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MANAGEMENT AND DEVELOPMENT: ADDRESSING GLOBAL BEST  
PRACTICES IN NIGERIA

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## ■ DEDICATION

**D**edicated to the International Institute for Policy Review & Development Strategies for providing a platform and supporting Institutional and Collaborative Research for Sustainable Development.

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Acknowledgement

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## **INTRODUCTION**

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# **Management and Development: Defining the Relationship**

**Bassey E. Anam**

Managing Editor

African Development Charter Series

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### **Introduction**

**M**anagement is an integral part of the development process. Otherwise referred to as administration, it is a key process in achieving development objectives in any organisation; public and private. Management process involves a set of interrelated activities such as planning and decision making, organising, leading and controlling directed at organisation resources with the aim of achieving specific goals in an efficient and effective manner. Harold Koontz said, "Management is an art of getting things done through and with the people in formally organised groups. It is an art of creating an environment in which people can perform and can co-operate towards the attainment of group goals".

Management is a purposive activity. It directs group efforts towards the attainment of certain predetermined goals. It is the process of working with and through others to effectively achieve the goals of the organization, by efficiently using limited resources in the changing world. Management involves creating an internal environment: - It is the management which puts into use the various factors of production. Therefore, it is the responsibility of



management to create such conditions which are conducive to maximum efforts so that people are able to perform their task efficiently and effectively. It includes ensuring availability of raw materials, determination of wages and salaries, formulation of rules & regulations etc (Juneja, 2017).

Henri Fayol was one of the first theorists to define functions of management in his 1916 book "Administration Industrielle et Generale". He identified 5 functions of management, which he labeled: planning, organizing, commanding, coordinating and controlling. Henri Fayol theorized that these functions were universal and that every manager performed these functions in their daily work. Management is required in all form of organisations be it political, economic, social, cultural or business because it helps and directs various efforts towards a definite purpose.

On the other hand, development is a process that creates growth, progress, positive change or the addition of physical, economic, environmental, social and demographic components to enhance social wellbeing. Development leads to a rise in the level and quality of life of the population. The process creates and expands social and economic opportunities. Todoro and Smith (2005) identified three objectives of development. These objectives define the functions and responsibilities of government in the state. They are,

1. To increase the availability and widen the distribution of basic life-sustaining goods such as food, shelter, health, and protection.
2. To raise levels of living, including, in addition to higher incomes, the provision of more jobs, better education, and greater attention to cultural and human values, all of which will serve not only to enhance material well-being but also to generate greater individual and national self-esteem.
3. To expand the range of economic and social choices available to individual and nations by freeing them from servitude and dependence not only in relation to other people and nation-states but also to the forces of ignorance and human misery.

The importance of management in development cannot be overstressed. Management plays a complementary role in the development process. Juneja (2017) maintained that efficient management leads to better economical production which helps in turn to increase the welfare of people. Good

management makes a difficult task easier by avoiding wastage of scarce resource. It improves the standard of living. It increases the profit which is beneficial to business and society will get maximum output at minimum cost by creating employment opportunities which generate income in hands. Organization comes with new products and researches beneficial for society.

Management is very much less concerned with the individual's efforts. It is more concerned with groups. In this case, it is an activity performed by public actors, either as professional career civil servants are elected. It involves the use of group effort to achieve a predetermined goal of government. Management skills enhance careful planning; goal identification and strategies for implementation, in other to achieve maximum output. Management uses physical, human and financial resources in such a manner which results in the best combination. This helps in cost reduction. The knowledge of management practice enhances the capacity of the administrator to generate and allocate public resources, integrates the resources in an effective manner to achieve goals. It directs group efforts towards the achievement of pre-determined goals. Management promotes public sector efficiency.

Management and development is a continuous process. Both process and practices deal with the continuous handling of problems and issues. They are concerned with identifying problems and taking appropriate steps to solve them. Not defining this relationship clearly affects development in any State. It reduces efficiency in public planning and goal setting. It leads to poor utilization of resources; mostly human and financial resources. It reduces employee efficiency and poor coordination of the overall development process. Hence the success of any government is assessed by its achievement of the predetermined goals or objective, management must be fully integrated into the development process.

Strengthening the relationship between Management and Development is the focus of this volume; **Management and Development: Addressing Global Best Practices in Nigeria**. Issues presented here are empirical and evidence-based. The conclusions are valid. The recommendations are strategic in setting development agenda with an effective management technique for efficient public service performance.

**EMPIRICAL  
STUDY**

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CHAPTER **1**

# Exploring Innovations in High-Tech Digital Media: An Issue for Direct Marketers in Nigeria

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## Introduction

**H**igh-tech Digital Media are hot and growing rapidly for the direct and interactive marketing. The use of the internet in transacting business has become common place in developed economies whereas internet access and web browsing are just beginning to catch attention of organization in Nigeria and very insignificant marketing via the information communication technology is recorded in Nigeria. The objective of the study is to explore emerging innovation in High-Tech Digital Media and point out its usefulness to direct marketers in Nigeria. The study employs a desk review methodology to arrive at a complete understanding of emerging innovation in High-tech Digital Media in Nigeria. Theoretically and empirically studies was made. The findings revealed the benefits of using High-tech digital media and it was concluded that market oriented business and services depend on quick response to rapidly changing customers' needs.

### **Background of the Study**

There has been a great deal of hype about interactive media and many buzzwords have emerged. Douglas (2002) assert that information technology has grown and evolved over the last 60 years, one cannot think and plan a project, business or other interactive without the usage of this technology. The technological revolution presupposed global computerized networks and the free movement of goods, information and people across national boundaries hence, the internet and global computer networks makes possible globalization by producing a technological infrastructure for global economy.

### **Statement of the Problem**

High-tech digital media are hot and growing rapidly for direct and interactive marketers. The internet has surely changed the way most customers make purchases today. The internet is considered interactive because it meets the three criteria established by the DMA where consumers must be able to have control over the information being presented, the face at which the product are reviewed and the ability to place an order or request additional information directly from the medium itself. However, Adibe (2006) observed that the use of this internet in transacting business has become common place in the developed economies whereas internet access and web browsing are just beginning to catch the attention of organization in Nigeria. In addition Okpara (2008) noted that very insignificant marketing via the information communication technology is recorded in Nigeria.

### **Objective of the Study**

To explore emerging innovation in High-tech digital media and point out the usefulness to direct marketers in Nigeria.

### **Methodology**

The study employs a desk review methodology whereby data were gathered from published work such as text books, journals as well as online information to arrive at the complete understanding of emerging innovation in High-tech digital media trends in Nigeria.

### **Literature Review**

#### **The internet as an interactive marketing medium**

Spiller and Baier (2010) noted that the internet is an interactive marketing medium for direct marketers offering information access and two-way

communication with customers in real time via the computer. Interactive is what makes marketing on the internet different from other forms of direct marketing media. According to the Direct Marketing Association (DMA), to be considered “interactive”, a new medium must meet the following three criteria.

- i. Customers must be able to control when they view the products and which type of products they are viewing.
- ii. Customers must be able to control the pace at which they review products. They must be able to review the product content at their leisure, reading the product literature at a pace that is convenient to them rather than being forced to progress to the next product.
- iii. Customers must be able to place an order or request additional information directly via the medium rather than having to order through another method.

If one of these characteristics is missing, then the medium cannot be considered interactive, thus, infomercials and televisions home shopping are not considered interactive media at the present time because they present product information in the predetermined order and accordingly to a set time frame. The internet (which includes the World Wide Web and email) is the only medium that is considered to be truly interactive according to the DMA.

### **Information Technology and Business Environment**

Emuakpor (2002) defined information technology as all forms of technology applied to the processing, storing and transmitting information in electronic form, stressing that the physical equipment used for this purpose include computers, communication equipment and networks; fax machine and electronic, pocket calculator and others. Dimovski and Skerlavaj (2004) noted that information and communication technology has become the main tool in business activities in the modern world. Technologies companies often gain competitive advantage by causing market disruption through their ability to understand and act on technology trends. Keeping up with the relentless pace of change in the ICT industry is a daily challenge for modern technology companies. The key to long-term success lies in the ability to understand change almost before it occurs and seize the opportunity to change evolving technologies.

Alao, Alarape and Olayemi (2014) defined ICT as a technological term that include communication devices or applications encompassing radio, television, cellular phones, satellite systems and so on, as well as the various services and applications associated with them. Blumel (2014) commenting on provision of business capital support, noted that ICT institutions are being established and workshops are being organized, therefore at the end of the training in workshops and institutions, government and/or donor agencies like UNICEF, USAID, BOI should help in providing soft loans to the graduates of these ICT institutions to enable them start a business of their own in case of no job placement. Although online platforms can also be created to ensure the connection of the graduate from these entrepreneurship centres to appropriate employers in a matching style.

OECD (1987) noted that ICT is a rather amorphous derivation usually comprising two key elements; information and communication. Information technology is a loose term used to encompass technologies employed in the collection, processing and transmission of information. It typically includes micro-electronics and optoelectronic-based technologies covering, among others computers electronic office equipment, telecommunication, industrial robots and other computer controlled machines, electronic components and software products. While Dern (1994) assert that communication technology comprises all the technologies used for capturing, retrieving and transmitting information and the attendant feedback.

Globally, the rapid advancement of information technology, notably the internet and the World Wide Web has created opportunities and challenges for business sectors. Barnnelt and Standing (2001) assert that a rapidly changing business environment largely brought about by the internet requires companies to quickly implement new business methods, develop new networks alliances and creative in their marketing. Therefore, there is an imperative need for business to actively select between business models or frameworks that can best support an effective online strategy. From a marketing perspective, the web gives rise to a new and very effective tool and changes the way marketers define marketing mix variables (Kotler, 2003; Siegel, 2003). Evidently, therefore, ICT has revolutionized the art and practice of marketing research in Nigeria. It is believed, for instance that internet, a major component of ICT, contains more information than the world's largest

physical library, thereby making it the largest database ever (Emeagwali, 2000).

### **The Internet and the World Wide Web**

The internet began as a high-tech tool for facilitating communication between scientists developed under the sponsorship of the U.S. Defence Department's Advanced Research Projects Agency (DARPA). In 1969, the network, then called ARPANet became a reality when two nodes were linked together. By 1989, the national science foundation had replaced the Defense Department as the client source of support for the network of networks, renamed NSFnet. Originally intended to facilitate research and communication within the scientific community, the internet has grown to include networks and users across a wide variety of backgrounds and interests. The first widespread interest in the internet as a vehicle for commerce occurred in 1993 (Spiller & Baier, 2010).

The term internet is actually a combination of the words international and network. The internet is a worldwide network of computers connected to one another to enable rapid transmission of data from one point to another. For direct marketers, the internet is more than computers and their contents. The internet is a social space where users communicate with each other via e-mail, Usenet (consisting of over 50,000 discussion groups arranged hierarchically by topic), and the web. This global network includes millions of corporate, government, organizational and private networks, as well as e-mail, newsgroups, and the web (Judy and Raymond, 2001). It is similar to the telephone in that just as phone calls can be made anywhere in the world, a computer can link up to anywhere in the world provided it is connected to the internet.

The World Wide Web: The web began as a very small part of the internet. However, because the web has had such strong appeal, it is now the domain part and is what most people think about when they think of the internet. The World Wide Web is the portion of the internet that has colour, sound, graphics, animation, video, interactivity, and ways to move from one web page to another (Robin and John, 2000).



**Table 1: Evolution of E-business Initiatives**

Stage 1:	Stage 2:	Stage 3:	Stage 4:	Stage 5:	Stage 6:
<b>Brochure ware</b>	<b>Customer Interactivity</b>	<b>Transaction Enabler</b>	<b>One-to-One Relationship</b>	<b>Real-Time Organization</b>	<b>Communities of Interests (COINS)</b>
In this stage organizations began to use the Internet as a bulletin board for brochures, employee telephone directories, and over time, for more critical documents such as catalogs and price lists	This next phase is when companies created an interactive dialogue with their customers, encouraging them to inquire, request, register, etc on-line	In this stage companies began using the Internet to expand transactions (selling products, procuring supplies, enabling internal processes such as human resources activities).	This is when the Internet began to be used to create customized silos of interactivity. Because Web technology allows companies to deal with customers on a one-to-one basis, product pricing became fluid, dictated by individual customers, often in an auction process.	Zero latency organizations are able to plan, execute and aggregate buyers and sellers in a virtual arena. These companies understand customers' needs and deliver value in real-time	The internet helps companies create communities of common interests (by content, by community, and/or by type of commerce) that closely link various partners in a value chain. Examples of this stage of involvement include marketing companies such as ePay where consumers who possess common needs or interest can compressively bid on a given product.

Evolution of E-Business Initiatives. Source: Adapted from Amir Hartman and John Sifortis, with John Kador, Net Ready: Strategies for Success in the E-Conomy (New York: McGraw-Hill, 2000), xviii-xix.

**Electronic Commerce**

Many business strategies that involve the internet are commonly referred to as “electronic commerce”. Electronic commerce is the completion of buying and selling transactions online. E-commerce is a label that encourages a wide variety of business activities, including those most typically associated with marketing. Electronic commerce had its start in corporations and banks, primarily as a means of facilitating business transactions electronically. Two of these early applications of electronic commerce were electronic data interchange (EDI) and electronic funds transfer (EFT).

“E” as the first letter in the electronic or internet usage has assumed great importance not only in the world of information and communication

technology but also in business. It has become an important component of a large number of areas of research. So we can mention electronic marketing, electronic commerce, electronic finance, electronic learning and others. The internet represents a technological innovation whose effects range from communication to interaction; however, its potential has not been fully explored and studied (Hoffman, Novak & Peterson, 1997).

The concept of E-commerce is the making of all commercial transactions online and relying on the internet for all the information needed for personal and business commercial activities. A case in point is when the airline industry in the United State of America went online (Boone & Kurtz, 2005) while Gates and Hemingway (1999) noted that the term e-business has been synonymously used to mean e-marketing as perceived by different authors. They pointed out that e-business is described as the use of electronic means and platforms to conduct a company's business, while e-marketing, on the other hand, has to do with the company's efforts to inform, communicate, promote and sell us products and services over the internet. Daniel (1999) noted that electronic banking is the delivery of bank 's information and services by banks to customers via different delivery platforms that can be used with different terminal devices such as personal computer and a mobile phone with browser or desktop software, telephone or digital television. He observed that there are four forms of banking: PC banking, internet banking, TV-based banking and telephone-based banking. Personal computer (PC) banking is used when the customer installs banking software on his or her personal computer. The customer can access his or her bank account via the internet using a personal computer or mobile phone and web browser. Television-based banking entails the use of the satellite or cable to deliver the account information to the television screens of the customers. In the telephone-based banking, the customer can access their bank account via SMS as well as by ordinary phone using the services of interactive voice response.

### **Marketing on the Web, an Interactive Media for Direct Marketers**

**1. E-mail Marketing:** Is a part of the internet that is separate from the web. It is electronic communication that travels all over the world via the internet. Three types of e-mail of internet to marketers are:

- i. E-mail from companies targeting promotions to specific customers: This method is most effective when it is database-driven and customized to match the needs of specific market segment of customers.
- ii. E-mail from the consumer to the company: This is often used for placing an inquiry or a request for additional information.
- iii. E-mail from the consumer to another consumer: This is the electronic version of word of mouth. This form of e-mail has also been referred to as viral marketing where e-mail message are forwarded to other consumers by a consumer.

E-mail direct marketing is most productive when companies use their own customers' lists instead of lists generated by third parties. Because sending e-mail messages is easy, cheap and fast, some companies have misused this medium. **Spam** is the term for unsolicited e-mail of the internet. Direct marketers can avoid sending spam by handling customer information carefully and adhering to ethical e-mail marketing practices.

**2. Online Market Research:** The internet offers an alternative medium for executing marketing research studies on a one-to-one basis with customers. Some of the more common primary data collection techniques being implemented online are:

- i. Online survey: This is carried out by either sending electronic questionnaires to customers via individual e-mails or by posting a survey on a company's website. Sending questions via e-mail allows for personalization and control over the timing and distribution of the survey.
  - ii. Online panels: is similar to focus group interviews, are discussions marketers conduct with people who have agreed to talk about a selected topic over a period of time. It overcomes the sampling and response problems associated with online survey.
- 3. Web Advertising:** is highly versatile and can be as simple as text (a few paragraphs or literally pages of text), or highly detailed to include graphics, sound, animation and hyperlinks. The most common form of web advertising is banner advertising.

**4. Banner Advertising:** Is the digital analog to print ads, targeting a broad audience with the goal of creating awareness about the product or services being promoted. They are similar to space ads used in print media; however, they have video and audio capabilities because they are designed for interactive media.

**5. E-branding:** The use of a name, term, symbol or design (or a combination of these) to identify a company's goods and services and to distinguish them from their competitors is branding. E-branding therefore, refers to carrying out branding strategies electronically. The benefits of branding include the customer's recognition of the brand and the ultimate trust the customer places in the brand name (and parent company). When consumers go to a company's website, they are looking primarily for product and business information. Thus, marketers should use the web for more than traditional advertising and entertainment; they should use it as a forum to communicate a company's brand and its benefits to consumers. The web is one of the places where one can effectively combine branding and direct marketing.

#### **High-Tech Digital Media in Nigeria:**

In Nigeria, a few years ago the internet was for the upper class and large businesses who can afford it, therefore starting an online business with the intention to directly reach the customers was not viable, but after the internet became more affordable and accessible, online business begin to spring up. Some major brands that have emerged from the internet technology industry are:

#### **VConnect**

Vconnect is a local search engine and an information service provider company in Nigeria. VConnect global service limited founded in 2010 and launched in 2011, provides information about various products, services and companies in Nigeria. VConnect launched mobile applications on Android, Blackberry & iOS platform in 2013. It allows users to find local businesses on the go and uses GPS to track their location to find nearest businesses. Users can locate businesses using maps and navigate there via "Get Direction" feature. One can find the best businesses in town based on user's ratings and reviews mark them as their favorite and get latest feeds. This application

allows users to get quotations from different suppliers using “Get suppliers” feature. Another innovative tool which was also introduced is the customer management tool known as flash which is gained ground in the Nigerian market especially the FMCG companies in the country. This industry often face the challenge of monitoring the delivery and shipment of their goods intended for the purpose of market testing, but with the introduction of the flash this challenge has become history.

### **Konga**

Konga.com, another retail online megastore, and one of the pioneers of the Nigerian online retail store. Konga's incorporated in 2012 it has further developed its facilities to enable shopper shop with ease and comfort. It has also introduced the shopping by sms in conjunction with the guardian newspaper to enable it serve customers who do not have access to the internet. Konga.com also has a good social media presence. Konga has over 191,000 likes on Facebook and over 7,000 followers on Twitter. Customers place orders on their social media platforms and track their orders on them as well. New stocks are also announced and displayed on their Twitter account and Facebook page. The interaction between Konga and its customers on its social media platform is also very efficient as customers requests are responded to promptly.

### **Jumia**

Jumia.com.ng is Nigeria's number 1 online retailer and the winner for the 2013 world retail award, also the business went ahead to win best new retail launch of the year 2013. Jumia is the first African company to win the world retail award. After its incorporation in 2012 the online company has gone ahead to improve customer experience by introducing new tracking tool on its website where customers can easily login and check the status of their order without having to call customer service, this company has also launched its app in Nigeria and other African countries and this app is available on all android phones. Jumia has also launched the first online wedding store where customers can buy their wedding dresses and tuxedos. Jumia.com.ng has a decent presence on social media. On Facebook, Jumia has over 251,000 likes and over 3000 followers on Twitter. The e-commerce company allows client to order for goods on both their Twitter account and Facebook page. Jumia interacts regularly with customers via social media—updating and

announcing the arrival of new stocks. Also, customers can track their orders on these social media platforms and the response from the Jumia team is good. Their Facebook and Twitter account is a beehive of activities on a daily basis and they have uniquely sustained this interaction with customers.

### **Cheki.com**

Cheki.com.ng is an online marketplace established 2011 where Nigeria's leading car dealers, importers and private sellers post their cars for sale in Nigeria, it is the number 1 Auto website with more car buyers and car sellers than any other site in Nigeria. They do not sell cars directly but rather offer an advertising medium for Nigerians to buy and sell their vehicles. They also have a section on their website site where car insurance can be processed with ease and in comfort so you can buy your car and get the insurance on the same day hassle free. Cheki.com.ng is also available on Nokia ovi mobile phones and android app store also on MTN and Airtel via SMS.

