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PROSPECTS OF SMALL SCALE INDUSTRIES IN NIGERIA

By

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ABSTRACT

This paper focuses on the prospects of small-scale industries in Nigeria by laying emphasis on their historical development, nature and characteristics. It also emphasizes the roles of small scale industries in the development and growth of the country. Some of the problems militating against these industries from achieving their growth potentials are highlighted and the paper concludes by examining the future prospects of these industries, giving appropriate recommendations.

Keywords: Economic Development; Small scale Industries, management; Development Plans.

INTRODUCTION

Small scale industries are effective instruments in the economic and industrial development of many countries including Nigeria. In the organization of manufacturing industries in Nigeria, two distinct categories can be recognized. The first categories are a few relatively large firms which involve large amount of foreign or government capital, using modern technologies, experienced management and very skilled workforce. The second categories are numerous indigenous craft and small workshops, which involve only a limited capital and low productivity.

Generally, the manufacturing sector has failed to meet the expectations of the people of the country because of its contribution to Gross Domestic and Provision of employment (Adeyemi 2001). In the 1980s the GDP contribution of manufacturing sector was stagnant at about 8% and later declined to an average of about 6.5% during 1995 to 1996. However, in 2007, the GDP contribution rose to 10.5%

of industrialization is being mentioned, people used to think of the large firms, but in terms of employment they only employ small workforce in relation to the capital invested. While on the other hand, the small scale industries are labour – intensive and they provide employment that far exceeds the ones provided by the big firms. The small firms of industries are capable of absorbing many more of the primary and secondary school leavers who are at present flooding the urban labour market. According to Aruwa (2004), small and medium enterprise represents about 90 percent of the industrial sector and contributes a meager of 1 percent to GDP. This is insignificant when compared to countries like Indonesia, Thailand and India, where SME contribute almost 40 percent of GDP. Also, the Federal Office of Statistics discovered that 97 percent of business in Nigeria are SME's but contributed just 50 percent of Nigeria's employment and only 50 percent of industrial output.

Similarly, a study conducted by the International Finance Corporation (IFC) in 2001 estimated that 96 percent of all business in Nigeria is SME. (Compared to 53 percent in U.S.A and 65 percent in the European Union (EU) with SME, in both places, accounting for over 50 percent of their respective country's GDP (Aruwa 2004).

The post independence industrial investment patterns by different Nigerian Governments focused mainly on large-scale enterprise. There was a total neglect of small and medium scale industries in the development efforts. Even, the Nigerian Industrial Development Bank (NIDB) that was established in 1964 was founded in order to mobilize fund for large scale enterprise. However, Nigeria with her natural endowment in both human and material resources cannot but place appropriate emphasis on development and growth of small and medium scale industries when most of the large industries failed in order to enhance economic development.

The industrial revolution of the developed world listed countries such as Japan, Britain, India, Singapore to mention a few as examples of countries where small and medium scale industries played a dominant role in the economic transformation, rapid industrialization and development. The development and growth of small industries in Nigeria will equally serve as a vehicle towards economic re-fertilization and development together with rapid industrialization.

There is therefore the need to examine the operations and the operating environment of the small scale industries. The paper therefore, examines the historical development, the nature and characteristics of the small scale industries in the Nigerian economy. The remaining part of this paper examines the constraints facing these

industries, the contributions of small scale industries to the development of national economy and finally the prospects of small scale industries in Nigeria.

HISTORICAL DEVELOPMENT OF SMALL SCALE INDUSTRIES

The historical development of small scale industries started long ago (during the pre-colonial period) with our fore-fathers and their traditional industries such as iron smelting, blacksmith, basket weaving, pottery, wood carving and textile weaving and dyeing among others. Majority of small scale industries developed from all these cottage industries and from small scale to medium and large scale industries. However, the first widely recognized forms of modern industrialization in Nigeria were during the formal trade contacts with Europe and in 1946, a Department of Commerce and Industries was set up. The drive towards industrialization was intensified during the 1950's. By 1951, some industries such as the Plywood and Veneer factories at Sapele, the cigarette factory at Ibadan, three soap factories at Apapa, Aba and Kano, a brewery at Apapa, several cotton ginneries in Northern Nigeria to mention just a few. There was massive increase in Nigeria import market during this period and early 1960s and Nigerian economy was dominated by large foreign firms Ayozie, (2008).

During the first decade of independence, investment in industry was left largely to the foreign dominated private sector because the Nigerian government did not have much capital. However, a number of industrial ventures such as cement plants, breweries, cocoa processing, steel rolling mills, etc. were established by some federal agencies and the regional development boards. The manufacturing sector had an annual growth rate of 15-20 per cent between 1960 and 1965.

