COMMERCIAL AND INDUSTRIAL INVESTMENT ATTITUDES AND OPPORTUNITIES IN NIGERIA (A CASE STUDY OF KADUNA STATE)

BY

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BEING A PROJECT SUBMITTED TO THE POST-GRADUATE SCHOOL IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA) OF AHMADU BELLO UNIVERSITY, ZARIA

DEPARTMENT OF BUSINESS ADMINISTRATION
FACULTY OF ADMINISTRATION
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DEPARTMENT OF BUSINESS ADMINISTRATION, INSTITUTE OF ADMINISTRATION, AHMADU BELLO UNIVERSITY, ZARIA, NIGERIA

SEPTEMBER 1995

DEDICATION

This Project is dedicated to my Parents,
GARBA & KANDE GARBA
AND
My two Daughter-friends, AGUNI AND UMMA. Also is my long-standing guardian-friend, PATRICK HEINECKE-England.

DECLARATION

I hereby solemnly declare that this Study is my original product, which to the best of my knowledge, has not been presented to this or any other institution in Nigeria or abroad, by any other person, for the award of any Decree. All pieces of information have been duly acknowledged in the References and Bibliography. I assume responsibility for any mistake, error, or omission found in this submission.

- GARBA, ZACHARIAH GWANYO -

CERTIFICATION

This Project Report entitled "*Commercial and Industrial Investment Attitudes and Opportunities in Nigeria: A Case Study of Kaduna State;*" by GARBA, ZACHARIAH GWANYO, meets the regulation governing the award of the Degree of Master of Business Administration (MBA) of Ahmadu Bello University, and is approved for its contribution to knowledge and literary presentation.

Supervisor	Signature	7/6/05 Date
Head of Department	Signature	7/6/05 Date
Dean, Post Graduate School	Signature 23/1/06	Date

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My gratitude goes to **MALLAM SANI IBRAHIM** and **MALLAM NASIR MAITURARE** who contributed immeasurably to my success as my Supervisors. Also the erudite teaching and guidance of all my Lecturers, to all I say a big 'Thank you.'

I also wish to express my appreciation to the Industrial and Commercial Professional Officers of the State, Ministry of Commerce and Industry, Kaduna. To the Executives of the Kaduna Investment and Financial Company Kaduna, also the Local Government Executives of some Local Government Areas.

I wish also to thank sincerely my friend and classmate **MALLAM ISIYAKU ALIYU JISAMBO** who encouraged me on this Topic.

Lest I forget, I wish to use this opportunity to thank **MISS YEMISI OLANIYAN** of CSM Bookshop, who was just in time to make sure that the manuscripts are typed accordingly. To all, I wish God's goodness.

- GARBA, Z. G. -

ABSTRACT

Commercial and Industrial Investment Attitudes and Opportunities are key ingredients in the realisation of real investment in any social system, and as such major contributors to the sustenance and for healthy growth and development of it.

It is however noted by this research that, despite the many provisions by way of physical infrastructures and Government encouragements little can be said to be achieved in this respect. Putting down the data necessary for this study requires face-to-face discussions with key functionaries in the State Ministry of Commerce and Industry, Kaduna Investment and Finance Company and some Local Government Areas, which I sampled out for this purpose.

In conclusion, some important recommendations were made to remedy this situation, which may include, putting in place a rational system of incentives for investors and entrepreneurs alike.

TABLE OF CONTENTS

CHAPTER ONE

1.1: INTRODUCTION:

Investors (Local and Foreign) are positively responding to the challenges of Nigeria's commercial and industrial development objectives. New commercial and industrial outfits are being established while existing ones continue to produce and sell goods and services that have hitherto been imported. This increasing pace of commercial and industrial activities forms an essential part of the national development process. The more sound the majority of investment attitudes; decisions and opportunities are, the more successful the development process will be.

Unfortunately however, many investors especially in developing countries embark on commercial and industrial projects without necessary pre-investment studies to assess the viability of the venture. Even where investment decisions were preceded by pre-investment studies, the standard and depth of such studies are often not adequate. As a result of this deficiency, many commercial and industrial ventures had run into critical problems or even folded up within a short space of time after the start-up of operations.

To minimise the rate of commercial and industrial mortality it is absolutely important for prospective investors to seek the services of professionally qualified and experienced Consultants to carry out a feasibility study on the proposed project, to determined if it is a worthwhile venture. A very good feasibility study is an indispensable tool in an investment decision process. The purpose of a feasibility study is to investigate decision, the soundness of an investment project in terms of whether it will provide reasonable returns on investment. Such justification is based on the results of the various measurement yardsticks otherwise called feasibility indicators.

Feasibility study helps in taking a decision on whether to accept, modify or reject a project in the light of its evaluated merits and demerits. It is equally required for purposes of obtaining loans from banks and other financial institutions.

An in-dept understanding of the investment attitudes and opportunities in the commercial and industrial ventures in Nigeria cannot be completed without a brief history of the stock market, which is the Power house of Investment.

The indigenisation policy of 1972 brought the stock exchange to the centre stage in the country's economic life as Nigerians increase their participation in economic activities through the buying of shares. In that year, Foreigners were required to surrender 40% of their companies' equities to Nigerians and all the transactions were executed through the stock exchange.

The Lagos Stock Exchange established in 1961 transformed into a more national institution following the recommendations of the Okigbo Panel (The 1976 Financial System Review Commission) for a single stock exchange but with national character. Consequently, the Lagos Stock Exchange was re-registered as the Nigerian Stock Exchange in 1976 and in1978 and 1980, the Kaduna and Port Harcourt branches were established. They were later followed in 1989 and 1990 by Kano, Onitsha and Ibadan floors, respectively.

Membership of the Nigeria Stock Exchange consists of firms and institutions and in exceptional cases individuals.

Until 1985, all companies quoted in the Stock Exchange have foreign equity interest; a situation, which made Nigerian Stock Exchange to introduce the Second-tier Securities Market (SSM) to enable wholly indigenous companies to raised funds and be quoted.

A further milestone was achieved in the Capital Market when a policy of deregulation was introduced in 1992, which required market forces to determine security prices in the primary market rather than Security Exchange Commission (SEC).

A further deregulation was made by SEC and (NSE) Nigerian Stock Exchange in the secondary market in 1995 when ceiling placed on daily price gain per stock was raised from 10 kobo to 2o kobo. Petroleum is the mainstay of the nation's economy – accounting for about 90% of Foreign Exchange Receipts.

Some of the main reasons for the poor investment attitudes in the commercial and industrial ventures in the Nigerian Society may include the facts that; investors are always looking unto the Government for investment opportunities to be created for them, thereby leaving their initiatives dormant, also to banking industry has neglected investment banking by misusing the parallel market, as a result checks are put in place to regulate the activities of these banks, which resulted in many becoming distressed: equally important is the fact that, as against the fact that market prices are suppose to be determined by the market forces, stockbrokers now determine the prices of stocks; the lack of education on the part of investors has affected the investment pattern and process thereby the development. It is in recognition of this gab, that I decided to undertake this Research Study. My intention therefore, is to present an approach to studying the commercial and industrial investment attitudes and the opportunities that abounds in Nigeria, while taking Kaduna State a fairly commercialised and industrialised State with its main commercial and industrial ventures located within the State capital itself as a point for my consideration. While the concentration of these ventures and industries is high within Kaduna town, the Local Government Areas, with the exception of former Zaria Local Government Areas, have been neglected despite the potentials, which exist in most of them. This is a model State and portrays what obtains in all the States of the Federation.

1.2: THE STATEMENT OF THE PROBLEM:

This Research Study is done keeping in mind the fact that, both the Federal and State Governments have done a lot and are still putting in their best by ways of: the provision of physical infrastructures like roads, telecommunication systems; the organisation of trade fairs for commerce, industries, agriculture and tourism; also developing commercial and industrial layouts with the infrastructures necessary; there are Development Banks like the Nigerian Bank of Commerce and Industries, Nigeria Agricultural Cooperative Bank, Nigerian Import and Export Bank, Insurance Companies and many more incentives.

The problem therefore is, why is it that despite all of these benefits, the Nigerian Investor is yet to improve this attitude towards investment and why has there been many opportunities under utilised?

1.3: **THE OBJECTIVE OF THE STUDY:**

The main thrust of the study is the examination and the ascertainment of; the attitudes of potential and actual investors, also it is the aim of this work to expose the diverse investment opportunities that can be exploited within the Nigerian environment with particular reference to Kaduna State. Attempt will also be made to identify and analyse the factors that have been inhibiting potential investors from taking advantage of the available investment opportunities.

1.4: **THE SIGNIFICANCE OF THE RESEARCH STUDY:**

My making a study of this sort is expectedly directed at pointing to the pathetic attitudes and opportunities of commercial and industrial investment in Nigeria, the way forward. It is aimed at making salient contributions readily available to the generality of the public for practical application, since doing that, would go a long way in promoting a healthier and meaningful investment environment thereby a much desired growth and development economically.

Of particular interest in my mind for this study, is Kaduna State Government, the Local Government Areas, Shareholders, Potential Investors and even for Scholars as a fertile Research Field for further studies.

1.5: **THE SCOPE OF THE STUDY:**

The study for obvious reasons has been confined to the State capital (Kaduna) and the Local Government Council Headquarters.

This is because the State is strategically important if we consider the location, size, population and the cross-cultural setting; as the defunct Northern Region and later North-Central State, it is seen as the heartbeat of the Nigerian nation state. It is altogether, therefore, not lost if Kaduna State is used as a model for testing the attitudes of Investors and opportunities of investing in Nigeria.

1.6: **<u>RESEARCH METHODOLOGY:</u>**

Putting down enough data for this study has not been quite easy because of the poor stage of the Information Revolution in Nigeria which to a large extend negates the idea of an efficient market in the Nigerian Stock Market, and the investment environment in general.

Face-to-face discussions with the Directors of Commerce and Industries in the Headquarters of Kaduna State Ministry of Commerce and industry, and an in-depth interview with the Kaduna Investment and Finance Company (KIFC); coupled with the Chief Executives of the following Local Government Councils – Kaduna South, Kaduna North, Sabon Gari, Zaria and Lere which were sampled out for this particular study, were some of the sources of data. Also very relevant in getting my data, were potential Investors and few members of the immediate environment.

Data was equally sourced from Survey Reports from KIFC on Industrial Potentials in Kaduna State, Economic and Financial Review: a Publication of the Central Bank of Nigeria VoL: 30 No. 3 of 1992, a guide to Commercial and Industrial Investment Opportunities as produced by the State Ministry of Commerce and Industry.

It should be noted at this point that conventional interviews were conducted and the responses from such were carefully jotted down, no telephone exchanges, as a cost saving device. An average of twenty-five people were physically interviewed and they responded to the affirmative.

1.7: ASSUMPTIONS OF THE STUDY:

For a meaningful research work, assumptions cannot be avoided and therefore the following:

(a) That a business has an intrinsic value.

(b) That this can be determined by analysis of company generated data.

(c) That this value may go unrecognised by the market in the short term.

(d) That it will eventually be recognised by the market in the long term.

1.8: RESEARCH LIMITATIONS AND CONSTRAINTS:

For the reason of poor investment culture and management information systems in the country, relevant information for a study of this magnitude has therefore depended on; few unreviewed Government documents, lots of persuasion was highly valuable in getting at even seemingly innocuous data, and a good deal of skill and coaxing to get data out of Government executives in the relevant Ministries or Parastatals. It is also worth mentioning that, because of the expensive nature of transportation and having to meet the executive of the Local Government Areas, only five were sampled out and used in this study.

Originally, the intention of the research was to carry a more expensive study covering all the Local Government Areas nation-wide. It was however discovered that the time and money involved is prohibitive. Because of the rather localized nature of the study, the outcome may not be adequately equated for all the Local Governments and States Headquarters in the country. Thus, a sweeping generalization from the outcome is highly discouraged and out of place.

CHAPTER TWO

2.0: LITERATURE REVIEW:

2.1: INTRODUCTION:

Real investment means building up of productive capital or accumulation of capital goods in contra-distinction to portfolio investment, which in the main entails switching of financial resources from one sector to another via the buying and selling of securities. The significance of this distinction is underscored by the fact that while there has been relative dearth of the former since the economic downturn of the past 12 years, there has been an appreciable tempo in the later as economic actors manoeuvre to take advantage of the opportunities created by distortions and disequilibria in various economic relationships.

What is mostly required to accelerate the rates of economic development is real investment. It creates employment opportunities, which stimulates aggregate demand, generates foreign exchange through export and hence raise the level of gross domestic product. Investment, whether local or foreign, requires conducive environment to thrive.

2.2: STOCK INVESTMENT:

When an individual purchases common stock, he gives up current consumption in the hope of attaining increased future consumption. His expectation of higher future consumption is based on the dividends he expects to receive and hopefully, the eventual sale of the stock as a price higher than his original purchase price. Individual tries to allocate his wealth at a given amount in keeping with his desired lifetime consumption pattern, which includes any request he wishes to make. If the future were certain and the time of death known, the individual could apportion his wealth so as to obtain the maximum possible satisfaction from present and future consumption. He would know the exact returns available from investment and the timing of these returns, as well as future income from non-investment sources.

2.3: RETURN ON INVESTMENT (ROI):

Not knowing what lies ahead, the Investor is unable to plan his lifetime consumption pattern with certainty, because the returns from investment and the timing of those returns are uncertain. He compensates for the lack of certainty by requiring an expected return sufficiently high to offset it. But what constitutes the return on a common stock? For a one year holding period, the benefits associated with ownership includes; the cash dividends paid during the year, together with any appreciation in market prices, or capital gain, realised at the end of the year.

More formally, the one period return is:

$$R = \frac{\text{Dividends} + (\text{Ending price} - \text{Beginning price}}{\text{Beginning price}} \text{--(1)}$$

OR

$$r = \frac{D + (P1 - P \cdot\cdot)}{P -}$$

Where the term in parenthesis, in the numerator is the capital gain or loss during the holding period.

Suppose an individual were to purchase a share of stock of a corporation for ₦50:00; the Company is expected to pay a ₦2:00

dividend at the end of the year and its market price after the payment of the dividend is expected to be ₦53:00 per share. Thus, the expected return would be:

$$r = \frac{2{:}00 + (53{:}00 - 50{:}00)}{50{:}00} = 0.10$$

Where r is the expected return, another way to solve for r is:-

$$50{:}00 = \frac{2{:}00}{(1+r)} + \frac{53{:}00}{(1+r)}$$

When we solve for the rate of discount that equates the present value of the dividend and terminal value at the end of one year with the purchase price of the stock at time O, we find it to be 10%. Thus, the investor expects a 10% return on investment.

Now suppose that instead of holding the security for one year, he intends to hold it for two years and sell it at the end of that time. Moreover, suppose he expects the company to pay ₦2:20 dividend at the end of year 2 and the market price of the stock to be ₦56:10 after the dividend is paid. His expected return can be found by solving the following equation for r:

$$50{:}00 = \frac{2{:}00}{(1+r)} + \frac{2{:}20}{(1+r)^2} + \frac{56{:}10}{(1+r)^2}$$

When we solve for r by the method described earlier, we find it to be 10% also. For general purposes, the formula can be expressed as:

$$Po = \sum_{t=1}^{2} \frac{Dt}{(1+r)^0} + \frac{P^2}{(1+r)^2}$$

Where Po is the market price at time 0, D_t is the expected dividend at the of period t, the capital Greek sigma denote the sum of discounted dividends at the end of period 1 and 2, P_2 is the expected terminal value at the end of period 2.

If an investor's holding period were ten years, the expected rate of returns would be determined by solving the following equation for r:

$$Po = \sum_{t=1}^{10} \frac{Dt}{(1+r)t} + \frac{Po}{(1+r)10} \quad \text{......} (2)$$

Now, suppose that the investor were a perpetual trust fund and that the trustee expected to hold stock forever. In this case, the expected return would consist entirely of cash dividend and perhaps a liquidating dividend. Thus, the expected rate of return would be determined by solving the following equation for r:

$$Po = \sum_{t=1}^{x} \frac{Dt}{(1 = r)^t} \quad \text{......} (3)$$

Where x is the sign of infinity. What we are saying here is that, the formula takes account for all possible future dividends that might be paid. For practical purposes, this needs to be fifty years or so, but beyond this the present value ramifications are slight.

It is clear that the intended holding period of different investors will vary greatly. Some will hold a stock only a few days, while others might expect to hold it forever. Investors with holding period shorter than infinity expect to be able to sell the stock in the future at a price higher than they paid for it. This assumes, of course, that at that time there will be investors willing to buy it.

In turn, these investors will lose their judgements as to what the stock is worth on expectations of future dividends and future terminal value beyond that point. That terminal value, however, will depend upon other investors at that time being willing to buy the stock.

The price they are willing to pay will depend upon their expectations of dividends and terminal value. And so the process goes through successive investors in the stock is the sum of the dividends paid including any liquidation dividend. Thus, cash dividends are all that shareholders as a whole receive from their investment; they are all the company pays out. Consequently, the foundation for the valuation of common stocks must be dividends.

The logical question to be raised is; why do the stocks of companies that pay no dividends have positive, and often quite high value? The answer is that, investors expect to be able to sell stock in the future at a price higher than they paid for it. Instead of dividend income plus terminal value will depend upon the expectations of the market place at the end of the horizon period. The ultimate expectation is that the firm eventually will pay dividends, either regular or liquidating ones, and that future investors will received a cash return on their investment. In the interim, however, investors are content with the expectation that they will be able to sell the stock at a subsequent time because there will be a market for it. In the meantime, the company is re-investing and, hopefully, enhancing its future earning power and ultimate dividends.

2.4: GROWTH MODELS:

We saw in Eq. (3) that the return on investment is the rate of discount that equates the present value of the stream of expected future dividends with the current market price of the stock. If dividends of a company are expected to grow at a constant rate, g, in keeping, say, with growth earnings, eq. (2) becomes:

$$Po = \frac{Do\,(1\text{-}g)}{(1 + r)} + \frac{Do\,(1\text{-}g)^2}{(1 + r)^2} \cdots + \frac{Do\,(1\text{-}g)^x}{(1 + r)^x} \text{ --(4)}$$

Where Do is the dividend per share at time o, thus, the dividend expected in period n is equal to the most recent dividend times the compound growth factor, $(1+g)^n$.

Assuming r is greater than g, Eq(4) can be expressed as:

$$Po = \frac{D1}{r\text{-}g} \text{ ---- (5)}$$

Re-arranging, the expected return becomes:

$$r = \frac{D1}{Po} - g \text{ ---- (6)}$$

The critical assumption in this value model is that dividends per share are expected to grow perpetually at a compound rate of g. For some companies, this assumption may be a fair approximation of reality. To illustrate the use of Eq. (6), suppose that ZAQUES Company's dividend per share at t = 1 was expected to be ₦3:00,to grow at a 4% rate forever, and that the current market price was ₦60:00 a share; the expected return would be:

$$r = \frac{₦3{:}00}{₦60{:}00} + 0.04 = 9\%$$

When the pattern of expected growth is such that a perpetual growth model is not appropriate, modification of Eq. (4) can be used. A number of valuation models are based upon the premise that the growth rate will taper off eventually. For example, the transition might be from a present above normal growth rate to one that is considered normal. If dividends per share were expected to grow at an 8% compound rate for ten years and then grow at a 4% rate Eq. (4) would now become:

$$Po = \sum_{t=1}^{10} \frac{Do(1.08)^t}{} \sum_{t=11}^{x} \frac{D_{10}(1.04)^{t-10}}{(1+r)t} \quad \text{--} (7)$$

This transition from above normal to a normal rate of growth could be specified as more gradual than the rate above. For example, we might expect dividends to grow at an 8% rate for 5 years, followed by a 6% rate for the next five years, and a 4% growth rate thereafter. The more growth segments that are added, the more closely the growth in dividends will approach a curvilinear function.

It seems clear that a company will not grow at an above normal rate forever. Typically, companies tend to grow at a very high rate initially, after which their growth opportunities slow down to a rate that is normal for companies in general. For any growth model, Eq. (4) can be modified so that it portrays the expected stream of future dividends.

2.5: INVESTMENT PROMOTION:

In Nigeria, the Federal Government enacted a Decree called the Investment promotion Decree No. 16 of 1995; in which major policy and regulatory shift on foreign investments and cross border foreign exchange flow. As a result, the Exchange Control Act of 1962 and the Nigerian Enterprises promotion Decree of 1989 were repealed.

In this study, I tend to look at the provisions of the Decree with general reference to the regulatory framework for foreign investments in other developing economies.

There are basically two categories of foreign investment: Foreign Direct Investment (FDI), which includes equity participation, and Indirect Investment such as international loans. Generally, foreign investment could be by way of equity participation (share holding), foreign loans and financing; technology, licensing, international franchising, various kinds of joint venture and partnership, industrial intellectual property etc. Section 32 (interpretation section) of the Decree obtains a serious error when it correctly defines capital input as a cash contributions, plant, machinery, equipment, building, and other business assets but wrongly excluded goodwill, which in the context of foreign investment is taken to span international franchising and trade marks.

Foreign investor status is, in most cases, decided by the country domicile of the investor or source of his funds, and not the investor's nationality. A Nigerian ordinarily resident in England or a Nigerian using his funds from England to establish or buy into an enterprise in Nigeria is a foreign investor.

As a matter fact, one of the declared objectives of the Structural Adjustment Programmes (SAP) and the Second Tier Foreign Exchange Market Decree that came into effect in September 1986 was to encourage Nigerians, with funds abroad to repatriate them and re-invest in Nigeria. It is probably in recognition of this point that Section 4(b) of the new Decree makes reference to investment climate for "both Nigerian and non-Nigerian investors."

