INVESTMENTS: GENERAL ISSUE

By

Professor Prince Famous IZEDONMI, PhD, ACA

&

Mr. Taiwo Joseph, MSc. FCIB
Covenant University Canaan Land, Ota

INTRODUCTION

To an economist, investment refers to net capital formation. Hence we can refer it to such capital expenditure on consumer durables, residential construction (buildings), plants and machinery. Investment also covers the purchase of real tangible assets. These include machines, factories, and stock of raw materials. A broader consideration of investment involves the sacrifice of certain present values of consumption for future value/consumption. Investment is one component of the Keynesian model of income determination. Investment is a component of aggregate spending. Investment fluctuates more than other components of national income. Investment indeed is the most dynamic and erratic element of all macroeconomic aggregates. It is very difficult to formulate a model that can explain or predict the behaviour of investment with reasonable degree of accuracy.

In the Nigerian context, emphasis is usually placed on firm's expenditure on durable equipment and structures. The Nigerian National Income Account defines investment in the context of gross private domestic investment or gross fixed capital formation. Gross fixed capital formation (GFCF) is made up of capital expenditure in building (residential and non-residential)/and/or machinery & equipment (business fixed investing).

Therefore the purpose of this paper is to discuss investments generally in the Nigerian context and thereafter dovetail it to the banking industry in the country. It looks at investments from two or three angles, namely: macroeconomics, financial management and general approach. The discussion is also extended to the private and public sectors. Although the paper appears to be general on the surface, some very critical issues have been covered. It promises to be very rewarding if carefully studied especially as investment affects banking industry and the overall well-being of every economy.

1) THE CONCEPT OF INVESTMENT

Investment simply implies using present capital to create or generate future incomes or capital. Investment involves deploring current savings in productive activities to expand the economy either from micro and macro economic levels. Saving is therefore the forerunner of investment. This is so because accumulated savings form capital that is

eventually invested. So, without savings there can be no investment and the economy remains same.

We can present this scenario from macroeconomics analysis point of view as follows:

In a two-sector model economy,

	Y	=	$C + I_r$	...	1
	Y	=	$C + S$	...	2
	I_r	=	S	...	3
And	I	=	S	...	4

Where:

Y = Total Income
C = Consumption
S = Savings
I_r = Realized investment
I = Intended investment.

The above equations are the fundamental identity in a simplified economy.

Under equilibrium $C + I = Y$.
If $C + I > Y$ or $I > S$ implies that total demand exceeds output or planned investment exceeds savings leading to a rise in income.

On the other hand, if $C + I < Y$ or $I < S$, then total demand falls short of total output or intended investment is less than savings. In this case, total income tends to fall. At this juncture, I would like to switch over to the Financial Management approach so as to avoid confusing many of you with the technical macroeconomics details.

The economy would normally expand when investment increases. An investment would increase when saving increases in the economy. Therefore increased investment by firms stimulates expansion in the economy provided it is matched by increased aggregate demand.

From financial management point of view, investment is undertaken in anticipation of future returns, which must be tangible enough for all the trouble that goes along with it to be worthwhile. If the investment is large, the expected return on it is also expected to be large – at least larger than the investor's cost of capital (i.e. interest payable on the capital used for the investment). All investments are risky. The more risky an investment is, the higher the return anticipated from it.

2) ***THEORIES OF INVESTMENT***

Investment theories seek to explain the investment behaviour of business firms. Some of the notable theories of investment include.

a. The Accelerator Theory of Investment.

b. The Marginal Efficiency of Capital Hypothesis
c. The Stock Adjustment Hypothesis
d. The Profit and Residuary Theory of Investment
e. The Neo-classical Investment Hypothesis, and
f. The Tobin's Q Theory of Investment.

I will only briefly explain each without really going into too much technical details.

a) **The Accelerator Theory of Investment.**

This theory is credited to Aflalion (1911) who provided the initial principle, which Clark (1917) later expanded. The Theory posits that current net investment is a function of changes in income. It focuses only on the technological relationship between the level of capital stock. Alternative financial arrangement is usually ignored in this theory. To them, net investment is a function of growth in aggregate demand. Two versions of acceleration hypothesis however exist viz.

i) The fixed accelerator and
ii) The flexible accelerator.

