# Prospects for Small-scale Industries Development Under a Structural Adjustment Program: The Case of Nigeria

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*Résumé: Cette étude met en exergue la necessité de mettre en place, dans les Pays les Moins Développés, de Petites Industries (PI), dans le cadre du processus de développement industriel. Cependant, avec les Programmes d'Ajustement Structurel soutenus par le FMI/la Banque Mondiale, la viabilité des petites industries est mise en doute, et ce, en grande partie parce que les propriétaires de ces entreprises ont peu de compétences en matière technique, financière et de gestion. Un des éléments qui limite également leur capacité est le fait qu'ils n'aient pas accès aux facilités de crédit. Il est proposé que les petites entreprises soient élargies aux secteurs ruraux.*

## Introduction

The promotion of small-scale industries (SSI) is a well recognized and much heralded strategy of industrial development in many currently less developed countries. There is wide consensus among development economists that small-scale labour-intensive industries can enhance employment generation as well as advance a wide variety of other development goals like improved income distribution, the generation and diffusion of local technology and industrial skills, increased utilization of local resources, improve spatial distribution of industrial activity and hence the mitigation of rural-urban population movements, etc. The issues of employment generation and rural-urban migration have become particularly important with the worsening urban crisis in many LDCs.

In Nigeria and other African countries, SSIs have been promoted by a variety of interventionist measures designed to counter-act perceived distortions in the policy environment as well as capital market imperfections that lead to sub-optimal levels of investment in SSIs[1]. A question thus arises as to how SSIs are likely to fare in the type of anti-interventionist environment which the International Monetary Fund and the World Bank have sought to promote through structural adjustment programs prescribed for an increasing number of African and other Third World countries which

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1 See, e.g. Page & Steel (1984).

have found themselves in the throes of acute economic crisis. On *a priori* grounds, it can of course be argued that the general liberalization thrust of the market - and outward-oriented policies of the typical Structural Adjustment Program (SAP) will in the long-run favour the SSIs whose products are expected to have a comparative advantage in African economies, endowed as they are with relative abundance of unskilled and semi-skilled labour, and operating with simple technologies.

On the other hand, however, it can also be wondered whether SSIs will not in the meantime be buried in the face of the generalized demand restraint and other harsh economic feature that characterize IMF and World Bank conditionality programs. It is clear therefore that the question raised about the prospects of SSIs in a structural adjustment program is ultimately an empirical one, which can only be resolved for each individual country in the light of the particular conditions prevailing there.

In December 1985 Nigeria expressly rejected an IMF stand-by facility. However, following the collapse of the international oil market in January 1986 which accelerated the rapid decline of her external payments position, protracted negotiations with the Paris and London Clubs of creditors, and close consultations with the World Bank, the country in June 1986 adopted a SAP to run from July 1986 to June 1988. Since the promotion of SSIs has been a recurrent theme in Nigeria's development planning effort right from the colonial Development and Welfare Plan of 1946, it is hardly surprising that one of the main industrial objectives stipulated for the manufacturing sector under the SAP is "generating employment through the encouragement of private sector small and medium-scale industries".

In World Bank assisted SAPs, the usual procedure is for all the adjustment policies to be put in place within a period of about eighteen to twenty-four months, although actual adjustment in expected to be realized over a period of up to five years (C. F. Killick et al (1984), p. 278). Following this procedure it would mean that although all the adjustment policies agreed by Nigeria with the World Bank would have to be installed within the twenty-four month period ending in June 1988, it would be another three years or so thereafter before the economy is expected to fully adjust to those policies. This means that for Nigeria, it will still be quite a few more years into the future before historical data become available of the type required to test in a systematic and rigorous manner the effect of structural adjustment policies on SSIs. Consequently, what will be attempted in this paper are (a) to examine Nigeria's SAP with a view to determining the extent to which the relevant industrial policies embodied therein conform to what may be considered "typical" World Bank/IMF adjustment programs; and (b) to analyze the likely impact of these policies on the country's SSIs, given the known characteristics of the latter.

We shall begin by looking at the available information on the structure and characteristics of Nigeria's small-scale industries.

### Small Scale Industries in Nigeria

Small-scale industries were officially defined in Nigeria in the early 1970s as manufacturing or service establishments employing less than fifty persons and with fixed investment in plant and equipment less than ₦60,000 (See Iwuji and Okorafor (1975, 1976) and Aluko et al (1972). (However, the ceiling in terms of the level of capitalization has been adjusted over the years to a value of ₦2000,000 currently). In the Nigerian context, the term "small-scale industries", as a sub-category of the larger population of small-scale enterprises (SSE), usually refers to activities involving manufacturing and repairs, including traditional or "cottage" crafts, but excluding construction, transportation, retail trading, distribution and other commercial activities.

### Structure, Growth and Characteristics

Surveys of SSIs in the early 1970s covering mainly the Eastern (Iwuji and Okorafor 1975, 1976) and the Western (Aluko et al, 1972) states of Nigeria show that a greater number of these establishments tend to be service-oriented rather than prime manufacturing units. Tailoring alone accounted for a ratio of total number of establishments ranging from 27% in the former Benue-Plateau state to 52% in the former Western State. Other important activities in terms of proportion of total establishments include carpentry and Wood-work, Motor and Bicycle repairing, and Show-making. However, as Aluko et al, (1972, p. xi) have noted, the large number of electrical works, blacksmithing and other metal-working outfits identified is a promising sign since these, "it consistently encouraged can become the basis of local industrialization".