It should be noted however, that Article 25(2) of the United nations Convention setting up the International Centre for Settlement of Investment Disputes as well as Article 136(1) of the

1983 United Nations Convention setting up the Multilateral Investment Guarantee Agency specifically excluded local investors (indigenes) of the host country from their investment despite settlement and protection schemes.

The foreign investment regulatory mechanism of each country is normally tailored to the context of the country's current development status and its strategic economic goals. The regulatory mechanism is strategically built into the country's development policy and it is also indicative of the country's level of readiness to absorb foreign investment (normally determined by how liberal or bureaucratic the regulations are). A country that aims to boost the foreign exchange base of its economy may choose to direct its foreign investment policy and regulatory framework at export earnings by setting up free enterprise zones (such as Nigeria's Exports processing Zone (EPZ) where foreigners are given virtually every conceivable incentive for export manufacturing. A country pursuing rapid industrialization may focus its foreign investment incentives on some strategic sectors of its economy and promote joint ventures, technology transfer, franchising, etc in those sectors. In Nigeria, and the Philippines, there are "pioneer" status businesses, which are the primary focus of development planners and foreign investors. In the Philippines, there is an additional yearly priorities plan list. An investor wishing to tread the waters of any country's economy will need a good team of stockbrokers, financial advisers, management consultants and legal practitioners to advise and negotiate his business profile in that country.

In the current dispensation where developing countries are under huge external debt burdens, direct foreign investment such as equity participation offers overwhelming advantages. For example, it offers capital and finance (without the risk or burden of interest payments or accumulation of interests as in foreign loans), transfer of technology and importation of managerial skills. A country will be better off promoting its economy to foreign investors rather than relying on foreign loans to finance specific sectors of the economy.

Policies and regulations regarding foreign investments take generally similar patterns among developing countries. There is usually a statutory enactment (the "New Nigerian Investment Promotion Commission Decree" in Nigeria, "Investment promotion Law," in Syria, "Omnibus Investment and Regulate Foreign Investment" in Mexico, "Investment Promotion Act" in Thailand and "Foreign Investment Law" in Argentina).

A Government Department is then set up specifically for the purpose of supervising the implementation of the enabling status and administrative requirements as well as assisting intending investors to start up. We have the Nigerian Investment Promotion Commission in Nigeria (before now it was the Industrial Development Coordination Committee), the Registry of Foreign Investments in Argentina, the National Registry of Foreign Investments in Mexico, the Board of Investments in Philippines and the Supreme Investment Council in Syria. In some cases there are subordinate bodies that assist the main supervisory Departments.

This is followed by a set of codes/regulations/guidelines/instruments, which set out the procedure of implementing the main legislative enactment as well as beef up grey areas of the enactment by providing details. These codes also go by various names: "Regulations to the Law to Promotion of Mexican Investment and Regulate Foreign Investment" for Mexico, the "Implementing Instructions" for Syria and the 1989 "Industrial Policy" for Nigeria. The statue and the subsequent guidelines that follow normally provide for:

- Tax relief/holidays (ranging from total exemption to tax cuts, for specified periods).

- Foreign indigenous control (maximum foreign shareholding structure, voting or non-voting status, board structure for foreign Directors, Management structure between indigenes and foreign employees etc).

- Cross-border capital flow (the minimum foreign exchange or capital input, limits or scopes of transferability of investment capital or profits).

- Qualifying projects (economic activities open to foreign investment and prohibited list for foreign participation). Protection of foreign investments from adverse national policies and developments such as nationalizations, coups, procedure for resolution of investment disputes or the adoption of an international recognized procedure. Protection of industrial/intellectual property vis-à-vis the need for the country to tap the technological and managerial input from the foreign investors.

There was no attempt in the two decrees to harmonise them with existing legal framework. Some of the existing statutes not mentioned include the Nigerian Export Processing Zones Decree (which allows foreign investors a good measure of liberalizations for export manufacturing within an economic enclave), the

Industrial Development (income tax relief) Act (which sets out tax relief), the Immigration Act (which sets out guidelines and visa policies for foreign investors and their resident management nominees, and the National Office of Industrial Property Act (which gives the National Office of Technology Acquisition and Promotion NOTAP the power to monitor and regulate technology transfer into the country).

Nonetheless, it is possible to attempt a review. The review can be broadly categorised into the structure of the New Nigerian Investment Promotion Commission (administrative structure, functions and powers), incentives prohibitions and miscellaneous.

The decree established a governing council for the Commission which consist of a Chairman appointed by the Head of State, Directors General of some relevant Federal Ministries and Government Parastatals, the Governor of Central Bank, six persons appointed by the Head of State from the Private Sector of the Nigerian economy, and a Secretary appointed also by the Head of State.

The Council is responsible for discharging the functions of the Commission which include investment promotion and monitoring (Sections 4(c), 4(g) and (22) liasing with relevant agencies on behalf of the foreign investor (Section 4(h) 22 and 28) (a function previously handled by the prescribed industrial development co-ordination committee), advising the Government on investment climate in the country (Section 4(b), 4(k) and 4(1), providing support services to potential investors (section 4(j) and negotiating special incentive packages for strategic or major investment section 22).

The Commission has the power to issue guidelines specifying activities open to foreign business participation, procedures and incentives applicable, but these are subject to government policies (Sections 23 & 31).

2.6: FOREIGN PRIVATE INVESTMENT IN NIGERIA:

Foreign Private investment in Nigeria continued to get Government attention, as more areas of the economy are opened up to foreign investors. Also, various incentives to attract such investment into the country, continued to put in place. As in many developing countries, the availability of such funds enhances the position of balance of payments. However, the desired contribution from the foreign private investment segment to the external sector is yet to be fully achieved.

It should be noted here that, foreign investment in Nigeria covered establishments that are either wholly foreign, nationally owned or joint ventures, which Nigerians have partnership with foreigners.

2.7 FLOW OF FOREIGN INVESTMENT:

The results of the above showed that the level of inflow of foreign private investments in the year was ₦10,450.2m, while outflow of the funds from the sector was ₦10,914.5m. The flow patterns emanating from companies of the United States of America and Western Europe (excluding United Kingdom) origins were largely responsible for the net flow depicted during the year under review, as the aggregate outflows of these groups of enterprises far exceed their overall inflows.

Foreign investments are normally found in the seven economic groupings in Nigeria as follows: (a) Mining and Quarrying (b) Manufacturing and Processing (c) Agriculture, Forestry and Fisheries (d) Transport and Communication (e) Building and Construction (f) Trading and Business Services, and (g) Miscellaneous.

As a major sector of the economy, the Manufacturing and Processing category reported the largest net inflow amongst all the classifications considered. At ₦932.6m the new inflow of M and P was more than twice the net inflow recorded by the Mining and Quarrying Sector and about four times that shown by the Building and Construction Sector.

Agriculture, Forestry and Fisheries recorded a net inflow of ₦199.9m for the year. As per the practice in previous years, foreign investment hardly came in through the components of trade and supplies credit and liabilities but mainly through unshared profits and changes in foreign share capital and principally through companies of United Kingdom and other unspecified countries.

The dominance of companies from Western Europe (excluding the United Kingdom) in the Building and Construction Sector continued to be upheld as they provided over 50 percent of the total inflow of ₦261.8m

Companies grouped under miscellaneous economic activity reported a net inflow of ₦608.4m in the review years. Activities of the companies of the United State of America origin were largely responsible for the substantial net inflow in the sector as they accounted for ₦949.4m through liabilities to Head Office out of the total amount of ₦991.0m net out payments for the sector. Inflows were barely one-third of the aggregate outflows.

2.8: CHARACTERISTICS OF OVERSEAS INVESTMENT:

The characteristics of overseas investments are:

(a) The possibility of expansion beyond what a limited home market would allow.

(b) More efficient service to existing foreign markets, examples, through transport earnings or by a better response to local requirements.

(c) Especially favourable local conditions in the overseas country, example, a good record in industrial relations or cheap sources of raw materials.

(d) Geographical diversification, which may be as effective at reducing, overall risk as product diversification.

(e) The avoidance of onerous domestic restrictions, example, high taxation, health and safety laws, monopoly laws.

Special RISKS attached to it:

(a) Political instability in the overseas countries; there may be the risk of social disruption or of the sequestration of property.

(b) Restriction on the remission of profits back to the home country arising from exchange control regulation.

(c) Economic instability in the overseas country; there may be the risk of uncontrolled inflation or of the collapse of the banking system.

(d) Fluctuations in the relative valuations of the foreign and domestic currencies so that losses on exchange occurs.

(e) Cultural differences which cause home management to behave in an appropriate and thus less effective way.

Basically, the decision on whether or not to invest overseas in the same as any other investment decision.

2.9: INVESTMENT OPPORTUNITIES:

(a) INVESTOR PREFERENCES AND INDIFFERENCE CURVES:

Indifference curves can be used to represent investors' preferences for risk and return, E(r). Indifference curves are drawn such that investors' satisfaction is equal all along their length; they are sometimes called "utility isoquents." Assuming that investors dislike risk and like larger expected returns, the indifference curves are positively sloped. The amount of slope depends on the investors' particular preferences for a safe return versus a larger and more risky return. The indifference map of a timid, risk-fearing investor is shown in figure (a). While figure (b) depicts an aggressive, risk-averting investor who will accept large risks for a small increase in return. Both the timid and aggressive investors dislike risk. However, the timid investor in figure (a) dislikes risk more than the aggressive investor in figure (b).

A risk lover (such as an inveterate gambler) would have indifference curves concave to the origin.

The higher-numbered utility isoquents represent higher levels of satisfaction. These curves grow more vertical as they arise, reflecting a diminishing willingness to assume risk.

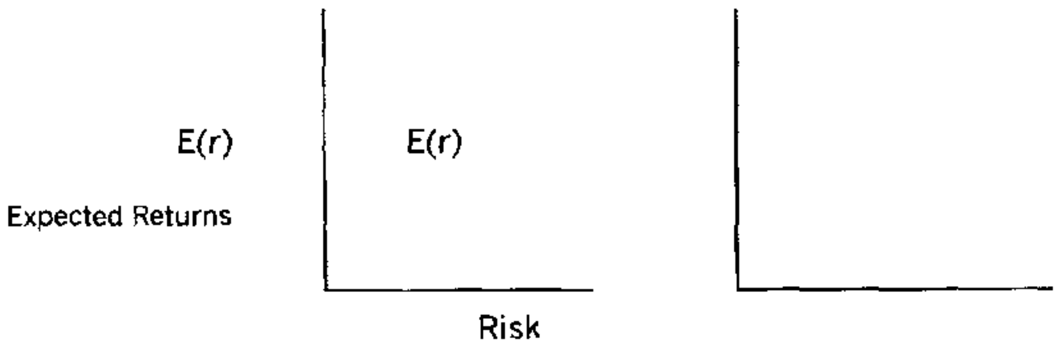


Fig. (a) Timid Risk-averter's Indifference Map

Fig.(b) Aggressive Risk-averter's Indifference Map

The investor will seek the highest indifference curve tangent to a dominant opportunity locus, MN, in fig.(c) below, and thus reach a point such as 'O' where his satisfaction is maximum.

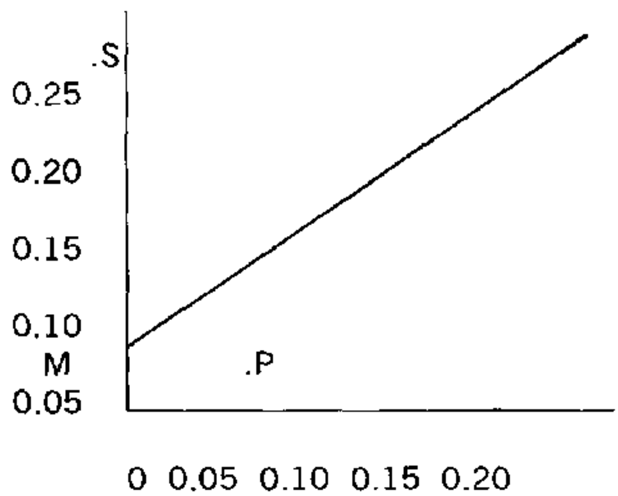


Fig.(c) A Risk – Return Preference Ordering

Assets such as P in Fig (c), which are dominated, will suffer from lack of demand, and their price will fall. (Technically, P could represent an individual security in equilibrium if that security were held in an efficient portfolio). The rate of return is the ratio of dividends plus capital gains or losses, all over the purchase price. After a price fall, the denominator of the ratio will be reduced enough to increase the value of the rate of return. This means that the equilibrium return on P will move towards MN after the temporary capital losses cease. Points above the line MN (like S) represent undervalued assets whose prices will be bid up. The resulting higher equilibrium price (that is, higher denominator in rate-of-return ratio) will lower the expected rate of return on the previously undervalued asset, and it will tend to be relocated on MN.

An *equilibrium rate of return is a rate of return on the ray MN.* Equilibrium returns have no tendency to change, note however, that price changes may be necessary to maintain equilibrium rates of return.

(b) **<u>OPPORTUNITY SET:</u>**

Plotting all investments' E(r) and T in Fig. (d) below and correcting these possible investments with lines representing possible combinations (that is, portfolios) of the individual assets generates an opportunity set that might take on the escalloped quarter-moon shape shown. Within the opportunity set are all individual securities as well as all portfolios not containing M. Thus, all points within this space are feasible investments. The left side of the opportunity set between points E and F is the <u>efficient frontier</u> of the opportunity set. It comprised of all "efficient investments."

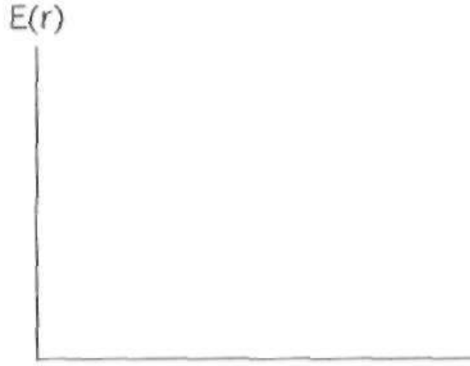


Fig. (d)[1] Without Borrowing And Lending

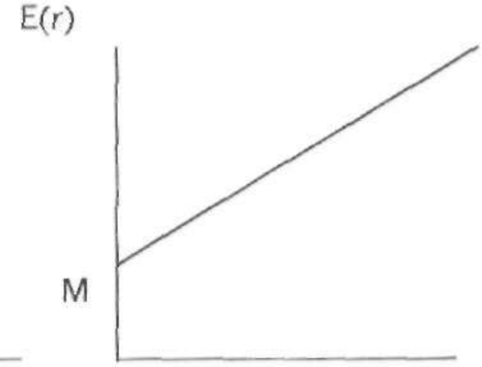


Fig. (d)[2] With Borrowing & Lending ar Risk less Rate.

Fig.(d) Two sets of investment Opportunities.

Efficient investment definition: An efficient investment has either (1) more return than any other investment in its risk class (that is, any other security with the same variability of returns), or (2) less risk than any other security with the same return. The efficient frontier of the opportunity set dominates all other investments in the opportunity set. These investments are sometimes said to be Markowitz efficient, referring to Harry Markowitz, the originator of two parameters portfolio analysis.

Jack Hirschleifer expressed the reason for the particular shape of the efficient frontier of the opportunity set as follows:

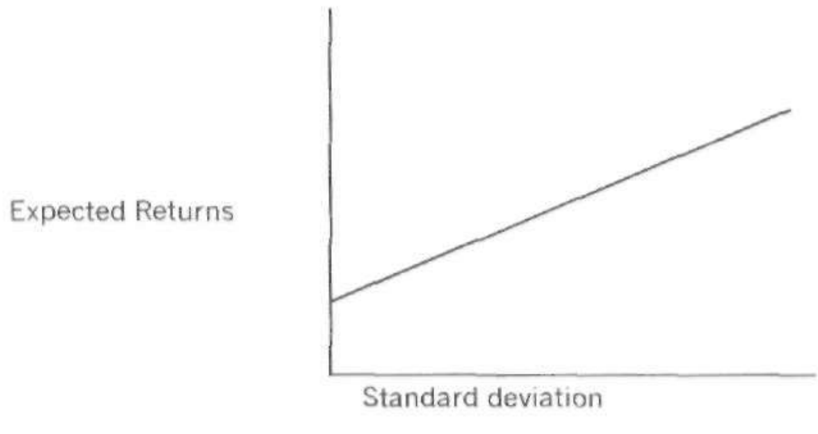
The curvature shown for the efficient frontier – opposite to that of the E(r), (T) indifference curves – follows also from the covariance effort, since moving to higher values of portfolio E(r) progressively reduces the number of securities that can be held in combination so as to lower T.

Adding the possibility of borrowing or lending at rate M a new opportunity set, the line MON is created. The line MON represents the continium of possible portfolios as investor could construct from M and O by borrowing and lending at rate M. MON is called the capital market line (CML). As graphed fig. (d), the CML is the true efficient frontier – it dominates all other investment opportunities. The CML can be viewed as the loans of the maximum rates of returns for each risk class. The CML represents the opportunity by investing in less efficient investments.

Each point on the CML is determined by values for E(r) is the cost of capital, or capitalization rate, appropriate for that particular risk class.

(c) **CAPITAL MARKET LINE (CML):**

Standard deviation point for the market portfolio is known as the capital market line. This line describes the trade-off between expected return and risk for various holding of the risk-free security and the market portfolio.



Thus, the two things are involved-the price of time and the price of risk. The former is depicted by the intercept of the capital market line and the vertical axis. The risk free rate, then, can be thought of as the reward of waiting. The slope of the capital market line represents the market price of risk. It tells us the amount of additional expected return that is required for an increment in standard deviation. Thus, the CML depicts the ex ante equilibrium relationship between return and risk.

2.10: SEPARATION THEOREM:

Note that in the construct of the capital market line, the utility preference of the individual affect on the amount that is borrowed or loaned. They do not affect the optional portfolio of risky assets. Turning to Fig. (e), the investor would select portfolio O for risky assets no matter what the nature of his indifference curves. The reason is that when a risk-free security exists, and borrowing and lending are possible at the rate, the market portfolio dominates all others. Thus the individual's utility preferences are independent or separate from the optimal portfolio of risky assets. This condition is known as the Separation Theorem. But another way, it states that the determination of an optimal portfolio of risky assets is independent of the individual's risk preferences. Such a determination depends only on the expected returns and standard deviations for the various possible portfolios of risky assets, and then he determines the most desirable combination of risk-free security and this portfolio. Only the second phase depends on his utility preferences.

2.11: CAPITAL – ASSET PRICING MODEL:

Based on these consideration of behaviour by the risk-averse investor, there is implied an equilibrium relationship between risk and expected return for each security. In market equilibrium, a security will be expected to provide a return commensurate with its unavoidable risk. This is simply the risk that cannot be avoided by diversification.

The greater the unavoidable risk of a security, the greater the return that investors will expect from the security. The relationship between expected return and unavoidable risk and the valuation of securities in this context in the essence of the capital-asset pricing model. This method was developed by Sharpe and Lintner in the 1960s, and it has had important implications for finance ever since.

As with any model, there are assumptions to be made. First, we assume that capital markets are highly efficient where investors are well informed, transactions costs are zero, there are negligible restrictions on investment, and no investor is large enough to affect the market price of the stock. We also assume that investors are in general agreement about the likely performance and risk of individual securities and that their expectations are based on a common holding period, say one year.

There are two types of investment opportunities with which we will be concerned. The first is a risk-free security whose return over the holding period is known with certainty. Frequently, the rate on Treasury Bills is used as surrogate for the risk-free rate. The second investment opportunity with which we are concerned is the market portfolio of common stocks. It is represented by all available stocks, weighted according to their values outstanding. As the market portfolio is somewhat unwieldy thing with which to work, most people use a surrogate such as Standard x Poor's 500 – stock index.

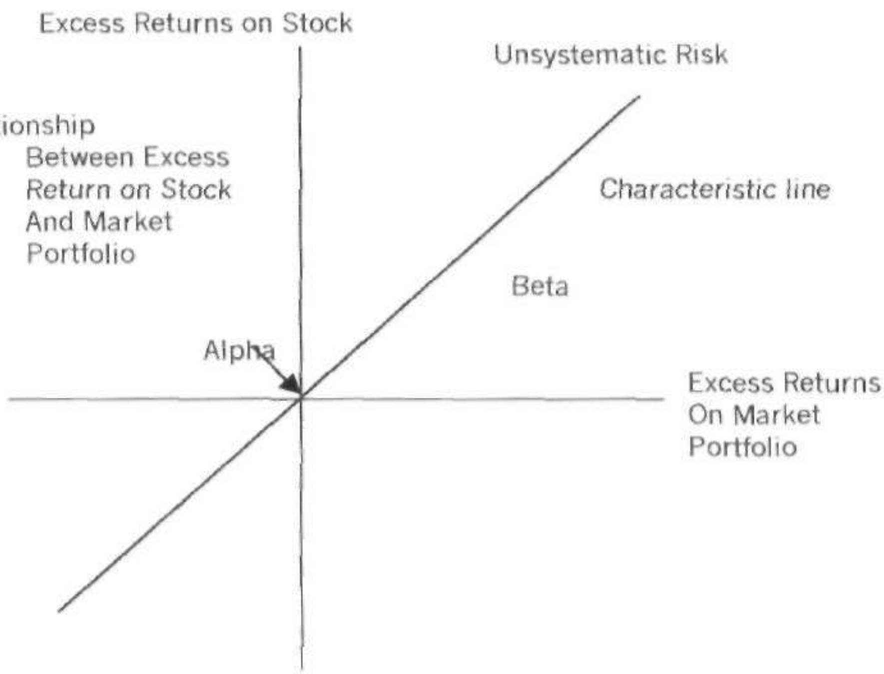
We now are in a position to compare the expected return for an individual stock with the expected return for market portfolio. In our comparison, it is useful to deal with returns in excess of the risk-free rate. The excess return is simply the expected return less the risk-free return. If the expected relationship were based upon past experience, excess returns would be calculated using historical data. Suppose, for example, that we felt that monthly returns over the last five years were a good proxy for the future. For each of the last sixty months, we then would compute excess returns for the particular stock involved and for the market portfolio, as represented by Standard and Poor's 500 – stock index.