### **Jobberman.com**

Founded in 2009, Jobberman.com is Sub-Saharan Africa's biggest jobs website with over 1 million users and helps over 19,000 companies advertise their vacancies. Jobberman.com is building the best destination in Africa for jobseekers and employers and has a corporate mission to help people find their dream jobs and help employers find the right people they need to be successful. This company has collaborated with multinational companies in Nigeria to hold seminars for job seekers and has also organized job fairs in order to bring seekers to employers. They have also introduced an application which can be downloaded on a blackberry or any android phone to make the job search and, application less stressful.

These companies, through their effective social media presence have been able to sell their products and services directly to customers, established and maintain relationship and generate immediate response.

### **Promoting the Website**

Promoting a website is a critical part of successful marketing via interactive media. If consumers are not aware of a company's product or services, they cannot purchase them. The same is true for a company's website. Investing a lot of money into developing the most creative website means nothing if

potential customers don't know it exists. Michelle (2001) noted some strategies designed to promote a website to increase site traffic.

- i. Put the URL (universal resource locator, otherwise known as the Internet address) everywhere. All promotional literature should contain the URL, including business cards, letterhead, print and other advertisements, direct mail packages, and so on.
- ii. Ask and you shall receive. Ask visitors to bookmark the Web site.
- iii. Give customers a reason to bookmark the Web site. Give away free stuff such as advice, contests, premiums, and so on. Be creative and be sure to promote the fact that the Web site offers free stuff. By providing value to the customer you give them a reason to click, stick, and come back.
- iv. Develop a blog to create buzz, and in turn get customers to talk about your new products and services. Don't be afraid to get creative by including photos, videos, and anything else that will create interest and make the blog easily accessible from your home page.
- v. Offer a chat -room or provide a bulletin board to open communication among consumers and give them a reason to come back.
- vi. Develop an e-newsletter to make the Web site more dynamic. The more dynamic the site, the more often your customers will come back. Be sure to give customers a choice; offer both text and HTML versions of the newsletter, and let the customer determine the frequency of the newsletter as well.
- vii. Create an e-business card that accompanies each e-mail message. Be sure to include the URL in hyperlink format.
- viii. Establish a reciprocal Web linking program. Most people find Web sites by following links from other sites. Be selective in whom you swap links with. Only link to those sites that meet one of the two following criteria. They should either be local links from other businesses or topical links from your line of business, that is, other related but not competing companies.
- ix. Use search engines and register the site at directories and other Web sites. A search engine is similar to a library card catalog. It is an index of key words that enables Web browsers to find what they are looking for. Some search engines such as Yahoo! will search the entire Web, making them more powerful than those that only search by category type and a site description.

- x. Promote the site in mailings and newsgroups. Be sure to offer useful advice in a newsgroup related to the business and discretely add your short e-business card at the end of the message.
- xi. Create a banner ad. In return for showing banners on your Web site, Bannerexchange.com will place your banner on the Banner Exchange Network of Web pages.
- xii. Promote the site using good old word-of-mouth advertising. Tell everyone about your Web site.

**Improving the Website Traffic through Search Engine Marketing (SEM):** Is a set of techniques and strategies use to direct more visitors from search engines to marketing websites. Optimization is the process of improving website traffic by using search engine. In general, when the link to a website is listed in a higher position the search engine results page, the user is more likely to view it. Thus, search engine optimization aims at moving the links to one of the top links on the results page. The four most common purpose for SEM use include increasing or enhancing brand awareness of product or services; selling products, or content directly online; generating leads and driving traffic to a website.

**Types of SEM:**

- i. **Paid placement:** sometimes referred to as “pay-per-click” (PPC) or “cost-per-click” (CPC). Paid placement advertising uses text ads targeted to keyword search results on search engines through programs such as Google, Adwords and Yahoo.
- ii. **Paid inclusion:** This entails the practice of paying a fee to search engines and similar types of sites such as directories or shopping comparison sites, so that a given website or web pages may be included in the services directory, although not necessarily in exchange for a particular position in search engine listings. The fee structures will vary.
- iii. **Organization search engine optimization:** This form of optimization includes the use of a variety of techniques to improve how well a site or page gets listed in search engine for particular search topics. Some of these optimization techniques include augmenting HTML code, web page copy editing, site navigation, linking campaigns and more.



Today, many consumers take the approach of typing in what they are searching for using keyword search engine such as Yahoo or Google. Before that, consumers often browsed through catalogs prior to visiting internet retailers. Some consumers still do; however, that is certainly not the trend. Today, technological advances such as like.com make it even easier to search for items online. Like.com uses visual search engine technology that allows a consumer to search for a product with only a photo. For example, when consumers see a photograph of a sweater they really like that is worn by a celebrity online, they can search for that same sweater by using like.com.

### **Getting the consumers “stick” to a particular website**

It is well known that when surfing the web, consumers may click on many website, but only stay or stick for 15 seconds to 1 minute, depending on the visitor's objectives. Once consumers click on a company's site, they want them to stick or, at the very least, bookmark the site for easy navigation when returning. That takes both strategic and creative thinking.

Strategies to get consumers stay on a particular website include:

- i. Make the web site easy to navigate – consumers should not and will not work to make sense of the web site.
- ii. Offer free giveaways.
- iii. Provide relevant, timely news and information.
- iv. Create dynamic web pages – ones that change every time the customer revisit.
- v. Offer chat rooms
- vi. Personalize the web page.
- vii. Develop specific landing pages that pertain to the marketing offer so that consumer doesn't have to spend extra time searching for an item of interest.

**Landing pages** are those web pages where people “land” when they click on an ad banner, search engine result, or e-mail link or when they visit a special promotional URL that they heard about on television, radio or other offline media.

- viii. Be sure to establish necessary links for the consumer to pull in relevant data from other sites to create a one-stop shopping effect; thus, there will be no need to go to other web sites.

Other online strategies include:

- i. **Blogging:** The word blog is short for the phrase “web log”, **blogs** refers to websites that contain up-to-date, continuous information that is posted for all viewers to read. The primary goals for blogs include creating public awareness, increasing viral marketing activity, and generating website traffic.
- ii. **Online social networking:** This marketing strategy occurs when a person or company publishes its information on an online social community, such as facebook, youtube, myspace, or Friendster. Posting information on these sites allows the user to update current news, features, or interesting statistics. Viewers of the site can add comments on the page that the user created. The end result of online social networking is to increase traffic to the social community site, create inbound links and increase traffic to the users own website by creating a web page in the social community.  
Online social networking, combined with the proliferation of entertainment and information, might be the drivers of high-tech digital marketing. It not only generates large quantities of web traffic, but the information and entertainment value motivates consumers to stay online longer and to return more often.
- iii. **Mobile Marketing:** This refers to marketing on mobile phones. This ranges from anything including advertising to text messaging voting campaigns.

### **Measuring the effectiveness of direct marketing activities**

All direct marketing activities are expected to be measureable and those carried out on interactive media are no different. The consumers (not the marketer) initiate most of the interactions on the internet, the measurement tactics are different from those used for traditional media.

The most common interactive measurement technique is based on a **click stream model**. A click stream is the database created by the date-stamped, coded/interpreted, button-pushing events enacted by users of interactive media.

Element that make up the click streams are:

- i. **Hits:** are basically the equivalents of an advertising impression, that is, given that a person is viewing a particular page at a particular time. A hit is web terminology for any request for data from a web page or file. It is often used to compare popularity/traffic of a site in the context of getting so many hits during a given period. Regardless of how long or short the visit to a web page, each link on the page counts a hit. For this reasons, hits are easily measured, but may provide little real information to the direct marketer.
- ii. **Users:** This measure the number of different people, that is, unique visitors, who visits a particular site during a given period of time. This measure is similar to reach in mass media advertising.
- iii. **Visits:** This count the total number of times a user accessed a particular site during a given period of time. This measure is similar to frequency in mass media advertising. Visits are different from hits. A single visit is usually recorded as several hits and, depending on the browser, the page size, and other factors, the number of hits per page can vary widely.
- iv. **Identified users:** Is the demographic profile of either visits or users of a site during a specified period of time. It is similar to the demographic profiles of readers, listeners, or viewers that mass media provides to their advertisers.
- v. **Pages:** Are a measure of the number of pages downloaded from a specific site at a particular time. One link may allow the viewer access to many pages, but too often the viewer may not scroll through all of them and therefore may not see all the material contained in the website. Thus, a count of pages also may not provide meaningful measurement.

Other forms of measurement include tracking or measuring capabilities that enable companies to follow and document the web surfing habits of consumers. The process is simple. When a consumer visits a website, the site plants a cookie (an electronic tag) on the consumer's computer. The cookie enables the website to follow consumers as they shop and recognize them on return visits. Cookies can reveal how long the consumer stays at a page, which products the consumer likes and which other sites the consumer visits. Although it is possible to program a computer to reject cookies, cookies allow

personalized information to be stored at the consumer's favorite websites, making shopping and other online transactions more convenient.

### **Benefits of High-Tech Digital Media**

- i. **Low cost:** Direct marketers pay for the internet based on local phone access, not on how widely they distribute their message. Thus, the internet offers a near zero incremental contact cost and worldwide access without long-distance charges.
- ii. **Flexibility:** The internet offers great flexibility and permits changes in offers and direct response communication instantly, instead of waiting until the next printed catalog is published to change prices or other features.
- iii. **Wide reach:** The internet reaches a worldwide audience of millions of consumers and enables small companies and entrepreneurs to be transformed into global entities instantaneously.
- iv. **Inbound transmission ease:** The internet enables quick and easy inbound transmission and replies, since systems now exist that will automatically fulfill information request from visitors to the direct marketer's homepage.
- v. **Creative variety:** Direct marketers can select from an endless array of creative formats and options, including, animation, sound, text, graphics and video.
- vii. **Convenience:** the internet is almost like a global trade show that is open 24hours a day, 7 days a week. Consumers can shop from their homes at any time of the day or night.
- viii. **Selective communication:** The internet enables marketers to target and personally communicate with consumes and interested prospects, both locally and globally and offers instant worldwide access with 24hours per day, 7 days per week, 365 days per year.

It is a great interest to note that ICT has always been prominent in all the diversification options offered by experts and internationally accepted driver of a nation's economy, most especially as practically being experienced (Oyetunde, 2015). It is also one of the six prioritized sectors in the four year economic recovery and growth plan of Nigeria (Federal Republic of Nigeria, 2017). In the business world, digital marketing attempts to perfect the segmentation strategy used in traditional marketing (Wikipedia, 2016).

Market segmentation involves dividing a broad target market into subjects of consumers, business or countries that have, or are perceived to have, common needs, interests, and priorities, and then designing and implementing strategies to target them. It therefore, targets its audience more precisely, and is sometimes called personalized marketing or one-to-one marketing. This is achieved through digital communications which creates a multi-communication channel where information can be quickly exchanged around the world by anyone without any regard to whom they are (Sakas, Dimitrios and Kavovra, 2015). It brings about reduction of energy and effort needed for marketing as compared to the traditional marketing since people use digital devices instead of going to physical shops (Nielsen, 2016; Dahlem, 2010). Creating a social media page during marketing will further increase relation quality between new consumers and existing consumers as well as consistent brand reinforcement therefore improving brand awareness (Kumar, Bezawada, Rishika, Janakivama and Kannan, 2016).

### **Challenges of High-Tech Digital Media**

Though digital businesses have a lot of benefits, it also has challenges. It is highly dependent on the internet. This can be considered as a set back because the internet may not be accessible in certain areas or consumers may have poor internet connections (INBAM, Business Horizons, 2015). There are large amount of competing goods and services that are using the same digital marketing strategies. Someone may search for a specific product from a specific company online and end up purchasing another product that is cheaper or has better quality of the same product or quicker to find online because they all appear on the customer's home page if they use targeted advertising online. Maintaining a successful social media presence therefore requires a business to be consistent in interactions through creating a two way feed of information since the environment is dynamic due to the global nature of the internet (Ozturk, 2013). Understanding mobile devices is a significant aspect of digital marketing. Apps provide a big challenge for marketers because they need to be downloaded and needs to be actually used. This may be difficult as half the time spent on smart phone apps occurs on the individual's single most used app, and almost 85% of their time on the top four rated apps (Whiteside, 2016).

**Others Include:**

- i. **Unregulated:** The internet is still evolving and is unregulated at the present time. Many uncontrollable variables, such as legal aspects, must be constantly monitored.
- ii. **Lack of privacy:** Privacy concerns are on the rise-once again, marketers must keep abreast of changing policies.
- iii. **Lack of control:** The internet is difficult to control-anyone can click on a website and obtain information. In addition, it is driven by the end user-because the end user must seek out what he or she wants and when he or she wants it. Thus, direct marketers cannot control who visit their website or when.
- iv. **Lack of technical support:** Internet users often need technical support for their online activities. This is deterrent for some prospective internet users, especially those in countries where technology and technological support are lacking.
- i. **Limited reach:** The internet can only reach certain consumer types-omitting anyone who does not have computer access, and failure to reach those who have computer access but opt not to spend time online.

**Theoretical Framework**

**Media Convergence Theory**

The media convergence theory will be apt in giving this paper required focus. The theory posits that new technologies bring together different mediums and consequently redefines the technological, economic, aesthetic, organic and media environment, (<https://mediawiki.edu>).

One of the foremost proponents of the theory Henry Jenkins, popularized the concept of convergence culture in his 2006 book of the same name. According to him, convergence is both a “top down” and “bottom up” phenomenon. Media convergence is a theory in communications where every mass medium eventually merges to the point where they become one medium due to the advent of new technologies, (<http://link.springer.com>).

According to the theory, changes in communication and information technologies reshape and change our everyday life, altering the patterns of creation, consumption, learning and interpersonal interaction. It states that

new technologies redefine media content and alters human interactions with social institutions such as government, education and commerce. The relevance of this theory to the topic is that the new media contrary to fears, did not obliterate the conventional or old media. Rather, the reality is that there is now a convergence between and among the various forms of mass media. The conventional media makes use of the new media and in turn, the new media makes use of the old or conventional media hence, a symbiotic relationship. This relation helps both of them better in the business of information dissemination.

### **Empirical Studies**

Oluwatolani, Joshua and Philip (2011) carried out a research on the impact of information technology in Nigeria's banking industry. The study presents the current trend in the application of ICT in the banking industries and gives an insight into how quality banking has been enhanced via IT. Three categories of variables that relates to the use of IT to reengineer their operations is detailed through literature review and observation. These include the nature and degree of adoption of innovative technologies, degree of utilization of the identified technologies, and the impact of the adoption of IT devices on the bank operations. The study concluded that when 3G network is operational, it will boost m-commerce activities in Nigeria but may require further investment in the quality of cell phones. There are enormous opportunities for m-commerce implementation in Nigeria based on the rate of growth and the diffusion of mobile devices. There is prospect of patronage but may be dependent on the available of services.

Mohammad, Gatawa and Kebbi (2013) investigated the impact of information and communication technology on bank performance: the study uses eleven selected commercial banks in Nigeria. The study used bank annual data over the period 2001 to 2011. The study applied fixed and random effect models in its analysis. The results from the Hausman test revealed that Random Effect Model was appropriate. The findings of the study indicated that the use of ICT in the banking industry in Nigeria increases return on equity. The study recommends among other thing shifting more emphasis on policies that will boost efficient/proper utilization of ICT equipment rather than additional investments.

Olise, Anigbogu, Edoko and Okoli (2014) studied determinants of ICT adoption for improved SME's performance in Anambra State Nigeria. The study provides empirical evidence on levels of awareness and adoption patterns of ICT facilities among SME's; it evaluate factors influencing ICT adoption in the SME sector; and also assesses the impact of ICT adoption on SMEs performance. The simple percentage, mean, standard deviation, t-test statistics and regression analysis were used to conduct the various analysis of the significant difference in the levels of awareness and adoption patterns of ICT facilities among SMEs. The study recommends that agencies that regulate SMEs should formulate policies that will facilitate the adoption of ICT facilities by SMEs because of its potential in improving firms growth performance.

None of these studies explore the usefulness of innovations in High-Tech digital marketing media as a way of reaching consumers directly.

### **Discussion of Findings**

One of the primary goals of using interactive media is to communicate and interact with consumers and prospects on a one-to-one basis. In our world of globalization, "dot coms" and "e-living", a fundamental shift in social paradigm is discernible where corporate success is, in part, weighted in terms of application of information and communication based technologies. As a developing country, Nigeria cannot continue to be an 'on looker' in the trends of technological revolution around the world. The general observation is that e-commerce is already having dramatic effect on the way we buy and sell and also on the way we gather, analyze and utilize marketing information. Adibe (2006) observed that with the emergence of the World Wide Web, the possibility of using the web as a business tool has generated much excitement and interest around the world. A number of business companies have taken the challenge to build their own web-base sites. However, there is so much hype about "e-everything".

One of the major impacts of the internet is on the way business is conducted. Relationships with supplies and customers are changing dramatically, the multiple tools of the internet enable the transmission and exchange of information through multiple formats, namely one-to-one communication (i.e. through e-mail), one-to-many (i.e. through the web, newsgroups and



mailing lists) communication. Thus the internet facilitates the information exchanges between organizations concerning issues such as discovery of new customers' needs, trends of the local and global markets, competitive moves, joint development of products, joint selling activities among others (Rayport and Sviokla, 2003). Similarly, Cuningham and Tynan (1993) sustain that electronic technology (the internet) should be seen as a key part of the corporate strategies of business in the future.

The internet is an ideal medium for communicating prices, special offers and creates availability of product. Through connectivity between databases and management programmes sales promotion can now be customized to individuals. Information communication technology has come to dominate the way of thinking regarding the role and costs of distributing goods and services. As a new channel for direct marketing communication, the internet is also reinventing distribution. Distribution channels are the new forms for product innovation and development; they establish the parameters for pricing against competitors and are becoming the most important tool for merchandizing.

### **Conclusion**

In conclusion, global businesses are radically changing, distribution pattern and traditional consumers behavior are also changing. Information technology leads to flexible and market-oriented business and success depends on quick response to rapidly changing customers needs.

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CHAPTER **2**

## **Taxation and the Growth of Small and Medium Scale Enterprise (SMEs) In Nigeria: A Case of Selected SMEs in Nasarawa State**

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### **Introduction**

**E**xisting literatures on Small and Medium scale Enterprise (SMEs) in Nigeria dwelled more on issues, challenges and prospects of SMEs. On that aspect, several challenges and prospects have been developed and will continue to be developed. Contrary however, there are little micro studies specifically on the impact of taxation on the growth of SMEs in Nigeria. To fill this gap this paper analyzes taxation and the growth of small and medium scale Enterprise (SMEs) in Nigeria: A Case of Selected SMEs in Nasarawa State. The methodology adopted to help achieve the objective of this study is multinomial logistic regression. The result of the multinomial regression, found that over the years the incessant death of SMEs is due to high and complex tax systems that appears to be more harmful than beneficial to SMEs as it increases running costs and slow down growth of SMEs. The paper therefore, submits that if SMEs are to flourish, an appropriate tax policy which will not be an encumbrance to the growth of SMEs needs to be on ground.

**Background to the Study**

In spite of Nigerian's status as an African economic powerhouse, poverty is widespread. According to the United Nation's most recent multi-dimensional poverty index (2015), over 67 per cent of Nigerians live below the poverty line. Unemployment is widespread and majority of Nigerians are frustrated with widespread joblessness. The Nigeria Bureau of statistics (2014) has it that 30 per cent of those under 24 years are unemployed while the World Bank (2014) estimates put the figure to about 80 per cent. In a bid to solving this problem, have necessitated the adoption of several economic reform programs from 1986 to date. Some of such reforms is the International Labour Organization (ILO), 1998 conference on the need for policy and legal framework in setting an environment for the development of Small and Medium Scale Enterprise (SMEs) and Organization of Economic Cooperation and Development (OECD) Bologna charta, 2000 on SMEs policies in which governments from OECD countries recognized the role of SMEs and broad policy orientation conducive for their growth.

These reforms suggest a critical shift from grandiose, capital intensive and large scale industrial projects based on import substitution to SMEs with immense potentials for self-reliant industrialization using local raw materials that will help boost employment generation, reduce poverty, guarantee even distribution of industrial development and facilitate the growth of non-oil exports (Mba & Izunwanne, 2014). Over the years, SMEs have been an avenue for job creation and empowerment of Nigerians providing about 50 per cent of all jobs in Nigeria (Adebisi & Gbenga, 2013).

