Education & Science Journal of
Policy Review and Curriculum Development
Hard Print: 2315-8425 Online: 2354-1660

November, 2016

Vol. 6, No. 1

Analysis of Projects Life Cycle on Investments in Nigeria

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Keywords:
Investments,
Projects cycle,
Risk analysis,
Life cycle,
Investment decision.

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Abstract

This study emphasizes on analysis of project cycle on investment. Analysis was done on how project foundation will be laid to achieve the maximum objectives. From the study, it was discovered that project cycle play a vital role on investments, therefore lead to achievement of set objectives. The author also discovered the challenges facing investors such as risk exposure which conclusion was drawn that any business organizations or establishments that wants to survive should have risk management department to look after their risk exposures and make all necessary provisions for tackling them and that stages of projects cycle should be well executed and implement to enhance economy development of the economy. Based on the study, the recommendations were made that: government should once in a while organize seminars to orientate investors on the investment procedures; that projects should be well planned and laid good foundation before embarking on it; that contingency fund should be opened by investors for management of their risk.

Background to the Study
It is always said that an idle fund is a wasted fund. The value of N50.00 yesterday is not the value of N50.00 today because the money is to be invested to earn interest, dividends and other benefits like to have seat on the board, to be in the position of decision-making. To forestall wastage of fund, bonus issues, right issues, capital appreciation, savings for liquidity as collateral for loan, etc. There are many areas of investment and also the risk abound. Investors are always preferably looking for lesser risk and more profits. The investments consultants are always there to advice investors on the areas to invest by comparing the expected rate of return on each investment and the risk in investment by using project life cycle. It's has been found that most of the investors are always ill informed and that the investors should always consult market experts. This work wants to analyze the project cycle of investments.

The Concept of Investment
Money is said to be what money can buy, people invest in different projects like estate, in production, in manufacturing, in shares, stocks, bonds, preference shares, debentures, etc. The aim of the investment is to ensure that profits are made. Investment can be defined, according to Anao [1993] as the commitments of capital to a project or venture with a view for it to make profit. Hence the purchase of stocks and shares, bonds would be an investment. The taking up of insurance policy, buying a car and house are also investments too. According to Nwite [2007] investment is relative. Investment can further be described as the planning executing and controlling of events in order to achieve certain selected investment objectives. Investment takes prominence in finance than in any other area. This is because finance is what is used for investment and without finance there will be no investment. There are different types of investors in the market like the defensive, the enterprising investor and the speculators, most of the investors are either risk averse, prefacers or neutral, so it is very important to note that investment in the financial markets involves a lot of risk and very important for some predictions to enhance good investment (Francis: 1972).

Historical Development of Investments
In 1960s early investment institutions such as acceptance houses and merchant banks helped finance foreign trade and accumulated fund for long-term investments overseas.

In 1972, the New York stock exchange began operation. Because of its long operating history of NYSE is still home to the majority of the world's largest and best-known companies.

Many of the famous investment banking firms that still operates today (in one form or the other) began in the 1800s. These firms include J.P. Morgan, Goldman Sachs, Lehman Brothers and others. In 1850 Lehman Brothers was founded, though they did not engage investment banking until the 1880s. 1850s' Merchant bankers in London and Paris began financing industrial expansions which led to financing for US projects including the Transcontinental Railroad. In 1860, Henry Varnum Poor published history of the railroads and canals of the United States, a financial history of the companies laying track on digging canals in the United States. This publication was the root of the standard and Poor's stock index. In 1860s, during the Civil War, syndicate banking houses sold millions of dollars worth of bonds to help the federal government finance the war efforts. This was the first market securities sales operation, a practice that was also used a few years later to finance the expansion of the transcontinental railroads. In 1869, Goldman Sachs was founded by German Jewish immigrants, Marcus Goldman and Samuel Sachs. Goldman Sachs remains a major player in the investment banking and securities markets. In 1873, the panic of 1873 triggered a severe international economic depression in both Europe and the United States. The panic was caused by the fall in demand for silver following decisions by Germany and the United States to abandon the silver standard. The depression lasted until 1879 (longer in some countries) and was known as the Great Depression until the 1930s, but is now known as the Long Depression.

1873: Bache and company, a securities firm that provided stock brokerage and investment banking services, was founded in New York. This firm was later acquired by Prudential Financial and then Jefferies Group and is now called Jefferies Bache.

1884, Charles H. Dow, a finance journalist, started the Railroad Average (now called the Dow Jones Transportation Average). In 1890—1925, the investment banking industry was highly concentrated and dominated by J.P. Morgan and Co., Kuhn, Loch and Co., Brown Brothers and Kidder, Peobody and Co. These banks used commercial banks deposit to fund their investment banking because there were no legal requirements to separate the two operations.