This theory has been criticized on the basis of its assumptions, notably:

i) That fixed capital – output coefficient exists when examined further. This assumption appears to be very unrealistic.
ii) That capital addition is instantaneous. Again this assumption neglects time lag.
iii) That firm's capital stocks are at any time fully employed. This however also neglects the possibility of existence of idle capacity and
iv) The roles of expectations in the investment decision-making is ignored in this theory.

It also neglects the following:

- Availability of fund,
- Cost of funds.
- The sources of fund.
- The financing mix available.

The simple accelerator theory only succeeds if we assume that both capital-output ratio and the amount of fund required for investment are independent of the cost of capital. This assumption enables the capital-output ratio to be constant.

b) ***The Marginal Efficiency Hypothesis***

The Marginal Efficiency Hypothesis is traceable to the works of John Maynard Keynes. The hypothesis states that an investment decision depends on differential of two rates. These rates are:

i) Internal rate of return (IRR) generated by investing in a particular asset called MEI (Marginal Efficiency Investment) and

ii) The prevailing market rate of interest. We normally compare the market rate of interest, **r**, with (MEI) to make investment decision.

The general decision rule is:

M.E.I. ≥ r, accept investment proposal
M.E.I. < r, reject investment proposal
M.E.I = r, optimum or equilibrium level

Shortcomings of this theory include

i) The Non-recognition of the rule of expectations in investment decision-making.
ii) IRR is highly subjectively and ambiguously determined.
iii) The use of market rate of interest is questionable especially in the underdeveloped capital where a series of interest rates (lending rate, minimum rediscount rate, Treasury bill rate etc) exists. This issue has been complicated further by deregulation of interest rate in LDCs.

c) ***The Stock Adjustment Hypothesis***

Chenery (1952) developed this hypothesis to address the weakness of Clark's model of accelerator theory, which has been briefly explained above. Chenery proposed the Partial Adjustment hypothesis of investment in which firms satisfy extra demand through depletion of inventories and some of it through increased utilization of production capacity. This model enables part of the gap between the current and desired capital stock to be closed.

For instance, if the firm is operating below capacity it can increase demand by:

i) Hiring additional workers or
ii) Increase the level of utilization of their installed capacity.

Again the key defect of this hypothesis is as pointed out by Koyck notably the assumption of lagless world or at best, a world of only one period lag. Koyck proposed a distributed lag model in which immediate past levels of

output exert a greater weight in investment decisions than output in the distant past.

d) ***The Profits and Residual Theory***

Decision to invest in a project depends on the perception of the profitablity or otherwise of the project. Under this group we have economists like Meyer & Kuh, Duesenberry.

The main thrust of their argument is that the investment behaviour of firms is traceable to such factors as the amount of internal funds (retained earnings) available to the firm as well as the expected profitability of an investment proposal. This model recognizes the role of the financial markets on investment decision. Consequently, this theory is superior to the accelerator theory since businessowners hate dilution of ownership. Internal sourcing of funds appears most favourable to them than external financing.

e) ***The Permanent Accelerator Theory of Investment***

Eisner (1963) propounded this model. He modified the fixed accelerator model to help to explain investment behaviour of business firms when they do not have to respond through a change in capital stock to every increase in demand.

Professor Eisner however relied on Professor Friedman's Permanent Income Theory of Consumption. The central thesis of Permanent Accelerator Theory is that firms, rather than base changes in capital stock on every change in output, would adjust their capital stock according to their expectation, adaptively to their perceived permanent change in output.

Permanent changes in output are measured as a distributed lagfunction of changes in the past and current period like Koyck's distributed lag model. This model suffers similar defects of the accelerator theories because it is essentially an accelerator model. Arbitrary assignment of weights to past output levels to obtain a measure of permanent changes in output is another weakness. Similarly, also note that past output cannot accurately measure future changes in output.

f) ***The Neoclassical Investment Model***

This model was originally developed by Jorgenson (1963), first refined by Hall & Jorgenson (1967) and further refined by Jorgenson & Gilbert (1968). The neoclassical theory of the firm states "the demand for capital (optimum level of capital stock) is determined in the process of maximizing the PV of the firm subject to a variety of market and non-market constraints". They defined the present value (pv) of the firm as the firm's stream of net proceeds. They however assumed unimpeded access to the capital markets.

