SMALL-SCALE INDUSTRIES IN NIGERIA: CONCEPTS, APPRAISAL OF SOME GOVERNMENT POLICIES AND SUGGESTED SOLUTIONS TO IDENTIFIED PROBLEMS

Abstract:

This paper analysed the concept of small-scale industries in Nigeria. After suggesting a modification to the extant definitions with a view to harmonising them, it appraised government small-scale industrial policy which is based on realising the conceptualised advantages of the small-scale paradigm. The analysis paid special attention to the funding of these enterprises. Whereas failure of the large-scale import-dependent assembly plants to propel the country into a satisfactory course of industrialisation necessitated the diversification of strategy to embrace the promotion of small-scale enterprises, achievement under the new strategy has not been commensurate with expectations in terms of the stated objectives which were economic self-reliance through the mobilisation of available local resources, employment generation, and industrial dispersal as well as mitigation of rural urban migration. The paper identified this lack lustre achievement with problems associated with severe lack of managerial and technical skills among Nigerian small-scale industrialists, inadequacy of financial resources as well as enormous infrastructural deficiencies. Desirous of realising the potentials of small-scale enterprises in Nigeria, the paper proposed new approaches to solving the identified problems. At the same time, it reiterated earlier suggestions which could be effective but have been left in abeyance. The paper warned against too-soon disenchantment because there are no easy options to industrialisation which requires a technological culture which is acquired through learning by doing. It called also for trade-offs between the dictates of economic self-reliance and the demands of accelerated industrial development and, above all, time.

Introduction

After about a decade and a half of adopting an industrialisation strategy based on large-scale industries, mostly of the assembly type, Nigeria has achieved only a fragile industrial development. The large-scale industries which were set up tended to be capital-intensive and inappropriate, given the country's resource endowment. Their capital equipment and technical manpower have continued to be largely imported. As a result, the triple objective of setting up the plants – achievement of high level local value added, foreign exchange saving and acquisition of transferred technology – have not materialised. For example, the assembly plants have not achieved up to 15 per cent in local raw material sourcing, instead, they are more or less systematic foreign exchange guzzlers with neither the will nor the capacity to transfer any meaningful technology beyond the primitive type.[1] In response to these weaknesses of large-scale manufacturing, government has sought to promote small-scale industries as a strategy for self-reliant industrialisation.

Theoretically, small-scale industries have potentials worth gunning for in promoting Nigerian industrialisation. Thus, in the Second Development Plan (1979-74), both the Federal and State governments were to actively support and promote the development of small-scale industries.[2]. In the Third National Development Plan (1975-1980), government explicitly stated the main objectives of a programme for the development of small-scale industries as the creation of employment opportunities, mobilisation of local resources, mitigation of rural urban migration and more even distribution of industrial enterprises in different parts of the country. These were to be achieved through complementary assistance to small scale entrepreneurs in financial, management and technical aspects. The main vehicle designated for administering the incentives were the Industrial Development Centres (IDC) and the State's Small-Scale Industries Credit Scheme.[3]

In subsequent years after 1979, the institutional arrangements and structure of the programme were modified while the objectives remained the same. It is instructive to appraise the successes achieved and to proffer opinion on how to come to grips with the problems of promoting small-scale industries which arise from lack of technical and managerial expertise as well as inadequate funding and poor state of infrastructural facilities.

The rest of this paper is arranged into six sections as shown below:

1. Concepts of small and medium-scale enterprises and the expected roles of these enterprises in promoting industrial development in Nigeria.
2. Content of Federal Government policies for the promotion of small-scale enterprises 1970-1986.
3. Appraisal of these policies with special reference to small-scale industries credit scheme and the role of representative financial institutions:
    (a) Nigerian Bank for Commerce and Industries (NBCI);
    (b) Commercial Banks; and
    (c) Nigerian Industrial Development Bank (NIDB).
4. Problems in the way of promoting the growth of small-scale enterprises sub-sector.
5. Suggestions for solution.
6. Conclusion.

1. CONCEPTS OF SMALL AND MEDIUM-SCALE ENTERPRISES AND THE EXPECTED ROLES OF THESE ENTERPRISES IN PROMOTING INDUSTRIAL DEVELOPMENT IN NIGERIA

The definition of small-scale enterprise tends to differ among countries and individuals. Thus, there is no universally accepted definition of small-scale industry. This arises from differences in industrial organisation of countries at different levels of economic advancement or differences in economic development in parts of the same country. For example, a firm which would be regarded as 'small-business' in the U.S. may nevertheless, in terms of fixed investment and employment of labour force, be of such size as to be 'large-scale' in some countries of the third world. Differences in levels of economic development probably conditions the varying definitions in Nigeria which are presented as follows:

1. In the Central Bank's Credit Guidelines to Commercial and Merchange Banks since 1979, small-scale enterprises are defined as establishments whose annual turnover (sale figure) does not exceed ₦500,000.
2. In the same year, the Small-Scale Industries Division of the Federal Ministry of Industries defined small-scale industries as "Enterprises having investment capital (investment in land, building, machinery and equipment and working capital) of up to ₦60,000 and employing no more than 50 persons".

   This was later revised to embrace any manufacturing processing or service industry with a capital not exceeding ₦150,000 in machinery and equipment.[4]
3. For the Nigerian Bank for Commerce and Industries (NBCI) in 1981/82 (for purposes of the revolving loan scheme for small-scale industries), small-scale enterprises were regarded as those investing no more than ₦500,000 (excluding the cost of land but including working capital). Nonetheless, the Bank's official definition since 1985 has been firms whose capital cost does not exceed ₦750,000 (including working capital but excluding land).
4. The University of Ife Industrial Research Unit defines small-scale industry as one whose total assets in capital, equipment, plant and working capital are less than ₦250,000 and employing fewer than 50 full-time workers.[5].

What is common to the definitions is that they give an upper limit either of employment or turnover or investment capital above which an enterprise would not be regarded as small-scale. The implications being that any enterprise employing one or more persons and/or having annual turnover or investment capital ranging from ₦1.00 upwards to the stated limit falls within the definition of small-scale. It does not appear there is any significant loss to the economy arising from these varying definitions. What is important is whether the target group, however defined, is receiving the right impact of government policy designed for its benefit. Nevertheless, there has been a widespread clamour for one definition or a national definition.[6] This author's definition therefore incorporates a labour force of 10 as a lower limit to delimit a small-scale enterprise. This then suggests that any enterprise employing less than 10 persons would not qualify for the appellation of small-scale industry. The figure of 10 is not sancrosanct, it would be subject to revision, say every 5 years in the light of the development in the economy. The figure is the same as that of the National Provident Fund (NPF). Firms which qualify to contribute to NPF for the benefit of their employees are limited to those which employ a labour force of not less than 10 persons.[7]

While there has been a lack of agreement on the appropriate criteria for identifying of small-scale industries, the following are characteristics of small-scale industries enterprises in Nigeria.[8]

(i) The manager/proprietor handles or supervises the financing, production, marketing and personnel of the enterprise;

(ii) The manager/proprietor does not raise short- or long-term capital needs of his business from the organised financial markets, instead, he relies heavily on personal savings or loans from friends, relations or money lenders.

(iii) The entrepreneur confines his vision to the local community in which he carries on his business ignoring wider and more distant markets.

(iv) The enterprise is generally poorly equipped as the small industrialist feels reluctant to accept outside help owing to prejudice or fear that information about the enterprise might reach the tax authorities or a nearby competitor.

(v) The rate of business mortality is high probably because of strong mutual distrust which militates against formation of partnerships or limited liability companies.

(vi) The level of education of the owner proprietor is usually low with consequent low level of business management, technical skills and market information.

As regards what is a medium-scale enterprise, Ogbe (1985) after reviewing the prevailing definitions of small enterprises in Nigeria claimed that "we all know that a medium-scale enterprise is bigger than one of a small-scale but not large enough to be classified as large."[9] However, for an enterprise to be eligible for assistance under NBCI World Bank assisted loan scheme for small- and medium-scale enterprises, its total assets should not exceed ₦1 million. For the Nigerian Industrial Development Bank (NIDB), medium-scale industry would be one whose project cost (investment plus working capital) are above ₦750,000 but not greater than ₦3.0 million. In view of the recent developments associated with the introduction of the Second-tier Foreign Exchange Market (SFEM) which has raised costs, the NIDB definition would appear to be more appropriate for the time being.