The surveys also noted the relatively small level of capitalization of the SSIs, with up to 80% having an initial investment of not more than ₦500. Although the responding units were generally reluctant to provide information on their current financial worth, there appeared to be a tendency for the level of capitalization to grow significantly over time. In virtually all the states surveyed, the over-whelming number of SSIs were sole proprietorships, though a few partnerships and co-operatives were occasionally observed. Over 90% of SSIs obtained their start-up capital from personal savings. The next most important source of capital was close relatives. Generally, less than 5% of initial investment capital came from either the government, commercial banks, or co-operatives. Personal funds had usually been saved up from agricultural activities, petty-trading or paid employment.

A more recent survey in 1983/84 by the National Institute for Social and Economic Research (NISER) covering all the nineteen states of the federation suggests that the structure of SSIs in the country has not changed much over the year[1].

As in most other African countries and some other Third World countries, SSIs in Nigeria have been found to account for the bulk of employment in the manufacturing sector, but have performed poorly in terms of contribution to total manufacturing output (See e.g. Page and Steel (1984) and Pernia & Pernia (1986). Estimate for the early 1970s in respect of employment ratio range from over 70% of industrial labour[2] to 85% of manufacturing employment (Page (1979). No estimates are available for more recent years. However, the fact that SSIs as a whole are estimated to have grown at an annual rate of 32% between 1974 and 1978 (FRN 1981, p. 146), and the fact that the average number of persons employed per manufacturing SSE is estimated to have grown from three in the early 1970s to five in 1984 (Osoba, 1985, p. 15) are suggestive of the continued high employment potential of SSIs.

With regard to output, the Fourth National Development Plan (1980-85) gave the average annual share of SSIs in total manufacturing value-added as 8.6% between 1974 and 1978, while a Federal Office of Statistics estimate put their annual contribution to GDP at less than 1% prior to 1981[3]. The figure in respect of contribution to total manufacturing value-added may be an underestimate arising from the well-known difficulty of obtaining accurate data from small, informal sector enterprises which usually tend to greatly understate their incomes for fear of taxation. Still the low value-added figure may reflect the relative preponderance of service-type activities and is indicative of the backwardness of SSIs in production relative to medium and large scale industries (Cf. Pernia & Pernia (1986, p. 638).

A further indication of the production backwardness of SSIs vis-a-vis large-scale industries (LSI) are the figures below of the value of output per capita in food-processing and textiles (Osoba, 1985, p. 14).

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1 Osoba, A.M. (1985), "Development of small-scale industries strategy in the fifth Nigerian National Development Plan". Paper presented at the 1985 Conference of the Nigerian Economic Society, Lagos.

2 Estimate by the Industrial Research Unit, University of Ife, based on the former Western and Mid-West States, Kwara State and Lagos State; cited in Osoba (1985).

3 Federal Office of Statistics' estimate cited in Osoba (1985).

**Value of Output per Capital**

| | Food Processing | Textiles |
|---|---|---|
| SSIs (1983/84) | N2,142 | N 6,902 |
| LSIs (1978) | N5,566 | N28,909 |

Data are not available for any meaningful comparison of SSIs and LSIs in terms of total factor productivity.

Despite the comparatively poor performance of SSIs in terms of contribution to total manufacturing value-added, there is evidence that the ratio of value-added to gross output is higher in small enterprises than in larger ones.. For 1978, the ratio was estimated at 53% for manufacturing SSEs as compared to 45% for medium and large-scale enterprises (Osoba 1985, p. 14). This is hardly surprising since many SSIs are largely local resource based, e.g. furniture-making, food processing, garment making, and leather goods manufacture. There is evidence that the advantage of SSIs in this regard has been increasing over time. For example, the NISER survey shows that many enterprises in food and beverage had attained a zero level of import dependence for raw materials by 1983. For the industry group as a whole, imports were no more than 30% of total input requirements, and consisted mainly of equipment and chemicals[5].

**Measures for promotion**

According to the Third National Development Plan (1975-80), the main objectives of the Government program for the development of small-scale industries are the creation of employment opportunities, mobilization of local resources, mitigation of rural-urban migration, and more even distribution of industrial enterprises to different parts of the country. These objectives were to be achieved through suitable incentives designed to give complementary assistance in financial, management and technical aspects of business and the "main vehicles" for administering the incentives were to be the Industrial Development Centers (IDC) and the small-scale Industries Credit Schemes in the various states of the federation (FRN 1975, p. 153).

In the Second National Development Plan (1970-74), the Federal government had taken over the two pre-existing Industrial Development Centers, added a third, and specifically charged all three to:

a) Appraise loan applications

b) Provide industrial extension services

c) Train entrepreneurs and staff; and

5 Ibid..

d) Undertake applied research into industrial products, involving the design of products for small-scale industries and management training (FRN 1970, p. 146).

The Small-Scale Credit Scheme had also been created in the Second Plan primarily as a means of providing Federal matching grants to funds made available by state governments for on-ward lending to small businesses on soft terms. Actually, the use of concessional loans as a major tool for promoting SSIs goes back to the First (1962-68) Plan when a federal loans board was created for the purpose.

Concern with the problems small businesses could have with the marketing of their products had been shown by government as far back as the pre-independence era. The Ten-Year Plan of Development and Welfare for Nigeria approved by the colonial Legislative Council in 1946 had created the Nigeria Local Development Board for the promotion and development of village crafts and industries, and the industrial development of the products of Nigeria. To assist these small industries with the disposal of their products, the plan established the Department of Commerce and Industries, which was to be the forerunner of the Federal Ministry of Commerce and Industries. It was within this same ministry that a Small-Scale Industries Division was established in the Second Plan to over-see the activities of the IDCs and the operation of the Credit Schemes.

