THE ROLE OF INVESTMENT IN ECONOMIC DEVELOPMENT OF NIGERIA: A CASE STUDY OF NEW NIGERIA DEVELOPMENT COMPANY LIMITED (NNDC)

ABUBAKAR MOHAMMED CHATTA

A PROJECT SUBMITTED TO THE POST - GRADUATE SCHOOL, AHMADU BELLO UNIVERSITY, ZARIA, IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION.

DEPARTMENT: BUSINESS ADMINISTARTION

FACULTY: ADMINISTRATION
AHMADU BELLO UNIVERSITY,
ZARIA.

DATE: APRIL, 1994.

DECLARATION

I, Abubakar Mohammed Chatta, hereby declare that this project is as a result of my absolute independent work and that it has not been previously submitted elsewhere.

I also declare that the works of other authors are fully acknowledged where appropriate.

Signature: .....

Date: 28/3/95

CERTIFICATION

This project report entitled The Role of investment in economic development of Nigeria: A Case Study of New Nigeria Develoment Company (NNDC) by Abubakar Mohammed Chatta meets the regulations governing the award of the degree of Masters of Business Administration of Ahmadu Bello University, and is approved for its contribution to knowledge and literary presentation.

(Name and Signature)

..... Date: 8/9/94
Chairman, Supervisory Committee

(Name and Signature)

..... Date:.....
Member, Supervisory Committee

(Name and Signature)

..... Date:.....
Member, Supervisory Committee

(Name and Signature)

..... Date:.....
Member, Supervisory Committee

(Name and Signature)

..... Date: 15/10/98
Head of Department

(Name and Signature)

..... Date: 2/11/98
Dean, Postgraduate School

DEDICATION

To my beloved mother, late Hadiza Eyivovo Owuda Mohammed Chatta, who departed this world on the 27th of December, 1983.

May the almighty Allah grant her perfect eternal rest (amin).

ACKNOWLEDGEMENT

My gratitude goes to the almighty Allah, the beneficient, the merciful for giving me the peace of mind and ability to complete this course.

I am profoundly grateful to my supervisor, Mallam A.M. Abu-Abdissamad who gave me all the necessary assistance for a perfect presentation of this project.

Most importantly, my appreciation goes to the entire Chatta family and Okatahi family especially Mallam Mohammed Aliyu Chatta, Musa Enessi Chatta, Mallam Ibrahim Umazayi Okatahi, and Alhaji Abdullahi Bello Okatahi for their advice, assistance, and encouragement throughout the course.

I also wish to thank my brothers and sisters, Ahmed Enessi Chatta, Dr. Sidiq Enessi Chatta, Mamman Usman Otori, Hassan Mohammed Chatta, Hajiya Hassana Chatta, Bilkisu Mohammed Chatta, Abdulsalam Yusuf Okatahi, Salihu Suleiman Okatahi, Dr. Nasir Yusuf Okatahi, Mohammed Musa, Barikisu Abdul Owuda, Ismaila Enessi Chatta and Yahaya Abdulsalami Owuda for their supports, advice and encouragement in the pursuit of this course.

I am also very appreciative of the co-operation, financial assistance and fruitful suggestions from the following friends, Mohammed Umar (Schemo), Isa Salawu Ateiza, Ahmed Yusuf Onogo, Ibrahim Zubairu Anataku, Dr. Michael Ogirima, Abdul Rahman Sanni, Mumuni Bello, Haruna Adinoyi, Mohammed Bello Aoke, Gregory Ohiani, Sanusi ahmed, Salihu Ahmed, Peter Umar Ozigi, Adams Abdulkadir, Malik Barde Suleiman, Tijani Omeiza, Vincent Ogbami, Abdul Rahman Adeiza, Mumuni Salawu, Mohammed Faruk Abdulaziz, Aliyu Isa Saiki, Michael Ohiani, Dahiru Gomina

Eneye, Umar Sule-Otu, Yakubu Audu, Aliyu Kasim, Mohammed Omuya, Aminu Mohammed Yusuf, Abolore Arije Mustapha, Abdul Aziz Ohida Salawu, Nasiru Adinoyi to mention but a few.

To Zainab Iyami Jibrin and her friend Rekiya Salawu, for their love and cooperation especially during the course of this work.

Finally, I wish to thank Mr.C.M. Mathen and members of staff of the department of Marketing, Purchasing and Supply in particular and the entire staff of Kaduna Polytechnic in general for their assistance and cooperation throughout the period of the course.

ABSTRACT

This project work is concerned with the determination of the role of investment in economic development of Nigeria, while New Nigeria Development Company Limited (NNDC) was used as a case study.

NNDC incorporated in 1949 is a development finance institution jointly owned by the sixteen (16) Northern States with their equity ownership varying in different proportions. The company is based in Kaduna and its subsidiaries in other member states, and also with investment in various sectors and subsectors of the economy throughout the country.

The study revealed the role of investment as a catalyst in the development process, which is associated to its interactive effect on income, saving and further capital accumulation. It is observed that the acquisition of industries lead to increased per capita income, reduction in unemployment, economic inequality and absolute poverty. Therefore the role of investment in economic development was viewed from the perspective of industrialization.

In this regard, the study discovered that NNDC made significant contributions to the development of Nigeria economy with respect to its investment activities, provision of employment, development of human resources and advancing loans to other companies directly or by guarantee.

However, some shortcomings were observed in the NNDC operations and recommendations were made based on the findings of the study.

TABLE OF CONTENTS

		PAGE
Title Page		i
Declaration		ii
Certification		iii
Dedication		iv
Acknowledgement		v
Abstact		vii
Table of Contents		viii
List of Tables		xii
List of Appendices		xiii
1.1	Chapter One: INTRODUCTION	1
1.2	Statement of the Problem	4
1.3	Objective of the Study	5
1.4	Significance of the Study	6
1.5	Scope of the Study	6
1.6	Limitations of the Study	7
2.0	Chapter Two: LITERATURE REVIEW	9
2.1	Introduction	9
2.2.1	The Multiplier	16
2.2.2	The Accelerator	18

2.3	Essential elements of Investment	20
2.3.1	Revenues	20
2.3.2	Costs	21
2.3.3	Expectations	22
2.4	Investment Criteria	23
2.4.1	The minimum incremental Capital output Ratio (ICOR) or The Rate of Capita Turnover Criteria	24
2.4.2	The Social Marginal Productivity (SMP) Criterion	26
2.4.3	Reinvestment Criteria or The Marginal Per Capital Reinvestment Quotient (MRQ) Criterion	29
2.4.4	The labour or Employment Absorbtion Criterion	30
2.4.5	The Balance of Payment Effect Criterion.	32
2.4.6	Time Service Criterion (Dobb-sen Criterion)	33
2.5	Method of Investment Appraisal	35
2.5.1	Average Rate of Return	36
2.5.2	The Pay back period	39
2.5.3	Internal Rate of Return	41
2.5.4	The Net Present Value	42
2.5.5	Profitability Index	44
2.6	What is Economic Development	45
2.7	Theory of Development Financing	47
2.7.1	The Gap Theory	48

2.7.2	The Exigency Theory	49
2.7.3	The Catalyst Theory	50
2.8	The Role of Development Financial Institutions	50
2.9	Historical background of NNDC	52
2.9.1	Objectives of NNDC	54
2.9.2	Ownership Structure of NNDC	55
2.9.3	Source of Funds	56
2.9.4	Organisation and Management	57
2.9.5	Nature of Operations	57
3.0	Chapter Three: RESEARCH METHODOLOGY	61
3.1	Questionnaire	62
3.2	Personal Interview	62
3.3	Documentary	62
4.0	Chapter Four: DATA PRESENTATION AND ANALYSIS	64
4.1	NNDC Investment Activities	64
4.2	Investments Valuation	67
4.3	Revenue Generation	69
4.4	Staff Strength	71
4.5	Contribution to Employment and Manpower Development	72
5.0	Chapter Five: SUMMARY, CONCLUSION AND RECOMMENDATIONS.	74

5.1	Summary	74
5.2	Conclusion	74
5.3	Recommendations	75
	References	78
	Appendix A Questionnaire	80
	Appendix B Interview Schedule	84
	Appendix C NNDC Investments Schedule.	86

LIST OF TABLES

Tables

4.2 NNDC's Annual Investments

4.3 NNDC's Annual Generation of Revenue

4.4 NNDC's Staff Strength.

CHAPTER ONE

1.1 INTRODUCTION

The general rate of development is limited by the shortage of productive factors and one of such scarce factors is capital. The scarcity of capital is associated with underdevelopment and it played a major role in this regard. Therefore, the ultimate goals of any development programme is tailored towards the breaking of vacious circle between capital shortage and under development. This will also involve designing the most efficient and optimum rate of capital accumulation. The positive and meaningful achievement of this objective depend on several factors and essentially on some economic variables. This fact was supported by O. Aboyade in his study of developing economies.

> "A central piece in economic studies
> and particularly in the analysis of development
> process, is the role and ramification of capital.
> Although there is no unanimity of view about the
> determinants of investment, there is scarcely
> any doubt about the close connection
> between capital formation, the growth of output,
> the level and character of effective demand."[1]

It is obvious that capital is not the only factor necessary for development. But the fact that capital formation stand out as a very important productive factor can hardly be contested, and if any scarce factor associated with underdevelopment should be singled out, it must be capital. This is because capital is the core instrument through which all other aspects of development are possible.

Capital enables the acqusition of additional capital assets and may also allow for technical progress and innovation and the discovery of additional natural resources. So to break the vicious circle of poverty and underdevelopment, domestic savings (investment) are much reliable.

Investment is of course a necessary condition for economic growth, from both theoritical and historical standpoint. Its role as a catalyst in the development process lies precisely in its interactive effect on income, saving and further capital accumulation. Given its long term dimension, it also links the past to the future in the production process by providing the analytical bridge between wealth and income.

Efficient capital formation (investment) can facilitate a greater stream of present and future income, that is, investment leads to capital accumulation. By building up the stock of useful buildings and equipments, the nation's potential output is increased and the economic growth in the long run is enhanced. Thus, investment plays a dual role in influencing output and incomes.

However, the level and effect of investment in an economy depend on the availability of capital as a productive factor in the system. Therefore, for any meaningful development, it must be invigorated and vitalised within the economy itself, by providing adequate long-term finance for investments. But in underdeveloped economies, there is a pronounced shortage of funds for investment activities. The reasons are not far fetched from the fact that

commercial banks and merchant banks could not provide the long-term finance needed, the central bank do not finance long-term projects directly and the private sector is weak financially in this respect.

Consequently, developing countries being aware of the lapses incorporated some development finance institutions to accelerate the pace of industrial and general economic development through investments. The development finance institutions are those financial institutions created by the government to accelerate the development of the national economic aspirations beyond the financial systems general role of intermediation in the savings - investment process. Examples of such development finance institutions are New Nigerian Development Company (NNDC), Nigerian Agricultural and Co operative Bank (NACB), Nigeria Industrial Development Bank (NIDB), Northern Nigeria Investment Limited (NNIL), etc. where the development finance institutions are functionally effective and efficient, it will lead to facilitation and acceleration of investment activities in the economy.