However defined, small- and medium-scale enterprises are expected to play a vital role in Nigeria's industrial development. The theoretical underpinnings of this role is based on the well-known small-scale industries paradigm.[10]

Firstly, small-scale firms under the paradigm are generally the foundation of a never-failing supply of potential entrepreneurs who are ready to take a chance on the exploration of new ideas or favourable market opportunity.

Secondly, small-scale industries create more jobs per unit of invested capital and per unit of energy consumed.[11] In the peculiar circumstances of Nigeria therefore, the proliferation of successful small- and medium-scale industries would be particularly welcome. Moreover, most of the enterprises in the rural sector are small-scale in nature and increased chances of their survival could spell their greater ability to sustain the rural dwellers.

Thirdly, under certain conditions, there are economies of small-scale to be exploited. The technical unit of production may be small (e.g. power loom in a weaving establishment) but a small firm may operate quite economically with very limited overhead costs. This makes the firm less vulnerable in periods of depression and gives it a degree of flexibility which a large firm does not possess. Competent management is often found at this level of activity and a small firm may be able to offer a wider variety of experience to able young executives than a large firm. In trades where variety and quality of product and attention to details are important, the small firm can operate to a great advantage. The small firm may be able to exploit favourable opportunities provided by the existence of large firms. A number of firms may require in the aggregate a great number of a particular component which is not economical for any one of them to provide for itself. Small firms are most suited for this and may achieve considerable economies of specialisation. It is in situations such as this that the Japanese "Oyabun-Kibum" or contract system between small and large firms operates at its best.[12]

Fourthly, small firms avoids diseconomies of scale. For example, as the scale of output increases so does risk (magnitude to possible losses). It is true that growth in size may reduce uncertainty to some extent through operational and market research, diversification of output, greater flexibility of management, etc. Nevertheless, increased risks are attendant upon increased scale. As the size of the firm increases, increasing strain is placed on management, there is loss of efficiency as there are more decisions to co-ordinate and the problems of communication of ideas, information and decisions become quite formidable.

Fifthly, lower average costs of a large-scale enterprise may be offset by transport costs as wider markets need to be tapped. If necessary raw materials are widely dispersed, and the finished product is not footloose or expensive to transport, operation on a small-scale in many different parts of the country becomes more economical than large-scale production at a few points. There are other market limitations. Demand for a product may be very limited and any further increase in its output can only be sold at sharply reduced prices. Competition, extensive advertising, etc. may warrant small-size operations.

Under certain conditions therefore, small-scale operation may have distinct advantages over large-scale in terms of efficiency and profitability.

2. CONTENT OF FEDERAL GOVERNMENT POLICIES FOR THE PROMOTION OF SMALL-SCALE INDUSTRIES IN NIGERIA 1970-1986

In consonance with the advantages of small-scale paradigm analysed above, the main objectives of government in promoting the development of small-scale industries were the creation of employment opportunities, mobilisation of local resources, mitigation of rural urban migration and more even dispersal of industrial enterprises within the country. These were to be achieved through offering small businesses financial, management and technical assistance to ensure their growth and proliferation. The main mechanism for administering these incentives were:

(i) the States Small-scale Industries Credit Schemes (SSICS);
(ii) Federal Government-controlled Industrial Development Centres (IDC);
(iii) National Extension Training Institute;
(iv) establishment of industrial areas and estates and
(v) small-scale potential survey and promotion activities.[13]

The states credit schemes and the IDC were established during the Second National Development Plan period while the idea of the industrial estates was introduced during the Third Plan period. Under the scheme, the Federal Government made funds available to each of the states to develop model industrial estates to specifications supplied by the Federal Government. The last three programmes are infrastructural such as the provision of electricity and water supply. They need not be specifically directed at small-scale business since they help generally to promote a favourable industrial climate. For this reason and because of inadequate information, the thrust of further analysis of government policies for the promotion of small-scale enterprises will be confined to IDC and SSICS.

Industrial Development Centres (IDC)

The IDCs combined essentially the features of extension service centre, a training institution and product development centre for small-scale industries. The principal aim of the IDCs was to develop viable modern small-scale industries and to improve existing small-scale industries by encouraging them to adopt more efficient techniques as well as more modern organisation and management methods.

Accordingly, the functions of the IDCs were:

(i) technical appraisal of applications for loans;
(ii) provision of industrial extension services;
(iii) training of entrepreneurs and staff including management and
(iv) applied research into industrial products, the design of products for small-scale industries and management training.[14]

Small-Scale Industries Credit Scheme

This was a system of marching grants under which each State Government set up a credit scheme or fund from which loans were made to small-scale industrialists. The Federal Government was then required to make available to each state government a sum equal to the amount the state government put into the credit scheme. In 1980, however, the Federal Government moved away from the marching grant approach to a new system that was to be managed by the Nigerian Bank for Commerce and Industry (NBCI) in order to introduce banking prudence into management of the scheme and to ensure even distribution of available funds in the scheme.[15]

3. OPERATIONS OF GOVERNMENT PROGRAMMES FOR SMALL-SCALE INDUSTRIES AND THE ROLE OF THE FINANCIAL INSTITUTIONS

This section appraises the operation of the small-scale credit scheme, the industrial development centres up to 1980 and the role of the financial institutions between 1980 and 1985 starting with the SSICS.

The SSICS were introduced in 1984 in all the 12 states then existing and subsequently in the seven additional states which were created in 1976. In the period, 1970-1974 financial commitment of the Federal and State Governments to the scheme was ₦2.423 million or 2.8 per cent of the total budget for manufacturing sector. Appropriations by both Federal and State Governments rose to ₦48.0 million between 1975 and 1980 and escalated in 1980-85 to ₦124.0 million for 17 out of the 19 states and ₦294.50 million for the Federal Government. In aggregate, planned expenditure during 1980-85 was therefore ₦418.5 million, representing 5.2 per cent of Federal and State Governments planned expenditure on the manufacturing sector.[16]

These levels of financial commitment do not indicate actual expenditure which is considered in the subsequent section. However, the 'modus operandi' of the scheme was that the Federal Government released a matching grant every year to the states' SSICS which was then disbursed as loans to small-scale enterprises by the states small-scale industries' Loan Management Committee (LMC). The scheme was to be operated according to clearly spelt out guidelines.[17] Loans were to be given to small enterprises carrying on manufacturing, processing or servicing activities with a capital investment not exceeding ₦150,000 in machinery and equipment only. They were to be given for the expansion and modernisation of existing small-scale enterprises as well as for the development of new small-scale enterprises of the mechanised type. Loans for fixed and working capital could be up to a total of ₦80,000 of which 75 per cent must be for fixed capital cost of machinery and equipment while working capital loans were subject to a ceiling of ₦10,000. No loans were provided for the erection and expansion of workplace or to meet outstanding loan commitments. A special objective of the scheme was to encourage a new class of educated and technically qualified entrepreneurs to set up modern small-scale enterprises.

The LMC before approving any loan application was to satisfy itself as to the technical/managerial ability as well as the integrity and credit standing of the loan applicant. Prior to the consideration of any loan application, there must be a project feasibility study prepared by Industrial Development Centres (IDC). The technico-feasibility of a project prepared by the IDCs was to be the sole criterion for deciding whether or not a loan was to be granted. If a loan proposal passed the IDC test, other conditions to be fulfilled related to use of the borrowed funds by the industrialist in order to avoid abuses; terms of repayment, maintenance of proper records, disbursement of the loan and provision for supervision by LMC and inspection of premises.[18]

For the efficient performance of their functions, three IDCs were located at Owerri, Zaria and Oshogbo to serve designated zones in the country. The centres were started during the Second Development Plan and were completed during the Third Plan period. Four other centres were subsequently located at Uyo, Benin, Sokoto and Maiduguri while those at Abeokuta and Kano were in the process of being established. IDCs were greatly expanded during the Third Development Plan period and it was envisaged that one IDC should be located in each state of the federation.

There is substantial agreement about the operations of the SSICS and the role of the IDC.[19] It is generally agreed that as the credit scheme operated up to 1980, the small-scale industrialists merely completed forms which were submitted to the Industrial Development Centres whose officials were supposed to appraise the genuineness and viability of projects and write feasibility reports and recommendations to the LMC. The administration of the scheme in this form however, was open to widespread abuses. The operators of the scheme quite often colluded with industrialists and recommended loans for unviable projects.

