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Foreign Portfolio Investment And Human Capital Development Evidence From Nigeria 1987-2019

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ABSTRACT

Foreign portfolio investment is a cross-border investment in securities with the intention of profit-making rather than management or legal control. The specific objectives are to: assess the effect of foreign portfolio investment in bond on human capital development, investigate the effect of foreign portfolio investment in equity on human capital development, examine the effect of foreign portfolio investment in commercial papers on human capital development and investigate the effect of foreign portfolio investment in treasury bills on human capital development. Econometric techniques, including Descriptive Statistics, Augmented Dickey Fuller and Philip Perron Tests For Unit Roots were used while Ordinary Least Square (OLS) regression analysis were used to test the hypotheses. The results of the study indicates that foreign portfolio investment in bond has positive and significant effect on human capital development, foreign portfolio investment in equity has positive and significant effect on human capital development, foreign portfolio investment in commercial paper has positive and significant effect on human capital development and foreign portfolio investment in treasury bill has positive and significant effect on human capital development. The study concludes that foreign portfolio investment has positive effect on human capital development and has helped to improve standards of living in Nigeria. Among the recommendations is that there is need for greater foreign portfolio investment on bond in the stock market which could be achieved by greater openness.

Keywords: Equity, Bond, Human Capital Development, Treasury Bills, Commercial Paper

INTRODUCTION

Foreign portfolio investment (FBI) include to investments by residents of one country in the equity and debt securities of an enterprise in another country which seek primarily capital gains and do not necessarily reflect a significant and lasting interest in the enterprise (Elekwa, Aniebo, & Ogu, 2016). These category includes investments in bonds, notes, money market instruments and financial derivatives other than those included under direct investment, or in other words, investments which are both below the ten per cent rule and do not involve affiliated enterprises. In addition to securities issued by enterprises, foreigners can also purchase sovereign bonds issued by governments (Okafor, Hillary & Grace, 2015). Human capital is considered as the most valuable asset and needs to be mobilized (Awopegba, 2003). Human capital as an economic term encompasses health, education and other human capacities that can raise productivity (Todaro & Smith, 2003). Capital and natural resources are passive factors of production while human resources are active factors of production. Human capital constitutes the most valuable resource of a country; in its absence there will be the non performance of physical capital (tools, machinery, and equipment) which will impede economic growth (Ekeocha, Victor & Moses, 2012).
Human capital development is an important factor used in converting all resources to benefit mankind. Human Capital Development is strategic to the socio-economic development of a nation and includes

education, health, labour , employment and women affairs. Foreign portfolio investing in human capital development is therefore critical as it is targeted at ensuring that the nation's human resource endowment is knowledgeable, skilled, productive and healthy to enable the optimal exploitation and utilization of other resources to engender growth and development in Nigeria.

Portfolio Investments find special relevance in the development of financial markets, whose role in the growth and development of national economies is well established in the literature. It is also well known, thanks to Monetarists, that money does exert its own peculiar pressure on economic outcomes. In the same way, Portfolio Investment via financial markets has brought about notable contributions to the growth and development of many economies, and the employment with which these outcomes are realized. Due to the paucity of the much needed capital for human capital development in the less developed economies, there is the need for foreign portfolio to complement domestic resources, in the wake of growing mismatch between domestic capital stock and capital requirements in these countries. According Omisakin (2009), foreign capital inflow is an important vehicle for augmenting the supply of funds for domestic investment.

Ngowi (2001) also argued that African countries and other developing countries need substantial inflow of foreign capital to fill the saving and foreign exchange gaps associated with a rapid rate of capital accumulation and growth needed to overcome the widespread problems of human capital development in Nigeria. Portfolio Investment has not been as well favoured by the receiving economy as foreign direct investment, generally regarded as the most beneficial to developing countries and as such always ranked as first choice. Portfolio Investments are considered. In such flows, provided they do not supplant domestic investment, they can supplement domestic savings, thereby enlarging production possibilities and employment growth (Ajit 2004).

