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The Relevance, Prospects and the Challenges of the Manufacturing Sector in Nigeria

By

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Abstract

The manufacturing sector is the hub of a vibrant national economy. To be relevant, the sector must have the ability to harness the various available raw materials, process and transform them into marketable finished or partly finished goods through the use of human capital and other agents of production. The finished goods and services thus generated contribute meaningfully to the national GDP and generate income and employment opportunities for the citizenry of that nation. However, the Nigeria manufacturing sector is faced with many challenges, ranging from near nonexistent power, inadequate funding, insecurity, poor infrastructures, irregular taxes etc to poor business development strategies. This paper focuses on the various challenges and proffers solutions to the attendant implications with a more positive outlook and suggests strategies that stakeholders in the manufacturing sector can consider in order to re-position the manufacturing industry for national economic growth for robust performance with consequent national economic growth.

Time is running out for manufacturing companies and the nations of Sub-Saharan Africa alike. The world economy and the exigencies of the time place heavy demand of ruggedness, precision, proactive response to issues and attentiveness to the minute strategizing and re-strategizing to remain relevant. Every activity in the manufacturing sector is time-tagged and this leaves no more room for the pursuit of flimsies and/or maintenance of *status quo*. Innovation and product flexibility must be on the front desk to play a lead role in the manufacturing sector. The question is: how prepared are the people? What incentives do people have from the leadership of various national governments?

Nigeria and indeed the Sub-Saharan Africa should be driven by the vision to provide local content in the manufacturing sector. The political emancipation of Africa and Sub-Saharan Africa in particular for which people have sacrificed their lives, would remain meaningless unless people in the region are encouraged to take the driver's seat in the struggle for economic emancipation.

The manufacturing sector not only plays but also represents an important criterion in assessing a nation's development. Most developed countries have strong manufacturing base. Growth in manufacturing has significant positive effects on employment creation, sustained increases in per capita income, technological innovation and adoption, competitiveness and economic growth of any country.

Most countries that are major players in the global economy have transformed the structures of their economies by developing a strong manufacturing sector. Central to the transformation of countries is the growth and size of the manufacturing sector. The level of a country's development can therefore be measured by its manufacturing sector. In the 19th century, Europe developed the foundation of a strong manufacturing base.

Similarly, the development of some Asian countries as from the second half of the 20th century was anchored on a virile manufacturing sector. That China is currently the second largest economy in the world and has significantly improved the standards of living of its people in the last three decades is primarily due to the growth of manufacturing output - it is now the manufacturing factory of the whole world.

Emmanuel, (2010) cited Aihaji Bashir Borodoi, president of the Manufacturers Association of Nigeria (MAN) at its Annual General Meeting (AGM), with the theme, Sustaining Nigeria's Manufacturing Sector in the Face of the Current Global Economic Recession as saying that the closure of production by many industries had become worrisome to manufacturers even as some companies in the country were relocating to Ghana, in the face of unfavorable economic climate.

Continuing his commentary, Emmanuel, (2010) reported that it is no longer news that many companies have divested from the Nigerian economy. It was gathered that in 1999, for example, manufacturing sector accounted for nothing less than five per cent of the Gross Domestic Product (GDP). This, however, shrunk to 4.9 per cent in 2000. As a result of inadequate infrastructure and high cost of production, the manufacturing capacity utilisation has remained on the downward spiral.

It is a known fact that about a few years ago, Dunlop Nigeria Plc., the only surviving tyre manufacturing company in Nigeria then, shut down its plants, laid off hundreds of its workers and put some on half pay. Dunlop Nigeria Plc and Michelin have since relocated to Ghana. Patterson Zochonis (PZ) is also planning to relocate to Ghana, even as Cadbury Nigeria Plc, Unilever and the International Institute of Tropical Agriculture (IITA) sacked a sizeable number of their workers over reported high cost of production and decaying infrastructure.