Hence, promotion of SMEs in developing economies like Nigeria will bring about great distribution of income and wealth, economic self-dependence, entrepreneurial development and a host of other positive economic uplifting factors. In a related development, SMEs helps in reducing the migration of people from rural to urban areas (Uzor, 2004). They also, contribute substantially to the country's Gross Domestic Product, export earnings and can easily be established with minimal skill (Udechukwu, 2003). However, the rate of folding up of these SMEs firms particularly in Nigeria is very high (Ariyo, 2005). According to the Small and Medium scale Enterprises Development Agency of Nigeria (SMEDAN), 2015, 80 per cent of SMEs fold up before their 5th anniversary. Among the factors responsible for this

untimely fold up are tax-related issues ranging from complex taxation to enormous tax burden (Ojochogwu & Ojeka, 2012). Complex taxation seems to be a major threat to the growth of SMEs, especially in less industrialized countries. For instance, in Nigeria taxes imposed on SMEs ranges from direct tax which includes income tax charged on business income, employment income; rent income, pension and investment income to indirect taxes such as Value Added Tax (VAT), Corporation tax and excise duties. All these taxes have tendencies of slowing the growth of SMEs as they increase the costs of operation of running SMEs. To compensate for the increased costs of operation, prices on goods are raised thus causing the amounts of sales to go down. The effects of reduced sales are reduced profits, reduced capital base and slow creation of employment resulting in slow growth and increased poverty. Also, complex tax systems put disproportionate pressure on smaller business as SMEs resources directed towards multiple tax compliance are resources that could otherwise be used for re-investment to promote future growth.

However, in spite of these dire situations with potential dangers for SMEs, little research has been done to actually underscore the situation. The shortcomings of the previous researches served as a gap for the paper. To fill the gap, this paper investigated the effect of complex taxation on SMEs in Nigeria, a case of SMEs in Nasarawa state. To achieve this objective, this paper is structured into four sections. Section one is the introduction. This section contains the background information about the key question and focus of the paper. It also describes the objective and motivation for the paper. Section two is the theoretical framework and reviews of the works of literature on SMEs. Section three describes the methodology of the paper as well as the anticipated impact of the findings. Section forgives the conclusions and policy implications of the paper.

### **Theoretical Framework**

The theoretical framework upon which this paper is based are:- the Law of proportionate effect, the stochastic theory of the firm's growth and evolutionary theory of firm growth.



### **The Law of Proportionate Effect**

Various authors have postulated theories pertaining to firm's growth. The oldest and most common theory is Gibrat's Law of Proportionate Effect (LPE). This theory was propounded by Gibrat in 1931. The theory has it that the rate of growth of a firm is independent of its initial size. By implication, the law of proportionate effect postulates that the proportionate growth rate of incumbent firms is completely randomly determined and hence independent of systematic factors such as initial size or previous growth rates. In other words, factors that influence firm growth, such as taxation, growth of demand, managerial talent, innovation and organizational structure are distributed across firms in a manner which cannot be predicted from information about firm's current size or its previous growth performance (Goddard, Ghandi & Gbandi, 2001). Empirical tests of LPE have always yielded mixed results. Thus Mansfield (1962) points out that the previous inconclusive findings about the validity of the LPE emanate from using three different types of samples: (1) all firms (including those that fail to survive during the period); (2) surviving firms only; and (3) well established firms (i.e. firms which have reached the minimum efficient scale (MES) of operation, and thus have exhausted economies of scale). Overall, Mansfield (1962) concludes that smaller firms have higher and more variable growth rates than large firms.

### **The Stochastic Theory of Firm's Growth**

In the late 1970s and 1980s, following a revival of empirical work in the area of the growth of firms, a number of economic theories of firm growth were introduced. One of such theories is the stochastic theory of firm's growth. This theory was developed by Jovanovic in 1982. The theory introduced stochastic elements into conventional growth theory of a firm. In stochastic theory, each firm's cost curve is subjected to randomly distributed firm-specific shocks. Over time a firm learns about the effects of these shocks on its efficiency. Firms experiencing favorable shocks grow and survive. Others do not grow and may decline and even leave the industry. The implication is that large firms' growth is subject to less variation than that of smaller firms.

### **Evolutionary Theory of Firm Growth**

Nelson and Winter (1982) propounded the evolutionary theory of firm growth. The evolutionary approach to firm growth implies that there is some serial correlation in growth. To Nelson and Winter (1982), success breeds

success and failure breeds failure. Thus this is in contrast to purely stochastic theories of growth, such as the LPE, which postulate that the proportionate growth of surviving firms is random and hence independent of previous success. The model by Nelson and Winter (1982) avoids strict maximizing assumptions in favour of weaker rationality assumptions, and raises some fundamental questions as to the appropriateness of making strong rationality and informational assumptions on agents who face continuing technological change. Instead of optimizing, agents tend to react automatically to changes in the market environment using routines which are specific to the firm. Successful routines which have produced growth in the past are likely to do so in the future. It is true that circumstances change, but successful firms have successful routines for changing previous methods to meet new market environments (Hart, 2000).

The relative importance of systematic and stochastic factors in the growth theory may be indicated by the degree of serial correlation in growth. Systematic factors are expected to produce persistent company growth and hence a high degree of serial correlation, in consistency with evolutionary theories of firm growth. This is in contrast to stochastic growth theory such as the LPE which postulate that the proportionate growth of surviving firms is purely random. Nevertheless, that all the theories discussed above are relevant to the problem under investigation, however, the most appropriate theory to the study is Law of Proportionate Effect – LPE. This is because the theory link the growth of firms to external influences especially taxation.

### **Empirical Literature**

An important aspect of research is the review of related literature sources to discover what has already been done in the specific area of research. Literature review is meant to make the researcher, be familiar with the state of knowledge in the area being studied. Therefore, literature review should be able to interpret research findings relevant to the problems being examined and identify flaws in the works already carried out by earlier researchers. However, extant literatures on the growth of SMEs in Nigeria are mixed and controversial as can be seen below.

Mba and Izunwanne (2014) study issues, challenges and prospects of SMEs in Port-Harcourt city, Nigeria. Using descriptive statistics found that poor

financing, inadequate social infrastructures, lack of managerial skills and multiple taxations are the major challenges confronting SMEs in Port-Harcourt. Based on their findings, they recommended that provision of soft loans, capacity building and tax incentives to SMEs operators is imperative to ensure sustained growth of SMEs in the city.

Similarly, Gbandi and Amissah (2014) study financing options for SMEs in Nigeria.. Using descriptive statistics, found that SMEs in Nigeria have underperformed despite the fact that SMEs in Nigeria constitute more than 90 percent of the Nigerian businesses, but its contribution to GDP is below 10 percent. Based on their findings, they recommended that developing countries such as Nigeria requiring sustained economic growth must pay attention to SMEs sector and harness their great potential to employment generation and poverty reduction.

In a related development, Kehinde and Sikiru (2014) study financial structure mix: effect on growth and earnings of SMEs in Nigeria. Using descriptive statistics, found that granting pioneering status for tax purpose will go a long way to create a strong earnings base for the SMEs. Therefore, on the basis of their findings, recommended professionalism should be adopted in financial structure mix and management of the SMEs for increased earnings and growth.

In contrast, Abubakar and Yahaya (2013) study strengthening SMEs as a strategy for poverty reduction in North Western Nigerian. . Using T- test method of analysis, found that large enterprises contribute more in the area of employment provision than the SMEs. They therefore, on the basis of their findings recommended that government should make a practical approach to poverty alleviation by emphasizing on the strength of the poor and their productive capacity and not on their weaknesses.

Similarly, Machira and Irura (2012) study taxation and SMEs sector growth in Kenya.. Using binary logistic regression, found that there is a significant correlation between taxation and SMEs sector growth. On the basis of their findings, recommended that there should be a friendly tax policy for all start up business preferably a tax holiday or an introduction of a growth limit which can be said to be a level stable enough to sustain tax payment.

In contrast, Ojochogwu and Ojeka (2012), study the relationship between tax policy, growth of SMEs and the Nigerian economy. Using spearman's rank correlation, found that although there is general perception that tax is an important source of fund for development of the economy and provision of social services, a significant negative relationship exists between taxes and the business's ability to sustain itself and to expand. Based on their findings, recommended that in order to obtain a vibrant and flourishing SME sector, the tax policy needs to be appropriate such that it will not be an encumbrance to the growth of SMEs.

This paper is considered as value addition to the body of knowledge in SMEs for two reasons. Firstly, unlike other studies that is more of macro studies and therefore deductive in nature, this study is a micro study hence inductive in nature. Secondly, while most of the previous studies on the subject matter deal on the issues and challenges facing SMEs in Nigeria, this study focused more specifically on the effect of complex taxation on the growth of SMEs in Nasarwa state.

## **Methodology**

### **Research Design**

The research design adopted for this paper is a cause-effect type that utilizes primary data to evaluate the impact of taxation on the growth of SMEs in Nigeria. The primary data were collected using structure questionnaire. The study investigated three (3) categories of Small and Medium scale Medium Scale Enterprises operating in Nasarawa State who depend largely on it as a major source of their earning. They include Block industry, Bakery and welding respectively. These categories of SMEs were selected on the ground that they are the dominant and trending SMEs in the state.

**Population and Sampling:** The target population for the study comprises of all SMEs operators in Nasarawa State. However, the study decided to limit the study to Block industry, Bakery and welding. For an SME to qualify as part of the study population, the criteria are the ability of the enterprises to engage at least five (5) paid workers at the current period, having survived in the business for at least five (5) years, the proprietor earns his/her income mainly from the businesses and must be registered with the ministry of commerce and industry. Based on the record of the ministry of commerce and industry in

Nasarawa State one hundred and thirty four (134) SMEs in the selected SMEs above met the criteria stated above. Therefore, the population of the study is 134 SMEs that met our criteria.. However, for convenience of feasible and effective survey, a sample of 100 respondents was randomly selected for actual field study. Due to the heterogeneity nature of the SMEs, multi-stage sampling technique was used in covering the select SMEs. Our sampling size and procedures is premised on the Yamane's formulae for sample size determination thus:

$$n = \frac{N}{1+N(e)^2}$$

Where n=sample size, N= Total population, e = level of significance (0.05)<sup>2</sup>

$$n = \frac{134}{1+134(0.05)^2} = \frac{134}{1+0.33} = \frac{134}{1.335} = 100.37 \sim 100$$

#### **Sources and Instruments of Data collection**

The study adopted mainly Primary data that were obtained through the administration of structured questionnaires. The questionnaire was structured and containing simple closed-ended questions formulated in line with the research objectives. It was sub-divided into two parts: Part I dealt with the profile of respondents while part II was on the main research concerns. Each copy of the questionnaire contained a number of questions carefully crafted to address the major issues informing the study.

#### **Method of Data Analysis**

The socio-demographical profile of the respondents were measured using nominal scales as a result descriptive statistics, namely frequencies and percentages distributions were used to analyze the socio-demographic variables of the respondents. Influential statistics such as multinomial logistic regression was used to investigate the impact of taxation on SMEs business activities. This is because judging by the magnitude and signs of the coefficient of the explanatory variables (how different types of taxes and unfavourable tax policies) impact on the, dependent variable (SMEs activities in terms of employment generation, poverty reduction and contribution to GDP) shows the nature and the extent of the impact.

### **Hypotheses**

- H<sub>0</sub>:** Taxation has no statistical impact on the growth of SMEs in Nigeria.
- H<sub>1</sub>:** Taxation has statistical impact on the growth of SMEs in Nigeria.

### **Presentations and Discussions of Results**

#### **The Demographic Characteristic of the Respondents**

The total number of questionnaire administered was 100 while the total number of questionnaire returned was 95. This gave a response rate of 95 out of 100; giving a percentage of 95%. Also the non-response rate was 5 out of 100, giving a percentage of 5%. Table 1 below is the descriptive statistics of the demographic characteristics of the respondents.

**Table 1: The Demographic Characteristic of the Respondents**

	QUESTION	Response	Frequency	Percentage
1	Age	Below 20	5	5.3
		20-30	40	42
		31-40	21	22
		41-50	12	12.6
		51-60	10	10.5
		61 and above	7	7.4
		<b>Total</b>	<b>95</b>	<b>100</b>
2	Marital status	Single	24	25.3
		Married	55	57.9
		Divorced	16	16.8
		<b>Total</b>	<b>95</b>	<b>100</b>
3	Experience	Less than 4 years	10	10.5
		5- 10 years	16	16.8
		11- 14years	31	32.6
		14 years and above	38	40
		<b>Total</b>	<b>95</b>	<b>100</b>
4	Annual Income	Less than 100,000	19	20
		100,000-400,000	32	33.7
		400,000-600,000	26	27.4
		600,000-800,000	10	10.5
		800,000-1,000,000	8	8.4
		<b>Total</b>	<b>95</b>	<b>100</b>
5	Gender	Male	79	83.2
		Female	16	16.8
		<b>Total</b>	<b>95</b>	<b>100</b>
6	Level of Education	None	29	30.5
		Primary	30	31.6
		Secondary	26	27.4
		Tertiary	10	10.5
		<b>Total</b>	<b>95</b>	<b>100</b>
7	Percentage of income taken as tax	10	13	13.7
		15	24	25.3
		20	31	32.6
		25	27	28.4
		30	0	0
		<b>Total</b>	<b>95</b>	<b>100</b>

Source: Field Survey, 2018

Table 1 above shows that for the age of the 95 respondents, 5 were below the age of 20, 40 between 20-30 years, 21 between 31-40 years, 12 between 41-50 years, 10 between 51-60 and 7 were 60 and above. The age distribution of the respondents suggests that majority of the operators of SMEs in Nasarawa state are youth. This implies that if their SMEs are not nurtured through simple and ability to pay tax system, coupled with prevailing conflict situations will increase the rate of criminality in the state. According to marital status, 24 were single, 55 were married and 16 divorced. This means that the bulk of the operators of SMEs in the state are bread winners and therefore, the survival of their businesses should be of concern to the state. Among the respondents, 10 have less than 4 years' experience, 16 have 5- 10 years' experience, 31 have 11- 14 years' experiences while 38 have 14 years and above experience.

The implication of this to our study is that the majority of our respondents have outstanding years of experience in SMEs operations and these explicitly add to the robustness of our analysis. In terms of annual income, 19 were on less than 100,000, 32 on 100,000-400,000, 26 on 400,000-600,000, 10 on 600,000-800,000 and 8 were on 800,000-1,000,000. This implies that majority of SMEs operate on low income and may not be able to absorb high and complex tax system. In fact high and complex tax system can easily lead to their early winding up. On the gender dimension of the respondents, 79 were male while 16 were female. This brings to light the disparity in women in SMEs operations in Nasarawa state. The respondents with Tertiary educational qualification were 10, secondary education 26, primary 30 and those with none educational qualification were 29.

This finding has tripartite implications viz: First, is that majority of the operators of SMEs in the state are either illiterate or semi illiterate and may lack adequate information on global SMEs best practices. Secondly, since they possess no requisite certificate for a white collar job, they can be handy tools in hands of politicians to create crisis and finally, if the interest of their businesses are not protected by state, the state may lose their loyalty which may result to militancy. On the responses of the percentage of their income taken as tax, majority of the respondents indicated a very high percentage of 20 and 25 percent. This has the tendency of affecting negatively the level of profit, thereby hindering easy expansion of SMEs that will encourage employment generation, increased income and by implication reduced poverty in the state.



In line with paper's null hypothesis that taxation has no statistical impact on the growth of SMEs business activities, multinomial logistic regression analysis was conducted. This is because while the sign of the multinomial logistic regression captures the nature of the impact, the value of coefficient captures the magnitude of the impact. The result of the multinomial logistic regression is shown in table 2 below.

**Table 2:** Result of the Multinomial Logistic Regression

Model	13.550974	2	6.77548699		F( 2, 415) = 2.60
Residual	1080.92749	415	2.60464457		Prob > F = 0.0754
					R-squared = 0.0124
					Adj R-squared = 0.0076
Total	1094.47847	417	2.62464861		Root MSE = 1.6139

SMEs	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
HTX	-.2162466	.1202455	-1.80	0.073	-.4526128 .0201196
UFB	-.029077	.1178388	-0.25	0.805	-.2607123 .2025583
_cons	5.567981	.5023176	11.08	0.000	4.580577 6.555385

**Source:** STATA Output. Where HTX= high taxation system, UFP =unfavorable tax policies

From the result of multinomial regression above, the signs of high tax system (HTX) and unfavorable tax policies (UFP) appeared to be negative. This means that high tax system together with unfavourable tax policies have negative impact on the growth of SMEs in Nasarawa state and by generalization the entire nation. On size, the result revealed that 1% increase in high tax system will reduce the growth of SMEs by 22 % while 1% increase in unfavourable tax policy will reduce the growth of the SMEs by 3%. This finding is in line with the findings of Machira and Irura (2012) on SMEs sector growth in Kenya already reviewed in empirical literature.

**Conclusion and Recommendation**

The SMEs provide the bedrock of economic growth, spread of opportunities and employment generation. It also provides a strong earnings base for various proprietors of the SMEs. However, over the years the incessant death of SMEs is due to high tax systems. The taxes for SMEs have been more harmful than beneficial as they increase running costs and slow down growth. Most of the SMEs surveyed are faced with the problem of high tax rates,

multiple taxation, complex tax regulations and lack of proper enlightenment or education about tax related issues. Therefore, the design and application of state tax system represents a significant impediment to formalize and grow SMEs, and for the SMEs to compete in international markets. The findings suggest that, high taxation, and unfavourable tax policy created by the uncoordinated and tax enforcement mechanisms has given rise to significant costs, particularly penalizing smaller and more remote SMEs. This is evident from the fact that the, profits, capital and employment level in these SME's had drastically reduced. It was clear that the SME's in this sector were operating under a heavy tax burden which was prohibiting their growth and development. Furthermore, employment generation capacities of SMEs are vital in reducing the incidence of poverty among economic agents. One of our major findings in the study is that poverty reduction capacity of SMEs lies to a certain extent on their ability to engage workers sustainably. Therefore, if SMEs are to flourish, simple tax system based on the ability to pay should be implemented as high tax system has been identifying as an encumbrance to the growth of SMEs.

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CHAPTER **3**

## Foreign Direct Investment and Growth of Small and Medium Scale Enterprises in Nigeria, 1986 – 2016

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### Introduction

Foreign direct investment has been described as catalysts for boosting economic performance which is expected to lead to increases in country's earnings thereby creating an avenue for growth by raising the national income of the country and subsequently overall development. But the question many researchers and policy makers are interested to its answer is does FDI's effect trickle down to the small and medium scale economic activities which provide employments to the greater populace of the economy especially developing economies? Thus, this study assesses the impact of foreign direct investment on the growth of Small and Medium Scale Enterprises in Nigeria. The study determined the long run relationship between foreign direct investment and the growth of Small and Medium Scale Enterprises in Nigeria using annual data between 1986 and 2016. The Phillip Perron (PP) and the Engel-Granger Model (EGM) for co-integration were employed in the analysis. Findings revealed a strong evidence of co-

integration relationship of foreign direct investments in influencing rate of change in the growth of Small and Medium Scale Enterprises in Nigeria. The study, apart from empirically providing information that has contradicted recent claims of foreign direct investment led growth of SME's in Nigeria, has also made some recommendations which include the need for Government to play more roles towards empowering Small and Medium Scale Enterprises in enhancing their capacity and competitiveness; and also in facilitating the linkages between Foreign Direct Investment and Small and Medium Scale Enterprises. This call for repositioning strategy – government should improve in the area of funding the activities of Small and Medium Scale Enterprises in Nigeria, so as to discourage them from collecting loans from commercial banks at a higher interest rate which has a negative impact on the growth of SMEs as seen in this study. Consequently, government should also make the process of getting these funds through the coordinating agencies of SMEs in Nigeria, softer and faster; so as to encourage SMEs to develop new technologies and obtain the pertinent information about the operations of the international markets to enhance their performances.

### **Background to the Study**

This study investigated the impact of Foreign Direct Investment on the growth of Small and Medium Scale Enterprises in Nigerian using annual time series data from 1986 – 2016. Foreign Direct Investment (FDI) is expected to contribute to Small and Medium Scale Enterprises (SMEs) not only by providing foreign capital but also by crowding in additional domestic investment. By promoting both forward and backward linkages with the domestic economy, additional employment is indirectly created and further economic activity stimulated in as much as factors like institutions and agglomeration economies, natural resource, low labour cost, trade liberalization and less restriction in bureaucracy which attract Foreign Direct Investment are in place (Jenkin & Thomas, 2002).