May 26, 1896: Charles H. Dow, a financial journalist, unveiled the first stock index. He averaged the top 12 stocks in the market (mostly steel mills, railroad, mining, etc) as a measure of the market's tide. The first index was at 40.94 points. The Dow Jones Industrial Average is still used today, but the 30 companies that comprise it come from a wider variety of industries.

October 1907: The panic of 1907 began when the New York Stock Exchange fell almost 50% due to a failed attempt to corner the markets on stocks of the United Copper Company. This was during a time of economic recession and many consumers reacted by making runs on bank and trust companies, causing many state and local banks to enter bankruptcy. J.P. Morgan is credited for saving Wall Street during this crisis by allegedly locking top executives from major banks in his office until they hammered out a solution. In 1910, Salmon Brothers was founded as a Wall Street investment. Eventually Salmon became part of Citigroup and in October 2003, the name was abandoned.

February 3, 1913: The sixteenth amendment to the United States Constitution was ratified, allowing Congress to levy an income tax.

December 23, 1913: The Federal Reserve Act was passed. It created and set up the Federal Reserve System, the Central Banking system of the United States and granted it the legal authority to issue money and Federal Reserve banknotes as legal tender.

October 24, 1929: The New York Stock Exchange crashed causing thousands of people to lose nearly the entire value of their investments. This day was known as Black Thursday.

October 29, 1929: The Dow Jones Industrial Average dropped 12% in one day, continuing the trend of decreasing stocks started on Black Thursday. This day was named Black Thursday and is considered the start of the Great Depression, which lasted nearly a decade and caused several levels of poverty, hunger, unemployment and political unrest.

June 16, 1933: The Glass-Steagally Act that the act of 1933 was passed in reaction to the collapse of a large portion of the American commercial banking system. This act required banks to separate the operations into commercial and investment divisions. The Glass-Steagally Act remained in force until it was repealed during the Clinton administration in 1999.

1993: Congress enacted the Securities Act of 1993 in the aftermath of the stock market crash of 1929 to regulate the sales of security. 1934, the Securities Exchanges Acts of 1934 was passed to further regulate the secondary trading of securities (stocks, bonds and debentures). It also established the Securities and Exchange Commission (SEC), the agency primarily responsible for enforcement of United States federal securities law. 1946, Standard and Poor bought a punch card computer from IBM and expanded the index to 500 companies, which could be updated hourly. This formed the basis of the S and P 500 that is still used today. In 1946: The first venture capital firms were founded: American Research and Development Corporation (ARDC) and J.P. Whitney and company.

In 1958: The Small Business Investment Act of 1958 allowed small business investment companies to help finance small entrepreneurial businesses, under the regulation of the year's US Small Business Administration (SAB). In 1971, NASDAQ was created as the world's first electronic stock market. The system facilitates trading and provides price quotes on more than 500 over the counter stocks. It is also home to many high-tech stocks, such as Microsoft, Intel, Dell and Cisco. The Employee Retirement Income Securities Act (ERISA) prohibited corporate pension funds from holding certain risky investments. Some portions of the act yet relaxed in 1978. In 1980s, financier Michael Milken popularized the use of higher yield debt (also known as junk bonds) in corporate finance, mergers and acquisitions. This fueled an increase in leverage buyout and hostile takeovers. The high-yield market collapsed in 1989 and 1990. August 15, 1981, Ronald Reagan signed the Kemp-Roth bill, officially known as the Economic Recovery Tax Act (ERTA), lowering the top capital gains tax rate rates from 28% to 20% and making high risk investment more attractive.

In 1985: The Nasdaq 100 was introduced to compete with the S and P 500. November 2, 1999: The Gramm-Leach-Bliley Act replaced certain provisions from the Glass-Steagally Act of 1933. This removed the separation between investment banks and depository banks and likely contributed to the severity of the financial crisis of 2007-2010.

In 2005: The New York Stock Exchange became a public entity. July 2007, the turmoil that had been affecting the mortgage markets spilled over into the leveraged finance and high-yield debts markets. In September 2007, the expected market rebound did not happen and major leaders announced major write-downs due to credit loss. Consumers lost confidence and buyers began to withdraw from the market.

2007—2008: A credit crisis was created when several investment banks collapsed, were acquired, or left the investment banking industry due to internal financial trouble. In October 3, 2008: The Troubled Asset Relief Program (TARP) was signed into law. This program authorized the federal government to use up to $700 billion to purchase assets and equity from troubled financial institutions. The goal of the act was to strengthen the financial sector and avoid or mitigate the effects of the recession.

Reasons for Investment

There have been a lot of reasons why people invest in shares, stocks, bonds, etc. The major areas of investment are financial market, which is where our major emphasis is laid.

