter dimension would not be captured if the definition was limited to investment in EGS. This leads below to a two-part definition of green FDI to cover both FDI in green industries and services and FDI in environmental processes.

* + 1. **FOREIGN DIRECT INVESTMENT’S IMPLICATIONS FOR THE**

**ENVIRONMENT AND CLIMATE GOALS**

Recognition of the serious threats posed by global warming and environmental degradation has elevated the issue of how to promote ―green growth to the top of the policy agenda at OECD and elsewhere (OECD 2009a, OECD 2010d). Green growth is defined by the OECD as the pursuit of economic growth and development, while preventing costly environmental degradation, climate change, biodiversity loss and unsustainable natural resource use.1 In particular, a key issue is how to scale up the financing and foster the dissemination of environmentally-sound technology and practices in developing countries, which host vital ecosystems and account for a rising share of global emissions of greenhouse gases (GHG) and other pollutants, yet may have limited means for financing environmental preservation and pollution mitigation. The Clean Development Mechanism (CDM) that grew out of the Kyoto Protocol is an example of a global initiative to promote green growth that involves developing countries. Much attention has also been focused on how trade liberalization in ―green goods can contribute to green growth (OECD 2005). Liberalization of trade in environmental goods and services (EGS) has been accepted as a goal of the Doha round of trade negotiations and highlighted in the Interim Report of the OECD Green Growth Strategy (OECD, 2010) as important. Until recently, however, relatively little attention has been paid to the role of FDI as a contributor to green growth. FDI can nevertheless potentially play a very important role for two reasons. First, the scale of FDI and its significant growth over the last decades make it a crucial source of financing. Looking at climate-change relevant financial flows from developed to developing countries, Buchner, Brown, Corfee-Morlot (2011) note that ―FDI is the largest source of financing across all public and private sources. Also, whereas trade has largely indirect effects, FDI has the potential to transfer environmentally-friendly industries, technology and practices that directly contribute to environmental progress.

Although green technology transfer can occur between any two countries, it is of particular relevance for dissemination of technology to developing countries. The technical know-how for controlling pollution resides primarily in firms in more developed countries, and this knowledge can be disseminated to less-developed countries through FDI (Popp 2009) – both to affiliates and to domestic suppliers and customers of the multinational enterprises. One explanation for the limited attention to the possible contribution of FDI is the lack of an operational definition of green FDI. This paper identifies a number of issues that make the task of defining green FDI difficult. Many goods and services have multiple uses – some of which are green and others not –, and firms may also produce a variety of products, only some of which are green. Most importantly, green economic activity is often not associated so much with a particular good or service, but rather with a process or technology, which is very difficult to apprehend statistically. Finally, the current industry-level reporting of national FDI statistics does not match up with existing efforts to define and classify ―green. The need to better define and measure the scale of FDI in support of green policy goals is nevertheless steadily growing. The growing interest among countries in assessing the contributions of green activities to output, employment, and trade and in quantifying and monitoring countries‘efforts to promote green growth is illustrated by recent efforts by OECD countries to develop a green growth strategy, with corresponding monitoring indicators as a key pillar. More specifically, tracking trends and enhancing accountability and transparency of financial flows have been the focus of recent Conferences of the Parties of the United Nations Framework Convention on Climate Change (UNFCCC), as necessary complements to the ambitious emission reduction targets, actions and financial commitments taken by countries as part of the Copenhagen Accord and Cancun Decisions.

Discussions within the climate change policy community increasingly focus on the system to measure, report and verify (MRV) the financial flows that can help developed countries meet their collective commitment to provide new and additional funding to developing countries, including the potential contribution of private finance (see the recent work of the Climate Change Expert Group). Similarly, among the decisions taken by the Conference of the Parties to the Convention on Biological Diversity to achieve the "Aichi Biodiversity Targets", one relates to a strategy for resource mobilization which relies on various funding sources, including from the private sector. In this general context, improving the understanding of what can be defined as a green investment and strengthening the statistical foundation for measurement would help policy makers to better track the scale and trends of financial flows in support of green growth policy goals. Short of directly controlling the allocation of private investment flows, governments would then be in a better position to assess the adequacy and effectiveness of their policies in providing a conducive framework for green investment and to evaluate the leverage effect of public funds to incentivize this type of investment. Against this backdrop, this paper was developed at the request of the Working Party of the OECD Investment Committee at its meeting of March 2010 to initiate work on defining and measuring green FDI. It is an exploratory study summarizing existing work by OECD and others, investigating the practicability of various possible definitions of green FDI, and identifying associated investment policy restrictions. It is meant to review the limited existing evidence on green FDI in order to trigger discussions and further work on this issue. In this perspective, Part II of the paper provides a brief overview of the state of knowledge of the environmental effects of FDI in the context of the broader international efforts to promote green growth. Part III addresses the definition of green FDI and proposes a two-part definition:

1) FDI in environmental goods and services (EGS); and

2) FDI in environmental-damage mitigation processes, i.e. use of cleaner and/or more energy-efficient technologies. Reviews the existing data on green FDI and attempts to evaluate the magnitude of the two parts of the proposed definition and associated restrictions of the literature on the statistical and qualitative evidence of the impact of FDI on the environment.

**2.2.7 UNDERSTANDING THE CONTRIBUTIONS OF FDI TO THE ENVIRONMENT**

As a category of investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy in an enterprise in another country, FDI provides a means for creating direct, stable and long-lasting links between economies. In particular, international investment constitutes a vital source of private financing and a vector of know-how transfer between economies. In the absence of systematic data on the level and trends of FDI that contributes to green growth objectives, analysis of the environmental effects of FDI have mainly been based on case studies. Part II provides a brief overview of this available evidence (more detailed discussions of the literature review can be found in the Appendix) and draws parallels with other international flows – aid and trade. This context is important to understand the potential for ―green‖ investment. It also provides useful information that serves as a basis for some of the assumptions made later in the paper to develop rough estimates of ―green FDI.