After independence, more import dependent industries were established as the structure of tariff encouraged import of capital goods and raw materials as against the search for local alternatives. National Bank for Commerce and Industry (NBCI) and Small Scale Industries Credit Scheme (SSICS) were set up in 1973 and 1975 respectively to provide credit for these industries. The cardinal point of the 1970-74 development plan was;

- i) Accelerating the pace of industrialization and dispersal of industries
- ii) Generating substantial employment opportunities
- iii) Promoting individual initiatives and entrepreneurship among

- iv) Developing and increasing export traders, and
- v) Complementing large scale industries.

The 1980s was the period of the *fourth and fifth National Development Plans*. During the fourth Development Plan, the contributions of the industrial sector are as follows "the manufacturing sector was still to make significant impact on the structure of the economy by way of contribution to GDP, provision of employment, enhancement of the value of natural resources, foreign exchange conservation, and promotion of wider and more effective linkages among the different sectors of the economy". The technological development of small scale industries was focused on during this period. According Ayozie (2008) some of the basic policy strategy aimed at revitalizing the industrial sector included the:

- a) Encouragement in the use of more local materials in our industrial development activities
- b) Encourage greater capacity utilization in Nigerian industries.
- c) The training and motivation of the unemployed graduates to be gainfully employed in out of school entrepreneurship development programmes. This started in 1986 and approved loans are disbursed through pre-selected commercial banks assisted by the National Directorate of Employment (NDE). The programme is still going on.
- d) The People's Bank of Nigeria (PBN) also grants soft loans to unemployed youths and artisans.

The government also established research products development company, Federal Institute of Industrial research, industrial development centers, the industrial research council of Nigeria.

In the 1990s to the present time, various fiscal and non-fiscal incentives have been established for investors and entrepreneurs in the small scale sectors of the economy by both the federal and state government. Some of these are:

- a) The National Economic Reconstruction Fund (NERFUND) was established in 1990 to provide long term fund to small and medium scale industries.
- b) Small and Medium Industries Equity Investment Scheme (SMIEIS) was set up in 1999 by the Central Bank of Nigeria (CBN) in conjunction with the Bankers' Committee as equity investment fund in small and medium scale industries.

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- c) National Bank of Industry (NBI) was established in 2000 by the merger of NIDB with NERFUND to improve long term credit provision to the sector.
- d) In 2003, Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) was established to coordinate SMEs development.
- e) The incorporation of entrepreneurship development courses into the curricula of tertiary institutions and NYSC programme.

NATURE AND CHARACTERISTICS OF SMALL SCALE INDUSTRIES

There is no universal definition of a small scale industry. Each country has derived its own definition based on number of employees, roles the industries are expected to play in that economy and programme of assistance designed to achieve that goal, amount of money invested and management. These various definitions among countries may be as a result of differences in industrial organization at different levels of economic development and differences in economic development of each country. What is regarded as a small or micro firm in an economically advanced country like Japan may be classified as medium or large in developing countries like Nigeria. However, small scale industries are commonly defined in terms of the financial base and commitment of the enterprise. In the United States, the Small Business Association defines small and medium enterprise as those businesses with up to 500 employees. Walters (2002) stressed that a small business is the one that is independently owned and operated. It is not dominant in its field and meets employment or scale standard develop by the agency. It can be regarded as a family business or self-employed persons operating in the semi-formal and informal sectors (Hallber, 2001).

According to European Union, "Small and medium enterprise (SME)" is made up of three components:

1. Firms with 0 to 9 employees- micro enterprises.
2. 10-99 employees – Small enterprises.
3. 100-499 employees – medium enterprises.

The World Bank (2002) defines Small Scale enterprise as industry with fixed asset (excluding land) less than and 250,000 in value and at least half the output to sell.

Similarly, The United Nations Industrial Development Organisation (UNIDO)'s definition for developed countries is firms

with less or equal to 99 workers while for developing countries, it is a firm with 5 – 19 workers and medium 20 – 29 workers.