However, some of the reasons why people invest are outlined below (Markowitz, 1975):

1. **Savings:** Investment in shares avails you the opportunity to save your income in assets that have high degree of security earning that could have otherwise been spent in consumption.
2. **Asset ownership:** Just like the way you acquire and own land, building and motor vehicle, expensive jewelries which are your assets is the way you own your assets in the money and capital assets (Mordi, 1987).
3. **Dividend:** As part owner of the company, you are entitled to a dividend, this is the cash reward made by a company to its owners out of the profit made at the end of the financial year. It is usually declare at the annual general meeting.
4. **Bonus Issues:** This is similar to dividend but it does not involve cash payment when a company gives shares, it means that every shareholder is entitled to additional free shares.
5. **Right Issues:** Okezie (1998) asserted that this is a little but different from bonus issues. When a company does right issue, you as an existing shareholder will require paying for the shares allotted to you based on the units of shares you have. You have option of taking up the right (Fama, 1965).
6. **Liquidity:** Shares traded on the Nigerian Stock Exchange have high degree of liquidity in that the investor have access to the continuous market on the share provided by the exchange.
7. **Capital Appreciation:** Shares of noted companies are being traded everyday in the Nigerian Capital Market and the Stock prices are always associated to random walk hypothesis according to Fama and Markowitz (1965).
8. **Collateral:** You can use your share certificate as collateral or security in borrowing money from the bank. Shares can also be transferred to another either temporally or permanently. Other reasons is that you may be appointed as a director and also have membership right to control investment in the capital market is of great importance in economic development of the nation (Orjih, 1998).

Factors Considered before Investing

Some of the factors considered in investment are:

1. **Best use for your money:** The most important factors to consider if it is the right time for you to invest is to look at the best use of your money. For examples, wouldn't it make more sense to pay your debt? The money you are spending on the interest of

your high credit card debt may be higher than what you might earn when you invest. For example, it makes sense to pa of what credit card debt that is costing you 20% per year, before investing on mutual fund or stocks where you realistically expected to earn 10% or less.

2. **Insurance Policy:** You should protect yourself from the financial catastrophes that could wipe out all your investments, or worse, put you into a big burden of debt when they happen. This can be done by buying insurance before investing. First of all, make sure that you have adequate health insurance, to protect your money against the high cost of being treated for health problems. Disability insurance is also a good idea because a disability can wipe out your savings very fast.
3. **Your objective for investment:** A factor that determines where to invest your money is our objective for investing. You may want to hopefully grow your money fast and you do not care if you risk it because you have more time to pick yourself up and recover from a downturn. Or your goal is just to preserve your capital in the safest way because you will need your money soon, and it is important that it does not lose in value.
4. **Your Age:** A factor you should consider to determine where to put your investment and how much to invest is your age. In investing, being young has an advantage. You are able to wait a longer time for your investment to bear fruit while young, you are also more secure, you do not have a lot of responsibilities, you have more disposable income and you can pick yourself up easily when you make mistakes. Therefore, when you are young, you can get into investments that are riskier but can potentially earn above average earnings. Another advantage of being young is that you have more time for compound interest to work for you. Compound interest is earning interest on your investment as well as principal, and this makes your money grow at a faster rate over time. If you are young, it is not very important to put in a lot of money for investment. If you have long term goal such as retirement, you should also put your money in a relative safe investment, so there is very little risk of losing much of it by the time you retire.
5. **Time before you need money:** Not everyone invests to relative, some investment have shorter goals. Therefore, another factor to determine where to invest is the time you have before turning your investment into cash. The longer you can stay invested, the more you can take risk (and hopefully get more gain) since you can still recover from any potential loss. If you do not have a lot of time and taking a loss would be disastrous to your plan, then its best to stick to less risky investments like bonds. Also, consider that some investments will cost you charges or penalties if surrendered or redeemed before a holding period. If this is a retirement, make sure that that you do not need the money before the prescribed redemption period. You should also consider the tax implications of withdrawing your investment.
6. **Risk tolerance:** As a general rule, the higher the risk of an investment, the more potential for higher return. However, not everyone can take risks with their money over a certain level. Not everyone is comfortable with the ups and downs of the stock markets. For example, you may be so averse to risk your money that a potential higher rate of return may not be worth the stress and your losing sleep. If your personality is

one who can accept money for the possibility off getting much more profit on our investment, chose aggressive investments such as growth stocks. But if you are the more conservative type, choose the relative safety of bonds.