Reports from Ghana have it that major investment drive to lure companies from Nigeria involves a 'mouth-watering' package, which company operators have found to be irresistibly attractive, It includes the donation of free piece of land to companies willing to migrate to any part of Ghana, a 15-year tax holiday as well as other policy incentives that are not readily available in Nigeria.

Already, several blue-chip companies are said to be scouting major cities in Ghana in response to the aggressive onslaught. Dunlop Nigeria Plc and Unilever Nigeria Plc are said to have finished building manufacturing plants in Ghana. Dunlop last year announced the closure of its manufacturing activities in Nigeria, based on the excuse of changing from core tyre manufacturing to pure sales and distribution. Shortly after this announcement, the entire plant and premises of the company located on Oba Akran Avenue, in Ikeja Industrial area of Lagos, were offered for sale through several newspaper advertisements. Its new factory in Ghana is said to be the proposed base of its radial tyre importation activities into Nigeria.

Dunlop is not alone in the relocation sprint. Reports have it that while some leading manufacturers in Nigeria are still on the verge of completing the installation of their plants in Ghana, others have already started operations from there. One of them is OK Foods Group, a leading food and plastic manufacturer. Its former manufacturing plant located along the Apapa-Oshodi expressway has since been deserted. It is one of the many companies that have quickly relocated to Ghana to take advantage of the liberal investment incentives the Ghanaian authorities are throwing at them.

The Manufacturing Sector

The growth rate of manufacturing sector in a country truly reflects its economic potentiality. The sector should be seen as one of the potent tools for tackling developmental issues of state. Most of the developed countries are strong enough in their manufacturing sector.

Though the services sector in Nigeria has brought faster economic success, still the manufacturing sector plays an important role on the ground of sustainability.

In Nigeria today, though the manufacturing sector is growing at a faster pace, still it has failed to a large extent with regards to its percentage share in the total GDP all because of the challenges in that sector. In the decades since independence, the Nigerian manufacturing sector has witnessed ups and downs as its contribution to GDP rose and fell. In 1970, it had risen to 9.4 per cent of GDP.

During the oil boom in 1973, it fell to 7 per cent, but rose to 13 per cent in 1980at the height of the second oil boom. However, according to the National Bureau of Statistics, manufacturing only contributed 4.1 per cent of Nigeria's GDP in 2010. In other words, in spite of tens of billions of dollars in public and private investments since independence, the manufacturing sector actually contributes less to Nigeria's economy than it did before independence 50 years ago (Nasir, 2011).

Challenges faced by the Nigerian manufacturing sector warrant appropriate responses from government as well as the industry for improving the competitiveness of the sector. There are a few areas where both the government and the industry need to put in efforts through a well-designed Public-Private partnership mode. If fully implemented, it provides the key performance indicators (KPls) upon which the sector can be monitored.

The following need to be understood

(i) The manufacturing sector needs to access the vast market possibilities available at the bottom of the income pyramid in the country.

(ii) The first essentiality for ensuring manufacturing competitiveness is macroeconomic stability.

(iii) Lowering the cost of manufacturing and improving the quality are essential for competitiveness

(iv) Domestic indirect taxes are often singled out as a major reason why Nigerian manufacturing is uncompetitive.

(v) For instance, in India, there has been advocacy of industrial watchers that high interest rates and availability of credit are problems which hinder growth of the industry as reported by Rakesh, (2007) in his commentary on Challenges Faced by Manufacturing Sector.

(vi) Innovation holds the key to increasing productivity.

(vii) The government should consider establishing technology parks.

(viii) The manufacturing sector is critically dependent on the infrastructure facilities particularly, in transportation sector - roads, railways, ports, airports etc. for movement of goods.

(ix) It is estimated that power shortage alone contributes to production loss of at least one percent of GDP.

The present scenario in Nigeria is not different from other countries in the sub-Saharan region of Africa. There is no doubt that Nigeria is even worst off considering our technological deficiency. Looking at the challenges in this sector, it is necessary to examine how they have negatively impacted the sector:

Funding

One major obstacle is that of inadequate access to credit. A recent study by Nasir, (2011) showed that 47 per cent of firms placed access to credit among their top problems.