Having calculated historical excess returns for the stock and for the market portfolio, these returns are plotted. Figure (f) compares the expected excess returns for a stock with those of the market portfolio. The dots represent the monthly plots of the excess returns, sixty in all. The dark line fitted to the dots describes the historical relationship between excess returns for the stock and excess returns for market portfolio. This line is known as the characteristic line, and it is used as a proxy for the expected relationship between the two sets of excess returns.

One notes in the graph that the greater the expected excess return for the market, the greater the expected excess return or the stock. Three measures are important.

The first is known as the alpha, and it is simply the intercept of the characteristic line on the vertical axis. If the excess return for the market portfolio were expected to be zero, the alpha would be the expected excess return for the stock. In theory, the alpha for an individual stock should be zero. Using past data to approximate the characteristic line, however, alpha that differ from zero might be observed if the market were in disequilibrium, if there were market imperfections, or if there were statistical problems. We assume for now, however, that the alpha for a particular stock is zero.

Fig. (f) Relationship Between Excess Return on Stock And Market Portfolio



2.12: THE SYSTEMATIC RISK AS MEASURED BY BETA:

The second measure with which we are concerned, and the most important is the Beta. The Beta is simply the slope of the characteristic line. It depicts the sensitivity of the security's excess return to that of the market portfolio. If the slope is one, it means that excess returns for the stock vary proportionally with excess returns for the market portfolio. Put another way, it has more systematic risk than the market as a whole. This type of stock is often called an "aggressive" investment. A slope less than one mean that the stock has less unavoidable or systematic risk than the market as a whole. This type of stock is often called a "defensive" investment.

The greater the slope of the characteristic line for a stock, as depicted by its Beta, the greater its systematic risk.

This mean that for both upward and downward movements in market excess returns, movements in excess returns for the individual stock are greater or less depending on its Beta. For example, if the Beta for a particular stock were 1.70 and the market excess return for a specific month were - 2.00%, this would return expected excess return for the stock of (1.70 x – 2.00) – 3.40%. Thus, the Beta represents the systematic risk of a stock due to underlying movements in security prices. This risk cannot be diversified away by investing in more stock, as it depends on such things as changes in the economy and in the political atmosphere, which affect all stocks.

2.13: THE USYSTEMATIC RISK:

The last of the three measures with which we are concern is the unsystematic risk of stock. The risk is described by the dispersion of the estimates involved in predicting a stock's characteristic line.

In Fig. (f), it is represented by the relative distance of the dots from the solid line. The greater the dispersion, the greater the unsystematic risk of a stock. By diversification of stocks in one's portfolio, however, a person is able to reduce unsystematic risk.

Thus, the total risk involved in holding a stock is comprised of two parts:

Total Risk =	Systematic Risk	+	Unsystematic Risk
	(non-diversifiable or unavoidable)		(diversifiable or avoidable)

The first point is due to the overall market risk and therefore, cannot be diversified away. Examples here include changes in the overall economy, tax reform by the Government, and a change in the world energy. These risks affect securities overall and, consequently, cannot be diversified away. In other words, even the investor who holds a well-diversified portfolio will be exposed to those types of risk. The second risk component, however, is unique to the particular company, being independent of economic, political and other factors that affect securities in a systematic manner. Examples here include, a wild cat strike affect only the company, a new competitor who begins to produce essentially the same product, and a technological breakthrough that makes an existing product obsolete. By diversification, this kind of risk involved in holding a stock is relevant; part of it can be diversified away.

It has been shown that unsystematic risk is reduced at a decreasing rate toward zero as more randomly selected securities are added to the portfolio. Various studies suggest that fifteen to twenty stocks selected randomly are sufficient to eliminate most of the unsystematic risks of a portfolio. Thus, a substantial reduction in unsystematic risk can be achieved with a relatively moderate amount of diversification. Consequently, diversification can be viewed in the manner portrayed in fig. (g). As the number of randomly selected securities hold in a portfolio is increased, the total risk of the portfolio is reduced in keeping with the reduction in unsystematic risk. However, such a reduction is at a decreasing rate. Efficient diversification reduces the total risk of the portfolio to the point where only systematic risk remains. Implied then in the Capital-Asset pricing model is that all risks other than systematic risks has been diversified away. Stated differently, if capital markets are efficient and investors at the margin are well diversified, important risk of a stock is its unavoidable or systematic risk.

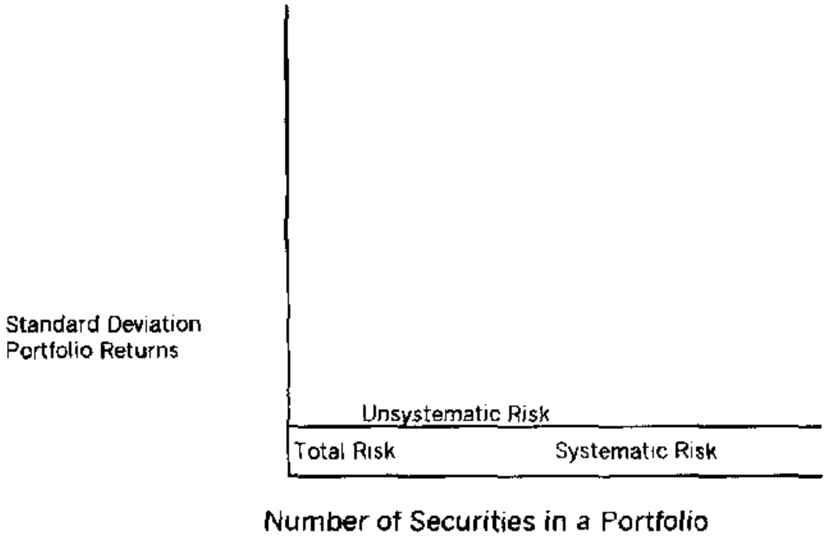


Fig (g)

2.14: EXPECTED RETURN FOR INDIVIDUAL SECURITY:

For the individual security, then, the relevant risk is not the standard deviation of the security itself (total risk), but the marginal effect the security has on the standard deviation of an efficiently diversified portfolio (systematic risk). As a result, a security's expected return should be related to its degree of systematic risk, not to its degree of total risk. The former is the risk that matters to an investor holding a well-diversified portfolio. If we assume that unsystematic risk is diversified away, the expected rate of return for stock J is:

$$Rj = i + (\overline{Rm} - I)\,Bj \cdots\cdots (8)$$

Where i is the risk-free rate, Rm is the expected value of return for the market portfolio, and Bj is the Beta co-efficient for security j as defined earlier. As can be seen, the greater the Beta of a security, the greater the risk and the greater the expected return that is required. By the same token, the lower the Beta, the lower the risk, the more valuable it becomes, and the lower the expected return that is required.

Put another way, the expected rate of return for a stock is equal to the return required by the market for a risk less investment plus a risk premium. In turn, the risk premium is a function of (1) the expected market return less the risk-free rate, which represents the risk premium required for the typical stock in the market; and (2) the Beta co-efficient. Suppose that the expected return on short-term Treasury Securities were 7%, the expected return on the market portfolio were 13%, and the Beta of TCF Corporation were 1.3. The last indicates that TCF has more systematic risk than the typical stock. Given this information and using equation 8 of the expected return on TCF's stock would be:

$$\bar{R}j = 0.7 + (1.3 - 0.7)\ 1.3 = 14.8\%$$

What this tells us is that on average the markets expect TCF to show a 15% annual return. Because TCF has more systematic risk than the typical stock in the market place, its expected return is higher. Suppose now that we are interested in a defensive stock whose Beta co-efficient is only 0.7. Its expected return is; $Rj = 0.7 + (0.13 - 0.07)\ 0.7 = 11.2\%$. Because this stock has less systematic risk than the typical stock in the market, its expected return is less. Therefore, different stock will have different expected returns depending on their Betas.

2.15: **THE SECURITY MARKET LINE:**

In market equilibrium, the relationship between an individual security's expected rate of return and its systematic risk, as reassured by Beta, will be linear. The relationship is known as the security market line, and it is illustrated in Fig. (h). Under the assumptions of the capital-assets model, all securities lie along this line. The figure shows that the expected return on a risk security is a combination of the risk-free rate plus a premium for risk. This risk premium is necessary in order to induce risk-averse investors to invest in a risky security. We see that the expected return for the market portfolio is Rm, consisting of the risk-free rate, e, plus the risk premium, Rm – e. Inasmuch as the unsystematic risk of a security can be eliminated by the well-diversified investor, investors overall are not compensated forbearing such risk according to the capital-asset pricing model. While the investor in only a single security will be exposed to both systematic and unsystematic risk, he will be rewarded only for the systematic risk that is borne.

Infact, it is possible for a security with a great deal of total risk to actually have lower systematic risk than a security with only a moderate amount of total risk.

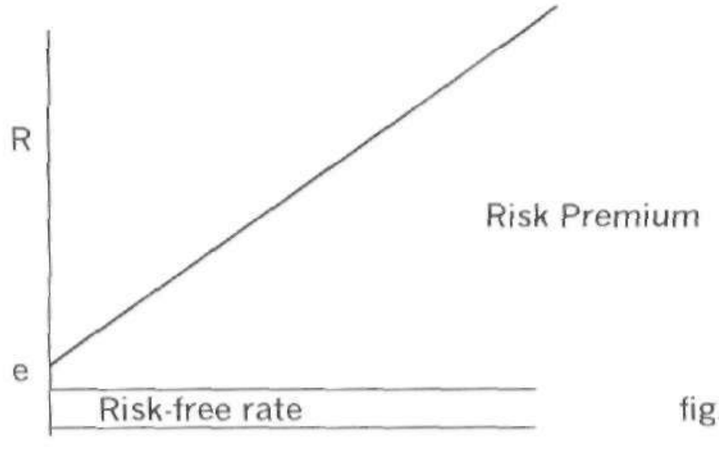


fig. R

Take for example, the case of a new mining company that is endeavouring to discover new veins of gold and silver in the Rocky Mountains. While the total risk of the company is considerable, the finding of gold and silver deposits is almost a chance event. As a result, the security's return bears little relation to the market overall. In a well-diversified portfolio, its unsystematic risk is unimportant.

Only its systematic risk matters and this by definition is low, say a Beta of 0.2. On the other hand, the return from a stock of a large manufacturing company such as IBM or a large retailer such as Sears, Roebuck and Company is closely tied to the overall economy. Such stocks have only moderate unsystematic risk, so that their total risk may be less than that of the new Mining Company. However, their systematic risk is approximately that of the market as a whole, say a Beta of 1.0.

As an individual security, the Mining Company may be considerably more risky than IBM or Sears, Roebuck & Company. However, as part of a well-diversified portfolio, it is much less risky. As a result, its expected or required example points to the importance of differentiating systematic risk from total risk. Altogether there is a tendency for stocks with large unsystematic risk as well; there can be exceptions to this generalization.

Thus, in market equilibrium, the capital-asset pricing model implies an expected return – risk relationship for all individual securities with realizing a stream of expected future dividends depends upon the correlation of that stream with expected dividend streams available from other securities in the market. The risk of an individual security to him is the marginal effect it has on the dispersion of the distribution of possible portfolio returns. Although the model is framed in terms of certain simplifying assumptions, this basic conclusion and concept or market equilibrium hold when such assumptions are relaxed.

2.16: IMPLICATIONS FOR THE VALUATION OF THE FIRM:

Our purpose so far, has been to explore some of the foundations of valuation in a market context. No claim is made that the treatment is complete. However, the concepts discussed give us the background necessary to explore more fully the valuation implications of divisions by the individual firm. As we have seen by itself but upon other securities available for investment. By analysing divisions in relation to their likely effect on expected return and systematic risk, one is able to judge their effect on valuation. According to the presentation so far, unsystematic or risk unique to the firm is not important because it can be diversified away. More will be said about this shortly.

In keeping with the capital-asset pricing model and the separation theorem, which follows, we are able to make certain generalization of a firm without having to determine directly the risk preference of investors. If we assume that management wishes to act in the best interest of the owners of the firm, it will attempt to maximize the market value of the stock. The market value per share can be expressed as the present value of the stream of expected future dividends:

$$Po = \sum_{t=1}^{x} \frac{Dt}{(1+r)^t}$$

as we have in (3) above

The capital-asset pricing model approval allows us to determine the appropriate discount rate to employ in discounting expected dividends to their present value. The rate used will be the risk-free rate plus a premium sufficient to compensate for the systematic risk associated with the expected dividend stream. The greater the systematic risk, the greater the risk premium and the return required, and the lower the value of the stock, all other things the same.

Thus the discussion here is pointed towards determining required rates of return for individual securities.

Seemingly, all decisions of the firm should be judged in a market context using the capital-asset pricing model. Recall, however, that the model presented has a number of simplifying assumptions. Some of these do not hold in real world. To the extent that they do not, unique or unsystematic risk may become a factor affecting valuation. Indeed, a good portion of our discussion is devoted to exploring market imperfections that make unique risk a factor of importance.

Nonetheless, the capital-asset model serves as a useful framework for valuating financial decisions. The basic tenets of the model hold even when assumptions are relaxed to reflect real world condition. Given that investors tend to be risk-averse, a position trade-off exists between risk and expected return for efficient portfolios. Moreover, expected return for individual securities should bear a positive relationship to their marginal contributions of risk to the market portfolio (i.e. systematic risk).

2.17: **RELAXING ASSUMPTIONS IN THE MODEL:**

In this Section, I briefly examine the effect of relaxing some of the earlier assumptions of the capital-asset pricing model. The first is that the investor can both borrow and lend at the risk-free rate. Obviously, the investor can lend to this rate. If the borrowing rate is higher, however, an imperfection is introduced, and the capital market line is no longer linear throughout. As shown in Figure 1, it is straight through market portfolio M_1. The segment represents combinations of the risk-free asset and the market portfolio M_1. Because the borrowing rate is higher, another tangency point is introduced, namely M_b. The relevant portion of this line is from point M_b to the right; it represents borrowing to invest in the market portfolio M_b.

The segment of the capital market line between M_1 and M_b is simply a portion of the entire frontier of opportunity set

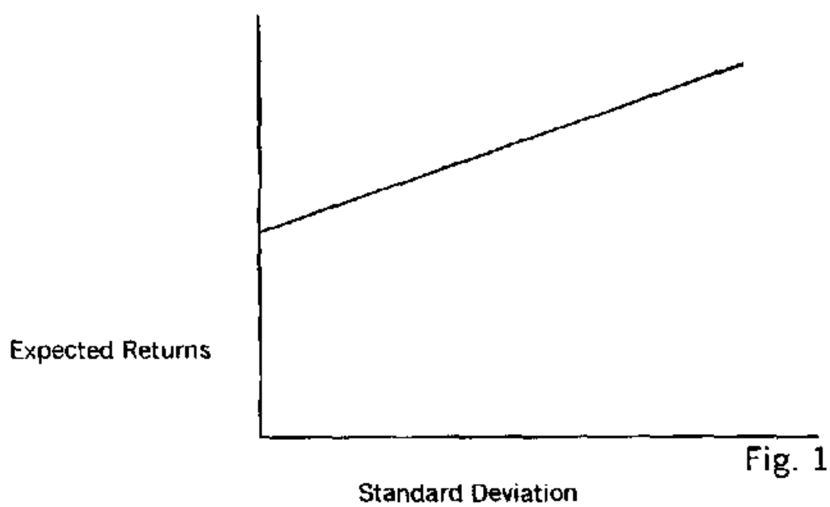


Fig. 1.

of risky securities: As is evident from the figure, the greater the spread between borrowing and the lending rates, the greater the curved segment in the capital market line. Different borrowing rates for different investors complicate the picture even more because the equilibrium process involves on interaction among investors.

Relaxation of another major assumption, homogenous expectations, complicates the problem in a different way. With heterogeneous expectations, a complex blending of expectation, wealth, and utility preferences across individual investors emerges in the equilibrium process. In essence, each investor has his own capital market line. The principal implication is that precise generalizations are not possible; the overall capital line becomes fully. With only moderate heterogeneity in expectations, however, the basic tenets of the capital-asset pricing model still hold and rough estimates of the expected return-risk trade offs for portfolios and individual securities are possible. Still, the lack of precise description must be recognised.

The transaction costs also affect market equilibrium. The greater these costs, the less investor will undertake transactions to make their portfolio truly efficient.

Rather than all portfolios being on the efficient or capital market line, some may be on one side or the other because transaction costs more than effect the advantages of being right on the line. In other words, there may be bands on either side of the capital market line within which portfolios would lie. The greater the transaction's costs, the wider the hands might be. Similarly, when securities are not infinitely divisible, as in the case in the real world, investors are able to achieve an efficient portfolio only up to the nearest share of stock or the nearest bond.

Another capital market imperfection is the differential tax on dividends and capital gains. The imperfection makes dividend – paying stocks less attractive than "capital gains" stocks, which pay little or no dividends, all other things the same. The last imperfection we consider is imperfections in information to investors. Recall that an assumption of perfect capital markets is that all information about a firm is instantaneously available to all investors without cost. To the extent that, there are delays in and costs to information, there will be differing expectations among investors for this reason alone. The effect here is the same as that for heterogeneous expectations, which I discussed earlier on.

In summary, the introduction of capital market imperfections and the relaxation of other assumptions complicate the generalizations possible with the capital-asset pricing model.

A number of authors have expounded the model by relaxing the major assumptions and have found the theory to be fairly robust even with such relaxations. However, while the basic relationship is not as clear or as exact as described previously. In general, the greater the imperfections the more the unique, unsystematic, risk of the firm. Recall that the capital-asset pricing model assumes that this risk can be diversified away. If it cannot, certain implications of the model do not entirely hold.

2.18: EQUITY MARKETS IN DEVELOPING COUNTRIES THE RANGE OF MARKETS:

Most developing countries have equity market although many are embryonic or dormant. Some have a considerable history with, for example, the informal trading of share in Bombay trading back to the 1830s. The International Finance Corporation (IFC) monitors 19 emerging markets on a weekly basis and keeps a less detailed tract of a further 11. Together, the market capitalization of the 30 markets totals about US$620m with over 7,000 companies listed. Just two markets in East Asia (Taiwan and Korea) dominate this picture, accounting for US$384b of the total market capitalization (62%), while a further four (India, Malaysia, Brazil and Mexico) account for another US$145b in market capitalization (23%). The same six markets account for almost

4,200 of the companies listed, with India (Bombay) alone accounting for over 2,000. The number of stock however, that have the characteristics most desired by overseas investors is a small fraction, subjectively estimated at about 15% of the total listed.

Market characteristics vary widely. At one end of spectrum, Taiwan's market is speculative and dominated by the individual retail investor, (turnover of US$275b in 1988) while, by contrast, other markets may be dominated by passive holders of the stock, frequently family owners, banks and institutional including Government holders.

Emerging markets account for about 4% of the global capitalization of securities markets. These same developing countries account for 11% of world GNP. The lower weight of their securities in the total as compared with their GNP is sometimes taken as an indicator of the potential for emerging markets to increase their relative share in the world markets as indicating the scope for equity markets to play a larger role in the financing of economic growth in developing countries.

2.19: THE CASE FOR STRONGER EQUITY MARKETS:

Developing countries have frequently had an ambivalent attitude towards their equity markets. Neglect has reflected, in part, a frequent bias against the Private Sector, an association of the market with income inequalities, financial sector distortions in favour of borrowing (partly reflecting a desire to finance the public sector cheaply) and, in some markets, a concern about foreign investors or the status of expatriate-owned companies.

Attitudes are, however, changing as part of an overall shift in favour of private sector-led development as well as appreciation of the need to attract foreign capital in non-debt creating forms.

Developing countries stand to gain a number of advantages from encouraging the growth of their emerging equity markets. From the domestic point of view, a well functioning equity market:

- Provides an additional channel for encouraging and mobilising domestic earnings;

- Fosters the growth of the domestic financial services sector and the various forms of institutional savings;

- Provides savers with better protection than most debt investments against inflation and currency depreciation, thus alleviating two of the major factors which encourage domestic capital flight, as well as providing a vehicle to attract back earlier flight capital;

- Facilitates the transfer of enterprises from the public sector to the private and thus helps reduce the size of public sectors.

- Assists in the transfiguration of the private sector from "ownership capitalism" to managerial capitalism;

- Improves the efficiency of capital by providing market measures of returns in capital and a market mechanism for management changers as compared with the administrative or political mechanisms of public sector corporations;

- Improves the gearing of the domestic corporate sector and helps reduce corporate dependence of borrowings;

- Provides an incentive for high standards of accounting and disclosure, which will both improve management performance and facilitate the eventual entry of domestic enterprises to the international capital market.

2.20: **EQUITY MRKETS AND FINANCIAL STRATEGY:**

In their assessment of these different factors and the role that equity markets can play in development, the authorities in developing countries has two very different examples from the experience of industrialised countries. In the case of Germany and Japan, fast economic growth has been associated with back-directed credit flows, while capital markets have played a more prominent role in investment in the United States and United Kingdom (although in the recent period the corporate sector is the United States has been has been a net withdrawer of equity from the market).

Despite the lack of a clear connection between economic growth and development of equity markets, in present financial circumstances four considerations would appear decisive for developing countries.