To what extent can the above promotional measures enunciated by various plan documents be said to have actually aided the growth and development of SSIs? Not much evidence is available on this for the pre-independence era. As to the period commencing with the First Plan, most observers would agree that the implementation of the scheme to aid small businesses with subsidized loans has been a resounding failure. Here, for instance is what the Second Plan document says about the Federal Loans Board set up in the First Plan to provide modest loans to small businessmen:

> *The scheme flopped because loans were granted in most cases on political rather than commercial considerations. What was supposed to be a revolving fund designed to benefit as many small-scale businessmen as possible ended up as a bonanza for a few; and it become virtually impossible to recover most of the loans (FRN 1970, p. 141).*

But unfortunately, the bold and potentially far-reaching schemes enunciated in the Second Plan itself did not fare much better. The Small-Scale Industries Division of the Federal Ministry of Industries was able to push ahead with the over-haul and expansion of the IDCs which by the Third Plan period bad reached a total of thirteen; and to put in place in the states the Small-Scale Industries Credit Schemes. However, it would appear that the only concrete achievement recorded by way of executing the earlier mentioned functions decreed for the IDCs was the commissioning of the two sets of surveys of SSIs in the early 1970s for the Eastern and Western States; which surveys were actually carried out by the Universities of Nigeria and Ife respectively, with some funding assistance from UNDP/UNIDO. Not much else could be done because,

> *... the development Centers were not endowed with adequate manpower to carry out technical appraisal of applications for loans from surging applicants, nor were they able to provide industrial extension services to the numerous small-scale enterprises. They were also ill-equipped (with regard to the) training of entrepreneurs and staff as well as applied research into products for SSEs. (Osoba 1985, p. 7).*

As regard the Credit Schemes, the familiar problems of administering such programs also dogged the new institution. Given the technical limitations of the IDCs in effectively and promptly appraising loan applications, many such applications were delayed to the point where the intended projects became unviable. And much of the loans actually given out either went to the wrong applicants or were applied to the wrong purposes. The program came to an end in 1976/77 when, following what was considered an unacceptably high rate of loan default, the Federal government ceased to give any further matching grants to the states. This notwithstanding, the Fourth Development Plan (1981-85) was still to state that:

> *During the plan period, small-scale industries will receive special encouragement by way of loans, provision of infrastructure and extension services as well as other incentives for the growth of this important sub-sector. (FRN 1981, p. 146, emphasis added).*

It was further stated that the Nigerian Bank for Commerce and Industries, a parastatal organization which for all practical purposes is not unlike the defunct IDCs and credit Schemes of the Second Plan, "will be more involved in the administration of the small-scale industries program".

### The Urban Crisis in Nigeria

By the mid-1970s, rural-urban population drift and the resulting increase in urban unemployment had started to become issues of public concern in Nigeria. Thus it was not surprising that the Third Development Plan (1975-80), launched in the midst of the seeming prosperity of the oil boom, explicitly mentioned employment generation and the mitigation of rural-urban migration as objectives to be pursued through SSI promotion.

It is generally accepted that the problem of rural-urban migration in LDCs tends to be aggravated by public policies, especially investment policies, that widen the rural-urban differential in terms of incomes, social amenities, and economic opportunities generally. It is also recognized that this situation tends to be self-perpetuating as social investment tends to be further concentrated in the urban areas in an attempt to cope with the social consequences of past increases in urbanization.

In 1950, rural dwellers accounted for an estimated 87% of Nigeria's total population. By 1985, this figure had dropped only to 68%. In spite of this, however, all available data point to the fact that the country's investment resources have continued to be concentrated disproportionately in the urban areas. In the Third Plan, for example, out of a total of about ₦38 million planned for community development, 83% was for the urban areas, as against 17% for the rural sector. The corresponding urban shares for electricity, water supply, education, and industry were 69%, 70%, 71% and 89% respectively (See FRN 1975, Vol. II, Project Summary). By 1972 six cities alone - Lagos, Ibadan, Kano, Port-Harcourt, and Enugu - accounted for about 77% of the country's total employment in manufacturing. By the 1980s, Lagos alone, with one-tenth of Nigeria's urban population and 1% of the total population, was consuming 56% of the telephone services, 46% of generated electricity, and accounted for 38% of the registered automobiles in the country. Also, about 46% of Nigeria's industrial workers were based in Lagos which accounted for about 57% of the country's industrial output (Akor 1986, p. 2).

Table A in the appendix shows some recent estimates of total unemployment (i.e. underemployment plus open unemployment) of the labour force in Nigeria since 1972. It is evident that the total unemployment rate has been in the double digits right from the early 1970s and has grown tremendously since then. From about 11% in the preceding years, there was a noticeable jump to 16% in 1974, the first full year of the 1973/74 oil boom. Following some decline between 1976 and 1978, there was a sharp upturn in 1979 and a rapid acceleration from 1981, the beginning of the world oil recession. By 1983 total unemployment had reached 41% of a labour force of nearly 35 million people. On the assumption that underemployment accounted for about 2/3 of the estimated figures, this meant that open unemployment in 1983 was about 14%, representing nearly 5 million persons.

A remarkable feature of the unemployment of the 1980s in Nigeria has been the emergence of the phenomenon of the "educated unemployed". Whereas in previous decades the unemployed were mostly unskilled persons and youths with primary school education or less, by the mid-1980s the unemployment of university and polytechnic graduates and of other highly skilled persons had become quite common. Although estimates for more recent years are not available, it goes without saying that open unemployment has been growing much worse with the massive labour retrenchments in both the public and private sectors consequent on the severe contractionary policies that came into force with the administration of General Buhari in January 1984. An educated guess is that over 30% of the country's wage employees may have been rendered jobless as a result of these policies. The Nigerian Labour Congress (1984) considered the problem of open unemployment, a largely urban phenomenon, to have exceeded crisis proportions by 1984 when it warned that the situation was leading the country to "civil strife, rebellion, and anarchy".

