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Managing Public Investments In An Ailing Economy: The Kwara State Experience

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Abstract

In examining the issue of managing public investments in an ailing economy with special focus on Kwara State, both primary and secondary sources were used in obtaining the information. In this study, investment could be regarded as money or energy committed to business activity that is capable of generating considerable returns in the future. The concept of managing as used in the study is the attainment of organizational objective through the efficient and effective utilization of scarce resources. Thus, an ailing economy, is that which has a lot of problems. In an ailing economy, there is unstable socio-political system, lack of sustained macro economic stability, low per capita savings, and lack of an appropriate regulatory and institutional framework. For example, in Nigeria with an ailing economy, displays economic malaise, which brought about the tightening of economic belts and calls for streamlined programmes for economic growth and development. State governments being integral parts of Nigeria face similar economic problems. Thus, the study is aimed at determining how efficient and effective the Kwara State Government has been in the management of its investments. The paper exposed certain inhibiting factors that are retarding the growth and benefits of public investment overtime, in the state. Based on the findings, the study then recommended ways to tackle those problems that affect the management of public investments in the state.

Introduction

Nigeria, as a country possessing the characteristics of an ailing economy, displays economic malaise, which brought about the tightening of economic belts, and calls for streamlined programmes for growth and development. State Governments finances have been dwindling because the distributable pool in the Federation Account shows decreasing trends, thus making the State Governments' share to become very small and unstable, compared to their expenditures.

Having realised that funds from the Federation Account are no more adequate to finance their expenditures, various State Governments tend to focus on other sources of revenue, among which are investment proceeds. Leeds, Stainton and Jones (1986) suggest that investment includes money spent on producing capital items such as factories, machinery, schools and roads, as well as net additions to stocks and replacements for movements of capital goods. But in the view of Oluwi (1990), investment is referred to as the disposal of savings, which is the retention of certain amount of money either as a single sum or as a regular deduction from income. Oluwi observed further that the kind of saving which is for a specific short-term objective, for example, the purchase of a new car in twelve months time is not true investment. Rather, savings for a longer term, say five or more years, are investment. Rachman and Mescon (1985), regarded investment as the use of money or capital in a way that is aimed at securing profitable returns in the form of interest, dividends or other income.

Generally, investment could be regarded as money set aside for business activity that will continue to generate considerable returns in the future.

There is no generally accepted definition of the act of managing or simply management. The Encyclopedia Americana (1981) defined "Management" as the art of co-ordinating the elements or factors of production towards the achievement of the purposes of an organisation. That is, the accomplishment of objectives through the use of human, labour, materials and machines.

Daft (1988), defines Management as the attainment of organisational goals in an effective and efficient manner through planning, organizing, leading and controlling of organizational resources.

According to Appleby (1987), management means a process by which scarce resources are combined to achieve given ends. This describes an activity, which can be better described by the word managing.

Thus a comparison of the definitions identified so far shows that management or act of managing is the efficient and effective utilization of scarce resources for the attainment of organizational objectives.

An ailing economy is the type of economy having a lot of problems. This is because in an ailing economy, there is unstable socio-political system, lack of sustained macroeconomic stability, low per capita savings, and lack of an appropriate regulatory and institutional framework.

Statement of research problems and objectives

Savings can be divided into two broad categories i.e. short-term and long-term. The type of savings, which is for a specific short-term objective, is not true investment. However, savings for a longer term, say five years or more constitute investment. It is the longer-term investment that is the focus of this paper.

This study aimed at determining the efficient and effective nature of Kwara state public investment management. To accomplish this, the research examined the following specific objectives:

- i. To identify the policies designed by the State Government to stimulate the worth of its investment.
- ii. To establish whether or not such policies have positively enhanced the growth of investment overtime.
- iii. To evaluate the problems associated with public investments and thereafter, proffer solutions.

Methodology

In this out research effort qualitative and descriptive analysis method were used in analysing information generated. The analysis was supported by some quantitative information. Both primary and secondary sources were used in obtaining the information.