Furthermore, the New Nigerian Development Company Limited (NNDC) will be used as a case study to illustrate the role and function of development finance institution as the facilitator and accelerator of investment activities in the Nigeria economy. The NNDC is owned by the government of the Northern States and was established with the main objective of promoting and enhancing rapid economic, industrial and human resources development of the Northern States in particular and the country in general.[2]

However, the level of investment activities is related to industrialization and industrialization is a very important aspect of economic development Thus, acquisition of industries does lead to increased per capita income reduction in unemployment, economic inequality and absolute proverty Therefore the role of investment in economic development of Nigeria will be viewed from the perspective of industrialization of the country.

1.2 STATEMENT OF THE PROBLEM

It is commonly observed that an underdeveloped nation is characterised by a large and unskilled labour force tied to agriculture. For this reason, very little industrial activity exists. Also the per capita income is typically low and therefore very little savings occur.

Consequently, the low rate of saving restricts real investment. The possibility exist that a nation may be very rich in natural resources, but it is not benefiting from its natural endowments because of the low level of saving and the lack of incentive to invest.

It is obvious that the problems of the developing countries like Nigeria extend beyond the absence of an efficient system of financial intermediaries. The educational system must be upgraded, and the people must acquire skills. Also productivity must be increased in the agricultural sector, so that fewer can produce more in order to enable larger part of the labour force to move to the industrial sector.

However, the level of investment activities is related to industrialization, and industrialization is a very important aspect of economic development. Thus, acquisition of industries does lead to increased per capita income, reduction in unemployment, economic inequality and absolute proverty. Therefore the role of investment in economic development of Nigeria will be viewed from the perspective of industrialization of the country.

1.2 STATEMENT OF THE PROBLEM

It is commonly observed that an underdeveloped nation is characterised by a large and unskilled labour force tied to agriculture. For this reason, very little industrial activity exists. Also the per capita income is typically low and therefore very little savings occur.

Consequently, the low rate of saving restricts real investment. The possibility exist that a nation may be very rich in natural resources, but it is not benefiting from its natural endowments because of the low level of saving and the lack of incentive to invest.

It is obvious that the problems of the developing countries like Nigeria extend beyond the absence of an efficient system of financial intermediaries. The educational system must be upgraded, and the people must acquire skills. Also productivity must be increased in the agricultural sector, so that fewer can produce more in order to enable larger part of the labour force to move to the industrial sector.

However to make progress in the industrial sector, real investment must increase. That is, saving must be increase through increase in income, so that the desired funds can be obtained from within the country for investment.

In essence, industrialization is the answer to the numerous problems of the less developed countries, while the pace of industrialization of a nation depend on its investment activities. Hence the establishment of development financial institutions especially the New Nigeria Development Company Limited with the sole aim of accelerating and facilitating investment in Nigeria is a welcome idea.

1.3 OBJECTIVES OF THE STUDY

The objectives of this study is based on the problems identified above. Specifically, the study will aim at the followings:-

a) to examine the contribution of investments to economic development and determine the level of these contributions.

b) to trace the historical development of NNDC as one of the largest development financial institutions in the country.

c) to analyse NNDC's contributions to the Nigeria economic development.

d) to examine briefly the various schools of thoughts in what investment is and its role in a developing economy.

e) to look into the problems facing NNDC in its operations with a view to suggesting remedies for consideration.

However to make progress in the industrial sector, real investment must increase. That is, saving must be increase through increase in income, so that the desired funds can be obtained from within the country for investment.

In essence, industrialization is the answer to the numerous problems of the less developed countries, while the pace of industrialization of a nation depend on its investment activities. Hence the establishment of development financial institutions especially the New Nigeria Development Company Limited with the sole aim of accelerating and facilitating investment in Nigeria is a welcome idea.

1.3 OBJECTIVES OF THE STUDY

The objectives of this study is based on the problems identified above. Specifically, the study will aim at the followings:-

a) to examine the contribution of investments to economic development and determine the level of these contributions.

b) to trace the historical development of NNDC as one of the largest development financial institutions in the country.

c) to analyse NNDC's contributions to the Nigeria economic development.

d) to examine briefly the various schools of thoughts in what investment is and its role in a developing economy.

e) to look into the problems facing NNDC in its operations with a view to suggesting remedies for consideration.

1.4 SIGNIFICANCE OF THE STUDY

Infact justification for this research becomes more pressing as Nigeria is on the threshold of industrial take off. The implication of this study will have relevance to the executives of NNDC and other development finance institutions, students, the government, intellectuals and managers of investment houses in particular.

1.5 SCOPE OF THE STUDY

The subject matter of this study is limited to NNDC Nigeria Limited as a development financial institution. Though the discussion of the investment is wide and the review of literature provides abundant exposure to divergent views on economic, social, political/legal contribution, but emphasis will be on economic and social contribution.

Therefore, it is not the objective of the study to go into mathematical and theoritical complications about investment and make exhaustive statistical analysis.

In essence, the study is only concerned with determining the extent to which investment has influenced the economic and social development of Nigeria. And finally the scope of analysis of NNDC's role in economic development of Nigeria absolutely depend on the available data and documents obtained from the company.

1.6 LIMITATION OF THE STUDY

Studies and researches of any kind are associated with their numerous problems and shortcomings, and this project report is no exception. Hence, the major limitations encountered in the study are,

a) Insufficient funds

b) Insufficient time.

The other constraint was the reluctance of NNDC staff to give some vital information, so as to preserve the secrets of the company.

Footnotes

1) Oyetunji Aboyade (1973) Integrated Economics: A Study of Developing Economies, Addison-Welsey Publishers Ltd, Page 465.

2) New Nigeria Development Company Ltd; Hand book on The organisation and its operating polices, 1992, Page 8.

3) Waniko Samson Suru (1988) The Role of Investment Corporation in the Development Process of Nigeria, An unpublished MBA project ABU, Zaria.

4) Henning, Pigott and Scott (1984) Financial Markets and the Economy, Prentice Hall Inc, Englewood Cliffs.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

Investment in the last few decades has emerged as an essential tool for economic development and this fact is recognised in both developed and developing countries. This prominent role of investment in economic development is emphasised by S.O Ibitoye in his book, "Managing your Working capital, where he states that,

> "Today's profits are the results of yesterday's investment decissions. Investment should be a continious exercise if the company should have a future to talk about. Investment of funds on facilities takes place on continious basis and profit forms part of the souces of funds to finance investment. Happily by the time of writing, Government income policies put some restrictions on what dividend a company should pay. This will force the company to plough back that portion not distributed"[1]

From the emphasis above, it is quite clear that investment itself depends on the income (profit) which is saved today and eventully becomes tomorrow investment. It is also noted that it has to be a continious process whereby the present profit of any investment should be ploughed back (reinvestment) against future investment. Essentilly, government effort in this respect is also clearly mentioned through its income policies. Therefore investments are made principally in anticipation of future streams of income. Not only this, it is equally the expectation of the investor that the company should plough back some of

its income to facilitate steady appreciation of this investment. Byrnes et al explained futher in the same vain by stating that,

> "When a company buys capital equipments, acquire another company, relaunches a product or conducts research, it makes an investment. It spends money in the hope that it will be more than repaid in the future. Past investments produced the present business.The fact that some resouces are committed in the present, while earnings come only in the future, means all investments are subject to risk".[2]

In Byrnes et al's contribution, he emphasised the risk aspect of any investment. Therefore investment itself is risk taking. Futhermore in Edwin Nevin's view on the study of the role of financial institutions, he states,

> "However, poor an economy may be, there will be a need for institutions which will allow such savings as are currently forthcoming to be invested conviniently and safely and which ensure that they are channeled into the most useful purposes. The poorer a country is, in fact, the greater is the need for agencies to collect and invest savings of the broad mass of persons and institutions within its boarders. Such agencies will not only premit small amount of savings to be handled and invested conveniently but will allow owners of savings to retain liquidity individually but finance long-term investment collectively".[3]

The importance of capital to investment is clearly conceptualized from the above contribution. Edwin pointes out the relevance of institutions of agencies responsible for enhancing investments and savings of the society which is the bed rock of capital formation. In another study, the foundation of

capital formation and what it entails are revealed by Metha.J.K in his studies of Economics of growth as follows,

> "The growth of organisation, it appears can never encounter a ceiling. Matter external to man cannot multiply without limit; but he can improve his quality and, by putting that to proper use, improve also the quality of material resouces placed at his disposal by nature. That way we progress and that way we increase our income. Income is not incraesed but generated by investment. This investment has come to stay as necessary expenditure that keeps capital structure intact".[4]

The principle of this discussion is that there are investment considerations involved in almost all individuals and institutional economic and financial transactions If investors consume less and save more. there will be a positive effect on investment. If investors purchase durable goods that actually increase rather than decrease in value, there is an element of investment. A retirement programme,an insurance policy and expenditure for education all have elements of investment that have the effect of increasing an individual's wealth. Caution must be exercised when using the terminology associated with saving and investment. That is, a distinction must be made between stocks and flows. To facilitate our understanding of this distinction, we can consider a reservoir. Rainfall causes flow into the reservoir, and the use of water for irrigation purposes along with evaporation and water lost over the spillway causes flows out of the reservoir. While addition to and subtraction from the lake represent flows, the water level in the reservoir at any point in

time represent the stock of water available for irrigation. If we want to increase the lake's stock of water in order to provide for additional irrigation requirements, we must reduce the consumption of water now or else pray for rain. Like the reservoir, our economy can be viewed (in terms of the total amount of capital goods existing at a point in time)as a stock, with investment and depreciation representing flows that change the size of the stock of capital goods.

There are several definitions of investment by various authors and I find it necessary to outline some of the definitions so as to guide us in our conceptual analysis of the study. Frederick Amling viewed it as follows,

> "Investment may be defined as the purchase by an individual or institution of a financial asset that produces a yield that is proprotional to the risk assumed over some future period".[5]

He went on futher to state that the purchase of any asset that offers the expecttion of income and capital gains may be defined more broadly, as an investment, and the purpose of investment is to increase a person's wealth. According to Frederick definition, investment revolves round two things and these are yield (returns) and risk of which both depend on the time period involved. Infact yield is essentially proportional to the assumed risk in any investment.

Another author defined it in real economic concept and this he states,

> "Investment involves the sacrifice of current consumption to increase future consumption".

With the above definition, it is noted that investment involves some sacrifice, that is alternatives are forgone for the future benefits. It also emphasises the saving aspect of the economy which entails a reduction in consumption. Therefore, part of the savings will now be engaged in investment, looking forward to some future gains.

Paul samuelson et al in their book Economics remarks that,

> "Investment (or capital formation) consists of the additions to the nation's stock of buildings, equipments and inventories. It is the new houses, factories, trucks and inventories produced in a year".[6]

Samuelson's remark is a pointer to the role expected of any investment in economic development of the individuals, institutions or government that undertake such investment. The emphasis is that where there is a new addition to the assets of an individual, corporation, government and its agencies, it will lead to an economic growth and this is what investment is all about. Therefore any kind of investment has effect on the overall economy and this will induce development to certain level.

A distinction should also be made between real and financial investment. One common conception of investment is associated with the purchase of stocks and bonds. This type of transaction is better called financial investment. Real investment, on the other hand, refers to the acquisition of capital goods by business sector. Actually real estate is a form of real investment, sometimes refers to as business or economic investment. Economic or business

investment is any investment in real assets that brings about production of goods and services for the purpose maximising the present vaue of owner's equity. The principle of maximization is the same as that applied to the financial investment of individual investors. A business purchases assets that are used to produce goods and services, which in turn provide income to owners of the assets.