Most observers would agree that SSIs would have a significant role to play in coping with the burgeoning problem of unemployment and the urban crisis in Nigeria. Already, the so-called informal sector, within which most SSIs would be classified, accounts for an estimated 50% of the urban labour force of a major center like Lagos. Even in the best of times, the rate of growth of industrial employment in the formal sector would have been unable to keep pace with the demand for jobs, let alone in the current period of mass retrenchments[6]. A planned spread of SSIs to the rural areas could be a useful part of a program of integrated rural development aimed at redressing the imbalance in economic opportunities between the rural and urban sectors and redirecting the flow of rural-urban migration. SSIs in the rural sector would be useful in the processing of agricultural commodities and in the fabrication of farm implements as well as inputs like livestock feeds, mixing plants, fertilizers, etc.

## Nigeria's Structural Adjustment Program

It will generally be agreed by most observers that Latin America has proved to be the largest laboratory in which IMF stabilization and World Bank structural adjustment programs have been most extensively tested. According to a recent major symposium on the subject (Edwards and Teitel 1986, p. 426), the main stated objective of these reforms was to transform the countries involved into open, export-oriented economies able to attain higher rates of growth. It was stated that:

> *At least on paper, the policies implemented largely corresponded to what many economists had been advocating for a long time: quantitative restriction to trade were eliminated, tariff levels and dispersion were reduced, interest rate controls in domestic capital markets were abolished, and existing restrictions on international capital movements were lifted*[7].

Of course it goes without saying that large devaluations invariably accompanied the liberalization of trade and exchange regimes.

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6 Recent data from Employment Exchanges show that in Nigeria in 1984, the number of vacancies in registered establishments as a percent of registered applicants stood at 18%, representing a steady decline from the figure of 73% in 1978, (See Fashoyin 1986, p. 4).

7 Ibid.

With specific reference to industrial policy, a recent World Bank country study of Korea has stated that:

*The general structure of incentives is often the most important element of industrial policy.*

The study goes on to add that:

*The consensus among development theorists favors an outward-oriented incentive regime with relatively uniform incentives for different production activities. The case for such a regime rests, in the first place, on the proposition that a country can maximize its income and growth (at world prices) by shifting resources into areas of comparative advantage and later by adjusting this allocation to track changes in comparative advantage. An outward oriented regime also reduces uncertainty about the government's priorities and policy directions. (World Bank 1987, Vol. II, p. 85).*

The study recognized that while recent analyses agree that an outward orientation is conducive to development, there is some controversy regarding the precise implementation of such a policy:

*According to some, it implies low, uniform levels of effective protection, with perhaps some escalation to permit infant industry development in higher stages of assembly and production. Others see a somewhat greater role for selective support for outward oriented infant industries.*

The study concludes, though, that:

*Despite these differences... there is wide consensus that protection ought to be lower and more uniform than is currently the case in Korea as well as in most other developing countries (Ibid, p. 86).*

In the light of the foregoing ideas which underpin the adjustment programs of the Bretton Woods institutions, one is now in a better position to examine the relevant features of Nigeria's own economic reform policies.

Following the formal rejection of an IMF stand-by facility in December 1985, Nigeria announced its own economic recovery program in the 1986 budget that commenced in January 1986.

It was this self-imposed program of economic reforms that was developed into a formal World Bank - and IMF - supported SAP, adopted in June to run from July 1986[8]. However, even before the 1986 budget, the

8 The involvement of these two bodies in the monitoring of the SAP was a precondition for the Paris and London Clubs of creditors accepting to reschedule and refinance the debts and trade arrears owed them by Nigeria. The country, however, still did not take an IMF stand-by facility.

military regimes of General Buhari and General Babangida respectively had taken policy initiatives commencing in 1984 whose stated aims were to improve the efficiency of public administration, restructure expenditure policies, foster financial discipline, reduce the overall fiscal deficit of the Federal and State Governments, cut imports sharply, and eliminate the accumulation of further external arrears" (FRN 1986, p. 4).

The major objectives of the SAP are:

- To restructure and diversify the productive base of the economy in order to reduce dependence on the oil sector and on imports;
- To achieve fiscal and balance of payments viability over the period (i.e. SAP period);
- To lay the basis for a sustainable non-inflationary or minimal inflationary growth;
- To lessen the dominance of unproductive investment in the public sector, improve the sector's efficiency and intensify the growth potential of the private sector.

The main strategies officially enunciated for realizing these objectives include:

- The adoption of a realistic exchange rate policy coupled with the liberalization of the external trade and payments system;
- Adoption of appropriate pricing policies in all sectors *with greater reliance on market forces* and reduction in complex administrative controls; (emphasis added);
- Further rationalization and restructuring of public expenditure and custom tariffs.

With specific reference to the manufacturing sector, the following objectives were stipulated;

- Encouraging the accelerated development and use of local raw materials and intermediate inputs rather than depend on imported ones;
- Development and utilization of local technology;
- Maximizing the growth in value-added of manufacturing production;
- *Promoting export-oriented industries* (emphasis added);
- Generating employment through the encouragement of private sector *small and medium-scale industries* (emphasis added);
- Removing bottlenecks and constraints that hamper industrial development including infrastructural, manpower and administrative deficiencies; and
- Liberalizing controls to facilitate greater indigenous and foreign investment.