The Hall and Jorgenson (1967) model allows for partial adjustment with appropriate lag. They hypothesized net investment to be a function of a weighted average of all past changes in capital stock.

The detail is highly sophisticated but has also been criticized because of the unitary elasticity of factor substitution and the assumption of a constant pretax profit rate of return as a proxy for actual rate of return of capital. Bischoff (1969) advocated weighted average of various market rates as a better proxy. The major advantage is the "more generalized and useful approach to investment because it captures the accelerator effect and actions which affect the cost of capital. There appears to be a wide acceptance by economists of this version.

g) ***Tobin's Q Theory***

The q-theory of investment was developed by Professor James Tobin in 1969. This dynamic theory is based on the premise that investment decision is dependent upon the ratio of the market value (MVA) of a firm's financial assets to the Asset Replacement (CRA)

Thus: $q = \frac{MVA}{CRA}$

On the short run, $q \neq 1$ because of lags and disequilibria but in the long run, these are however eliminated.

The ratio q guides the firm in investment decision.

$q > 1$ = rational investment decision
$q < 1$ = irrational investment decision
if $q > 1 \Rightarrow$ RO investment increases MKV of the firm.

Tobin's model suffers from a weakness because it is largely based on ratio. It is the marginal rather than the average ratio that is more crucial. But Summers (1981) argues that the average q and the marginal q – ratios are roughly equal.

3) ***DETERMINANTS OF INVESTMENT & INVESTMENT FUNCTION***

The following factors affect a firm's decision on procuring investment goods.

1) The user cost of capital
2) The profit expectation
3) The corporate profit tax
4) Technical progress.

Others are:

- Availability of funds.

- The sources of funds.
- The cost of funds.
- The financing mix.

For the purpose of shedding more light, investment function have been stated below. An investment function can be specified in an equation form thusly,

	I	=	$I(Y, X, r, T_X, T_P)$
Where	I	=	Investment
	Y	=	Income
	X	=	Expectation about future business activity
	r	=	Cost of funds (depreciation + interest rates)
	Tx	=	Corporate taxes
	T_P	=	Technical progress.

Generally speaking, investments are tied to production, which can be either in the form of industrial manufacture of goods or other forms of soft production in service industries like banking and insurance. The other aspect in which investments can be discussed is in the area of capital budgeting, which essentially entails appraisal and analysis of options available for investments and eventual choice of those projects, or investments that are considered more viable than others. Capital budgeting or investment decisions can be viewed under; certainty, uncertainty and risk.

i) ***Investment under Certainty Condition***

Under certainty condition, the investor has adequate knowledge of the future income stream on his investment. He already knows this before embarking on the investment. Examples of certainty investment condition include a decision to invest in Nigerian Treasury Bills or Government Development Stocks in which the returns (income) are known. While in the present Nigerian situation one may, with certainty assume that these returns will be paid at maturity of investments, in situations of unstable polity such almost sure investments may turn out unrealized; for instance if there is a sudden change of Government, a new government may review contracts already entered into by a previous government. Also the bonds of a company may be unpaid even with interest if the company suddenly runs into difficulties. So in business, there is really no perfect condition or certainty per se in investment environment.

ii) ***Investment Under Uncertainty***

Uncertainty is the situation in which the investor is faced with two possibilities-one that his chances of success in the choice of investment are good, but that there are also chances of failure. What he does before embarking on such investment is to try to isolate the probable flash points of failure and goes ahead with the investment while he hopes for the best. Once he succeeds, his returns will be very high, and this anticipation of high returns persuades him to invest.

iii) ***Investment under Risky Condition***

This denotes exposure to loss arising from the investment decision. The investor would have had knowledge of the range of possibilities and the occurrence of such possibilities. The investor takes the risk and hopes for the best. This is well illustrated in a decision to invest in shares of companies. If the company makes profits, the investor is rewarded with dividends, otherwise the investor has nothing for his investment, he could even loose value of his shares if the company really performs badly.