Applications for loans were not thoroughly processed because of inadequate skilled-manpower to do a thorough job and because of political considerations. It was not uncommon for unviable projects of party supporters to be granted loans in preference to viable projects of non-party supporters. On the other hand, some borrowers contended that the loan processing was too prolonged. By the time the loan was disbursed to them, the conditions on which the feasibility study was based had changed.

Arising from some of these problems, there was a very high rate of loan default and this significantly diminished the volume of funds available to meet the loan demands of small-scale industrialists since the scheme was meant to be a revolving fund. Some political party supporters who received loans from the scheme regarded them as their own share of the national cake. Consequently the Federal Government discontinued the scheme or reorganised it in 1980. Instead of a matching grant to each state, a new arrangement created two lines of credit for small-scale industries. Each state was to continue its credit through its Ministry of Commerce and Industry while the Federal Government continued its loan scheme through the NBCI.

The rationale was that by introducing banking prudence, the scheme might be better managed and the chances of loan repayment would be better ensured.

It is pertinent to observe that the operation of the States' Industries Credit Schemes were thus made to depend on the commitment of each state and on the funds it made available. In some states the scheme has reportedly been making good progress while in others it is gradually grinding to a halt.

Loans to Small-Scale Enterprises by the Financial Institutions

The execution of Government financial policy for the promotion of small-scale enterprises was not confined to the IDCs and SSICS. The banking system and the country's development banks – the Nigerian Industrial Development Bank (NIDB) and the NBCI – all played their respective roles which will now be examined.

(i) *The Role of Nigerian Bank for Commerce and Industries (NBCI)*

The NBCI was established by Act 22 in mid-1973 in the wake of the indigenisation exercise with the aim 'inter alia' of providing some form of competition within and choice of investment banking services to the Nigerian business community. The Bank has special responsibility for dispensing funds supplied by the Federal Government to small-scale enterprises. For this function, the Bank receives two kinds of funds. The first consists of Federal Government soft loans for lending to small- and medium-scale industries on concessional terms and in strict accordance with government lending policies. The second comprises loans specifically meant for disbursement to small industrialists on very soft term basis to promote industrial dispersal and were allocated on a parity basis to all the states. Operations of the Bank based on funds of the first type and other financial resources internal to the Bank and/or loans raised from unspecified bilateral sources are treated in this paper under normal operations of the NBCI. Operations arising from the second type of fund are analysed under Federal Ministry of Industries Special Fund for small-scale Industries. The loan operation of the Bank not covered by Federal funds include the $41 million (₦37.3 million) World Bank loan specifically meant to finance the $68.38 million (₦45.6 million) small- and medium-scale pilot programme in five states, to wit, Plateau, Imo, Niger, Ondo and Cross River. For a project to be financed under this loan scheme, the enterprise seeking the loan must be constituted as wholly Nigerian-owned limited liability. Furthermore the economic rate of return of the project must not be less than 10 per cent and the proprietor has to provide at least 20 per cent of the total project cost.

NBCI Normal Operations

Under the Bank's normal operations, loan sanctions to all sub-sectors are limited to projects whose total capital cost (each) do not exceed ₦750,000 in line with the Bank's current definition of small scale enterprises.

In the period 1980 to 1985, the loans approved amounted to ₦29.983 million for 126 projects grouped into 12 sub-sectors. Food and Beverages sub-sector which received ₦8.3 million was most favoured. The sector received sanctions for 36 projects and accounted for 28.6 per cent of the total number of projects supported (see Table 1). Other service industries (i.e. photography and film processing, printing and publishing, grinding mills, laundry, courier service, etc.) came next with ₦7.0 million or 23.4 per cent of the total sanctions. The number of projects supported in this sub-sector were 35 or 27.8 per cent of the total. Reflecting the generally low level of technological development, the sub-sectors requiring more than an average level of technological know-how received relatively the lowest sanctions. For example, sanctions to machinery and basic metal products sub-sector went to only 8 projects representing 6.3 per cent of the total number of projects. It received ₦2.7 million or 9 per cent of the total value of sanctions. Similarly, only 3 projects in the Iron and Steel basic industries sub-sector received sanctions. They received ₦1.6 million or 5.3 per cent of the value of total sanctions.

The total number of projects which received loans rose from 27 in 1980 to 45 in 1981 but fell back to 35 in 1982 and 12 in 1983. In the next two years, NBCI normal loan operations virtually ground to a halt as loan sanctions numbered 1 and 3 in 1984 and 1985 respectively.

Total NBCI disbursements in the period totalled ₦92.1 million (see Table 2). Disbursement on a yearly basis rose from ₦4.5 million in 1980 through 1981 and 1982 to ₦31.9 million in 1983. Thereafter it plummeted to ₦6.2 million in 1984 and ₦9.6 million in 1985.

Federal Ministry of Industries Special Funds

Available data on NBCI approvals based on the Bank's second source of funds in the review period showed that 1,584 projects received loans approvals amounting to ₦55.4 million as against actual disbursement of ₦48.6 million (see Table 3). Of this amount, the NBCI received only ₦37.8 million from the Government. As previously indicated, the source of the special fund is the Federal Government which provided ₦1.0 million per annum for each of the 19 states of the Federation. On the basis of an annual flow of ₦19 million, therefore, NBCI should have received ₦95.0 million during the period. The difference between NBCI actual receipts from the Government and what it should have received is a measure of its financial handicap arising from inadequate funding by Government. Further analysis in Table 3 indicates that 483 projects received NBCI loans approvals in 1981. The projects which received loans were 885 in 1982. The number nose-dived to 216 in 1983. In 1984 and 1985, NBCI did not make any loan commitment to small-scale borrowers because of lack of funds under this scheme.

(ii) *The Role of the Commercial Banks*

The Central Bank, through its credit guidelines since 1979, directed the commercial banks to lend a given proportion of their total loans and advances to operators of small-scale enterprises. The target prescribed in 1979 was 10 per cent. This was subsequently raised to 16 per cent in 1980 and has remained at that level to date. Performance of the banks measured against the guidelines' prescribed target has been disappointing. For example, out of a total of 20 banks, only 10 and 12 gave loans to small-scale industrialists in 1980 and 1981. The loans given amounted to ₦102.1 million and ₦203.1 million respectively as against their aggregate loans and advances of ₦6.3 billion and ₦8.6 billion. Compared with the prescribed target of 16 per cent, the loans granted constituted only 1.6 and 2.3 per cent of their total loans and advances (see Table 4). Similarly in 1982, 1983, 1984 and 1985 loans and advances granted to small-scale borrowers were ₦206.7, ₦351.3, ₦354.3 and ₦977.2 million, respectively, representing percentage allocations of 2.0, 3.1, 3.0 and 7.9.

(iii) *Role of the Nigerian Industrial Development Bank (NIDB)*

Established in 1964, the NIDB is a development bank which intermediates industrial finance in the market for medium- and long-term capital for medium- and large-scale industries. Currently, the Bank's minimum lending to any project is ₦50,000 and its maximum exposure stands at ₦15 million. Its loan repayment period consists of two years of grace and an amortisation term of between 5 and 15 years. The NIDB rarely demands collateral security, preferring to secure its loans on the basis of the first legal mortgage on the fixed assets of the project assisted by a second charge on the floating assets. In addition to term lending, NIDB also undertakes equity participation of between 11 and 26 per cent of the paid-up share capital of the projects in which it participates. This modality of operation makes it possible for the NIDB to act as a catalyst for the promotion of small- and medium-scale industries which come within its scope of operation, i.e., projects whose investment cost plus working capital are up to ₦750,000 for small-scale industries and up to ₦3.0 million for medium-scale. The NIDB services to industrial enterprises also include non-financial services such as the provision of entrepreneural skill for initiation and promotion of industrial projects and technical/managerial skills in projects appraisal and implementation.[20]

As regards financial operations, NIDB assistance to small- and medium-scale industries is spread over 17 sub-sectors of manufacturing, construction, mining and quarrying as well as services. NIDB sanctions to these sub-sectors totalled ₦250.7 million between 1980 and 1985 (see Table 5). On an annual basis, the value of loan sanctions increased by 44.1 per cent, from ₦43.1 million in 1980 to ₦62.1 million in 1981. Thereafter, sanctions fell by an average of 20 per cent in 1982 through 1983 reaching ₦30.7 million in 1984 as a result of economic recession. In 1985, the value of sanctions showed some recovery, having risen to ₦39.8 million.