According to Danels and Ngwara (1992), Small Scale employs 22% of the adult population in developing countries it employs 15.5% of the labour force in Ghana and about 11% in Malawi. In Nigeria, is about 21% (FOS, 2005). Various financial institutions (see table 1) in Nigeria such as Central Bank of Nigeria (CBN), Small Scale Association of Nigeria, Centre of Management Development (CMD), Federal Ministry of Industries (FMI), National Association of Small and Medium Scale Enterprises (NASME), National Association Small Scale Industries (NASSI), National Council on Industry (NCI) and National Economic Reconstruction Fund (NERFUND) that support the growth and development of small scale industry have given different definitions. In Nigeria, according to the Third National Development plan (1975-1980), small scale business is a manufacturing establishment employing less than ten people or whose investment in machinery and equipment does not exceed six hundred thousand naira. The CBN in its credit guidelines also classified small scale business as those businesses with an annual income/asset of less than a million naira (500,000). This was further buttressed by the FGN in its Development plan of 1980 when small scale business in Nigeria was defined as any manufacturing process or service industry with a capital outlay not exceeding ₦150, 000 in manufacturing and equipment alone. In the same vein The Small Scale Association of Nigeria (1993) defined small scale business as those having investment (i.e. capital, land, building and equipment of up to ₦60, 000 pre SAP value) and employing not more than fifty persons. Furthermore, the Federal Ministry of Industries defined it as those enterprises that cost not more than ₦500, 000 (pre SAP value) including working capital to set up, while the Centre for Management Development (CMD)'s definition of small scale industry in the policy proposal submitted to the Federal Govt. in 1982 defined small scale industry as "a manufacturing processing, or serving industry involved in a factory of production, type of operation, employing up to 50 full time workers"

According to National Directorate of Employment, small scale industries are those between ₦25,000 and ₦35,000 as initial capital outlay and employing fewer than 50 (fifty) full time workers. Micro enterprises are those enterprises with assets not exceeding ₦1.5m (excluding land) and employing not more than 10 people. (Adelaja, 2005).

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N50million including working capital but excluding cost of land. A medium scale is an industry with a labour size between 101-300 workers or a total cost of over N50million but not more than N200million including working capital but excluding cost of land. Simply put therefore; a small scale industry is a business venture with small capital outlay and commitment.

Table 1: Definition of SME by Nigeria Institutions

Institution	Asset Value (N)			Annual Turnover(N)			No. of Employees		
	MSE	SSE	ME	MSE	SSE	ME	MSE	SSE	ME
Fed. Min of Industry	<200	<50	N.A	N.A	N.A	N.A	<300	<100	<10
Central Bank	<150	<1	N.A	<150	<1	N.A	<100	<50	N.A
NERFUND	N.A	<10	N.A	N.A	N.A	N.A	N.A	N.A	N.A
NASSI	N.A	<40	<1	N.A	<40	N.A	N.A	3.35	N.A
NASME	<150	<50	<1	<500	<100	<10	<100	<50	<10
NCI	N.A	<40	N.A	N.A	N.A	N.A	N.A	11.35	N.A
CMD	N.A	N.A	N.A	N.A	N.A	N.A	N.A	<50	N.A

Sources: Federal Ministry of Industry 1997 and World Bank (2002).

THE ROLES OF SMALL SCALE INDUSTRIES IN THE ECONOMY

The small-scale industries have special important roles to play in development of the economy of any nation and so these roles cannot be over-emphasized. The contributions on the roles played by these small-scale industries therefore include;

According to the Nigerian Investment Promotion Commission NIPC (2004). Small Scale Enterprise (SSE's) have played important roles in the development process in most developed economies and proved to be one of the most viable sectors with economic growth potential. The significant roles played by these small-scale industries, therefore, include;

1. **Employment Generation:** One of the most important reasons for promoting small scale industries globally is as a result of creation of substantial employment opportunities for the people of the country especially the unemployed. The World Bank (1995) pointed out that the sector accounts for about 70 percent of industrial employment.

rural development in the sense that the small scale industries will constitute to income generation and participation in economic activities in the lower income and rural brackets of developing countries particularly in agriculture trading and services. Also, the employment opportunities generated reduces rural – urban migration, thereby allowing even development.

3. **Better Utilization of Local Resources:** The use of indigenous resources which involve very low capital to set out the small scale industry allows for conversion of minimal resources into productive ventures. Also, small scale industries are known for their creativity in the utilization of local raw materials that do not necessitate advanced technology to process. Small scale industries recycle discarded by-product of large firms as primary input in their own production processes.

4. **Transformation and Modernization of Traditional Industries:** The prospects of economic development of a nation rest on entrepreneur energy of small scale industries. This is because most big businesses grew from small to become big, for example, Dangote Group of Nigeria, Doyin Group etc. As these industries develop, they shield countries from the geographical cost benefit permutations of a few multinationals that are ever prepared to close up the business and relocate at the slightest provocation.

5. **Rapid Expansion and Diversification of the Industrial and Business Sectors of the Economy:** This is very common in the middle- income economy like India whereby small scale industries accounted for 4 percent of total industrial output and 35 percent of total exports in 1998.