However, the production of income can be imagined to begin with the decision made by producers. This is imagined, because once an economy has began functioning, it is difficult to say which is the beginning and which the end of economic activities. Logically, the objective side of production of income has its beginning in the decision of producers. And their decision to produce exhibit itself in their employment of factors of production and the purchase of material needed. And when factors are employed or services are hired, they have to be remunerated. Hence, a decision to employ resources is tantamount to a decision to spend money which is the same thing as decision to invest money. For spending money for the purposes of production is called investment in ecomonic. Thus, we can say that production begins with producer's decision to invest money.

The most important factor on which the decision of producers to invest depends on demand for their products. In some way, therefore, total investment will depend on demand. Once an investment is made in capital-goods, it has simply to be kept going. If a machine for example is bought and put to

productive use, all that is needed is to maintain it. It undergoes wear and tear, and some money has to be spent on its repair. If the demand now increase, fresh investment has to be made. Hence, every new investment depends on the increase of demand rather than total demand.

Logically, Keynesian preocupation with the effect of investment on demand was understandable. Investment increases the purchasing power of consumers and thereby their demand for (consumption) goods. Savings reduce demand for consumption-goods, it increases the productive capacity of the system. Investment acts, in other wards, both on the demand side and the supply side. It increases the capacity of consumers to consume and the capacity of producers to produce. In this way, a better harmonious and balanced growth of economy can be concieved.

While Keynes drew our attention to the multiplier effect, the later economists drew our attention to the effect of accelerator. Investment increase consumption (via income) and consumption increases investment. With the multiplier and accelerator acting and reacting on each other, the inter-relationship between consumption as the end and production as the means gets strenghtened.

In the final analysis, the decisions made by the investor have an impact on all other participants in the system. For instance, if the investors conclude that the proper cause of action at the current time is not invest, the impact of their decision is felt in the economy through alterations in the financial sector

and the firm. As the investors (savers) become pessimistic and shy away from investing in securities, the financial sector first feels the impact through a decline in the supply of funds relative to demand. As a result of the interaction between supply and demand, interest rates are forced upward. As security prices decline and interest rate increase, the financial manager reacts because the cost of capital to the firm is now higher. Other things equal, an increase in the cost of capital forces the financial manager to reject some of the proposed capital expenditures that would have otherwise been undertaken. The resulting decline in business investment is reflected in the production (economic) sector by a decline in gross national product. Although our example depicts only one way in which investors can effect the other sectors, it is a representative sample.

2.2.1 THE MULTIPLIER

From the analysis of the literature, it is clearly concieved that increase in investment will increase the level of output employment in an economy. Thus, an investment boom may bring a nation out of a deep or mild depression. Hence, the Keynesian multiplier model also revealed that increase in private investment will cause output and employment to expand, and a decrease will cause them to contract. Furthermore, the Keynesian output determination analysis shows that an increase in investment will increase Gross National Product (GNP) by an amplified or multiplied amount, that is by an amount greater than itself. This entails that investment spending is a high-

powered spending.

This amplified effect of investment on output is called the multiplier. The word 'Multiplier' itself is used for the numerical coefficient showing the size of the increase in output resulting from each unit increase in investment. To be more precise, the multiplier is the number by which the change in investment must be multiplied in order to determine the resulting change in total output.

It is also noted that the magnitude of the multiplier and the range of its amplification depend heavily on the value of the marginal propensity to comsume. If that propensity is high, then the marginal propensity to save will would be low; more and more can be passed on at successive stages in the process of income and employment propagation, and the value of the multiplier would be high.

The total increase in aggregate output or employment is simply al the induced primary, secondary and tertiary waves that flows from the initial impact of autonomous increase in net investment. Indeed, if the marginal propensity to consume is one, such that there is no saving, then a small increase in net investment should lead to an infinitely large expansion in income and employment. And where the marginal propensity to consume is zero, then all receipts of additional factor incomes are saved, the net investment will only yield its value in increased income at first round and then stop, making the multiplier coefficient only one.

2.2.1 THE ACCELETATOR

We observed that changes in the level of investment on the one hand and changes in the levels of income and employment on the other hand are interrelated. But the changes in the levels of income and employment are treated as being dependent on the changes in the level of investment, with the assumption that the initial increase in investment is autounomous. However, the more likely possibility is that changes in the level of consumption and income can also induce changes in the level of new investment being planned by business enterprises.

In fact, this is essentially what the accelerator principle does. But the principle goes further, by claiming that it is not unlikely that such an induced investment reaction may be out of proportion to the underlying change in income level. That is there may be an over-reaction positively or negatively. This fact on the part of the operation of the accelerator can be deduced and is associated with the fact that investment goods unlike comsumer goods, have a longer life beyond the immediate accounting period. We should recognise the fact that the age distribution of capital assets already installed is an important consideration by business enterprises in their contemplation of possible new investment activities. Also, there are strong technological factors in the consideration of capital consumption and capital absolescence.

With regards to the accelerator, it is not enough for income to be increasing absolutely; the rate of growth must be increasing too. Otherwise, a

decreasing rate of growth may lead, via the accelerator, to a subsequent decline in the level of business activity. It is noted that the combined multiplier-accelerator action may futher push the system under highly inflationary pressure especially during economic boom conditions. But once the boom is at its peak, the joint action may bring about a down-turn in business activity rather prematurely.

Investment and changes in the level of capital stock can thus be analysed as a process of adjustment to the rate of change in the level of income. It is this dynamic relationship to the rate of change rather than to the absolute level of income, which gives the accelerator its latent power of generating cyclical fluntuation. It should be realised that a rising consumption path would lead to a rising induced net investment; but only as the cnsumption grow at an increasing rate. Really if the consumption path rises at a decreasing rate, the level of induced net investment would start to decline. And essentially what the accelerator does therefore is to show that the level of investment activity can decline in spite of a continuing rise in the level of income or in the level of consumption.

In the final analysis, the accelerator shows the action (effects) of growth of consumption on investment and the multiplier shows the reaction of consumption to increase investment. And therefore it entails that there is action and reaction between the two forces - the force of consumption and the force of production.

2.4 ESSENTIAL ELEMENTS OF INVESTMENT.

This study will be incomplete without emphasis on the essential elements contained in investment decision. These elements are the essential fundamental factors that inform appropriate decision in any investment analysis. From the economic view point of investment, it involves a current sacrifice for the achievement of certain future benefits. That is, it consists of availability of opportunities which in essence would result to alternative(s) to be forgone. Hence involve taking a fundamental decision on whether to invest or not and also to decide which of the available opportunities should be undertaken. For this reason, an investor would be compelled to put into consideration certain factors which determines the achievement of his goal, and these are known as the essential elements of investment.

2.3.1 REVENUES.

Emphatically, an investment will bring the firm additional revenue only if investing allows the firm to sell more products or make them more cheaply. In essence, it suggest that a very important determinant of investment will be the overall level of output or (GNP). In a situation where factories are sitting idle, the firm have relatively little need for new factories, therefore, investment is low. More generally investment depends upon the revenues that will be generated by the state of overall economic activity.

Futhermore, some studies suggests that the importance of revenue effect dominates the movement of investment over the business cycle. It is

quite clear that an investor attempts to minimize risks and maximise rewards. Unfortunately there appears to be a direct correlation between reward and risk; that is, the higher the reward, the higher the risk. Therefore investments should attempt to keep the risk associated with the reward proportional. The study reveals that seeking excessive risk does not, however, ensure excessive reward. Therefore analysis is required to select projects that have a level of reward at least proportional to the level of risk.

2.3.2 COST.

The second important determinant of the level of investment is the costs of investing. Where the cost of investment is examined, it would be observed that they are somewhat more complicated than the costs for other commodities. This added complexity is due to the fact that investment goods last many years. Moreover, when a purchased good lasts many years, business and home buyers often tend to pay for such investments essentially by borrowing funds (say through a mortgage).

At this point the important question that arise, is, what is the cost of borrowing? This is where the interest rate on borrowed funds come into discussion. However, interest rate is that price paid for borrowing money for a period of time. Firms and individuals involve in borrowing, finance it in a number of different ways, such as by bank loans or by reinvesting their own profits.

The importance of interest rate emphasised by this study is to reveal the crucial role it plays with regards to the powerful effect it excercises in a modern economy via the monetary policies. As the supply of money increases, people temporarily find that they hold more than is necessary. When they unload the excess money, the price of money (which is the interest rate) will fall. As interest rate fall, the cost of investing falls and the businesses buy more equipment and structures. In the final analysis, interest rate are central to the economy because they affect the cost of investment and thereby are important determinant of investment and aggregate demand.

Another important channel influencing the cost side of the investment decision is taxes. However, the Federal Government has a large array of tax provisions that affect the cost of investment. Therefore, corporation income tax is one depresent to investment. The illustration is that by taking up to 46 percent or more of any profit, the government discourages investments in the company sector. The other side of it is that the Federal Government can stimulate investment by devices like the investment tax credit.

2.3.3 EXPECTATIONS.

Another essential element, which is the third element in investment concerns the state of expectations and business cnfidence. Investment is above all a gamble on the future, a bet that present and future revenues will be greater than present and future costs.

Therefore, investment decision depend on expectations about future events - even worse, they hang on furure events that are very hard to predict.

Business invest to earn profit. Because capital goods last many years, the investment decisions depends on

(a) the state of demand for the output produced by the new investment,
(b) the interest rates and taxes that influence the costs of and
(c) the business person's expectation about the state of the ecomony over the future.

This is why investment is extremely volatile, due to its dependent on jittery expectations about highly unpredictable future events.

2.4 INVESTMENTS CRITERIA

In professor V.G. Mankar's book, `Economic policy and planning' (chapter 5), two important strategies for rapid economic development of less developed countries (LDCs) are formulated. These are balanced growth and unbalanced growth stategies.[7] He emphasised that the contribution of Gerald Meier was that, initially an underdeveloped country should follow a policy of unbalanced growth, because such country suffers from both scarcity of resources and lack of decision making talents; then once the entrepreneurial abilities are developed encouraging inducement to invest, and resources are enlarged, the country should embark upon a

balanced growth in the various sector of the economy so that the economic development becomes self propelling.

Since resources are scarce, they must be used most efficiently so as to make the most of what less developed countries possess. Countries in this category are labour-abundant and capital scarce, and there is a considerable lag in the human resources development. Also they are associated with absence of entrepreneurial talents and technology backwardness. For these reasons, such a country has to select not only a proper strategy, but also to allocate its resources and select such industries or projects, which could achieve its various goals of development.[8] Therefore, in this subchapter, we will discuss different investment criteria developed by various economists for determining investment policies for the less developing countries.

2.4.1 THE MINIMUM INCREAMENTAL CAPITAL-OUTPUT RATIO (ICOR) OR THE RATE OF CAPITAL TURNOVER CRITERIA.

Also Prof. V.G. Mankar noted that J.J Polack and N.S. Buchanan advanced the (ICOR) criteria for underdeveloped countries. According to this criterion, since capital is scarce in such countries, for maximizing income, choice should be made of investment projects with a low capital-output ratio i.e a high rate of capital turnover. In other words, those projects should be selected which have a high value of annual product in relation to the capital investment.