Allocation of these sanctions to the economic sub-sectors during the period under review showed tbat chemical and petroleum products received the highest share of ₦54.1 million or 21.6 per cent of the total sanctions. Food and beverages and miscellaneous followed with ₦41.8 million and ₦39.8 million or 16.7 and 15.9 per cent of the total sanctions respectively. The next important were metal fabrication and paper products which received ₦27.0 million and ₦24.9 million and accounted for 10.7 and 9.9 per cent of the total sanctions during the period. Like the NBCI, the pattern of NIDB allocation of sanctions reflected the country's industrial structure which displays a predominance of light, low technology and consumer goods industries, with little or no intermediate and capital goods industries.

Actual loan disbursement in the period to all economic sub-sectors totalled ₦127.4 million (see Table 6). On annual basis, the trend of disbursements was characterised by wide fluctuations. From the peak of ₦34.0 million in 1980, total disbursement fell sharply to ₦20.2 million in 1981, rose again to ₦28.8 million in 1982 but fell once more to only ₦10.5 million in 1984. In 1985, it recovered somewhat to ₦15.5 million. Without doubt, the economic recession affected the level of disbursement. Food and Beverages sub-sector received the highest disbursement of ₦22.7 million or 17.8 per cent of the total disbursements. The sub-sector was followed by miscellaneous group, glass, clay and stone products, chemical and petro-chemical and hotel and tourism, in that order. They accounted respectively for ₦20.8 million (16.3 per cent), ₦15.5 million (12.2 per cent), ₦13.2 million (10.4 per cent) and ₦11.9 million (9.3 per cent).

Loan operations of the NIDB in the period was quite impressive. Yet there remained a yawning gap between its achievements and the need for a structural transformation of the national economy. Financial constraints have been the major obstacle to higher lending by the NIDB.[21] Another constraint of NIDB which has been well-articulated is the well-known problem of skilled manpower.[22]

In a major effort to deal with the financial constraints, the NIDB in 1983 floated a ₦15.0 million 11¾ per cent debenture stock and thus blazed the trail of development banks into the capital market.

4. PROBLEMS OF THE SMALL-SCALE ENTERPRISES

From the analysis in the preceding section, we can draw some conclusions:

(i) In spite of the change in the administration of the credit scheme, loan demands of small proprietors throughout the country are not being met because of inadequate funds;

(ii) There are problems of inadequate skilled personnel to prepare feasibility studies and

(iii) The commercial banks while not exactly refractory, have nevertheless been niggardly in meeting the loan demands of small-scale borrowers due in part to the relatively poor performance of many of the borrowers.

In examining tbese and other problems of the small-scale enterprises, this section and indeed, the rest of this paper looks at the financial institutions, the government and the small-scale enterprises themselves in order to identify the origin of the problems and provide an effective means of solving them.

1. Commercial Banks

Problems of the financial institutions in advancing loans to small borrowers are summarised below:

(i) *High rate of failure of small businesses*

The high rate of euthenasia among small businesses and in some cases, the lack of financial integrity among the operators of small-scale industries are serious inhibitions even to an enterprising banker. There is no exaggeration when loans to small-scale industries are daubed 'high risks' and are accorded low priorities in the lending scheme of the banking sector. It is not uncommon for small scale borrowers to tailor project reports to the requirements of lending banks.

(ii) *Lack of adequate trained personnel*

On the other hand, lending banks generally lack adequate numbers of qualified professional staff who can evaluate loan application with objectivity and also monitor business performance and provide professional advice on a continuing basis.

(iii) *Loan recovery threats*

Once loans are given, hardly does the banker take sufficient interest in the affairs of the business beyond adopting legal action for loan recovery when matters have degenerated. Before then, the bankers continue to perform their bureaucratic role of administrators, sending notices of recovery of instalments and interests and reminders to follow the notices and default notices for penal interest rates.

2. Problems associated with Government

In promoting the growth of small-scale industries in order to increase their contribution to the growth of the manufacturing sector and the overall development of the economy, the problems in the domain of government are highlighted below:

(i) *High Rate of Default*
Wherever government funds have been borrowed, the default rate in repayment is high because of political connections of the borrowers or because the loan was extended without proper appraisals.

(ii) *Manpower Shortage*
Government specialised institutions for industrial development and promotional agencies lack adequate skilled manpower to evaluate and assess loan applications.

(iii) *Lack of Efficient Supervision*
Monitoring of business performance of the enterprises to which loans have been given, provision of efficient and effective extension services, etc., do not receive the attention they deserve. Clearly, this can only be done if there are adequate numbers of trained officers – extension officers, technical officers, etc.

(iv) *Infrastructure*
There is inadequate supply of infrastructure. Supply of efficient infrastructure such as water, electricity, feeder roads and other means of communication is a 'sine qua non' to the efficient performance of small-scale enterprises.

(v) *Insufficient Funds*
Government funds are not limitless. In the face of competing needs for government resources, sufficient funds are not always available to promote the needs of small scale enterprises.

(vi) There is a reasonable apprehension that the small-scale enterprise might not survive under SFEM. Small-scale industries might be forced to close down under SFEM for two reasons:

(a) inability to provide the required naira equivalent of the foreign exchange needed to procure machinery, raw materials and other inputs; and

(b) disability in obtaining adequate foreign exchange from SFEM in competition with branches of transnational corporations operating in the country. If the small-scale enterprises were to become an endangered specie, it would be in direct conflict with the aim of achieving economic self-reliance through the promotion of small-scale industries.

3. Problems with the Small-Scale Industries themselves

The unattractiveness of small-scale-industry-loans to banks reflect the following underlying problems of small-scale industries which represent deviations from the small-scale industry paradigm presented in the opening section of the paper.

(i) *Shortage of Skill*
The promoters or owners of the small-scale enterprises are people of average means with no specialised skills or expertise. Because of financial constraints, they are unable to hire the services of specialists on part-time or full-time basis. As a result, efficiency and productivity are low and hence the small enterprises cannot survive stiff competition.

(ii) *Loan diversion*
In order to obtain the required loan, small industrialists wait patiently on the managers of banks and show all sincerity of purpose. After the loan sought with great enthusiasm has been received, the small-scale industrialist ceases to co-operate. When the banker calls to discuss his business problems, he becomes evasive. This attitude often occurs where loan is given against the security of the assets proposed to be acquired but the client has failed to apply the loan for the purpose for which it was obtained thus jeopardising the bank's interest. The loans disbursed are thus turned into loans without any security.[23] The President of the Nigerian Association of Small-Scale Industrialists (NASSI) deplored the attitude of Nigerian businessmen who view loans from the banks as resources for promoting personal aggrandizement in the form of more wives, cars or even as resources for settling old scores.

(iii) *Loan defaults*
Quite apart from loans misapplication, there is the problem of loan repayment resulting in accumulation of arreas in many cases. Even where the business has earned reasonable profits, or is generating sufficient funds to allow repayment of the loans and interests due, the loans sometimes are not repaid regularly and in many cases not at all. The misuse of funds and failure to repay the fixed instalments seriously weaken the capacity of the lending institutions to benefit larger numbers of clients.

(iv) *Lack of good advice*
Another characteristic is that the small-scale proprietor does not share his problems with others nor does he seek good advice in order to find a solution to his problems. This results in high costs and/or unprofitable operations.

(v) *Lack of efficiency*
Efficiency is a main area of weakness of the small businesses. The owner-manager, in most cases, is neither a technical expert nor an able administrator. He runs his business with average efficiency, leaving a wide margin for better and fuller utilisation of resources at his disposal. In his study of 400 engineering metal working firms in 1968-72, Professor Dudley of Birmingham University found that better utilisation of resources in medium-sized firms in the U.K. could lead up to 50 per cent higher production and that at least 70 per cent of material throughput time was wholly unproductive. Further,

neither labour nor plant was employed directly on production work for more than 50 per cent of the time.[24] Thus incompetent management rather than inadequate capital, technology or manpower is sometimes a major problem of the small-scale industry. Another dimension of the same problem is that the small-scale proprietor goes into business on impulse without doing adequate planning. He does not allow for finer points of constraints nor does he evaluate longer processes. He tends to overlook interest burdens and has too much costing done in the head and not scientifically. In the field of marketing, the small firm experiences a lot of problems due to lack of initiative. There is no co-ordinated effort within the sector to develop joint marketing strategy. Expecting everything to be done by government, the sector does not study the market to obtain information which should help in marketing products to maximum advantage.