Among the policies already being implemented towards these objectives is the rationalization of the tariff structure "designed to *reduce variation in* *effective protection* to local industries" and "in order to ensure that the domestic manufacturing industry does not become excessively protected" (FRN 1986, p. 8: emphasis added).

With the possible exception of the stated desire to increase the degree of back-ward integration of manufacturing activity and encourage the development and use of local technology, all of the above policy measures, both those enunciated in the SAP and those already being implemented before the formal commencement of the SAP, are completely in line with the usual IMF and World Bank stabilization and adjustment prescriptions as evidenced from the Latin American experience cited earlier. The key idea of Liberalizing commodity and factor markets is being systematically implemented with vigour in the country.

The 1986 budget that came into effect on New Year's Day took the critical step of drastically reducing, in fact virtually abolishing, the implicit subsidy on the domestic consumption of petroleum. This resulted in increases of 100% and 177% respectively in the authorized pump prices of premium petrol and diesel oil respectively. These two items alone account for an estimated 70% of all the petroleum products consumed in the country. In September 1986 exchange controls were dismantled and import licensing abolished with the introduction of the Second-tier Foreign Exchange Market (SFEM). Under the new system payments for the country's external debts and for membership in international organizations as well as for transactions in respect of which firm foreign exchange contracts had been signed before the commencement date of SFEM were permitted at the relatively appreciated official (first-tier) exchange rate. Everything else was to go on the market determined (second-tier) rate. The immediate effect of the introduction of SFEM was the devaluation of the naira by over 400%.

Almost simultaneous with the introduction of SFEM was the commencement of the rationalization of the tariff structure. In February 1987 the Minimum Wage Act of 1981 was amended to exclude firms employing less than 500 persons, as against 50 previously, from paying the national minimum wage of ₦125 per months. In July 1987 the first and second-tier exchange rates were merged at the highly depreciated second-tier rate. The single rate is still being determined through bi-weekly market auctions held for authorized commercial and merchant banks. With effect from August 1, 1987 interest rates were deregulated, with banks free to set their own rates on the basis of supply and demand. However, the Central Bank of Nigeria fixed the minimum lending rate for banks at 15%; the rate which had hitherto been the *maximum* lending rate. The authorized rate of credit expansion for the banks was reduced from 8% to 7.4% to the private sector for the remaining two quarters of the year.

Under the decree setting up the SFEM, all capital transactions in foreign exchange must be approved by the Minister of Finance. As at the time of this writing at the end of the third quarter of 1987, this provision has not been abrogated. By thus leaving the liberalization of the capital accounts of the balance of payments for the last, Nigeria would also appear to be conforming strictly to the accepted orthodoxy with regard to the optimal sequencing of policy reforms[9].

**Prospects for Small-scale Industries**

As noted earlier, it will be quite some years yet before it is possible to carry out a before-and-after type of empirical test of the effect of the foregoing policies on the growth and development of SSIs. What will be attempted here is an assessment of the likely effects of the environment created by these policies on SSIs given what is known about the characteristics of the latter in Nigeria.

We have seen that most of the measures adopted over successive plan periods to promote SSIs have not been very effective, whether in terms of making credit more available on easy terms to these firms, or providing them with extension services, managerial and technical training, or undertaking applied research of special interest to them. This means that whatever has been achieved by way of the growth and development of SSIs cannot be attributed to any significant extent to government interventionist measures. However, this is not an argument against providing special assistance to SSIs since it could very well be that much more could have been achieved with better designed or more effectively implemented policies.

It has already been noted that small-scale industries remain a major hope for coping with the problems of rural-urban migration and escalating unemployment. Indeed, the expansion of the SSE sector in response to the worsening urban crisis may well be inevitable since, as Page and Steel (1984), p. 15) have pointed out:

> *There is some suggestion that SSEs may tend to flourish at least relatively, when economic stagnation drives people to seek supplementary income sources and causes production to fall in large-scale firms due to inability to import materials, spares and equipment.*

However, it is necessary that increased employment by SSIs should also be accompanied by increased productivity. Otherwise the increased numbers employed could merely become a form of disguised unemployment, leading to income redistribution rather than economic development. To ensure the

9 Cf. Lal (1987).

increased generation of productive employment among SSIs may well require special assistance.

A much stressed economic development objective in Nigeria is the attainment of economic self-reliance. Essentially this must mean the reduction of technological dependence through an increase in the local capacity for capital goods production[10]. SSIs have an important role to play in this regard, for as Roemer (1981, p. 434) has rightly noted;

*Manufacture of any product in many small plants, with a gradual expansion of facilities in small units, presents a great opportunity for a local machinery and equipment industry.*

Indeed, it could well be though that a large and expanding sector of SSIs would virtually make a domestic capital goods industry mandatory on the grounds that it might be difficult to find in world markets the type of machinery and equipment suited to local conditions. But this is not necessarily so.

Nigeria's recent history has witnessed the ease with which local businessmen have been able to get producers in South-East Asia - Taiwan, South Korea and Hong Kong especially, to manufacture for the Nigerian market motor spare parts and similar products of varying quality to meet different levels of purchasing power. Thus in the absence of appropriate promotional measures, a widening local capital goods industry might not necessarily follow from an expanding SSI sector.

