

SMALL AND MEDIUM SCALE INDUSTRIES AND ECONOMIC DEVELOPMENT IN NIGERIA

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ABSTRACT

The paper was meant to examine the role of small and medium scale industries as a means of economic development with particular reference to Nigeria, and the challenges that hinders its capacity to contribute to sustainable economic development, with a view to proffering solutions. The findings of this paper revealed the following challenges among others - inadequate and inefficient infrastructural facilities which tend to escalate costs of operation as SMIs are forced to resort to private provisioning of utilities such as road, water, electricity, among others; and lack of adequate credit for SMIs, traceable to the reluctance of banks to extend credit to them due to poor documentation of project proposals as well as inadequate collateral by SMIs operators. It is suggested that Government should necessitate a policy re-direction aimed at promoting SMIs with a view to achieving not only rapid industrialization but also to making them competitive in a global economy. In spite of the highlighted challenges, SMIs remain critical to development which no country can ignore. SMIs should be developed alongside other sectors of the economy, as this will enhance their roles in the development process. Government as a matter of urgency, should prioritize the SMI sector giving it devoted practical and visible attention with a view to make it virile, focused and productive. The era of lip service attention to the sector should be done away with.

Keywords: *Small and Medium Scale Industries, Economic Development, Economic Growth, and Industrialization.*

Introduction:

Small and Medium Scale Industries (SMIs) have been accepted worldwide as instrument of economic growth and development. The role of the (SMIs) in the development and sustainability of a national economy is quite obvious as seen in the developed economies in Europe, Asia and North America (Loveman and Sengenberger, 1990). The relative importance of small and medium scale industries in advanced and developing countries has led and would continue to lead to a reconsideration of the role of Small and Medium Scale Industries in the economy of nations. The development of many nations is often measured by such indices as the level of industrialization, modernization, urbanization, gainful and meaningful employment for all those who are able and willing to work, income per capital, equitable distribution of income, and the welfare and quality of life enjoyed by

the citizenry. Therefore, promotion of such industries in developing economies like Nigeria is of paramount importance since it brings about a great distribution of income and wealth, economic self-dependence, entrepreneurial development, employment and a host of other positive, economic uplifting factors (Aremu, 2004). In spite of all government's effort to nurture the SMIs sector as well as to ensure its growth and survival, the sector has still not been able to find its feet. This situation is more disturbing and worrying when compared with what other developing and developed countries have been able to achieve with their SMIs. More importantly, with the recent global economic downturn and the current wave of oil theft, in addition to the dwindling international oil prize, Nigeria has no option than to necessitate a policy re-direction aimed at promoting SMIs with a view to achieving not only rapid industrialization but also to making them competitive in a global economy. The

objective of this paper is to examine the role of small and medium scale industries as a means of economic development with particular reference to Nigeria, and the challenges that hinders its capacity to contribute to sustainable economic development, with a view to proffering solutions.

Definition of Small and Medium Scale Industries in Nigeria:

Attempt to define Small and Medium Industries (SMIs) to suit particular circumstances, individuals, institutions, and government have adopted several classifications. Hence, in the literature, the definition of Small and Medium Scale Industries (SMIs) is not static; it varies from sectors to sectors, country to country, and region to region. SMIs are usually determined by various quantitative parameters, which include the number of employees, capital investment outlay, size of the plant capacity, sophistication of the equipment, sales turnover, profit margin and perhaps market share (Oshagbemi, 1983 and Owualah, 2000). In Nigeria, existing official definitions are somewhat divergent, however, this paper prefer the current national definition of SMIs as adopted at the National Council on Industry (NCI) in 1996 and cited by the Central Bank of Nigeria (CBN, 1997), which classify small scale industries as those with total cost, including working capital but excluding cost of land above N1.0 million, but not exceeding N40.0 million with a labour size of between 11 and 35 workers. On the other hand, Medium scale industries are defined as those with total cost, including capital but excluding cost of land above N40.0 million but not exceeding N150.0 million with a labour size of between 36 and 100 workers.