(vi) *Recalcitrance of small-scale operators*
The owner-manager rarely wishes to take full advantage of outside assistance by adopting readily the procedures of assistance programme. This and some other problems are self-inflicted as a result of prejudice and ignorance shown by many small firms for outside help. Entrepreneurs are frequently independent minded and less than forthcoming about their resources and business opportunities. Involvements with financial institutions, management consultants, government bodies, etc. tend to be seen as a threat to the independence of the entrepreneur and he does not want people telling him how he should run his business.

(vii) *Under-capitalisation*
Many of the small-scale units are under-capitalised. They suffer from inadequate working capital resources. They are unable to raise funds in the capital market because they cannot fulfil the conditions which to them are rather costly. They are also at a disadvantage in conditions of shortages as large firms are given preference in the allocation of raw materials or import licence.

(viii) *Poor accounting*
The financial problem of small businesses is rarely only financial. Often it is only a symptom, the diagnosis of which reveals other weaknesses. Business finance and stocks are mixed up with personal finance and stocks required for personal needs. Cash and stocks are taken at will for personal use whenever the need arises without accounts of such withdrawals. This makes it difficult to assess the operating results of the business and at times starves the firms of its liquid resources.

(ix) *Poor record keeping*
The small industrialist believes that the maintenance of book of accounts and other business records is costly and unnecessary. They feel they can defer the keeping of notes of important business transactions till they are necessary – amounts due to be paid to suppliers and amounts due from customers. Some feel that keeping proper records of accounts is inviting trouble from the tax authorities while some others feel that keeping records will be a source of leakage of business secrets to others. But in the absence of production records and books of accounts, business efficiency cannot be ascertained. The success of business depends on proper planning. Planning is possible only when data are available. It is not realised that keeping accounts helps the business to present the information required by banks and other lending agencies to appraise and evaluate the credit worthiness and standing of the business as well as its ability and capacity for growth if financial assistance is provided. If for the purpose of avoiding tax, profits are manipulated and shown to be at the minimum, it may achieve the objective of tax saving of a small value, but would undermine credit-worthiness since lenders go by study and analysis of the accounts of the business.

5. SUGGESTED SOLUTIONS

The problems facing small-scale industries which have been highlighted in the preceding section can be categorised conveniently as financial, managerial/technical, commercial and infrastructural. The financial problems have their origin in the humble circumstances of the small-scale industrialist and his disabilities in making maximum use of the resources of the organised financial sector. The problems related to management arise from the entrepreneur's limited education and training while the technical ones are due to his limited know-how in project planning and appraisal and little or no exposure to modern technology. The commercial problems consist of his inability to organise market surveys and product distribution channels. To be consistent with the previous section, suggested solutions to these problems are considered in three parts, starting with the Banks.

1. The Banks

The high rate of failure among small-scale industries and defaults in loan repayment among many of the surviving ones make financial institutions to be squeamish in making loans to small-scale borrowers. However, the banks could reduce their bureaucratic approach in the form of long delays in their dealings with this category of borrowers.

Furthermore, after a loan has been granted, unexpected developments can occur which give rise to temporary difficulties. Such difficulties can ruin the success of a good business unless timely assistance is given. Hence it is advocated that the banks should have coutinuing interest in its small-scale borrower who should be visited regularly to see how he is coping.

The banks could do much more to help small-scale clients in the preparation of feasibility studies and lead them on, step by step, on how the project to be implemented should be undertaken. In this way, the banks would be sure that loans would be repaid with interest as they fall due. The banks are likely to find that it is in their best interest in the long-run to spend a little more time and finance to engage some experts to assist their small borrowers. This is so because they would have won the loyalty of a good number of fledgling industrialists who remain grateful and friendly.

The development banks' funding can be improved if they utilise fully sources available to them. For example, the NIDB has blazed the trail by raising part of its required funds from the capital market. The NBCI should endeavour to do the same. Raising funds from the capital market tends to enhance institutional independence while it promotes greater efficiency in the use of funds. In any case resort to the capital market is becoming Hobson's choice in the face of government privatisation policy.

2. Government

As part of the solutions to under-capitalisation of small enterprises, government has been urged to set up small businesses Loan Guarantee Scheme which would encourage the flow of loans to the small-scale enterprises by reducing the risk element in loans to this category of borrowers.[25] The need for this scheme has greater urgency now than before because of the increasing financial difficulties of small-scale businesses under SFEM.

The fear for the survival of the small-scale businesses under SFEM arises from the low naira exchange rate which has evolved since the commencement of SFEM. With time and possible improvement in the supply of foreign exchange to the SFEM resulting from higher earnings from exports, a higher naira rate may yet emerge. In the meantime, the high foreign exchange cost of doing business would have to be faced. Furthermore, small firms are likely to be at a disadvantage in competition for foreign exchange with large firm. This problem certainly calls for special concessions to aid small-scale enterprises.

The enormous infrastructural problems are a great stumbling block to small-scale business. A fledgling small industry is hardly in a position to provide motorable access roads, power-generating plant, telephone, or a bore hole within its vicinity. However, these problems have been receiving government attention. In the 1986 budget, the Federal Government is committed to building 60,000 km of access roads in the rural areas. Other measures designed to assist small-scale enterprises contained in the budget relate to the provision of technical and managerial advice through extension services and the easing of credit term through fiscal measures aimed at creating a special lending with a sub-sector interest rate for small-scale enterprises.[26] The Directorate of Food, Roads and Rural Infrastructures which has responsibility for executing the rural projects disbursed ₦200 million in July 1986 to its branch offices in the 19 states to enable them to expand their rural roads rehabilitation programme.

In addition to the provisions of the 1986 budget, the small-scale industry schemes of Lagos and Rivers States are recommended for careful study and possible adoption by other states of the federation. In the Rivers State, satisfactory progress in promoting small-scale industries in rural areas has been achieved through the state-owned PABOD, Finance and Investment Company.[27] The company undertakes feasibility studies of small businesses to determine viability and to advise government to guarantee the funding. The government thereafter obtains required import licences for the procurement of machinery, raw materials and spare parts.

In the era of SFEM the role of government would be to aid the procurement of foreign exchange. This kind of motivation is most helpful in creating the right atmosphere for thriving small-scale industries on a large scale. Other measures that this approach brings to mind are the suggested bulk purchase by government of selected raw materials for sale to small industries.[28] This should help to reduce their frustration and uncertainty. Similarly, establishment by government of factory space which can be rented to small industries becomes most relevant given that there are only a few industrial estates in the country.

In order to assist in the solution of the marketing problems of small industries, it has been suggested that the government should reserve a certain percentage of its purchases for small- and medium-scale enterprises sub-sector as in India.[29] However, small and medium businesses should dispose of their products in the market rather than wait to exploit a pre-emptive market. In Japan small-scale industries thrive on a symbiotic relationship with the large-scale enterprises without government intervention.[30]

With regard to inadequate skilled manpower to prepare project feasibility studies and to evaluate projects on sound basis for financial intermediation, the Nigerian authorities are requested to borrow leaf from Indonesia. In an effort to stimulate the flow of financial resources to small and medium enterprises and to secure effective utilisation of such loans, the government of Indonesia established a Central Project Management Unit (CPMU) attached to the State Banks.[31] Established in 1978, the function of the CPMU was to train bank staff to monitor loans and advise on proper application of the loan funds. With this programme, there was a dramatic rise in the number of loan recipients from 72,000 to 10 million in 1982. In the same period, the amount lent escalated from $56 million to $3.3 billion. What is relevant here is that the administration of bank loans in Nigeria rests mostly with the banks which are reluctant to take on the added cost in terms of time and manpower. The Indonesian experiment shifts this cost to the government which bears it as a part of development costs.

In considering solutions to the disturbing question of management ability of small scale proprietors, government is urged to implement the suggestion that the Industrial Training Fund (ITF) in collaboration with such bodies as the Nigerian Association of Small Scale Industries, Centre for Management Development, the Administrative Staff College of Nigeria, etc. should design a suitable technical/managerial programme for small-scale businesses. The programme would be operated by the country's institutions of higher learning. The ITF should fund this programme and alsc monitor its effectiveness.[32] In this way the skills needed in business can hopefully be taught and disseminated effectively.