6. **Integrated Agro-Industrial Development and Orderly Growth of Urbanization:** This is done through the establishment of small scale industries in the growth center in different parts of the country.

7. **Production of Intermediate Goods:** Many small scale industries produce semi finished and finished goods required by larger industries and even by the populace. These include goods like raw

8. **Stimulation of Indigenous Ownership of Industrial and Service Investment:** This helps potentials entrepreneurs who are well equipped to start and successfully manage small scale industries.

Some Examples of Small Scale Industries are:

Candle Making, Soap Making, Foundry works/Metal Fabrication, Fashion Designing/Tailoring, Pure Water Production, Furniture/Cabinet Works, Butchering and Cold Store, Auto-engineering Services, Restaurants, Cloth weaving (Aso-Oke), Tyeing and Dyeing, Blacksmithing, Block and Concrete Making and Pottery.

Problems of Small Scale Industries

The activities of small-scale industries in Nigeria are affected by some bottlenecks, which do not allow for effective development of the sector. These constraints as identified by some authors such as Ogundiran (2003), Aruwa (2004), Ozigbo (2006), are as follows:

1. **Land Acquisition Problem:** Many small-scale industries that require land to take off often have the problem of acquiring land. This is because some areas that are best suited for certain business may not be easy to acquire as a result of some policies or problem of inheritance or beliefs which might not encourage the society to give such lands out.

2. **Financial Problem:** Most of the small scale industries have limited access to capital as a result of the small nature of the business. The high transactional cost involved and inability of small enterprises to provide the collateral required by most bank limited their ability to obtain land. The small scale industries are short of funds at every stage of their development ranging from start-up to expansion and growth. Many promoters of these informal sectors source their funds, from personal savings and loans from family and friends. Nevertheless, the amount that can be raised from these sources is usually limited. This in turn affects the plan of the promoters for expansion and acquisition of new machines.

3. **Policy and Regulating Environment:** There is every need for government to ensure an enabling policy and regulatory framework that will benefit the small scale industries. These policy and regulatory frame work as put forward by Economic Commission of Africa (ECA) Include:

- A system of financial market that provides incentives to save and mechanisms to channel savings into investment.
- Policies that minimize the cost of business licensing and registering while safeguarding public interest.
- Policies that facilitate business transactions such as infrastructural development.

However, enforcement of these conditions are lacking due to weak political will in Nigeria.

4. **Problem of Infrastructural Facilities:** Good and adequate infrastructural facilities provide a conducive and enabling environment for small scale industries to grow and expand. Absence of adequate power, water, transport and communication facilities make production processes to be difficult. Information technology is a tool for achieving quick response just-in-time management and other modern practices in international competitiveness. However, small scale industries are yet to be principal users of this.

5. **Agglomeration of Small Scale Industries in the Urban Areas:** This tends to defeat one of the objectives of promoting Small Scale Industries, which is the reduction of rural-urban migration through the development of small towns.

6. **Marketing Challenges:** As a result of the inability of the small scale industries to pay for promotional activities to promote their product, they cannot sell well. This limits the reach of their products to far away places from their point of production.

7. **Low Calibre Personnel and Technology:** Many small scale industries cannot afford high skilled personnel, and therefore may not be efficiently managed. As a result, their cross management capability is jeopardized.

8. **Limited and Unreliable Data:** Lack or limited information that is necessary for growth of the industries is an impediment. There is a need for adequate information on domestic and overseas market harder for the industries to grow well.

9. **Low Investment in Research and Development:** For the Small Scale Industries in Nigeria to develop and grow they must invest

10. **Poor Accounting Standards and Record Keeping:** These endanger their ability to acquire credit from financial institution or to disburse it profitably.

11. **Low Productivity:** Since the entrepreneur performs many roles of production manager, financial adviser, marketing expert, advertisers of his product, there is bound to be low productivity. Also, Small Scale Industries when compared to Large Scale Industries are disadvantaged because they cannot take advantage of economic of scale and hence their per unit production cost is high.

PROSPECTS FOR SMALL SCALE INDUSTRIAL DEVELOPMENT

There are many small scale industries in Nigeria, majority of which were established since the mid-1980s with the inception of the Structural Adjustment Programme (SAP). These industries occupy a very important position in the country although they still face serious competition with the large industries. In order for these small scale industries to prosper in the economy despite the stiff and challenging competition from the large scale industrial sector, the following areas must be looked into.

Nigeria is blessed with vast natural and electric power resources together with a big market. These indicate great potentials if well developed for the emergence of a vibrant industrial sector particularly the small scale industries. With this, a well focused small scale industrial development programme in an investment friendly environment can achieve the long-sought industrial transformation which the programme of large scale capital intensive industrialization failed to deliver. The sub-sector can concentrate on the production of raw materials, machinery and spare parts which are missing on the current industrial structure. This can be achieved through the promotion of competition, technology adaptation and sub-contracting arrangement with large industries.