**2.3 CONCEPT OF SMALL AND MEDIUM ENTERPRISES (SMEs)**

Globally, there is no common or generally acceptable definition of small and medium Enterprises. There has been no universally accepted definition of small and medium Enterprises (SMEs) All countries of the world defined their definition differently and these definitions vary from country to country but the meeting point has always been the characteristics of the definition with the number of employees, capital size, turnover and legal requirement or a combination of these features. In recent years, as part of the economic reforms in Nigeria, these has been a switch of emphasis from the grandiose capital intensive, large scale industrial projects to small/medium scale enterprises with immense potentials for developing domestic capacity for rapid substantial industrial development (Dasonayaka, 2009). Determining the scale of operations and structure of small and medium scale enterprises is crucial. Among the notable indicators are independent management (independent of any other party, except from the owners) mostly dominated by sale proprietorships, partnerships and private limited company. But Nigerians favor “one man” business for lack of trust. Most small/medium scale enterprises are located in the interiors of the nation. Flexibility of administration is another important feature of small/medium scale enterprise. This has greatly enhanced their productivity and profitability because administrative bottlenecks are totally absent. Adaptability to customers needs enhances competitiveness (Olatunji, 2000; Aremu and Adeyemi, 2011). Other considerations include organizational manpower, limit on capital investment, annual turnover, management structure, as well as the assessment of size of particular enterprises. Olatunji, (1995) and Safriyu, (2012) explains the relativity of such descriptions.

CHAPTER 351 (1) of CAMA 1990 describes the small company as “a private company having a share capital; the amount of its turnover for the year in question should be a maximum of N2 million, or such amount as may be fixed by the commission; the net assets value is not more than N1 million; none of its members is alien, government or government corporation; the directors should hold at least 5% of its equity shares capital. The National Economic Reconstruction Fund (1989) defined small enterprises are those with fixed assets other than land but inclusive of the cost new investment not exceeding N10 million. The central bank of Nigeria (2014), defined a small scale enterprises “as one whose capital does not exceed N5 million (including land and working capital) or whose turnover is not more than N25 million annually.

In the bid to increase its share of world’s industrial production (about 25%) by the year 2000 and (about 40%) by the year 2010 as recent world industrial statistics show, developing economies are increasingly focusing small and medium scale businesses (Okafor, 1999; Akwaese, 1987). It has been discovered that lots of small and medium scale enterprises shut down before they can achieve their goals a result of poor management arising from inadequate, weak and undependable accounting and financial information (Olatunji, 2000; Safriyu, 2012). Profitability is the primary goal of all business ventures, without profitability the business will not survive in the long run. Profitability is measured with an income statement (or profit and loss statement). This is essentially a listing of income and expenses during a period of time (Usually a year) for the entire business. Profitability can be interpreted as a ratio, which expresses the rate of the profit amount benchmarked against some point of reference (%). As decision tools, profitability ratios can be used to assess the financial health of the business (IIdiko and Tamas, 2009). Profitability can be defined as either accounting profit or economic profit. Accounting profit (or net income) is the difference between the revenues and expenses of the company in a given period presented by the income statement. Accounting profit can give a view of the viability of the business. Although one year of losses may not permanently harm the business, consecutive years of losses (or net income insufficient to cover living expenditure) may jeopardize the viability of a business. The concept of Economic profit based on the following logical consequences: in addition to deducting business expenses, opportunity costs are also deducted when computing economic profit. Profitability is one of the most important objectives of financial management because one goal of financial management is to maximize the owner’s wealth (McMahon, 1995). Growth, profitability, cash flow for short-term are important for the survival of enterprises, while all these may at times be critical goals for organizations, the drive for profitability may be most important in smaller owner – operated firms. Three most important ratios of profitability are return on sales (ROS) return on assets (ROA) and return on equity (ROE).

Return on sales: is computed by dividing profits by total operating revenue.

Return on assets: is the ratio of income to average total assets

Return on equity: is defined as net income divided by average stockholders’ equity.

**2.4 ROLE OF THE SME SUB-SECTOR IN THE ECONOMY**

A review of historical experience of economic growth and development in various countries is replete with success stories of the salutary effect and positive impact and contributions of SMEs in industrial developments, technological innovations and export promotion (Anthony, 2005). The Industrial Revolution of 1760-1850 represents a good testimony of the inherent innovative spirit of SMEs, which is increasingly challenged in the present century particularly after winds of economic change cum technological innovations and industrial liberalisation have swept various economies of the world. These challenges notwithstanding, SMEs have remained as much important and relevant economic catalysts in industrialized countries as they are in the developing world. In many developed countries, more than 90% of all enterprises are within the SME sub-sector while 80% of the total industrial labour force in Japan, 50% in Germany and 46% in USA small businesses contribute nearly 39% of the country’s national income. Comparable figures in many other developed countries are even higher. Studies have indicated that the sustenance of interest in SMEs in the developed economies is due to technological as well as social reasons more so as those economies are currently driven by knowledge, skill and technology as opposed to material and energy-intensiveness. This is also as a result of a paradigm shift to new processes of manufacturing that are based on flexible systems and processes of production driven by sophisticated software on robust hardware platforms. The social reasons include the need for generation of more employment and poverty reduction through self-employment ventures and decentralised work centres. Though it is difficult to obtain exact and comparable figures on SMEs for developing countries, it is obvious that the role of SMEs is equally important in the economies of developing and developed countries alike. Small domestic markets, inadequate infrastructure, high transportation costs, shortage of capital and foreign exchange, weak currency, lack of access to technology and foreign markets as well as surplus low quality labour are the general characteristics of developing countries and hence are susceptible to being trapped in a technology divide and investment gap. Foreign direct investment and the acquisition of technology are indispensable elements for economic transformation these countries require to achieve sustainable economic growth and poverty alleviation.