The lack lustre achievements in promoting the development of small-scale enterprises in Nigeria definitely calls for a re-examination of some of the programme for promoting the growth of these enterprises. It was hoped that through the promotion of small-scale enterprises, it would be possible to create substantial employment opportunities, tap indigenous entrepreneurship, facilitate effective mobilisation of local resources, capital and skills and reduce regional disparities. Since these enterprises are known to operate under various disabilities such as inadequate finance, technical and managerial know-how as well as inadequate linkages with the organised sector, the focus of policy was on project appraisal, provision of technical, and managerial services as well as loans for fixed and working capital. With the benefit of hindsight, it now seems that quality of the entrepreneur was not given its right emphasis. It is the qualitative strength of the managerial staff that conditions the success or failure of any project. Therefore, the education of the small industrialist should be the centrepiece of the policy of promoting small-scale enterprises. The current economic recession has created a large pool of unemployed graduates and retrenched workers. Virtue can be made of this necessity by mobilising those of them who are so inclined in the operation of small-scale enterprises. They should only be given existing incentives under existing policy. They would take up suitable businesses with both the potential and will to expand. These businesses would already have been mapped out with the help of expert consultants. From then on, these consultants would advise on future developments, marketing and financing and any other areas of management needed to boost production. In this way a crop of educated small-scale industrialists would have been deliberately ushered into Nigeria's industrial scene and an increase in their numbers over time could revolutionise the country's industrial development.

3. The Small-Scale Proprietor

The high rate of failure and defaults in loan repayment which discourage banks from lending to small industries result mainly from poor management. In order to remove the cause of disillusionment of the banks, the management of small industries must improve. This is not a mere flourish. It is management efficiency that makes a business successful. However good market prospects are or however sound credit, investment and financial arrangements may be, every project will ultimately succeed or fail on the strength of its managerial staff. In order to improve the small-scale entrepreneurs' managerial and technical efficiency and make them to be responsive to external stimuli, those already in business need to be educated. There are several ways of approaching this educational need. Formal institutions of higher learning – the universities and technical colleges – should collaborate to produce more technocrats and technicians who would go into businesses. This would help to prepare a millieu for the emergence of management capacity which can be developed through learning by doing.[33] Informal education of the small-scale entrepreneurs can be promoted through seminars aimed at disseminating the virtues of record keeping, planning and marketing of products.

Additionally, their exposure should cover information on the kind and sizes of machinery and equipment and their appropriateness, procurement and installation of machinery and equipment as well as improvement of product design and quality control.

In order to make informal education effective, the formation of co-operative societies is advocated. When the small industrialists are organised into co-operatives, access to them will not only be easier, they will also be more able to solve their problems together.

In order to cater more adequately for the financial requirements of the small-scale entrepreneur, use of the Second-tier Securities Market (SSM) as a vehicle for intermediating investment funds has been advocated in addition to existing sources of funds.[34] Participation in the Second-tier Securities Market offers the advantage of a greater scope for raising capital through the Nigerian Stock Exchange. This is particularly important since the financial needs of the small- and medium-scale sub-sector is not being met by Government-sponsored loans nor from the banking industry. In addition to providing a platform for raising capital for expansion through spread of ownership which helps to reduce risk, the SSM is an ideal training ground for eventual graduation to the first-tier market by indigenous enterprises. Introduced in April, 1985 with the sole aim of attracting indigenous enterprises to the capital market where only 5 of the 94 quoted companies are wholly owned by Nigerians while none is wholly promoted by Nigerians, the Second-tier Securities Market is capable of providing the much needed discipline in the operations and motivation of small-scale proprietors who eagerly receive government sponsored loans which are used profligately without a serious inclination to service the loan or amortise the loan capital.

6. SUMMARY

We summarize some of the main discussions of the paper here.

1. Government objective in promoting the development of small-scale industries is primarily to ensure that small industries survive and flourish as units of efficient economic activities in the process of industrialisation. In addition to being sources of supply of potential entrepreneurs, small businesses discharge other roles of job creation, promotion of self-reliant development, industrial dispersal, etc.

2. The study suggests a definition of small-scale business in Nigeria based on a core group of small industries whose annual turnover is not above ₦500,000 or whose investment capital excluding land is not higher than ₦750,000 and employing a labour force of not less than 10 persons.

3. Federal and State Government's desire to proliferate successful small-scale enterprises is not as successful as one would have desired because education of the small-scale industrialists was neither given its due recognition nor was appropriate provision made for it. A second chance has been offered to correct this by mobilising the unemployed university graduates and others who are interested to form a new crop of small-scale industrialists.

4. Other problems have been identified and suggestions proffered to minimise under-capitalisation and to enhance managerial and technical expertise as well as to create a favourable atmosphere for modern entrepreneurship. Specifically it was shown that there is need for lending – financial – institutions and relevant Government agencies to

have adequate cadre of professionals among their staff to prepare project profiles and feasibility studies for small industrialists. Their responsibilities should include analysis and testing venture ideas for feasibility and viability.

Other practical supports include adequate accounting and financial reporting systems, working capital requirements, market evaluation and distribution methods. Also included are services covering information on appropriate technology, size and procurement of machinery and equipment, improvement of product design and quality control.

5. The enormous infrastructural problems of the small-scale industries are in the domain of government to ameliorate. While good intentions are not lacking from government, it is the failure to translate these good intentions into concrete achievement that has perpetuated these monstrous problems.

6. Supervision of small-scale projects after loans have been obtained has been emphasised. Responsibility of a lending financial institution does not end with the sanction and disbursement of loans. There should be intensive follow-up and supervision of the project implementation to ensure that funds advanced have been utilised for the purpose for which they were obtained and that the project implementation is completed on schedule. It is advocated that a greater part of the cost of supervision be borne by government.

7. Education (formal and informal) should be engaged upon to build up a knowledgeable crop of industrialists. Loan guarantee scheme then falls into proper place as a means of encouraging greater flow of credit to the target group. It will then not be easy for any consultant to take small industrialists for a ride through taking payment for spurious feasibility studies that have not been based on objective data.

8. Vigorous efforts have to be made to ensure the formation of viable co-operatives by small-scale industrialists. This makes for collective solution of problems and the group more accessible for education and other benefits.

9. Small-scale industries may need special assistance in the procurement of needed foreign exchange because of the financial cost and their disadvantage in competing with large and well established firms for inadequate available foreign exchange.

10. Finally it must be borne in mind that there is no simple method of defining the best course of action for achieving the country's industrialisation. Too much emphasis on small-scale industries could result in the country being relegated to a second-class technological power. On the other hand, over-emphasis on industrialisation based on aggressive acquisition of modern high technology could lead to greater foreign dependence than is considered acceptable. There is need therefore for a planned series of trade-offs based on the knowledge of what is desired and can be achieved.