However, underdeveloped countries involved in the reconstruction task have to borrow heavily from foreign countries. Hence, it is desireable from the point of view of foreign exchange to maximise output and thus, the rate of turnover, given the magnitude of the capital investment. Also it is desirable to minimise the investment required in order to keep the cost of debt servicing down, given the possible output of a certain good. Thus, there should be economising of the use of the capital to save the precious foreign exchange. therefore, according to this criterion, industries yielding maximum output with minimum of capital investment should be chosen in view of scarcity of capital in the less developing countries.

ICOR measures the amount of additional capital required to produce an additional unit of output.

$$ICOR = \frac{\Delta I}{\Delta Y}$$

where ΔI = Increamental investment

ΔY = Additional output resulting from investment.

The overall capital-output ratio can be used as a tool for estimating capital requirements for the whole economy. Capital output ratios for individual sectors, industies, or processess may be used for estimating capital requirements sector by sector or project by project. While selecting each such project, the ICOR should be minimised while obtaining the maximum output.

If there are two projects, with the same level of output, but wiht different ICORs, then one with lower ICOR should be selected. If ICORs are same in two projects, then one giving the higher output or quick yielding result should be selected. In short, investment projects with a low capital-output ratio should be chosen to maximise income.

2.4.2 THE SOCIAL MARGINAL PRODUCTIVITY (SMP) CRITERION.

The criteria was first advanced by A.E. Kahn. H.B. Chenery attempted to quantify the principle by applying it to a number of empirical situation in several countries. According to the principle, while selecting projects, one should take into account the total net contribution of the marginal unit of capital to the national product, and not merely that portion of the contribution (or its cost) which may accrue to the private investor. Thus, this principle stresses the importance of marginal productivity of capital according to its contribution to the national product and not just to the private sector. A project may be profitable for the private investor, but it may not be desirable from social point of view. It may displace labour or produce luxuries for a few. Its contribution to the national income may be very low. Such projects are rejected under this citerion. On the other hand there are projects like fertiliser industry, investment in irrigation projects, which are less profitable for an individual private investor, but contribute largely to national product. Such projects are justified under the SMP criterion.

According to this criterion the efficient allocation of resources is one which maximises the value of national product. The rule for achieving this is to allocate resources in such a way that social marginal productivity of capital is approximately equal in different uses. All external economies, supplementary benefits and the economic and non-economic welfare aspects of projects have to be taken into consideration for estimating the SMP of such projects. Macro efficiency of projects is important. H.B. Chenery's attempt to quantify the SMP criterion, came out with an equation. According to the equation, SMP is the difference between the added value of output (v) and the additional costs (c) to the society resulting ffrom the marginal unit of capital (k),

$$SMP = \frac{X + E - Mt}{K} - \frac{L + Md + O}{K}$$

where $V = X + E - Mt$

$C = L + Md + O$

All variables are annual flows except K.

K = Increamental to capital.

X = Increase market value of output.

E = Added value of output due to external economies.

Mt = Cost of imported materials.

L = Labour cost.

Md = Cost of domestic materials.

O = Overhead cost including replacement capital.

Chenery further include the effects of projects investment and its operation on the balance of payments of a backward country since these effects are more important for such a country which needs to borrow capital from abroad. The total effect on the balance of payment is two-fold - the one initial effect of servicing foreign borrowings, and two the effect of project operations on the balance of payment (Br).

$$SMP = \frac{V - C}{K} + \frac{Br}{K}$$

The balance of payment effect (Br) may be negative if the deficit increases or positive if it helps in decreasing the deficit. Therefore, according to Chenery, the projects should be ranked (after considering their effects on national income and balance of payment) and selected in decreasing order of SMP (calculated as above) until the given rate of investment is exhausted.

2.4.3 REINVESTMENT CRITERION OR THE MARGINAL PER CAPITA REINVESTMENT QUOTIENT (MRQ) CRITERION

This criterion is based on the objective of development, namely, there should be maximisation of per capita output or average income at some future point in time. According to this criterion the correct choice of each investment project should be that which would maximise the rate of savings and of the consequent reinvestment. The chosen projects should give greater power of productivity per worker than any other alternatives. Productivity per worker can be raised or maximised only through capital-intensive projects. The argument is based on the assumption that profits are reinvested whereas wages are spent. Since labour intensive projects do not lead to more profits, there is little scope for reinvestment as savings come mainly from profits and from wages which are usually spent. It is only in capital-intensive investment unit that there are increasing profits which are saved and reinvested, and hence there is a large per capita output in future, that is, at some future point in time.

The best allocation of investment resources under reinvestment or MRQ criterion is achieved by distributing the available capital among the various alternative uses in such a way that `the marginal per capita reinvestment quotient `MRQ' of capital is approximately equal in various uses.

The MRQ or the rule of investment is found out by a ratio between the net productivity per machine after defraying total real wage and the cost of machine. Thus,

$$r = \frac{P - e.W}{c}$$

Where r refers to the per capita reinvestible surplus (MRQ), P is the product per machine, e is the number of worker per machine, W is the real wage rate per worker (e.W, thus, giving the total real wage per machine) and c is the cost per machine. For this, one can easily realise that maximisation of r will lead to maximisation of the growth rate over a period of time and not just at that point of time only. Increase in (P- e.W) means larger value of profits, which are savings, and when they are reinvested the per capita income would increase at some future point of time.

2.4.4 THE LABOUR OR EMPLOYMENT ABSORPTION CRITERION.

To deal with the twin problem of scarcity of capital and abundance of labour in an underdeveloped country, the labour absorption and employment absorption criterion, is advocated. It is also called the factor endowment criterion. The criterion envisages that projects absorbing more labour or which are labour-intensive and capital saving should be chosen to absorb the abundant labour in an underdeveloped country. This criterion is closely related to the low capital-output ratio criterion.

The employment absorption argument is found in a doctrine advanced by R. Nurske in problems of capital formation. He draws attention to the potential savings concealed in rural under-employment and he proposes to mobilise the under- employed for capital formation. He also refers to disguised unemployment prevailing in such countries, and opines that such disguisedly unemployed labour should be released and used for capital formation. According to Nurske, the net output of formerly excess labour when productivity employed, (after deducting minimum maintenance cost of the labour therefrom) can be used entirely for production of capital goods. A large part of the population engaged in agriculture is in fact surplus. It can be removed without reducing agricultural output. This is *disguised unemployment according to Nurske.*

Disguised unemployment includes seasonal under-employment and hidden unemployment existing throughout the year. Nurske advocates taking of surplus people off the land and settling them to work in capital projects; such as irrigation, drainage, roads, railways, houses, factories, training schemes etc. Regarding financing of the projects in real terms, he suggests voluntary saving and compulsory saving (through taxation) and by in-flow of capital grants or loans from abroad.

2.4.5 THE BALANCE OF PAYMENT EFFECT CRITERION.

A vital factor in the development of an underdeveloped country is foreign exchange. A country marching towards rapid economic development has to import capital equipments and also consumption goods. The former is required for capital-intensive projects, and the latter to satisfy the growing demand for additional consumption goods to meet shortages. Foreign exchange is scarce in LDC's. But such countries has to export raw materials and other goods much needed for domestic use.

The balance of payment effects assumes importance as a criterion for allocation of investment resources and determination of priorities. According to this criterion, the priority should be given to those projects which minimise the balance of payments' deficit. Projects which increase the surplus of foreign exchange and projects which economise the use of foreign exchange should be assigned priority fo investment. For example, projects which would produce non-traditional items of export (such as engineering goods, electrical equipments, leather goods, jewelleries, chemicals, (etc) and export-oriented industries should be given priority. This is known as expport substitution. Similarly, projects requiring the minimum use of imported capital goods but with higher propensity to produce should be assigned the prominent rank in the investment programme. Projects producing import substitutes have to be accorded priority to minimise the need for foreign exchange.

2.4.6 TIME SERIES CRITERION(DOBB-SEN CRITERION)

A.K. Sen and Maurice Dobb have advanced the 'Time series criterion' for investment allocation. A definite time period has to be chosen for investment planning by the planning authorities. This is, of course, a matter of value of judgement on the planners depending on the political, social and economic factors prevailing in the country.

According to the time series criterion, once time period is decided by the planner, the choice of investment projects would depend upon the comparison of the total output over different periods of time taken by each project. Then that project should be selected where the period required to produce the maximum output is within the time period chosen. Thus, for example, by drawing the time-part of the projects involving capital-intensive and labour-intensive investment techniques, one with the highest returns within the time period laid down by the planners should be selected.

It is obvious that labour-intensive techniques are quick-yielding, their highest or maximum returns would take place in a comparatively shorter period. If the selected time period is of a shorter duration within which the planners decide to obtain the maximum possible returns, then the choice bill goes in favour of a labour- intensive project, whereas if the chosen time period is longer, then certainly a capital-intensive project should be preferred since its maximum returns during the chosen time-period would

have the advantage of a longer surplus of output and a higher rate of reinvestment for the future.

A fixed time-period by the planners is necessary from the social welfare point of view. According to Sen, there are three reasons. First of all, there is diminishing marginal social utility of income as the income level rises over time and secondly the future happenings are uncertain. If marginal social utility of income falls quickly and becomes negligible as income rises beyond a certain level, it is possible that a higher rate of growth of income may not give us a higher sum-total of social satisfation. Thirdly, since the degree of certainty about future happenings is very little, rational calculations cannot be applied with regard to choice between capital and labour-intensive techniques. It is, therefore, necessary to follow a more workable method viz, time series criterion by fixing the time-period within which to achieve the maximum returns.

However, the selection of sectors, projects and techniques is complicated by the existence of any number of development objectives. There are no single technical criteria for the ranking of investment priorities; instead, capital allocation is very much a matter of judgement since the optional allocation depends upon what objective is being maximised and over what period of time. The objective may be maximum real national income, maximum real per capita income, maximum per capita consumption, or maximum employment. Each of these objectives

may also be subject to a number of constraints; for example the objective may be to maximise real per capita income, subject to the constraint that the income distribution is not worsened in the process or that the balance of payments does not deteriorate - it is, therefore, not surprising that the different investment criteria are applicable depending upon different objectives to be achieved over different periods of time.

2.5 METHODS OF INVESTMENT APPRAISAL.

In theory, there are several methods of appraising projects (investment). These methods of investment appraisal are based on a comparison of costs and benefits to be received in future for investment is a present sacrifice for expected future benefits.

However, it must be emphasised that suitable methods of investment analysis, appraisal, evaluation and selection is vital since a manager's judgement and opinion can be influenced to a great extent by the information in his possession. While attempting to select any investment opportunity from among many alternatives, information is vital so as to see that selection method is appropriate for the particular project in question. Therefore, any choice of criterion must represent a means of identifying acceptable and unacceptable investment proposals. Infact, the evaluation method should also present a ranking of projects in order of desireability. As already stated above there are theortically various

methods available for appraising project. The methods falls into two broad categories. The first in the traditional methods which includes the pay back period and the rate of return on capital. The second method is the discounted cash flow techniques and it includes the Net present value the internal rate of return and the profitability index of the Benefit cost ratio.