Although SMEs in developing countries and countries with economies in transition are regarded as the engine of economic growth, they face enormous challenges in attracting investors and accessing modern technology. Other barriers which SMEs in developing economies face include the lack of effective investment and technology promotion policies, inappropriate legal and regulatory frameworks, inadequate capabilities of investment promotion and technology support institutions and the lack of access to potential investors and sources of new technology, limited technical and managerial skills, difficulty in obtaining financing and insufficient knowledge about laws and regulations. Others are inability to achieve economies of scale through integration or linkages, problems of size and relative isolation such as the difficulties in entering into national and global value chains driven by large multinational corporations. All told, a competitive and resilient industrial sector relies on an appropriate mix of large, medium and small enterprises for optimum performance. SMEs certainly play a major role in creating employment income and value added, accounting for up to ninety percent (90%) of manufacturing enterprises and between forty (40%) to eighty percent (80%) of manufacturing employment. In developing countries, the role of SMEs is even more important since SMEs often offer the only realistic prospects for creating additional employment and thus reducing poverty and enhancing the quality of lives. A healthy SME sub-sector is a sine qua non for inclusive and socially sustainable development even though institutions that provide support services where available are often limited in capacity and coverage in developing economies. Exports by SMEs usually range between 30 and 50 percent of total industrial exports in developed and developing countries. In tune with the latest developments in the world economy and the attendant globalization effects, the role of SMEs going forward is bound to be even greater and more pervasive, with a demonstrable impact on the emerging world trading order.

**2.5 SIGNIFICANCE OF THE SME SUB-SECTOR IN THE NIGERIAN ECONOMY**

The SMEs operating in Nigeria are not shielded or immune from the typical problems and constraints of SMEs in other developed countries. Almost every country assists her SMEs largely because of the crucial inherent role they play in the economic growth and development. The assistance is usually in the form of facilities and supportive services than on protection and subsidies. Other services provided by some governments include commercial finance, venture capital, information training and retraining, Research and Development (R&D) support, infrastructure and tax incentives. Some of these facilities are provided through local authorities and industry associations at times with the involvement of non-governmental organisations (NGOs). In recognition of the crucial roles played by SMEs with respect to economic growth and development, succeeding governments in Nigeria had various initiatives aimed at promoting the cause of SMEs in the country. The most tangible among the different incentive packages that varied with almost every change in government leadership was the focus on enhancing the financial opportunities for the SMEs. Some of the support institutions and opportunities created by the government to enable SMEs access funding in the past 30 years include:

1. Small Scale Industries Credit Scheme (SSICS) 1971

2. Nigerian Bank for Commerce and Industries (NBCI) 1973

3. Nigerian Industrial Development Bank (NIDB) 1964

4. SME Apex Unit of Central Bank (1989)

5. National Economic Reconstruction Fund (NERFUND) 1989

6. The African Development Bank/ Export Stimulation Loan (ADB/ESL) 1989

7. Nigerian Export Import Bank (NEXIM)

8. National Directorate of Employment (NDE)

9. Industrial Development Co-ordinating Centre (IDDC)

10.Community Banks

11.People’s Bank

12.Family Economic Advancement Programme (FEAP)

13.State Ministry of Industry SME Schemes

14.Small and Medium Industries Equity Investment Scheme (SMIEIS) 15.Bank of Industry (BOI)

16.Small and Medium Enterprises Developing Agency of Nigeria (SMEDAN)

17.Credit Guarantee Scheme for SMEs (underway).

The above well-intentioned institutions designed to provide succour to SMEs notwithstanding the sub-sector is yet to find its bearing in the murky waters of Nigeria’s business environment. These account for the government’s recent introduction of the last three support schemes i.e. BOI, SMEDAN and the Credit Guarantee Scheme, discussions on which have reached an advanced stage and the Bankers Committee’s decision to institutionalise SMIEIS. It is expected that the Credit Guarantee Scheme would enhance and facilitate easy access to credits by the SMEs while SMIEIS would boost access to equity financing while SMEDAN would provide other needed non-financial support and leverage for the SMEs to thrive

**2.6 CONTRIBUTES IN LOCAL AND REGIONAL DEVELOPMENT**

Some small and medium scale enterprises compared with the large one, are more widely distributed in the country. They are important in local and regional development and in promoting a more decentralized pattern of industrial growth. This diffusion therefore helps in achieving regional economic balance. It further helps to achieve a decentralization of industrial structure and to distribute ownership of real wealth and economic power more widely in the Enugu state and Nigeria at large. Although majority of the small and medium scale business are concentrated in the unborn areas for obvious reasons, the few that are sited at the rural areas help in reducing rural –urban migration.

**Waste Utilisation:** The small and medium scale business helps in the reduction of waste in the economy. Thus, it does this in various ways. Many craftsmen use crap materials from small and medium firms not only as their raw materials but also for the manufacture of serviceable improvised tools and machinery for themselves and others.

**Encourages and Sustains Self-Reliance:** Small and medium scale business can be an aid to personal and national self-reliance. This is because they utilize their resources for the benefit of themselves and the nation as a whole. They employ labour intensive technology for productive purposes. Therefore, one of the important values of small and medium scale businesses is the great dependence on what is available and the readiness to make use of anything rather than sitting back to complain because there are other things they do not have. Furthermore, Ekpenyong (1989:72-75) citing the Nigerian’s third National Development plan (1975:80) summarized the role of small business in the development of Nigeria to include;

* Creation of employment
* Manpower training
* Fill in employment
* Introduction of big business
* Promotion of competition
* Aid to industrialization
* Catering for small demand.

Certainly, drawing from the review, it is quite evident that the relevance of small scale industries in the nation’s development is enormous.

**2.7 PERFORMANCE FACTORS OF SMALL AND MEDIUM SCALE ENTERPRISES**

The performance factors of SMEs include efficiency, effectiveness, productivity, profitability, solvency, leverage, activity and morale.