Inadequate access to credits results in low investment, making it difficult for manufacturers to procure modern machines, information technology and human capital which are vital in reducing production costs, raising productivity and improving competitiveness. Banks have abandoned the real sector and are unwilling to make credit available to manufacturers because they are afraid of borrowing short and lending long - the tenor of funds needed by industries. In addition, banks perceive manufacturing as high risk ventures and would rather engage in contract and trade financing which often guarantee quicker and higher returns.

Even when credit is available, high lending rates, (usually at about 24-35 per cent) make it unattractive and even riskier since returns on investments in manufacturing have consistently been below the rates of borrowing. Other factors militating against manufacturing include inflation which constitutes a disincentive to saving and retards investments and growth. It also encourages speculative activities and diverts resources from productive ventures.

Worthy of note is the cabal effect among the key players and the financing institutions of the sector. The cabal in the sector retains the sacred rights to single digit interests on loans that are hardly likely to be paid back while others who may have genuine investment intentions are saddled with double digits interests on loans that are scarcely available to them. This has grossly reduced competitiveness and therefore, discouraged new corners into the sector.

Product Flexibility and Technology

World economies are changing rapidly. Developments in technology and innovations are the primary forces propelling industrialisation across the world today. New ideas and innovations are becoming increasingly the drivers of economic growth and societal progress. Industries are becoming knowledge-intensive. Even traditional industries are caught in the swing of the information revolution. New powerful industries unimaginable a few years ago are now emerging. New processes and procedures of doing old things and automation have radically transformed manufacturing and multiplied productivity. Thus, the low level of technology in our industries is another drawback.

The Olusegun Obasanjo administration's input in the areas of communications was a vital impetus to the performance of the manufacturing sector. However, the extent of that impact unfortunately did not metamorphose to measurable global increase in the sector contribution to the GDP because the collateral effects of other infrastructural propellers did not grow *pan passu.*

High Cost of Raw Materials

The high cost of raw materials both domestic and imported, also contribute to poor capacity utilization. Nigeria's industrial capacity utilization according to the CBN was about 55.5 per cent in 2010. With the levels of fixed costs that have to be distributed across low volumes of output, the competitiveness of Nigerian manufacturers is further worsened.

Security Issues

Investor confidence in the manufacturing sector is an indispensable factor any one intending to outlay his/her capital for any product development and manufacture must consider.

According to Oyati (2010), it is a known fact that an investor/entrepreneur is the individual who creates the enterprise that becomes a new entrant to the market. Similarly, an entrepreneur is one who accepts he risks associated with establishing and operating a commercial venture (Boone & Kurtz, 1984). Paraphrasing the words of Calvino (1988), the entrepreneur, like the engineers, must be adept at correlating exactitude with chaos to bring visions into form. It has to be realised however that risks that are macro environmental as grave as national insecurity through the various agent of terrorism, kidnapping etc are not to be ignored when deciding business location and development

Quite unlike the era after the Nigeria civil war when the then Federal Government rolled out programmes on national reconciliation and integration and everyone was encouraged to invest, live and do business in any part of the country, the scenario changed when spates of various ethnic unrests, youth agitations, kidnapping, armed robbery, willful destruction of life and property started to rock the boat of the sector. Ethnic and youth emancipation are now powerful tools to mock our democratic journey to one powerful and independent giant of Africa. We have failed to realize that for our nation to be truly an economic giant, the issues of stability and security need no compromise to say the least.

Infrastructure

Another major challenge of the manufacturing sector is the over stretched and dilapidated infrastructure in our Sub-Saharan Africa with particular reference to the Nigeria situation. Raw materials and finished goods alike need good and motorable roads for easy access to manufacturing sites and commodities markets. The current states of our roads and railways have negative impact on the manufacturing sector.