Statement of the Problem

Nigeria as an import-dependent economy needs foreign investment to enhance her investment needs. That is why since the emergence of democratic governance in May 1999, she has embarked on some concrete measures to encourage cross-border investors into her domestic economy. Some of these means are: the repeal of laws that are adverse to foreign portfolio investment increase, promulgation of investment laws, introduction of policies with favorable atmosphere like ease of doing business, fast export and import processing methods, fight against advanced fee frauds, instituting economic and financial crimes commission. These definite measures seem to have been making positive impact on Nigeria's foreign portfolio inflows

Elekwa, Aniebo and Ogu (2016) found that foreign portfolio investment have a positive effect on employment and human capital development in Nigeria. The study carried out by Baghebo, Apere (2014) concluded that foreign portfolio investment; market capitalization and trade openness have positive long-run relationship with real human capital development in Nigeria. Eniekezimene (2013) found that foreign portfolio investment has positive and significant effect on human capital development in Nigeria. Ozurumba Benedict (2012) examined the impact of stock market returns on foreign portfolio investment in Nigeria. And found that foreign portfolio investment has a positive and significant impact on stock market returns while inflation rate has negative but significant impact on stock market returns.

This tends to suggest that there are very few studies carried out on the effect of foreign portfolio investment on human capital development in Nigeria. Besides, the few studies reviewed had mixed results. This has created a gap which this study is intended to close by investigating the effect of foreign portfolio investment on human capital development in Nigeria**.** The study examined: the effect of foreign investment in bond on human capital development, the effect of foreign investment in equity on human capital development, the effect of foreign portfolio investment in commercial papers on human capital development and investigated the effect of foreign investment in treasury bills on human capital Development in Nigeria

REVIEW OF RELATED LITERATURE

Conceptual Framework

Foreign Portfolio Investment

Foreign portfolio investment is a cross-border investment in securities with the intention of profit-making rather than management or legal control. IMF (1993) defined foreign portfolio investment as equity and debt issuances including country funds, depository receipts and direct purchases by foreign investors of less than 10% control. Capital impacts positively on the economy by providing financial resources for investment in key areas like infrastructure, agriculture, solid minerals, manufacturing, banking and other financial services and other real sector areas. The projects could be promoted by government or private sector institutions. The concept here is that foreign portfolio investment can provide the needed resource to the government and private investment in Nigeria for infrastructural and industrial productivity

According to Anyanwale (2007) foreign portfolio investment is one of the components of foreign investment (FI). FPI involves the commitment of funds to domestic securities by a foreign nation or the purchase of foreign securities by a resident. Foreign portfolio investment may not involve positive transfers, just being a change in ownership. In finance, Foreign Portfolio Investment is the entry of funds into a country where foreigners make purchase in the country's stock and bond markets, sometimes for speculation. It is a usually short term investment, as foreign direct investment partnership, involving transfer of technology and "know how". FPI is possibly influenced by high rates of return and reduction of risk through geographic diversification. The return on FPI is normally in the form of interest payments or non-voting dividends. It is a group of investment assets that focuses on securities from foreign markets rather than domestic ones. It gives the investor an exposure to growth in emerging and provides diversification allows investors to further diversify their assets by moving away from a domestic-only portfolio.

The existing literature examines foreign portfolio investment as the acquisition of financial assets from one country to another country. FPI is the acquisition of controlling interest in foreign firms and businesses. Foreign Portfolio Investment (FPI) is an aspect of international capital flows' comprising of transfer of financial assets: such as cash; stock or bonds across international borders in want of profit. It occurs when investors purchase non-controlling interests in foreign companies or buy foreign corporate or government bonds, short term securities or notes.

Accordingly, just as trade flows result from individuals and countries seeking to maximize their well being by exploiting their own comparative advantage, so too are capital flows the result of individuals and countries seeking to make themselves better off, moving accumulated assets to wherever they are likely to be the most productive (ERP, 2006).

Bonds

A bond is a debt obligation, like an I owe you (IOU). Investors who buy corporate bonds are lending money to the company issuing the bond. In return, the company makes a legal commitment to pay interest on the principal and, in most cases, to return the principal when the bond comes due, or matures (Afolabi, 2015). To understand bonds, it is helpful to compare them with stocks. When you buy a share of common stock, you own equity in the company and will receive any dividends declared and paid by the company. When you buy a corporate bond, you do not own equity in the company. You will receive only the interest and principal on the bond, no matter how profitable the company becomes or how high its stock price climbs. But if the company runs into financial difficulties, it still has a legal obligation to make timely payments of interest and principal. the company has no similar obligation to pay dividends to shareholders. In a bankruptcy, bond investors have priority over shareholders in claims on the company's assets. Like all investments, bonds carry risks. one key risk to a bondholder is that the company may fail to make timely payments of interest or principal. If that happens, the company will default on its bonds. This "default risk" makes the creditworthiness of the company—that is, its ability to pay its debt obligations on time—an important concern to bondholders (Afolabi, 2015).