2.5.1 AVERAGE RATE OF RETURN.

It is an accounting measure which represents the ratio of the average annual profits after taxes to the investment in the project. Finding the average rate of return is a popular approach for evaluating proposed capital expenditure. Its appeal stem from the fact that the average rate of return is typically calculated from accounting data (i.e profit after taxes). The principal virtue of the average rate of return is its simplicity, this is because it makes use of readily available accounting information. Once the average rate of return for a proposal has been calculated, it may be compared with a required, or cutoff, rate of return to determine if a particular proposal should be accepted or rejected. The principal short comings of the method are that it is based upon accounting income rather than upon cash flows and that it fails to take account of the timing of cash inflows and outflows. The time value of money is ignored and benefits in the last year are valued the same as benefits in the first year. The most commonly definition of the average rate of return is as follows:-

$$\text{Average Rate of Return} = \frac{\text{Average profit after Taxes}}{\text{Average Investment}}$$

The average profits After taxes: This is calculated by adding up the after-tax profit expected for each year of the project life and dividing the result by the number of years. But in the case of annuity, the average after-tax profits are equal to any year's profits.

The Average Investment: It is calculated by dividing the investment by 2. This averaging process assumes that the firm is using straightlined calculation, in which case the book value of the asset decline at a constant rate from its purchase price to zero at the end of its dependable life.

For example, the Leventis Stores is contemplating two projects, project A, which requires a net investment of N60,000 and project B, requires a net investment of N72,000. The profits after taxes and the relevant cash flows associated with each of these projects for each of their six-year lives are presented in the table below. Both projects are expected to have no salvage value at the end of their six-year lives and they are to be depreciated on a straight line basis.

	Project A		Project B	
Net investment	N60,000		N72,000	
Year	PAT	Cashflow	PAT	Cashflow
1	N10,000	N20,000	N33,000	N45,000
2	N10,000	N20,000	N10,000	N22,000
3	N10,000	N20,000	N8,000	N20,000
4	N10,000	N20,000	N1,000	N13,000
5	N10,000	N20,000	N1,000	N13,000
6	N10,000	N20,000	N1,000	N13,000
Averages	N10,000	N20,000	N9,000	N21,000

$$\text{Average Rate of Return} = \frac{\text{Average Profits After taxes}}{\text{Average Investment}}$$

Project A

Average profits after taxes = N10,000

$$\text{Average Investment} = \frac{\text{N60,000}}{2}$$

$$= \text{N30,000}$$

$$\Longrightarrow \text{Average Rate of Return} = \frac{\text{N10,000}}{\text{N30,000}}$$

$$= 33.33\%$$

Project B

Average profit after taxes = N9,000

Average investment = N72,000

2

=N36,000

==> Average Rate of Return = N9,000

N36,000

=25%

This result indicate that project A is preferable to project B since project A has a higher ARR value. For a decision rule and as an accept-reject criterion, this method will accept all those projects whose ARR is higher than the minimum rate established by management and reject those project which have ARR less than the minimum rate. However the method would rank a project as number one if ti has higher ARR and lowest rank would be assigned to the project with lowest ARR.

2.5.2 THE PAYBACK PERIOD

The payback period of an investment project tells the number of years required to recover our initial cash investment. It is the ratio of the initial fixed investment over the annual cash inflows for the recovery period. It indicates the speed with which the corporate treasury is replenished by the income generated from the operations of the capital expenditure. The payback period is a liquidity measure and looks no further than the time

necessary for a project to re-finance its initial costa and therefore has no regard for subsequent receipts, or for the lenght of economic life of the investment. If the project generates constant annual cashflows, the payback period can be computed dividing the net investment by the annual cash inflow. That is ;

$$\text{Payback period} = \frac{\text{Net investment}}{\text{Annual cash inflow}}$$

For example if a project is having a constant annual cash inflow of N20,000 and the net investment is N100,000, therefore the payback period is,

$$\frac{\text{N100,000}}{\text{N20,000}}$$

= 5years

But in the case of mixed streams of cashflows, payback period can be calculated by adding up the cash inflows untill the total is equal to the net investment.

If the payback period calculated for a project is less than the maximum payback period set up the management, it would be accepted, if not it would be rejected. As a ranking method, it gives highest rank to a project which has shortest payback period and lowest ranking to the project with higherst payback period.Thus, if a firm has to choose between mutually exclusive projects, project with shorter payback will be selected.

One of the shortcomings of payback period method is that the true profitability of investment cannot be determined by considering the payback period since the method does not consider increamental cashflows after the payback year. It is also criticised for not having regards for the time value of money and that sums of reciepts at different times in the future hae to be discounted to present value.

2.5.3 INTERNAL RATE OF RETURN

The average rate of return and the payback period are associated with various shortcomings and therefore it is generally felt that discounted cashflow methods provide a more objective basis for evaluating and selecting of investment projects. The discounted cashflow methods take account of both the magnitude and the timing of expected cashflows in each period of a project's life. The internal rate of return for an investment proposal is the discounted rate that equates the present value of the expected cash out flows with the present value of the cash inflows. It is represented by that rate, r, such that

$$\sum_{t=0}^{n} \left[\frac{At}{(1 + r)^t} \right] = 0$$

where At is the cash flow for period t, whether it be a net cash outflow or inflow, and n is the last period in which a cash flow is expected. If the initial cash outlay or cost occurs at time O, the equation can be expressed as

$$Ao = \frac{A1}{(1+r)} + \frac{A2}{(1+r)^2} + \frac{A3}{(1+r)^3} + \frac{An}{(1+r)^n}$$

Thus, r is the rate that discounts the stream of future cashflows A1, through An to equal the initial outlay at time O, Ao. The value of r can be determined by trial and error.

The rule is that the initial rate of return is compared with a required rate of return, known as cutoff, or hundle rate if it exceeds the required rate, the project is accepted, if not, it is rejected.

2.5.4 THE NET PRESENT VALUE

The calculation of the present value (NPV) of project is probably the most commonly used sophisticated capital budgetting techniques. The method (NPV) like the internal rate of return, emphasises the application of an interest, discounting factor which has the effect of levying a rate of interest charge on each year's budgeted cash receipts. In this case, the future years cash flows are discounted to an amount which represent their worth at the present time. Therefore, the investor is in a position to compare the cost today of the proposed capital expenditure with the evaluation of the related future cash receipts.

The Net present value (NPV) shows the monerary differece between the original cost, and the total future cashflows when they discounted at a specific percentage rate. The definition of NPV is given as:

$$NPV = \left[\frac{A_1}{(1+i)^1} + \frac{A_2}{(1+i)^2} + \frac{A_3}{(1+i)^3} + \ldots\ldots\ldots\ldots\ldots + \frac{A_n}{(1+i)^n} \right] - C$$

$$= \sum_{t=1}^{n} \frac{At}{(1+K)^t} - C$$

where A_1, A_2 ----------A_n = Annual cashflows

K = cost of capital

C = cost of investment

That is, NPV is calculated by subtracting the investment in a project from the present value of the cash inflows discounted at a rate equal to the firm's cost of capital. But for non-conventional investment (where the investment is made once i.e yearly) the NPV of a project would be calculated by subtracting the present value of outflows from the present value of inflows.

Example, if a project with initial investment of N75,000, generates N45,000, N22,000, N20,000, N18,000, N13,000, and N15,000 for six years respectively, the NPV can be calculated as follows

Year	Cash inflows	Discounting factor	Present value of cashflows
1	N45,000	0.909	N40,905
2	N22,000	0.826	N18,172
3	N20,000	0.751	N15,020
4	N18,000	0.683	N12,294
5	N13,000	0.621	N8,073
6	N15,000	0.564	N8,460
			N102,924

NPV = N102,924 - N75,000

= N27,924

As a decision rule, if NPV > 0, accept the project, otherwise reject the project. If NPV is greater than or equal to zero, the firm will earn a return equal to or greater than its required return, or the cost of capital. But for mutually exclusive projects, the first rank will be given to the project with highest positive NPV.

2.5.5 PROFITABILITY INDEX

The profitability index (PI) are sometime called benefit cost-ratios (B/C ratios) and it measures the relative present value return per Naira invested. That is it is the ratio of present value of cashflows to the initial cash flow of the project. The profitability index is defined as;

$$\text{PI or B/C ratio} = \frac{\text{Present value of cash infows}}{\text{Net Investment}}$$

For example, the profitability index of the project given under NPV is ;

$$PI = \frac{N102,924}{N75,000} = 1.372$$

=

13.72%

As a decision rule, if PI or B/C ratio > 1 accept the project, otherwise reject the project. For ranking purposes, projects with higher PI or B/C ratio are ranked first and lowest rank given to project with lowest PI or B/C ratio.

2.6 WHAT IS ECONOMIC DEVELOPMENT?

The concept of development cannot be defined or explained in any exact word, term or sentence, while its complex and subtle forces cannot be easily represented by any simple formula. Furthermore, various scholars defined it in views that suit their purposes. Therefore it will not be appropriate to talk of development without narrowing it down to protray what we mean. However, it is a glaring fact that the total development of a society is a term that encompasses social, political legal or administrative and economic development. It is very important to note the inter-relationship between these various type of development as well as their contribution to the economic development. Hence, in this study, our focus

on development will be from the economic perspective - economic development. And since economic development is also associated with multifunctional connotation and interpretations, it will be defined and narrowed down to serve our purpose.

While there is no satisfactory definition of economic development, the term is used in a wider sense to imply economic growth and secular changes.[9] Therefore economic development is not just economic growth. This is because a country's development process involves vital qualitative dimensions in the development process, which cannot be from the growth or expantion of its economy. These qualitative characteristics involve improved performance of the factors of production and improved techniques of production and also in the development of institutions and a change in attitudes and values. In essence, economic development can be considered as an upward movement of the entire social system culminating into the attainment of a number of ideas of modernisation. According to Meier and Baldwin, economic development is a process whereby an economy's real national income increases over a long period of time.[10] Looking at it from this perspective, there is implication of real danger in absolute reliance in per capita income as index of economic development in as much as development in this context is a means and not an end itself.

However, it is widely accepted that industrialization is a very important aspect of economic development since aquisition of industries leads to increase per capita income, reduction in employment, economic inequality and absolute poverty. It is observed that the overriding objetives of development policies in developing countries like Nigeria is to catch up with the industrialized world. Therefore, industrialization aspect of economic development is used as the benchmark of this study.

In this regard, the principal object of this study is to reveal the manner in which investment influence the pattern of economic development of the country through a development financial institution - The New Nigeria Development Company (NNDC).

2.7 THEORY OF DEVELOPMENT FINANCING

Unlike the less-developed countries, a developed nation is highly industrialised, the agricultural sector is typically very productive, the labour force is highly skilled, per capita income (and therefore savings) is high, and the financial system is complex and sophisticated. While the role of development financing is basically the same for both less-developed and developed countries, the primary difference between them is the range of options available to both savers and investors involved in the economic activities. The fundamental reasons accounting for the establishment of development finance institutions especially in developing and underdeveloped nations can be explained by the following three theories.

2.7.1. THE GAP THEORY

This theory submit that the existence of gaps in the financial system of developing nations and the need to bridge these gaps necessitate the establishment of development finance institution. There are three major reasons responsible for these gaps.

First is the inadequacy of the traditional function of existing conventional finance institution. By taditional, commercial banks and merchant banks are such that they could provide the long-term finance needed for development projects. They are not usually prepared to put much interest in long-term financing owing to their traditional attachment and conservatism to liquidity. They want to remain liquid all times. So they favour short-term finance, the provision of working capital to industry and the serving of trade and commerce. Secondly, the central bank do not get indulged in the finance of long-term projects directly. Thridly, the private sector in most developing countries is usually weak due to general problems characterised by underdevelopment. Consequently, it is not usually in a good position to generate adequate resources to undertake necessary investment. Therefore, there is the need to create institutions which will fill the specific gaps left by the inadequacy of the conventional finance institutional arrangement and the private sector.