Foreign Direct Investment consists of external resources including technology, management, marketing expertise and capital. All these generate a considerable impact on host nation's productive capabilities. The success of government policies of stimulating the productive base of the economy depend largely on her ability to control adequate amount of Foreign Direct Investment comprising of managerial, capital and technological resources to boost the existing production capacity (Udoh, 2015).

Developing nations such as Nigeria characterized as low income earners by the World Bank, value Small and Medium Scale Enterprises for several reasons, viewed in static terms, the main argument is that Small and Medium Scale Enterprises, on average achieves decent levels of productivity especially of capital and factors, taken together (that is total productivity factor) while also generating relatively large level of socio-economic development. In dynamic terms, the Small and Medium Scale Enterprises sector is viewed as being populated by firms most of which have considerable growth potentials. Small and Medium Scale Enterprises in developing countries achieve productivity increase to a great extent simply by borrowing from shelf of technologies available in the world (Christopoulos & Tsionas, 2004).

The dwindling revenue accruing to developing countries, (Nigeria in particular) has made it mandatory for these countries to depend less on self-efforts and seek assistance elsewhere. Thus, many developing countries had to turn to foreign private resources or Foreign Direct Investment in order to fill the resource gap in their quest for economic development (Victor, 2013). Due to the technological advancement and abundance of capital in the world, Small and Medium Scale Enterprises must increase their productivity through adequate financing if they are to maintain or improve on their contribution to the socio-economic development of a developing country like ours. This brings to bear the importance of capital and its cost of sourcing for Small and Medium Scale Enterprises development, among other factors like efficient manpower, disciplined management, cheap source of funds, infrastructure and enabling environment, production equipment and availability of markets (both local and international) that improve their operations by ensuring sustainable socio-economic development; although, a set of variables hampers the performance of Small and Medium Scale Enterprises maximum contribution to the economy.

Countries impose restriction on Foreign Direct Investment because higher international flow can also create instability by leaving countries open to sudden reversal in capital flows. This risk can increase if domestic macro-economic and financial policies are weak, inconsistent, or if the financial systems are not adequately developed to cope with large capital flows. Poor prospects for growth and unfavorable economic environment have hampered the Foreign Direct Investment flows to many nations, a number of other

factors (such as the structural and political factors) have also been important discouraging factors.

The key issue here is that, do these Foreign Direct Investments trickle down to impact on the growth of Small and Medium Scales Enterprises in Nigeria? If yes, then the sustainability of Foreign Direct Investment is a worthwhile venture and ways of achieving its sustainability must be ascertain by identifying those factors that contributes to its growth with the view to ensuring its enhancement.

The empirical studies reviewed in this research, shows that most of the studies made used of the Ordinary Least Square (OLS) technique and chi-square as their models for data estimation, which seems to be inferior models of estimation that suggest why the research adopts the Vector Autoregressive (VAR) model and the Engel Granger technique as tools for the data analysis, which none of the studies reviewed have ever combined. The Vector Autoregressive model is a superior model because of the fact that it does not require any theoretical backing and it treats all variables as apriori endogenous. This study examines the impact of Foreign Direct Investment on the growth of Small and Medium Scale Enterprises from 1986 - 2016 which other studies reviewed have not covered up to. Also, none of the studies reviewed has ever used the Vector Autoregressive Model as tools of estimation.

It is in the light of these conflicting views between FDI and growth of Small and Medium Scale Enterprises, the possible long run relationship that may exist between the two that has called for this study, and hence, the study aims to contribute in that way. Therefore, the objectives of this study is to empirically assess the impact of Foreign Direct Investment on the growth of Small and Medium Scale Enterprises in Nigeria and also to determine the long run relationship between Foreign Direct Investment and the growth of Small and Medium Scale Enterprises in Nigeria.

The paper is organized into five sections, given the introduction as section one. The rest of the paper is organized as follow: Section two presents the literature review. In section three, the methodology adopted for this study is presented. Presentation of results is done in section four and conclusion is drawn in section five with policy implication.

### **Literature Review and Theoretical Framework**

The empirical literature provides mixed and conflicting evidence with respect to Foreign Direct Investment impact on the growth of Small and Medium Scale Enterprises in different studies. Beginning with the pioneering researches in the area (see Hualinpu & Yongdan, 2015; Vasco, 2015; Udoh, 2015; Simon – Okeand Johaosh, 2014; Israel, 2014; Olusanya, 2013; Ogbonna, Nwajumogu, Onwuka & Nwokoye, 2013; Victor, 2013; Nkechi, 2013; Abubakar & Yahaya, 2013; Emmanuel, 2012; Christopher and Adepaju, 2012). This phenomenon can be attributed to a number of factors, including estimation techniques and or statistical/econometric technique, choice of variables, study period, and level of development of the country being studied, among other things.

Udoh (2015) conducts a research on Foreign Direct Investment and growth of small and medium scale enterprises in Nigeria. The objective of study include; to evaluate the impact of Foreign Direct Investment on the growth of Small and Medium Scale Enterprises and to determine the impact of the volume of Foreign Direct Investment on the funding of Small and Medium Scale Enterprises in Nigeria. ANOVA Test and Ordinary Square Techniques of test were employed. The finding of the study shows that Foreign Direct Investment have significant relationship with the growth of Small and Medium Scale Enterprises in Nigeria (75%). Also, Foreign Direct Investment impacts significantly on the funding of Small and Medium Scale Enterprises in Nigeria.

Subair and Salihu (2011) examines the impact of Foreign Direct Investment on development of Small and Medium Scale Enterprises in Nigeria. Using secondary data and Ordinary Least Square (OLS) technique of estimation, it was discovered that Foreign Direct Investment has a positive and significant relationship with small scale farmers output in Nigeria.

Vasco (2015) examines the role of Foreign Direct Investment and impact of Small Scale Enterprises in Mozambique, the essence of the study is to understand the role of Foreign Direct Investment and its impact on Small Scale Enterprises in Mozambique. Data were collected from the review of literature as well as studies already done by scholars, think tanks, research organizations, NGOs, Government document and websites. The study observe that Foreign Direct Investment in Mozambique has a negative impact



on domestic Small and Medium Scale Enterprises but positive impact on foreign firms and therefore, recommends that it is an opportunity for the Domestic Small and Medium Scale Enterprises to learn from foreign Small and Medium Scale Enterprises through joint venture or partnership.

Agreement in the literature which is supported by several empirical evidences seems to be emphasizing that foreign firms through Foreign Direct Investment do transfer technology to their affiliates, a process that can equally allow spill over to unaffiliated firms in the host economy which in turn augments growth through productivity and efficiency gains by local firms. Foreign Direct Investment contributes to economic growth through technology transfer with the multinational firms transferring technology either directly to their foreign owned enterprises or directly to domestically owned and controlled firms in the host country.

From the empirical literature reviewed in this research, it is observed that 60% of the researches agreed that Foreign Direct Investment do have a significant impact on the growth of Small and Medium Scale Enterprises, a country's economy; its contribution to Gross Domestic Product (GDP); poverty reduction and employment generation. 20% stated that Small and Medium Scale Enterprises are tools for employment generation and sustainable development. 10% also said that Foreign Direct Investment have had a negative effect in the long run on the Nigerian manufacturing sector, while the remaining 10% observed that, Foreign Direct Investment has a negative impact on domestic Small and Medium Scale Enterprises but positive impact on foreign firms, which suggest that, it is an opportunity for domestic Small and Medium Scale Enterprises to learn from foreign Small and Medium Scale Enterprises through joint venture or partnership.

There are some theoretical models which investigate the impact of Foreign Direct Investment on Small and Medium Scale Enterprises. For instance, Aswathappa (2015) discusses the following theoretical rationale for Foreign Direct Investment to occur: the theory of Product Lifecycle, Market imperfections, Market power, internalization and Eclectic (spill over).

Product Life Cycle: Product life cycle theory states that a company will begin by its product and later undertake Foreign Direct Investment as the product

moves through its life cycle. The theory identifies four stages in the life cycle of a product: innovation, growth, maturity and decline, as will be seen Foreign Direct Investment occurs in the latter two stages.

In the innovation stage, production takes place in the home country and any demand from overseas markets is met by exports. In the growth stage, sales tend to increase and to meet increasing demand from foreign markets, the firm sets up manufacturing facilities abroad. In the maturity stages, exports from home country decrease because of increased production in overseas location. Foreign manufacturing facilities are put in place to counter increasing competition and to maximize profits from higher sales in foreign markets. In the declining stage, the product becomes a commodity. Competitors take over production and distribution often with better scale economies. The original manufacturing country needs no investment overseas.

Market imperfection: Market imperfections, also called internalization theory, focus on imperfections in the market (for example trade barriers) that would decide Foreign Direct Investment. If trade barriers render a transaction less efficient than it could be a company will undertake Foreign Direct Investment to internalize the transaction thereby remove the imperfections. In other words, a firm chooses to invest in overseas facilities if a transaction with a foreign firm (through franchise, licensing or supply agreement) proves to be more costly. The transaction tends to be costlier because of lengthy negotiations, entering and monitoring, all brought about by market imperfections. In order to capture this phenomenon, from the theoretical and empirical literature reviewed on the relationship between FDI and Small and Medium Scale Enterprises, the theoretical framework for this research work was established based on the review of Aswathappa (2015).

$$GSME = FDI + GFCF + CBL + INT \dots\dots\dots(1)$$

Where;

- GSME = SME Contribution to GDP (Proxy for growth of SMEs)
- FDI = Foreign Direct Investment
- GFCF = Gross Fixed Capital Formation
- CBL = Commercial Bank Loans to SMEs
- INT = Interest rate

### **Methodology**

In this research, the impact of FDI on the growth of Small and Medium Scale Enterprises was analyzed using a data over the period of 1986-2016. This was accomplished by utilizing the econometrics technique of VAR co-integration test and unit root test.

### **Data Description**

#### **Sample Selection**

For the purpose of this study, SME Contribution to GDP was used as the dependent variable and as a proxy for growth of SMEs. The Central Bank of Nigeria (CBN) published annual figures for SME's contribution to GDP, FDI, GFCF, Interest rate and the CBL.

#### **Estimation Procedure and Robustness Test**

The analysis begins with ascertaining the order of integration of the variables. The procedure adopted in this study involves the use of the Phillip-Perron (1988) PPTest. The null hypothesis of PP test are non-stationarity, thus failure with respect to rejection implies unit root in the series. Following these unit root test, the Vector Autoregressive (VAR) co-integration Models is employed to examine the presence of any long-run association among the variables. To account for the sensitivity of results using this approach to co-integration to the automatic choice of lag length, the Schwarz Information Criterion (SIC) is used. The analysis of the data has been done using the EVIEWS 9 econometric package.

#### **Specification of the Model**

Based on the objectives of the study, this work adopts the model of Aswathappa (2015).with minor modifications. It employed a multiple regression model based on FDI inflow, which makes it very similar to the model chosen for this study.

#### **Phillip-Perron Unit Root Tests**

For this purpose, the study uses the conventional Phillip-Perron unit root test as a tool for identifying, the stationarity (or non stationarity) of a variable by running OLS regression of levels variables on their lag values.

Consider a variable  $Y$  that has unit root represented by a first-order autoregressive AR (1):

$$\Delta Y_t = \alpha + \beta T + \gamma y_{t-1} + \varepsilon_t \dots \dots \dots (2)$$

Where  $\alpha$  and  $\beta$  are parameters,  $\varepsilon_t$  is assumed to be a white noise,  $\Delta Y_{t-1}$  expresses the first difference of the variable with  $p$  lag,  $\Delta Y_t = Y_t - Y_{t-1}$ .  $Y$  is a stationary series if  $-1 < p < 1$ . If  $p = 1$ ,  $y$  is a non-stationary series; if the process is started at some point, the variance of  $y$  increases steadily with time and goes to infinity. If the absolute value of  $p$  is greater than one, the series is explosive. Therefore, the hypothesis of a stationary series can be evaluated by testing whether the absolute value of  $p$  is strictly less than one. If the series is correlated at higher order lags, the assumption of the white noise disturbance is violated.

**Co-integration Analysis**

The co-integration technique popularized by Engel and Granger (1987) which corrects disequilibrium is used to test for the long run relationship between the variables.

$$\Delta Y_t = \alpha_0 + \alpha_1 \Delta X_t + \alpha_2 \mu_{t-1} + \varepsilon_t \dots \dots \dots 3$$

Where

$\Delta$  = First Difference Operator

$\varepsilon_t$  = Random Error Term

$\mu_{t-1} = (Y_{t-1} - \beta_1 - \beta_2 X_{t-1})$

**Empirical Results and Discussion**

**Unit Root Results**

Before performing the co-integration test, it is essential to check for the stationarity of the data series to be used. The test is conducted using one unit root model. That is, the Philips-Perron (PP) model. The essence of using the PP test is for confirmatory testing and the result of the unit root test is shown in table 1.

**Table 1: Results of Unit Root Test**

Variable	PP at level	PP at First Difference	Remark
GSME	-0.629230	-5.671795*	I(1)
FDI	-0834396	-5.103064*	I(1)
GFCF	1.022387	-3.624777**	I(1)
CBL	-1.775532	-5.944074*	I(1)
INT	-2.537204	-4.821706*	I(1)

**Source:** Researchers computation using EViews software version 9.0.  
 \*(\*\*)\*\*\* denote rejection of the null hypothesis of no level impact at 1%, 5% and 10% respectively.

The Phillip-Perron test for unit root shows all the variables were examined and found to be non-stationary at levels  $I(0)$ . However, each series of the variables became stationary at first difference indicating that such variables are integrated of order one,  $I(1)$  as presented in table 1. Therefore, all variables are considered to be integrated of order one and this implies that there might exist a long-run relationship among the series. However, if two or more variables are integrated of the same order, co-integration is said to exist among such variables. Therefore, the paper proceeded to test for their long run co-integration relationship using the Engel and Granger co-integration framework.

**Table 2:** Engel-Granger test for co-integration

Engel-Granger test for co-integration	
Variables	T - test
Residual series from Engel-Granger	0.0050***

**Source:** Researchers computation using EVIEWS software version 9.0.  
 \*\*\*(\*\*)\* denote rejection of the null hypothesis of no level impact at 1%, 5% and 10% respectively.

The results of co-integration test based on the Engel - Granger test for co-integration approach are presented in Table 2. Indeed, contend that a linear combination of variables integrated to the same orders may yield a stationary series. However, argues that given the problems associated with the testing procedures for co-integration, if the chosen set of variables (dependent and independent) co-integrated among themselves so as to produce a stationary residual, there is need to produce the degree of integration of the individual variables. This supports our choice of estimator which allows for inclusion  $I(1)$  processes in the same equation to estimate long run elasticities.

As indicated earlier, a fully modified ordinary least squared (FMOLS) regression was estimated using the variables presented and the residuals from this FMOLS regression was tested for stationarity using the unit root test, and also, E-views 9.0 has an in-built Engel-Granger Co-integration test both with Tau-statistic and Z-statistic values as reported in table 2. There was strong evidence of co-integration relationship between the growth of Small and Medium Scale Enterprises and the explanatory variables presented in the

model. The implication is that, a linear combination of the variables will follow a stationary process hence convergence to long-run equilibrium is possible. Since the present of co-integration is established, a long-run relationship is said to exist among the variables of the study. The null hypothesis of no long run relationship between Foreign Direct Investment and the growth of Small and Medium Scale Enterprises is therefore rejected.

The results of the co-integration regression based on FMOLS are presented in Table 3. All the variables presented in the model were statistically significant to exert strong impact of Foreign Direct Investment on the growth of Small and Medium Scale Enterprises in the long-run for Nigeria.

**Table 3:** Results of FMOLS Co-Integration Test

Variables	Coefficients	t-test	Probability
FDI	-24.30412	-3.644840	0.0042***
GFCF	102.0151	2.715157	0.0121**
CBL	-0.941231	-0.458696	0.6506
INT	-0.233363	-0.502487	0.6199
C	-1494.808	-2.144481	0.0423**
R-squared = 0.908084, Adjusted R-squared = 0.892765			

**Source:** Researchers computation using EVIEWS software version 9.0.

\*\*\*(\*\*)\* denote rejection of the null hypothesis of no level impact at 1%, 5% and 10% respectively.

The empirical results in Table 3 fully modified ordinary least squared. The regression had a coefficient of determination of about 90% adjusted for the degrees of freedom. This means that about 90% of the variations in the growth of Small and Medium Scale Enterprises in Nigeria could be attributed to the explanatory variables presented and therefore presents a good fit of the regression model. This reinforces the existence of a long-run linear relationship among the growth of Small and Medium Scale Enterprises, Foreign Direct Investment, Gross Fixed Capital Formation, Commercial Bank Loans to SMEs and Interest Rate.

From the results, a negative relationship is found to exist between Foreign Direct Investment and the growth of Small and Medium Scale Enterprises. This indicates that a 1% increase in Foreign Direct Investment brings about

24% decreases in the growth of Small and Medium Scale Enterprises over the long run horizon. This of course is found to be highly significant judging from 1% of the t-statistics of approximately 3.6 which is greater than the standing rule of two point seven. Thus, in the long run, Foreign Direct Investment affects the growth of Small and Medium Scale Enterprises negatively in Nigeria.

### **Discussion of Findings**

An Engel and Granger testing procedure that allows testing for a level relationship of the same order of integration of the underlying series has been applied on the data to ascertain the long run and impact relationships between Foreign Direct Investment and the growth of Small and Medium Scale Enterprises in Nigeria. Findings from the analysis revealed that the main variable of interest (i.e. Foreign Direct Investment) is statistically significant and negative, with a large coefficient in the level of its contribution in stimulating the growth of Small and Medium Scale Enterprises within the period under study. A unit increase in Foreign Direct Investment reduces the growth of Small and Medium Scale Enterprises by 24 percent. This outcome reveals the grossly underdeveloped state of the Foreign Direct Investment in Nigerian economy. This implies that in stepping up, the FDI do not have meaningful impact on the growth of Small and Medium Scale Enterprises for balance and diversification. Where this analysis is stretched further; it means that, for FDI to be able to stimulate and influence the rate of change in the growth of Small and Medium Scale Enterprises, a fast growing Foreign Investors in the real sector economy is required. This result indicates that Foreign Direct Investment can be treated as a long run forcing variable explaining the growth of Small and Medium Scale Enterprises. This results contradict the findings of Udoh (2015), Israel (2014), Emmanuel (2012), Subair and Salihu (2011) among others. The finding however, agreed with the findings of Vasco (2015), Victor (2013), Nkechi (2013), Ogbonna, Nwajumogu, Onwuka and Nwokoye (2013), among many studies.

### **Summary, Conclusion and Recommendation**

This study investigated the impact of Foreign Direct Investment on the growth of Small and Medium Scale Enterprises in Nigeria, with the aim of empirically assessing the long run relationship. In the process of achieving this objective, the Engel and Granger co-integration and Fully Modified OLS

(FMOLS) are employed. Findings showed that the co-integration analysis indicates a long run relationship between Foreign Direct Investment and the growth of Small and Medium Scale Enterprises over the period under study. Foreign Direct Investment, Gross Fixed Capital Formation, Commercial Bank Loans to SMEs and interest rate can be treated as the 'long run forcing' variable explaining the growth of Small and Medium Scale Enterprises in Nigeria. In other words, there is long run relationship between Foreign Direct Investment, Gross Fixed Capital Formation, Commercial Bank Loans to SMEs and Interest Rate and the growth of Small and Medium Scale Enterprises in Nigeria. Moreover, the result of FMOLS coefficients is a highly significant negative sign.

In conclusion, the absence of recent time series study to provide empirical proof on the contribution of Foreign Direct Investment to the growth of Small and Medium Scale Enterprises in Nigeria, this study was undertaken to actually bridge this gap in the literature. From the findings, since Foreign Direct Investment has a significant negative impact in the long run on the growth of Small and Medium Scale Enterprises; it means that empirically, Foreign Direct Investment has the potential to significantly contribute to the growth of the economy while the high interest rate SMEs pay on loans collected from commercial banks has affected the growth rate of Small and Medium Scale Enterprises negatively in the long-run, making the SME's continue losing its prospects.

The study therefore recommends that Government need to play more roles to empower Small and Medium Scale Enterprises in enhancing their capacity and competitiveness and also in facilitating the linkages between Foreign Direct Investment and Small and Medium Scale Enterprises. This call for repositioning strategy – government should improve in the area of funding the activities of Small and Medium Scale Enterprises in Nigeria, so as to discourage them from collecting loans from commercial banks at a higher interest rate which has a negative impact on the growth of SMEs as seen in this study. Consequently, government should also make the process of getting these funds through the coordinating agencies of SMEs in Nigeria, softer and faster; so as to encourage SMEs to develop new technologies and obtain the pertinent information about the operations of the international markets to enhance their performances.