4) *OBJECTIVES OF INVESTMENT*

Ideally, investment should offer security, maximum income and liquidity to investors but in practice, there is no such ideal situation because basically the objectives of security, maximum income and liquidity are contradictory. To say the least, conflict occurs in these investment objectives. The investor therefore has to choose investments with characteristics that best suit his circumstances. In making his choice he is expected to study the general economic conditions that are prevalent at the time of decision. Often he would be guided as follows:

i) If high interest rates are anticipated within the economy, he is advised to invest in liquid assets such as Treasury bills.
ii) If low interest rates are anticipated, non-liquid securities such as stock and shares should be the best investment option.
iii) If economic expansion is anticipated, it is advisable to invest in equities (stock & shares)
iv) If depression is anticipated, investment in fixed-interest yielding securities such as preference shares and government stocks is probably the best choice.
v) In times of moderate inflation, investment in equity is advised.
vi) In times of economic and financial uncertainty holding on to cash is the best option.

5) *TYPES OF INVESTMENTS*

From Financial Management point of view, there are three broad categories of investments:

i) ***Fixed Capital Investments***: These guarantee security and high liquidity though returns may be low. Example is commercial bank Time or Fixed deposit.
ii) ***Fixed-Income Investments: These*** are government stocks (guilt-edged) Example is the Federal Government Development stock, which has fixed interest attaching to the investment. Some state governments also float stocks)
iii) ***Risk-Capital Investments:*** The third type of investment is the one, which neither guarantees capital nor income but may produce above-average returns. Example is the ordinary share, also known as risk capital. Companies pay shareholders incomes or dividends, which are expressed as the percentages of their ordinary share nominal value. The size of the dividends depends on the trading profits of the companies. In bad years,

there may be no dividends declared and when trading continues to be bad for several years the share value depreciates. Apart from categorizing investments, as fixed-capital, fixed-income and risk capital as above which denotes the level of returns obtainable from investments, another dimension to categorizing investments is the purpose or aim of the investment. From that perspective, investment may be categorized into:

i) Replacement
ii) Expansion
iii) Improvement

Replacement Investment

All assets, be it fixed or current are subject to replacement, cash diminishes, and requires replenishment, equipment or other fixed assets wear out or become obsolete and require replacement in order that the level of production may be maintained. The funds to be
invested in replacing obsolete or worn out fixed-assets or replenishment of diminished current assets are provided internally through retained earnings or depreciation. This kind of investment is common in productive or manufacturing companies.

Expansion Investment

This type of investment relates to the capital expenditure committed to expand existing outlets and facilitates already in place. This is not merely replacing old machines or obsolete assets with new ones, but investment to expand the capacity of the current assets in order to boost production. This is also known as capital widening. When firms like Coca-Cola expand investment into fixed assets and huge capital expenditures they expand into new market outside the geographical area currently being served. That is a typical example of Expansion Investment.

Improvement Investment

When a firm decides to invest on better tools and methods of production, it undertakes Improvement Investment. The simple example of the farmer who decides to buy tractors and harvesters to use on his farm instead of hoes and cutlasses. His farm yield will be in several folds over and above the former harvest. This investment is also known as capital deepening.

Inventory Investment

Inventory Investment – This involves the stocks of finished goods not yet sold. They act as safety cushion or buffer between production and sales.

All Purpose Investment

This type of investment may not appear to contribute directly to the income of the enterprise but it certainly boosts the overall efficiency of the firm, and enhances its

well being. An example is the firm that embarks on renovation and expansion of office building, parking lot or the installation of air-conditioning equipment in all offices. This investment may not contribute to the profit of the firm directly but it enhances the level of efficiency of workers. Oil companies and the guilt edged companies like Cadbury, P.Z. and Lever Brothers are into this type of investment.

6) ***PROFILE OF INVESTMENT***

Investments are generally short term or long term in nature. The short-term investments denote money market investments or liquid investments because they can be converted to cash at short notice. Some of such investments are Nigerian treasury bills, Treasury certificates, etc. Long term investments are capital market oriented. These are ordinary shares, and stocks of medium or long-term maturity, such as Government stocks of five to ten years' maturity, debenture stocks and preferential shares.

