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Quest for Industrialization in Nigeria: The Role of the Development Bank of Nigeria

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ABSTRACT

The benefits of industrialization in employment generation, poverty reduction, improved living standard, improved economic growth and development, balance of payment stability, self-reliance, stimulation of other sectors of the economy, and development of skilled manpower have been well established in the literature. However, access to finance for industrial development has remained a key challenge in Nigeria. In view of this, this paper describes what the structure and operations of the Development Bank of Nigeria (DBN) should be so that the Bank will not only deliver on the core mandate of empowering micro, small and medium scale enterprises (MSMEs) but also support the nation's quest for industrialization by adequately funding national priority projects in the areas of infrastructure, basic industries, energy, transportation, and the likes. The paper argues that limiting the mandate of the DBN only to facilitating credits for MSMEs in the informal sector will not go far in advancing Nigeria's quest for industrialization.

Keywords: Industrialization, Development Banking, Economic Development, Nigeria
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1.INTRODUCTION

According to Anyanwu et al. (1997), industrialization can be explained as the process of building up a nation's capacity to convert raw materials and other inputs to finished goods, including the manufacture of goods for other production or for final consumption. It is a situation whereby many industries are established in different parts of the country for the production of many different types of products (Obioma and Ozughalu, 2005; Nyor and Chinge, 2014). In the context of a developing economy like Nigeria, industrialization can be explained as the process of transforming an economy structurally from a primarily agricultural-based or mono-cultural to a predominantly industrial-based or manufacturing economy. The immediate consequence of this transformation is that manual labour is replaced by mechanized labor and craftsmen by assembly lines. The industrial sector in Nigeria includes the manufacturing, construction, electricity, mining, water and gas industries (CBN, 2002).

The benefits of industrialization in employment generation, poverty reduction, improved living standard, improved economic growth and development, balance of payment stability, self-reliance, stimulation of other sectors of the economy, and development of skilled manpower have been well established in the literature (Audi and Mohammed, 2014; Nyor and Chinge, 2014; Mba, 2015). Other studies such as Simandan (2009), Ortiz et al. (2009), and Agba and Odu (2013) support the submission that industrialization leads to large scale production of goods which are available to the consumer at much cheaper rates; saving of time and labor; considerable rise in the standard of living of the people; a variety of substitutes in consumer goods; creation of new job opportunities, leading to the removal of poverty to a great extent; and the development of new modes of transportation. It is therefore obvious that every country that has become a manufacturing hub and taking advantage of scale economies to achieve rapid growth in productivity and living standards, at least in the past few decades, has done so by industrializing.

The desire to realize the above benefits had propelled Nigeria to pursue several industrialization policies since the 1960s (Audi and Mohammed, 2014; Nyor and Chinge, 2014; Tamuno and Edoumiekumo, 2012). Among others, such industrialization policies include the import-substituting industrialization strategy embedded in the first national development plan of 1962–1968, which in the main emphasized domestic production of manufactured goods for domestic markets (Busari, 2005); the indigenization policy of 1972 and 1977 aimed at preparing indigenous entrepreneurs for rapid industrial development; the export promotion industrialization strategy embedded in the structural adjustment programme of 1986, which emphasized domestic production of manufactured goods for export in order to generate more foreign exchange particularly from non oil sources to meet the country's rising import bills, mounting external debt obligations, rising fiscal responsibilities of the government, and to attend to socio economic responsibilities (Obioma and Ozughalu, 2005); the foreign private investment led industrialization strategy adopted since 1999 after years of military dictatorship and targeted at restoring investor's confidence in the Nigerian economy in order to attract massive inflow of foreign capital in the industrial sector; the small and medium enterprises development agency of Nigeria established in to cater for the development of SMEs in Nigeria; and the national economic empowerment and development strategy, which in the main was aimed at growing the private sector as the engine of growth for wealth creation, employment generation and poverty reduction (Okereka, 2015; Ekpo, 2014; Nyor and Chinge, 2014).