**Efficiency:** Simon (1997) explains efficiency as fitness or power to accomplish or success in accomplishing the purpose intended. Later, efficiency acquired a second meaning of the ratio of inputs to outputs, between effort and results, between expenditure and income and cost and the resulting pleasure (Ejiofor, 1987).

**Effectiveness:** To be effective literally means to have effect or to find the right things to do. When it is said that something is effective, it means that it has the defined effects or those that are intended in the design of the thing in question. However one SME is more effective than another if:

* It has more chances of survival than the other
* It meets its essential function or throughput than the other.
* It contributes more to the supra system than the other
* It’s more than, maximizes its benefits like profits subject to some constraints like taxes and other obligation than the other (Ejiofor, 1987).

**Productivity:** Productivity has been defined as the measure of how well resources are brought together in organization and utilized for accomplishment of a set of results. It is reaching the highest level of performance with the least expenditure of resource (Mali,1978). To operationalize productivity in SME the relation of total output to total input is very handy. The total output is sales revenue from all the products of the enterprise. Total input is the naira value of all the factors of production for that year which include land, labour, capital. This measure of productivity has the advantage that it aggregates the effectiveness of the use of the factors of production of the SME to produce goods and services. It draws attention to the fact that a good integration of resources, physical and human, will yield higher output shown by the result of total output/total input being greater than 1.

**Profitability:** Profit is the income or the difference between sales revenue and total cost (Glautier et al, 2000). The profitability of an enterprise is summarized in the valuation of that enterprise. Indeed, the basic objective of measurement of profitability is to provide a valuation of the enterprise which will be a critical assessment of the worth of investment. In effect the value of an enterprise may be stated as being the present values of its future stream (Glautier et al, 2000).

**Solvency:** Another performance variable apart from profitability is solvency. Solvency is the ability of an enterprise to meet its immediate financial obligations and thus avoid the possibility of insolvency (Glautier, et al, 1980).

**Leverage:** Leverage is a measure of how far the total capital of the enterprise is borne by long term debt. In operationlising the leverage of the SME, two ratios come on hand as follows:

* Gearing or leverage ratio which is long term debt as a fraction of long term debt plus share capital.
* Gearing or leverage ratio which is long term debt as a fraction of share capital. (Glautier, et al 1980).

**Activity:** Activity is defined as the use of resource by the enterprise. To operationalise activity of the SME, the following ratios are useful as follows:

* Inventory turnover or the ratio of sales over average inventory which is the rate at which an enterprise converts inventory into sales.
* Average debt collection period which is given by debtors divided by credit sale.

**2.8 CHALLENGES OF SMALL AND MEDIUM ENTERPRISES (SMEs)**

There has been gross under performance of the SMEs sub sectors in many countries of the world; especially the developing economies. This undermines SMEs contribution to the economic growth and development of those countries. FSS 2020 SMES sector report 2007 as cited in CBN Report (2011) examined the issue affecting SMEs in these countries to include: Unfriendly business environment, poor funding, and low management skills and poor access to modern technology. These factors seriously subdue the performance of SMEs activities and its contribution to economic growth and development in economies. Ikuyatum etal (2014) contended that anti export bias induced by import substitution strategies also discriminated against intensive SMEs, government regulation and tax authorities weighted more heavily on smaller firms in the shape of higher compliance cost, also constituted impediment to SMEs activities and economic growth and development in Nigeria (Tendler and Amorim 1996).

In a related development Survey Report on Micro, Small and Medium Enterprise in Nigeria MSMEs (2010) shows that other challenges confronting SMEs also include production technology, cost structure and financing, economic environment; such as venture capital, fluctuating value of currency etc, government policy and political consideration. It is when the above factors and variables are in a complex interaction that the success and failure of small and medium enterprises are determined in the economy.

In Nigeria many programmes were established by government to assist the smooth running of SMEs but expectation of the government intension was not achieved as argued by Ojo (2003) that all the SMEs assistance programmes have failed to promote the development of SMEs. Many a times, the finance provided have been misdirected, gone to wrong persons or found to be inadequate to impact on the expected development of the assisted firms. This idea was advocated by Tumkella (2003) as he affirms that all these programmes could not achieve their expected desires due largely to abuses, poor project evaluation and monitoring as well as moral hazards involved in using public funds for purpose of promoting private sector enterprises. Lack of proper records or lack of any records at all, dumping of foreign goods and over concentration of decision making on one (key) person, usually the owner.

**2.9 FOREIGN DIRECT INVESTMENT IN NIGERIA**

Basu and Srinivasan (2002) opined that steady expanding privatization programmes, in many countries have paved way for foreign investment in Africa. A significant share of privatization related FDI in large part in the Telecom and Mining sectors, in the 1990s were channeled to selected countries including Angola, Ghana, Mozambique, Nigeria and South Africa and there were significant differences across the region. Attracting direct foreign investments is at the top of the agenda of most crucial component of capital, technology, management and marketing enterprise, such resources usually have effect of extending the production capabilities of the recipient country.

According to Okomoh (2004), prior to her Independence from British Colonial rule, Nigeria played host to FDI like United Africa Company (UAC), which were involved in the purchase and export of palm oil, which was a major foreign exchange earner for the country. However, the country’s independence from Britain in 1960 changed a lot of things politically, socially and economically. At independence various economic policies were adopted to ensure the country survival. In the early 1970s, came the discovery of oil and soon major investments started coming into the country in order to tap the huge oil deposits in the country. By the 1980s the country had been reduced to a mono-income economy. Budgets were based on estimated revenue from the international sale of crude oil (Okomoh, 2004). As a matter of fact, Nigeria witnessed greater FDI inflows between 1990 and 2001. According to the World Bank (2003) the net FDI inflows as percentage of GDP in Nigeria was 2.1 and 2.7 in1990 and 2001 respectively. Unfortunately the phenomenal growth in FDI during the period did not translate to development as other indicators, especially poverty remained as high as 75% (Gaavson, 2007). According to the World Bank (2010), the volume of FDI in 2006, 2007 and 2008 were 8 billion, 5 billion and 3.64 billion US dollars respectively. Also it was also asserted that the amount of FDI inflow into Nigeria has reached 2.23 billion US dollars in 2004 (a 13% increase). This figure however, increased slightly to 9.44 billion US dollars in 2006 (Locomonitor.com)