First, many developing countries face a pressing need to improve the efficiency of their investments. Capital markets can be helpful because public exposure of company performance focuses attention of corporate management on the return of capital, and encourages higher standards of accounting, financial planning and corporate disclosure. There is a market valuation of management and the potential for more transparent measures of efficiency in the corporate sector.

Secondly, Government financing creates a severe strain on domestic credit markets in many developing countries. Greater reliance on equity financing and the administrative allocation of credit and help mitigate cases where private sector investment would otherwise be crowded out by public sector claims on credit flows.

Thirdly, investment in domestic equities provides an alternative to investment in real estate. This encourages public savings and directs them into more productive uses.

Fourthly, from the perspective of attracting external finance, many developing countries face poor prospects of attracting net new flows of banking credit. On the other hand, the willingness of investment managers in the major capital markets to consider the acquisition of foreign assets has been growing rapidly in recent years and equity markets in developing countries have good prospects of obtaining a proportion of these flows. It is estimated that international equities trading has exceeded US$1m in recent years, equivalent to about one out of every ten trades.

In the table, the ratio is shown as rising from 0.2% of the total assets to 0.5% (equivalent to just over 3% of their foreign equity holdings). On this basis, the stock of foreign investment in emerging markets is shown to rise from US$15b to US$100b by the year 2000. If however, the relevant authorities for emerging equity markets take the steps necessary to reduce barriers for foreign portfolio investors, to foster their markets and to increase the supply of stocks, then investment in these markets could come to be seen as part of normal diversification strategy for international asset managers. As a result, the ratio of assets placed in them could increase further than shown and come into line with the share of emerging equity.

Assets in emerging markets:

		1989 (US$ Billion) (Estimates)	2000 (US$ Billion) (Illustrates)
A	Total assets of institution investors	7,500	20,000
B	Of which assets in foreign equities (as percentage of total assets)	750 (10%)	3,000 (15%)
C	Assets of non-residents in emerging markets	15	1,000
D	*Total capitalization of emerging markets*	620	1,000

Assets of non-resident in emerging markets as a percentage of:

(i) Total assets of institutional investors
(A) 0.2% 0.5%

(ii) Foreign equities
(B) 2.0% 3.3%

(iii) Total capitalization of emerging markets
(D) 2.4% 5.6%

markets in global capitalization. Thus share itself could rise from 4% (end of 1988) if the growth of emerging markets is encouraged so that they grow more rapidly than developed markets. In short, a growing emerging market could lead to the figure of US$100b worth of non-resident assets in emerging markets by the year 2000 being exceeded by a large margin.

In looking at the balance of payments implications of such assumptions about investor behaviours, account has to be taken, not only sensitivity of the result to key assumptions about diversification, but also some adjustment must be made to exclude valuation gains. A rough adjustment suggests that the difference between the 1989 stock of assets in emerging markets of US$15B and a figure for the year 2000 of us$100B would be consistent with the new inflows averaging US$5B a year by the mid '90s and US$10B a year by the end of the decade, on a balance of payments transactions basis. Balance of payments inflows of portfolio investment at these or even higher levels will hinge on the willingness of countries with emerging markets to link them to the global securities business so that foreign investment in emerging markets is seen by foreign investors as part of their normal diversification strategy.

2.21: **RISKS AND REWARDS:**

Emerging markets are not yet seen as part of "normal investor diversification strategy but rather as markets where higher risks (relative to developed markets) need to be offset by the possibility of above average gains. Thus, apart from an interest in portfolio diversification the main motivation for investors to enter emerging markets is the possibility of above average long-term capital appreciation. For investment managers there is also the fear of missing a market development and a perceived need to be in a market early-particularly if there is a shortage of stock. The experiences of foreign investors with Japan in the 1960s and subsequently in Taiwan and Korea provide the main incentive. The investor community also took note that in the "crash" of 1987 some emerging markets performed better than major markets. Comparative performance is illustrated in the accompanying table.

RELATIVE PERFORMANCE (IN US DOLLAR TERMS) OF EMERGING MARKETS- CHANNELS IN IFC PRICE INDEXES (%):

COUNTRIES	END OF 1980 TO END OF SEPTEMBER 1987	END OF 1987 TO END OF SEPTEMBER 1989
ARGENTINA	-71	302
BRAZIL	-3	161
MEXICO	50	236
KOREA	165	105
MALAYSIA	36	57
TAIWAN	528	296
THAILAND	74	95
DEVELOPED MARKETS USA, S&P 500	137	40
UK, FT-ACTUARIES (500)	207	23

It can be seen from the table that the sample emerging markets did not, on average performed better than the markets of developed countries in the bull market period leading up to October 1987, emerging markets have performed better on average partly because Korea and Taiwan have been joined by other fast growing markets in East Asia while emerging markets in other regions (particularly in Latin America) have also negotiated gains.

There are few developing countries that can expect to replicate the performance of Japan, Korea and Taiwan. However, not only can individual equity markets perform well and offer the prospect of exceptional capital appreciation, even in less promising country circumstances, but also investment managers stress the fact that in some emerging markets, stocks have been undervalued when measured by the yardsticks used in developed markets (such as P/E rations). The market value indicators should be interpreted with caution as providing only a starting point in assessing values. However, it can be seen that rising rations in emerging markets in the most recent period (partly reflecting foreign investor activity) have offered opportunities for substantial gain.

Value Indicators in emerging markets:

	END OF 1996		**END OF SEPTEMBER 1989**	
	PRICE/ SAVINGS	PRICE/ BOOK VALUE RATIO	P/E RATIO	PRICE/BOOK VALUE RATIO
ASIA				
JAPAN	45.7	13.9	50.6	4.6
KOREA/TAIWAN	18.9	2.1	44.7	5.0
OTHER EMERGING MARKETS	11.6	2.0	18.2	4.5
WESTERN HEMISPHERE				
U.S.A.	14.1	1.8	13.4	2.1
EMERGING MARKETS	10.2	0.7	13.9	2.4

The markets averages shown in the table obscure differences in individual market values and, more unfortunately, the differences in individual company values which can be striking even for companies in comparable lines of activity. Some asset managers stress the importance of "Stock Selection" rather than "Portfolio diversification."

The stock value indicators table shows differences in conventional market yardsticks for the value of stocks of companies in roughly comparable sectors. It can be seen that the relevant sectors differ widely. The question for investors is whether such differences are indeed justified by different stock prospects or whether there are undervalued stocks that offer the possibility of good gains even if the overall market in which they are listed does not perform exceptionally.

INDIVIDUAL STOCK VALUE INDICATORS – END OF SEPTEMBER 1989 (COMPARABLE SECTORS):

SECTORS	P/E RATIO	PRICE/BOOK VALUE RATIO
Transport/Communication utilities (22 stocks)		
Average of 6 highest	21.9	4.34
Medium	5.8	0.91
Average of 6 lowest	2.9	0.27
WHOLESALE/RETAIL TRADE (20 Stocks)		
Average of 6 highest	25.4	6.27
Medium	12.9	2.17
Average of 6 lowest	5.5	1.11

In an attempt to assess the risks that accompany the potential rewards, most investment managers, including those emphasising stock selection rather than portfolio, will look to certain general country economic and political considerations to inform their decisions. On the political front, a generally favourable attitude to the private sector, or a willingness to see the private sector play a large role in economic development, is one litmus test. Prospects of reasonable economic growth, in real terms is another general criterion.

The attitude of foreign investors towards inflation rates and exchange rate depreciation is more complex. Investors measure their returns in a foreign currency unit – usually the US Dollar. Equity markets are generally expected to hold their value against inflation measured in domestic currencies and thus the rate of domestic price increase is not regarded as a primary risk except as an *indicator of the quality of general economic management*. Thus there is willingness to invest in countries where internal economic management (as evidenced by a high rate of inflation) has not been very effective. However, high rates of inflation (as in Latin America) can make balance sheets difficult to interpret and, in the case of Eastern Europe, the problem as compounded by the difficulties of evaluating companies in on-market oriented economies where price reforms are in process.

Exchange rate depreciation reduces capital appreciation when measured in an external currency. But the early market experience with Korea and Taiwan has been that gains in the market have for outweighed exchange rate losses in the times (until recently) when currencies such as the Won were not regarded as appreciating currencies. In addition, investment managers take the view that a depreciating currency may not be harmful to a country's prospects but, on the contrary, be necessary for faster economic growth. They hope to see faster economic growth translated into equity market gains that more than compensate for exchange rate losses. Furthermore, by selecting stocks of companies that are in the export sector, or in utilities and services with foreign earnings, they can expect their investment to benefit from currency depreciation.

The view that exchange rate risk can be benign is, however, tempered by two important qualifications. First, a rapid currency depreciation may be symptomatic of more for reaching balance of payments weaknesses such that there is risk of exchange controls affecting the repatriation of profits and principal. Secondly, transaction efficiency becomes crucial importance. In one East Asian market there is said to be a 3-4 day delay between a decision to sell and the clearing of the stock transaction and a further 30 days before the foreign exchange transaction is cleared. Such delays can be of paramount importance if the currency is unstable.

The fact that foreign investors will look beyond the immediate negative impact on their returns of a depreciating currency to the other possibly positive effects helps account for the willingness of foreign investors to consider markets such as those of Brazil and Mexico. However, non-convertibility (as in Eastern Europe) is likely to be a serious barrier to the foreign portfolio investor. Those funds established for Eastern Europe have had to address this problem by offering either an exchange rate and convertibility guarantee or the prospect of investments in exporting companies from which a return can be generated in foreign exchange. Such arrangements are difficult to frame because equitable sharing of exchange rate risk (between investor and host country) is difficult to achieve through administrative mechanisms.

The general economic and political assessment of a market's prospects appears crucial before investors will consider more specific market features. In some companies the adoption of stabilization and appropriate macro-economic policies is vital for investors. The possibility that insurance might be available to cover some of these general risks (for example interruptions to profit and principal repatriation), does not seem to be a consideration. Insurance is not seen as a factor that might encourage additional flows. On the contrary, the view appears to be that investment decisions have to be taken on the economic and political fundamentals, not because insurance might be available.

In addition to these general risks, investment managers cite a number of more specific risks, which foreign investors must face, and which, in most cases, also confronts domestic investors. Those risks most frequently cited are as follows:

- Accounting standards are frequently poor and the quality and timeliness of company and market information frequently inadequate.

- The underlying worth of securities is difficult to estimate because of unreliable company information, distribution of flotation pricing (India), the speculative nature of some markets (Taiwan), the lack of trading in others (for example where family of government holdings predominate), and because of the intricacies of inter-company accounting in the case of quoted affiliates of holding companies that are controlled by family interests;

- Insider trading is often endemic, corruption can be a factor and political interference can also add to risks in the market;

- Transactional efficiency in stock markets is widely regarded as improving, but supervisory standards are uneven and lack of price transparency (i.e. immediate publication of the true price at which significant deals are currently being struck) is another risk factor.

2.22:**MARKETS OF INTERST:**

Broadly speaking, foreign investors appear to regard the risks cited above as "facts of life" to be set against the prospects of above average gains and the advantages of portfolio diversification. The net result is investor interest in a widely range of emerging markets as shown below:

MAIN MARKETS OF INTEREST:

EAST ASIA	SOUTH ASIA	EUROPE AND MIDDLE EAST	AFRICA	LATIN AMERICA
INDONESIA	INDIA	GREECE	NIGERIA	ARGENTINA
KOREA		HUNGARY	ZIMBABWE	BRAZIL
MALAYSIA		PORTUGAL		CHILE
PHILIPINES		TURKEY		MEXICO
TAIWAN				VENEZUELA
THAILAND				

Acute political instability is a deterrent (Sir Lanka, for example) and in some markets of potential interest, actual investment cannot be realised because of lack of stock (Hungary) or prohibitive barriers to entry (Nigeria). Nevertheless, two features of this spectrum of investor interest are particularly important. First, there is a willingness to consider equity investment in highly indebted countries such as Brazil, Mexico and the Philippines and in Eastern Europe, as well as in those countries such as Korea, with well-managed external indebtedness. Secondly, there is a strong investor interest in a low income developing country such as India, and to a lesser extend other low income developing countries as well as in the middle income developing countries. The two major constraints cited by asset managers are barriers to access and a shortage of "suitable" stock.

2.23:**INVESTMENT ATTITUDES:**

HOST COUNTRY ATTITUDES AND MARKET ACCESS

a. REASONS FOR HOST COUNTRY CAUTION

Despite the interest of the foreign investor in a wide range of developing country markets, and the foreign investors' professed long-term perspective, the authorities in may developing countries have taken a cautious attitude to the foreign investor. The first major concern of the developing countries is that foreign equity investment represents an unstable inflow, which could reserve if the country encounters economic difficulties, leaving the country at the precise moment when the balance of payment is likely to be weak. The second important concern is the fear that the equity investment will provide foreign investors with an avenue of control over domestic corporations. The third concern (related to this perception of the power of the foreign investor) is that foreign investor may simply come to dominate the market, key sectors of industry and the financial services sector. Fourth, the mirror image of investor interest in offsetting high risks by above average rewards is the host country concern that portfolio investment is a particularly costly form of inflow when taking into account both dividends and future redemption (outflows of principal). These general concerns have found their reflection in a fairly widespread pattern of barriers erected in the way of foreign portfolio investors. Five main barriers can be distinguished:

- General restrictions limiting aggregate inflows, e.g. by confirming access to approved country funds,

- Restrictions related to foreign exchange controls on remittances,

- Restrictions relating to the preservation of domestic ownership,

- Restrictions relating to protecting the domestic financial sector, and

- Taxation disincentives that can effectively turn away foreign investors.

The more specific considerations related to each of these main types of barriers (which in practice overlap).

b. **BARRIERS TO ACCESS:**

Among the general restrictions on foreign investor access are those, which limit investments to approved country funds (for example for Brazil, Korea, Taiwan and India). The rationale behind this kind of restriction is simply for the authorities to be able to control the volume of funds flowing in and out of the country. It has an appeal to some investment managers since, in marketing the funds to clients; the risks and rewards can be defined in terms of a single market. However, there are disadvantages for a country to limiting direct access for principals. Unsatisfied demand will reflect in premia on the funds (to net asset value) rather than flowing through to market prices and thus, to the benefit of domestic sellers, there will be evasion (through resident or expatriate nominees) and investment decisions will be concentrated in a few hands rather stock valuations benefiting from multiplicity of investment decisions. At the same, foreign knowledge of the market of benefit both to the country and to the corporate sector will similarly be restricted.

Concern about the foreign exchange impact of transactions is reflected in the frequent need for the registration of purchases with a central monetary authority and an authorisation procedure for remittances. Where these authorisations are accorded automatically, such procedures will not inhibit investors. However, if they involve delays extending beyond transaction delays in the purchase and sale of stock, a separate currency risk is added for the investor. Such deterrents cannot be in the interest of host countries wishing to attract capital. Moreover, in cases of high currency risk, it simply encourages the use of parallel exchange markets for stock restrictions.

A third type of barrier is that related to retaining domestic ownership and controlling the corporate sector. A basic question is whether domestic ownership as such should be protected. Leaving this fundamental issue aside (which is a politically sensitive matter in most developed countries as well as in developing markets) the issue is whether a desire to protect domestic ownership and control can be reconciled with attracting non-resident portfolio inflows. As far as ownership is concerned, one approach is to set limits on foreign ownership but not at too low a level. Concerns over foreign control can be met by the use of non-voting stock for foreign investors or for voting rights to be non-exercisable by foreigners. While on one hand the use of different classes of stock raises questions relating to price differentials, equitable treatment in takeover situations and the protection of minority shareholders, on the other hand ceilings on foreign concerned, one approach is to et limits on foreign ownership but not at too low a level. Concerns over foreign control can be met by the use of non-voting stock for foreign investors or for voting rights to be non-exercisable by foreigners. While on one hand, the use of different classes of stock raises question relating to price differentials, equitable treatment in takeover situations and the protection of minority shareholders, on the other hand ceilings or foreign holdings of a single class of stock can give rise to administrative manipulation, the enforced unwinding of transactions and the evasion of registration requirements through the use of nominees. It appears that foreign investors tend to regard voting rights as a distinctly secondary concern and thus the use of non-voting stocks or different classes of stock with limited or non-exercisable voting rights may be appropriate ways of reducing access barriers related to domestic ownership.

Particularly, sensitivity about domestic ownership is sometimes found with regard to the financial sector and separate measures may be used to protect domestic financial intermediaries. The need for approved country funds to be associated with a restricted group of local managers is one form of protection. Tax treatment may also steer management functions into particular domestic management arrangements. On the whole, such protectionist measures would appear of doubtful value. Because of the lack of familiarity with markets, and above all because of the need to develop reliable research-based sources of corporate information and to tap into local sources of knowledge, foreign investors have the strongest possible incentive to seek local partners. It would seem to leave the choice and type of association to the market.

A final barrier is that imposed by the levying of taxes usually in the form of withholding taxes of dividends and less usually on capital gains. The motivation behind such taxes is to place the foreign investor on the same footing as the local investor.

Equal treatment is, however beyond the control of the host authority since amongst other reasons, the use of tax credits cannot be monitored. More importantly, high taxes act as a disincentive to investor compared with markets where such taxes are not levied. Same asset managers will not enter markets where taxes are levied on the investment fund rather than passed on the individual investor. In so far as developing countries wish to attract than deter non-debt creating capital, tax disincentives should be carefully reviewed to see whether their reduction to a more internationally accepted level would not be beneficial.

2.24: **THE RATIONALE FOR DISMANTLING BARRIERS**:

Leaving aside the specific issues relating to particular types of barriers, there is a more fundamental issue relating to the general causes that have provoked the barriers in the first place. The suspicion about the stability of port-folio inflows and the possible way in which they may aggravate a balance of payments weakness runs counter to the important role that such inflows have played in recent years in both market development and balance of payment terms. Market weakness and balance of payment weakness may not be correlated and, in times of market weakness, investors may stay in place in part because markets cannot compete in depth and liquidity with the U. S. and other major markets, they still respond to a basic investor demand for portfolio diversification and, as discussed earlier, this trend could be encouraged and is unlikely to be reserved. Emerging markets where growth is encouraged by the authorities are likely to be able to attract not new inflows on a sustained basis.

In addition, any perceived disadvantages of portfolio inflows, have to be set against the availability of private portfolio capital as compared with the poor prospects for net new loan capital. Private portfolio inflows do not create debt and they represent a desirable shift away from the sovereign obligations of developing countries towards individual credit risk taking. Unlike debt which gives rise to service obligations, regardless of the success or not of the investment the costs associated with portfolio investment in the form of dividends and capital gains only arise if investors make successful choices with investment that are returning such gains. Finally, it would appear that concerns, which relate to foreign ownership, could be reconciled with portfolio inflows through various alternative arrangements relating to voting rights. Thus the general concerns that have led in emerging markets to the imposition of barriers in the way of foreign investors do not seem well-founded given the nature of capital flows in current and prospective world market conditions.

2.25: **RESTRICTIONS ON CAPITAL MOVEMENTS:**

The restrictions on portfolio capital discussed earlier are in part a reflection of a long-standing pattern of foreign exchange controls affecting capital movements. In the immediate post war world period, the main focus of the international community was on foreign current transactions; large scale movements of private capital were not envisage and, as part of the emphasis on achieving balance in the current accounts of balance of payments positions, it was accepted that restrictions on capital movement might be justified. This historical condoning of exchange restrictions affecting the capital account is still reflected in the IMF Article of Agreements where the provisions of Article VIII 2(a), which operates against restrictions on current payments, can be contrasted with Article VI Section 3, which states that, "members may exercise such controls as are necessary to regulate international capital movements."

The presumption in the IMF Articles that controls are legitimate in respect of the capital of the capital account does not appear to reflect the role of private capital in today's markets. In today's globally linked financial system, attempts to limit private capital flows are subject to widespread evasion, (particularly by rich individuals in emerging economies) and result in incentives for parallel exchange markets. It would be quite possible in a particular developing country that, given legitimate avenues, the lifting of exchange control could lead to return of flight capital. Moreover, capital efficiency could improve and additional new flows be attracted. The foreign exchange rate would move accurately reflect both current and capital account transactions.

At a meeting of the Interim Committee in September 1989, the Committee agreed on the need for further study of International capital flows. In this context, it would appear appropriate for the IMF to receive a mandate to play a more active role in encouraging the dismantling of barriers to capital movements. Pending the amendments of Article VI, which appears anachronistic, the provisions of Article IV Section 3(b) would appear to provide a basis for the IMF to discuss the removal of barriers to portfolio flows and other capital movements with its members.

2.26: **THE SHORTAGE OF STOCK:**

(a) THE EXISTING SUPPLY:

In addition to barriers to access, foreign investors face an acute shortage of stock, which they regard as the main constraint on their activities. Although some 7,000 companies are listed in the 30 emerging markets followed by the IFC, only a small fraction are regarded by the foreign investor as "suitable" stock, among the key qualities is tradability (liquidity). There is a wide perceived shortage of stocks that meet this criterion. This partly reflects the neglect of equity markets in general. It also reflects the fact that among the stocks listed in the markets, many are not in fact traded or tradable. The requirements on the minimum amount of stock, which has, to publicly available to obtain a listing on stock exchanges are uneven public sector or bank holdings or family ownership may restrict turnover, while thinly traded stocks may be regarded as liable to manipulation. Liquidity is not the only consideration, particularly where the investor is a potential long-term holder. A crucial consideration is also the reliability of underlying company information its timeliness and whether insiders, rather than public, have first use of it.