The primary source included participant observation, oral interview with those charged with the management of the state investment. They are commissioner of finance, permanent Secretary and Accountant General.

The secondary source included government official documents such as Financial Memoranda, Financial Circulars, State Budgets, Financial Instructions and Schedule of duties file among others.

Investment management in Kwara State prior to the economic malaise

The Kwara State Government holds shares in various companies. The Kwara State Ministry of Finance on behalf of the State Government bought these shares. The shares dividends, which are paid into Government coffers, form part of the internally generated revenue of the state government. The officers charged with the responsibility of managing the State investments have continued to strive to ensure that the State generates good returns on the securities. However, it should be noted that much attention was not paid to investment management in the state prior to the economic malaise currently being experienced due to some basic reasons. For instance, the economic base of Nigeria in the late 1970s was solid as a result of the oil boom. The income from the oil sector was apparently more than enough to cater for government expenditures. The income generated then continued to be on the increase compared with the relatively limited production and services provided by the government. The pressure on the government was then minimal. Also, illegal linkages were also not prevalent then; in other words, public funds were not illegally siphoned into private pockets. Again, Nigeria witnessed political stability immediately after the civil war in 1970, at least to 1979, when the presidential system

of government was in place. Even the over throw of General Yakubu Gowon's Government in 1975 and the assassination of General Murtala Muhammed in 1976, did not so much negatively affect Nigeria's political stability. This political stability and cohesion made the oil revenue to be steady and thereby, made the government to pay less attention to other sectors, investment inclusive.

The factors mentioned above have serious negative demonstration effect on States' attitude towards investment. The revenue from the oil sector and other variables enumerated above made subventions from the Federal Government to be steady and adequate to take care of the needs of the various States. Thus, the various States paid little attention to investment management. Most of the States' projects were financed through income received from the federation account.

Despite the fact that the responsibilities of Kwara State Ministry of Finance include management of the State's investment, yet no unit or division was created in the ministry to be specifically charged with all matters relating to Kwara State Government Investments. The absence of this unit made the state to substantially derive little benefit from its investment. The unit if created then would have been managing the state's investment to maximize returns from them whether or not the objective is to secure additional income, capital appreciation or long term growth prospects.

In fact, the non-existence of this investment unit in the ministry led to the following problems:

- i. No constant monitoring and supervision of investment to obtain reliable information on the performance of each security.
- ii. No constant monitoring of the financial markets to know the changes in prices of shares or stocks.
- iii. No portfolio review to obtain a good portfolio mix or composition that will yield the greatest returns.
- iv. No unit was charged with the responsibility of formulating suitable investment and divestment strategies, which would ensure that investments are made in the most viable companies and market identification for investment which are not quoted in case the state government is interested.
- v. No unit to undertake periodic evaluation of all investments based on empirical data obtained from the trend analysis of performance of various companies.

Kwara State as an ailing economy

There is persistently dwindling position of the State Government finance. The distributable pool in the Federation Account shows a decreasing trend, thus making the state governments' share not only to be small, but also, to be unstable. Borrowing is strictly controlled by the Federal Government, thereby reducing revenue potentials from this source. The state government's Indebtedness has continued to rise, thereby leading to a high debt-service ratio. Tax revenue equally suffers its own fate of adversity thus resulting in persistently low income.

Table 1 below depicts the assertion made above.

Table 1: Kwara State Government Finance Position 1992-1996

Year	Statutory Allocation from the Fed. Govt. (a)	State Govt. Indebted- ness (Debt) (b)	Tax Revenue (C)	Total Revenue (d)
1992	534,699,243.00	701,052,700.00	454,323,840.00	989,023,083.00
1993	506,770,400.00	721,032,600.00	412,293,440.00	919,063,840.00
1994	584,683,714.00	1,631,132,280.00	697,942,030.00	1,282,625,774.00
1995	1,060,000,000.00	2,461,599,738.00	1,146,481,260.00	1,206,481,260.00
1996	1,286,303,758.00	2,716,151,604.00	1,192,267,174.00	2,478,570,952.00

Source: Kwara State of Nigeria Recurrent and Capital Estimates, 1991-1997.