What have been the real constraints to the growth and development of SSIs in Nigeria? Much of the information on this appears to be based on responses to questionnaires administered during SSE surveys. These responses are quite familiar. According to the NISER survey they include:

*lack of capital for expansion, occasional shortage of raw materials, some government regulations, demand deficiency and lack of government patronage, inadequate or inefficient functioning of infrastructural facilities and shortage of space for expansion (Osoba, 1985, p. 17).*

We are not aware of any studies aimed at establishing the relative importance of these various constraints, although the capital shortage problem is usually the highest ranked by the respondents. Except for demand deficiency and the issue of government regulations, all the other problems are clearly supply-side constraints. Before going on to discuss the effects of general policies on SSIs, it will be useful to briefly outline some of the key issues connected with these constraints.

10 Cf. Obi (1986).

***Supply-Side Constraints***

As already mentioned, the capital shortage problem is by far the most frequently mentioned constraint by SSI respondents. However, there is reason to believe that there is more to this problem than meets the eye. Aside from the issue already mentioned of the political abuse of government sponsored credit schemes, more fundamental problem include those factors that determine which SSIs find it easier to receive the available loans, and the type of credit assistance that may be most crucial in enabling SSIs meet developmental objectives.

SSIs in Nigeria can be roughly grouped into three categories on the basis of the type of technology employed and the use of local raw materials.

- Those using mainly indigenous technology and local raw materials;
- Those using mainly foreign technology, but local raw materials; and
- Those using mainly foreign technology and imported raw materials.

Type I SSIs which encompass most cottage crafts include indigenous food processing, indigenous furniture making, bricks, leather goods, meat processing etc. Among Type II SSIs could be listed Weaving, Made-up Textiles, modern furniture and cabinet construction, and some paper products. The largest SSIs like modern bakeries and confectioneries, printing and paper production, and modern tiles and bricks would fall into Type III.

Table B in the appendix, which shows the distribution of small-scale industrial loans in Anambra State between 1976 and 1981, suggests that Types II and III SSIs have been favoured by the available credit schemes. This is not surprising since these more readily lend themselves to the type of feasibility studies required to obtain institutional credit. With relatively better developed markets and pre-sold products which appeal to a limited but high-income segment of the population, they have better defined profitability prospects.

By sharp contrast, Type I SSIs, operated mainly by craftsmen rather than entrepreneurs, can hardly show immediate and attractive profitability prospects. But the irony is that these are the activities that have by far the greatest potential impact on the country in terms of meeting the goals of employment generation and increased technological self-reliance. For example, whereas an innovation in the technology of biscuit-making will redound mainly to the benefit of the foreign growers of wheat and other raw materials for bakeries and confectioneries, an equivalent improvement in the technology of cassava processing will have a much more diffuse local impact, given that cassava food products account for an estimated 70% of the daily calorie intake of over 75% of the Nigerian population. It is also to be noted that it is indigenous food processing that has inspired the most promising technical innovations thus far achieved by local research institutes and universities, e.g. the cassava peeling, grating, and frying machines; the palm-wine bottling, pap producing, and yam flour processing plants, etc. These types of innovation are the surest means of significantly increasing the country's social capacity for technological problem-solving (Cf. Obi 1978).

It is thus clear that special assistance to Type I SSIs would be more than socially justified, despite their relatively poor profitability prospects in the short-run. Such assistance would entail technical, managerial, and financial training to raise the general efficiency of these enterprises, and increase the productivity of their work-force. All this will make these firms a much better risk for obtaining institutional credit, say, for expansion.

There is also some evidence from Anambra state that,

> *the provision of working capital is more urgent in solving the financial problems of small-scale industries than long-term loan and is a major determinant of operational success (Nnolim 1985, p. 8).*

The need for working capital arises firstly from the characteristically poor cash flow position of SSIs resulting from their limited bargaining power vis-a-vis the middle-men purchasers of their products, and the relatively high retail margins and long period of credit demanded by reputable retail outlets who are the only alternatives to the middlemen. A second factor relates to the need to invest in raw materials inventory over and above immediate needs arising either from the seasonal nature of certain local agricultural inputs or, in the case of imports, from the delay in securing import licenses and the uncertainties arising from frequent changes in government policy.

In principle, the needs of SSIs for working capital can most conveniently and cheaply be met by commercial bank over-drafts, given the flexibility of the latter. The problem, however, is that many of these enterprises, especially the smaller, artisanal ones, do not maintain current accounts. Clearly, some sort of special assistance would be called for here.

Regarding the issue of poor infrastructural facilities, it would seem that the only realistic solution would be in terms of the general improvement of infrastructures like roads, water, and power supply. Given the objective of industrial dispersal of SSIs, special infrastructures like industrial estates concentrated in a few places would not be desirable. On the other hand, attempts to build many and widely dispersed industrial estates for SSIs would raise the capital cost of small-scale production, thereby defeating the labour-intensity argument for SSI promotion.

***Demand-Side Constraints***

The key issues here would seem to relate to the growth of the incomes of the lower-income segments of the population who constitute the main consumers of SSI products; adequate marketing outlets for their products; and laws and regulations that inhibit the operation of SSEs generally.

It is clear that policies that enhance the growth of the lower income groups, especially of the rural population would promote the growth of SSIs, especially as the latter's products are generally believed to have fairly high income elasticities of demand among these groups. As regards the question of marketing outlets, the major impediments identified by some observers in Nigeria include the limited financial resources and expertise to organize an effective distribution network; and the shortage of entrepreneurial type of middlemen, as distinct from mere hustlers interested only in handling pre-sold products like beer, soft drinks, mils, biscuits, etc. (Nnolim 1985, p. 14). As earlier noted, it was precisely to help solve this kind of problem that the Department of Commerce and Industry was established in the pre-independence era.

In Nigeria, it is a common feature to find state and local government laws like zoning regulations and business permits applied in such an inconsistent and arbitrary manner that those effected can hardly get by without paying bribes and other extra-legal inducements to the enforcement agents. The smaller and usually more labour-intensive SSIs often can least afford such additional costs.