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CHAPTER **4**

## The Impact of Audited Financial Statements on Commercial Banks in Anambra State

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### Introduction

**T**his study aims at assessing the quality of audited financial statements of commercial bank in Nigeria, with a view to assessing the independence of an auditor and the level of compliance to audit guidelines and how those guidelines affect the quality of audited financial statements in commercial Banks in Nigeria. The study employs both primary and secondary sources of data. Two research questions and hypotheses were formulated for the study. Correlation and causal comparative design with a population of 20 Commercial Banks out of which five were selected using a purposive sampling technique. Data collected from reports and accounts of selected Banks were analysed using SPSS 20 (t-test and spearman's correlation). The findings are that quality audited financial statement has a significant effect on the performance and profitability of commercial banks. The study concludes that consistency and reliability can be absolutely achieved if external auditors are auditing financial statements of commercial

banks based purely on the established auditing standards and guidelines. The study recommends that audit committees of commercial Banks should be stricter in their investigations and should initiate actions against erring auditors.

### **Background to the Study**

Financial statements are formal records of the financial activities of Commercial Banks or entity. Financial statement provides an overview of a business or an entity's financial condition in both short and long term. All the relevant financial information of a business enterprise or an entity are presented in a structured manner or form easy to understand, (Grewal, 2008). When people refer to audit quality they focus on the credibility of the audited financial statements within the reporting regime in which they have been prepared. Duff (2004) asserts that firms need to attract high quality individual with the necessary technical and interpersonal skills to improve audit quality. The purpose of an audit is to provide assurance on financial statements. Audit quality is the probability that financial statements contain no material misstatements. In academic research (e.g. Elifsen & Willekens, 2008), audit quality is often related to the competence and independence of auditors being able to detect material misstatements and being prepared to issue appropriate audit reports to reflect their findings.

Neither a user of audited financial statements nor an academic researcher can tell whether a specific audit report accurately reflects the presence or absence of material misstatements. Even when misstatements that were not reported by an auditor subsequently come to light, that does not represent conclusive evidence of a failure in audit quality, since audits are not intended to provide absolute assurance. Institute of chartered accountants in England and Wales (2002) audit quality publication explained that at its heart, [audit quality] is about delivering an appropriate professional opinion supported by the necessary evidence and objective judgments.' One way of making the concept real is to try to establish clear expectations of what auditors need to do to support an appropriate professional opinion on an entity set of financial statements. Investment decisions are based partly on reported financial statement information.

Issues related to quality of audited financial statement continue to be a major interest to accounting researchers, practitioners and policy makers.

Meanwhile, the International Federation of Accountant (IFAC) commissioned the Task Force on Rebuilding Public Confidence in Financial Reporting (Credibility Task Force) in October 2002 to look at ways of restoring the credibility of financial reporting.

### **Statement of the Problem**

Strident complaints about dishonest and deceptive audited financial statements are now rampant. This was exposed after unforeseen distress in the financial system like in some commercial banks. Many of these were blamed on misleading audited financial statements published by some commercial banks and some companies. In the current study the researcher shall explore the various qualities that make audited financial statements acceptable in the Nigerian commercial banking industry.

### **Aim and Objectives of the Study**

The aim of this paper is to examine the level of compliance with auditing guidelines by the auditors and how it affect the quality of audited financial statements of Commercial banks.

The specific objectives of the study are:

1. To examine whether quality audited financial statements influence performance of the Commercial banks.
2. To ascertain the level of compliance with auditing guidelines and how it affect the quality of audited financial statements of Commercial banks.

### **Research Hypotheses**

For the purpose of this study, the following null hypotheses were formulated;

- H01:** Quality audited Financial Statement has no significant influence on the performance of the Commercial banks
- H02:** Compliance with auditing guidelines has no positive and significant effect on the quality of audited financial statement of Commercial banks.

### **Review of Related Literature**

Audit quality is defined as the probability that an auditor will both discover and truthfully report material errors, misrepresentation, or omissions in the client's material financial statement (DeAngelo, 1981). Audit quality is

obtained by a process of identifying and administering the activities needed to achieve the quality objectives of audit work. All various audit guidelines need to be understood and the benefits that can be realized once audit quality is made a priority. But based on behavioural perspectives and auditor quality, audit quality is not primarily about auditing standards but about the quality of people, their training and ethical standards Accounting Principles Board (APB). The FRC argues that the skills, personal qualities of audit partners and staff, and the training given to audit personnel are important factors that determine auditor's quality. Research in business ethics has shown that personality type is directly related to individuals' ethical orientation Technical Quality that consists of: Reputation (e.g. Carey & Simnett, 2006; Baotham, 2009), Experience (e.g. Carcello et al 1992), Capability (e.g. Baotham et al, 2009) and Independence (e.g. Bobbi Daniels et al, 2005; Baotham, 2009).

Financial statements constitute the principal means of communicating economic information to individuals and institutions residing outside the reporting enterprise, financial statement is the primary means of communicating the financial information of an organization to the external users.

Four(4) general purposes of financial statements are: income statement, statement of changes in equity, statements of cash flows and balance sheet. The Institute of Chartered Accountants of India defines audit as an independent examination of an entity whether profit oriented or not and irrespective of its size or legal form, when such examination is conducted with a view to expressing an opinion thereon. Auditing is a detailed examination of a company's financial statement and the documents that support the information presented in those statements Denigi (2004) "auditing is described as the independent examination and expression of an opinion on the financial statements of an enterprise by an appointed auditor in pursuance of their appointment and in compliance with any relevant statutory obligation." Financial Statements are the principal vehicles by which business enterprises communicate information about the economic resources of business or an Institutions and changes in these economic resources they constitute a report on managerial performance attesting to managerial success or failure and flash working signals of impending difficulties. A firm communicates financial information to users through financial statements and annual

reports. Financial statements contain summarized information of the firm's financial affairs organized systematically. They are the means to present the firm's financial situation to the users.

### **Users of Information in Financial Statements**

Aroh and Nzewi (2016). There are two categories of users of information in Financial Statement. Some users have direct financial stake in an entity while others do not have. Also the information need of the users is for different purposes.

#### **Users with Direct Financial Stake or Internal Users of Financial Statements are:**

- a. Owner or equity holders for evaluating performance and return.
- b. Management: for evaluating financial performance and financial position of the entity
- c. Workers/Employees: For negotiation of workers' salaries and welfare packages
- d. Creditors and Lenders: Includes short-term and long term providers of funds for assessment of the entities liquidity and ability to make repayment.

#### **Users without Financial Stake or External Users of Financial Statement are:**

- a. Financial Analysts: for consultancy and advisory services to clients.
- b. Government and Relevant Tax Authorities –for determination of tax payable by the entity and employees of the entity.
- c. Potential investors –for evaluation of entity's earnings performance and inherent risks.
- d. International Organizations like World Bank, IMF, UNDP, etc –for assessment of performance and determination of extent of funding or acceptance of funding.
- e. Regulators like, CBN, Stock Exchange, Corporate Affairs Commission- for assessment of compliance to extant rules.
- f. Communities- for evaluating entity's corporate social responsibilities.
- g. State/ National Assembly – for oversight functions and legislation on privatization and commercialization.

**Theoretical Framework:**

Grewal (2008), "The term financial statements used in accounting refers, at least to two statements (i) Income Statement and (ii) Statement of financial position" To him, these statements are prepared at the end of a given period of time for a business concern. The Statement of financial position exhibits the assets, liabilities and capital of the business on a particular date. The Income statement shows the result of operations i.e profit or loss during a given period.

Gbede (2008), financial statements include "the income statement, the Statement of financial position, the cash flow statement, value added statements etc. He opines that the income statement (Profit & Loss Account) and the position statement (Balance Sheet). Are the basic instruments of an accounting system to communicate financial information to users. Really for the purpose of this research work, financial statements are basically classified into two: Income Statement and the Statement of financial position. The accountant's role is to ensure that the information provided is useful for making decisions. For external users, the accountant achieves this by providing a general - financial statement that complies with statute and is reliable. For internal users this is done interfacing with the user and establishing exactly what financial information is relevant to the decision that is to be made (Bary & Jamie, 2005).

**Relevant Theories on Financial Statement or Financial Reporting**

**The Entity Theory**

The business firm is considered to have a separate existence, to the extent of having a personality of its own. The entity theory based on the equation that Assets are equal to Equity plus liabilities suggests that the valuation of the rights of the creditors can be determined independently of other valuations if the firm is solvent, while the rights of the stockholders are measured by the valuation of assets originally invested plus the valuation of reinvested earnings and subsequent revaluations rights of the stockholders to receive dividends and share in net assets upon liquidation are, however, rights as equity holders, rather than as owners of specific assets. The liabilities are specific obligations of the firm, and the assets represent the rights of the firm to receive specific goods and services or other benefits (Hendriksen, 1982).



### **The Enterprise Theory**

According to the enterprise theory, accounting may be thought of as a social theory of accounting, that is, the firm is considered to be a social institution operated for the benefit of many interested groups. From an accounting point of view this would mean that the responsibilities of proper reporting would not only extend to stockholders and creditor, but also to many other groups and the general public. This concept of the firm is, according to Hendrikson (1982), most applicable to the large modern corporation that has been obliged to consider the effect of its actions on various groups and on society as a whole.

### **The Proprietary Theory**

In the proprietary theory the proprietor or owner is at the center of interest. In the balance sheet format this is stated as follows: 'Assets minus liabilities are equal to proprietorship's. The assets are assumed to be owned by the proprietor, and liabilities are the proprietor's obligations. Revenues are increases in proprietorship and expenses are decreases. The net income accrues directly to the owners; that is, it represents an increase in the wealth of the proprietors. The proprietorship is considered to be the net value of the business to the owners. It is a wealth concept (Hendriksen, 1982).

### **The Residual Equity Theory**

In the residual equity theory, changes in asset valuation, changes in income and in retained earnings, and changes in interest of other equity holders are all reflected in the residual equity of the common stockholders. The specific equities include the claims of creditors and the equities of preferred stockholders. The balance sheet equations become as follows: Assets minus specific equities are equal to Residual equity'. The equity of the common stockholders in the balance sheet should be presented separately from the equities of preferred stockholders and other specific equity holders.

Hendriksen (1982), the residual equity of view is a concept somewhere between the proprietary theory and the entity theory. The objective of the residual equity approach is to provide better information to common stockholders for making investment decisions. In a going-concern situation, the current value of common stock is dependent primarily upon the expectation of future dividends. Future dividends are dependent upon expectations of total receipts less specific contractual obligations, payments to

specific equity holders, and requirements for reinvestment. Since financial statement are not generally, prepared on the basis of possible liquidation, the information provided regarding the residual equity should be useful in predicting possible future dividends to common stockholders including liquidation dividends (Hendriksen, 1982).

### **Contingency Theory**

Contingency theory has become prominent in both organization theory and management accounting. It has also been suggested that the contingency approach is implicit in accounting policy making. The contingency framework is extended to corporate reporting and it is argued that this may provide a means of explaining and predicting such systems.

The contingent variables are conceptualizes as falling into four classes which consist of:

- i. Societal variables;
- ii. The environment of the enterprise;
- iii. Organizational attributes; and
- iv. User characteristics and others sources of information. These are shown to be associated with particular attributes of corporate reporting system.

### **Audit Quality and Audit Quality Control**

Since the Audit Quality Forum was established in 2004, one of its key aims has been to promote confidence in financial reporting. The statutory audit can reinforce confidence because auditors are expected to provide an external, objective opinion on the preparation and presentation of financial statements. Auditors need to be independent in the opinions they express, while the work they have to do to form their opinions is highly dependent on, and rooted in, the real world and may become particularly challenging in some national environments.

In recent years audit practitioners, standard setters and regulators have taken significant steps to enhance confidence in the quality of financial statement Initiatives have sought to promote consistency across countries in terms of what auditors should do and what financial statement users should expect from audit. An audit firm should be dedicated to the pursuit of the highest

quality in all its operations. Quality control should not be in respect of each particular engagement only, but must also a culture in the entire firm.

Quality control policies and procedures should be documented and communicated to the firm's personnel. The international Audit and Assurance Standard Board (IAASB), a standing committee of IFAC, issued in February 2004 its first International Standard on Quality Control (ISQC) which provides guidance specifically on quality control for audit firms.

## **Methodology**

### **Research Design**

The research design selected for this study is mix design: qualitative and quantitative research in form of a structured questionnaire and interview. in order to determine whether there is a significant effect on the quality of audited financial statement on commercial banks in Anambra State. The data collection for this research work was derived from both primary and secondary sources. The secondary sources were obtained from published literatures such as text books, internet, journals and publications and Annual report of five (5) commercial banks in Anambra State. The selected 5 banks were First Bank, Zenith Bank, Union Bank, United Bank for Africa and Access Bank, all publicly quoted companies in Nigeria. Data were presented in a tabular form.

### **Population and Selection of Sample Size**

The population of this study consists of all the Commercial Banks in Nigeria. However, for the purposes of accessibility, the population was restricted only to the formal sector of Commercial Banks in Anambra State. The accessible population of this study comprises of 125 staffs from 5 selected commercial banks in Anambra state.

### **Construction of the Questionnaire**

A comprehensive 115 questionnaire was constructed and distributed while 10 respondents were interviewed after reviewing the related literature and the knowledge and insight of the factors affecting Commercial Banks obtained. The aim of designing questionnaire is to meet the research objectives and to provide answers to the research questions. 5 questionnaires were unduly filled correctly with the returning rate of 120 as the sampling size. Different

levels of responses such as strongly agree, agree, strongly disagree, disagree and no opinion statements were designed. The study focused on the quality of audited financial statements and their impact on Commercial Banks in Anambra State.

Formula for mean

$$\text{Mean } (\bar{x}) = \frac{\sum FX}{N}$$

Where  $\sum$  = Summation

F = Frequency

X = Nominal value of option

N = Number of respondent

$$\frac{\sum X}{N} = \frac{5 + 4 + 3 + 2 + 1}{5} = 3.00$$

Therefore, level of acceptance is 3.00

While, strongly agree = (5) Agree = (4) Strongly disagree = (3) Disagree = (2)

No option = (1)

### Findings

**Table 1:** Quality of audited Financial Statement has no significant influence on the performance of the Commercial Banks in Anambra State.

Description	Frequency	FX
Strongly Agree	60	300
Agree	40	160
Strongly Disagree	10	30
Disagree	5	10
No opinion	5	10
Total	120	510
Mean		4.25

**Table 2:** Compliance to auditing guidelines has no positive and significant effect on the quality of audited financial statements

Description	Frequency	FX
Strongly Agree	70	350
Agree	40	160
Strongly Disagree	7	21
Disagree	2	4
No opinion	1	1
Total	120	536
Mean		4.46

From the analysis, it shows that quality audited Financial Statement has Significant influence on the performance/growth on the Commercial Banks in Anambra State with a mean level of 4.25. From the second analysis, it shows that compliance to auditing guidelines has a positive effect and significantly affect the quality of audited financial statement with a mean level of 4.46.

### Recommendations

The study recommends as follows:

1. Auditors of commercial Banks should strictly adhere the ethics of their profession in carrying out their audit assignments.
2. Audit committees should also be more active in their role with regard to audited financial statements.
3. The relevant regulatory bodies should enforce compliance by auditors to all relevant reporting standards by the auditors

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CHAPTER **5**

## **Information Technology (IT) on Accounting System in an Organization**

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### **Introduction**

**T**he emergence of information technology in accounting is an innovative system. Nowadays, most business entities, or institutions are aided by their accounting information systems in carrying out their operations, the Objective of this paper is to identify the benefits and the disadvantages of information technology (IT) on accounting systems of an organizations. This study made use of qualitative research design in gathering information and an observation method was applied to study some of the organizations like Anamco Nigeria ltd., J. B. Matrix Nig. Ltd and Sunrise Flour Mill. This method of design helps to gather the concepts definition, characteristics, benefits and shortcoming of the study. It was found out that the biggest impact of applying information technology is the ability of an organization to develop and use computerized systems to track and record financial transactions. Information technology networks and computer systems have also shortened the time needed by accountants to prepare and present financial information to management. This system also allows companies to create individual reports quickly and easily for management



decision making. Other capabilities of computerized accounting systems are: increased functionality, improved accuracy, faster processing, and better external reporting. Finally, this paper also highlights on the disadvantages of applying information technology (IT) in accounting systems, like Hackers, Scammers, and Internet Fraudsters etc. and recommendations were made on how to overcome these Fraudsters of using information technology in accounting system.

### **Background of the Study**

Today we live in an information society in which more people must manage more information, which in turn requires more technological support, which both demands and creates more information. Electronic technology and information are mutually reinforcing phenomena, and one of the key aspects of living in the information society is the growing level of interactions we have with this complex and increasingly electronic environment. The primary tool of the information society is the computer. Microprocessors are used to improve the performance of other technologies, and computers are increasingly used to control and integrate other kinds of information technology (e.g. TV, radio, telephones). Dawes, 1997; Drucker, 1995; Tapscott and Caston, 1993. For example, one electronic mail message replaces the dictation of a memo which is then typed, copied and distributed. Electronic workflow processing allows operational reports to be stored and forwarded to appropriate units for follow-up without a host of manual intervening steps. One other thing that is crucial as far as ICTs are concerned is that, because of technological and communication innovations, geographic boundaries that once defined citizens, client and customer service jurisdiction no longer apply. The move toward e-commerce, e-banking and e-governance provides an excellent example of how organizations are no longer restricted to a contained geographic boundary. In this 21st century, organizations all over the world have come to realize that only those that overhaul the whole of their administrative systems and operations are likely to survive and prosper.

### **Statement of Problem**

The advancements in information technology have led to the introduction of Computerized Accounting Systems in an organization to help produce financial reports for both management and external users for decision making (Greuning, 2006). The many advantages from the use of these systems have led

many to conclude that Computerized Accounting Systems in Corporate Reporting is the „engine of growth“ in business organizations (Frenzel, 2006).

In spite of the benefit of computer to businesses in general, some problems are still left unsolved and new ones have been credited by the use of computer itself being a problem such as the use of computer to keep accounting records. Another problem is the danger of computer fraud if proper level of control and security whether internal and external are not properly been instituted.

### **Objectives of the Study**

The main objective of this study is to examine how the adoption of information technology affects the performance of an organization especially in Accounting System. While specific objectives are:

- i. To assess the application of Information Technology on accounting system
- ii. To assess the effects of computerized accounting system on an entities

### **Review of Related Literature**

Hyvönen (2003) determined that ERP systems increase the use of advanced managerial accounting techniques, such as ABC and Balanced Scorecard. Saban and Efeoglu (2012) stated that the ERP system causes a change in managerial accounting practices, in terms of providing global information flow and standardization, and that conventional managerial accounting procedures are eliminated after ERP (Caglio, 2003; Jack and Kholeif, 2008; Yeh, Lee and Pai, 2012; Saban and Efeoglu, 2012). Information technology systems cause a change in issues of budgeting and reporting, which are among the managerial accounting applications, and enable the increasing use of advanced managerial accounting techniques (Yeh, Lee and Pai, 2012; Saban and Efeoglu, 2012). This aspects could be stated that information technology have changed the roles of accountants in business from information collection, preparation, analysis to the part in the functions of control, interpretation, assessment and decision-making (Yeh, Lee & Pai, 2012; Saban & Efeoglu, 2012; Kloviene & Gimzauskiene, 2014). On the other hand, as information technologies are quickly developing, the accounting systems often do not support the business properly (Christauskas & Miseviciene, 2012) influencing the need to analyze accounting system compatibility with business environment.

### **Information Technology**

Information Technology (IT) deals with the application of computers and telecommunications equipment to store, retrieve, transmit and manipulate data. This may also be described as anything that renders data, information, or perceived knowledge in any visual format through any multimedia distribution mechanism. It is designed to help management in their stewardship function, support management in their day-to-day operations and decision making. In 1880, machines were invented to help in the accounting system. Advancements on information technology also transformed accounting systems and its processes. There were many developments in the Accounting Information System (AIS). This is designed to help in the management and control of activities related to the firms' economic and financial area. Accounting system is essential for majority of the business entities. The advancements of technology have led in the creation of a computerized accounting system which is commonly adopted by business entities and organizations at present. Thus, entities need to improve their systems in order to match their information needs for better decision making.