Government efforts at promoting Small and Medium Scale Industries in Nigeria:

In recognition of small and medium scale industries (SMIs) substantial contribution to the country's economy, the strategies and initiatives to promote SMI development features prominently in most of the government's economic development plan over the years, with a view to nurturing further growth in the sector. The efforts of the government at promoting the development of SMIs over the years and till date are mainly in the areas of developing monetary, fiscal and industrial policies and measures. This has led to the establishment of various schemes and institutions like: Small Scale Industries Scheme (1971); Agricultural Credit Guarantee Scheme (1973); Nigeria Agricultural and Co-operative Bank (1973); Nigerian Bank for Commerce and Industry (1973); Small National Economic Reconstruction Fund (1989); and Medium Scale Enterprises Loan Scheme (1992); and Family Economic Advancement Program (1997). Others are Bank of Industry (BOI) which is the outcome of the

merged of Nigerian Bank for Commerce and Industries and Nigerian Industrial Development Bank; and Fiscal incentives, which consist of tax holidays under the pioneer industries scheme, accelerated depreciation, duty draw back scheme, duty exemption and tariff protection for the domestic market. One of the newest initiatives is the Small and Medium Industries Equity Investment Scheme (SMIEIS). This was initiated by the Central bank of Nigeria as a means of providing long-term finances and professional guidance through participating Nigerian banks that commits 10 percent of their annual pre-tax profits to equity investment in the SMIs.

Economic Development in Nigeria:

The term economic development is one that cannot be understood in isolation of another term economic growth. Economic growth is a narrower concept than economic development. It is an increase in a country's real level of national output which can be caused by an increase in the quality of resources, increase in the quantity of resources and improvements in technology or in another way an increase in the value of goods and services produced by every sector of the economy. Economic growth can be measured by an increase in a country's Gross Domestic Product (GDP). On the other hand, economic development is a normative concept, that is, it applies in the context of people's sense of morality (right or wrong, good or bad). Todaro and Smith (2011) defined economic development as an increase in living standards, improvement in self-esteem needs and freedom from oppression as well as a greater choice. The most accurate method of measuring development is the Human Development Index (HDI) which takes into account the literacy rates and life expectancy which affects productivity and could lead to economic growth. Thus, economic development will involve the development of the different sectors of an economy including technology, manifesting itself as a process of increasing the choices available to individuals through better education, training, health nutrition and gainful employment (Onwumere and Ige, 2000). Nigeria has great potentials for economic growth and development, given her vast natural resources in agricultural lands and minerals, as well as abundant manpower. In the last two decades, economic growth rate has been very low and in many years less than the population growth rate. The general macroeconomic outcome has been poor, resulting to high poverty level (Wikipedia, 2010). Gross Domestic Product (GDP) per capita of Nigeria expanded 132% in the 60s reaching a peak growth of 283% in the 70s. But this proved unsustainable and it consequently shrank by 66% in the 80s. In the 90s, diversification initiatives finally took effect and decadal growth was restored to 10%. Due to inflation, per capita GDP today remains lower than in 1960 when Nigeria gained independence. About 57% of

Table 2: Nigeria-Performance of the Economy, 2000-2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Real GDP Growth (%)	3.8	3.5	3.5	3	7.1	6.2	6.9	5.3	6.4	5.3	6.8
Population Growth (%)	2.67	2.61	2.54	2.53	2.45	2.37	2.38	2.379	2.025	1.99	2.0
Unemployment Rates (%)	3.6	28.0	28.0	28.0	28.0	4.9	2.90	5.80	4.9	4.9	4.9
Manufacturing Capacity Utilization	36.1	42.7	54.9	56.06	55.7	55.88	53.3	54.6	NA	NA	NA
Inflation Rate (%)	6.9	16.6	12.9	14.20	13.80	16.50	13.50	10.50	5.40	11.60	11.50

Source: The Central Bank of Nigeria, 2000-2010

the population lives on less than US\$1 per day. In 2005 the GDP real growth was 6.90% composed of the following sectors: agriculture, 26.8%; industry 48.8% and services 24.4%. Compare to 2009 GDP of 3.80%, composed of agriculture, 33.4 %; industry 34.1%; and services, 32.5% (CIA World Fact Book, 2010).