The inflow of FDI into the countries of Asia, Latin America and Africa has certain negative impact. To Thomson (2001:27), FDI has led to the development of the export sector in ASEAN for which is highly import-dependent. The dependence of import for raw materials has limited the impact of massive development in these economies on exports is symptomatic of the poor linkage between foreign affiliate and local economy generally. Thomson (2001:27) predicted thus:

*Poor linkage reduces the scope of technology transfer through FDI which could assist in competition in labour intensive activities from China and Vietnam is one of the underlying structural problems…*

In Nigeria, there is no linkage between the operation of multinational oil companies and the local Industries. Worst still, the refineries in Nigeria for some time have been moribund and the Federal government had to depend on imports of petroleum products, hence the prices of the product have scared over the years. The same multinational oil companies have not considered it worthy of investing in the refining of petroleum product. Instead, Nigeria buys from foreign companies owned by the same multinational oil companies.

There also exists the problem of technological transfer. Transfer of technology is one of the rationales behind FDI. The most enduring potential benefits to developing countries from FDI according to Thomson (2001:28) are the transfer of technology promotes sustainable development by enhancing indigenous capabilities. It is therefore, saddened to note that indigenous capabilities are not developed to the extent that it will promote technological revolution Thomson (2001). Manfield and Remero (1980) posited that the parent firm’s only transfer technology to wholly owned subsidiaries in developing countries one-third faster, on average, than to join-venture in licenses. Nigeria is a case study in the oil industry where joint-venture agreement has been entered with the NNPC and foreign oil companies. No tangible level of transfer of technology/ have been seen to be done as the foreign oil, companies are the ones involved in the exploration and excavation of petroleum products. The activities of oil exploration have underdeveloped the Niger Delta area of Nigeria as a result of the environmental degradation. Peugeot Automobile Nigeria (PAN) has operated in Nigeria for a long time yet, there is no evidence or sign that any brand of vehicle have been designed and produced by Nigeria. What is obtainable is just assembling plants.

Rivera-Batiz (2005) asserted that FDI also weaken the domestic industries. He argued that foreign firms tend to over flood the host countries through dumping and stifling domestic production of similar products or items. The importation of cheap cloth fabrics has also destroyed the garment/textile industries in Nigeria. Similarly, Rivera-Batiz (2005) has maintained that multinational enterprises engage in predatory practices formal or informal collusion and political lobbying to reduce domestic competition, allowing them to capture monopoly or oligarchy rents. Tiger (1983) cited the case of Brazilian computer industry where the competitive behaviour of local subsidiaries of MNCs created barriers to entry for indigenous firms. In Nigeria, multinational like Siemens and Halliburton are known to have offered bribe to get government patronage in their investment drive.

Furthermore, Rivera-Batiz (2005) has observed that local enforcement protection legislation that is lax or weak in relation to foreign firms has led to disastrous consequences in many parts of the world. This is the case with Nigeria and most parts of Africa where environment degradation as a result of exploration and excavation has taken place. The Niger Delta is replete with the effects of environmental degradation as a result of activities of the foreign companies. The attendant effects are the loss of livelihood of the people and health problems that are prevalent in the area. Also, it is maintained that FDI leads to capital flight as the investor’s profits are not re-invested in the host economy.

**2.9.1 SUMMARY OF GAP IN LITERATURE**

To draw a nexus between Foreign Direct Investment and the development of SMEs in Enugu state in the period under study, it is pertinent to state that the concept of foreign direct investment and the development of SMEs has been a continuous debate among scholars. Buckley, (2002) stated that FDI enhanced capital accumulation. Schoors et al, (2002) believed that FDI is to improve efficiency of the locally owned firms (SMEs). Broadly speaking, the efficiency of firms in the host economy is supposed to be increased in direct and indirect ways. Though by the direct effect it meant that FDI will contribute to the productivity of the sector in which a foreign firm operates.

Amidst the tremendous benefit of FDI, some scholars are of the opinion that there are some negative effects of FDI to the development of SMEs. Calvo et al., (1996) opines that whenever capital inflows are large, they may have less desirable macroeconomic effects, such as “… rapid monetary expansion, inflationary pressures, real exchange rate appreciation and widening current account deficits”. They also warn that FDI movements tend to possess some cyclical components. In the case of developing countries, FDI may lead to “booms and busts in capital inflows. Most of the scholars asserted that openness to FDI contributes to economic growth in third world countries (Sachs and Warner, 1995; Morgan and Wright, 2002; Frankel and Romer, 1999; Utkulu and Ozedemir, 2014). It is true that it will lead to economic growth but economic growth will not lead to improvement of SMEs because economic growth is simply increase in GDP. It is economic development that will enhance the activities of local SMEs. In the same vein, Calvo et al. (1996) concluded that “FDI will enhance rapid monetary expansion, inflationary pressures, real exchange rate appreciation and widening current account deficits” in which at the long run will create a hostile business environment for the SMEs, as it will make it difficult for SMEs to have access to finances and zero competitiveness in the global market as most of the SMEs do not have the needed technology and technical know-how to compete with this multinationals in global market.

The effort of writers in extent literature reveals that the relationship between foreign direct investment and the development of SMEs in Enugu state, 2007-2017, has not been properly articulated. This forms the lacuna this study attempts to fill.

**CHAPTER THREE**

**THEORETICAL FRAMEWORK AND METHODOLOGY**

**3.0 THEORETICAL FRAMEWORK**

This study is predicated on New Growth Theory embedded in the Political Economy paradigm. New growth or Endogenous theory emerged in the 1990s to explain the poor performance of many less developed countries, which have implemented policies as prescribed in neoclassical thoughts. New growth theorists include; Romer (1986); Lucas (1988); Aghion and Howitt (1992).