In the above table, the addition of the statutory allocation from the Federal Government (a) and the tax revenue (c) sums up to the State Government Revenues for a particular year (d).

The table also shows an increase in state government's revenues. However the increase is at a decreasing rate when one compares the state government indebtedness to the state government revenues.

Kwara State government investment management strategies

The continuous economic predicament that Kwara State has continued to find itself forced the state to intensify efforts to look for other feasible means of consolidating and expanding government revenue. One feasible means identified among others is the revenue from investment. The government of Kwara State then sees it as a matter of urgency to put in place necessary machinery to widen its revenue base through income from investment. The focus of the state government has put greater challenges on the state ministry of finance, which is charged with the responsibility for managing state investments in adopting the following strategies.

Investment unit

An investment unit was created in the state's ministry of finance in to take care of all matters relating to Kwara State Government Investment with a view to increasing the revenue generation of the state. The schedule of the unit includes the following:

- i. initiating decisions on government investment and performance appraisal.
- ii. supervision of all companies in which the state government has invested fund.
- iii. Processing and monitoring returns on investments and
- iv. Processing acquisition of shares

The officers in the investment unit carry the functional title "investment officers".

Dividend Account

In the past, that is, when there was economic buoyancy and relative stability, dividends from government investments were charged to the below-the-line account. That is, revenue from investment was treated as insignificant compared to the steady and substantial revenue from other sources.

However since the advent of the economic down turn in Nigeria, and the need to enhance internally generated revenue, investment returns are now given the attention they deserve. Dividend account has been opened specifically for dividends received from various government investment on shares. This is done to ensure proper accountability.

Purchase of shares

The government is now aware of huge returns from investment in securities. This awareness has made the state government to continue to increase its investment in shares. The state government purchases of shares are made, using the fund in the Dividend Account mentioned earlier on. This is in contrast to the practice prior to the period of economic recession. During that time, whatever was obtained from investment was spent on other items.

This practice of having a special account for dividend readily makes fund available for any profitable investment.

Attendance of annual general meetings

Officers in the investment unit are allowed to attend the annual general meetings (AGM) of companies in which the state government has shares. This is aimed at broadening the knowledge of the officers and ensuring their exposure to investment management which would not only develop them personally, but would also enhance their productivity and efficiency on the job. At these meetings, deliberations tend to broaden the knowledge of the officers. Intelligent questions which cannot be learnt from any book are asked. The questions are usually answered in a like manner.

The effect of the strategies enumerated above has continued to be felt positively in that investment returns have steadily risen, leading to increase in the state government revenue base.

The strategies discussed so far are termed institutionalized strategies. Table 2 below shows the percentage rise in investment returns (dividends) compared to the state government revenue.

Table 2: Percentage of Actual Dividends to Government Revenue 1992-96

Year	Percentage of Actual Dividend to Actual Recurrent Revenue
1992	0.33%
1993	0.56%
1994	0.62%
1995	1.17%
1996	0.33%

Source: Kwara State of Nigeria Recurrent and Capital Estimates 1991-1997

Other strategies to increase revenue base through investment

In addition to the institutionalized strategies discussed above, other strategies are being employed by the state government to increase revenue base through income from investment.

One of these strategies is the sell-off of the state government shares in companies which are not performing as expected, if returns are discouraging. The funds realized are then invested on other profitable shares.

Another strategy is to discourage the use of consultants in the managing of the state's investments. It is realized that much money is usually paid to consultants for investment management, a job, which can be better done by the investment unit of the ministry of finance.

This study revealed two instances when the use of management consultant was discouraged and officers of the investment unit given the assignment. In both instances, substantial amounts of money were saved and the job efficiently and effectively carried out.