The low growth rate deals with downsizing of the industrial sector in Nigeria. One factor that impacted negatively on growth was high lending interest rates which promoted savings, but discouraged the flow of credit and investments to the real sector. Another economic phenomenon that affected growth was large budget deficits that were financed by the banking sector. Deficit/GDP ratio averaged 4-7% in the last decade. The high level deficit financing meant that the bulk of credit available to the economy was diverted to funding government, thus crowding out the private sector in the credit market. The most serious problem was inflationary pressure that devalued the currency and induced uncertainty that made entrepreneurs to postpone investment decisions. Inflation promoted the diversion of resources from productive to speculative activities with serious consequences for employment and growth (United Nations, 2003). The following are the most recent data on the growth rates of major sectors in Nigeria for period 2008-2009.

Table 1: Growth Rates of Major Sectors in Nigeria, 2009

Sector	2008%	2009%
Agriculture	6.3	6.2
Mining & Quarrying	-5.9	-1.0
Manufacturing	8.9	8.5
Electricity, Gas & Water	4.0	3.6
Construction	13.1	12.9
Wholesale & Retail Trade, Restaurants, Hotels	14.0	11.6
Finance, Insurance, Real Estate, etc	6.8	6.4
Transport & Communications	19.3	20.9
Public Administration & Defense	4.4	4.5
Other Services	10.3	10.0

Source: African Statistical Yearbook 2010 by African Development Bank

Table 2 below gives more insights into the nation’s economic performance from 2000-2010. The real

GDP in 2000, 2001, 2004, 2007 and 2009 were 3.8, 3.5, 7.1 and 5.3 respectively. This indicates a zigzag and inconsistent economic growth in Nigeria. The dividend of real GDP growth even when there is an increase has not been judiciously used for sustainable economic programme like entrepreneurship development and small business promotion. Consequently, the capacity utilization of the economy from 2000 to 2009 fluctuated between 36% and 50%. This has been blamed largely on frequent power outages, multiple taxes and other challenges to entrepreneurship development (BEEPS, 2007).

Small and Medium Scale Industries and Economic Development in Nigeria:

The roles small and medium scale industries (SMIs) play in the process of economic development are many and varied. Specifically, the SMIs can help in the achievement of the following economic development objectives:

Employment Generation: Globally, employment generation is one of the most important reasons for promoting the development of SMIs. In Nigeria, SMIs sub-sector has been expanding, especially since the mid-1980s following the prolonged recession in the economy which forced many large enterprises to lay off large proportions of their workforce. The sector accounts for about 70 percent of industrial employment (World Bank, 1995).

Output Expansion:In many middle-income economies SMIs contribute substantially to the national output. In India for example, the small-scale industry sub-sector alone excluding medium enterprise accounted for 40 percent of total industrial output and 35 percent of total exports in 1998. In Nigeria, however, the output of the sector is low.

Utilization of Local Resources: SMIs are known for their creativity in the utilization of local raw materials that do not require high-level technology to process. In Nigeria for instance, SMIs are concentrated in such enterprises as food processing, textiles, wood works, leather products, soap and detergent sub-sector that require simple technology and the raw material are in abundance.

Increase in revenue base of Government: Through various forms of taxes, including personal and

company income taxes, SMIs contribute to increasing government revenues.

Promoting Entrepreneurship Development: SMIs are a seedbed for entrepreneurship development, innovation and risk-taking behavior and provide the foundation for long-term growth dynamics and the transition towards larger enterprises.