Equity

Equity is a share in the ownership of a company. Equity represents a claim on the company's assets and earnings. As you acquire more equity, your ownership stake in the company becomes greater. Whether you say shares, equity, it all means the same thing. Equity is a part of a company, also known as stock or share. When you buy shares of a company, you basically own a part of that company. A company's stockholders or shareholders all have equity in the company, or own a fractional portion of the whole company. They buy the shares because they expect to profit by rising share prices when the company profits. There are two basic types of shares that any company issues: equity shares and preference shares (Aiguh, 2013).

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Commercial Papers

These consist of promissory notes of blue chip companies which are sold to mobilize funds usually for three months at lower rates. When company feels that it is not worth paying intermediaries, especially the credit worthy companies may look beyond the banking system by going on their own, to issue short term unsecured notes call commercial paper with a maximum maturity period of 90 days. Thus, enable them to borrow at a discount rate of 1 or 1½% below the prime lending rate that may be charge by banks. Investment in commercial papers is supplementary to bank credit to the private sector (Ikikii, & Nzomoi, 2013). Commercial paper is short-term promissory notes issued by corporations and finance companies to raise funds for current expenses, working capital and other corporate purposes. When investors buy commercial paper, they are lending money to the issuing corporation. In return for this loan, the issuer agrees to pay interest and return principal when the note matures at a specified date in the future. Commercial paper typically matures in less than 270 days and is sold in minimum amounts of $100,000 or $250,000.

Generally, commercial paper is unsecured, but in a small number of cases, it may be secured by assets of the company. Typically, companies issuing commercial paper have revolving lines of credit from financial institutions. While these lines of credit are generally not guarantees of the paper, there is an on-going requirement that the company maintain sufficient available amounts under the lines of credit to cover all outstanding commercial paper. Commercial paper is typically issued at a discount to par or face value. The difference between the face value of the commercial paper note at maturity and the discount is the interest earned by the investor. Generally, investors hold commercial paper to maturity, but it can be resold. The resale market is limited primarily to the dealer originally selling the commercial paper; however, there is no guarantee that the dealer will be willing to repurchase the commercial paper from the investor Commercial paper is a short-term unsecured promissory note issued by corporations and foreign governments.

Nigerian Treasury Bill

These are instruments for short term borrowing issued by the Central Bank on behalf of the Federal Government to meet its short term treasury need. A Treasury Bill is a paperless short-term borrowing instrument issued by the Government through the Central Bank of Nigeria (as a fiscal agent) to raise money on short term basis – for a period of up to 1 year. Treasury bills are issued in maturities of 91, 182 and 364 days. Treasury bills are sold at a discounted price to reflect investor's return and redeemed at face (par) value (Oluitan, & Anne, 2013).

Human Capital Development

Human development refers to the process of acquiring and increasing the number of persons who have the skill, education, experience which are critical for the economic and political development of a country. Human capital development is thus associated with investment in man and his development as a creative

and productive resource (Jhingan 2012).Schultz (1960) categorized and developed human resources into six ways: (i) Facilities and services: - this involves all expenditure that affects the life expectancy, strength and stamina, and vigor and vitality of the people, (ii) On – the job training which includes old type apprenticeship organized by firms, (iii) Formally organized education at elementary, secondary school and higher level, (iv) Study programmes for adults that are not in agriculture, (v) It involves migration of individual and families to adjust changing job opportunity (factor mobility), (vi) Finally, transfer or importation of technical assistance, expertise and consultants. Onakoya (2013) described human capital as an important factor used in converting all resources to benefit mankind.
Human capital development is strategic to economic development of a nation and includes education, health, labour, employment and woman affairs. Investing in human capital development is therefore critical as it is targeted of ensuring that the nation's human resources endowment is knowledgeable, skilled, productive and healthy to enable the optimal exploitation of other resources to produce growth and development. In a nutshell, investment in human capital development means expenditure on health, education, and social services in general but in a narrow sense, it is capable of measuring all expenditure on social services. For this study, the two basic objectives of human capital development will be the centre of focus which is Education and Health. There are important ends in themselves. Health is central to well-being and education is essential for a satisfying and rewarding life: both are fundamental to the broader notion of expanding human capability and that it has the heart of the meaning of development (Todaro 2009).