2.7.2. THE EXIGENCY THEORY.

The evolution of international business which in turn give rise to the need to finance international development in a global basis give rise to the creation of global development finance institutions such as International Bank for Reconstruction and Development (IBRD), the International Monetary Fund (IMF).

These institutions and others of their type are to bridge the short fall of domestic finance institutions in financing international development on a global context. Since by their nature, they operate on an international basis, these institutions encourage the establishment of national institutions through which they can operate and investigate and then undertake projects which require more local knowledge and patronage than international finance. This led to the establishment of some national development finance institutions such as NIDB, NBCI, (and regional ones such as NNDC) in Nigeria, Total Investment Bank of India, Japanese Industrial Bank, National Investment Bank Ghana etc.

Regional organisations and private enterprises do not benefit directly from the world bank which normally do not deal with them on direct basis, as such developing nations established development banks in order to surmount the difficulties of getting the world bank assistance.

> "Development financing institutions are specialised financial institutions charged with the responsibility of providing financing as well as technical/managerial assistance to some sectors of the economy. They are NIDB, NBCI, NACB, NNIL, and NNDC. Nigerian Industrial Development Bank (NIDB) and Nigerian Bank for Commerce and Industry (NBCI) are charged with financing of large scale enterprises and they provide equity and loan finance. The Nigerian Agricultural Co-operative Bank (NACB) was set up especially to deliver credit to the agricultural sector of the economy, Mortgaging of properties and financing by direct investment in equity capital for major agricultural and Agro-allied industries".[11]

Also according to Haruna Mohammed, he says

> "The role and importance of development financial institutions like the NNIL and NNDC could be fully appreciated when one realises its stategic input in promoting industrial and economic development of the nation and the industrialization process of the government. Development Financial institutions represent a special group within the nation's finantial system because they offer fundamental and functional service to Nigeria's development efforts and economic aspiration. NNDC and NNIL are unlike other business organisation whose primary concern are to make profit, they have provided and will continue to provide supportive services in order to achieve rapid growth and economic progress.Considering the economic climate prevailing and the fact that economic decisons today are mainly predicated in the market forces it is only insitutions like NNDC that are venturesome enough to take substantial equity interest in projects because of the obsession with profit motive".[12]

Therefore, with the above comments, the roles of DFIs are quite clear as it had been establised that they serve as the pillars on which any meaningful investment must rest.

2.9 HISTORICAL BACKGROUND OF NNDC.

The history of New Nigeria Development Company LImited (NNDC) is traceable and closely linked to the history of the defunct Northern Region. At the end of the 2nd world war, the colonial administration in the then Northern Nigeria focused its attention on the problem of expanding and co-odinating the economic activities of the region. According to the *company's handbook*,

> "The motive for such a policy was to effectively tap the enormous agricultural resourses of the Northern Region for export to the home country".[13]

Consequent to achieving these objectives the Northern Region Production Development Board (NRPDB), the forerunner of present New Nigeria Development Company Limited was established in 1949. The Board was engaged in various agricultural support activities in the region, including the construction of feeds roads, earthdams, agricultural settlement schemes, building of markets, motor parks as well as provision of agricultural extension services etc.

However, as the country moved towards self-government, the scope and activities of the Northern Regional Production Development Board (NRPDB) widened, with emphasis shifting from export commodities production, to the development of the Northern Region in general. Thus in 1956 with the achievement of self government, NRPDB was reconstituted into the Northern Region Development Corporation (NRDC) .This new name indicated an attempt at establishing a distinct legal status for the development agency. And with the new constitution, all the assets, funds, resouces and undertakings of the NRPDB were vested in the NRDC.

The company's handbook also stated that in 1960 the organisation's name was further changed to Northern Nigeria Development Corporation Limited reflecting the new nationalism achieved at independence. The 'Region' was dropped and 'Nigeria' adopted in its place.[14]

The Northern Nigeria Development Corporation at independence became the agency for socio-economic development of the Northern Region engaged in all sorts of activities which would enhance economic and industial growth of the entire region. The organisation more or less served as a 'Development Finance House' for the region.

Untill the establishment of a new political order in 1967, NNDC remained a corporation. The new political order gave birth to the creation of states and the Northern Region was divided into sixteen (16) states.

This led to the dissolution of Northern Nigeria Development Corporation and in its place a limited liability company was incorporated with the name "New Nigeria Development Company Limited".

The incorporated company commenced active development banking operations aimed at assisting the states. Since then, the company had undergone several transformations to become what it is today, a giant holding company, largest public owned conglomerate of its kind in Africa.

2.9.1 OBJECTIVES OF NNDC

Although there are many changes that have taken place in the corporate status of the organisation within the past years, the objectives of NNDC remained constant. These objectives are:-

-To engage in activities which will promote and enhance rapid economic, industrial and human resources development of the Northern states in particular and the country in general.

-Direct investment in agriculture, industy, mining, commerce and services sectors of the economy.

-Ensuring improvement of product quality and distributive equity by means of enterprise, organisation, rationalization and modernization.

-Effective supervision of investment portfolios.

-Provision of full range consultancy services to Government, Companies and individuals in areas of projects promotion and investment.

-Assisting the states investment agencies and similar bodies in such area as research and project development.

-Assuming better sector enterprise arrangement by means of incorporation, merger, association, dissolution, or take over.[15]

2.9.2 OWNERSHIP STRUCTURE OF NNDC.

NNDC is a development finance institution based in Kaduna and the subsidiaries in other member states. The company's authorised and paid-up share capital is N150,000,000 (150 Million Naira) subscribed to the governmentof the sixteen (16) Northern States in varying proportions as shown below:-

STATES	%SHAREHOLDING
Adamawa	4.56%
Bauchi	8.43%
Benue	5.10%
Borno	5.10%
Jigawa	8.74%
Kaduna	6.58%
Kano	10.26%
Katsina	7.42%
Kebbi	4.94%

Kogi	4.53%
Kwara	3.46%
Niger	6.65%
Plateau	8.62%
Sokoto	7.41%
Taraba	3.73%
Yobe	4.18%

The company has a distinguished board of eighteen (18) directors comprising of the Chairman, the Managing Director and sixteen(16) members representing the government of owner states. The board is responsible for the promotion of group policies and investment resources allocation, appointment of management staff of the company and its subsidiaries, normination of persons to represent the company in portfolio companies as well as approaval of capital and recurrent budgets and other policy issues. The Board is also responsible for long term strategic plans of the company.

2.9.3 SOURCES OF FUNDS.

At the beginning, the NNDC's source of finance was mainly the surpluses built up by the then Northern State Marketing Boards. However between 1962 and 1966, it received occassional grands from the former

Northern Nigeria Government. Since NNDC became a Limited liability company, dividends, loans, repayments, and interests have been its main source of finance. While these sources of finance are quite substaintial, external aid and other avenues of raising money are continually being explored.

2.9.4 ORGANISATION AND MANAGEMENT

Recently the company has approved a new organisation structure for the institution. Under the new setting, the Directorate structure which was obtained has been phased-out and its place, three departments have been created for the organisation. They are the investment and supervision, Business Development and Corporate services.

Each of the three (3) departments is headed by a General Manager. The three departments equally have divisions under them which are headed by Assistant General Manager or Deputy Managers as the case may be.

2.9.5 NATURE OF OPERATIONS

NNDC is engaged in various activities and over the years has grown into a diversified holding company of great magnitude, with its major activities including:-

-Granting of medium and long term loans to eligible enterprises. Such enterprises could include existing companies wishing to expand or diversify their operations.

-Participating in setting up new enterprises by subscribing to a portion of their equity capital. NNDC's equity participation could be in projects conceived in-house or brought by entrepreneurs.

-Identification of attractive investment opportunities which could be promoted and operated directly by NNDC as divisions or subsidiaries.

-Supporting National and state programmes and projects, as long as they are of significant interest to national economy.[16]

Footnotes.

1) Ibitoye. s.o (1985): Managing Your Working Capital University Press Ltd, Ibadan, Page 62.

2) Byrnes. W.G and Chesterton.B.K.: Decisions, Stategies and New Ventures. George Allen and Unwin Ltd Page 133

3) Edward Nevin(1961): Capital Funds in underdeveloped Countries. London, Page 75

4) Metha J.K (1964): Economics of Growth. Assien Publishing House, London, Page 35.

5) Federick Amling (1978); Investments: An introduction to Analysis and Management. Prentice-Hall INC

6) Paul. A.S and William D.N : (1983) Economics. McGraw-Hill Book Coy, Page 109.

7) Manker. V G (1990): Economic Policy and planning. Wiley Eastern Ltd, New Delhi,Page 27.

8) Meier G.M. and Baldwin RE: Economic Development Theory, History and Policy.

9) Ibid, Page 27.

10) Ibid.

11) Valentine Amanze (1992): Financial Guardian, Guardian Newspaper Ltd, 7th Edition.

12) Haruna Mohammed (1991).: NNDC Newsletter, A Razy Production.

13) New Nigeria Development Company Ltd, Nand book on General Information and operation Policies, (1990). Page 3

14) Ibid, Page 5

15) Ibid, Page 6

16) Ibid, Page 8

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter deals with the procedures through which the research results were obtained, that is, the procedures employed in conducting the investigation or the study. Any successful research or study requires an appropriate and validated instruments, techniques, or tools for conducting it. Therefore, because of the vital role of this research work, it is necessary to elaborate on the procedures or tools used for conducting it. This will assist in better understanding of the study and hence will further validate the findings or results thereupon obtained.

Furthermore, the extensiveness of the scope of coverage and the composition of sources of information determines the success of any research work. Therefore for this study the researcher used as many methods and procedures as available. And more importantly, there are several techniques available but the techniques adopted were selected based on merit and convinience, for it was noted that no one method can satisfy the expectation of the researcher.

However, the researcher utilized the most convinient and appropriate methods of data collection and these include the followings,

1) Questionnaires
2) Personal Interview
3) Documentary

3.1 QUESTIONNAIRE

For this study, an unstructured and undisguised questinnaires were used to obtain part of the data analysed in chapter four (4).

The questionnaires were used for both the junior and the senior staff of New Nigeria Development company (NNDC) and above one hundred questionnaires were administered to the staff that could be contacted. In the final analysis, over 70% of the questionnaires administered were returned and used as part of the data collected for the analysis in obtaining the results.

3.2 PERSONAL INTERVIEW

This is a primary source of data collection and it entails (oral) face to face discussion between the researcher and the respondents.

Therefore, in this regard, the researcher was opportuned to interview some of the staff of the organisation (NNDC) and relevant information were obtained. To be precise, the Public Relation Officer and the Principal Manager in charge of investment were among those interviewed to mention a few. Their positive responses culminated into substantial data used in the study.

3.3 DOCUMENTARY

Documentary had become a very prominent tool or technique for gathering data in research work. Essentially some of these information are ideas and theories propounded by authors of numerous books.

While information for the study were obtained from various available sources, past and present documents of New Nigeria Development Company (NNDC) formed part of the data used for the research. Also vital and relevant data were obtained from other sources such as textbooks, News papers, Journals and Magazines etc.