Promotion of even development and reduction of income disparities: The promotion of SMIs development aids the dispersal and diversification of economic activities, and induces even development in a country or region. This is because SMIs need relative small seed capital to start operations and their materials are widely dispersed in most countries. In addition, their processing technologies and management styles are simple, making investment in the sector affordable to the ordinary people in the society.

Small and Medium Scale Industries and Economic Development in Nigeria: Challenges:

Despite the recognized numerous roles of small and medium scale industries (SMIs), its contribution to the overall economic development of Nigeria over the years has remained low. The main reasons for the low contribution of the sector could be attributed to various challenges being faced by SMIs. The challenges of SMIs in Nigeria are enormous and ranges from:

1. Inadequate and inefficient infrastructural facilities which tend to escalate costs of operation as SMIs are forced to resort to private provisioning of utilities such as road, water, electricity, among others;
2. Lack of adequate credit for SMIs, traceable to the reluctance of banks to extend credit to them due to poor documentation of project proposals as well as inadequate collateral by SMIs operators;
3. Bureaucratic bottlenecks and inefficiency in the administration of incentives which discourage rather than promote SMIs growth;
4. Weak demand for products, arising from low and dwindling consumer purchasing power;
5. Lack of patronage for locally produced goods by those in authority;
6. Many promoters of SMIs demonstrate outright ignorance on the difference between loans and equity;
7. Incidence of multiplicity of regulatory agencies and taxes which has always resulted in high cost of doing business, poor management practices and low entrepreneurial skill arising from inadequate educational and technical background on the part of many of the SMIs promoters;
8. Many entrepreneurs lack requisite knowledge of their chosen field of endeavour and are most

unwilling to expand shareholding for reasons of dilution of ownership and control;

9. Business proposals are usually over-bloated to attract the investing public. SMI promoters believe the higher the size of the business plans, the higher the chances of attracting interested investors; and
10. Finally, in most instances, formal management structures are usually not in place. The owner usually undertakes different functions in the enterprise with little or no support.

Way Forward:

The small and medium scale industries (SMIs) provide great prospect for sustainable economic development. They can be valuable agents to initiate growth in employment through the development of modern efficient enterprises. They can also serve as instruments for achieving poverty alleviation because they are largely labour intensive. They similarly have tremendous potential in the expansion of non-oil exports. However, these can only be achieved if future policy focus seeks to address:

- Inadequate and deteriorated state of infrastructures, such as roads, telecommunications, electricity and security;
- Cumbersome regulatory environment, through further streamlining and simplification of regulatory procedures;
- Entrepreneurial development through intensive, non-formal training of existing and prospective SMIs promoters' programmes;
- Improved production processes and quality control to meet exports standard;
- The need to sustain, multiply and strengthen the linkages between small and large scale industries, particularly through subcontracting; and
- The need for Government to consolidate its efforts in industrial development centers.

Conclusion:

In spite of the highlighted challenges, small and medium scale industries (SMIs) remain critical to development which no country can ignore. With the dismantling of trade and other barriers, the world has been transformed into a global village. Consequently, SMIs in developing countries are struggling to survive under intense competitive environments both domestic and international. In developing countries like Nigeria, there is an urgent need to provide the required enabling environment for the development of SMIs, so that they could adequately play the role expected of them in economic transformation. Such role includes mobilization of domestic savings for investment, appreciable contribution to gross domestic product, increased harnessing of local raw materials, employment generation, and significant contribution

of poverty reduction efforts through sustainable livelihoods and enhancement on personal income, technological development and export diversification. This will be made possible through a responsive industrial policy and government's overall economic development strategies that will ensure the collaboration of all development partners and the effective co-ordination and utilization of economic resources. Government as a matter of urgency, should prioritize the SMI sector giving it devoted practical and visible attention with a view to make it virile, focused and productive. The era of lip service attention to the sector should be done away with.

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