Estimates of the number of stocks with the desired characteristic in markets of primary interest to the foreign investor must be somewhat subjective. For the markets of primary interest they appear to run in the order of 900 – 1,300 – Korean, Taiwan and India together account for around two-thirds of this total. Illustrative figures are given in the accompanying table. They should be regarded with caution and are likely to represent an overestimation in a declining market. For this reason, the lower end of the range may give a more accurate picture of availabilities. Since they same considerations apply to domestic investors, they too suffer from the same constraints. If market development is to be encouraged, a critical area therefore is to increase the supply of stock with the desired twin features of tradability and reliable underlying company information.

THE SUPPLY OF SUITABLE STOCK:

East Asia	South Asia	Europe & Middle East	Africa	Latin America
Indonesia (5-10)	India (300-500)	Greece (20-30)	-	Brazil (600)
Korea (250-300)		Hungary (-)		Chile (20-30)
Malaysia (40-60)		Portugal (20-30)		Mexico (50-60)
Philippines (10-20)		Turkey (20-30)		
Taiwan (100-150)				
Thailand (30-40)				

(b) ENCOURAGING NEW ISSUES OF SEASONED STOCK:

The options for the authorities, which can lead to an increase in the supply of stock in the short-run, are limited. The focus of measures which might achieve this has to be on encouraging companies that already are listed to issue more stock and/or to encourage immobile holders to trade. Rising markets are themselves likely to provide an incentive for companies to issue more stock. In addition, the authorities can review the impact of the tax system on the supply of stock.

Relevant tax considerations might include:

- Reducing capital gains taxes may encourage family holders to sell part of their holdings;
- Trading might also be encouraged by reducing distinctions between short and long-term capital gains tax, and near issues (as well as trading) might be encouraged by indexing capital gains taxes fully to remove gains which purely reflect rises in general price levels.
- Measures which reduce the cost of equity issues may encourage companies to issue more stock; and
- Measures which reduce discrimination against "unearned" (dividend) income or between capital gains and income may make stock purchases and issues more attractive.

In addition, in a number of markets, where are distortions that enhance the attractiveness of borrowing relative to the further issuance of equity. These distortions could be re-examined. They include interest subsidies and exchange rates risk guarantees.

These various taxes aspects are part of a more generalised problem of structioning tax systems so that they are more neutral as between different forms of return on investor capital and discriminate less against savings. The incidence of taxes as they effect stock market development should be reviewed against this more general background.

2.27: **SOURCES OF NEW STOCK:**

In addition to encouraging new issues of seasoned stock, the authorities can encourage the supply of new stock. A first source is through privatisation of public companies. Since a number of developing countries are taking steps to reduce the size of the public sector and, in addition, perceptions of what is appropriate for public sector ownership are also changing, privatisation offers one promising way of increasing the supply of stock for private investors. Certain public sector companies such as telecommunications and airlines have the advantage of deriving part of their earnings in foreign exchange and this adds to the attraction from the point of view of the investor.

However, for a number of reasons there is likely to be a considerable time lag in the process of privatising. The reasons include the followings:

- The capital structure usually requires radical change; e.g. the conversion of the balance sheet into a market-related gearing structure, the write off of post Government debt, and the write down of assets.
- The range of activities may need to be restructured and, if monopolies are involved, the company may need to be split, or a regulatory system set up, or provision made for freedom of entry.
- Accounting practices frequently need overhaul and a period of proven profit may be required; and
- Management would typically need to be changed and employees shed, possibly on a large scale.

Therefore, although, it will take time for privatisation programmes to add to the supply of stock, a recent IFC paper (Guy Pfefferman;

IFC Discussion Paper No.1, Private Business in Developing Countries, 1988) estimated that over 600 companies were targeted for privatisation in markets of interest.

A second source of supply for new stock is through bringing privately held companies to the market. Three rather different types of situation can be distinguished. The first is of a mature company in family ownership; the second is a company quoted on unlisted markets; and the third is the venture capital type of situation whereby a company is commencing operations. Of these different situations venture capital has an appeal to a special class of investor and, by definition, there is likely to be a considerable time lag before they are ready for listing.

Persuading family-owned companies to issue stock may also take time. The process of going public may enable a tune and higher value to be put on a family-owned business and may enable the family to realise some part of these assets and to diversify. The market price may be higher than private sell out. On the other hand, disclosure requirements will become more onerous and accounting will need to be transparent with consequential tax implication while non-family management hold will be loosed. Family-owned companies weighing the relative advantages of going public cannot be rushed. However, the incentives for them to go public will be greater in buoyant market conditions where prices stand at a significant premium to book values. The authorities can influence this general market environment positively by taking steps to support the development of the market.

2.28: **THE NIGERIAN EXPERIENCE:**

INTRODUCTION:

Nigeria has a mixed economy, although one in which the Government or its Agencies are dominant in the areas of public utilities and many basic manufacturing industries. Private enterprise features more strongly in other aspects of manufacturing, banking and finance, commerce, and service industries. Foreign investment is most frequently sought and found in manufacturing and mining.

About two-thirds of the active population is involved in agriculture, which generates approximately one-quarter of Gross Domestic Products (GDP). The mining sector, including oil, employs less than 0.5% of the working population, but produces about 20% of the GDP and between 90% and 95% of export earnings.

In 1985, the Government of General Ibrahim Babangida adopted an IMF-backed programme of structural adjustment. However, 1989 figures show that the private sector has found it difficult to benefit from the increasingly liberalised economy. The reforms have stoked inflation, driven interest rates up as high as 30% and cut the exchange value of the Naira to almost one-eight of its 1985 level. Nevertheless, GDP rose by 4.1% in 1989 compared with 1.2% in 1985. The key problem behind the liberation measures and their effect on industry is the rise in production costs, which has put numerous companies out of business. In July 1990, the Government abandoned the five-year reform package in favour of two new plans, the Perspective Plan and the Rolling Plan, which cover 15-20 years and three-year periods, respectively.

KEY ECONOMIC INDICATORS:
GNP (1988): US $28,693m

GDP growth (1989): 4.1%

Exports of goods and services (1988): US $7,734m

Imports of goods and services (1988): US $8,743m

Current account deficit (1988): US $1,024m

International reserves (1989): US $1,800m

Total Debt (1988): US $30,718m as % of GNO: 107.1%

Inflation (1989): 41%

Population (1989): 116:0m

2.29: **SECURITIES MARKET OVERVIEW:**

The international status of the Nigerian Stock Exchange (NSE) has risen and fallen with the fortunes of the domestic economy over the last 15 years. During the oil boom of the 1970s and early 1980s, when Nigeria was a leading stock markets in the developing world.

However, throughout much of the 1980s confidence in the market was low due to large amounts of unpaid trade arrears and commercial debts. Coupled with this was the investment opportunities offered by a number of emerging markets in Europe, Latin America and Asia and the concern are now diminishing in light of Government privatisation initiatives. Initial figures for 1990 show that the NSE is having its busiest period for a number of periods for a number of years.

There has been a tremendous upsurge in the number of companies seeking quotations on the capital market. The recent boom in the market has been attributed to high cost of raising capital through the money market, as bank interest rates hover between 20-30%. The increased activity is also related to the privatisation programme launched by the Nigerian Government, which accounts for nearly 75% of the new companies have come to the market in the past 18 months.

(a) HISTORY AND STRUCTURES:

The Nigerian Stock Exchange began trading as the Lagos Stock Exchange in 1960. It change its name to the present name in December 1977 and branches of the exchange were established in different parts of the country to reflect its national outlook.

At present the NSE has six branches, each with a trading floor. The branch in Lagos and opened in 1961, Kaduna 1978, Port Harcourt 1980, Kano 1989, Onitsha February 1990, and Ibadan 1990. Lagos is the head office of the Exchange.

The NSE is owned by financial institutions, stock-broking firms and some individuals. At present, there are 195 members of the exchange, made up of 71 stock broking firms and 124 ordinary members.

The National Council is the highest policy-making body of the stock exchange. It has responsibilities for listing, enforcement of listing requirements, and trading procedures. The branch councils of the exchange make recommendations to the National Council on applications for membership and listing and they also supervise branch operations. The Securities Exchange Commission has an overall supervisory role.

(b) THE MARKET PERFORMANCE:

The number of companies listed on the NSE increased from 90 in 1980 to 111 in 1989. Market value increased over three fold ending the decade at ₦7,489 million. However, share prices, which more than doubled due to a combination of rapid inflation, high liquidity and a shortage of script, were unable to keep pace with the depreciation of Naira against the US Dollar. Measured in US Dollar terms, market value, which stood at US $3,118 million in 1980, fell almost 68% to US $1,005 million by the end of 1989.

Nevertheless, at the end of the second quarter of 1990, market value registered ₦10.1 billion (US $1.3b) the highest value of the decade in Naira terms and the highest value since 1985 in US Dollar terms. In June 1990, there were about 114 companies listed and as a result of recent privatisation measures there were 30 companies in line to be listed.

Finding value in equities between January and June 1990, totalled over ₦18m (US $2m) compared to ₦7m (US $1m) for the same time period during 1989.

MARKET DATA:

Number of companies listed (June 1990): 114.

Major listed companies: UAC of Nigeria, Lever Brothers of Nigeria, Nigerian Breweries, Guinness Nigeria, Nigerian Bottling, First Bank of Nigeria, Nigerian Tobacco, African Petroleum, United Nigeria Textiles, PZ Industries, Mobil Oil, John Holt, Union Bank of Nigeria, Texaco Nigeria, SCOA Nigeria, Market value (June 1990): US $1.3bn.

Trading Value (January – June 1990): US $2mn.

(c) <u>OPERATIONS:</u>

Trading System:	The NSE currently operates on auction trading system.
Types of Share:	Equity is traded in the form of ordinary shares.

Other Securities traded are regarded as debt instruments. In terms of Naira values, debt instruments predominate (over 90% on average), although numerically 90% of new issues have been equities settlement and transfer: Settlement for stocks takes place bi-monthly Deliveries of Securities sold are supposed to be made within three weeks, but delays are reported. All transactions have to be referred back to the stock exchange for authentication. Plans are underway to reduce the settlement and delivery period of about five days.

The present system of share registration is rather cumbersome and quite expensive. In addition, it can take at least three months for an investor to receive basic evidence of registration from a company. Secondly, the scattered locations of the registrars and brokers mean that transaction costs are high.

Commissions and other Costs: For Federal Government stocks with maturities under five years, commission is 3/8% of nominal value; stocks with maturities over five years attract 0.5% of nominal value. For transactions involving the Central Bank and the National Provident Fund, commission is 1/32% of nominal value. For all other securities, commission is 3% of consideration or market capitalisation, whichever is higher. However, no commission lower than ₦10 shall be charged on any single transaction.

Market indices: The NSE General Index was introduced in 1984 with a base of 100 and covers 95 securities.

2.30: **FOREIGN INVESTMENT CLIMATE:**

OVERVIEW:

During the early years of the exchange, expatriates living in Nigeria were active investors. Since then, however, activity by foreign investors has been discouraged in an effort to achieve more indigenous participation in the private sector.

A survey conducted in the late 80s reveals that 40% of share ownership is in the hands of foreigners, 25% Government agencies and institutions, and 35% private individual investors.

(a) REGULATIONS AFFECTING FOREIGN INVESTORS:

i. DIRECT INVESTMENT:

With the enactment of Decree No.54 of 1989, foreign investors are now allowed 100% ownership of companies in a wide range of economic activities. The Decree does not permit those registered under the old Decrees to increase their levels of foreign holdings, which were generally set at 40%. Furthermore, the Decree forbids the sale or transfer of existing companies without the expressed permission of the Ministry of Finance.

ii. SECURITIES INVESTMENT:

The Decree No.54 allows 100% foreign participation in a new company where the market capitalisation is at leas ₦20 million. Exceptions are made for sectors (including banking, insurance, petroleum prospecting and mining) in which the Federal Government continues to have equity.

Residents of Nigeria may not deal in foreign currency securities or buy from or sell to non-residents of Nigeria any security payable in Naira without the permission of the Ministry of Finance. The capital proceeds of securities registered in Nigeria and owned by non-residents may be collected and negotiated through the authorised dealers, provided that prior permission of the Ministry of Finance is obtained.

iii. SHAREHOLDER PROTECTION:

There is no code of practice governing takeovers and merges. Instead, the principal legislation is the Companies and Allied Matters Decree 1990, which stipulates that minority dissenting shareholders, must be provided for in a takeover/merger scheme. This Decree also covers insider trading. However, the Securities Exchange Commission, in its overall supervisory role, is expected to deal with insider trading more effectively under its umbrella powers of market surveillance, and particularly under its specific power of "protecting the integrity of the securities market from any abuses arising from the practice of inside trading."

There is no stock exchange compensation fund. However, the NSE has rules, which it enforces against dealer members where one is responsible for investor losses as a result of default or fraud. Members are requested to provide security in cash, stocks or by mortgage.

iv. TAXATION:

Companies paying dividends are now required to deduct withholding tax of 15% (increased from 12.5%), subject to a Federal Government White Paper. Withholding tax is levied at an equal rate of 15% on all shareholders, whether a company or individual, resident or non-resident.

Capital gains tax is 20%. Script dividends, or dividends satisfied by the issue of shares in the company, are not subject to income tax.

Since 1st January, 1987, the tax on corporate income has been 40%. As from 1st January 1988, a 20% tax rate was introduced for companies engaged in manufacturing, agricultural production or mining of solid minerals that have a turnover of ₦500,000 and below.

(b) **FOREIGN EXCHANGE REGULATIONS:**

(i) CAPITAL REPATRIATION AND REMITTANCES:

The Federal Ministry of Finance is responsible for basic exchange control policy and, in principle, for approving the following: applications for capital transfers abroad; profits and dividends; granting of "approved status" to non-resident investments in Nigeria; and any dealings in foreign securities.

The central bank is the principal administrator of exchange control. All licensed commercial banks and merchant banks have been appointed as authorised dealers by the Ministry of Finance and are empowered to deal in foreign currencies and to approve applications in accordance with the guidelines issued by the Central Bank. Non-residents intending to make direct investments in Nigeria may apply to the Ministry of Finance for approved status, the granting of which means that sympathetic consideration will be given to future requests to repatriate capital and related profits and dividends.

Re-investment of remittable dividends is allowed without the requirement of a matching capital import. However, the granting of approved status is not applicable to the purchase of shares of the stock exchange in Nigeria unless this forms an integral part of the approved investment project. Furthermore, this status is not normally granted when internally generated funds from profits, dividends, rents, or bank credit of locally raised loans are invested in Local enterprises.

(ii) <u>CURRENCY:</u>

The currency of Nigeria is the Naira, which is divided into 100 Kobo. The exchange rate of the Naira against other currencies is determined every fortnight, using the Dutch Auction System. The price fixing session is conducted by Central Bank.

This practice however, is now being deregularised thereby given the Federal Government the exclusive thereby given the Federal Government the exclusive right to affix the exchange rates; an authority which is often delegated to the Central Bank of Nigeria.

CHAPTER THREE

3.0: HISTORICAL INVESTMENT DEVELOPMENT OF KADUNA STATE

3.1: A BRIEF OVERVIEW OF ECONOMIC AND POLITICAL STRUCTURE – KADUNA STATE

Kaduna State occupies almost the entire central portion of the Northern part of Nigeria and shares common borders with Sokoto, Katsina, Niger, Kano, Bauchi and Plateau States. To the southwest, the State shares border with the new Federal Capital Territory, Abuja. The global location of the State is between longitude 060°00 and 09°00 east of the Greenwich Meridian and also between latitude 090°00 and 11°30 north of the Equator. While the State Capital Kaduna roughly lies on longitude 10°30' north of the Equator. The State occupies an area of about 48,473.2 square kilometres.

The entire land structure consists of an undulating Plateau. However, as one moves to the Southern part of the State, some hills could be seen here and there. Major rivers in the State include River Kaduna, River Wonderful in Kafanchan, River Kagom and River Gurara.

(a) POPULATION:

Based on the 1991 census and projections, Kaduna State has a population of 3.96m people. The population density is about seven hundred persons per square kilometre. The main ethnic groups in the State are Hausa, Kagoro, Maro'a, Bajju (Kaje), Jaba, Fulani, Gbagyi, Kataf, Kurama and other smaller ones like

Chawai. Hausa and English languages are widely spoken.

(b) CLIMATE:

There are two marked seasons in the State, the dry and rainy seasons. The rainy season is usually from April to October with great variations as you move northwards. It is very much heavier in the Southern part of the State like Kafanchan, which has an average of over 1524mm than in the extreme Northern part around Ikara, which has a total rainfall of about 1016mm. On the average, the State enjoys a rainy season of about five months. Vegetation changes with the seasons so that during the wet season, the grasses and the leaves are green and fresh while during the dry season they wither and die.

(c) VEGETATION:

The State extends from the Tropical grassland known as Guinea Savannah to the Sudan Savannah in the north. The grassland is a vast region covering the southern part of the State from Kafanchan to around Zaria about 11°00 north of the equator. The prevailing vegetation is tall grass with big trees. The grasses of this region could be over 3.60 meters tall and they grow shorter as one approach the Sudan Savannah. The grasses and trees are of economic importance during both the wet and dry season.

(d) OCCUPATION:

About 80% of the State's population are engaged in peasant farming producing both food and cash crops, though the traditional method of farming is fast giving way to the modern methods. Crops being produced in the State include cotton, groundnuts, tobacco, maize, yams, beans, guinea corn, millet, ginger, rice and cassava. For example, it is estimated that in a normal year, about 100,000 tones of groundnuts are produced per annum. The State is also one of the leading producers of ginger, sugar cane and maize in the whole country.

During the dry season, a considerable number of people in the State engage in irrigation farming along some major rivers and near dams. The crops cultivated are mainly vegetables. Another important aspect of agriculture engaged by the people of the State is animal rearing. Animals reared include cattle, sheep, goats, pigs and poultry farming. It has been estimated that there are more than 1,500,000 sheep and goats, 1,000,000 cattle, 250,000 pigs and 7,000,000 poultry in the State.

3.2: INVESTMENT OPPORTUNITIES:

Kaduna State has favourable investment opportunities that can be exploited at commercial level. This has been attributed to its central position and other factors, like easy accessibility from all parts of the country, abundant natural resources, etc. The State is boarded by six States as earlier on mentioned. Investment opportunities in the State can be classified as follows:

(i) Existence of Agricultural potentialities for commercial and industrial development and growth.

(ii) Mineral resources.

(iii) Efficient transport and communication system.

(iv) Availability of power resources.

(v) Availability of water resources.

(vi) Availability of labour.

(vii) Financial agencies/institutions.

(viii) Tourism potentials.

(a) AGRICULTURAL RESOURCES:

The global location of Kaduna State between longitude 06o00 and 09o00 and latitude 09o00 and 11o30' gives rise to a variety of climatic conditions which in turn favour the growth of a number of agricultural products such as cereals, fruits, leaves tubers and different types of animals thereby providing both small and large scale industries with raw materials. For example, the Nigeria Tobacco Company Zaria depends largely on locally grown tobacco leaves for its raw materials. Similarly, the Textile Industry in the State to a reasonable extend depends largely on locally produced cotton lint. The establishment of the State Agricultural Development Project has boosted agricultural output and has also ensured ample supply of food stuff for the people and raw materials for industries the availability of these raw materials offer opportunities for setting up of more commercial and industrial ventures.

Animal husbandry is becoming more and more extensive all over the State. Hence, the importance of livestock such as sheep, pigs, goats, cattle and chicken to enhance development opportunities is very promising. Due to the availability of these animals, large quantity of hides and skins are produced some of which are being exported. This to a larger extend influenced the citing of the National Chemical Research Institute of Nigeria in Zaria which takes up the training of Leather Technologists. However, both the services of the Institute and the availability of hides and skin are latent business opportunities yet to be exploited.

(b) MINERAL RESOURCES:

A good number of mineral deposits have been discovered in Kaduna State. Apart from agriculture, these mineral endowments offer other opportunities for the establishment of both large and small business concerns. Systematic and economic surveys have been conducted on some of these mineral deposits to determine the possibilities and viability of their exploitation. Those that have been fully investigated include graphite; kyanite, clay, serpentine, asbestos and amethyst while those that have been partially investigated include gold mica (traces), tale and quarts.

(c) TRANSPORTATION AND COMMUNICATION NETWORK:

In terms of infrastructural facilities, Kaduna State has good roads, airport, railway, telecommunication, electricity and water supply. Apart from the road network linking the various towns and villages in the State there are trunk 'A' roads passing through the State and also the Kaduna-Kano dual carriageway. In addition to intra and inter-State bus services provided by Kaduna State Transport Services (KSTA), there are other State's Transport Authority, Private Coaches and mini buses providing similar Transport

Service. Haulage trucks and others used for shipment of bulky goods, serve to bring and evacuate various types of goods to and from the State respectively.

Two railway junctions, which directly link the State to other States capitals in the country, exist. These are Kafanchan railway junction linking the State to the Eastern States down to Port Harcourt, a major seaport in the country. Kafanchan – Jos/Maiduguri rail lines also link the State to Plateau, Bauchi and Borno States. The other is the Kaduna – Kauran Namoda/Kano and Kaduna – Lagos rail line. This railway system in the State forms an important means of transportation where most agricultural and other bulky goods can be shipped cheaply to and from major towns and ports in the country.

The State capital has an airport of international standard. The Nigerian Airways and indigenous private airlines like Kabo Air, Okada and others provide daily air services from the airport to and from other important towns in the Federation such as Lagos, Kano, Jos, Port Harcourt, Enugu, and Calabar etc. There are also airfields in Zaria, Zonkwa, Kagoro and Kwoi, which can be used by private chartered aircrafts where Nigeria Airways do not operate.

Recent efforts to improve on the quality of road transport network within the State in the reconstruction and rehabilitation of some major roads by the State Government, Local Governments and the Petroleum Trust Fund (PTF).

The activities of DFFRI in the rural areas during the days of its operation can also not be forgotten. At present, most rural populace in the State have easy access to all urban centres.