Information Technology is the area of managing technology and spans a wide variety of areas that include but are not limited to things such as processes, computer software, information systems, computer hardware, programming languages, and data constructs. In short, anything that renders data, information or perceived knowledge in any visual format whatsoever, via any multimedia distribution mechanism, is considered part of the domain space known as Information Technology (IT). IT professionals perform a variety of functions (IT Disciplines/Competencies) that range from installing applications to designing complex computer networks and information databases. A few of the duties that IT professionals perform may include data management, networking, engineering computer hardware, database and software design, as well as management and administration of entire systems. Information technology is starting to spread farther than the conventional personal computer and network technology, and more into integrations of other technologies such as the use of cell phones, televisions, automobiles, and more, which is increasing the demand for such jobs.

According to the open systems theory, an organization interacts with, adapts to and seeks to control its environment in order to survive (Fowler, 2009). In

our day and age, we can see that environment pressures have an impact on the behavior of all organizations looking from the decision making, process points of views. All these pressures have created a much more competitive environment for the business world. Making high-quality and timely decisions depends in part on the quality of the data and the existence of on-line and real-time information. In very fast changing times organizations are actively looking for methods to improve the efficiency and profitability of their performance (Kloviene & Gimzauskiene, 2014). Information technologies are used to facilitate their business transactions (Rezaee et al., 2000), the process of decision making for organizations (Gatautis & Vitkauskaite, 2009; Melnikas, 2008; Zavadskas, et al, 2010). The information technology function is responsible for designing, implementing and maintaining many of controls over an organization's business processes (Cannon and Crowe, 2004; Abu-Musa, 2008; Consoli, 2010 a, b). It could be stated that IT has impact on all business processes and accounting is not an exception (Saban & Efeoglu, 2012). (Stambaugh; Carpenite, 1992) counted in briefly the Information characteristics as follow: Provided on timely basis. Presented in an aesthetically appealing format. Relevant to the decisions at hand. Concise yet sufficient in scope to allow "what-if" analysis. flexible to interface with information from other functional units.

### **Characteristics of Accounting Information**

There is also a several characteristics determine the qualities that make information valuable:

- i. **Costs-versus-benefits:** sometimes information costs more to get additional information than the information is worth. Thus, cost-benefit considers provide an overall constraint on the amount of information a decision-maker will get.
- ii. **Understandability/Granularity/Aggregation:** Many factors can contribute to the understandability of information, including user knowledge, skill, training, and motivation. In addition, information design choices such as its level of aggregation (or granularity) will affect its understandability, hence, its usefulness for controlling information integrity. For some purposes, highly aggregated information may be called for; whereas for other purposes, very detailed information may be required. Thus, appropriately tailored levels of granularity/aggregation can be enablers of information

integrity. A proxy for the understandability of information is its conformity with user-specified requirements

- iii. **Reliability:** the information must be reliable, you must be able to count on its being what its purpose to be (this is known, more formally, as representational faithfulness), and on its being reasonably free from error and bias (this is known, more formally, as neutrality). Additionally, for information to be reliable, it ought to be true if several different people(or systems)set out to derive the information from the data, they would all come to the same conclusion (this know, more formally, as verifiability)
- iv. **Currency/Timeliness:** It must be accepted that absolute completeness and accuracy are impossible or impractical to achieve. Information Currency is affected by real world changes over time (as well as by information processing delays) with a commensurate impact on information accuracy. Since time is continuous, completeness and accuracy must be understood in a context that defines acceptable limits for information currency, hence accuracy. For example, if certain information, such as cash receipts is only updated on a weekly basis to accounts receivable, then accounts receivable could be considered accurate if it was missing a day's worth of transactions. However, if information such as airline reservation transactions updates available seat inventory in real time, then seat inventory would be considered unacceptably inaccurate if a day's worth of transactions were omitted.
- v. As presented here, processing timeliness and information currency are really aspects of information completeness, which in turn, determines the degree of accuracy that information possesses; however, because of their unique relationship to the dimension of time and the change that time engenders, it is useful to identify currency/ timeliness as separate attributes of information integrity
- vi. **Validity/Authorization:** Representational faithfulness of information about intangible objects implies that the information is valid in ways other than correspondence with an original physical condition. The concept of validity means that information represents real conditions, rules or relationships rather than characteristics of physical objects. In a general context, conditions, rules or relationships are valid if what they purport is true. In a business context, conditions, business rules or relationships are established or approved by parties with the

delegated authority to do so. Thus, transactions are valid if they were initiated and executed by personnel or systems that have been granted the authority to do so and if approvals are authentic and within the scope of the authority granted to the approver(s). For example, if the credit limit assigned to a customer reconciles to the company's rules and procedures used to set credit limits, the credit limit would be "valid." Thus, the concept of validity includes elements of both accuracy and authorization. A validation process may therefore require an investigation of an individual item, a relationship between one item and another item, or a relationship between an item and a business rule, policy or standard.

- vii. **Completeness:** Accuracy by itself is insufficient to convey the full dimensionality of the requirements for representational faithfulness which requires completeness of information in both space and time. Thus, there is a fundamental trade-off between completeness and accuracy because measurement and processing limitations of information processing systems will prevent 100% real-time completeness, especially for subject matter that changes frequently. This, in turn, prevents 100% accuracy. In other words, every discussion of accuracy is also a discussion of completeness, and vice versa.
- viii. The amount of information is measured by the reduction of ignorance and uncertainty and not by the addition of knowledge.

### **Accounting System**

Hartzell (2006) says that accounting system is a consistent way of organizing, recording, summarizing and reporting financial transactions. The minimum requirements for an accounting system include the following; It must provide financial information for management to make policy decisions, prepare budgets and grant proposals and provide other. Useful financial reports, also, similar transactions must receive consistent accounting treatment. An accounting system can also be defined as mechanism for gathering and communicating data for the ends of assisting and co-ordinating collective decision in view of the overall objective of a firm or an organization. Accounting system by definition is a financial information system which includes accounting terms, records instruction manuals flow charts programs, and reports to fit the particular needs of the business. Accounting system is a

set of records, procedures and equipment that routinely deals with the events affecting the financial performance and position of the organization. Accounting system is very important with its purpose and functions in organization - collection and recording of data and information regarding events that have an economic impact upon organizations and the maintenance, processing and communication of information to internal and external stakeholders (Christauskas & Martinkus, 2004; Jovarauskiene & Pilinkiene, 2009; Girdzijauskas, et al, 2008; Kundeliene, 2011), providing the financial information for decision making within the organization (Salehi, Rostami & Mogadam, 2010). Hence, accounting procedures have changed when most information exists only in electronic form and different methods were developed. Hyvönen (2003) determined that ERP systems increase the use of advanced managerial accounting techniques, such as ABC and Balanced Scorecard. Saban and Efeoglu (2012) stated that the ERP system causes a change in managerial accounting practices, in terms of providing global information flow and standardization, and that conventional managerial accounting procedures are eliminated after ERP (Caglio, 2003; Jack & Kholeif, 2008; Yeh, Lee & Pai, 2012; Saban & Efeoglu, 2012). Information technology systems cause a change in issues of budgeting and reporting, which are among the managerial accounting applications, and enable the increasing use of advanced managerial accounting techniques (Yeh, Lee & Pai, 2012; Saban and Efeoglu, 2012).

This aspect could be stated that information technology have changed the roles of accountants in business from information collection, preparation, analysis to the part in the functions of control, interpretation, assessment and decision-making (Yeh, Lee & Pai, 2012; Saban & Efeoglu, 2012; Kloviene & Gimzauskiene, 2014). On the other hand, as information technologies are quickly developing, the accounting systems often do not support the business properly (Christauskas & Miseviciene, 2012) influencing the need to analyze accounting system compatibility with business environment.

### **Computerized Accounting Systems**

The biggest impact of IT has made on accounting is the ability of companies or an Organizations to develop and use computerized systems to track and record financial transactions. Paper ledgers, manual spreadsheets and hand-written financial statements have all been translated into computer systems

that can quickly present individual transactions into financial reports. Most of the popular accounting systems can also be tailored to specific industries or companies. This allows companies or an organizations create individual reports quickly and easily for management decision making.

### **Advantages of Using Computerized Accounting System**

- i. **Increased Functionality:** Computerized accounting systems have also improved the functionality of accounting departments by increasing the timeliness of accounting information. By improving the timeliness of financial information, accountants can prepare reports and operations analyses that give management an accurate picture of current operations. The number of financial reports has also been improved by computerized systems; cash flow statements, departmental profit and loss, and market share reports are now more accessible with computerized systems.
- ii. **Improved Accuracy:** Most computerized accounting systems have internal check and balance measures to ensure that all transactions and accounts are properly balanced before financial statements are prepared. Computerized systems will also not allow journal entries to be out of balance when posting, ensuring that individual transactions are properly recorded.
- iii. Accuracy is also improved by limiting the number of accountants that have access to financial information. Less access by accountants ensures that financial information is adjusted only by qualified supervisors.
- iv. **Faster Processing:** Computerized accounting systems allow accountants to process large amounts of financial information and process it quickly through the accounting system. Quicker processing times for individual transactions has also lessened the amount of time needed to close out each accounting period. Month- or year-end closing periods can be especially taxing on accounting departments, resulting in longer hours and higher labor expense. Shortening this time period aids companies in cost control, which increases overall company efficiency.
- v. **Better External Reporting:** Reports issued to outside investors and stakeholders have been improved by computerized accounting systems. Improved reporting allows investors to determine if a



company is a good investment for growth opportunities and has the potential to be a high-value company. Companies can utilize these investors for equity financing, which they use for expanding

- vi. **Competitive Advantage:** Utilization of information technology resources allows companies to maintain a competitive advantage over their rivals. Information technology can be used to make new and improved products and distance them from the existing market. Costs can be reduced adopting information technology solutions in business. This can increase productivity and reduce the need for employee overhead. Businesses can also build-in information technology to their products that makes it difficult for customers to switch platforms or products.
- vii. **Economic Efficiencies:** Information technology resources can significantly reduce accounting costs. Redundant tasks can be centralized in one location through the use of information technology infrastructure. Economic efficiencies can be realized by migrating high-cost functions into an online environment. Companies can also offer email support for customers that may have a lower cost than a live customer support call. Cost savings could also be found through outsourcing opportunities, remote work options and lower-cost communication options.

### **Disadvantages of Computerized Accounting System**

1. Power Failure
2. Computer Viruses
3. Hackers: are the inherent problems of using computerized systems;
4. Garbage in Garbage out: Once data been input into the system, automatically the output are obtained hence the data being input needs to be validated for accuracy and completeness, we should not forget concept of GIGO (Garbage In(Input) Garbage out (Output) and
5. False Programmed: Accounting system not properly set up to meet the requirement of the business due to badly programmed or inappropriate software or hardware or personnel problems can caused more havoc
6. Fraudsters: Danger of computer fraud if proper level of control and security whether internal and external are not properly been instituted.

7. Scammers
8. Internet Fraudsters

### **Accounting Software used in Business**

- i. **Income Tax.** Because tax laws are frequently changing, it is becoming exceedingly difficult to deal with them. Therefore, manual tax preparation is becoming more and more difficult and time consuming. Fortunately, tax preparation software is currently available for companies. Therefore, instead of processing tax manually, companies can use computer software to perform the same functions. As a result, even complex calculations can be performed via computers in a short period of time.
- ii. **Audit.** Information technology has also computerized the auditing profession. If auditors perform auditing functions manually, it takes time. However, audit software packages are currently available for auditors. For example, trial balance software enables auditors to input the working trial balance, handle all types of adjusting entries, and automatically compute the adjusted trial balance.
- iii. **Word Processing.** Word processing is computer-assisted creation, editing, correcting, manipulation, storage, and printing of textual data (Romney et al., 1997: 246). Accountants use word processing software to prepare reports, billings, memos, and financial statements.
- iv. **Graphics Software.** Graphics can be prepared using graphics software. Graphics can be printed on paper or displayed on slides, transparencies, and photos. Many auditors and managerial accountants use the graphics software to graph the data in financial statements and reports.
- v. **Image Processing.** Creating, storing, and updating paper forms of documents take time. In addition, it is very costly to process and store documents. Fortunately, these costs can be eliminated with the help of document imaging systems. Image processing captures electronic image of data so that it can be stored and shared. With the help of document imaging, accountants can scan paper documents into the computer and process all of the files electronically. Companies that use document imaging are moving toward paperless offices.
- vi. **Electronic Data Interchange (EDI).** Electronic data interchange enables companies to communicate with each other electronically.

Therefore, EDI enables companies to exchange documents electronically with each other. For example, computerized network enables purchaser and the supplier to exchange purchase orders and invoices electronically in the form of images.

- vii. **Electronic Funds Transfer (EFT).** Companies can now connect to banks through EFT. This system enables companies to make payment and collection electronically. In this case, when company wants to pay for accounts payable to a supplier, it can do it via EFT. Furthermore, whenever company makes sales, transactions are immediately charged to consumer's bank account and simultaneously credited to company's account. In addition, all relevant accounts such as accounts receivable and cash are updated immediately by the computerized system. The use of the computerized systems mentioned above has led to the automation of accounting information system. Accounting information systems equipped with these kinds of technologically advanced tools can now perform accounting functions more effectively and reduce costs.

### **Conclusion**

Information technology advancements have greatly helped the accounting systems of business entities. Because of today's computerized accounting information systems, business performance seems to improve. Many transaction processes were simplified thus creating efficient operations. The affordability of computer technology for small business entities creates great opportunities for these entities to improve their business. Information technology advancements made effective and efficient information flow that enhances managerial decision-making, thereby increasing the firm's ability to achieve corporate and business strategy objectives. This in turn, may increase the prospects of the firm's survival. Information technology applied in accounting is not perfect. Sometimes we must consider the fact that they are just piece of technology. With regards to the accounting information system of a business, these systems greatly help in the accounting processes. However, we must consider the possibility that the system might be ineffective sometimes, same with some accounting software. Business entities much choose compatible systems and software for them to be effective. In these advanced days in information technology, computers have improved the accounting processes but computers can't replace the role of man in the accounting systems.

### **Recommendations**

From the findings of this study the following recommendations are therefore made to enhance the performance by these selected banks in their banking operations.

- a) Business entities should take advantage of the excellent benefits derivable from the adoption of well-designed computerized accounting system.
- b) Due to the dynamic nature of computerized Accounting system, and in line with the present global computer trends of events which is now widespread and mostly known as “Computer Age”.

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CHAPTER **6**

## **Microfinancing and Poverty Reduction in Nigeria: Challenges and Prospects**

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### **Introduction**

**T**he study focused on the contributions of microfinance banks in poverty reduction in Nigeria. It identifies the importance of microfinance banks as key state institutions that provide financial intervention in developing the capacity of the rural vulnerable poor group in the country. This is without challenges. The study adopts expo facto research design and data were drawn from secondary literature; journal articles, Central Bank of Nigeria reports and economic bulletins. The theory of Integrated Rural Development advanced by Hallet (1996) provides a theoretical direction for examining the variables of the study. The study shows evidence that the insistence of assets as collaterals limits the opportunities of the vulnerable rural poor to access financial interventions delivered by microfinance bank. The study, therefore, suggests among things the need for the microfinance institutions to extend their services (savings and credit) to remote rural areas where the poorest of the poor are, there should be incentive mechanism such as tax waiver on profits of the year for a certain period of time, for upward of five years.



### **Background to the Study**

The concept of microfinance evolved in the late 1970s, though, microfinance has a long history dating back to the beginning of the 25th century, this study's concentration dwells on the period after the 1960s, a good number of credit associations have been in operation in most nations for lots of years; the Susus (Ghana), chit funds (India) countries (West Africa) Pasanaku (Bolivia), and others. Besides, several official saving and credit organizations have been operating worldwide (Ahmad, Naveed, and Ghafoor, 2014).

A microfinance institution (MFI) is an association which offers microfinance services. MFIS range from minor non-profit organization to major banks. MFIS began as non-profit organizations like NGO's (non-governmental organization) credit unions and other financial associations. Commercial banks like Regional banks make available funds to MFI for onward borrowing to needy clients. Although a few collections of NGOs were involved in financial aid by utilizing a variety of methods, the numbers have presently grown significantly. Though no data published on non-public MFIS that operate in Nigeria, MFIS is projected to be about 800 (Ahmad et al, 2004).

In Nigeria, the microfinance policy, regulatory and supervisory framework was launched in December 2005. The policy provided for the provision of financial services by nongovernmental organizations, deposit money banks, and microfinance banks. To ensure that the mission of the policy was achieved, key policy targets were stipulated. These included ensuring that majority of the active population are reached with financial services, and that total credit as a percentage of Gross Domestic Product (GDP) increases steadily, as well as microcredit as a percentage of total credit to the economy (Microfinance Newsletter, July – December: 2009).

Equally, important was the need to improve access of women to microfinance on a consistent basis. These targets form the mission of the microfinance policy framework and the institutions that have emerged from it. The achievement of the objectives of microfinance in Nigeria depends on the extent to which the institutions, in particular, regulators and other stakeholders perform their respective roles. Navajas et al (2000) in Okurut et al (2004) reiterated that one of the primary objectives of microcredit/finance is to improve the welfare of the poor as a result of better access to small loans. It has been argued that lack

of adequate access to credit for the poor may have negative consequences for various household level outcomes including technology adoption, agricultural productivity, food security, nutrition, health, and overall welfare. Rhyne and Otero (1992) argued that financially sustainable microfinance institutions (MFIs) with high outreach have a greater likelihood of having a positive impact on poverty alleviation because they guarantee sustainable access to credit by the poor. Outreach is the number of clients served by MFI.

The activities of microfinance include nurturing small participatory, homogenous and self-help groups (SHGS) who access small credit for the development of man. This system makes the poor, particularly the women from the needy localities to reexamine the challenges they encounter in their economic and social environment. It aids them to gather resources that are financial and human and also prioritize their utilization to solve problems. Regular thrift collection is utilized to address pressing issues of production and consumption which not just helps in meeting their most pressing needs, but equally equips in undertaking bigger financial resources much more skillfully, prudently and with an effect.

Poverty is a global phenomenon. Egwuatu (2008) documents over 500 million of the world's population live under very poor conditions, but they are economically active. They lack access to basic necessities of life: food, shelter and primary health care. They earn their livelihoods by being self-employed as micro-entrepreneurs or by working in micro-enterprises (very small businesses which may employ up to 5 people). This set of people has no hope for the expansion of their enterprise because of inability or incapability of accessing banks for credit (Egwuatu, 2008).

For the rural populace, the provision of credit facilities by MFI is significant in improving their wellbeing through expansion of economic activities like commercial agriculture, developing small and medium scale enterprises, investing in facilities, and so on. However, this process is without limitations which explain why most rural people find it difficult to access credit facilities from MFI. This concern defines the objective of this paper; to assess the challenges and prospects of MFI and poverty reduction in Nigeria.

## **Conceptual Literature**

### **Microfinancing**

Microfinance refers to different means for providing people to access financial services. Buckley (2008) says that microfinance provides financial services like savings, credits (loans), micro insurance, micro-leasing and transfers to active, needy and low-income people to help them participate in income creating activities or expand and grow the small businesses. One of the mandates of microfinance banks shows that the provision of financial services as an intervention to the financial intervention that focuses on the low-income segment of a particular society (Buckley, 2008).

World Bank (2002), states that it refers to the provision of financial service like saving and credit to the needy. Microfinance is institutions established to make available financial services to the needy. They can be non-governmental, loan unions, non-bank financial institutions, savings and loan cooperatives, loan unions, government banks or commercial banks (Wierzbichi, 2008). The policy seeks to make financial services available on a sustainable basis to the economically active poor, low-income earners and micro, small and medium enterprises through privately owned enterprises. The aim of microfinance as stated by Boreham (2004) "is not providing capital to the poor to combat poverty; it seeks to create institutions that deliver financial services to the poor who are ignored by the formal banking sector."

Historically, the institutions of micro-financing have existed various forms in ages across the world. A few examples are cited by Ahmad et al. (2004) to include "susu" in Ghana, "Chit funds" in India, 'tandas' in Mexico, "Arisan" in Indonesia, "center" in Sri Lanka, "tontines" in West African and "pansariaku" in Bolivia. Among the earliest micro-credit organization that provided small loans to their rural poor with no security was the Irish Loan Fund System initiated in the early 1700s by Jonathan Swift. By the 1840s Swift's idea had become widespread all over Ireland. They were giving out loans to 20 percent's of all Irish households yearly at their peak. In the 1800s many varieties of bigger and more official savings and credit institutions sprung up in Europe, organized basically by the needy in rural and urban localities. The associations were called credit unions, people's Bank and saving/credit cooperatives.