***The Effect of the Policy Environment***

We have seen that the policies enunciated under Nigeria's SAP as well as those already being implemented before the formal commencement of the SAP are fully consistent with the typical IMF and World Bank advocated policies aimed at evolving "open, export-oriented economies able to attain higher rates of economic growth".

In terms of the likely effects of the new environment it has to be stated quite categorically that to the extent that this entails a substantial de-control and de-regulation of the system, it is desirable from the stand-point of the over-all well being of the economy. The past decade and half in Nigeria witnessed the intensive bureaucratization of economic life with the expansion of a system of indiscriminate controls and direct government participation in virtually all spheres of economic activity, however remote or esoteric[11].

This model of state capitalism merely provided a convenient framework within which those who controlled the state apparatus recklessly exploited the system for their own benefit. But even more than this, there is increasing evidence that the paradoxical result of indiscriminate expansion of government controls is the progressive loss of effective control of the economy by government as various forms of resistance to official measures

11 For a recent catalogue of this, see the "Chinweizu Observatory" in the *Vanguard Newspaper* (2/8/87; p. 7).

develop and more and more transactions are driven underground into various parallel markets (May 1985).

Against this background, therefore, a substantial deregulation of the economy would seem to be the sensible thing to do not only to restore some measure of sanity and rationality in the observed behaviour of various economic actors but also to re-establish the conditions in which subsequent, *selective* interventions by government would be more effective. Careful deregulation and de-control, in my view, does not amount to the same thing as surrendering the economy entirely to the dictates of the free market.

With specific reference to SSIs, we have seen that government intervention would be necessary to over-come supply-side constraints like low technical, financial, and general entrepreneurial skills. These constraints not only directly limit the capacity of SSIs to generate increased productive employment, they also, particularly for the smaller firms, reduce their ability to benefit from available institutional credit to finance working or expansion capital. We do not see that special assistance by government to reduce these constraints would be incompatible with the new policy orientation. The problem may well be, as the experience of the IDCs and the Credit Schemes suggest, that there are inherent difficulties in trying to assist small enterprises through large institutions. All the same it ought to be possible to devise sufficiently imaginative program using, say, the National Youth Service Corps scheme to disseminate relatively simple skills like elementary boo-keeping, inventory control, etc. to SSIs.

With regard to demand-side factors, official sources claim that there are indications that the policies already in force are producing a decisive income shift in favour of rural populations:

> *The countryside agricultural survey conducted by the (Central Bank of Nigeria) showed that the depreciation of the value of the naira led to very substantial increases in the farm gate prices of export produce, especially cocoa, coffee, and ginger. It also showed that there were increases in the prices of other agricultural products used largely by the domestic industries such as groundnuts and cotton. (CBN 1986, p. 15).*

Clearly, a trend toward increasing farm incomes will stimulate the demand for the type of products best satisfied by SSIs. These firms will also in general be favoured by a liberalized atmosphere that deemphasises the types of laws and regulations that lay them open to official harassment.

An important question, however, is whether a devalued currency alone will be sufficient to protect SSIs from harmful foreign competition. The same source just quoted gives cause for some doubt in this regard. With specific reference to industrial inputs, it was stated that though the cost of those goods rose as a result of the SFEM, "the free market system in foreign exchange sales facilitated the procurement of such inputs" (CBN 1986, p.

15). Thus, even though present pricing policies may have the effect of increasing the demand for SSI products, some additional forms of "infant-sector" protection may well be necessary to enable these firms fully exploit the new demand opportunities.

All this raises a more basic question about the new policy thrust. On balance, the new orientation clearly seems to be to the advantage of SSIs. But these firms do not exist in a vacuum, and can hardly flourish for long if the rest of the economy collapses. The question then is whether the authorities will be sufficiently flexible to respond pragmatically and honestly to changing circumstances? The recent experience of the Latin American countries mentioned earlier shows that a good number of these countries recorded initial successes with their reform programs. However, in less than a decade, as Edwards and Teitel (1986, p. 426) point out, "the evidence indicates that to a large extent, (these reforms) have failed and have been substantially reversed". The debate now is whether the policies were poorly implemented or were inherently inconsistent.

But it could very well be that not enough is known about the political economies of the countries involved to be able to pronounce authoritatively on either the formulation or the implementation of these programs. As Bacha and Feinberg (1986, p. 343) ask in regard to World Bank adjustment program in Latin America,

> *Does the Bank have the knowledge and information to design and monitor such broad reforms? How can the Bank judge the overall success of a program when so many variables, including many not easily quantified, are involved.*

It is this large amount of basic ignorance about the nature of the political economies involved that justifies caution and pragmatism.

A final caveat that needs to be entered is with regard to the spread of SSIs, on a massive scale, to the rural sector. It has already been accepted that the expansion of SSIs in the rural areas would be useful in curbing the problems of unemployment and rural migration. It is, however, necessary to bear in mind that rural industrialization could bring along unintended socio-economic consequences.

Some recent case studies suggest that when indigenous groups in a rural area are brought into sudden and massive physical contact with new, occupationally specialized social groups, with the precipitate injection of modern industries into the country-side, undesirable forms of enculturation could follow. On the purely physical level, the open village squares and relatively calm environment of the country-side could rapidly give way to make-shift houses and the near slum situation of urban shanty-towns. On the deeper, cultural level, important forms of behaviour modification might occur. In one locality, it was observed that:

> *The traditional contentment of the rural dweller has shifted to insatiable acquisitiveness caused by the total dependency on money as the only medium of exchange, a tendency that has led to more deviant behaviour (Dike 1987, p. 8).*

More generally, work orientation and interpersonal relationships could be transformed in a way which leaves the normative system grounded neither on industrialism nor on the native value system; and the indigenous mechanisms of social control are suddenly eroded without any immediate replacement.

