POLICY BRIEF

Building a Robust Workforce: Why does FDI Motive Matter?

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Key messages

- The motivations for Foreign Direct Investment (FDI) inflows have been found to influence their role in workforce development in recipient countries.
- Efficiency-seeking FDIs are more impactful on human capital development in Nigeria.
- Government must, of necessity, provide specialised fiscal incentives for efficiency-seeking FDIs, address identified regulatory bottlenecks and avoid policy inconsistency.

What is the context?

Over the years, Foreign Direct Investment (FDI) inflows are often associated with the increased availability of a robust workforce. This is because FDI assists recipient countries in building human capital through technology and knowledge transfer. However, emerging trends indicate that motive(s) guiding FDI inflow immensely influence its role in capacity-building activities of the available workforce in the host country.

Source:https://www.weforum.org/agenda/2021/08/foreign-direct-investment-key-africa-sustainable-recovery/

In Nigeria, recent FDI inflows are becoming more sensitive to the characteristics of the country's labour force. In the past years, FDI inflows usually focus on the oil-sector - resource-seeking activities, which have resulted in little or zero gains for the country in terms of employment creation, capacity building for the existing workforce, and insignificant human capital gains.

The direction of the new FDI inflows into Nigeria has resulted in divergent labour market outcomes. These investments favoured technology-enabling sectors such as ICT, education, health, and manufacturing, which have high propensities for knowledge transfers, boosting employment and employability. A departure of FDI focus from the oil sector to these technology-enabling sectors resulted in a leapt growth in the supply of skilled IT workforce and enhanced human capital development in Nigeria.

If the government is serious about developing quality of workforce in Nigeria as well as achieving **Sustainable Development Goal (SDG) 9 - build resilient infrastructure, promote sustainable industrialisation, and foster innovation,** there is a need to de-emphasis focus on critical examination of the motive(s), direction, and sector-focus of the FDI inflows into the country than its value. Policies to help the country internalise FDIs for human capital development must be explored and sustained in Nigeria.

Why is the issue important?

Like most developing countries, Nigeria has low levels of human capital occasioned by poor technology advancement, skill accumulation, and human capital stock. Thus, require FDI inflows to achieve significant technical progress, human capital development, and economic growth. However, the motives of FDIs play a critical role in fostering the human capital development of the recipient country.

The influence of the intended goal (motive) of an FDI in Nigeria is more effective and proficient for human capital development than most people know (see Table 1).

Table 1: FDI Motives and Importance for Human Capital Development in Nigeria

Investments Motives		Human Capital Development		
		Skill Development	Income and Wage Structuring	Talent Development
Foreign Direct Investments	Merger and Acquisition (M&A)	Moderate	Low -Moderate	Low -Moderate
	Greenfield investment	Low	Low	High
	Resource seeking	Low	Low	Low
	Market seeking	Moderate	Moderate	Moderate
	Efficiency seeking	Moderate-high	Moderate-high	Moderate-high

As a result, the United Kingdom, Japan, and some OECD countries have restricted FDI inflows into some sectors and black-listed some types of FDI as harmful to economic competitiveness and human capital development.

The Nigerian government must, therefore, intentionally maintain the recent departure of FDI inflows to other growth sectors, especially ICT, education, financial technology (FINTECH), and manufacturing, from the oil sector. If not achieved, the country may miss the opportunity to take advantage of technology and knowledge spillovers from the FDIs to leapfrog human capital development.

What are the next steps for the policymakers?

Create special incentives for efficiency-seeking, M&A, and Greenfield FDIs. These FDIs, especially efficiency-seeking, are notable for engendering higher human capital development in Nigeria. Therefore, the government must create an environment to attract more of these types of FDI. One feasible approach is to create specialised fiscal incentives for these FDIs, like tax drawbacks for investing in training and talent development programmes.

Collaborate with MNEs to scale talent development programmes. Looking at the long-term investment posture of these FDI types - efficiency-seeking, M&A, and Greenfield FDIs, the government needs to collaborate with these investors to hand down their knowledge resources for mass talent development in the country. Also, an industrial partnership framework must be designed to ensure knowledge transfer between foreign and domestic firms in the same or related industries.

Alignment of investment regulations and policies. Regulatory factors' role is loud in the relationship between FDI and human capital development across the sectors. Improvement in Nigeria's regulatory environment and alignment of current proliferated policy regimes is the first step to attracting and making FDI work for human capital development in the country.

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