In Nigeria, informal microfinance activities promoted by traditional groups flourished all over the country for the mutual benefits of their members. These informal microfinance arrangements operated under different platforms (community-based, faith-based, self-help groups, rotating savings and credit association (ROSIAS) and under different names such as "etibe" among the Ibibios of Akwa Ibom State, "Osusu" (Edo), Itutu (Delta Igbo) "Ajo" (Yoruba) "Adashi" (Hausa). The emergence of modern microfinance is credited to the 2006 Nobel Prize Winner Mohammed Yusuf (2003) who started a research work at Sobra with a group of 42 women engaged in bamboo stools. This was a response to the 1974 famine in Bangladesh in which hundreds of thousands of people died. His effort was therefore geared towards providing financial support to the vulnerable poor population without interest. This has grown to modern day micro financial institutions that provide intervention financial services to members of the people who need it to develop or expand businesses, build capacity and enhance their economic well-being.

### **The Concept of Poverty**

The most common way to measure poverty is based on income or consumption line. A person is considered poor if his or her consumption level falls below 1USD per day, a level necessary to meet basic needs. This minimum level is called the poverty line (World Bank, 2002). Kerten (2004) sees poverty as a state where an individual is not able to cater adequately for his or her basic needs of food, shelter, and clothing. He is incapable of meeting his economic and social requirements, is not gainfully employed, and lacks self-esteem, assets, and skills. He equally is incapable of accessing economic and social infrastructure like sanitation, education, potable water, health, and consequently, the chances of pushing forward his/her welfare to the limit of his or her capabilities are quite limited.

To others such as Desai (2005) poverty is seen in terms of per capita income, per capita energy consumption, starchy staples as a percentage of calories consumed, life expectancy, infant mortality, and the number of inhabitants per physician. Others think of poverty as a physical matter and the poor as people with insufficient and limited food, clothing, dirty, crowded and cold shelter and whose lives are consequently painful and short. These various implications of poverty indicate that they are many dimensions to poverty but they all point in one direction poverty relate to the quality of life that a person enjoys and this quality of life has a minimum.

Poverty is the inability of an individual or household to attain a minimum standard of living. The concept of the minimum living standard is usually defined in terms of per capita consumption or better still in the level of consumption or expenditure. Anybody whose income or consumption falls below that specified minimum income is considered poor. The specific minimum income is referred to as the poverty line. In any society those who are likely to fall below the poverty line consist mostly of the unemployed, those in low paying jobs, the self-employed especially those in the informal sector, women particularly women heads of households with children, the aged, children, recent migrant and destitute.

The poor lack adequate basic needs of food, clothing, and shelter, and cannot meet social and economic obligations. They also experience unemployment, lack of skills, assets, and self-esteem and has limited access to social and economic infrastructures. This means that the poor lack basic infrastructures such as education, health, potable water, and sanitation, and as a result has limited chance of advancing his/her welfare to the limit of his/her limited access to social and economic infrastructures (Englama and Bamidele, 1997). This also supports the claim of Todaw (2000) that the poor experience inequitable social relationships and unequal social status as well as minimized capacity to take part or to create links that are meaningful with other members of the society.

### **Microfinancing and Poverty Reduction: Issues and Challenges**

Studies have shown evidence of the positive impact of microfinance on poverty reduction (Adamu, 2007; Irobi 2008; Wright Zaman, 2000; Mcculloch & Baulch, 2000). In their various studies, they upheld the conclusion that microfinance is an effective and powerful tool for poverty reduction. For example, Amin, Rai, and Topai (2003) focus on the ability of microfinance to reach the poor and affirmed that microfinance has served people below and above the poverty line. Also, Hossain (2008) in his study on Credit for the Alleviation of Rural Poverty in Bangladesh found that Grameen members who are poor and landless have an average household of 43, a percent higher than marginal landowners.

The results of empirical literature indicate that the poorest can benefits from microfinance from both an economic and socio wellbeing point of view and

that this can be done without jeopardizing the financial sustainability of the micro financial institutions (Zaman 2000) Robinson, 2001; Dahim and Zubair (2008). For instance, Khandker (2005), in several related studies using the statistical method on assessment of the impact of microfinance among three Bangladesh programs found that every additional take lend to a woman add additional of 0.18 takes to annual household expenditure. These studies showed overwhelming benefit in income and reduction of vulnerability.

United Nation Development Programme (2001) identified Microfinance as a major tool effective in alleviating poverty. It empowers the financially disadvantaged ones. Morduch and Littlefield (2003) and Alegiemo and Attah (2005) considered microfinance as the financial empowerment of economically active poor through the provision of microcredit as well as another productive asset, it enhances the latent capacity of the poor for entrepreneurship, enabling them to engage in economic activities, be self-recant and also enhancing the household income as well as creating wealth.

Considering the various activities of the microfinance institutions, they are relevant to poverty reduction in the following ways:

1. Microfinance banks provide credit and financial services to the poor and low-income groups. The funding supports the development of small and medium scale businesses in rural areas. This businesses support in employment creation, increase income and savings which further promotes investment and diversification of the rural economy.
2. Through credit facilities by microfinance banks, the poor can access economic opportunities, which reduce their vulnerability to economic stress.
3. Microfinance is the financial empowerment of economically active poor through the provision of microcredit as well as another productive asset; it enhances the latent capacity of the poor for entrepreneurship, enabling them to engage in economic activities, be self-reliant and also enhancing the household income as well as creating wealth (Morduch & Littlefield, 2003; Alegiemo & Attah, 2005).
4. Also, Khandker (2003) maintained that microfinance banks can alleviate liquidity constraints, stabilize consumption, and enhance both income and consumption for the poor, thereby, augmenting the poor's welfare.

5. Access to a loan from microfinance banks increases the productive capacity of the rural populace. There are opportunities to grow subsistent agriculture to commercial. This no doubt increases family wellbeing and living conditions.
6. Microfinance activities support the building of local social and economic institutions which further strengthens the national financial system and provide the necessary stimulus for growth and development.
7. Through micro-financing, microfinance banks support entrepreneurial development which significantly supports the rural dwellers engage in economic activities and be more self-reliant, increase employment opportunities, enhance household income and create wealth.

In another development, other authors question the positive impact of microfinance on poverty reduction. For example, Hume and Mosley (2006) while noting the function of microfinance in assisting to minimize poverty drew conclusions from their study on microfinance that a number of schemes are less successful. They believe that microfinance is not a solution for poverty reduction and in certain instances, microfinance has deteriorated the condition of the poorest. In this regard, Adamu (2007) noted that Nigeria's microfinance organizations have significantly grown, largely propelled by the widening informal sector activities and the hesitation of commercial banks to release money to upcoming micro enterprises. However, those who benefit from microfinance institutions are a minor proportion of those who need their services.

Dahiru and Zubair (2008) drew concerned to the fact that there is a discrepancy between the number of people who receive loans from microfinance banks and the total number of people, especially the poor who need such financial intervention. The result of their study shows that the contribution of microfinance banks is not very significant in poverty reduction.

This provides an indication that microfinance is faced with certain challenges. The major challenges of microfinance in Nigeria include communication gaps and inadequate awareness, insufficient support from government, inadequate donor funding, less attention on financial sustainability of MFIs lack of

adequate loan-able funds, high turnover of MFI staff, limited support for human and institutional capacity building; to the extent that poverty remains unsolved to that extent it is predicted that microfinance will remain very relevant as a vehicle for tackling socio-economic challenges (Attaili, 2007).

Since 1987, the efficacy of microcredit through the cooperative regime to alleviate poverty has come under a paucity of loanable funds, the absence of support institutions in the sector, the unwillingness of conventional banks to support micro-enterprises, weak internal control, poor credit administration, and asset quality, low management capacity and unavailability of clients. This is an important test since poverty alleviation has turned out to be a key policy debate in recent development literature and the Nigerian Government is fully committed to alleviating poverty among its citizens. The Nigerian economy is full of attempts at reducing poverty especially among vulnerable groups based on cooperative ideals with large degrees of failure. According to the World Bank (1995), the Peoples Bank and Community Bank failed in achieving their goals and objectives. The failure experienced through these approaches (i.e. Peoples Bank and Community Bank) were as a result of the wrong perception by members of the unique framework of cooperatives due to poor financial management by some cooperatives, lack of understanding of the status of cooperatives by a large number of beneficiaries, among others.

The view of these authors is that microcredit through cooperative does not automatically guarantee poverty alleviation. They maintained that for success to be achieved by such cooperatives they need to depend largely on loan administration, efficient cooperative management, and on whether the organized cooperative is routed on felt needs of the citizenry rather than on undue emphasis on business orientation and profitability. In the case of Nigeria, over 80 million people (65% of the active population) remain unserved by the formal financial institutions (Central Bank of Nigeria (CBN), 2006). Hence there is a need for MFIs to reach the unreached and serve the unserved.

As revealed in Microfinance Newsletter (2009), current operational strategies of microfinance banks in Nigeria present serious challenges as many of the banks are yet to come to terms with the tenets of practical microfinance principles. Owing to a lack of technical skills and capacity, the banks are



engaged in lending and savings practices that could ration out poor clients that they were designed to serve. Licensed purchase order financing, large transactional lending (large average loan size) and large-scale deposit mobilization dominate their activities. Rural lending is very minimal, owing to the fact that the banks are located in cities and urban areas.

Theoretical framework

### **Theoretical Discourse**

#### **The Integrated Rural Development Theory**

Hallet (1996) is the proponent of the integrated rural development theory. He maintained that development is multidimensional and encompassing, which includes the crops we have sown, the goods we sold and the route along which it is moved to the market by the trader, the school our children attend and the disease affecting our babies. The theory considers development to be a comprehensive and holistic strategy, involving the improvement of the entire society's economy. In other words, the central idea of the theory which also lends credence and forms a framework for this study is that "rural areas have to broaden through efforts to mobilize and better utilize human and natural resources by providing services; by creating motivation and purchasing power through better distribution of income, employment opportunities; by establishing closer links between the agricultural, industrial and service sector in the rural areas; and by improving the conditions of living regarding" socio-economic activities through assistance of microfinance banks

The theory supports the contributions of microfinance financial intervention initiatives in building economic capacity and enhancing the wellbeing of the rural poor in Nigeria. It advocates that development strategy must be multidimensional, covering the improved provision of services and enhanced opportunities for income generation which is facilitated by microfinance institutions to bring about reduction in poverty in order to attain desired change by improving the well-being of rural dwellers in the country.

#### **Prospects on microfinance for poverty reduction in Nigeria**

To achieve its institutional mandate, microfinance banks must work on to improve its institutional framework and capacity so as to meet the objective of providing financial intervention to the people, especially the poor on the society who needs such support to enhance their wellbeing. In this regard, the following are suggested:

1. As the apex bank in the country, the Central Bank of Nigeria should update the microfinance Policy and Regulatory Guidelines to reflect international best practices. Regulators should fully enforce necessary compliance with the prescribed guidelines and impose sanctions where necessary to create sanity in the system. This means that the Central Bank needs to monitor and deal with unregistered money lenders, specifically those who exploit borrowers by charging unusually high-interest rates.
2. To meet the financial needs of the core poor in society, microfinance banks in Nigeria should consider alternative means of collateral for small business borrowers. For instance, groups and traditional rulers could be asked to sign as guarantors instead of personal assets which most poor people do not have.
3. It is important for microfinance institutions to organize training on business development and management for beneficiaries of loans. This will help build their capacity in utilizing such funds available to it, instead of wastefulness.
4. To close the gap of gender disparity and unequal access to funds, operators of microfinance banks should endeavor to be gender sensitive, that is, by allowing women and other vulnerable persons to take advantage of this facility to improve their lots.
5. To encourage microfinance banks to extend their services (savings and credit) to remote rural areas where the poorest of the poor are, there should be incentive mechanism such as tax waiver on profits of the year for a certain period of time, for upward of five years.

### **Conclusion**

It is an obvious fact that microfinance has proven to be an effective means of reducing poverty through supporting low-income people, and of improving their livelihoods by developing entrepreneurial activities. It has assisted in raising incomes and has reduced economic vulnerability through the provision of financial services to the poor (United Nations: 2004:4). This being the case, Nigeria cannot afford to be left behind. Microfinance banks in Nigeria should brace up to live up to these challenges. Among other things, the government through the apex bank should put in place a credit guarantee scheme to provide additional support to credits granted by microfinance banks in the rural areas in case of default in repayment.

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CHAPTER **7**

## **Monetary Policy: Objectives, Instruments, Transmission Mechanism and Limitations**

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### **Introduction**

**A**t the heart of economic policies is the urge to manage the macro economy in such a way to attain the maximum social welfare of the society subject to stimulants and binding constraints in the environment. Macroeconomic policies are the actions of policy makers (government) directed at influencing the levels of employment, price, output, income and income distribution, the exchange rate and the balance of payments etc. Macroeconomic policies are vast, varied and their effects are extensive in managing the national economy. Monetary policy constitutes a major part of general macroeconomic policies. Basically, four goals are discernable in monetary policy. These are: Having a low level of unemployment, satisfactory balance of payments, stable price level and a high rate of output growth. The theoretical basis for linking monetary policy to the objective of price stability is the old quantity theory of money. It is easy to state the objectives of monetary policy in qualitative terms. The difficult task is to define the objectives so that they are operational. What policy

makers and relevant stakeholders require is a way of knowing whether goals are met and of gauging how well goals are being met. The policy maker needs a way of measuring the stableness of prices, the fullness of employment, the adequacy of economic growth, and the nearness to equilibrium in the world dollar market. Furthermore, the policy maker needs specific benchmark which indicate how stable are stable prices, how full is full employment, how adequate is adequate economic growth, and what constitutes external equilibrium, for without these benchmarks there is no way for the policy maker or the public to judge whether objectives have been accomplished.

The thrust of this paper is to espouse the linkage between monetary policy and the management of the national economy to promote social optimum bliss. The specific objective is to answer the questions how monetary policy influences the achievement of favourable national economic outcomes in the realm of the four major macroeconomic goals and the extant goal of maintaining stable exchange rate. The scope of this chapter covers how monetary authorities control money and credit, given its objectives and how effective this control is in meeting the stated goals. Beyond objectives of monetary policy instruments, transmission and limitations, it also covers stance, indicator, targets, effectiveness. We attempt to domesticate monetary policy framework for ease of exposition and understanding. Following this introductory section is section 2 which discusses the objectives and instruments of monetary policy. In section 3, transmission mechanism and effectiveness of monetary policy is discussed while section 4 dwells on monetary policy indicators and targets as well as monetary policy in action: a recent experience of the Nigerian economy. Section 5 gives the concluding remarks.

### **Objectives and Instruments of Monetary Policy**

Monetary policy refers to a deliberate action of the monetary authorities to influence the quantity, cost and availability of money and credit in order to achieve desired macroeconomic objectives of internal and external balances. The action is carried out through changing money supply and/or interest rates with the aim of managing the quantity of money in the economy. For instance, the Central Bank of Nigeria, like other central banks in developing countries, seeks to achieve price stability through the management of money supply. Money supply is made up of narrow and broad money. Narrow money ( $M_1$ ) is defined as currency in circulation with non-bank public and demand deposits

or current accounts in the banks. The broad money ( $M_2$ ) includes narrow money plus savings and time deposits, as well as foreign currency denominated deposits. Broad money measures the total volume of money supply in the economy. Thus, excess (or liquidity) money supply may arise when the amount of broad money is higher than the level required to sustaining non-inflationary output growth. The need to regulated money supply is based on the knowledge that there is a relatively suitable relationship between the quantity of money supply and economic activity and that if the money supply is not limited to what is required to support productive activities, it will result in undesirable effects such as inflation or deflation. There are many factors influencing money supply, some are within the control of the Central Bank, while others are outside its control.

The specific objectives and focus of monetary policy may change from time to time, depending on the level of economic development and economic fortunes of the country. The objectives of monetary policy may vary according to the level of development of the economy involved, but invariably; they include the attainment of price stability, maintenance of external payments equilibrium, as well as promotion of employment and output growth, and sustainable economic development. Irrespective of the type of economy, these objectives are critical for the attainment of internal and external balance and ultimately the promotion of long-run economic growth. Where the stability of the financial system is threatened, these short and long term objectives could be subordinated to the overriding objective of achieving financial stability.

Normally several measures are taken together in order to achieve the objectives of monetary policy. These measures include interest rate changes, special deposits with the Central Bank by the commercial banks, open market operations, quantitative and qualitative controls of commercial banks' operations and moral suasion. These measures are collectively called instruments or tools of monetary policy. It is proper that before speaking to other issues, we have a clear understanding of how these instruments are used to influence the quantity of money available in the country at one time. The instruments of monetary policy can be classified into two, the quantitative (general) and qualitative (selective). These instruments affect the level of aggregate demand through the supply, cost and availability of credit. The quantitative instruments include:

- i. Open market operations
- ii. Bank interest rate
- iii. Changes in reserve requirement

The selective credit control measures aim at controlling specific types of credit. They include

- i. Moral suasion
- ii. Selective credit control

**Interest Rate Changes:** Interest changes affect the amount of money in the country through their effects on the demand for loans. Any change in the rate of interest will affect the demand for loans. An increase in interest rate will induce a reduction in demand for loans and will result in a decrease in money supply in the country thereby impinging on output and employment. A decrease in interest rate will have opposite or reverse impact on the economy. The Central Bank, acting for the government may cause changes in interest rates in order to achieve monetary policy objective. It may do this directly by fixing some interest rate or indirectly by changing the rate of interest at which it lends to banks and other financial institutions which borrow from it. An increase in the rate of interest charged by the Central Bank will certainly push up the rates of interest in the system. A decrease will have the opposite effect.

**Open Market Operations:** This refers to the selling and buying of financial instruments by the Central Bank in the open (financial) market. The thrust of such transactions is to influence the amount of money the banks can lend out (their liquidity) and the rates of interest they will charge, and in the process influence the amount of money supply in the system. When the Central Bank carries out open market sales of financial instruments, it reduces the liquidity of the banks. This is as a result of the fact that the purchases are made with withdrawals from their bank accounts. With reduced liquidity, the banks' ability to lend (their ability to create money reduces) and the supply of money will fall as a consequence. When the Central Bank conducts open market purchases of financial instruments, it has the ultimate effect of increasing the supply of money in the country. This enhances the ability of banks to create money.



**Special Deposits:** The Central Bank has the authority to ask banks operating in the economy to place funds in a special account with it. The thrust of this action is to reduce the liquidity of the banks to create money, whenever it becomes necessary. The Central Bank may release the special deposits to the banks when it wishes to increase the supply of money in the system depending on the mood of the economy in terms of booms and recession.

**Discount Rate Mechanism:** The process by which a Central Bank lends money to its commercial bank members is known as rediscounting (because the loan is normally secured by commercial paper already discounted by the commercial bank). The interest rate charged by the Central Bank is known as the discount rate or the rediscount rate. By varying the rediscount rate, the Central Bank can influence the terms upon which credit is available. It must be noted that the discount rate mechanism is passive compared to the open market operations which is more active. However, both are similar in outlook and they are part of indirect tools of monetary regulation – which are better suited to advanced economies.

**Reserved Requirements:** Variation in reserve requirements (cash, liquid assets reserves and supplementary reserves) can also be used by the Central Bank to control commercial banks' liquidity and influence their credit operations. These instruments include cash ratio, liquidity ratio and several types of supplementary reserves such as special deposits and stabilization securities.

**Direct Control of Banking System Credit:** This involves the imposition of quantitative ceilings on the overall or sectorial distribution of credit by the Central Bank. It is a selective tool and direct instrument. This instrument is suited to monetary control in LDCs. It has the advantage that it can be used for promoting economic development, for instance, by increasing allocation and reducing the cost of credit to key sectors of the economy like agriculture and industry.

**Moral Suasion:** This involves persuasion and not the use of regulation. When the Central Bank resorts to exhortation and admonition in an attempt to create the expectations and the financial climate it deems desirable and influence the lending operations of the commercial banking system. The strategy here is to

appeal to commercial banks to undertake actions which might not be in their own best interest, but which are believed to be for the good of the society.

### Application of Monetary Policy Instruments

Within the context of less developed countries, monetary instruments are microeconomic. The focus of monetary policy is to manage inflation, reduce unemployment, maintain balance of payments equilibrium and encourage robust economic growth. In order to achieve these goals though not all of them at once, relevant set of instruments are employed to achieve the goals, the manipulation of such relevant instrument which will lead to the expected outcome. The table below presents a summary of monetary policy works.