Despite the implementation of the above industrialization policies, Nigeria is still far from being industrialized (Nyor and Chinge, 2014). In fact, it seems as if the more the industrial policies Nigeria implements the more the country moves away from being industrialized. These facts indicate that the country has faced several challenges in its journey to industrialization. Ekpo (2014) specifically identified a myriad of factors militating against Nigeria's industrial development. These include poor policy conceptualization and implementation; lack of technological capability, which is a sine qua non for industrial development; high cost of production resulting in non-competitiveness of Nigeria's manufactured goods in both local and international markets; concentration on light consumer goods instead of capital goods which sustain industrialization; inadequate infrastructure such as transportation, water supply, electricity supply and telecommunications, which are crucial enablers of industrialization; and poorly developed human capital. Apart from Ekpo (2014), other studies have also highlighted the challenges impeding Nigeria's journey to industrialization. Some of these challenges include a weak raw material base since more attention is being channeled into mining following the discovery of oil, inadequate technical manpower, poor policy implementation, lack of entrepreneurship skills, political instability arising from several military interference in governance, corruption in private and public sectors, and lack of finance for industrial development activities (Iwuagwu, 2009; Ayodeji and Balcioglu, 2010; Chete, et al., 2014; Isiksal and Odoh, 2016). These points indicate that Nigeria has enormous challenges to overcome in its quest for industrialization. As a step towards solving the problem of lack of finance for industrial development in Nigeria, it is the goal of this study to describe what the structure and operations of the development bank of Nigeria (DBN) should be so that the bank can act as a conduit for powering the nation's industrial development. The overall motivation for this study is therefore situated in the fact that without a proper structure in terms of management and operations, the DBN will not be able to support the nation's quest for industrialization by ensuring that projects of national priority in the areas of infrastructure, basic industries, energy, transportation, and the likes are adequately funded. In other words, we submit in this paper that restricting the operations of the DBN only to increasing access to finance by micro, small and medium scale enterprises (MSMEs) will be not go far in industrializing Nigeria.

2. DEVELOPMENT BANKING: WHAT IS IT AND WHY DOES IT MATTER?

In the foregoing section, lack of finance for industrial development was identified as a key challenge confronting industrialization in Nigeria. In this paper, we argue that the DBN has important role to play towards overcoming this challenge. However, the structure and operations of the Bank (i.e., the DBN) must be properly articulated for it to adequately discharge its responsibilities towards a more industrialized Nigeria. To begin, a development bank (or synonymously, a development finance institution [DFI]) is a type of financial intermediation institution that helps a country reach a higher and sustainable level of development. In this context, the desired level of development includes the whole spectrum of industrialization. This means that a development bank is a national or international financial institution designed to provide medium-and long-term capital for productive investment, usually accompanied by technical assistance, in developing countries. Simply put, a development bank is a bank designed for the function of development financing. Such a bank typically fills the gap left by undeveloped capital markets and the reluctance of commercial banks to offer long-term financing for critical development projects. In sum, development banking can be explained as a form of financial intermediation that provides financing to high priority investment projects in a developing economy (Pragash, 2016; ADFIAP, 2009). Such investment projects are usually geared towards the attainment of the ultimate goal of industrialization.

Historically, development banking dates back to the days industrial expansion in countries now considered to be more industrialized. More than a century ago, the U.S., the Great Britain and a number of other Central European countries built their industrial base. These highly industrialized countries attained industrialization through long-term investment financing of banks that, at the time, performed the entrepreneurial function of funding high risk projects or taking on the risk of entering into new fields of production. Such development financing banks or institutions involved in long-term financing were then called industrial banks. A typical example of this type of financing was the construction of the railroads in the U.S., which goes even back to the 1700s (ADFIAP, 2009). Presently, many national and regional development banks have been established around the world. Examples include the African Development Bank (ADB) established in 1964, the inter-American