Various Risks that Arises in Investment

Some of the risks of investment are as follows:

1. **Inflationary Risk:** This is also known as purchasing power risk. Inflationary risk is that chances that the value o an asset or income will be eroded as inflation shrinks the value of a country's currency. In other words, it is the right that future inflation will cause the purchasing power of cash flow from an investment to decline. The best way to fight this type of risk is through appreciable investment, such as stocks or convertible bonds, which have a growth component that stays ahead of inflation over the long-term (Anyafo; 1999).
2. **Liquidity Risk:** This refers to the probability that an investor may not be able to buy or sell an investment as and when desired or in sufficient quantities because opportunities are limited. A good example of liquidity risk is selling real estate.
3. **Interest Rate Risk:** This is a probability that a fixed rate debt instrument will decline in value as a result of a risk in interest rates. Whenever investors buy securities that offer a fixed rate of return, they are exposing themselves to interest rate risk.
4. **Business Risk:** This is the measure of risk associated with particular security. It is also known as unsystematic risk and refers to the risk associated with a specific issuer of a security. Generally speaking, all business in the same industry has the same type of business risk. But the possibility that the issuer of a stock or a bond may go bankrupt or be unable to pay the interest or principal in the case of bonds. A common way to avoid unsystematic risk is to diversify—that is to buy mutual funds, which hold securities of many different companies.
5. **Credit Risk:** Credit risk refers to the probability that a particular band issuer will not be able to make expected interest rate payment and (or principal repayment. Typically, the higher the credit risk, the higher the interest rate on the bond. (Donald, 1992).
6. **Taxability Risk:** This applies to municipal bond offerings and refers to the risk that a security that was issued with tax-exempt status could potentially loss that status prior to maturity. Since municipal bonds carry a lower interest rate than fully taxable bonds, the bondholders would end up with a lower after-tax yield than originally planned.
7. **Currency/Exchange Rate Risk:** Currency or exchange rate risk is a form of risk that arises from the change in price of one currency against another. The constant fluctuations in foreign currency in which an investment is dominated vis-à-vis one's home country may add risk to the value of security.
8. **Social/Political Risk:** These are risks associations with the probability of nationalization, unfavorable government action or social change resulting in a loss of value is called social or political risk because the US congress has the power to change laws affecting securities, any ruling that results in adverse consequences is also known as legislative risk.

9. **Call Risk:** This is specific to bond issues and refer to the probability that a debt security will be called prior to maturity. Call risk usually goes hand in hand with reinvestment risk because the bondholder must find an investment that provides the same level of income for equal risk. Call risk is most important prevalent when interest rates are falling, as companies trying to save money will usually redeem band issues with higher coupons and replace them on bond market with issues with lower interest rates. In a declining interest rate environment, the investor is usually forced to take on more risk in order to replace the same income scream.

Concept and Analysis of Project Life Cycle
According to Richards (2003), project life cycle refers to a sequence of events that must occur to complete a project or reach a goal. In other words, project life cycle is the stage a project goes through from start to finish is considered its life cycle. Regardless of the size or scope of a project, it will go through a series of stages. Identification of each stage is beneficial to a team because it helps members plan, gather resources, measure and evaluate the current and future activities of a project.

Project life cycle is the period that it takes a project to recover its value or objectives (Onwe, 2012).

Stages of Project Life Cycle
Seven-stage process through which practically every major project goes through:

1. **Identification Stage:** Stage where one project idea out of several alternatives is chosen and defined.
2. **Preparation Stage:** In preparation stage, defined idea is carefully developed to the appraisal stage.
3. **Appraisal Stage:** Every aspect of the project idea is subject to systematic and comprehensive evaluation and a project plan is prepared.
4. **Presentation Stage:** In this stage, detailed plan is submitted for approval and financing to the appropriate entities.
5. **Implementation Stage:** With necessary approvals and financing in place, the project plan is implemented.
6. **Monitoring Stage:** at every stage, the progress of the project is assessed against the plan.
7. **Evaluation Stage:** Upon the completion, the project is reassessed in terms of its efficiency and performance.

Roles of Project
According to Foote and Shannon (1995), the roles or importance of project are as follows:

1. Careful planning at the outset, as well as during the project, can help to avoid costly mistakes.
2. It also provides assurance that a GIS will accomplish it goals on schedule and within budget.
3. Problem solving: lifecycle planning is really a process of practical problem solving applied to aspects of a GIS development project.
4. Well planned and execution of project enhances achievement of objectives

Conclusion

Life is at risk as well as man's activities are at risk. Investment should be well established to minimize the risks arising in the course of investing. Conclusion was drawn that any organization or establishment that wants to progress should adhere to risk management department and make provisions for tackling such risks exposure. And that the stages of project should be implemented to enhance economic development of the country.

Recommendations

Based on the above findings, the following recommendations were made:

1. Government should once in a while organize seminars and orient investors on the procedures of investment to minimize risk exposure.
2. There should be critical planning of project before embarking on it.
3. Contingency fund should be opened by investors for management of their risks
4. The foundation of project should be properly laid to minimize risks that might arise therefore and to enhance maximum outcome.

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