Effectiveness of the Kwara State government investment strategies

The institutionalized and other strategies employed by the state government to solve the problems caused by economic recession resulting to the dwindling position of the state government revenues have been discussed earlier on. As stated earlier in this study, the responsibility of the management of the State investments lies with the investment unit of the State Ministry of Finance and Economic Development. However, other departments within the entire system play a role in investment management. Also, certain factors influence the choice of investments in the state. The significance of revenue from investment to the state government coffers needs to be examined as well. These led us to examining the effectiveness of the Kwara State investment strategies. In carrying out this, the following are discussed.

- (a) Those charged with investment matters in the state
- (b) Factors influencing the state government in the choice of investment
- (c) Investment returns as a source of government revenue
- (d) Government attitude towards investment

Those charged with investment matters in the State

It has earlier been stated that the investment unit of the State Ministry of Finance and Economic Development is responsible for investment matters. However, it should be clearly stated that there are other people who play complementary role. These people are:

- i. Commissioner of Finance
- ii. Director General (now Permanent Secretary)
- iii. Accountant General

Investment unit and functions of the officers

The investment unit of this ministry was created to take care of all matters relating to Kwara State Government Investments. The unit is charged with managing the state's investment with a view to maximizing returns from government investments.

The Commissioner of Finance

The Commissioner of finance is the political head of the ministry and serves as a link between the ministry and the State Chief Executive - the Governor. The commissioner is the Chief Finance Officer of the State.

Although the investment unit is directly charged with investment matters, yet, all decisions initiated on Government investments need to be approved by the State Governor. In this regard once the investment unit comes up with any proposal on investment, the commissioner would direct that a memo be written on the issue for onward presentation to the State Executive Council headed by the Governor for approval. Here, it should be noted that the commissioner plays significant role in that it is only the brilliant presentation of the memo that can cause it to sail through. A sound investment proposal might be thrown away in the council if the commissioner did not perform as expected.

The Director General (Now Permanent Secretary)

The permanent secretary in the State Ministry of Finance assists the commissioner in the overall administration of the ministry in certain areas.

A critical look at the functions of the Permanent Secretary will reveal that he plays a significant role in assisting the commissioner. The absence of the commissioner cannot impair any investment proposal that needs the Governor's attention. The permanent secretary is available to stand in for the Commissioner.

The Accountant General

The Accountant General is the Chief Accounting Officer of the State. He is the head of the government accounting system and the treasury. He is responsible for the supervision of the expenditure and finance of the state as well as the details of accounts of all ministries and department within the state.

In line with the responsibility of the office of the Accountant General an account known as "Dividend Account" is directed to be opened for the lodgment of dividends from government investment in shares. The account is specifically meant for matters relating to shares. These include sales of shares, purchase of new shares as well as expenses related to the investment matters.

Though the custodian of the state's fund lies with the office of the Accountant General yet one will see the complementary role it plays in the management of the state investment due to the "Dividend Account" now in operation.

Factors Influencing the State Government in the Choice of Investment

There are many factors that influence the state government in the choice of investment. To take decision as to the type of ordinary shares to invest in, the state government takes the following factors into consideration:

- i. Name and business of the company to be invested in.
- ii. When the company was established and its performance so far in terms of profits, dividend payments and margin of safety.
- iii. The total net tangible assets.
- iv. The issue or offer price of shares.

Most of this information is obtained by the assessment of the prospectuses of the companies. In that all prospectuses are different, as all companies are different. However in most cases, it is the enquiring attitude of mind that is important rather than specific questions. These leave one in the end with a PRICE, a YIELD and a PERSONAL OPINION of those taking the investment decisions.

Investment as source of government revenue

The dividends from investment form part of the internally generated revenue of the state government. Those responsible for the management of the state investment in the Ministry have continued to strive to make sure that the state generates adequate returns from its investments in securities, thereby expanding the state revenue base. The table 3 depicts the effort and result of the State Government from 1992 to 1996.