Despite the huge appropriation to capital projects particularly roads and bridges every year, we seem to be very distant from the solution to our decaying infrastructures. This is a disincentive to the manufacturing sector as most factories that rely on road transport for their raw materials usually have to close shop due to delay in getting their raw materials into their factories. Worthy of note is the Lagos-Benin Expressway. Similar situations exist in the network of roads connecting the economic nerve centres of Nigeria.

Availability of Ready Market

Today, the manufacturing sector is inundated with both ethical and non-ethical competition from existing and new entrants to the market place for their products.

Buying into the assertion on product marketing challenges, according to MIT Sloan, (2011), one wishes to state that even the most successful organizations are having new and unexpected challenges. Traditional approaches to management of business outfits that might have had magic wand effect in a booming economy are no longer sufficient to meet the demands of a changing market place.

Stiff competition in the market place demands innovative business models to survive. “The only way that manufacturing companies can prosper in these emerging markets is to cut costs relentlessly and accept profit margins close to zero”.(Mathew, Mark& Hari, 2011)

Unfortunately, Nigerians in the key leadership positions are the greatest patrons of foreign goods and services most of which cannot meet the standards of those that have their origin in Nigeria. They still patronize common table water, flavoured fruit juices, to mention just a few of them, thereby ceding our robust markets to foreign nations, empowering them economically and equally giving them the leverage in employment capabilities.

Power

The manufacturing sector is fraught with power challenge as far as Nigeria is concerned. Today, if you must do any reasonable business in Nigeria which has to do with power, you should be armed with your own “candle”.

The resultant effect of near non-existent power is low capacity utilization. The current campaign against the depletion of ozone layer and its collateral effects of climate change is heavily compromised by the use of alternative power sources we are used to in Nigeria today. The amorphous prices of petroleum products which are the drivers of the alternative power available to manufacturers do not allow any competitive product pricing. The effect is that goods locally manufactured price themselves out of the market, giving way to imported goods. Absence of power has led to the low contribution of the manufacturing sector to the GDP of the nation.

Proper Tax Regimes

Tax regimes in Nigeria as they affect the manufacturing sector are both lopsided and in the writer's opinion, immoral and unhealthy for meaningful growth of the economy. Multiple taxation and imposition of levies on manufacturers are both disincentives to investment and give the impression of systematic unfairness. Worst off is the irritating and annoying manner local government and state government agents who neither provide any services nor have any agenda for meaningful utilisation of the so-called levies show up at the manufacturer's gate repeatedly with claims of taxes and levies, payable with immediate effect! Sadly, this happens all the time with no sanctions.

Nigerians view these levies as outright rip-off. The money so realised hardly gets to the government coffers as huge chunks of it filters into private bellies of shameless cronies, who neither know what it takes to manage a manufacturing outfit nor set up any in the first place.

Corruption

Next to EVERYTHING, Nigerians must uphold the highest values in relating to truth and transparency. The extent of corruption one sees in Nigeria highlights the fact that when values are not observed, there can be economic disaster. The impact of corruption in hurting the economy is well known.

Money stolen and not invested is loss to the nation. Criminal minds that find themselves in the seat of governance and trust betray our hopes and aspirations as they most often than not, cross the shores of this great nation to hide their loots with no guarantees. These loots end up in other national treasuries at the demise or exit of the perpetrators. The Libyan lessons are instructive. Today, there exist so many unclaimed dividends in stocks; so many dormant accounts in our financial institutions running into trillions of naira whose ownership are either questionable or are abandoned to banks on the demise of their owners who kept their secrets till death. One may ask where this money is. It is sad to know the waste some of Nigeria's mindless leaders have put the nations in Africa through.

The impact of corruption is systematic: it generates negative economy wide externalities that denigrate the performance of the system as a whole and compromise the economy's long-term dynamic efficiency. Corruption leads to favouring of inefficient producers, distorts allocation of scarce public resources and causes leakage of revenue from government coffers to private hands, which without doubt, would have provided enough incentive for the manufacturing sector were it to be available for the funding of the sector.