Theoretical Framework
The study would be anchored upon the portfolio theory of international capital flows developed by Michael and Makoto (2006), presented a tractable model of international capital flows in which the existence of nominal bonds and the portfolio composition of net foreign assets is an essential element in facilitating capital flows between countries. Nigeria national monetary policies make domestic and foreign currency denominated bonds differ in the degree to which they can hedge Nigerian specific consumption risk. This leads Nigerian to have distinct composition of currency- denominated bonds in their national portfolios. By adjusting their gross positions in each currency's bonds, Nigeria can achieve an optimally hedged change in their net foreign assets (or their current account), thus facilitating international capital flows. Moreover, the risk characteristics of optimal portfolios ensures that current account movements are sustainable - net debtor countries pay lower rates of return on their gross liabilities than they receive on their gross assets. This ensures that the distribution of wealth across countries is stationary.

Empirical Reviews
Ikenna and Frank (2017) examined the effect of foreign investments (disaggregated into foreign direct investment and foreign portfolio investment) inflows on human capital development in Nigeria with a view to ascertaining the better contributor, using time series data from 1986-2016. The OLS and Granger Causality procedures were employed in analyzing the data. The result displays that both foreign direct investment and foreign portfolio investment have positive and significant effect on human capital development though the partial correlation coefficients show that foreign portfolio investment is the better contributor.
Iheanachor (2016) analyzed the impact of foreign portfolio investment on human capital development in Nigeria over the period of 1985- 2015. The main type of data used in this study is secondary; sourced from various publications of Central Bank of Nigeria, such as; Statistical Bulletin, Annual Reports and Statement of Accounts. The regression analysis of the ordinary least square (OLS) is the estimation technique that is being employed in this study to determine the effect of foreign portfolio investment on human capital development in Nigeria. The findings revealed that human capital development is directly related to inflow of foreign portfolio investment and it is also statistical significant at 5% level which implies that a good performance of human capital development in Nigeria is a positive signal for inflow

of foreign portfolio investment. This implies that foreign portfolio investment is an engine of human capital development in Nigeria.

Elekwa, Aniebo and Ogu (2016) investigating the effects of foreign portfolio investment on employment growth in Nigeria employed the ordinary least square (OLS) technique to estimate a single equation model, employed data for the period 1980 to 2014. It was found that in the long term, portfolio investment impact on employment growth was positively significant.

Nwabuobi and Usman (2017) studied the effect of foreign portfolio investment on human capital development in Nigeria. The result of the study indicates that foreign portfolio investment has positive and significant effect on human capital development in Nigeria

Osmond (2016) investigated the effect of foreign portfolio investment on industrial growth in Nigeria with the view to establish empirical relationship among foreign portfolio investment and industrial productivity in Nigeria.The ordinary least square (OLS) estimation technique was appropriately employed in this study. The findings of this study revealed that there is statistically significant positive relationship existing among foreign portfolio investment, gross fixed capital formation, market capitalization and industrial growth proxied by industrial production index (IPI) in Nigeria.

Nwakanna (2016) examined the relationship between foreign portfolio investment and human capital development: evidence from Nigeria was with a view to explore the nexus between foreign portfolio investment and human capital development in Nigeria. The result of the study indicates that in the short run, the effect of foreign portfolio investment on human capital development is negative. A shock on the foreign portfolio investment rate in the short run leads to a decline in human capital development in Nigeria

Felix, and Amuche, (2017) examined the relationship between foreign portfolio investment and human capital development in Nigeria. This was with a view to explore the nexus between foreign portfolio investment and human capital development in Nigeria. Secondary data used in the study were annual time-series data for the period 1986 to 2015. The results showed that the correlation between foreign portfolio investment and human capital development in Nigeria is positive and very significant. The result showed that in the long run foreign portfolio investment had positive and significant effect on human capital development in Nigeria