Table 3: Dividend and Recurrent Revenue 1992-1996

Year	Actual dividend	Actual Recurrent Revenue	Percentage of Actual Dividends to Actual Recurrent Revenue
For the year ended 1992	2,099,256.00	643,259,506.000	0.33%
1993	4,952,939.00	876,884,515.00	0.56%
1994	4,328,700.00	697,942,030.00	0.62%
1995	4,000,000.00	341,163,280.00	1.17%
1996	5,033,948.00	1,539,580,681.00	0.33%

Source: Kwara State of Nigeria Recurrent and Capital Estimates 1991-1997

The table above shows that the percentage of actual dividends to actual recurrent revenue continued to be on the increase from 1992-1995.

Government attitude towards investment

The persistently dwindling position of the State Government revenues and the decreasing trend in the distributable pool in the federation account when compared to its expenditure made the government to focus on other sources of revenue, among which are revenues from investment. This makes the attitude of the state government towards investments to be serious by identifying investment as revenue generating ventures. Not only that but also adequate and stable. The government is encouraged by the returns in term of dividend flowing in from existing investment. In this regard all investment proposals are taken serious and accorded the necessary attention they deserve.

It is relevant at this stage to mention that the government generally mean well in drawing up its policies. The creation of investment unit to take care of all matters relating to Kwara State Governments investment reveals the state's determined efforts to stimulate the growth of investment in the state.

Problems associated with the strategies

The various strategies adopted by the State government in the management of the state investments equally presented a number of problems. While the strategies were apparently well-intentioned, their effective performance are hindered by some factors.

The investment unit which was created to take care of all matters relating to Kwara State Government's investment is faced with a lot of problems inhibiting its performance. These are

- i. The unit has no vehicle for official journeys outside the State, and local running for enhancement of its performance.

- ii. The unit is also not provided with business journals, the importance of which can not be overemphasized. Working tools like sound modern multi-purpose calculator are as well not also made available to the officers in the unit.
- iii. The Dividend Account opened is a welcome development but it has its own problems. It is on record that some companies in which the state government has shares have not be paying dividends regularly. This means that the government's dividend account has less than what it should have contained.
- iv. On the issue of purchase of shares, a lot of politicking is involved. At times proposals on purchase of shares in some companies are turned down without any convincing reason. These shares may happen to be profitable venture. In most cases the dividend account may have been tampered with for other pressing public interest.
- v. There is also problem associated with the attendance of Annual General Meetings (AGM). On many occasions, officers in the investment unit are prevented from travelling to the meetings through flimsy excuses. The reason is not unconnected with the government hidden policy of not wanting to spend on whatever issue that its benefit is not direct and immediate.
- vi. The issue of disposal of shares in some companies leave much to be desired. One cannot in some instances, justify the disposal of shares. In other words relevant officers who have been monitoring activities in stock market are not contacted when such decision is being taken.
- vii. Also despite the attempt of the state government to discourage the use of consultants in the management of state investments their use are still being felt in some disguised forms.

Summary of Findings

The central theme of this paper is the examination and appraising of the manner in which public investments are managed in the present economic situation tagged as 'ailing'. The paper is structured to expose certain inhibiting factors that are retarding the growth and benefits of public investment overtime, in the state. It is scholarly to bring out in a concise form, the lingering problems which constitute the findings. Some of the deductions based on the analyses from the research are as follows:

- i. Impediments appear to be placed in the way of the investment unit of the Ministry of finance, which was specifically created to oversee the investment of the state government. These impediments are seriously affecting the efficient and effective performance of the unit. No one can adequately perform his/her functions without necessary equipment being provided.
- ii. The investment unit is yet to be provided with a vehicle. One wonders how the unit could perform without this.
- iii. It should also be noted that the world is dynamic, so is the acquisition of knowledge. Whoever is in business should continue to keep himself/herself abreast with related business knowledge and documents. The investment unit is not provided with the necessary business journals. Even basic working tools like modern multipurpose calculators are not provided to the unit.
- iv. The state government has not also put into optimal use the Dividend Account. Most Dividend warrants are received late due to lack of monitoring. The unit charged with this responsibility is bedevilled with lack of vehicle to carry out the job. Also, funds in the Dividend Account specifically meant for investment related issues are, in most cases, spent on other strange matters. So whenever shares are advised to be bought, problem then arises as a result of the Dividend Account which is greatly depleted on a continuous basis.