Money Market Investments

Various terms of maturity/tenure investments are available from over night deposits to seven days, 1 month, 3 months, 6 months, up to 12 months on short-term deposits with banks. The interests (returns) on these investments vary with period of deposit and amount of deposit. The longer the period and the larger the amount, the higher the returns. The intermediaries for this type of investment are mainly commercial banks and the instruments of investment are deposit accounts as described above. The advantage to the investor is that the returns on investment (interests) are predetermined at fixed rate for the whole of the period of investment. Other money market instruments in Nigeria are treasury bills, treasury certificates, certificates of deposit etc.

Treasury bills and treasury certificates are issued by the Government through the Central Bank of Nigeria to raise funds in the Money market. Certificates of deposit are issued by the banks in bearer form and it is an acknowledgement that the bearer has a deposit with the bank

The Capital Market Investments

The trading investment instruments in the capital market are ordinary shares of companies, debenture stocks and preferential shares.

Ordinary Shares: Another name for this investment instrument is ***Risk Capital*** because it is actually the risk bearer in the capital market. The attraction in investment in shares is the return from dividends and capital gains when share prices go up. The risk is that share prices can fall, and dividends can be low when a company's profits fall or when the stock market suffers in prices. There are usually two stages in the stock market. The primary market and the secondary market.

The Primary Stock Market: This is when a company initially offers its shares to the public for investment. Here the company as vendor, the Stock Exchange as authorizing agent, and the issuing House are involved from the day of offer to the day of share allotment. Once the shares are allotted, the primary market closes and

shareholders relate directly to the company through its Registrar. Rights issues are also part of the primary market.

Secondary Stock Market: As soon as shareholders obtain their shares, provided the company is quoted on the Stock Exchange, the shares are now tradable on the floor of the Exchange through the stockbrokers.

The shareholders can then trade their shares on the stock exchange either by acquiring more over and above what he got through the primary market or by selling off part or all his holdings, as he may desire.

Preferential Shares

The holders of these shares are only long-term lenders to the company, they are not part owners. Their shares carry predetermined rate of return (interest) but will only be paid if the company makes profit. The owners of preferential shares will be paid their interest before the ordinary shareholders take any dividends.

Debenture Stockholders

These are creditors to the company on debenture and they merely lend money to the company on determined terms and conditions and they attach part of the company's assets as collateral for their lending.

7) ***INSTITUTIONS THAT ARE INVOLVED IN INVESTMENTS***

Several institutions are involved in the various types of investments that have been discussed so far. They include: banks, the Stock Exchange, Stockbrokers, the Issuing houses, the Securities and Exchange Commission, the Unit trusts and the Investment Trusts. The main involvement of these institutions are briefly examined as follows:

8) ***INVESTMENT IN THE PUBLIC SECTOR***

This lecture will be incomplete if we do not discuss investment in the public sector. Since our objective is to have a rounded knowledge as far as the topic is concerned, we believe a wholistic approach presents a better insight and understanding of the subject – investment. So far, an attempt has been made to discuss investment from the point of view of its concepts, objectives, types, profile and the institutions that are involved in it. All these aspects take a look at investment from the angle of returns and profitability of the going concern or venture on which capital has been invested. However, public sector investment is not particularly return-oriented in many ways. For example, Government invests so much of national resources in education, defence, transport, power, health, the police, justice etc. to ensure that life is comfortable for citizens of the country. We are unable to quantify the gains or returns of such investments in terms of money value as the businessman would wish to calculate the profit on his investment in a particular project or venture at the end of the financial year or at the expiration of the project. Yet, we know that when the education sector makes progress, when the police works efficiently, when the various arms of the nation's defence are able to protect the country effectively from

external aggression and when there is justice in the nation and transportation is effective, the NEPA is efficient and adequate water is supplied etc, the huge government investments in the public sector would have yielded appreciable returns. Above however is the ideal, whether the ideal is attained in the present circumstances of our national life is a matter of conjecture. In quantifying government investments in the nation's infrastructure and services we bring in the idea of cost-benefit analysis, that is the relationship between the cost of Government investments and the value of the benefits which the citizens derived from such investments. A government which has the good of its citizens at heart will always strive to invest in programmes that will bring the best to its citizens.