James and Johnson (2016) investigated the effect of foreign portfolio investment on human capital development in Nigeria with the view to establish empirical relationship among foreign portfolio investment on human capital development in Nigeria. The findings revealed that foreign portfolio investment had positive effect on human capital development in Nigeria. The study recommended among others that proactive steps must be taken to expand market capitalization which is the major driver of foreign portfolio investment in order to keep stimulating human capital development in Nigeria

Paul, Chibueze and Callistus (2016) investigated impact of foreign portfolio investment on employment growth in Nigeria. Using single equation, reduced form specification, and employing data for the period 1980 to 2014, it was found that in the long term, portfolio investment impacts employment growth positively and significantly. This outcome supports the general view in the literature of a positive relationship between portfolio investment and human capital development, and calls attention to this variable which has hardly been considered in employment generation constructs on account of its famed volatility and risk.

Samuel (2016) did an empirical evaluation of the effect of foreign portfolio investment on human capital development in Nigeria. Secondary data were used. The Ordinary Least Square Estimation Method was employed. The findings revealed, among others, that there were increase in the foreign portfolio investment on human capital development in Nigeria for a given period, followed by decline, as a result of massive capital outflow and divestment by the investors, caused by the global recession.

Paul and Callistus (2016) investigated the impact of foreign portfolio investment and market capitalization on economic growth in Nigerian. For the period 1980 to 2014 using OLS, it was reviled that in the long term, market capitalization and foreign portfolio investment impacts on employment growth positively and significantly.

Okoro (2016) investigated the empirical relationship between foreign portfolio investment and human capital development in Nigeria. The study also added gross fixed capital formation with a view to capture the effect of domestic investment on human capital development for the period under review. Granger causality test was also employed to determine the direction of causality between foreign portfolio investment and human capital development in Nigeria. The result of the OLS techniques indicates that foreign portfolio investment has positive and insignificant impact on human capital development in Nigeria

METHODOLOGY

Research Design

The study used data which have already been documented by highly research based institutions- like the Central Bank of Nigeria. Thus, the study adopted the *ex-post facto* research design. Human capital development (HCD) was proxied by human capital development index (HCDI) which is the dependent variable (Y) while bond, equity, commercial paper and Treasury bill are the independent variables(X)

Model Specification

The study is anchored on the portfolio theory of international capital flows model which designed a model depicting human capital development as a direct function of foreign portfolio investment. However, the model of the present study equally adapted variables from the work of James, and Johnson (2016) to examine the effect foreign portfolio investment has on human capital development in Nigeria. The Model is stated thus:

HCDI = f (BND, EQT, RINT and EXCH)

Where:

HCD = Human capital development

BND = Bond

EQT = Equity

RINT = Interest Rate

EXCH = Exchange Rate

The model was adapted and modified as follows.

HCDI = f (BND, EQT, CPP, TRB)

$HCDI = \beta_0 + \beta_1 BND + \beta_2 EQT + \beta_3 CPP + \beta_4 TRB + \mu$ - - - 1

Where:

HCDI = Human capital development index (proxy for human capital development)

BND = Bond

EQT = Equity

CPP= Commercial Paper

TRB= Treasury Bill

β_0 and μ are the constant and error term respectively while β_1, β_2, β_3 and β_4 are the coefficient of foreign portfolio investment.

Method of Data Analyses

The study employed Augmented Dickey Fuller (ADF) test for unit root test and co-integration econometric technique, causality test was performed to establish the direction of the relationship while Ordinary Least Squares (OLS) was used to estimate the effect of the independent variables on the dependent variable

DATA PRESENTATION AND ANALYSIS

Unit Root Test

The unit root test is conducted using the Augmented Dickey Fuller (ADF) test proposed by Dickey and Fuller (1979). The result of ADF statistics is presented below.

Table 1 Augmented Dickey Fuller Test

Variables	ADF Statistic	Order Of Integration	Level Of Significance
HDI	-4.190751	1(0)	5%
BND	-5.494642	1(0)	5%
EQT	-6.023468	1(0)	5%
CPP	-4.554952	1(0)	5%
TRB	-8.667932	1(0)	5%

Source: Computed from E- view 9.0

The result confirmed that human capital development index, bond, equity, commercial paper and treasury bill attained stationary at levels. All the variables are significant at 5% level of significance.