The new growth theory promotes the role of government and public policies in complementary investments in human capital formation and the encouragement of foreign private investments in knowledge-intensive industries such as computer software and telecommunications (Meier 2000).

New growth theory focuses on the economic factors underlying technological progress as products of knowledge and innovation are often preceded by research and development (R&D in developing countries. This theory emphasizes the need to bring about economic development in developing countries using the instrumentality of policy intervention. Policy intervention is thus considered necessary to influence economic growth and development in the long term both in the public and private sectors of the economy.

**APPLICATION OF THE THEORY**

In the application of new growth theory as an explanatory framework which necessitates an understanding of the process in which FDI undermines SMEs development in Enugu state. Focus is on the several ways through which the government encourages foreign direct investment; formulate policies that inadvertently hamper the development of local firms (SMEs). Some scholars of this theory believe that, such policies often lead to the crowding out of domestic firms, rising unemployment related to the use of capital-intensive technology for production, and a marked loss of political sovereignty (Umah, 2007). It has also been argued that FDIs are more exploitative and imperialistic in nature, thus ensuring that the local firms (SMEs) of host country absolutely rely on the home country and her capital (Anyanwu, 1993).

Again, it is expedient to state that the indigenous compradoral class found in the Nigeria’s economic and political sectors has threatened the existence and success of local businesses by their activities using the instrumentality of the state through lobbying. This class of people, who import all sorts of commodities such as generators, petroleum products, shoes, clothes, rice etc, lobby the government which consequently formulates policies which are detrimental to SMEs for their selfish interests. Hence, conscious moves towards loss of political sovereignty to foreign investors.

Furthermore, the role of middlemen which also constitutes this class of people often lobbies the government to permit the inflow of foreign investment into the country. Some government policies even go as far as granting import waivers, which is known to be injurious to the economy because it deprives the economy the needed revenue for infrastructure development. Their further inducement of the government to enact policies in favour of foreign investors is usually to the detriment of the SMEs in the country. This however, gives credence to the existence and functionality of foreign direct investment as an instrument which undermines the development of small and medium scale enterprises in Enugu state and Nigeria at large.

More so, MNCs in their quest to have monopoly in domestic markets for profit maximization, often lobby the government in disregarding the provisions of the Local Content Policy. Local Content is defined as the quantum of composite value; either added to or created in the Nigerian economy through a deliberate utilization of Nigerian human resources, materials and services in the exploration, development, exploitation, transportation and sales of Nigerian crude oil and gas resources. However, such disregard leads to economic exploitation which directly or indirectly affects the development of SMEs in that sector.

This theory from its points of analysis stresses that, FDI precipitates the crowding out of SMEs in developing countries through policy formulations. The theory is of great belief that the economic involvement of developed countries in the affairs of developing nations like Nigeria (Enugu state) through FDI and multinational corporations has been the bane of SMEs development.

**3.1 RESEARCH DESIGN**

The researcher used descriptive research survey design in building up this project work. The choice of this research design was considered appropriate because of its advantages of identifying attributes of a large population from a group of individuals. The design was suitable for the study as the study sought to examine the efficacy of Foreign Direct Investment and the development of Small and Medium Enterprises in Enugu state.

* 1. **METHOD OF DATA COLLECTION**

In other to achieve its objectives, this study utilized the quantitative method of data collection based on the analysis of documents/materials. Secondary and primary sources of data were also used in sourcing data for this research work. Secondary sources of data refers to a set of data gathered or authored by another person, usually data from available data archives, either in the form of documents or survey results and code books. Asika, (1990) on the other hand opined that primary sources of data are self generated and consist of experimental designs, case study, survey data, focus , participant observation data etc (Burns and Grove, 2003:19).

Qualitative method of data collection was used in this study because it is used to obtain in-depth information and concept clarification as to facilitate instrument designs. Quantitative method is more useful when used to interpret, illuminate and extract valued information so as to draw inferences from the available evidence to reach conclusion. Obikeze cited in Nnabugwu (2006:372) argued that the advantage of qualitative method lies in the fact that it is able to gain access to organizational structures, bureaucratic discovery of unexpected phenomenon. Our secondary data was basically sourced from textbooks, internet, articles, journals, conference papers, institutional documents and also from the review of extent literature while our primary data was sourced from structured questionnaires of some selected SMEs.

* 1. **POPULATION OF THE STUDY**

Population of a study is a group of persons or aggregate items, things the researcher is interested in getting information for the study foreign direct investment and the development of small scale enterprise in Enugu state. 200 staff of selected SMEs in Enugu state was selected randomly by the researcher as the population of the study.

* 1. **SAMPLE AND SAMPLING PROCEDURE**

Sample is the set people or items which constitute part of a given population sampling. Due to large size of the target population, the researcher used the Taro Yamani formula to arrive at the sample population of the study.

n= N

1+N (e) 2

n= 200

1+200(0.05)2

= 200

1+200(0.0025)

= 200 200

1+0.5 = 1.5 = 133.

**3.5 INSTRUMENT FOR DATA COLLECTION**

The major research instrument used is the questionnaires. This was appropriately moderated. The secretaries were administered with the questionnaires to complete, with or without disclosing their identities. The questionnaire was designed to obtain sufficient and relevant information from the respondents. The primary data contained information extracted from the questionnaires in which the respondents were required to give specific answer to a question by ticking in front of an appropriate answer and administered the same on staff of the two organizations: The questionnaires contained structured questions which were divided into sections A and B.

* 1. **VALIDATION OF THE RESEARCH INSTRUMENT**

The questionnaire used as the research instrument was subjected to face its validation. This research instrument (questionnaire) adopted was adequately checked and validated by the supervisor his contributions and corrections were included into the final draft of the research instrument used.