Dike (1987) suggests that one way to ameliorate the above adverse consequences is to arrange for an initial physical separation of the residential quarters of the new industrial workers in a rural vicinity. This is to allow for a more gradual assimilation by the indigenous of the newly introduced norms. This suggested approach would of course be applicable mainly in the case of relatively large-scale industrial establishments. And it has already been said that the construction of many industrial estates for SSIs might raise the capital cost of small-scale production to the point of defeating the labour-intensity argument for SSI promotion. However, it should be possible, in a carefully planned program of integrated rural development, to establish clearly designated areas on the fringes of rural villages where activities like auto repairs and small-scale casting and forging, etc. can be carried on away from the main rural population centers.

## Conclusion

High and rising levels of urban unemployment have assumed crisis proportions in Nigeria since the oil market recession of 1981. Small-scale industries engaged in manufacturing and repairs remain a major hope for contending with this problem. They also possess a great potentiality to advance the national goal of economic self-reliance through increased usage of local resources and indigenous technology.

Constraints on the capacity of SSIs to meet the above objectives include low levels of technical, financial, and management skills; credit to finance working and expansion capital; and demand deficiency. Government intervention to ease these constraints is desirable and warranted. However, the experience over successive development plans suggests that special government assistance to provide things like technical and management training, and low-cost finance, are not easy to deliver. Still it should be possible to design imaginative programs using, say, the NYSC scheme to disseminate relatively simple skills like elementary book-keeping and inventory control to SSIs.

All the same, however, it would appear that a more promising approach would be to adopt more generalized policies that affect the demand and supply conditions facing SSIs. For example, educational programs emphasizing technical skills at the primary and secondary school levels (as is being attempted in the new two-tier secondary school system) should over time raise the level of skills available to SSIs as well as other sectors of the economy.

A priori reasoning and tentative data from official sources suggest that the new policy orientation in the country is on balance favourable to the growth and development of SSIs, although some form of "infant sector" protection for these enterprises could become necessary in due course. However, since SSIs do not exist in a vacuum, their long-term prospects are tied to the over-all success of the reform package of policies. Available knowledge and information on the political economies of currently less developed countries do not warrant any dogmatic stance regarding the design and implementation of these reforms, judging from recent Latin American experience. A good amount of caution and pragmatism is accordingly to be advised. Finally, in promoting the spread of SSIs on a massive scale to the rural sector, this should be done as part of a carefully planned program of integrated rural development with built-in mechanisms to ameliorate the unintended socio-cultural consequences of rural industrialization.

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# Appendix

**Table A - Estimates of labour force, underemployment, and total unemployment, Nigeria: 1972-1985.**

| Year | Labour Force (millions) | Underemployment (%) | Total Unemployment (%) |
|---|---|---|---|
| 1972 | - | 7.1 | 10.6 |
| 1973 | - | 7.4 | 11.1 |
| 1974 | - | 10.8 | 16.2 |
| 1975 | 29.2 | 10.7 | 16.1 |
| 1976 | 30.0 | 7.9 | 11.8 |
| 1977 | 30.5 | 7.2 | 10.8 |
| 1978 | 31.0 | 8.6 | 12.9 |
| 1979 | 31.9 | 13.9 | 20.9 |
| 1980 | 32.2 | 14.5 | 21.7 |
| 1981 | 33.2 | 20.6 | 30.9 |
| 1982 | 34.0 | 21.7 | 32.6 |
| 1983 | 34.9 | 27.4 | 41.1 |
| 1984 | 35.5 | - | - |
| 1985 | 36.1 | - | - |

**Source:** Underemployment and Total Unemployment derived from Ojegbile (1986); Labour force from Federal Office of Statistics *Economic and Social Statistics Bulletin*, Lagos, January 1985.

# Appendix

**Table B - Distribution of small-scale industrial loans in Anambra State by Industries 1976-1981**

| Industry | No. | Total Loan Amount (₦) | % of Total |
|---|---|---|---|
| Food Processing Rice & Garri | 4 | 102,000 | 5.2 |
| Bakeries & Confectionary | 6 | 207,000 | 10.6 |
| Others | 3 | 137,500 | 7.0 |
| Furniture & Cabinet Const. | 4 | 104,000 | 5.3 |
| Building Materials | 7 | 273,000 | 13.9 |
| Bricks | | | |
| Tiles | | | |
| Textile & Tailoring | 3 | 450,000 | 22.9 |
| Raw Material Processing & Saw Milling | 2 | 82,000 | 4.2 |
| Misc. Manufacturing | 1 | 2,000 | .1 |
| Engineering Works (Mechanical) | 6 | 53,300 | 2.7 |
| Engineering Works (Electrical) | 3 | 57,000 | 2.9 |
| Leather Goods Industry | 1 | 15,000 | .8 |
| Printing & Paper Production Industry | 31 | 229,000 | 15.3 |
| Laundry Services | 1 | 40,000 | 2.0 |
| Photographic Colour Processing | 1 | 40,000 | 2.0 |
| Wire & Cable Manufecturing | 1 | 60,000 | 3.1 |
| Meat Processing | 1 | 40,000 | 2.0 |
| Total | 75 | 1,961,800 | 100.0 |

**Sources:** Small-Scale Industries Promotion Unit, Ministry of Industries, Anambra State.