(d) TELECOMMUNICATION SERVICES:

Modern telecommunication system connects Kaduna State with virtually all parts of Nigeria and the outside world. Nigeria Telecommunication Limited (NITEL) provides twenty four hour telephone and telex services. Automatic telephone exchange has been installed in major towns of the State. These include Kaduna, Zaria, Kafanchan, Kujama and Zonkwa. As a result of which, under favourable conditions, international telephone calls can be made.

Many modern offices managed by Nigeria Postal Services (NIPOST) have been built in many parts of the State. Mails circulation within the country has greatly improved since it takes on the average five days for mails posted at one station to be received at another.

(e) POWER RESOURCES:

The availability of efficient electric power supply is a basic requirement for commercial/industrial development and growth. The National Electric power Authority (NEPA) supplies electricity to the major towns and Local Government headquarters in the State, while the State Rural Electrification Board supplies other towns not yet connected to the National grid. To date, about 80% or more of the major towns and Local Government headquarters in the State have electricity. It is hoped that by the year 2000 all the Headquarters of the Local Government Areas of the State should have been linked to the National Grid.

Petroleum products like petrol, kerosene and gas are also major sources of energy that are available in large quantities most of the time from Kaduna Refining and Petro-Chemical Company, one of the largest Nigeria's Oil Refinery situated in the capital city – Kaduna.

Firewood also constitutes a major domestic source of energy for rural and some urban dwellers. It is also used for industrial steaming in the baking industry.

The availability of these sources of power in the State has made the establishment of all kinds of projects relatively easy and economically viable.

(f) WATER RESOURCES:

Most of the towns in the eighteen Local Government Areas of the State are served with pipe water. The main source of supply are from constructed dams, water in lakes and boreholes. Some existing dams include those of Zaria, Kangimi, Birnin Gwari, Ikara and Saminaka, while that of Kachia is under construction.

Recent development in this area is the World Bank assisted Water Scheme aimed at ensuring increased water treatment and supply in the State capital for commercial/industrial and domestic purposes.

(g) LABOUR RESOURCES:

The high turnout of graduates from Universities, Colleges of Technology, Colleges of Education and products of Secondary Schools and other institutions of learning in the State is a clear indication that labour as a criterion for locating an industry in any part of the State does not constitute a problem. In its effort to ensure continuous availability of all kinds of manpower, the State has established a number of higher institutions such as Kaduna State Polytechnic, College of Education Kaduna, College of Nursing Kafanchan, etc. Also there are three established technical schools and about (10) Business Apprenticeship Training Centres (BATC), designed to improve the labour worthiness of Primary/Junior Secondary School Leavers. Apart from Community Schools, there are about 200 Government Secondary Schools spread all over the State. Furthermore, the State is fortunate to have in its domain the Kaduna Polytechnic and Ahmadu Bello University, Zaria, which turnout graduates in various fields required by commercial/industrial establishments. Other Federal Institutions of learning situated in the State include Nigeria Defence Academy (NDA), Command and Staff College (CSC), Nigeria Military School (NMS), College of Aviation Technology, National Teachers' Institute (NTI), National Board for Technical Education (NBTE), National Institute of Transport Technology (NITT), to mention but a few.

(h) FINANCIAL AGENCIES/INSTITUTIONS:

The role of financial institutions in the commercial/industrial development of any economy today cannot be overemphasized. Hence, a number of financial organisations have been operational in the State to render their services and to grant loans to credited and genuine businessmen/organisations. Some of these financial agencies are private enterprises while others are Government owned. Such financial institutions operating in the State, which provide a source of finance and serve as life-wire of business include amongst others, the following:

(i) Kaduna State Small Scale industrial Credit Scheme (SSICS).

(ii) Nigerian Bank for Commerce and Industry (NBCI).

(iii) New Nigerian Development Company (NNDC).

(iv) Nigerian Industrial Development Bank (NIDB).

(v) Northern Nigerian Investment Limited (NNIL).

(vi) Kaduna Industrial and Finance Company Limited (KIFC).

(vii) Commercial and Merchant Banks.

(viii) Insurance Companies and Pension Funds.

(ix) Nigerian Agricultural and Co-operative Bank (NACB).

(x) Industrial Training Fund (ITF).

(xi) Industrial Development Centre.

3.3: BRIEFS ON LOCAL GOVERNMENT AREAS:

KADUNA – THE STATE CAPITAL CITY

Kaduna, the State Capital City has been the seat of various Governments since the days of Colonial Administration, to the Regional Administration of Northern Nigeria, up to the present time.

It is the biggest town in the State, the nucleus of most business activities. It is centrally and cosmopolitan in nature, housing almost all the ethnic groups in Nigeria. The topography of the town consists of vast open and flat land for future development and expansion.

Kaduna town is accessible through roads, rail line and an airport of international standard. The Nigerian Airways and other private airlines operate daily services to and from other important towns in the country. The State Capital City is divided into two Local Governments, Kaduna North and Kaduna South Local Government Areas.

3.3.1: **KADUNA NORTH LOCAL GOVERNMENT:**

It is divided into Doka, Gabasawa and Kawo Districts for administrative convenience. This form part of the capital city where most of the commercial and financial institutions are concentrated. Such institutions include, New Nigerian Development Company (NNDC), Nigerian Agricultural and Co-operation Bank (NACB), Kaduna Industrial and Finance Company Limited (KIFC), Nigerian Agricultural Insurance Company, National Insurance Corporation of Nigeria (NICON), Durban and Hamdala Hotels, Leventis and UTC Stores/Motors etc.

The Kaduna State Government House (now Hassan Usman Katsina House), Federal and State Secretariats, One Mechanised Division of the Nigerian Army and most States' Liaison Offices are situated in this Local Government. Aside from private schools, there are about 30 Primary and 10 Secondary Schools, spread all over the Local Government. Higher institutions of learning situated in the area include the College of Administration and Business Studies of Kaduna Polytechnic, the Military university to mention but a few. The popular Sheik Abubakar Mahmud Gumi Central market is also situated in this Local Government.

3.3.2: **KADUNA SOUTH LOCAL GOVERNMENT:**

This Local Government as the name implies, occupies the southern part of the State capital and it is made up of Tudun Wada and Makera Districts. Nearly all the industrial areas where industries are highly concentrated are found in this particular Local Government. Such industries that are found in the area include Defence Industries Corporation (DIC), Peugeot Automobile Company Limited (PAN), Kaduna Refining and Petro-Chemical Company, united Nigeria Textile (UNTL), Arewa Textile Limited, Kaduna Textile Limited (KTL), Ideal Flour Mills, Nigerian Brewery Limited, Nigerian Bottling Company, Turners Building Products (Arewa) Limited, Berec (Nig) Limited etc.

Kaduna South Local Government has about 40 Primary Schools and 15 Secondary Schools. Higher institutions established in the area include, Kaduna Polytechnic (with 3 campus at Tudun Wada, Barnawa and Television village), National Eye Centre, National Institute for Water Resources, etc.

Financial institutions operating include Union Bank Plc, Afribank etc.

3.3.3: **BIRNIN GWARI LOCAL GOVERNMENT:**

This Local Government is situated at the western part of Kaduna State sharing common borders with Igabi and Chikun Local Government Areas to the east, Katsina State to the North, Sokoto and Niger States to the West and South respectively. The main ethnic groups are Gwari, Hausa, Kamuku and Fulani.

Farming, animal rearing and trading are the principal economic activities of the people, while maize, millet, cassava, yams, beans, guinea corn, kenaf and sheanut are the major crops being produced in the area. To boost food production, the State Government has carried out Birnin Gwari and Chikun Local Government to form Zone III of Kaduna Agricultural Development Project (KADP) with Birnin Gwari as its Zonal Headquarters. The Local Government is highly accessible in view of its favourable location along Kaduna-Lagos road.

3.3.4: **CHIKUN LOCAL GOVERNMENT AREA:**

This Local Government is situated south of Birnin Gwari, Igabi and Kaduna South Local Government Areas, North of Kachia Local Government and west of Kauru Local Government Area.

The main economic activities of the inhabitants include farming, trading and animal husbandry. Investment opportunities in Chikun Local Government are very promising in terms of conducive climate and nearest to Kaduna and Abuja. This can be viewed as permanent advantage opportunity to this Local Government Area. Quite a number of industries and infrastructural facilities such as Ideal Flour Mills, IBBI, etc can be seen in form of spill over from Kaduna town.

There are quite a number of both Primary and Secondary Schools spread all over this Local Government.

3.3.5: **GIWA LOCAL GOVERNMENT AREA:**

Situated in the Northern part of the State, Giwa Local Government shares common borders with Katsina State to the North, Makarfi and Sabon Gari local Government Areas to the west.

Economic activities of the people in the area include farming, animal rearing and trading. The principal farm produce (both cash and food crops) includes maize, groundnuts, cotton, sorghum, sugar can, beans, tomato, millet and pepper, to mention a few.

3.3.6: IGABI LOCAL GOVERNMENT AREA:

This local Government Area is bounded to the north by Giwa and Zaria Local Government Areas, to the East by Soba and Kauru Local Government Areas, to the South, Kaduna North, Kaduna South and Chikun local Government Areas and to the West by Birnin Gwari local Government Area.

Hausa and Fulfulde are widely spoken while farming and animal rearing are the main economic activities of the people in the area. Some major towns in this Local Government Area include Rigasa, Jaji, Rigachikun and Turunku with some connected to the National Grid for the supply of electricity. TURUNKU one of the oldest town in Zazzau Emirate is the Headquarters of the Local Government Area.

3.3.7: IKARA LOCAL GOVERNMENT AREA:

This Local Government Area is situated in the northern part of the State and is divided into three administrative districts namely; Ikara, Kubau and Anchau. Hausa and Fulfulde languages are widely spoken in this area. Farming, animal rearing and distributive trading are the dominant occupations engaged by the inhabitants. Some of the main crops produced in the area both for consumption and sale include cotton, tobacco, sugar cane, sorghum, maize, millet, onion, pepper and most importantly

Tomato and Juice Processing Company Ltd, which was commissioned by the State Government in 1991.

The Local Government is endowed with good road network and Electric power Supply that is being supplied by Rural Electrification Board. It has about 30 Primary Schools and seven Government Secondary Schools spread all over. Also the State has recently established school of Home Economics and School of Health Technology in Pambegua, one of the major towns in the Local Government Area.

3.3.8: <u>**JABA LOCAL GOVERNMENT AREA:**</u>

Jaba Local Government Area is situated in the Southern part of the State and is bounded to the North by Zangon Kataf and Kachia Local Government Areas, to the East by Jema'a Local Government and to the South by the Federal Capital Territory, Abuja.

The main ethnic groups in this Local Government include Jaba, Chori and Yaskwa. Their main economic activities of the people include farming, animal rearing and trading. Some of the main crops produced by the farmers include Acca, Maize, Sorghum, Cocoyams, Jute, Groundnuts, Soya beans, etc. This Local Government is one of the main producers of Ginger.

A good road network links this Local Government with other towns. There are about 30 Primary Schools and 10 Government Secondary Schools spread all over this Local Government Area. Nigerian Universal Bank Ltd is one of the financial institutions already operating in the area. An important tourist centre, the

Nok culture where a museum is being proposed at Nok is also situated in this Local Government Area.

3.3.9: **JEMA'A LOCAL GOVERNMENT AREA:**

This Local Government Area occupies the Southern most part of Kaduna State and shares borders with Plateau State to the East, Kaura and Zangon Kataf Local Government Areas to the North, Jaba local Government and the Federal Capital Territory, Abuja to the West. It is situated in the Tropical Savannah as such rainfall in the area is usually heavy covering a period of about seven months in a year. Thus, farming, animal husbandry and distributive trade are the main occupations of the inhabitants and crops grown include rice, Soya beans, maize, ginger, groundnuts, sheanut, jute, cassava, guinea corn etc. The area is further endowed with mineral resources, financial institutions like Bank of the North Limited, Nigerian Universal Bank, Union Bank Plc, Leadway Assurance, etc.

In terms of accessibility, Kafanchan, the Headquarters of the Local Government Area has an important railway station linking the State with Maiduguri through Jos and Port Harcourt in the Southern part of the country. Also a number of trunk 'A' roads pass through the area. Jema'a Local Government Area has over 40 Primary Schools, 10 Post Primary Schools spread all over the area, one College of Education and College of Nursing.

3.3.10: **KACHIA LOCAL GOVERNMENT AREA:**

Kachia Local Government Area is situated in the Southern part of the State and share borders with Chikun to the North, Jaba and Zangon Kataf to the East and Niger State and Federal Capital Territory to the West and Southwest respectively. The Kaduna –

Kafanchan/Akwanga and Kaduna – Abuja trunk 'A' roads pass through the area. Besides a good network of trunk 'B' and other feeder roads make the whole area easily accessible from all parts of the State.

Crops grown in Kachia, being an agricultural area include rice, ginger, maize, cotton, jute, cassava etc. As a deliberate policy for dispersal of industries, a Ginger Processing Industry is being executed by the State Government at Kachia with a view to encourage farmers to produce more ginger.

Apart from primary and Post Primary Schools, quite a number of institutions are located in Kachia town such as Nigerian Army Rehabilitation Training Centre, Nigerian Army School of Artillery (NASA) etc. Nigerian universal Bank has been operating in the area for some years.

3.3.11: **KAURA LOCAL GOVERNMENT AREA:**

Kaura Local Government Area is situated in the Southern part of the State and shares common borders with Zangon Kataf and Kauru Local Government Areas to the North, Jema'a to the south and Plateau State to the East. The main ethnic groups are Kagoro, Kataf and Atakar and their economic activities include farming, animal rearing, trading and pottery making, maize, rice, cocoyams, palm fruits, Soya beans etc are some of the crops grown in the Local Government Area. Some minerals are also found.

The Kaduna – Kafanchan – Jos trunk 'A' roads and rail line pass through the Local Government. There are also other linkage roads to different towns and villages. Nigerian Arab Bank is one of the financial institutions so far established. The area has many Primary and Secondary Schools and campus of the College of Education at Manchok.

3.3.12: **KAURU LOCAL GOVERNMENT AREA:**

This Local Government Area is situated in the Western part of the State, sharing common borders with Zangon Kataf and Kaura to the South, Chikun and Igabi to the West, Ikara and Soba to the North. Some of the ethnic groups found in the area include Chawai, Kono, Ruruma, Surubu, and Hausa etc. Kauru is blessed with fertile land, so the major economic activities of the people are farming and animal rearing.

3.3.12: **LERE LOCAL GOVERNMENT AREA:**

Being situated in the Eastern part of Kaduna State and with its headquarters at Saminaka, Lere Local Government Area shares borders with Ikara to the North, Kauru local Government Area to the West and Plateau and Bauchi States to the East. The main languages spoken include Kurama, Gure, Kahugu, Hausa, Amawa etc.

The crops grown in the area include maize, yams, millet, guinea corn, beans, cocoyams, yams groundnut and cotton. While Nigerian Universal Bank limited, Allied Bank and Leadway Assurance are some of the financial institutions operating in the area. The fourth Zonal Office of KADP in Lere town was created in 1992 principally to boost agricultural production in the State.

3.3.14: **MAKARFI LOCAL GOVERNMENT AREA:**

Makarfi Local Government Area lies in the extreme Northern part of the State and shares common boundaries with Kano and

Katsina States to the North, Giwa Local Government Area to the West, Sabon Gari Local Government Area to the South and Ikara Local Government Area to the East.

Hausa is the main language being spoken by the inhabitants and they are engaged mainly in farming, animal husbandry and distributive trade. Some of the crops they produce include cotton, maize, millet, and onion, pepper, with potato, sorghum, groundnuts and tomato. It is also one of the main producers of sugar can in the whole State.

Makarfi Local Government Area is well served with good road networks and electricity. It has 20 Primary and 8 Government Secondary Schools spread all over the area and also Nigeria Arab Bank (Nig) Ltd is already operating in this area.

3.3.15: **SOBA LOCAL GOVERNMENT AREA:**

Soba Local Government Area shares common border with Makarfi Local Government Area to the North, Ikara Local Government Area to the East, Kauru and Zaria Local Government Areas to the South and Sabon Gari Local Government Area to the West.

This Local Government Area is blessed with abundant fertile land. As such, most of the inhabitants are engaged in farming, animal rearing and distributive trading. They produce crops such as maize, millet, sorghum, tobacco, etc. Maigana serves as Headquarters for both Soba Local Government Area and Zone One of KADP. There are a good number of Primary and Government Secondary Schools spread all over the Local Government Area.

3.3.16: **SABON GARI LOCAL GOVERNMENT AREA:**

It is bounded my Makarfi Local Government Area to the West, Zaria Local Government Area to the South and Giwa Local Government Area to the West.

Most of the inhabitants engage in irrigation farming and distributive trade. They produce crops such as tomato, onions, fruits and vegetables. This Local Government Area is served with good road, network and a rail line, which passed through, to Kano and Kauran Namoda from Kaduna. It is the seat of educational institutions housing Ahmadu Bello University (ABU), Nigerian College of Aviation, National Institute for Transport Technology, to mention a few. There are also good numbers of both Primary and Government Secondary Schools scattered all over the Local Government Area. This Local Government Area has high concentration of industries, which include Harco Textile Limited, Comrade Cycles Ltd, Electric Metre Company Limited, United Oil Mills Limited etc.

3.3.17: **ZANGON KATAF LOACAL GOVERNMENT AREA:**

With its headquarters at Zonkwa, this Local Government Area shares common border with Chikun and Kauru to the North, Jema'a, Jaba and Kaura Local Government Areas to the South and Kachia Local Government Area to the West. Languages spoken in the Area include Kataf, Kaje, Ikulu, Kamantan and Hausa. In terms of economic activities, the inhabitants engage in farming, animal husbandry, distributive trade etc. While maize, guinea corn, groundnut, millet, cocoyams, yams etc are some of the major food and cash crops produced in the area.

Samaru Kataf Zone II Headquarters of KADP has the advantage of having the College of Agriculture – a campus of Kaduna State Polytechnic located in the area while UBA has a Branch in Zonkwa.

3.3.18: ZARIA LOCAL GOVERNMENT AREA:

This Local Government is bounded to the North by Sabon Gari Local Government Area, to the East by Soba Local Government Area, to the West by Giwa Local Government Area and to the South by Igabi Local Government Area and is the seat of traditional administration of Zazzau Emirate of Kaduna State. It is well served with basic infrastructural facilities like pipe borne water, good roads and electricity. Some tourist attraction centres include the ancient gates and walls of Zaria city, Kufena Hills and Dye pits in Zaria. The two annual Sallah festivals featuring the traditional durbar and celebrated with pomp and pageantry attract a number of visitors, home coming of indigenes and tourists alike.

The main occupation of the inhabitants is farming, distributive trading, small-scale industries and animal husbandry, etc.

3.4: GOVERNMENT INCENTIVES FOR INVESTORS:

Commercial/Industrial ventures established in Kaduna State enjoy incentives offered by both Federal and the State Governments. However, these incentives are subject to modifications from time to time depending on Government Commercial/Industrial policies.

(a) STATE GOVERNMENT INCENTIVES:

Ministry of Commerce, Industry and Tourism is responsible for discharging Government incentives and promotion of tourism in Kaduna State. The Industrial and Commerce Department, provides a sort of Consultancy Services to the potential and active investors by giving them the necessary information and guidelines on procedures and formalities to establish commercial and industrial ventures. The ministry carries out appraisal of project proposals to determine their viability, guide applicants on how to get commercial and industrial plots and also liase in the implementation of Federal Government projects sited within the State. For investment information purpose useful information about industries in the State as well as on Federal Government Policies, investment formalities and incentives.

INFRASTRUCTURAL FACILITIES:

Acquisition of Commercial and industrial areas and the provision of infrastructural facilities to these estates (layouts) is one major function of the Ministry of Commerce, Industry and Tourism. So far, it has acquired and paid compensation of industrial layouts in some of the Local Government Areas of the State. The provision of water, electric power and access roads to these estates is the function that has been seriously affected by the current economic crunch of the country. Industrial estates are earmarked in two categories for light and large-scale projects.

In return for service provided, the State Government collects from beneficiaries of industrial plots development levies in addition to the normal ground rent. The ministry of Commerce, Industries and Tourism also discharges promotional services in terms of appraisal of commercial projects, liasing with the Federal Ministry of Commerce and Tourism with regards to import and export of goods, development of commercial areas and shopping centres. The intention is to provide facilities for example shopping centres, cooperative societies and shops, control of distributive trade within the State and other relevant commercial information.

(b) FEDERAL GOVERNMENT INCENTIVES:

(i) PIONEER STATUS: Under this provision, new industries that need certain conditions in order to survive initial costs and other related problems are granted tax holidays for the first three to five years of their operations. A company, which deserves to engage in, an industry, which has not been granted the pioneer status, can apply for same and the pioneer certificate will be issued to it. Only limited liability corporate entities registered in Nigeria can benefit from this provision. With the recent Government export orientation policy, more and more ventures producing for exportation can benefit from this scheme.

(ii) APPROVED USERS SCHEME: Profits and dividends arising from an investment may be freely transferred to parent country of Multinational Corporation in accordance with exchange control regulation after payment of income tax. Capital may also be repatriated with exchange control. However, just like pioneer status, the approved users scheme provision is subject to constant Government regulations.