E. I. K. Sule,
Deputy Director
Sectorial Studies Division.

FOOTNOTES AND REFERENCES

1. The results of CBN surveys of business establishments in the country indicate that the assemblying plants achieved annual average of 11 per cent local raw material sourcing in 1981-1985.
2. *Second National Development Plan 1970-1974*: Programme of Post-War Reconstruction, p.150.
3. *Third National Development Plan 1975-1985*: Vol. 1 p.155.
4. *Use Your Opportunity for Starting a Small Industry*: Published by Small Industries Division, Federal Ministry of Industries, Lagos, p.5.
5. Oresotu, F.O. (1985), "A strategy for the Development of Small-Scale Industries in Nigeria" *CBN Economic and Financial Review*: Vol. 23 No. 3, Sept. 1985, p.17.
6. Ibid, Oresotu (1985), p.17 *et seq.*
7. 'National Provident Fund, Effective Dates for Employment'. Federal Government of Nigeria, Official Gazette, Lagos, 28th September, 1964, Vol. 48, p.1349.
8. "A Report on Financing of Small-Scale Industries in Nigeria" by a sub-committee of the National Advisory Committee on Small-Scale Industries Development (Dr. A.O. Oguntoye Chairman), p.6.
9. See N.E. Ogbe, CBN, Director of Research (1985) An Address presented at the First National Workshop on the Promotion and Development of Small and Medium-Scale Enterprises in Nigeria, ASCON, Badagry, 4th March, p.2.
10. Prof. A. Beacham and L.J. Williams – *Economics of Industrial Organisation*, 4th Ed., published by Sir Isaac Pitman and Sons Ltd., London, 1961, p.51, *et seq.*
11. S. Venkataraman, Management Training Adviser, UNIDO Management Development Services Project, CIRD. "Financing of Small Scale Industries: Problem and Prospects". A Training Paper presented at the seminar on Financing of Small Scale Industries for Participants from Financial Institutions and Governments; University of Ife, Ile-Ife, May, 1984, p.4.
12. B.F. Hoselitz "Small Industry in Underdeveloped Countries". *Development Economics and Policy*: Reading – Ian Livingstone ed. published by George Allen and Unwin, 1981, p.205.
13. Op. cit. Third National Development Plan, p.164.
14. *Industrial Development Centres in the Service of Small-Scale Industries* published by Small Industries Division, Federal Ministry of Industries, Lagos, p.8.
15. Op. cit. Third National Development Plan, pp.155 and 164.
16. Vide Fourth National Development Plan, 1980-1985 pp.149-169.
17. Government Guidelines for Small-Scale Industries Credit Scheme have been copiously discussed by Grace T. Fatula and J.Y. Adebayo in "Financial Aspects of Small Scale Industries Development". Paper presented at the Nigerian Economic Society Annual Conference, May, 1985, p.2 *et seq.* See also *Small-Scale Industries Credit Schemes* published by Small Industries Division, Federal Ministry of Industries, Lagos, pp.9 and 10.
18. Op. cit. Small-Scale Industries Credit Scheme: p.11.
19. Op. cit. Fatula and Adebayo (1985) pp.4 and 5.
20. A. Abdulkadir (1984), "The Role of NIDB and Future Prospects of Industrial Development in Nigeria". Silver Jubilee of CBN *Bullion*, Vol. II, July, 1959-1984, p.26.
21. Op. cit. A. Abdulkadir, p.28.
22. Op. cit. A. Abdulkadir, pp.29-30.
23. Op. cit. S. Venkataraman, pp.20-21.
24. Op. cit. S. Venkataraman, p.7.
25. O. Olashore, "Role of Commercial Banks in Financing Small and Medium Enterprises in Nigeria". Paper presented at the First National Workshop on Promotion and Development of Small and Medium Enterprises in Nigeria, ASCON, Badagry, March, 1985. Published in *The Nigerian Accountant* Vol. XVIII, No. 3, July/September, 1985, p.9.
26. Government of the Federal Republic of Nigeria: Approved Budget, 1986 Fiscal Year. Printed by Federal Government Printer, Lagos, pp.XXI and XIV.
27. Promotion of Small-Scale Industries in Rural Areas of the River State was highlighted by Chuma Ifedi in "Small-Scale Industrial Management", Business Concord of 10th January, 1986, p.14.
28. The Report of the First National Workshop on the Promotion and Development of Small and Medium Scale Enterprises in Nigeria, ASCON, Badagry, March, 1985, Vol. 1, Action Plan, Part II, Infrastructural Support, p.3.
29. Op. cit. Report of the First National Workshop, ASCON, Badagry, p.7 and Appendix 1, p.1.
30. Op. cit. B.F. Hoselitz, p.203 *et seq.*
31. S. Venkataraman "An overview of Lending and Support Services by Government and Financial Institutions in a Few Selected Countries Around the World", a Training Paper presented at the seminar of Financing of Small-Scale Industries, University of Ife, Ile-Ife, May, 1984, p.7.
32. Op. cit. Report of the First National Workshop, Vol. 1, p.6.
33. Arrow, J.K. "The Economic Implications of Learning by Doing", Review of Economic Studies, June, 1962.
34. Op. cit. O. Olashore, in *The Nigerian Accountant*, p.9. Also Lekan Fadina "Self Reliance Through Small Scale Enterprises", Paper presented at Annual Banking Seminar, Abeokuta on 13th September, 1985.

APPENDIX

Operation of the loan scheme in all the 19 states of the federation would require a separate study. Here only a broad generalisation indicative of a tendency can be given, using one or two states as an example. The period, 1981-1985 was one of economic recession and scarcity. It is not surprising therefore that the small-scale loan schemes in the states was not doing well for lack of funds. However, some states tried more than others. Ondo State, for example, was reportedly making more determined efforts at loan recovery and more efficient use of available resources. Projects numbering 147 and employing 2,500 workers were visited in 1984 and their proprietors offered technical advice to better their performance by officers of the state small-scale credit scheme.[1]

In Lagos State, the credit scheme which was formerly operated as an arm of the ministry was up-graded to the status of an autonomous body in 1981 under the supervision of the State Ministry of Industries. Principally, the scheme granted credit facilities to small-scale industries, charging an interest rate of 8½ per cent. In addition to providing technical assistance, loan recipients were also helped to procure raw materials from domestic sources, secure import licence for needed spares, equipment and raw materials. Beneficiaries received assistance in the marketing of products with the aim of improving loan repayment rate. However, lack of sustained effort and/or funds resulted in the scheme's dwindling performance. Disbursements declined from ₦1.4 million in 1982 to ₦500,000 in 1983 and to ₦100,000 in 1984. In 1985, the scheme did not offer any loans. Similarly, the number of applicants declined steadily from 38 in 1982 to 29, 14 and 7 in 1983, 1984 and 1985, respectively, while loan recipients decreased from 16 in 1982 to 7 in 1983 and to one in 1984.

There are no statistics in support of the claims of satisfactory performance of the small-scale loan scheme in the Rivers State. However, promotion of small-scale industries in rural areas is undertaken through the state-owned PABOD, Finance and Investment Company. The company undertakes feasibility studies of small business to determine viability and to advise government to guarantee the funding. As in Lagos State, the government of Rivers State obtains required import licences for machinery, raw materials and spare parts. This kind of assistance is most helpful to small-scale proprietors and is advocated for adoption by other states of the federation.

[1] See Grace Fatula and Yemi Adebayo "Financial Aspects of Small-Scale Industries Development: Being a paper presented at the Nigerian Economic Society Conference, 14th-18th May, 1985, p.5.

Table 1

NIGERIAN BANK FOR COMMERCE AND INDUSTRY
NORMAL OPERATIONS: LOAN TO SMALL AND MEDIUM ENTERPRISES 1980-1985

Project Sector	Date of Approval							Amount Approved			
	1980	1981	1982	1983	1984	1985	Total No. of Projects	Equity	Loan	Guarantee	Total
								₦	₦	₦	₦
1. Food and Beverages	6	17	9	2	1	1	36	130	8,165	—	8,295
2. Tourism, Hotels & Entertainment	2	3	1	1	-	—	7	10	1,620	—	1,630
3. Iron & Steel Basic Industry	2	1	—	—	—	—	3	50	770	—	820
4. Non-metallic Mineral Products	2	1	1	—	—	—	4	25	877	—	902
5. Electronic & Electrical Appliances	—	—	—	—	—	—	—	—	—	—	—
6. Transport	1	—	—	—	—	—	1	—	500	—	500
7. Wood & Wooden Products	3	6	6	2	—	1	18	70	4,422	—	4,492
8. Machinery & Basic Metal Products	1	5	2	—	—	—	8	—	2,730	—	2,730
9. Pulp & Paper Products	—	1	2	—	—	—	3	50	888	—	938
10. Textiles	—	—	—	—	—	—	—	—	—	—	—
11. Other Manufactured Products	2	6	2	1	—	—	11	150	2,455	—	2,605
12. Other Service Industries	8	8	12	6	—	1	35	65	7,006	—	7,071
	27	48	35	12	1	3	126	550	29,433	—	29,983

Source: Nigerian Bank for Commerce and Industry (NBCI)

Table 2

NIGERIAN BANK FOR COMMERCE AND INDUSTRY
TOTAL NBCI DISBURSEMENTS FROM 1980-1985

Year	Loan	Equity	Total
	₦	₦	₦
1980	4,458,136.00	12,886.00	4,471,022.00
1981	12,550,196.14	120,000.00	12,670,196.14
1982	23,925,119.24	3,230,300.00	27,155,419.24
1983	29,466,546.53	2,430,000.00	31,896,546.53
1984	6,203,435.65	35,000.00	6,238,435.65
1985	9,638,640.48	—	9,638,640.48
	86,242,074.04	5,828,186.00	92,070,260.04

*The above figures cover disbursements to all projects but exclude disbursements to FMI Small Scale Enterprises.