* 1. **METHOD OF DATA ANALYSIS**

The data collected was not an end in itself but it served as a means to an end. The end being the use of the required data to understand the various situations it is with a view to making valuable recommendations and contributions. To this end, the data collected has to be analysis for any meaningful interpretation to come out with some results. It is for this reason that the following methods were adopted in the research project for the analysis of the data collected. For a comprehensive analysis of data collected, emphasis was laid on the use of absolute numbers frequencies of responses and percentages. Answers to the research questions were provided through the comparison of the percentage of workers response to each statement in the questionnaire related to any specified question being considered.

Frequency in this study refers to the arrangement of responses in order of magnitude or occurrence while percentage refers to the arrangements of the responses in order of their proportion. The simple percentage method is believed to be straight forward easy to interpret and understand method.

The researcher therefore chooses the simple percentage as the method to use.

The formula for percentage is shown as.

% = f/N x 100/1

Where f = frequency of respondents response

N = Total Number of response of the sample

100 = Consistency in the percentage of respondents for each item contained in questions.

**CHAPTER FOUR**

**PRESENTATION OF DATA AND ANALYSIS**

**4.0 INTRODUCTION**

Efforts will be made at this stage to present, analyze and interpret the data collected during the field survey. This presentation will be based on the responses from the completed questionnaires. The result of this exercise will be summarized in tabular forms for easy references and analysis. It will also show answers to questions relating to the research questions for this research study. The researcher employed simple percentage in the analysis.

**4.1 DATA ANALYSIS**

The data collected from the respondents were analyzed in tabular form with simple percentage for easy understanding. A total of 133 (one hundred and thirty three) questionnaires were distributed and 133 questionnaires were returned.

Question 1:

Gender distribution of the respondents

**TABLE I**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Gender distribution of the respondents** | | | | | |
| Response | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 77 | 57.9 | 57.9 | 57.9 |
| Female | 56 | 42.1 | 42.1 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

From the above table it shows that 57.9% of the respondents were male while 42.1% of the respondents were female.

Question 2:

The positions held by respondents

**TABLE II**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **The positions held by respondents** | | | | | |
| Response | | Frequency | Percent | Valid Percent | Cumulative Percent |
| **Valid** | Entrepreneurs | 37 | 27.8 | 27.8 | 27.8 |
| Senior staff | 50 | 37.6 | 37.6 | 65.4 |
| Managers | 23 | 17.3 | 17.3 | 82.7 |
| Junior staff | 23 | 17.3 | 17.3 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

|  |
| --- |
|  |

The above table shown that 37 respondents which represents 27.8% of the respondents are entrepreneurs, 50 respondents which represents 37.6 % are senior staff 23 respondents which represents 17.3% of the respondents are managers, while 23 respondents which represent 17.3% of the respondents are junior staff.

Research question 1:

Did FDI undermine the development of SMEs in Enugu state, 2007-2017?

**Table III**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Did FDI undermine the development of Small Medium Enterprises in Enugu state, 2007-2017?** | | | | | |
| Response | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Agreed | 28 | 21.1 | 21.1 | 21.1 |
| Strongly agreed | 23 | 17.3 | 17.3 | 38.4 |
| Disagreed | 31 | 23.3 | 23.3 | 61.7 |
| Strongly disagreed | 51 | 38.3 | 38.3 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

In the table above, the researcher asked the respondents; did FDI undermine the development of SMEs in Enugu state, 2007-2017? It can be seen that 28 respondents which represents 21.1% of the respondents agreed that FDI contributed to the development of SMEs in Enugu state within the study time frame by improving the efficiency of the locally owned firms (SMEs), 23 respondents which represents 17.3% of the respondents strongly agreed that FDI has contributed to the development of SMEs in Enugu state by facilitating technology transfer which increases the productive capacity of local SMEs in the state, 31 respondents which represents 23.3% of the respondents disagreed that FDI contributed to the development of SMEs in the state because the inflow of multinationals became a serious threat to the survival of SMEs in the state, while 51 respondents which represents 38.3% strongly disagreed on the basis that it rather contributed to the demise of SMEs in Enugu state.

The researcher therefore concludes that FDIs undermined the development of SMEs in Enugu state, 2007-2017.

Research question 2:

Did the Enugu state government provide an enabling environment for the development of SMEs in the state, 2007-2017?

**Table IV**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Did the Enugu state government provide an enabling environment for the development of SMEs in the state, 2007-2017?** | | | | | |
| Response | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Agreed | 55 | 41.4 | 41.4 | 41.4 |
| Strongly agreed | 34 | 25.6 | 25.6 | 66.9 |
| Disagreed | 21 | 15.8 | 15.8 | 82.7 |
| Strongly disagreed | 23 | 17.3 | 17.3 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

In the table above the researcher asked the respondents, Did the Enugu state government provide an enabling environment for the development of SMEs in the state between 2007-2017? It can be observed that 55 respondents which represents 41.4% of the respondents agreed the state government has invested a lot in skill acquisition and technical education so as to enhance the growth and subsequent development of SMEs in Enugu state, 34 respondents which represents 25.6% of the respondents strongly agreed to this fact, 21 respondents which represents 15.8% of the respondents disagreed to this fact, while 23 respondents which represents 17.3% of the respondents strongly disagreed.

The researcher therefore concludes that the Enugu state government has provided an enabling environment for SMEs to thrive in the state.

**TEST OF HYPOTHESES**

FDIs undermined the development of SMEs in Enugu state, 2007-2017.