3.5: THE ROLE OF MINISTRY OF COMMERCE, INDUSTRY AND TOURISM:

The Commercial, Industrial and Tourism policies of the State are being initiated and executed by the Ministry through its various Departments. The Private Sector is being assisted by the Ministry in liasing with the Federal Ministries of Industries and Commerce and Tourism and the Department of lands and Surveys on matters relating to Incorporation of Companies, Registration of Premises and Names and the acquisition of lands in Commercial and Industrial areas for the establishment commercial ventures and industries, etc. To perform the above functions effectively the Ministry has been structured into seven Departments viz:

(i) Commercial
(ii) Industrial
(iii) Small Scale industries
(iv) Business Apprenticeship Training Centre (BATC)
(v) Finance and Supplies
(vi) Planning and Research
(vii) Personnel

i. COMMERCIAL DEPARTMENT: Is responsible for the promotion of Commercial activities in the State and cover the following areas:

(1) Promotion of Trade: The purpose is to encourage inter-state trade and also attempt to develop trade within the State.

(2) Distributive Trade: Local businessmen are assisted by introducing them to manufacturing companies and suppliers to

enable them obtain regular supplies of their products.

(3) Registration of Business Premises: To provide the Government with useful information in respect of businesses operating within the State. The exercise would be used for statistical and planning purposes.

(4) Appraisal of Commercial Projects: Appraised to ascertain the viability of a project.

(5) Development of Commercial Areas and Shopping Centres: Building shops and stores as facilities to businessmen and cooperative societies at subsidised rates, e.g. Kada Payless Stores.

(6) Trade Fairs: In conjunction with the Chamber of Commerce, Industry and Agriculture, Trade Fairs are organised and she represents the State in the three International Trade Fairs of Lagos, Kano and Enugu to acquaint the public with opportunities in the State.

(7) Training of Indigenous Businessmen: Undertakes the training businessmen on modern business techniques.

(8) Liaison with Department of Lands, Surveys and Country Planning: On matters relating to the allocation of plots in commercial areas and ensure that are strictly need for the purpose.

(9) Market Research: By the field Officers to provide the Government with useful information on prices of consumer goods and the supply position of such goods for planning purposes.

(10) Export Promotion: Assisting and educating producers and businessmen in the State on export opportunities thereby liasing with the Nigerian Export Promotion Council, Manufacturers' Association of Nigeria (MAN), Chambers of Commerce and Duty Drawback Committee.

(11) Liaison With Federal Ministry of Commerce and Tourism: Liases with the Federal Ministry on behalf of the business community and helps in Business Name Registration.

(ii) INDUSTRIAL DEPARTMENT: Is charged with the promotion and growth of medium and large-scale industries throughout the State. It identifies likely viable industrial projects and carry out pre-investment studies, which are further investigated by competent consultants who carry out full feasibility studies. The Department also incorporates and assists in executing viable industrial projects on behalf of the State Government and acts as coordinating body between the Ministry/Government.

Examples of such companies:

(i) Ikara Tomato and Juice Processing Company Limited which is commissioned in 1991.

(ii) Kachia Ginger Processing Company, under construction.

(iii) Zaria Pharmaceutical Company, which is equally under construction.

The Department also acquires and develops industrial areas throughout the State for allocation of Government and Private Enterprises and assists the Department of Lands and Surveys by appraising industiral projects to determine their viability or otherwise so as to safeguard against allocating pieces of land or the implementation of unviable project. It undertakes the construction of access roads in industrial areas such as Kudenda, Unguwan Mu'azu, Hayin Banki, Mando Road, Abuja Junction and Kaduna Refinery in Kaduna, and Chikaji and Dakace in Zaria.4

In addition, the Department collects useful information on potentialities of industrial resources of the State, which is published and distributed to interested companies and individuals both local foreign to invest in viable ventures. Plans are also underway to undertake a comprehensive study/investigation of mineral potentials of the State.

(iii) SMALL SCALE INDUSTRIES CREDIT SCHEME DEPARTMENT:

The scheme has since inception approved Two Hundred and Thirty-six (236) Projects throughout the State. These projects range from Block Industries, Bakeries, Welding, Furniture making, Printing, Chalk manufacturing, Saw milling, Venetian Blinds etc. Presently, emphasis on the grant of the credit is on agro-allied industries as well as light engineering projects.

3.6: PROCEDURES/REQUIREMENTS FOR SECURING COMMERCIAL PLOTS IN KADUNA STATE:

1. Apply to the Department of Lands and Surveys for commercial plot.

2. The application is sent to the Ministry of Commerce, Industry and Tourism for comments.

3. The Ministry on the other hand demands from the applicant the following:
   - i. Memorandum and Article of Association and Certificate of Incorporation (if applicable).
   - ii. Feasibility study of the project.
   - iii. Tax clearance of the Individual/Company.
   - iv. Name and address of Bankers.

v. Sketch Plan of the piece of land required. In case of petrol filling stations, the following are also required:
vi. Fire officer's Report
vii. Police Report

4. The document in (3) above are appraised and a cross reference made with applicant's bankers to ascertain the company's or the individual's financial position and viability of the project.

5. Viable projects are recommended to the Department of Lands and Survey for issuance of Certificate of Occupancy.

3.7: **PROCEDURES/REQUIREMENTS FOR SECURING INDUSTRIAL PLOTS IN KADUNA STATE:**

1. Incorporate a Company in Nigeria.
2. Apply to the Department of Lands and Survey for Industrial plot.
3. Application is sent to Ministry of Commerce, Industry and Tourism for comments and recommendation.
4. At the Ministry, the following are required:
   (i) Memorandum and Article of Association and Certificate of Incorporation.
   (ii) Feasibility study of the project.
   (iii) Tax Clearance Certificate of the Company.
   (iv) Name and Address of Bankers
   (v) Name, State of Origin, and address of Directors.
   It is essential to have a State indigene at least as a Director for a project to be located within the State.
   (vi) Sketch Plan of intended use of the land.

5. The documents in (4) above are appraised and a cross reference made with promoter's Bankers to ascertain their financial status. The project is then considered viable and non-viable.

6. Viable ventures are recommended to the Department of Lands and Survey for the issuance of certificate of occupancy with specified acreages.

CHAPTER FOUR

4.0: PRESENTATION AND ANALYSIS OF DATA

4.1: INTRODUCTION:

It should be noted at this point that most of the data for this study, are facts obtained from Business publications, Textbooks and Government Publications, personal interviews of some Local Government Executives. And the attitudes and opportunities of the communities as it regards investment in commercial and industrial ventures is largely weighed from these documents and the responses of the executives, which are further clarified by observations where possible. Fortunately, however, both commercial and industrial ventures are located highly in the Kaduna State capital city – Kaduna where industries and commercial ventures engaged in goods distribution services and products manufacturing respectively. Thus, information with respect to the attitudes and opportunities as it regards the Nigerian society can best be understood on close monitoring of what obtains in Kaduna for a partial conclusion.

For an in-depth analysis of the main thrust of this research study, a list of some commercial and industrial ventures in Kaduna State was obtained in other to have a clearer picture on how far the investing public has gone and what remains to be done and in what sector of economy. Equally important is an analysis of some thirteen of the present eighteen Local Government Areas and the infrastructures therein. Another area that has been of significance to this study is the exportable product that obtains in Nigeria, which on adequate and proper exploitation would result in foreign exchange reservation and less dependence on the oil as the main source of same. In other to make a fair conclusion as to the opportunities existing, items tagged as prohibited from exportation are equally listed for investor's note and information.

4.2: COMMERCIAL/INDUSTRIAL VENTURES IN KADUNA STATE:

From the list of existing ventures as contained in Appendix 1, we can be able to understand and group them as to the types of common stocks and their existence.

Companies such as A.J. Seward; IBBI; Berger paints; Nigeria Bottling Company Limited; Food Specialities of Nigeria ltd; Nigerian Breweries Ltd; Longman Nigeria Ltd and others like Kaduna Refinery and Petrochemical Company Ltd; Berec Nigeria Ltd; Nigeria Tobacco Ltd can be termed BLUE CHIPS.

They have high-grade investment quality issues, which have long and unbroken records of earnings and dividend payments. It depicts the common stock of large, well established, stable and nature companies of great financial strength. The ability to pay steady dividends over bad and good years for a long period is, of course an indication of financial stability.

Many of these Blue Chips may also be considered as growth stocks, in which the sales and earning are expending faster than the general economy and faster than average for the industry. These types are aggressive, research minded, ploughing back earnings, pay relatively small dividends and their yield is generally low. As a result of plough back and expansion from the appreciation of the value of the common stock they normally experience substantial capital gain. This is true of most companies that are mentioned above.

4.3: **PRIORITY PROJECTS FOR SMALL SCALE INDUSTRIES:**

Entrepreneurship, which involves recognising a business opportunity, mobilising resources and persisting to exploit that opportunity, is a necessary ingredient for self-employment. This research study therefore recognises the importance of developing entrepreneurial thinking and behaviour among Nigerians which can be achieved through; self evaluation, business identification, market research and feasibility studies, marshalling of resources to start a business, obtaining a bank loan, managing business, record keeping and accounting, marketing management, legal aspects of business etc.

The list of priority projects as per above is aimed at creating awareness and encouragement into the conversion of hitherto neglected new materials and other scrap and waste materials into useful, marketable products. For example, by sheer inventiveness, it is possible to use sawdust to make carpets for both cars and use at home. Also, snail shells, corals, cane materials, coconut shells and other scrap materials to make furniture items, house décor objects, ash trays, apparels, containers, toys and other functional items.

Apart from creating employment opportunities, it will to a larger extend help in developing a culture of inventiveness and self-reliance in resource use, thereby curtailing wastefulness and the importation of items that can be produced locally.

In other to buttress this last point further, the following illustration is used:

PRODUCING SOYA MILK:

Nigeria has been ranked as one of the largest producers of soya beans in West and Central Africa. But available information confirms that there are two Soya milk production factories in the country. This means that available soya beans are not fully utilised in spite of the fact that soya beans have much nutritional benefits.

Nutritionally, soya milk is richer than dairy products. It is especially valuable for infant feeding and ranks close to mother's milk. It can completely replace cow milk in feeding infants. This is because soya milk contains essential amino acids, which is an excellent source of calories, minerals, and vitamins for proper functioning of human physiological system. Therefore, to harness our resources optimally and to also move toward self-sufficiency in protein intake, soya milk production is of necessity.

The major agricultural raw material for soya milk production is soya beans. This raw material is available in Niger, Benue, Southern Kaduna, Jos, Federal Capital Territory, Kafanchan and Oyo States. Other ingredients include sodium bicarbonate sugar, salt, water and flavour. The processing machine include blending vats, boiler, homogeniser, fine filter, pasteurise, sealing machine, filling tank and laboratory equipment. The rest include project vehicles, and other accessories. The project is estimated at ₦1,350,000:00.

Market viability shows that soya milk has no consumption discrimination among the population groups. Apart from its nutritional advantage, it also has cheaper price advantage when compared with other brands of milk in the open market. This is why it is highly demanded. Moreso, soya milk has high export potential to other neighbouring West African countries, which implies, it is capable of generating foreign exchange.

The production technology of soya milk involves soya beans absorption of water, grinding, filtering, addition of ingredients (sugar, salt, colour), ultra pasteurisation, cooling, packaging and storage.

The plant in mind would produce 3,000 litres of soya milk at 75% utilization capacity. This may be packed in 100ml white polythene bags. Given 3,000 litres of soya milk per day. For 250 working days per year, 750,000 litres of soya milk would be produced. Assuming a conservative price of ₦700 per litre, ₦5,250,000:00 would be the annual gross revenue. If annual production cost is estimated to be 55% of annual gross revenue, profit before tax would be ₦2.4m in view of the above analysis. This project is socially viable and economically feasible, and thereby an opportunity for investment.

In recognition and support of this investment drive, public and private organisations are playing important and complementary roles by way of financing and technical assistance, such as:

a. The Nigerian Bank for Commerce and industry runs an Entrepreneurship Development Programme aimed at helping young Nigerians with business ideas to translate them into profit-making enterprises. This is done by giving them courses in entrepreneurship and providing them with loans and other support in the early stages of the business.

b. The Societe Generale Bank (Nigeria) Limited has a self-employment programme for those University and Polytechnic graduates who have innovative ideas that could be commercialised. The programme started in 1986 with 20 final year students of the Kwara State College of Technology each of whom received a ₦50,000:00 loan after the feasibility studies of their projects were approved for viability by the bank.

c. The Federal Ministry of Industries runs the Work-for-Yourself Programme targeted at graduates of higher institutions wishing to go into self-employment retired civil servants wishing to invest their gratuities in a business, and other young entrepreneurship wishing to commercialise their technological break through.

d. Also, besides establishing the National Directorate of Employment (NDE), the Federal Government has directed some Institutions, particularly financial institutions, to beef up their staff employment level. The banks were asked to raise their work force by 5 percent and the insurance by 3 percent. The Registrar of Cooperation was also directed to register more producer cooperatives as a way of generating more jobs in the business sector.

The projected estimate of the illustration above is as follows:

	ITEM	COSTS (₦)
i	Pre-investment	20,000
ii	Factory house (rental)	80,000
iii	Plant and machinery	500,000
iv	Utilities	400,000
v	Working Capital take off	300,000
vi	Contingencies	50,000
	TOTAL:	1,350,000

4.4: NIGERIA'S EXPORTABLE PRODUCTS:

Over the years, Nigeria has to a larger extended being depending on the proceeds of her oil which forms about 90% export takings. This is said to be the main source of her foreign exchange. It is this high concentration of attention on the oil sector that led to the near total neglect of other sectors of the economy. It should also be noted here that, most of the Nigerians exports are in their crude forms and thereby less returns. This therefore, calls for the attention of potential investors and entrepreneurs because further processing of these products would result in enhancing the value to these exports bringing higher returns to them and foreign reserve increase. The Government on her part has taken a bold step in the right direction with the establishment of the Export Processing Zones, which would compliment the efforts of the Nigerian Export Promotion Council.

Of recent also the Federal Government has been working on new policy measures aimed at enhancing revenue generation in the services sector of the economy.

These measures are ostensibly envisaged to liberalize trade and encourage the export of services from Nigeria; and in addition, address low productivity and lack of dynamism in the sector.

It should be noted here that, benefits inherent in this sector are immense due largely to its heterogeneous nature including labour services, tourism, telecommunication, banking, insurance services.

Globally, it is found that services account for about 23% of world trade, while in the United States they contribute two-thirds of the

Gross Domestic Product (GDP) and employ over 70% of the consumer force.

Statistical documentation and analytical record on contributions sector to the Nigeria economy were grossly unreliable, this has delayed designing policies that would strengthen development of domestic and export capacities of the sector.

Cocoa, one of the exports in Nigeria is still in its poor production level of 200,000 tonnes of cocoa beans per annum, this dwindling supply of the beans is unfavourable to the current rising requirement for the good by processors in the Eastern European Countries especially Russia.

It is therefore important that the current traditional pattern which requires that any foreign consumer of cocoa beans must buy it either from London or American markets; this the Federal Government should take note and to support the local cocoa farmers in this direction, by allowing same to be sold to the Eastern European markets.

Products such as cashew nuts, ginger, molasses, palm kernel, palm oil/cakes, castor seed, castor oil, coconut oil, white maize, sorghum, cattle gallstone, fish bladders, palm kernel shell, coconut shell, gum Arabic among others, are products that many companies are willing to undertake their exportation. Investors would therefore find a way of making reasonable returns by investing in these areas.

Of equal consideration and importance is the possibility of investors going into joint ventures with foreign partners in a number of right income-yielding business ventures for local sourcing supply and export of cocoa, coffee, castor oil, palm oil, kernel, cakes and many others.

We can suggest and encourage further production of some local products not only for local consumption but also for export. For example, the production of disposable syringe with needles is being introduced to project promoters not because it is technically feasible and economically viable, but because it also has among others, dualistic market potentials of earning foreign exchange.

Scientifically, this medical instrument has been tested worldwide and universally accepted to be used for hypodermic injection of medical liquid into human body or animal. It implies that effective market demand would continue to exist for the products in the long run, which points to the market viability of the project.

Summary of project viability tests has put net present worth (NPW) at 40% and discount factor positive. Benefit cost (BC) ration is 1.85, internal rate of return (IRR) above 50% while the payback period is after the first year of the project take off. In view of the projected annual profitability, one can predict positive net cash in all the project year.

Statistics collected at the two major posts in the country showed that the non-oil exports fell from 601,173 tonnes between January and October last year to 149,879 tonnes in the same period this year, a decline of 451,294 tonnes (or 75%). The commodities were exported to Europe, the Americas and Asia. Port sources attributed the sharp drop in the level of the exports to the high exchange rate of ₦82:00 to the dollar used in calculating port charges on non-oil exports and the use of the rate to open letters of credit for non-oil exports as demanded by the Federal Government also is the decline in the demand for the products.

4.5: SURVEY REPORTS ON COMMERCIAL/INDUSTRIAL POTENTIALS OF SIX LOCAL GOVERNMENT AREAS OF KADUNA STATE:

INTRODUCTION:

The contents of this report are the findings of the survey, which was mainly embarked upon to unearth the commercial/industrial potentials that exists in Kaduna State and which will facilitate the establishment of commercial ventures and industries, in the State.

Kaduna State is a fairly well commercialised and industrialised State with its main commercial venture and industries located within the State Capital itself. The poor concentration of commercial ventures and industries in the Local Government Areas led to the idea of having to undertake a research study of this magnitude thereby exposing the potentials for investors (both foreign and local).

For the purpose of this Research Study as information chart is designed and formulated for quick conveyance of information from the six sampled Local Government Areas.

Among the major potential factors, which the study sought to unveil, are:

(a) Infrastructural facilities (Road network and communication).

(b) Utilities (Electricity and water).

(c) Raw Materials; Climate conditions; Existing industries and other institutions, possible linkages, Human Resources and Remarks.

4.6: SUMMARY:

It could be deducted from the above analysis that investors are more interested in investing in blue chips which are mostly multinational companies and those that give them good publicity. Where a company is completely localised, Government alone is left to finance and run such a business. These and poor investment orientation and knowledge has resulted in a serious neglect of most of the Local Government Areas despite the many potentials available therein.

Side by side with these facts is that, the potential entrepreneurs and the resources available in these areas are grossly under utilised.

CHAPTER FIVE

5.0: SUMMARY, RECOMMENDATIONS AND CONCLUSION:

5.1: SUMMARY:

A Project undergoes many stages from the time it is first identified as potentially attractive to the time it becomes an operational concern. These stages start from the generation of ideas of what project to invest on and this is followed by an evaluation of the various project ideas to select the one that seems to be most attractive. Having identified a project idea, the next stage is to carry out necessary pre-investment studies to determine its feasibility. These studies are absolutely important, as they constitute vital inputs into the investment decision process.

Pre-investment studies that precede investment decisions are pre-feasibility study, feasibility study and technical support study. The feasibility study is the most vital of these studies in terms of comprehensiveness, information content and demand made upon it by all the parties that are interested in the project. These parties include; the investors who are interested in the profitability of the enterprise; the short-term creditors who are interested in liquidity ratios; long term creditors who are interested in the ability of the enterprise to service long-term debts; and the Government which is interested in ensuring that all the laws and regulations for establishing a new business have been met.

Real investment means building up of productive capital or accumulation of capital goods in contradiction to capital or accumulation of capital goods in contradistinction to portfolio investment which in the main entails switching of financial resources from one sector to another via the buying and selling of securities.

Kaduna State has favourable investment opportunities like in most other parts of the country, which can adequately be exported at commercial and industrial levels assuming the negative investment attitudes of our investors would be turned into advantages. This has been attributed to the agricultural mineral, power, water, labour resources; the transportation and communication networks; telecommunication services and the financial agencies or institutions.

The commercial/industrial ventures established in Kaduna State enjoy incentives offered by both Federal and State and Local Governments, also the many raw materials which play an important role in advancing investment opportunities for investors in all the said tiers of Government.

5.2: RECOMMENDATIONS:

It is necessary to reiterate here that adequate and efficient supply of electric power; water, transportation network, telecommunication services, law and order are crucial for an environment that will stimulate investment. Sufficient provision of these support infrastructures will obviously reduce the initial overhead costs of investment thereby encouraging investors.

The current state of development of telecommunication services, transportation, network, electric power and water has been disorderly and portrays either lack of national intelligence of lack of sincerity of policy makers and implementation or both. In general, there has always been an attempt to introduce more sophisticated versions of facilities and process available in the international market, the basic foundations on which such sophistication is built are rarely carefully selected or strengthened. For instance, water, electric power and telecommunication services in Nigeria are grossly inadequate and unreliable. While policy attention has jumped over heavy industrialization such as iron and steel, petro-chemical automobile assembly among others.

Privatisation and commercialisation have been applied to improve the efficiency of some State monopolies in transportation and telecommunication services. This approach is considered laudable and should be sustained. However, there should be some well thought out plans to ensure that actual improvement takes place in quality of services rendered. So far what we have observed is the raising charges by these State enterprises. There is hardly any evidence of improvement in quality of service. I reckon that if privatisation and commercialisation result in high monopolistic prices without corresponding rise in quality of services, the investment setting will not have been improved upon. Instead, a high cost structure will be a disincentive to investment.

An acceptable enabling environment requires a rational system of incentives for investors and entrepreneurs. In this wise, material success should derive from superior productivity, innovation/invention and industry and not from political patronage. If political patronage is a big Department of Government, attention will be diverted from productive activities, real investment or wealth creation as benefit maximising individuals and groups would rather accumulate resources the easier way.

Related to this is the question of poor accountability of public revenue accruing and quantum of public services rendered by the different tiers of Government with the expected revenue from the multiplicity of taxes which burden the general public bears. Disproportionately and unjustifiable output is usually realised from a unit of public expenditure. The practice in Nigeria's budgeting has been to emphasize the amount of money spent rather than on the material output e.g. kilometres of road, litres of water or tonnes of steel produced from a specified amount of money. To set a system right for real investment, this practice needs an urgent revision. What should be done now is to introduce some element of national budgeting as a measure to reduce current waste and misappropriations associated with monetary budgeting in the public service.