The Ordinary Least Square Regressions

In this section, we provide the benchmark test of the significance of the independent variables in explaining the effect of foreign portfolio investment on human capital development in Nigeria

Table 2 Regression Result for the Model

Dependent Variable: HCD
Method: Least Squares
Date: 06/21/20 Time: 07:39
Sample: 1987 2019
Included observations: 32

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.19959	0.473190	2.535498	0.0000
BND	5.379378	0.031406	2.527495	0.0082
EQT	7.023766	0.063750	2.372804	0.0024
CPP	3.053499	0.058387	3.416286	0.0036
TRB	3.267337	0.385615	2.362468	0.0012

R-squared	0.767334		
Adjusted R-squared	0.745801		
F-statistic	4.788675	Durbin-Watson stat	2.487265
Prob(F-statistic)	0.00021		

Source: Computed from E- view 9.0

From the regression result obtained, the regression equation can be presented thus:

HCD = 10.19959 + BND=5.379378 +EQT 07.023766+ CPP3.053499 +TRB 3.267337+ U

Bond: The coefficient of foreign portfolio investment on bond is positive at 5.379378 with t-Statistic of 2.527495 and probability value of 0.0082 which means that foreign portfolio investment on bond has positive and significant effect on human capital development, a unit increase in foreign portfolio investment on bond will cause human capital development to increase by 5.379378 units.

Equity: The coefficient of foreign portfolio investment on equity is positive at 7.023766 with t-Statistic of 2.372804 and probability value of 0.0024 which means that, foreign portfolio investment on equity has positive and significant effect on human capital development. A unit increase in foreign portfolio investment on equity will lead to an increase on human capital development by 7.023766

Commercial Paper: the coefficient of foreign portfolio investment on commercial paper is positive at 3.053499 with t-Statistic of 3.267337 and probability value of 0.0036 which means that, foreign portfolio investment on commercial paper has positive and significant effect on human capital development. A unit increase in foreign portfolio investment on commercial paper will cause on human capital development to increase by 3.053499 units.

Treasury Bill: the coefficient of treasury bill is positive at 3.267337 with t-Statistic of 2.362468 and probability value of 0.0012 which means that foreign portfolio investment on treasury bill has positive and significant effect on human capital development. A unit increase in foreign portfolio investment on Treasury bill will cause human capital development to increase by 3.267337 units

The Adjusted R-squared is 0.745801 which means that 74% of total variation human capital development can be explained by the variables, namely BND, EQT, CPP and TRB while the remaining 26% is due to other stochastic variables. The Durbin-Watson statistics at (2.487265) which means the model is free from autocorrelation. The F-statistic is 4.788675 which imply that all the explanatory variables in the study have significant effect on gross domestic product within the period under study.

CONCLUSION

In line with the research objective and hypothesis, the result of the study indicates that foreign portfolio investment on bond, foreign portfolio investment on equity, foreign portfolio investment on commercial paper and foreign portfolio investment on treasury bill has positive and significant effect on human capital development. Foreign portfolio investment has grossly enhanced human capital development in Nigeria. About 74% of human capital development variations are explained by foreign portfolio investment. This implies that foreign portfolio investment is one major contributor to human capital development in Nigeria

The study thus concludes that foreign portfolio investment has positive effect on human capital development and has helped to improve standards of living in Nigeria

RECOMMENDATIONS

In line with the findings from the empirical analysis, the study works the following recommendation

1. There is the need for greater foreign portfolio investment in bond in the stock market which could be achieved by greater openness. An effective policy should be made based on the fiscal and monetary policies which should be aimed at achieving a realistic portfolio investment on bond
2. Government should formulate and implement financial policies that enhance investment interest rate in foreign portfolio investment on equity and take into consideration those other factors which negatively affect investment in the country in order to maintain sustainable human capital development in Nigeria
3. Government should increase its investments on foreign portfolio investment on commercial paper to improve human capital development in Nigeria
4. Authorities should look for ways of strengthening the working mechanisms of the capital market especially against fraudulence to ensure the effectiveness of the policy tools in achieving the desired portfolio investment in treasury bill and human capital development in Nigeria

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