Financing Industrialisation in Nigeria

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Prior to independence, Nigeria was essentially an agrarian community. The bulk of her revenue came from the exportation of palm oil/kernel, groundnut, cocoa, rubber, cotton and other cash crops most of which she was a leading producer. The nation's economy, though a mono-cultural economy, was apparently sound and self-sustaining.

Perhaps, this explains why at independence, the political elites who took over from the colonists showed less concern over the development and diversification of the economy. Though, farming was encouraged, agriculture remained unmechanised and the development of agro-based industries was not made part of the national agenda. Consequently, Nigeria's economy was subordinated to the economies of Britain and other European countries and was made to function as a producer/supplier of unprocessed primary input to their industries.

The discovery of crude oil in Nigeria in the mid '50s and its ascendency in the world market in the '70s brought with it a sharp rise in the nation's external earning. With this development, a prudent course of action on the part of the government, would have been to utilise the proceeds from this indeterminate source of income in mechanising agriculture, establishing agro-based industries and diversifying the economy. Contrarily, agriculture was neglected and the economy was given an orientation that promoted dependence on importation for meeting virtually every need of the citizenry.

In a bid to redress these anomalies, the government adopted the import substitution strategy, which focussed on the setting up of like domestic industries to substitute for overseas industries. Highrise walls - in the form of official subsidies, favourable/preferential tax and high tariff on similar imported items - were built around these industries to protect them from external competition.

But no attempt was made to ensure that the industries produced goods of high quality capable of competing with their foreign - made alternatives in the international market. Regrettably, this strategy as observed by the Transitional Council Chairman, Chief Ernest Shonekan in the 1993 budget speech did not work out as planned and in spite of the avowed goals of self sufficiency in food production, agriculture was underfunded.

Thus, revenue earning from agriculture continued to decline while industrial growth rate remained very low, with the contribution of the manufacturing sector to our GDP oscillating between 11 percent in 1981 and 3.3 percent in 1992. This poor industrial growth rate coupled with overdependence on oil, revenue weakened the ability of the economy to withstand depression. Consequently, the collapse of the world oil market in the 80s brought about a drastic reduction in the nation's foreign earning resulting in accumulation of external trade arrears and balance of payment problems.

Through Shagari's austerity measures in 1983, and subsequent policies of the Buhari regime, belated attempts were made to exercise some control and thoroughness in the management of the country's economy and to check the identified avenues for wasteful spending. In furtherance to these attempts, the Babangida administration introduced the Structural Adjustment Programme (SAP) in 1986. The objectives of the programme include; laying a foundation for a sustainable and non-inflationary growth, achieving fiscal balance of payments viability, minimising unproductive investments in the public sector in addition to intensifying the growth potential of the private sector and boosting foreign investment.

The attempt at reducing public sector investments and promoting private sector industrial activities, probably explains the set objectives of the 1989 Industrial Policy which revolve around making the private sector the 'mitochondria' of industrial activities in Nigeria. Along this line of reasoning, the government embarked on such specific actions as the privatisation and commercialisation of its share-holding in some of the existing industrial enterprises. Also, the provision of more infrastructural facilities, improvement of the regulatory environment; setting of distinct industrial priorities, with a harmonisation of industrial policies at all levels of governments are all measures defined by the policy for achieving accelerated industrial development.

In analysing current attempts being made at industrialisation, special note should be taken of the strategy of establishing clear industrial priorities which placed emphasis on the Small and Medium-sized Enterprises (SME's) and also recognition should be accorded to attempts at mobilising adequate funds for the implementation of the industrial policy.

As a mark of commitment to this policy, specialised funding programmes have been put in place to complement and boost conventional sources of funds (friends, relations and thrift societies) available to entrepreneurs. One of these sources is a loan facility of US$270 million which the government arranged
from the World Bank specifically for the development of SME's in the private sector. The administration of this facility was put in the hands of some selected Commercial and Merchant Banks, and as an incentive for participating in the scheme, loans disbursed to enterprises would not be counted by the Central Bank of Nigeria (CBN) as part of their aggregate lending. Expectedly, this facility was aimed at improving the viability and the productive capacity of the small and medium-scale industries, enhancing their competitiveness, providing alternative and more flexible source of long-term finance as well as facilitating easy delivery of the needed technical support services.

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Another source of funds for financing SME's in Nigeria is the National Economic Reconstruction Fund (NERFUND), a venture partly funded by the African Development Bank (ADB). One of the important requirements for the disbursement of this fund is the importation of all plant and machinery using proceeds from the loan has to be from one of the member countries. Also, preference is given to projects sited in rural areas and any project to be sponsored must get at least 40% of its raw materials locally.