- V. The issue of politicking also has a very serious negative effect on decisions affecting shares. This politicking is multi-dimensional in nature. It may be to tow the line of regional grouping. In other words, the state may, for instance, take decisions based on joint decisions already agreed upon by all the states in the Northern part of the country, on some issues.
- Vi. Again, one may wonder and be at a loss, to understand the rationale behind the disposal of shares held in some companies. In most cases, inexperienced people, when we talk about investment, are taken as advisers to the detriment of experienced and relevant investment officers when shares are being disposed off. One cannot rule out politicking here also.
- Vii. Interaction is necessary in the business world, because one tends to gain the more. One of the areas where one can interact and get exposed, and one's knowledge broadened, is at Annual General Meetings of Companies. Most of the time, the government feels reluctant to release fund to officers to undertake the journey. This does not augur well if the government intends to develop a pool of experienced and exposed investment officers for the challenges ahead.
- Viii. In the final analysis it could be deduced that inadequate management of investment to achieve maximum benefit has been the bane of consolidating and expanding the Kwara State Revenue base in the midst of harsh economic conditions.

Conclusion

Investment involves committing resources to some economic activities in anticipation of greater returns or benefits in the future. Income from investment is widely acknowledged as a reliable source of revenue for financing growth and development in both the private and public sectors. However, investments should be managed to maximize returns from them. This leads us to the concept of investment management.

The purpose of managing investment is an attempt to select assets, which would maximize the expected total returns, and minimize risk. That is, the manager aims at maximizing the value of securities at some preferred level of risks. Managing investments involve a lot more than simply selecting financial assets (Stock and bonds) to hold until maturity or until funds are needed.

Recommendation

With the findings of this study, we then give the following recommendations that would be of immense help in improving the growth and benefits of the Kwara State's investments.

The investment unit created in the state ministry of finance to take charge of matters relating to state government shares should be provided with the needed facilities to perform its duties as expected. The unit, once provided with these facilities, should be prepared to work. It should do this by making sure that it understands everything about the companies in which the state has shares, as well as how the stock market operates. In fact, it must know the rules of the game before it can learn to improve its performance. Frankly, this points to the reason why so many investors do less well than they should. They try to run before they can walk and never take the trouble to grasp the basic fundamentals. For this reason, they make quite unnecessary mistakes. Management of investment in short, is a matter of exercising continuous judgement. This is formed by frequent perceptive reading of comments on companies and stock market affairs, taking the information supplied by the companies themselves as the basis on which to build an opinion. The information gained about each company should then be subjected to a series of comparisons. The performance of a company should be appraised in terms of other companies in the same industry in the first place, and then, against the performance of the stock market and the economy as a whole. The investment unit should have a wide

range of information and techniques which will enable it to make this kind of comparison before initiating any investment proposal.

The Dividend Account which was opened to take care of investment related issues should be protected and safeguarded from unrelated expenses. The office of the Accountant-General, through the commissioner of Finance, should initiate a memo to the State Executive Council for a council conclusion that will protect the Dividend Account from being used for other unrelated matters. Also, in order to swell up the Dividend Account, the officers in the investment unit should be allowed and encouraged to travel to companies in which the state has shares, but which do not normally send in their dividend warrants in time. However, in doing this, the concept of cost-benefit-analysis should be applied. That is, the country should be zoned and a least two officers designated to each zone. The officers in each of these zones will contact all the companies within their zones for collection of dividend warrants.

One cannot rule out political considerations when taking investment decisions, yet, they should be reduced to the barest minimum in the interest of sound investment management.

On disposal of shares, care must be taken to avoid a situation whereby some few privileged ones will be converting public shares into private hands.

Lastly, there is the need to restructure the State's Ministry of finance so as to enhance the status of investment unit. The restructuring will also enhance the overall performance of this ministry.

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