Apart from Government's investment in public goods services such as power, water supply, communications, defence, education etc as mentioned above, at different times, government may be involved in commercial investments not necessarily because of the profits that accrue to it from such investments but as a control device and in order to make the citizens to enjoy such services they cannot afford because of the prohibitive price. However, the results of such attempts in most cases have been negative. Records have shown that government's adventure into business enterprises fail more than privately run enterprises. Examples of failed government investments in business abound in many areas of the economy. In the banking industry, most of the state owned banks have totally failed and folded up or they have been bought over by other investors.

Similarly the Nigerian Airways, a Government Corporation has failed. The Nigerian Railways Corporation is moribund. The old Lagos State Transport Corporation, which ran commuter bus services have folded up. One can count so many more of such failed Government enterprises. The conclusion we can draw therefore is that government is not the best investor in business. All it should do is to provide necessary infrastructure for the private sector to do business. Government should create a conducive investment environment capable of stimulating both private & foreign investment activities in Nigeria.

9) ***INVESTMENT IN THE BANKING INDUSTRY***

In the last section of this paper, a cursory look at public sector investment was taken. The conclusion is that government is not the best investor in business enterprise as a result of failed attempts at it. It is necessary to examine private sector investment briefly at this juncture using the banking industry subsector as the arrowhead. Most successful investments have taken place in business, either as individual, partnership or limited liability companies. This is not to say however that all private business investments succeed. Some fail as a result of incompetent management or government policies. There are other reasons why they failed.

Investment in the banking industry began in Nigeria in 1894 when the Bank of British West Africa (BBWA) now First Bank of Nigeria Plc began banking operations. For the next twenty-five years, BBWA enjoyed absolute monopoly until 1917 when Barclays Bank, now Union Bank of Nigeria Plc came on board. Between them these banks monopolized the banking industry in Nigeria, financing commerce which was the dominant business of the time. Local business entrepreneurs were discriminated against

with respect to banking facilities and indigenes were not given the benefit of training in financial management.

As a result of the situation described above, a frontal attack to redress the discrimination emerged from the indigenous population in 1929 when Nigerian entrepreneurs began to invest in banking institutions. Between 1929 and 1959, twenty-six banks were established. The above indigenous entrepreneurial action was the beginning of a concerted effort of organized investments in banking industry in Nigeria. Since then, however, so much has happened in the industry. By 1954, only three of the twenty-three banks opened by 1952 were in operation, the rest had collapsed. Of the three established between 1958 and independence in 1960, only one survived to make a total of four survival out of the twenty six banks established during the period under review. The four surviving banks are:

National bank of Nigeria Ltd.
Agbonmagbe Bank (Now Wema Bank Plc)
African Continental Bank Plc
Bank of the North.

Unfortunately, as at the time of writing, Bank of the North has also become distressed along with two others. Of course both National Bank and African Continental Bank had their very hard times too. For a while they were out of operation before they were revived by the relevant state governments. There was another spate of bank failure in late 1990's when twenty-six banks folded up.

Inspite of failures in the banking industry once in a while, investment in the industry has not abated. This is explained in part by the pivotal role which banks play in the economy of the nation. They are the go-between the surplus and the deficit units of the economy. So they pool funds from savers and lend to the users of the funds who invest such funds in productive activities. In other words, bank plays financial inter-mediation role in this respect. The manufacturing effort that still goes on within the economy or the large agricultural enterprises that subsist within the economy and the small and medium scale industries that have survived the harsh prevailing economic situations owe their sustenance to loans and advances granted to them by banks. There is no doubt that investment in the banking industry is still profitable to the investors inspite of the distress issue which has been overblown by unscrupulous elements within the industry and print media. Today, banks shares are very active on the Stock Exchange floors when compared to other sectors. Banks declare and pay higher dividends on their shares. However we must note that the matter of distress in the industry is a thing of concern to all of us, yet like one writer says, when a bank is distressed and it is taken out of the market, the other banks will sit up and take a hard look at their operations with a view to improving their circumstances so that they too do not fail. In some other developed economies, like Japan, banks are usually bailed out of the distress trap by the government. The apex banks acting on government directives help to pump more money into such financially ailing banks to enable the bank to survive. This they do because of the economic and socio-political consequences of bank failure. What happen to staff affected and of course the general society and the possible effect on other banks in the system are usually given weightier considerations. One observes however that the spate of bank distress emerges after

General elections. Do we spend too much on election? Do banks fund elections? These areas deserve a study.