Emphatically, a descriptive method was used in this research work, which involved a set of data gathered, analysed, summarised and interpreted to obtain the desired results.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

From the early chapters of this study, it becomes a glaring fact that Development Financial Institutions (DFI's) were established with the main objective of achieving certain socio-economic development. Therefore, this chapter's main concern is the presentation and analysis of data with regard to NNDC so as to evaluate its contributions to economic development from 1988 - 1992.

However to achieve this objective, both primary and secondary data were utilized. This involved obtaining the data through interview method and use of questionnaire while other data were obtained through official publications, annual audited reports and accounts and personnel management files of the company.

4.1 NNDC INVESTMENT ACTIVITIES

In effort to achieve its objective of contributing to the economic development, NNDC since its inception engaged in broad and dynamic investment industries. These are based on a careful assesment of the opportunities in the Nigerian economy. Most importantly after the introduction of SAP, NNDC has mapped out a new business thrust which focuses on investments in viable activities which utilize local raw materials.

Essentially, the company promotes new ideas to maturity and then goes further into new areas to be explored. And presently, NNDC's investment activities has far reaching effect in nearly all sectors of the economy through its promotional policy.

In this regard, NNDC at present has over 100 subsidiaries and associate companies and further equity interests in about 41 quoted firms. (see Appendix C).

The data obtained showed that NNDC had investments in 41 quoted companies and 79 unquoted companies. This shows that about 34.17% of the firms are in quoted companies and 65.83% are in unquoted companies.

About 29.27% of the companies in quoted firms were conglomerate companies consisting of A-G Leventis, John Holt PLC, R-T Briscore, SCOA Nigeria PLC, Costain (W.A) etc. This indicated that about 10.10% of the companies in which the NNDC invested in are conglomerate firms.

NNDC also invested in banking industries, while it represented about 19.51% of the quoted companies invested in, it is about 8.33% of the total companies.

Furtermore, NNDC had investments in 3 petroleum companies which represent 7.32% of the quoted firms and 2.5% of the companies it invested in.

The insurance companies were not left out, for it constituted about 12.20% of the quoted firms and about 6.67% of all the companies.

Also NNDC invested in companies dealing in building materials, while it takes about 9.76% of the quoted firms, it is about 8.33 of the total firms.

Food, drugs and beverages industries also attracts the attention of NNDC's investment and therefore it constituted about 7.32% of the quoted companies and about 10.00% of the total companies.

It is noteworthy that NNDC also invested in textile companies and construction and development companies and this represented about 9.17% and 5.83% respectively of all the firms it invested in.

The NNDC investment activities were also felt in the hotel industry. It had investment in about 10 hotels and this represents about 8.33% of the companies. Also it provides management services to about 11 hotels across the country.

Therefore it is concluded that NNDC's presence in respect of its investment is virtually in all sectors and subsectors of the economy . This supports the claim that NNDC had contributed immensely to the economic development via its investments by enhancing and facilitating the industrial growth of the economy.

4.2 INVESTMENTS VALUATION

In NNDC's bid to achieve its investment ro[illegible]t selects projects subject to sound investment criteria based on its viability and consistency with the policy of dispersal of industries and maximum utili[illegible] of local resources. (see Appendix C - NNDC Group schedule of investments)

Table 4.2

NNDC's ANNUAL INVESTMENTS

Year	Investment in Naira
1988	9,830,000
1989	11,009,600
1990	13,270,500
1991	19,242,225
1992	28,500,000

Source. NNDC Annual Report and Accounts.

Table 4.2 shows that in 1988 NNDC invested N9,830,000 and increased to N11,009,600 which represent 12.00% or N1,179,600 increase in 1989. In 1990 NNDC investment increased by N2,260,900, which constitute 20.54% increase as compared to the previous year's investments. The table also shows that in 1991 NNDC invested N19,242,225, that is an increase of N5,971,725 which represent 45% increase over 1990 investment value. It is noted that 1992 has the highest investment of N28,5000,000 which shows NNDC investment increased by N9,257,775 or 48.11% on the previous year's investment.

From the table with regards to the figures shown, it is observed that there was an appreciable increase in NNDC's investment in the years under study. The main reason for this increase in investments can be traced to the clamour for industrialization in developing countries like Nigeria. The deduction from the analysis is that developing countries are now becoming aware of the role of investment as the backbone of industrialization which in- turn is the instrument of economic development of any country.

Another reason that can be advanced for this appreciable increase in NNDC's investment, is that, due to inflation, the value of Naira had tremendiously decreased and therefore the increase in value of its investments is a reflection of this fact.

Furthermore, the data collected showed that NNDC's investments were broadly spread across virtually all sectors of the economy throughout the country. It is noted that these sectors has continued to function creditably and profitably especially the Agricultural subsector, Real Estate, Construction and Building services, Financial and commercial sectors and the Hotels, food and Beverages sectors to mention a few of them. Consequent upon this, most of these companies have recorded increased profits and have paid out dividends over the years. And most importantly, NNDC has continued to reap substantial financial gains from these investments.

4.3 REVENUE GENERATION

NNDC is involved in direct investment in most of the sectors and subsectors of the economy and also grant loans to needy companies, either directly or by guarantee. In essence it provides medium and long term financing to enterprises operating in Nigeria. Essentially, NNDC is able to generate revenue both internally and external so as to fulfil these objectives.

The annual internal generated revenue consists of the net profit for the year, prior year adjustment, written off investments, depreciation and depreciation adjustments. While the annual external generated revenue is the sum of the sale of fixed assets, deposits for shares, debts recovered, disposal of investments/loan receipts and foreign exchange gain.

Table 4.3

NNDC's ANNUAL GENERATION OF REVENUE

Year	Internal Generated revenue in Naira (N)	External Generated revenue in Naira (N)	Total
1988	4,899,000	11,815,000	16,714,000
1989	6,320,500	19,417,000	25,737,500
1990	7,528,000	17,500,000	25,028,000
1991	10,655,000	6,493,000	17,148,000
1992	13,784,000	12,690,000	26,474,000

Sources: NNDC Annual Report and Accounts.

From table 4.3 shown above, it revealed that the total revenue generated in 1988 was N16,714,000. There was an increase of N9,023,500 in 1989 when compared to revenue generated in 1988 and this was due to the large sum of external revenue generated. The increase represents 53.99% of the 1988 revenue generated.

It is observed that in 1990, there was a decrease in total revenue generated as compared to 1989 revenue generated. The decrease in total revenue generated is N709,500 which constituted about 2.76%. The table also shows that there was further fall in the total revenue generated in 1991 when compared to that generated in 1990. The decrease was N7,880,000 which represents 31.49% decrease in total revenue generated.

There was increase in the revenue generated in 1992 which was N9,326,000 while it represented 54.39% increase on the previous year's total revenue generated.

The increases and decreases in amount of revenue generated annually notwithstanding, it is observed that NNDC has on the whole been able to generate revenue internally and externally from 1988 to 1992. From the analysis, it is justified that NNDC was able to invest substantial amount of money annually through its revenue generation.

4.4 STAFF STRENGTH

The number of staff employed by NNDC is considered to be part of the essential analysis required in this study. Its staff strength in essence would substantiate its role in the creation of employment opportunities. Therefore, table 4.4 below shows the number of staff employed by NNDC in the years under study.

Table 4.4

NNDC STAFF STRENGTH.

Year	Number of staff		Total
	Senior	Junior	
1988	61	141	202
1989	56	121	177
1990	58	155	213
1991	70	150	220
1992	78	167	245

Source: Response to questionnaire.

From table 4.4 above, it shows that in 1988 NNDC had a total staff strength of 202. In 1989, the number decreased by 25 or 12.38% of previous year. The figure rosed to 213 in 1990 representing an increase of 36 or 20.34% on the 1989 figure. At the end of 1991, the staff strength increased further by 7 or 3.29% as compared to the figure of 1990. However, the table shows a further increase in the number of staff in 1992 which was 23 or 11.36% on the 1991 figure.

From the analysis the figures do not give a remarkable increase in employment in the years under study. The reason responsible for this was that there has been embargo on new employment and also there were movement of staff to Federal establishments or banks with higher remunerations. Inspite of these, NNDC has been able to maintain its staff strength and thereby reduce the number of unemployment to certain level.

4.5 CONTRIBUTION TO EMPLOYMENT AND MANPOWER DEVELOPMENT

NNDC has over the years created employment opportunities either directly or indirectly for thousands of Northern States indigenes and Nigeria in general. The company also engaged in the development of manpower by providing training to its employees and to employees of subsidiary companies.

NNDC has investments in Manufacturing, Finance, Commerce, Agro-Allied, Hotel and service sectors, and for them to function, the sectors require high quantity and quality of human resources. Therefore, through NNDC investments as a conglomerate it had created employment to over one million (1,000,000) Nigerians spread across the country.

From the data gathered, it shows that NNDC has contributed to the human resource development of the Northern States in particular and Nigeria in general which enhanced better employment opportunities. The investment activities of NNDC had made it possible, directly and indirectly,

for the people to be gainfully employed and thereby reduced unemployment greatly.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

The chapter one of this study examined the role of investment in economic development. The objectives and the significance of the study were mentioned. And most importantly, the problem for the study were identified, and these form the basis for the investigation.

The second chapter dealt with the review of related literature. This involve the analysis of the ideas and theories propounded by various authors concerning investment. Also relevant information about investment were emphasised for better understanding of the subject matter.

Chapter three dwelt on the research methods used for the study and this consists of personal interview, the use of questionnaires and relevant documents.

The fourth chapter ultimately analysed the data collected in the course of this study through the methods mentioned in chapter three (3). The data gathered from both the primary and secondary sources were presented in table form for analytical purpose.

5.2 CONCLUSION

From the analysis of the data in chapter four (4), this study arrived at some findings and conclusions drawn from it as emphasised below.

Excessive interference of government of owner States has created problems for the company. The governments of owner States should take off their hands in the day to day affairs of NNDC. This is because the business of a development finance institution is not a play business and need not be politicised if its developmental objective is to be achieved.

Though the overall financial performance of NNDC was appreciable, with regard to years under study but it could not build a substantial revenue reserve for the company. The fact was that NNDC's catchment area (the Northern part of Nigeria) was too extensive for the limited resources available to it. In this regard we recommended that the value of the subscription of owner States should be increased and that external funds and other viable avenues of funding should be explored.

For the NNDC to achieve its objectives, it should assume a complimentary relationship between it and state DFIs. And also for NNDC to creditably continue to perform the important role of industrial development to its owner States, it must be adequately funded.

NNDC should initiate appropriate strategy for increased mobilization of savings, develop local enterpreneurs and assist in the development of human resources generally and also for the development and finance institutions.

In view of the dynamic changes in the economy, NNDC should continously carry out strategic planning with a view to identify opportunities and threats and position itself to face future challenges.

Finally NNDC should improve employment and human resources development opportunities for people in its catchment area in particular and the whole country in general.