Small and medium scale industrialists had in recent times criticized the administration of these schemes, arguing that "the fund had been hijacked by the big firms" who are better placed in satisfying the conditions of the facility. They remarked that the demand for a standard feasibility report, whose cost is as high as N30,000.00 and the requirement of contributing 30% of the entire project cost are factors that have impeded their access to these facilities. However, a cross section of bankers see the satisfaction of these requirements as very crucial to the success of the project. They argued that the elimination of such conditions would not only increase the present rate of failures presently observable amongst projects sponsored through similar funds in the past but also create openings for possible diversion of the funds. Agreeably, an entrepreneur who commits enough resources to a project would exhibit a greater sense of commitment in its implementation.

Apart from the World Bank and the ADB sourced finances, Commercial and Merchant Banks have been contributing quite substantially to financing small and medium-scale industrialisation in Nigeria. Their capacity in this respect has been enhanced by the policy of the Federal Government through the CBN which allows them equity participation in these enterprises. This arrangement guarantees additional risk capital to shore up the contributions of the entrepreneurs and increases the confidence of the banks to extend loan facilities to them.

Also the development banks, especially the Nigerian Industrial Development Bank (NIDB), Nigeria Export Import Bank (NEXIM), Nigerian Agricultural and Cooperative Bank (NACB), have been other sources of financing industrialisation in Nigeria. NIDB, set up in 1964 to provide long term capital to medium and large scale industries has some entrepreneurs have had the courage of taking a recourse to the capital market by way of selling shares to the public to raise the needed finance for their industrial projects. This source has been useful to industrialists especially in new ventures and the expansion of existing projects.

The introduction of the Risk Fund by the Dr. (Mrs) Arisibala - led Raw Materials Research and Development Council (RMRDC) marks the beginning of a new dimension in industrial financing in Nigeria. The fund which has been compared to the Korean Development Corporation (an institution whose role in "Korean Wonder" is globally recognized) is aimed at providing funds for commercializing viable R and D projects as well as establishing resource-based
Remarkably, various policy measures in place to promote industrialisation in Nigeria are not in themselves adequate. There is the need for greater cooperation and commitment on the part of the government, the private sector, and the financial institutions in the implementation of the policies.

The entrepreneurs need to improve their debt service records which are presently poor, so that credit lines could be extended to some other clients. They should also strive to improve their managerial efficiency and begin to consider seriously the issue of forging greater cooperation amongst themselves through partnerships which will ensure that they have enough funds to take on higher investment risks.

Government should look into the administration of the SME and NERFUND facilities with a view to removing all impediments that inhibit the accessibility of the loans to prospective investors. A situation whereby the Small scale industrialists - for whom these facilities are meant, do not have access to it is very unhealthy and must be checked urgently.

Furthermore, government needs to show more commitment to the expansion of industrial infrastructure especially in ensuring a more steady power supply and improving communication facilities.

The prevailing macro-economic environment which is characterised by high interest rates and spiralling inflation cannot be said to favour industrial growth. This trend has inhibited savings amongst the middle and low income earners thereby depriving the commercial banks one of the reliable sources of financing long term lending. The standard of living of the citizens had continued to deteriorate and the value of the Naira has depreciated beyond imagination. The latter does not seem to have done much for the earlier stated objectives of SAP as instability of the Naira and unpredictable political climate have combined to make foreign investors rather sceptical about the viability of any ventures initiated within the economy. Government therefore needs to check the present inflationary trend with a view to diffusing the obvious social tension that threatens the inflow of foreign investment into the economy. Furthermore, measures should be taken to arrest the continued depreciation of the naira and ensure its stability in order to encourage long term planning which is a sine qua non for industrial development.

There is the need to complete the steel projects and to anchor our industrialisation process on locally sourced raw materials. Indirect government investment through subsidies on new products would be necessary during the period of take-off. Manufacturers should be compelled by law to upgrade the quality of their products to international standards while the subsidy lasts. Furthermore, government needs to show more commitment to the expansion of industrial infrastructure especially in ensuring a more steady power supply and improving communication facilities.

Understandably, finance is the pivot of industrialisation. But, the task of industrialisation is not a function of finance in itself. It is also a function of the efficiency of economic planners in making the right policies and the managers in ensuring that resources are judiciously applied to the pursuit of projects aimed at achieving defined policy objectives.