Furthermore, an enabling investment environment can be developed via the employment of appropriate tax regime. Double taxation, multiplicity of taxes and high rates of taxation are a disincentive to investments. Laffer-like system of taxation – a rational system of cost rate of tax and reduction in types of taxation will lead to higher Government revenue arising from higher level of investment and less incidence of tax evasion.

An efficient investment environment can only be derived from a responsible democratic system of Government. Democratic Government presupposes an economic system based on the price system. The price system encourages competition, which in turn stimulates investment. Also desired from democratic system of Government is good law and order. Investment cannot thrive where there is no justice. Nigeria's political system which is characterised by a longer period of military regimes since independence has not enjoyed the basic benefits of democracy outstanding amongst which are the attraction of foreign investors and conducive atmosphere for potential indigenous investors.

This ugly situation is however, receiving a closer consideration by the present regime in which a streamlined political programme for a smooth transition to a democratic rule is been worked out at. This programme is further buttressed by a campaign tagged "VISION 2010" which is aimed at creating an enabling economic environment with very little or no Government control. Furthermore, is the Federal Government decision to stop henceforth, the engagement of the Central Bank of Nigeria in Commercial banking operations.

It is however, a matter of regret that the Nigerian Judiciary has not demonstrated sufficient support for the development of an enabling environment in this country. For instance, a system where the courts issue injunctions preventing financial institutions from foreclosing the subject property in a legal mortgage where the mortgagor has defaulted cannot be said to encourage investment. From experience, these injunctions are usually obtained exparte or in the Judges chambers. This is not the case in the United Kingdom from there they derived our common law and commercial law.

The Nigerian legal system must come to terms with the reality of modern day commerce and industry. This will guarantee an enabling investment and entrepreneurship.

The pertinent question at this juncture will be why has enabling investment environment in Nigeria been elusive over the years?

This is because, the focus of responsibility which we have found to be Government has not lived up to expectation for most of the period since after our political independence in 1960. Politics and power have been misused and the behaviour of Governments that have appeared on stage has been opportunistic, selfish and primitive accumulation of wealth.

There is therefore the need to build a State administrative apparatus that is business like. The present work behaviour of public servants particularly with regards to the tendency to slow down projects' tempo and create artificial bottlenecks in the name of bureaucracy must cease. There is need for Government with vision and commitment to manage the economy for greater results.

A desirable investment environment must be stable and suitable. We have everything to achieve this if we are willing to and be less deceitful. This is the way to satisfy the economic aspirations of the people of this country. If public policies and practices keep the people restive both local and foreign investors will only engage in speculative business activities owing to lack of faith in the long-term orderly corporate existence of the country.

5.3: CONCLUSION:

The commercial and industrial investment attitudes and opportunities of any given system cannot be adequately analysed without tracing the role of an entrepreneur in the growth and development of the system/national economies. Entrepreneurship is central to rapid development and economic development. He plays the role of an innovator who brings about economic development in spontaneous and continuous manner. According to the Chambers 20th Century Dictionary (1983 Ed.) an entrepreneur is, "One who undertakes in enterprise especially a commercial one, often at personal financial risk: a Contractor or an employer."

An entrepreneur is therefore, one who brings about changes, introduces novelties and takes the necessary risk in order to make things happen in the process of economic development.

The failure of most of the indigenous entrepreneurs then could be traced to lack of prudent managemental strategies among others.

The first major break for indigenous entrepreneurs appeared to have been the period since the introduction of self-government in 1955 up to the promulgation of the first Nigerian Enterprises Decree in 1972. Since then, indigenous entrepreneurs have come to be involved in virtually all sectors of the economy – that is, they moved beyond commerce.

The other identifiable groups of entrepreneurs in Nigeria in the past were immigrants – mainly Lebanese and Syrians, Europeans and Indians as well as foreign traditional companies which had fully owned subsidiaries or affiliated companies in Nigeria.

The immigrants appeared to be more successful than indigenous entrepreneurs in diversifying their businesses beyond commerce and generally building businesses that outlined their owners. These immigrant entrepreneurs, however, started with trading and importation of manufactured products and export of produce, before moving to transportation. They later diversified into small-scale manufacturing, property development, textiles and plastic manufacturing, property development, textiles and plastic manufacturing etc. As indicated earlier, they tendered to be much more adapting to managing businesses with the result that their enterprises had high survival rates compared to those of indigenous entrepreneurs.

The third category of entrepreneurs foreign owned companies, developed as a result of European trading activities along the coastal areas not only in Nigeria, but also within the West African sub-region. The early identifiable pioneer in this area is what is today the UAC of Nigeria PLC. Other foreign companies, which also played and continue to play prominent roles in Nigeria, include PZ, Lever Brothers, CFAO, SCOA etc. These companies apart from doing more of value added activities, which were notably absent in the activities of indigenous, also provided the pool from which other organisations could draw trained professional managers. In many ways they acted as "role models."

It is noteworthy to stress that in terms of the impact of their activities on the nation's economic development, early indigenous entrepreneurs' contribution could be said to be rather modest following the little or total lack of value added in their activities. Both the immigrants' entrepreneurs and foreign owned enterprises by virtue of their activities seemed to have contributed more to the modernisation of the economy of our country then.

Although opportunities for investment in various sectors were abundant in the past as they are now, the challenges were equally as daunting. For the pioneer entrepreneurs, relatively little capital was required to start off. Competition was not as tight as it is now with less population pressure and there were enough positions for the few educated Nigerians in job market then. The nagging question however, remains as to why the achievements or relative contributions of our indigenous entrepreneurs and foreign owned subsidiaries of multi-national companies.

The explanations really are not too far fetched and below we will identify certain factors that were genuine:

(a) Most indigenous enterprises have little or no access to modern management concepts and ideas.

(b) Start business with personal savings and borrowing thereby financial constraints.

(c) Poor technical know-how.

(d) Investment environment – flourish within the context of liberal environment.

(e) Social attitudes: People tended to proffer established professions or old trades rather than venture into new areas.

(f) Lack of infrastructural facilities.

(g) Technological backwardness – without a minimum level of technological capabilities.

(h) Investment policies: Half-Baked policies.

Nigeria can as well reach easily her peak of economic development if these factors, which are the main constraint to our local investors, are properly tackled. This I believed requires the collective effort of the investing public and the Government. The investor should now be more inclined to taking more risks – as it relates to taking adequate loans from banks and other financial institutions irrespective of interest and to equally learn to put such resources in projects that are feasible, not in already existing projects.

The Government on the other hand should make efforts in putting most especially our rural areas in the best of form, with respect to provision of all the necessary infrastructures needed in these areas.

Achievement of greatness in Nigeria only needs a little push on the part of everybody.

Nigeria, which on adequate and proper exploitation would result in foreign exchange reservation and less dependence on the oil as the main source of same. In order to make a fair conclusion as to the opportunities existing, items tagged as prohibited from exportation are equally listed for investors' note and information.

APPENDIX I

4.2 LIST OF COMMERCIAL / INDUSTRIAL VENTURES IN KADUNA STATE

The idea here is to give a list of existing commercial and industrial ventures in the State in relation to the attitude and opportunities that abound for investors. It is equally to show the inclination of the investible funds within the system. Also is the production mix and the location of such ventures, as:

NAME OF COMPANY	PRODUCTION MIX	ADDRESS
1. Federal Super-Phosphate Fertilizer Coy.	fertilizer and sulphuric Acid	Nassarawa Rd. kaduna Souths
2. Ideal Flour Mills Ltd	Flour, Semoline Bran and Grits	Kudenda Area Kaduna.
3. West African Bitumen Emulsion	Bitumen Emulsion, Emolsicote MS & RS	Kaduna South Maichibi close
4. Drinco Industries Ltd.	Brahma Guarana Lemon, Cola, Orange Solf drink etc.	Kudenda Area Kaduna
5. Jafco Industries Ltd.	Plastic Shoes Sandals and foam Products ect	Kudenda Area Kaduna
6. United Wire Products Ltd.	Wire Products, Welding Electrodes	7Maichibi close Kaduna.
7. Roofco Nigeria Ltd.	Galvanized Roofing Sheets	P.M.B. 2207 Kaduna.
8. Vulcan Gasses Ltd.	Oxygen Acetylene And Nitrogen Gasses	Kaduna South Industrial Area

9. National oil and Chemical Company Ltd.	Industrial Chemical Lubricants and Insecticides.	Kachia Road, Kaduna
10. Comrade Cycle Ltd.	Bicycles and Pram.	Chikaji Area Zaria.
11. Electric Metre Company of Nigeria	Electric Metre and Circuits Breakers	30/31 Chikaji Industrial Area Zaria
12. Gora (Nig.) Ltd.	Furniture and Furniture Works, Panel doors and Frames.	21 Ali Akilu Rd. Kaduna
13. Unitex (Nig.) Ltd.	100% Cotton and Blended Yarn	Textile Road Kaduna.
14. Northern Nigeria Publishing Company Ltd.	Books Publishing	Gaskiya Road Box 412, Zaria
15. Industrial Gas Ltd	Gas	2 Kachia Road Kaduna.
16. Elson (Nig.) Ltd	PVC Pressure and Piper Telephone Cable etc	Inuwa Abdulkadir Road Kakuri Kaduna
17. R.H. Plastics Ltd	Plastic Containers	Box 6012, Kaduna.
18. National Diaries Products Company Ltd.	Daily Milk and Youghort	Zaria Road, Kawa kaduna
19. Universal Automo-bile and Parts Ltd.	Builders of Refrige-rated Truck, Cold Rooms and car Air Condition services	No.2 Kaduna North, Station Road, Kaduna
20. Berec (Nig.) Ltd	Dry cell batteries	B16 Kudenda Area Kaduna

21. Nigeria Tobacco Company Ltd.	Cigarettes Packaging	No.2 Tobacco Road, Chikaji, Zaria.
22. Rigidpak Container Ltd	Corrugated Paper Containers etc.	Old Jos Road Zaria.
23. Ugochuku Chemicals:	Foam Mattrasses Pillows, Cushions etc.	Nasarawa Road, Kaduna
24. Projex (W.A) Ltd:	Agricultural Engineering	Kudenda Area Kaduna.
25. Kaduna Refinery and petrochemical Coy Ltd.	Petroleum Products	Kachi Road Kaduna
26. Kaduna Textile Ltd.	Polypropylene sacks Shirting, Carded Yarns	Textile Road, kaduna South.
27. Evans Brothers (Nig.) Publishers Ltd.	Printing, Publishing and Stationaries	KC 16/18 Maiduguri Road Box 584, Kad.
28. Queensway Aluminium Co. Ltd	Aluminium Products	Inuwa Abdulkadir Road Kaduna
29. Thomos Wyatt and Sons Nig. Ltd.	Books and Stationaries	Kaduna South
30. Capital Food Co. Ltd.	Bread and Confec-tionaries	11 Airport Road Kaduna.
31. Zaria Industries Ltd.	Tarpualine Products	Old Jos Road, Zaria.
32. Arewa Pharma-ceuticals Ltd.	Pharmaceutical Products	Inuwa Abdulkadir Road, Kaduna
33. Turners Building Products (Arewa) Ltd.	Asbestors Roofing Sheets, Pipe etc	Textile Road Kaduna.

34. M.G. Communications system Ltd	Communications Equipment	32 Ali Akilu Road, Kaduna
35. Starling Product (Nig.)	Drugs and Medicine	Junction Road Box 104, Kad.
36. Peugeot Automobile (Nig.) Ltd.	Peugeot Vehicles 504, 509 Evolution etc	Inuwa Abdulkadir Road, Kaduna
37. International parts Ind. Ltd.	Electrical car components and spare parts	Off Kachia road Refinery Industrial Area, Kaduna.
38. ALEP/Donier Ltd.	Aircraft Manufacture, Sales, Maintenance, Operation, and training	Old kad. Airport Box21241,Kad.
39. Nigeria seed Cotton Co. Ltd.	Processing cotton seed, Lint etc.	Q17 sullabawa Road, u/sarki Kaduna
40. NOCACO Ltd	Housing Wiring cables, Flexible wires	Maichibi Raod Kaduna South
41. United Nigeria Textiles Plc	Real Wax, super Print, Shirting	Nassarawa Road Kaduna Sonth
42. New Nigeria Newspaper Ltd	Printers, Publishers and Stationaries	Ahmadu Bello Way, Box 254, Kaduna
43. Seko Engineering Company Ltd	Electrical Machine ries and apparatus	18/19 Ahmadu Bello Way Kad.
44. Precission matg Co. Ltd	Plastic injectors blow Moduls Machine Spare parts etc	29 Kushe Road Kaduna
45. Baraka Press and Publishing Co. Ltd	Printing and Publishing	Box 117, Kaduna
46. John Holt (Yamaha)	motor cycles	Bank Road kaduna.

47. Supertex (Nig) Ltd	super wax, Deluxe wax, Dyed Crackle etc	Textile Road kaduna South
48. Kaduna Grains Processing Co. Ltd	Assorted Grains Flour and Paultry feeds	No.8 Kudanda Industrial Estate Kaduna
49. Longman Nigeria Ltd	Publishing Book	Sokoto Road Box 442, Zaria
50. Kaduna Furniture and carpet Co. Ltd	Furniture and Carpet	Kaduna South Ind. Area Kaduna.
51. Nigeria Breweries Ltd	Larger Beer, Shandy G/Sandy etc	Makera Road Kaduna South
52. Feman Industries Ltd	Bolts, nuts, wire nets and roofing Nails	nassarawa Rd. kaduna south Area Kaduna
53. United Oils Mills	G/nuts and soya Beans oils and cake	1-4 Chikaji Estate, zaria
54. Arewa Textile Ltd	Yarn covey, Braft African print Super print, white Shirting, Dye goods	Textile Road kaduna
55. Tower Galvanised Products Nig. Ltd	Galvanised Pipes	Inuwa Abdulkadir Road, Kaduna
56. Lateco Nig. Ltd	Furniture	16/18 Turunku zaria
57. Defence Industrial Corp. of Nigeria	Light arms, Ammunations, Mechanical Spare parts, Deep Well hand pumps etc.	6b Ahmadu Bello way, Kaduna
58. Brossette Manufacturers Nig. Ltd	Automotive Components	Maichibi Road Kaduna
59. Food Specialities Nig. Ltd	Nestle Food Products	G11 Unguwan kanawa

60. Chello Industry (Nig) Ltd	Blankets, Upholatry Materials, Bed spread Baby shawels ect	A1/B2 Kudenda Area, Kaduna
61. Nigeria Bottling Company Ltd	Soft Drinks (Fanta, Coke and Sprite)	Kudenda Ind. Area, Kaduna
62. First Aluminium (Nig) Ltd	Aluminium Roofing Sheets, Windows Doors etc	Ahmed Talid Avenue, Kaduna South
63. Technoplastic (Nig) Ltd.	Plastic Crates & shoes	Kaduna South Industrial Area.
64. Kaduna Crown Cork (Nig.) Ltd.	Bottle Corks Etc.	1A T/Wada Light Industrial Area Kaduna.
65. Berger Paints (Nig.) Ltd.	Paints	N4 Rafi Close, Kaduna.
66. Arewa metal Containers Ltd.	Water &Fuel Storage Units Agric-Implements	Moh'd Ladan Road, Kaduna.
67. IBBI Ltd.	Larger Beer, Evas etc.	Kudenda Industrial Area, Zaria

APPENDIX II

4.3: <u>LIST OF PRIORITY PROJECTS FOR SMALL SCALE INDUSTRIES</u>

1. Printing and Book Publishing
2. Leather Works
3. Carpentry and Joinery
4. Garment making
5. Shoe making and Repairs
6. Radio and Television Repairs
7. Vulcanising
8. Photography
9. Automobile Repair Workshop
10. Dry Cleaning and Laundry
11. Welding/Metal Works
12. Tinkering
13. Fish processing, Frozen fish, Smoked fish and canned fish
14. Starch Factory
15. Black Smiting
16. Upholstery
17. Weaving
18. Hair Dressing
19. Chalk Factory
20. Zip and Buttons
21. Polythene bags
22. Square mesh for under beds
23. Paper clips
24. Office Stapplers
25. Bolts and Nuts
26. Aluminium Doors and Windows Frames
27. Sanitary pads
28. Toilet paper and Table napkins
29. Exercise Books
30. Tooth picks
31. Can making
32. Crown cap making
33. Men Dresses
34. Carbon papers
35. Soap making
36. Candle making
37. Pomade
38. Shoe polish
39. Barbed wire
40. Absorbent cotton
41. Wire nails
42. Coil springs
43. Welded wire mesh

APPENDIX III

4.4 LIST OF NIGERIAN EXPORTABLE PRODUCTS

(a) FOODS:

1. Sardine and Herring in Tomato source
2. Tomato paste, Tomato puree and Tomato ketch up
3. Tropical Fruit Juices
4. Lucozades
5. Spring Water (bottled)
6. Custard
7. Cornflakes
8. Confectionery and Biscuites
9. Sea Food - Shrinks, lobster, crayfish other crustaceans
10. Honey

(b) BEVERAGES, TOBACO AND ALCOHOL:

1. Ccoa and Cocoa based products
2. Coffee (Arabica and Rubusta
3. Tea
4. Palm Wine
5. Kola Wine
6. Coca Wine
7. Tobacco and Tobacco manufacture
8. Mineral water - Coke, Fanta, Seven-up etc.
9. Malt drink
10. Lager Beer

(c) OIL SEEDS:

1. Coconut (fresh)
2. Copra
3. Groundnut
4. Shea nuts
5. Palm Kerneb

6. Cotton Seeds
7. Sesame Seeds
8. Caster Seeds
9. Cashew Nuts
10. Wall Nuts

(d) <u>OIL FATS:</u>

1. Cocoa oil (crude and refined)
2. Fish oil (crude and refined)
3. Shea butter
4. Palm Kernel oil
5. Groundnut oil
6. Sesame, Seed oil
7. Palm oil
8. Animal fats
9. Cotton seed oil
10. Copra oil

(e) <u>FEED INGREDIENTS:</u>

1. Copra cake
2. Fish meal
3. Cow Horns
4. Linseed cake
5. Rape Seed cake
6. Meal/Borne meal
7. Sunflower See meal
8. Citrus Pulp Pellets
9. Palm Kernel Cake
10. Groundnut

(f) <u>VEGETABLE AN FRUITS:</u>

1. Grape
2. Grapefruits

3. Curves
4. Lemons
5. Lime
6. Melon (water)
7. Oranges
8. Mangos
9. Paw-Paw
10. Peaches
11. Pears
12. Pineapples (Gr. A,B,C&D)
13. Plantains
14. Strawberries
15. Asparagus
16. Cabbage
17. Carrots
18. Conliflowe
19. Cuenniber
20. Garlic
21. Okro
22. Onions
23. Cashew
24. Potatoes
25. Radish
26. Spirach
27. Lemon Grass
28. Sweet Potatoes.

(g) RUBBER:

1. RSS 1
2. RSS 2
3. RSS 3
4. RSS 4
5. RSS 5
6. TSR 5L
7. WL 5L
8. WL 5L
9. CL 5L
10. TSR 5
11. NSR 5
12. WL 5
13. CL 5
14. TSR 10
15. NSR 10
16. WL 10
17. CL 10
18. TSR 20
19. NSR 20
20. WL 20
21. CL 20
22. MX 3

(h) SPICES:

1. Challis (Tension small)
2. Ginger (dried, peeled, split)
3. Pepper (black & white)
4. Cloves
5. Nutmeg (unsorted)

(i) MANUFACTURER GOODS:

1. Types (for cars, trucks and lorries)
2. Types (for motorcycles, moby (letters, scooters, Honda, Yamaha)
3. Shoe (s) soles
4. Candle
5. Blass bottles of between 19cc and 1 litre
6. Automobile batteries
7. Tooth brushes and tooth pastes
8. Nigerian wires and spirits
9. Industrial wire and ropes
10. P.V.C. pipes and fittings
11. Machine tools and industrial parts
12. Wire and cable for Telegram and Electrical installations
13. Detergents
14. Insecticides
15. Baking Flour
16. Cotton Yarn
17. Batranized pipes
18. Pharmaceuticals (including medical plants)
19. Carpet and Rugs
20. Sinks, wash basins, baths and other sanitary fixtures.
21. Rubber Ceramic titles
22. Table ware
23. Beer mug
24. Glass Beads
25. Room Air conditioners
26. Nails
27. Textile including bed spread and sheets
28. Rubber and plastic products
29. Bamboo products
30. Bags (travelling ladies and school)

(j) LEATHER AND LEATHER PRODUCTS:

1. shoes
2. processed hides and skins
3. handbags and Belts

(k) WOOD AND WOOD PRODUCTS:

1. Wooden furniture and Components
2. Gmelina

(l) WEARING APPAREL:

1. Embroidery, Adire, Batic
2. African Prints
3. Germents

(m) TEXTILE SECONDARY ACCESSORY:

1. Buttons
2. Fatteners

(n) INDUSTRIAL MINERALS:

(o) CHEMICALS

(p) PETROCHEMICAL AND PETROL PRODUCTS

(q) METALS

APPENDIX IV: ITEMS PROHIBITED FROMEXPORTATION

1. Rimber (whether processed or not) and in the rough excluding furniture, furniture cinponents and Gmelia.
2. Grain e.g. Maize, millet and their derivatives
3. Cassava
4. Yam tubers
5. Beans
6. Rice
7. All food items that are important
8. Wildlife e.g. crocodile, Eagles, Snakes, Elephant, lions and their skins
9. Raw hides and skins
10. Raw cocoa beans and palm kernel
11. Scrap metal (Ferrous and Non - Ferrous)

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