REFERENCES

1 Oyetunji Aboyade (1973) Integrated Economics: A Study of Developing Economies. Addison-Welsey Publishers Ltd.

2 New Nigeria Development Company Ltd: Hand book on the organisation and its operating Policies, (1992)

3 Waniko Samson Suru (1988) The Role of Investment Corporations in the Development Process of Nigeria. An unpublished MBA project, ABU, Zaria

4 Henning, Pigott and Scott (1984) Financial Markets and the Economy. Prentice Hall INC, EngleWood Cliffs.

5 Ibitoye S.O. (1985) Managing Your Working Capital. University Press Ltd, Ibadan.

6 Byrnes W.G. and Chesterton B.K. Dimensions, Strategies and New Ventures. George Allen and Unwin Ltd.

7 Edwin Nevin (1961) Capital Funds in Underdeveloped Countries. London.

8 Metha J.K. (1964) Economics of Growth. Asian Publishing House, London.

9 Frederick Amling (1978) Investments: An introduction to Analysis and Management. Prentice-Hall INC.

10 Paul A.S. and William D.N (1983) Economics. McGraw-Hill Book Company

11 Manker V. G (1990) Economic Policy and Planning. Wiley Eastern Ltd, New Delhi.

12 Meier G.M. and Baldwin R.E. Economic Development: Theory, History and Policy.

13	Valentine Amanze (1992)	Financial Guardian, Guardian Newspaper Ltd, 7th Edition.
14	Haruna Mohammed (1991)	NNDC Newsletter, A Razy Production.
15	Okeji I.F. (1990)	Principles of Finance: Notes, Questions and Answers. Unpublished Lecture Notes, Department of Business Administration, ABU, Zaria .
16	Vanhorne J.C. (1988)	Financial Management and Policy. 7th Edition.
17	Brockington R.B. (1987)	Financial Management. DP Publications Ltd, Eastleigh, Hants.

13	Valentine Amanze (1992)	Financial Guardian, Guardian Newspaper Ltd, 7th Edition.
14	Haruna Mohammed (1991)	NNDC Newsletter, A Razy Production.
15	Okeji I.F. (1990)	Principles of Finance: Notes, Questions and Answers. Unpublished Lecture Notes, Department of Business Administration, ABU, Zaria .
16	Vanhorne J.C. (1988)	Financial Management and Policy. 7th Edition.
17	Brockington R.B. (1987)	Financial Management. DP Publications Ltd, Eastleigh, Hants.

APPENDIX A

Department of Business Admin
Faculty of Administration
A.B.U. Zaria.

Dear Respondent

I am conducting a study on the Role of the New Nigeria Development Company Limited to the economic development for the partial fulfilment of a Masters of Business Administration (MBA) degree.

The nature of the study include various activities of the organisation and examines what impact these have on the economic development of Nigeria.

I earnestly request you to contribute to the success of this exercise by providing relevant, accurate and factual answers to the questions below, in order to make this study a worthwhile one.

I assure you that all information given here will be treated absolutely confidential. I would appreciate your participation.

Thank you for your anticipated co-operation.

Yours sincerely,

Chatta A.M.

QUESTIONS ON THE ROLE OF NEW NIGERIA DEVELOPMENT COMPANY LIMITED TO THE ECONOMIC DEVELOPMENT

1. What are the company's primary areas of operation?

.....

2 How much is the annual investment in each areas of operation from 1988 - 1992?

Year	Amount invested in Naira
1988	.....
1989	.....
1990	.....
1991	.....
1992	.....

3 Does the company give priority or preferential treatment in any area of operation? Yes..... No.....

4 Give detail of the ranking in preferential order of the areas of operation.

.....

5 Does the company invest in companies not located in States other than the owner States? Yes..... No.....

6 Name States other than owner States in which NNDC invest.

7 What criteria does NNDC use in locating of their investments among the owner States?

8 What are the annual profits of the company 1988 - 1992?

Year	Amount in profits (Naira)
1988	.....
1989	.....
1990	.....
1991	.....
1992	.....

9 What was the annual numerical strength of NNDC from 1988 - 1992?

Year	Number of staff	
	Senior	Junior
1988	.....	.....
1989	.....	.....
1990	.....	.....
1991	.....	.....
1992	.....	.....

10 Give factors responsible for the increase or decrease in the company staff strength between 1988 - 1992?

11 How many of the company's staff were trained between 1988 - 1992

Year	Number of staff	
	Senior	Junior
1988	.....	.....
1989	.....	.....
19 90	.....	.....
1991	.....	.....
1992	.....	.....

12 What welfare facilities does the company have for its staff?

.....

13 How many people were directly or indirectly employed through the company's subsidiaries, associate companies and other investments? .....

14 In what area apart from the company's primary areas of operation didtheorganisationinvolved?.....

15 Comment on the contribution of the company to the economic development.....

APPENDIX B

New Nigeria Development Company (NNDC) Limited is established as a development financial institution to achieve some specific objectives

a. What is the nature of your participation in achieving the enhancement and promotion of economic, industrial and human resource development of the Northern States in particular and Nigeria in general between 1988 - 1992?

.....

.....

i) Is there any data supporting the extent of your contribution in this regard?.....

ii) Is there any constraint(s)?.....

b. What is the nature of your participation in achieving the objectives of effective supervision of investment portfolio?.....

.....

i) Is there any data to show the extent of your contribution as regard this role?.....

ii) What are the constraints?.....

.....

c. Another objective is the provision of full range Consultancy Services to Government companies and individuals in areas of project promotion and investment, what is the nature of your participation along this line?.....

i) Is there any supporting data to show the extent of your contributions in this respect? .....

ii) What are the constraints?.....

.....

d. What is the nature of your participation in assisting the State investment corporation in such areas as research and project development?.....

i) Is there any data supporting the extent of your contribution in achieving this objective? .....

ii) What are the constraints?.....

.....

e. One of the objectives of NNDC is direct investment in Agriculture, Industry commerce and services sector of the economy. What is the nature of your participation in this respect? .....

.....

i) Is there any data to show the extent of your contribution in achieving this objective?.....

ii) What are the constraints?.....

APPENDIX C

QUOTED INVESTMENTS

NAME OF COMPANY	% HOLDING
CONGLOMERATE	
1. A.G. Leventis	0.19
2. CFAO PLC	0.75
3. John Holt PLC	1.88
4. Incar Nigeria	
5. R.T. Briscoe	
6. Lever Brothers	1.18
7. P.Z. Ind. PLC	1.95
8. SCOA Nig. PLC	0.43
9. UAC Nig. PLC	0.77
10. UTC Nig. PLC	1.37
11. Costain (WA)	
12. WTN	
PACKAGING	
23. CMB Packaging	2.45
PETROLEUM	
24. AP Nig. PLC	2.08
25. National Oil	0.20
26. Unipetrol PLC	0.26
CHEMICALS	
31. Sterlin Products	0.002
32. CAPL	3.33

NAME OF COMPANY	% HOLDING
FOOD & BEVERAGES	
13. Nestle Foods	2.71
14. Nig. Boot Co.	1.01
15. Tate & Lyle	
IND./DOMESTIC PRODUCTS	
16. Grommac Ind.	2.00
17. Vitafoam Nig.	3.00
INSURANCE	
18. AIICO PLC	1.85
19. Law Union	1.95
20. Nig. Ins. Co.	1.70
21. UNIC PLC	1.50
22. Guinea Ins. Co.	31.11
BUILDING MATERIALS	
27. Ashaka Cement	0.08
28. BCC PLC	1.81
29. CCNN PLC	10.00
30. Ceramic Manuf.	2.33
BANKING SERVICES	
33. Trade Bank PLC	2.13
34. Lion Bank PLC	3.18

35. NAL Merch. Bank 10.30
36. Afribank PLC
37. First Bank PLC
38. UBN PLC
39. UBA PLC

21. NNPC Canteen	Management
BANKS	
22. New Africa Merchant Bank Ltd, Kaduna	35.00
23. Bank of the North Ltd, Kano	4.58
INSURANCE	
24. Nigerian Life & Pension Consults Lagos	10.00
25. Hogg Robinson Nig. Ltd, Lagos	23.00
26. Kapital Insurance Co. Ltd, Kano	30.00
SECURITIES	
27. Nigeria Stock Exchange Lagos	1.40
28. Newdevco Finance Services Ltd, Lagos	49.00
29. Northern Nigerian Investment Ltd, Kaduna	100
CONSTRUCTION & ALLIED SERVICES	
30. Home Development Ltd, Kaduna	51.00
31. Cubitts Nigeria Ltd, Kaduna	25.00
32. New Nigeria Const. Co. Ltd, Kaduna	41.00
33. Drake & Scull Ltd, Kaduna	65.00
34. Dormanlong Amalgamated Ltd, Lagos	3.50
35. Nigerian Dynamics Ltd (Edok-Eter Mandilas)	7.30
36. Crital-Hope Ltd, Lagos	10.50
BUILDING MATERIALS	
37. Borno Clay Products Ltd, Maiduguri	15.60

38. Jakura Marble Industries Ltd, Lokoja	4.70
39. Eslon Nig. Ltd, Kaduna	30.00
40. Turners Building Products, Kaduna	32.70
41. Roofco (Nig) Ltd, Kaduna	25.00
42. Nigeria Asbestos Ind. Bauchi	5.00
METAL PRODUCTS	
43. Tower Galvanised Prod. Ltd, Kaduna	15.00
44. Northern Cable Processing Co. Ltd, Kaduna	15.00
45. Makeri Smelting Co. Ltd. Jos	16.70
46. Asha Invicta Co. ltd, Kaduna	10.00
47. Nigerian Aluminum Extrusion Ltd, Lagos	10.00
PACKAGING	
48. Benro Packaging Co. Ltd, Sokoto	10.00
49. Northern Nigeria Fibre product Ltd, Jos	27.70
50. Rigidpak Containers Ltd, Zaria	20.00
51. Ballapur Glass Nig. Ltd, Kaduna	10.00
TRANSPORT	
52. National Truck Manuf. Co. Ltd, Kano	2.50
53. Yamaha Manuf. Nig. Ltd, Lagos	10.00
54. Nigeria Autoparts Ltd, Kaduna	24.00
FURNITURE	
55. International Metal Product Ltd, Kano	20.00

AGRO-ALLIED

56. International Corporate Ltd, Kano	25.00
57. Gaskiya Corporation Ltd, Zaria	20.00
58. Northern Nigeria Publishing Co. Zaria	6.00

STATIONERY

59. Thomas Wyatt Nig. Ltd, Lagos	2.89

TEXTILES

60. Cotton & Agric Processors Lts, Zaria	37.00
61. Arewa Textile Ltd, Kaduna	23.36
62. Terytex (Nig.) Ltd, Kaduna	30.53
63. Chellco Industries Ltd, Kaduna	25.00
64. Funtua Textiles PLC, Funtua	10.00
65. Kaduna Textiles PLC, Kaduna	11.50
66. Nortex Nigeria PLC, Kaduna	34.50
67. Northern Textiles Manufacturing	24.19
68. United Nigeria Textile PLC	7.19
69. Zamfara Textile Industries	22.88
70. Kainji Textiles Ltd, New- Bussa	00.50

FOOD, DRUGS AND BEVERAGES

71. Nigerian Sugar Co. Ltd, Bacita	30.79
72. Northern Nigeria Flour Mills	10.00
73. Maiduguri Flour Mills Ltd, Maiduguri	10.00

74. Rogo Processors Ltd, Lafia	30.00
75. Jema'a Mechanised Farms Ltd, Kaduna	10.00
76. Benue Bottling Company Ltd, Makurdi	15.00
77. Badegi Rice Processing Co. Ltd, Niger	10.00
78. Nigeria Medical & Pharm Prod. Ltd, Kano	32.00
79. Nigerian Beverages Co. Ltd, Yola	32.50