10) ***HUGE EXTERNAL DEBT, INVESTMENT AND POVERTY***

History testifies that the African continent has remained the cheap source of cheap labour and raw materials to many of the advanced economies right from the era of slave trade to the current globalization. Her resources had been seriously drained by the developed west without doing anything really serious and tangible as a reciprocal measure. Nigeria being one of the largest countries in Africa has continued to suffer most from the scourge of poverty and other poverty related diseases. Sadly, the continent has only been able to attract less than 1% of global capital flow and much less than 1% of the world trade.

Nigeria is presently groaning under the weight of huge external debts and chronic poverty. It is one of the heavily indebted poor countries HIPCs. Various debt relief strategies – the IMF Structural Adjustment Programme (SAP) and the Heavily Indebted Poor Countries (HIPI) initiative have yielded at best very poor results. Even the Marshall Plan for Africa's Development (NEPAD) "our own home grown idea for development" according to Obasanjo (2002) appears also as a very <u>timid offering</u> by the G8 summit in 2002 at Canada beyond rhetorics.

The large external debt burden is a major cause of poverty in the country. The external debt service obligation also exacerbates the poverty and reduces our resources for investment and consumption. Debt overhang obviously constitutes a serious disincentive to investment.

11) ***INTEREST RATE REGIMES***

If we examine the interest rate regimes in the country, more gory picture also emerges as it affects investment. Interest rate regime plays an important role in investment. Investment and interest rate are inversely related. Investment rises as interest rates falls. (I, r) however affects the real sector of the economy. Nigeria is an important country in Africa and indeed the world but her interest rate regimes highly discourage investment. For instance, the global economy interest rate hardly rises above 5% in many developed countries. This situation encourages small and medium enterprises to gain access to sustainable low lending rate. A single digit interest rate regime will bolster the real sector performance and stimulate rapid economic growth, employment generation and poverty reduction if the correct fiscal and socio-economic discipline is also in place. So far, we are seeing encouraging signs in the respect in the downward trend in the interest rate initiated by the Obasanjo Administration where MRR has come down from 16.5% to 15% while lending rate (LR) ceiling stepped down from 20.5% to 19%. Though this effort is commendable, we still need more concrete steps to move the interest rate to the single digit level. This will encourage firms to borrow and hence stimulate investment.

Besides, the macroeconomic environment must be made conducive to attract meaningful investment efforts and initiatives locally or attract foreign investments. High exchange rates, high inflation rate, poor social and physical infrastructure like the epileptic power supply, social vices like 419, frauds, the general sense of insecurity due to armed robberies, police brutality, political and social crises etc all tend to hinder local

investments and FDI. Similarly, the poor image of the past corrupt military regimes and doubtful picture of the state of health of some commercial banks, bank distress (?) all affect mobilization of household savings, (as a cheap source of funds) for investment. The current Small & Medium Industries Equity Investment Scheme (SMIEIS) for which commercial banks are key actors if properly executed and monitored may stimulate investment that may bring about rapid economic expansion, employment generation and poverty reduction.

12) ***CONCLUSION***

Investment, as we have observed is the engine of economic growth in a nation, though risky as it is, investors must venture into it so that production of goods and services may be assured. It is needful to emphasis also that Government has no direct business in a free enterprise like ours.. It should therefore preoccupy itself with provision of infrastructures, which will enhance individual and corporate investments into all the sectors of the economy. So far efforts and government policy in respect of SMIEIS appears too tenuous, hazy, nebulous and very open to abuse. Government needs to sit down with the participating commercial banks in Nigeria to work out a mutually acceptable programme of implementation that will be free from official corruption. The huge billion accumulated so far in respect of SMIEIS can stimulate investments if properly channeled and monitored.

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