Source: Nigerian Bank for Commerce and Industries (NBCI)

Table 3

NIGERIAN BANK FOR COMMERCE AND INDUSTRY
FEDERAL MINISTRY OF INDUSTRIES SPECIAL FUND FOR SMALL-SCALE ENTERPRISES 1980-1985

Project Sector	No. of Projects Approved and Year						Total No. of Projects	Gross Value of Projects	Amount Received by NBCI from the FMI	Amount Approved				Amount Disbursed		
	1980	1981	1982	1983	1984	1985				Equity	Loan	Guarantee	Total	Equity	Loan	Total
								₦	₦	₦	₦	₦	₦	₦	₦	₦
1. Non-metallic Building Materials 2. Textiles .... 3. Chemicals & Pharmaceuticals .... 4. Other Manufacturing Sectors...... 5. Electrical & Electronics .... 6. Metal Fabrication.......... 7. Pulp & Paper Industry.......... 8. Iron & Steel Basic .... 9. Tourism & Hotels.......... 10. Food & Beverages.......... 11. Wood & Wooden Industries .... 12. Other Services .... 13. Transport Industry..........	—	483	885	216	—	—	1,584	N/A	37,775.0	—	55,427.3	—	55,427.3	—	48,640.1	48,640.1
Total	—	483	885	216	—	—	1,584	N/A	37,775.0	—	55,427.3	—	55,427.3	—	48,640.1	48,640.1

Source: Nigerian Bank for Commerce and Industry (NIBC)

Table 4

BANKS PERFORMANCE UNDER THE GUIDELINES PRESCRIBED TARGETS

Year	Total No. of Banks	Total No. of Respondents	Banks Total Loans and Advances ₦	Loans and Advances to the Target Group ₦	(4) as % of (3) %	Prescribed Target %
1980	20	10	6,300.0	102.1	1.6	16
1981	20	12	8,600.0	203.1	2.3	16
1982	22	11	10,300.0	206.7	2.0	16
1983	25	16	11,100.0	351.3	3.1	16
1984	26	20	11,500.0	354.3	3.0	16
1985	28	27	12,170.1	977.2	7.9	16

Table 5

NIGERIAN INDUSTRIAL DEVELOPMENT BANK LIMITED
SANCTIONS TO SMALL AND MEDIUM-SCALE INDUSTRIES (1980-1985)
(₦'000)

Sub-sector	1980	1981	1982	1983	1984	1985	Total
1. Food	845.0	3,942.3	5,816.5	6,096.1	2,393.0	7,405.0	26,497.9
2. Beverages	4,245.0	6,504.7	—	1,131.0	1,100.0	2,305.0	15,285.7
3. Textiles	2,760.0	2,695.0	3,193.0	700.0	—	1,980.5	11,328.5
4. Footwear and Leather Products	2,520.0	701.0	—	—	—	—	3,221.0
5. Wood Products and Furniture	1,680.0	2,124.0	4,439.1	3,278.0	—	—	11,521.1
6. Paper Products	2,660.5	8,840.0	2,954.0	3,042.3	3,686.5	3,727.3	24,910.6
7. Chemical and Petroleum Products	5,523.0	10,764.5	8,229.3	7,257.0	11,966.1	10,346.7	54,086.6
8. Rubber Products	—	—	—	—	—	—	—
9. Cement	2,000.0	—	—	—	—	—	2,000.0
10. Glass, Clay and Stone Products	158.8	1,683.0	4,091.9	1,898.0	1,840.0	—	9,671.7
11. Iron and Steel	2,880.0	—	—	—	—	1,020.0	3,900.0
12. Metal Fabrication	3,350.0	7,037.7	3,526.6	5,151.2	1,655.0	6,319.8	27,040.3
13. Electronics and Electrical Appliances	2,230.0	—	—	579.0	—	—	2,809.0
14. Transport Equipment	—	—	2,196.0	733.0	—	1,005.0	3,934.0
15. Mining and Quarrying	—	—	—	2,360.0	—	—	2,360.0
16. Hotels and Tourism	6,930.4	4,326.0	—	—	1,112.4	—	12,368.8
17. Miscellaneous	5,340.8	13,480.5	4,455.8	3,834.0	6,980.0	5,692.3	39,783.4
Total	43,123.5	62,098.7	38,902.2	36,059.6	30,733.0	39,801.6	250,718.6

The disbursements are usually spread over the implementation period of the projects. These disbursements are in respect of sanctions to projects whose costs (investment plus working capital) are up to ₦750,000 for small-scale and up to ₦3.0 million for medium-scale projects.

Source: Nigerian Industrial Development Bank.

Table 6

NIGERIAN INDUSTRIAL DEVELOPMENT BANK LIMITED
DISBURSEMENTS TO SMALL AND MEDIUM-SCALE INDUSTRIES (1980-1985)
(₦'000)

Sub-sector	1980	1981	1982	1983	1984	1985	Total
1. Food	766.7	282.3	1,214.7	954.8	656.6	1,344.8	5,219.9
2. Beverages	3,969.8	1,624.9	3,239.4	1,444.3	3,099.6	4,105.5	17,483.5
3. Textiles	3,289.6	436.9	1,632.4	1,320.7	1,470.3	1,047.1	9,197.0
4. Footwear and Leather Production	868.0	34.4	119.2	.3	47.0	12.3	1,081.2
5. Wood Products and Furniture	1,440.9	748.7	413.3	26.2	249.6	1,035.4	3,914.1
6. Paper Products	2,171.1	686.2	670.8	3,393.9	293.9	872.3	8,088.2
7. Chemical and Petroleum Products	422.7	2,578.9	1,630.2	3,409.2	1,211.3	3,907.0	13,159.3
8. Rubber Products	—	—	—	—	—	—	—
9. Cement	—	—	3,000.0	—	—	—	3,000.0
10. Glass, Clay and Stone Products	7,266.2	3,720.1	3,055.0	934.7	123.8	368.7	15,468.5
11. Iron and Steel	409.5	1,701.4	2,134.0	1,691.2	219.8	.2	6,156.1
12. Metal Fabrication	317.1	80.1	1,410.9	1,054.9	834.3	1,081.2	4,778.5
13. Electronic and Electrical Appliances	328.2	538.8	275.3	50.9	127.6	67.1	1,387.9
14. Transport Equipment	4,372.4	—	659.1	97.7	12.5	—	5,141.7
15. Mining and Quarrying	—	—	530.7	9.3	21.0	39.6	600.6
16. Hotel and Tourism	5,040.4	1,899.2	1,792.3	1,257.2	1,424.9	491.4	11,905.4
17. Miscellaneous	3,363.6	5,875.7	7,020.7	2,648.8	755.2	1,126.2	20,790.2
Total	34,026.2	20,207.6	28,798.0	18,294.1	10,547.4	15,498.8	127,372.1

The disbursements are usually spread over the implementation period of the projects. These disbursements are in respect of sanctions to projects whose costs (investment plus working capital) are up to ₦750,000 for small-scale and up to ₦3.0 million for medium-scale projects.

Source: Nigerian Industrial Development Bank.

Table 7

NIGERIAN INDUSTRIAL DEVELOPMENT BANK (N.I.D.B.)
SOURCES OF FUNDS

	End December 1980	End December 1981	End December 1982	End December 1983	End December 1984	End December 1985
	(₦' million) (1)	(₦' million) (2)	(₦' million) (3)	₦' million) (4)	(₦' million) (5)	(₦' million) (6)
Capital (Paid up)	99.4	99.4	99.4	99.4	188.4	198.5
Loans from:						
i. Central Bank	-	—	—	—	—	—
ii. Commercial Banks		—	—	—	—	—
iii. Merchant Banks	—	—	—	—	—	—
iv. Other non-Bank Financial Institutions	—	0.6	0.6	16.9	16.7	15.5
v. Government	129.9	187.2	216.3	216.3	72.5	72.5
vi. Abroad	63.4 (Sept.)	15.2	25.0	32.2	40.1	51.7
Grants from:						
1. Federal Government		—	—	—	—	—
2. State Governments		—	—	—	—	—
3. Others	-	—	—	—	—	—

Source: N.I.D.B. Balance Sheet for the various years.