**Table V**

|  |  |  |  |
| --- | --- | --- | --- |
| **FDIs undermined the development of SMEs in Enugu state, 2007-2017.** | | | |
| Response | Observed N | Expected N | Residual |
| Agreed | 40 | 33.3 | 6.7 |
| strongly agreed | 50 | 33.3 | 16.7 |
| Disagreed | 26 | 33.3 | -7.3 |
| strongly disagreed | 17 | 33.3 | -16.3 |
| Total | 133 |  |  |

|  |  |
| --- | --- |
| **Test Statistics** | |
|  | FDI undermined the development of SMEs in Enugu state, 2007-2017 |
| Chi-Square | 19.33a |
| Df | 3 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 33.3. | |

**Decision rule:**

There researcher therefore accept the hypothesis which states that FDI undermined the development of SMEs in Enugu state, 2007-2017 as the calculated value of 19.33 is greater than the critical value of 7.82.

**TEST OF HYPOTHESIS TWO**

Enugu state government provided an enabling environment for the development of SMEs in the state, 2007-2017.

Table VI

|  |  |  |  |
| --- | --- | --- | --- |
| **Enugu state government provided an enabling environment for the development of SMEs in the state, 2007-2017.** | | | |
| Response | Observed N | Expected N | Residual |
| Yes | 73 | 44.3 | 28.7 |
| No | 33 | 44.3 | -11.3 |
| Undecided | 27 | 44.3 | -17.3 |
| Total | 133 |  |  |

|  |  |
| --- | --- |
| **Test Statistics** | |
|  | **Enugu state government provided an enabling environment for the development of SMEs in the state, 2007-2017**. |
| Chi-Square | 57.3a |
| Df | 2 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 44.3. | |

**Decision rule:**

There researcher therefore accepted the hypothesis which states that Enugu state government has provided an enabling environment for the development of SMEs in the state 2007-2017, as the calculated value of 57.3 is greater than the critical value of 5.99.

**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATION**

**5.0 INTRODUCTION**

It is important to ascertain that the objective of this study was to investigate the influence of FDI and the development of SMEs in Enugu state, 2007-2017.

In the preceding chapters, relevant data collected for this study were presented, critically analyzed and appropriate interpretation given. In this chapter, certain recommendations made which in the opinion of the researcher will be of benefits in addressing the challenges of FDI and the development of SMEs in Enugu state.

**5.1 SUMMARY**

The contributions of SMEs to the growth and development of Enugu state cannot be compared to the influx of FDI in the state, but little consensus have emerged as to whether FDI is boon or bane for a country as a whole. Quite simple, the evidence is as mixed now as it was when Rodrik (1999) wrote the line quoted at the beginning of his study. The findings of the study revealed that foreign direct investment rather undermines the development of SMEs. The state government has however provided an enabling environment for SMEs to thrive through the creation of financial institutions to aid the giving of loan; however, it has not been able to facilitate technological know-how and transfers from FDI to SMEs. It furthermore has not struck a balance between FDI and SMEs to facilitate capital formation and technology transfer from the former to the later, through policy formulations.

**5.2 CONCLUSION**

It is crystal clear that FDI on its own has not contributed positively to the development of small and medium scale enterprises in Enugu state, Nigeria through the MNCs. Even though there is a low profit expectation in small and medium scale businesses and perhaps, the Multinational companies (MNCs) are more risk averse. In this respect many local industry specifically small scale businesses are relegated to the background despite their importance as a catalyst of economic growth. Having said this it is essential to state at this point that safety margin and finance are the major determinants of growth in small scale businesses. However the MNCs can still be convinced beyond reasonable doubt that small and medium scale businesses are lucrative as the Enugu state government provided and continues to provide an enabling environment for their operation which should be emulated by other state governments as well as Nigeria at large. This includes reorientation of the small and medium scale entrepreneurs in utilizing the loans granted them with the provision of infrastructures. Also, it is important that the power supply should be improved upon as most of the artisans dominate the small and medium scale businesses. In addition the interest rate or cost of loan should be reduced to the barest minimum while also improving the educational status of these entrepreneurs in order to tap the advantage of technological spill over from FDI.

**5.3 RECOMMENDATIONS**

Based on the findings, it is recommended that the state government should formulate policies aimed at promoting the interests of the SMEs. However, while it is important for government to woo foreign investors into a state, it should not be at the detriment of the local businesses such as the SMEs. Thus, the economic policies of the state should be geared towards maintaining a balance between the growth of SMEs and the activities of foreign investors. The government should formulate policies, which will encourage the reduction of exchange rate in the country in order to improve business activities across the state, and improve the growth of SMEs across the state, as well as encouraging entrepreneurship spirit in state.

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**QUESTIONNAIRE FOR RESPONDENT**

**Part One**

Instruction: Please tick (√ ) against the option that applies to your response.

**Personal Information**

* 1. Male [ ] Female [ ]
  2. Qualification BSc./HND [ ] MSc./Phd [ ] Others [ ]
  3. Profession/ Occupation/ Insurer [ ] Auditor [ ] Manager [ ] Others[ ]
  4. How much of business development do you know? Much [ ] Little [ ]

**Part Two**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **S/N** | **QUESTION** | **SA** | **A** | **UD** | **D** | **SD** |
|  | Is there any relationship between foreign direct investment and the development of SMEs in Enugu state? |  |  |  |  |  |
| 2. | Did FDI undermine the development of SMEs in Enugu state? |  |  |  |  |  |
| 3. | Is there any relationship between SMEs and community development? |  |  |  |  |  |
| 4. | To what extent does small scale enterprise contribute to economic development of Enugu state? |  |  |  |  |  |
| 5. | Are the problems encountered by the small scale enterprise in Enugu state as a result of funds from multinational corporations? |  |  |  |  |  |
| 6. | Does Small Scale enterprise benefit from the activity of MNC through FDI? |  |  |  |  |  |
| 7. | Does FDI play any role in solving the problem of financing in SMEs in Enugu state? |  |  |  |  |  |
| 8. | Are the policies of Enugu state government favourable to the local SME owners? |  |  |  |  |  |
| 9. | Did Enugu state government provide accessible loans to small and medium enterprise owners? |  |  |  |  |  |
| 10. | Are there factors militating against effective development of SMEs in Enugu state? |  |  |  |  |  |