Trade Policies

Nigeria's trade policy stifles industries and hampers economic development, Import bans are often imposed and lifted with little regard for overall impact on the domestic economy. Import ban list currently includes some 25 categories of goods, whose restricted status impedes local development. Even worse is the flip-flop in policy positions about import bans!

Besides, most of our manufacturing companies lack the muscle to persevere in the face of challenges. They lack the aggressive strategies which are rated according to their marketing assertiveness, their risk propensity, financial leverage, product innovation, speed of decision making, and other measures of business aggressiveness required to flourish in different business environments. The morality to consider delayed gratification is lacking in most Africa businessmen.

These strategies can be classed into four:- prospector strategy, defender strategy, analyser and reactor strategies. The prospector is ready to employ any tool including taking risks to take the lead. The defender takes minimal risks but uses any means to keep its current status. The analyser watches out for opportunities but will neither take risks nor defend position with aggression. The last only takes steps when external forces make it impossible to survive at all. It has no proactive strategy. It only responds when forced by macro environmental pressures. This is the least effective of the four strategies and that has been the Nigerian approach (Government as manufacturers inclusive).

Conclusion and Recommendation

Government must create a sound macroeconomic environment to stimulate strong growth in this sector. Prudence in fiscal and monetary management will contribute to the easing of inflationary pressures with declining interest rates. The private sector must respond positively to the government's development programmes and the improved business environment. Banks should be encouraged to increase lending and capital inflows to increase investor confidence. Political leaders should shop for partnerships with other nations and emerging economies such as China and South Korea to provide additional sources of financing and expertise for development.

In the just concluded Commonwealth Heads of Government forum in Australia, it was decided among other pertinent issues that mining, industrialisation and security will receive more commitment to stimulate economic growth. Leaders should know that stakeholders look forward to the implementation of these resolutions as they have the ability or potency to support cognate strategies geared towards the strengthening of the weak and vulnerable economies as well as reinforcing the strong ones within the Sub - Saharan Africa

Also, government and the private sectors must collaborate for the development of the manufacturing sector of the country. More investments should be proposed in the sector particularly in the growth rate of capital goods, consumer durables, and some non-durable goods. Subsequent budgets should emphasize on the manufacturing sector of Nigeria's economy in order to sustain its growth and achieve set development goals. To revive our industries government must begin with the right policies. Manufacturing activity can only flourish in a good investment climate. There must be consistency in government policy.

The importance of physical infrastructure, sound financial markets, and affordable credit cannot be overemphasised. Reliable power supply is key to improving Nigerian industrial productivity. Improving electricity supply is an essential step in kick-starting the large-scale extraction and development of Nigeria's solid mineral industry.

Customs procedures in Nigeria present a logistical obstacle for manufacturers who face long clearance procedures and high unloading costs for imports and exports. Cargo inspection procedures are rife with corruption, which imposes additional costs and delays which must stopped. Nigerian banks must increase the flow of affordable credit to the manufacturers and the Bank of Industry, NEXIM, as well as the Small and Medium Scale Enterprises Development Agency (SMEDAN) must rise up to the challenges of global competition.

In an era of increasing specialisation, Nigeria must exploit its areas of competitive advantage and focus its industrial development to propel growth in the agro-allied sector.
People need a 21st Century industrial policy that recognizes their resource endowments and match them with what the world needs in the short, medium and long terms. For instance, by reducing the importation of food and other consumer goods, Nigeria can save billions of dollars in foreign exchange and create 15-20 million jobs.

The current terrorism trend in Nigeria that is threatening national security must be fought with every nerve and muscle so that shared values and global relevance as a nation will not be eroded. Overall security status has a very salient role in winning both internal and external investor confidence. Ask anyone from a manufacturing business and they will tell just how tough the last number of years has been. However for those businesses prepared to make the necessary changes, there are avenues, which will lead to long-term sustainability.

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