Small scale industries have to maintain high quality products that can compete with the large scale industries. Quality control measures must therefore be introduced to the product of the small scale industries in order to prosper. An understanding of the technical processes involved in production must be adopted so as to select the technology that would generate cost-efficient and high quality output

tie-up arrangement with their consumers in order that their products may be readily sold.

The sector can be used for achieving the objectives of the poverty alleviation programme of the government given that they are highly labor intensive. The programme of National Directorate of Employment (NDE) brought into focus a renewed hope and aspirations for self-employment. The NDE small scale industry loan scheme had directed the minds of many Nigerians towards self-employment and self-reliance rather than queuing for paid employment in government establishment and large firms.

Another area whereby the small scale industries can prosper is advertisement. For the small scale industries to compete with large scale industries whose products are widely advertised on the mass media, they must make adequate publicity of their products. In advertising their products, it is possible to realize very little profits but such publicity expenditure will serve the cause of future profitability.

Inventory control is also very crucial in the production processes of the small scale industries so as to prosper in the economy. Small scale industries are critical in the effort to reduce industrial import dependence.

They can be used to meet the input need of large industries. This has been a major factor in the success of the industrial countries. Also, the enhancement of international competitiveness by small and medium scale industries stimulates the expansion of industrial exports.

For small scale industries to prosper in our economy, professional managers should be employed to improve the management efficiency so as to compete with the large scale sector which is professionally managed.

Another potential for small scale industries is that they tend to conserve scarce foreign exchange and reduce the drain on our reserve since they are mostly local raw material based oriented. Inventory control is a key to the success of small scale industries, therefore, the small scale industries should familiarize themselves with inventory control techniques.

Again, one of the prospects of small scale industries is for various financial institutions and ministries such as Central Bank of Nigeria, Nigeria Industrial and Development Bank, Nigeria Bank for Commerce and Industry to help in advancing technological information and management skills by carrying out feasibility studies in the various states and arranging technical workshops and machine repairs services.

Industrial Development Centres have been established in

Trade and Industry carry out and supervise many of the desired goals in order to place small-scale industries in their proper perspective as an important cornerstone to industrialization the country.

The interest rates of small scale industry loan scheme are favourable for the beneficiaries of the loan either from the bank or from the Ministries. This will encourage more Nigerians to venture into the small scale industry.

The many programmes and small scale industry loan scheme from Ministries have facilitated and encouraged hardwork, dedication and commitment to successful business operations, for example the working for yourself and entrepreneurship development programme which aimed at training and developing local small scale entrepreneurship. The programme was able to impress it in the minds of Nigerians that unemployment is an evil that must be exterminated from Nigerian society, while self employment is better than paid employment. The programme has also helped to enlarge the supply as entrepreneurs in both rural and urban centres of the country.

The World Bank has granted and will still continue to grant the Federal Government loans for small scale enterprises. The Central Bank of Nigeria directed that a certain percentage of commercial bank loans should be allocated to small scale enterprises.

The National Economic Reconstruction Fund (NERFUND) and the recent Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) would mobilize financial resources that would enable small scale enterprises have better access to medium and long term loan facilities to help them acquire fixed assets such as machinery and equipment.

CONCLUSION AND RECOMMENDATIONS

Evidences have shown from the foregoing discussions that small scale sector is more predominant and makes larger contributions to both Government Development Plan and Employment than the large-scale sector. Their larger contribution to employment stem from not only their larger number but also from their relatively more labour intensive techniques of production. Their contribution of a larger amount of labour per unit of capital may result in a larger over all output for the economy in view of the state's relative factor endowment. However, the activities of modern marketing such as marketing research, market segmentation, marketing planning and control.

Marketing of products should be properly done since consumers always perceive products that are properly marketed as superior to that of competitors. Hence subjective values may, therefore, be added to the product and profit margins may be increased. Also the quality, distribution and pricing methods should be improved upon by the small scale industries.

Regular marketing workshops and seminars should be organized for small scale industries by the Government. In any strategic marketing planning, small scale manufacturers should be involved.

The right image of small scale manufacturer can be promoted with the use of price/quality assortment, convenience, service, and other elements of the marketing mix for their companies and products. Appropriate distribution strategies can be formulated for complete limitations in the marketing environment. It is recommended that governments should assist the small scale producers by improving infrastructural facilities and environmental limitations such as road network, water, electricity, and communication.

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