**Table 1:** Summary of monetary policy goals and use of monetary instruments

Policy Problem/ objectives	Solution mechanism(s)	Manipulation of instruments for achieving objectives
1 Inflation (reduction of inflation or maintenance of price stability)	a) Reduction of money supply b) Reduction of aggregate demand	a). Use of open market operation-sell securities b) Increase cash reserve ratio c) Increase discount rate d) Undertake credit squeeze (increase rate of interest) e) Call for special deposit-stabilization securities scheme f) Use moral suasion to elicit co-operation of financial institutions and public in carrying out (a to e) above
2 Unemployment (reduce unemployment or increase employment)	a) Increase money supply b) Increase aggregate demand	a) Use of open market operation-buy securities b) Decrease cash reserve ratio c) Decrease discount rate d) Liberalize credit (by reducing interest rates) e) Use moral suasion to encourage compliance with use of instruments a) to d) above

3	Balance of payment deficit (to maintain balance of payment equilibrium).	<ul style="list-style-type: none"> <li>a) Increase in inflow of foreign capital</li> <li>b) Decrease in outflow of foreign exchange</li> </ul>	<ul style="list-style-type: none"> <li>a) Increase interest rates</li> <li>b) Use of foreign exchange control- decrease basic travel allowances, and other foreign remittances.</li> <li>c) Set up import supervision scheme to monitor volume of import and check over-invoicing</li> <li>d) Use moral suasion to elicit compliance in a) to c)</li> <li>e)</li> </ul>
4	Laggard growth of a particular economic sector or (to achieve balance growth in all economic sectors)	<ul style="list-style-type: none"> <li>a). Increase investment in a particular sector.</li> <li>or</li> <li>b) Increase investment in all sectors of economy.</li> </ul>	<ul style="list-style-type: none"> <li>a) Use selective credit liberalization for the particular sector</li> <li>b) Decrease lending rate of interest for the sectors relative to other sectors</li> <li>c) Use moral suasion to elicit compliance</li> </ul>

**Source:** Umoh (2003). Economics: An African Perspective.

### **The Transmission Mechanism of Monetary Policy**

The channel through which the actions in the monetary sector affect the real sector is called the 'transmission mechanism' of monetary policy. Also, monetary policy transmission mechanism is seen as the link between the monetary and real sectors of the economy. There is no consensus as regards the precise route through which monetary policy affects the economy; but it is generally accepted that monetary policy has impacts on the economy. There are two (2) main contrasting views about the transmission mechanism of monetary policy;

- i. Keynesian position
- ii. Monetarist view

In brief, whereas the Keynesian position works through the financial system of the real sector, the monetarist view postulates that changes in the money supply lead directly (and without working through the financial market) to changes in real magnitudes.

### **The Keynesian Transmission Mechanism**

This perception commences from the premise that money and certain marketable fixed-income securities (bonds) are close substitutes. Where there is a discrepancy between desired and actual money balances, individuals try

to rid themselves of excess money balances by buying these bonds, and this desire sets in motion the process of adjustment, which subsequently stimulates investment and aggregate output. There are situations when discrepancy exists between money supply and demand. This discrepancy can be brought about in two ways:

- i. The central bank can resort to the direct printing of more money;
- ii. Use any of the technique (direct and indirect instruments of monetary control).

Direct printing of money will have the immediate effect of increasing the money supply but the use of the weapons of control will first of all have effect on the volume of commercial bank reserves. The change in the volume of bank reserves calls for portfolio adjustment on the part of the banks (e.g. as regards their credit-creating ability) and such adjustments will lead (through the multiple expansion of deposits) to a change in money supply. Consequently, either way, the money supply will increase.

An increase in money supply will in turn produce portfolio and credit effects. The Portfolio effect works through the substitution of other financial assets for money (in the attempt to get rid of excess money balances). Buying other financial assets raises the prices and depresses their yields (i.e. the rate of interest). The Credit effects, work through the attempt of the commercial banks to readjust their lending policy in the light of changes in reserves. With increased reserves they tend to create more credit; and as the additional credit flows in to the market, it depresses the rate of interest. Both the portfolio and credit effects work to decrease the rate of interest. The decrease in the rate of interest generates three effects, (i) the wealth effect (ii) the cost-of-capital effect and (iii) the credit-rationing effect. The Wealth effect, the fall in the rate of interest increases the market value of individual wealth; which tends to stimulate consumption (and), through the multiplier, stimulate investment and aggregate output. The cost-of-capital effect postulates that the main determining factor of investment is the cost of borrowing (that is, the cost of capital). A fall in the rate of interest, other things being equal, will make the cost of borrowing cheaper, and, given the inverse relationship between the rate of interest and investment, will stimulate the latter. An increase in investment will, through the multiplier increase aggregate output. The cost-of-capital effect is generally regarded as the kingpin of the Keynesian

transmission mechanism, so much so that the Keynesian transmission mechanism is labeled as the cost-of-capital mechanism. In order to overcome the weakness of the cost-of-capital effect, the Keynesian economists have developed another kind of effect, the credit-rationing effect; which is based on two features of the modern economy:

- i. The existence of imperfect capital market; which render the cost of capital impotent, given that loan agreements between lenders and borrowers involve many factors other than the price or cost of the loan; say, personal relationships, determines the availability of credit.
- ii. The possibility of using funds internally generated by the firm themselves to finance their investment; renders the rate of interest ineffective as the operational cost of borrowing.

These two features mentioned above, led to credit rationing – where the rate of interest does not clear the financial market and lenders have to resort to non-price measures to allocate credit. Consequently, the determining factor of investment is no longer the borrower's willingness to borrow but the amount of funds available for rationing.

### **The Monetarist Transmission Mechanism**

This view is based on the hypothesis that money is not just a close substitute for a small class of financial assets but rather a substitute for a large spectrum of financial and real assets. If the money supply increases as a result of, for example, central bank open-market purchases of government securities, sellers will want to rid themselves of the excess money balances, now that their desired and actual money balances are no longer equal. If the seller is an individual, he is likely to deposit the proceeds in his bank account. This will increase bank reserves and their ability to create credit. But, if the seller is a commercial bank, its reserves will increase and, with it, its loan and credit-creating capability. In either case, there is need for readjustment of portfolios; each will want to buy assets that are similar to the ones they have sold. In the process, they bid up the prices of these securities relative to the prices of real assets, and this creates a further desire on the part of wealth-holders to try to adjust their portfolio by acquiring real assets; thus making the existing real assets expensive relative to new ones.

The rise in the price level of real assets increases wealth relative to the purchase of sources of services. All these combine to raise the demand for current productive services both for producing new capital goods and for purchasing current services. Hence, Friedman and Schwartz's observed that; "the monetary impulse is, in this way spread from the financial markets to the markets for goods and services", thereby increasing aggregate output and spending".

### **Reconciliation of the Two Approaches (The Keynesian and Monetarist)**

That money affects the level of economic activity is one common fact in the aforementioned mechanisms. However, they differ in the degree of that impact and in the route through which monetary impulses are transmitted from the monetary sector to the real sector. Whereas, the Keynesians posit that money is a close substitute for other financial assets, the monetarists insist that money is a substitute not just for financial assets but also for real assets. The difference between them is about the degree of substitution between money and financial assets and between financial assets and real assets. The problem is thus, one of, trying to establish empirically the degree of substitution between money and these assets. The way to empirically estimate the degree of substitution between any two assets is to observe the change in the quantities demanded as the relative price changes. As regards money, the way to establish the degree of substitution between it and other assets is to examine variations in the amount of money demanded when there are changes in the price (i.e. the rate of interest), of other financial assets that are potential money substitutes.

There is no doubt that monetary policy will be conducted by the central bank in the financial market and hence that the initial effects of monetary policy will take the form of changes in the market. There is also no doubt that monetary policy will affect the rate of return, at the margin, on holdings of money and financial assets will be the result of attempts to restore portfolio equilibrium and thereby equate the rates of return on all assets (money, financial and real). There is therefore in this sense, no difference between the Keynesians and the monetarists; since Friedman's position of the modern portfolio approach to the demand for money is largely a continuation of the Keynesian theory of liquidity preference. Whether the transmission mechanism will bypass the financial market or not will depend on the state of development of the

financial market in individual countries, and this brings us to the channels of monetary policy in underdeveloped financial markets.

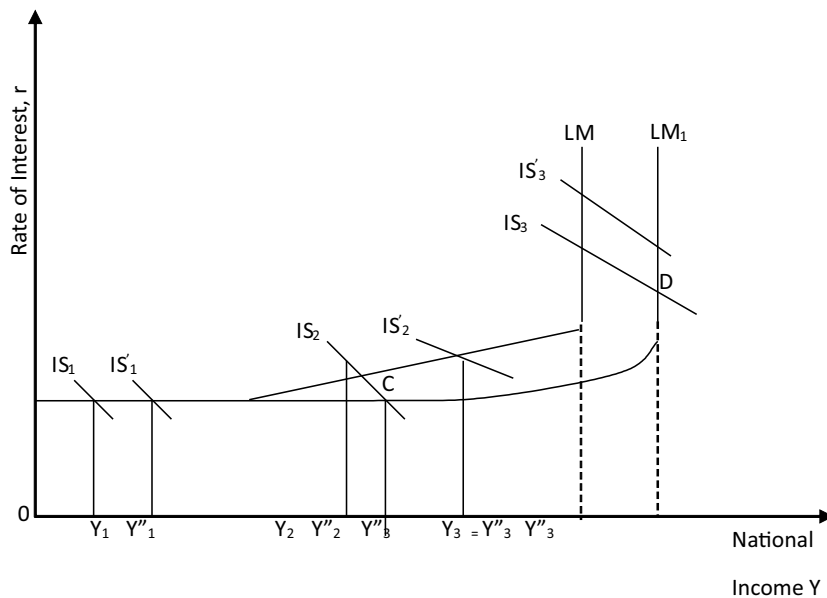
Monetary policy is usually conducted within the context of a financial structure. But, one of the features of developing countries is the rudimentary nature of their financial structures. Hence, there may not exist financial assets that are close money substitutes. Given such a situation, the effects of monetary policy, instead of being transmitted to the real sector, are likely to be transmitted (seller quickly) into the market for real assets, thereby producing an immediate impact on the level of economic activity. Consequently, by way of margining, the effects of monetary policy may be fast and strong contrary to widely held views. The absence of developed financial structures also explains the prevalent use of credit-rationing as a tool of credit control. Given that interest rates are usually kept low, there always exist unsatisfied demands at such rates; hence non-price techniques are used to ration credit.

### **The Effectiveness of Monetary Policy**

The relative effectiveness of monetary policy can be analyzed using the IS-LM general equilibrium framework. The IS represents equilibrium in the commodity market while the LM represents equilibrium in the money market. An increase in government expenditure will shift the IS curve to the right and a decrease will shift the curve to the left. Any increase in the level of money supply will shift the LM curve to the right and a decrease will do the opposite. The effectiveness and ineffectiveness of monetary policy depends on the range at which the IS curve intercedes the LM curve.

At the flat portion of the LM curve (i.e. the liquidity trap region), an increase in the money supply does not affect the level of income. The level of interest remains unchanged. Wealth holders are satisfied with holding idle cash balances. At the middle range, an increase in the money supply given the IS curve, causes the interest rate to fall. Investment is stimulated and income is increased from  $OY_2$  to  $OY_2''$ . At the last segments of the curve, which is often referred to as the classical range, monetary policy is most effective. The LM curve shifts to  $LM$ , and intersects the  $IS_3$  curve at  $D$  as a lower interest rate. The increased money and fall in interest rates cause investment to increase, and the income increases from  $OY_3$  to  $OY_3''$ . The effectiveness of monetary policy depends on the slopes of the different curves. Given a negatively sloped IS

curve, the effectiveness of monetary policy depends on the slope of the LM curve. When the slope of LM is zero, monetary policy is completely ineffective (in the Keynesian range). In the middle range, monetary policy is partially ineffective where the slope is positive. Monetary policy attains its optimal level of effectiveness where the slope is infinite. The varying values of the slope are due to the existence or otherwise of a speculative demand for money.



Source: Ajayi and Ojo (1979). Money and Banking

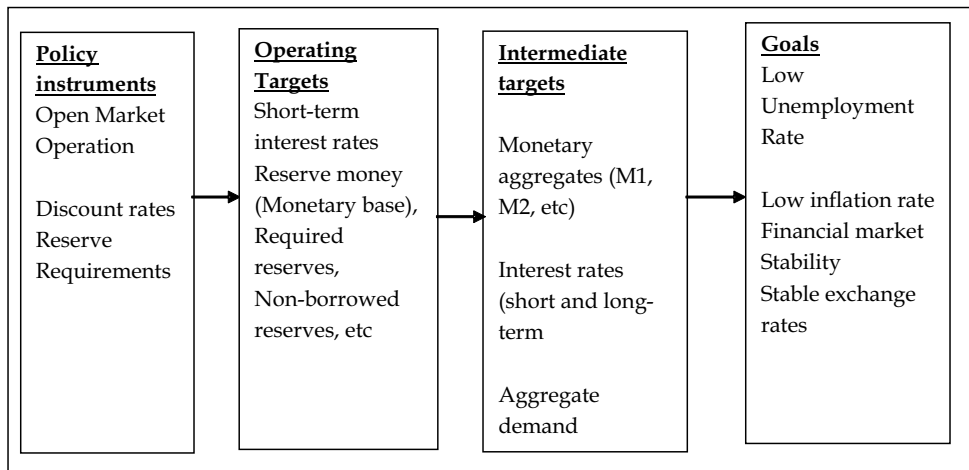
### Implementation of Monetary Policy: The Role of Targets and Indicators

Once the goals of monetary policy are set, the next challenge is to implement the policy in order to achieve the goals. Optimal implementation of monetary policy requires the systematic use of targets and indicators which bridge the gap between the ultimate goals of monetary policy and the initiating instruments of monetary policy. This section is essentially devoted to the issue of targets and indicators. What is meant by targets and indicators? What variables should be selected as indicators? What variables selected as targets be some for indicators? Given that policy makers have agreed upon a particular growth rate for Gross National products (GNP). How can this growth rate be achieved? The central Bank does not have direct control over



the GNP; all it has direct control over is the size of its government securities portfolio through the instrument of open market operations. The effect of open markets operations on GNP is not instantaneous otherwise the task of making any particular growth objective would be simple. The link of cause and effect relations running from open market operations to the GNP is long and laggard. An open market operation may not affect GNP for months. The GNP is two distant from open market operations to get a good handle on the relationship between them. The best option available to central Bank is to break relationship down into segments about which it has more knowledge. By introducing immediate and intermediate targets along the way from the initiating instrument of open market operations to the ultimate GNP growth objective, the task of carrying onto monetary policy become less challenging and more manageable. In monetary policy, between initiating instrument and the final goal, we have in-between links, these links are the immediate target and the intermediate targets. It is obvious that there is a need for immediate and intermediate targets because open market operations affect the GNP with a considerable time lag and abox. The workings of the economy are not known with perfect certainty and exactitude.

**Table 2**



**Source:** CBN, Understating How Monetary Policy Works. Series 1 & 2

Monetary policy indicators refer to the index of the effects of current policy variable on the target variable. Essentially, the order of monetary policy indicator is to allow comparison and assessment of monetary policy. Different stakeholders of monetary policy are prone to interpret the stance of monetary policy differently. It is important to have knowledge about the direction and force of monetary policy. Makers must have some way of gauging their actions and the society must have knowledge of what the policy makers are doing. Monetary indicators serve these functions. How can we measure the direction and force of monetary policy? Are we to examine what is happening to the GNP or at the size of the federal government securities portfolio, or at something in-between? If we are to take something in-between should the indicator be an interest rate or a monetary aggregate? The choice between monetary aggregates and interest rates boils down to which of the two is most influenced by policy actions and least influence by other factors. On this note, studies are in favour of monetary aggregates as a better indicator of monetary policy than the use of interest rates. Interest rates are less preferred because of the influence of non policy credit market factors especially on the demand side. Now, among the arrays of monetary aggregates, the reserve aggregate is probably a less biased indicator than the money supply since it is more tied to and significantly affected by the instruments of policy. The best indicator of the direction and force of monetary, policy comes from observing changes in the growth rate of bank reserves.

#### **Monetary Policy in Action: A Recent Experience of the Nigerian Economy**

The conduct of monetary policy by the monetary authorities since 2008 was designed to influence the growth of money supply with the required aggregates; Gross Domestic Product (GDP) growth rate, assure financial stability, and maintain a stable and competitive exchange rate as well as achieving positive real interest rate. The global financial crisis which started in 2007 in the U.S impacted negatively on the Nigerian economy. The crisis exacerbated the incidence of huge quantum of non-performing loans, large capital outflows, liquidity issues in the banking system, declining oil prices and external reserves, sharp drop in government revenue and collapse of the capital markets. Against this backdrop, the CBN adopted the policy of monetary easing to combat the problem of liquidity shortages in the banking system from September 2008 to September 2010. Part of the monetary easing measures taken during the period included the following: Progressive

reduction of money policy rate (MPR) from 40% to 30% and then to 25%. Also, the Expanded Discount Window (EDW) to increase deposit money bank's access to facilities from the CBN was introduced, injection of N620 Billion as capital injection into eight troubled banks and stoppage of aggressive liquidity mop-up since September 18, 2008. The CBN was able to restore stability and liquidity in the banking system. The monetary policy easing measures coupled with huge fiscal expansion put much pressure on inflation, exchange rate and external reserves. In order to address those threats, the stance of monetary policy changed from monetary easing to lightening from September 2010 to December 2011.

The conduct of monetary policy throughout the Jonathan regime was anchored on the maintenance of price stability. The CBN employed the MPR to anchor short form interest rates, and to rein-in inflation expectations. Open market operations, reserve requirements and discount windows operations were the main instrument of monetary policy. Communication with critical stakeholders was more regular under the review period. The economy faced multidimensional challenges in 2012 such as inflationary pressure, declining trend in output, widening spread between lending and deposit rates coupled with harsh and inclement global economic environment. Again, open market operations, discount window operations, monetary policy rate, liquidity ratio, and cash reserve requirements were the principal tools used in managing the economy. Inflation rate was largely moderated in the first half of 2013. The inflation rate of 8% at end-December 2013, from 8.4% at June 2013 is a demonstration of the effectiveness of monetary policy.

The goals of enhancing external reserves position, limiting pressure on the exchange rate and sustaining stability in the money market were met with a mixed-grill of a number of instruments which helped to strengthen investors' confidence in the markets. These instruments included open market operations, foreign exchange Net Open Position (NDP). Liquidity management was done through open market operations (OMO). The sale of CBN bills declined by 52.8% in the second half compared with the first half. The volume of transactions of the standing lending facility window rose by 30.66% while that of standing deposit facility window rose by 53.6% compared with the first half 2013. The MPR was successfully maintained at

12.0% with a symmetric corridor of  $\pm 2.00$  was introduced to stabilize the performance of the economy. In 2014, the objectives of monetary policy still remained traditional; the CBN sustained its tight policy stand with a view of putting a check on electioneering expenditure in order not to upset the rate of inflation. Again, existing traditional instruments were mainly employed to manage the economy.

### **Limitations of Monetary Policy**

Monetary authorities are not unmindful of the role of monetary policy in overall macroeconomic management. Thus, the focus on this important policy is crucial as it helps in the achievement of macroeconomic objectives. In less developed countries, there are constraints militating against the effectiveness of monetary policy. These include the ones highlighted and discussed below.

1. The existence of large informal sectors whose operations are not captured by Central Bank Operations. The sectors' operations are not within the confines of the formal banking system thus their activities temper the transmission mechanism of the system.
2. Chronic inflation rate and exchange rate instability caused by exogenous factors coupled with political instability and capital flight syndrome associated with it all appears to hinder the effectiveness of monetary policy in LDCs. In addition, bank frauds and other financial malpractices that central banks cannot check easily about impinge on the effectiveness of monetary policy.
3. The current medium-term expenditure and revenue framework anchored on three year revenue and expenditure forecasts has proved to be unreliable. This is as a result of oil price volatility. Given that monetary expansion is anchored on crude oil revenue, unstable revenue may increase budget and impair the goal of monetary policy.
4. Lack of coordination among the tiers of government. The nature of Nigeria's fiscal federation is such that the application of rules from the national level to the sub-national levels is difficult and this has to be overcome for monetary policy to be effective.
5. Also, the absence of a constitutional provision that backs the creation of an excess crude account where revenue could be saved is another major issue militating against the effectiveness of monetary policy in Nigeria.

6. The nature and pattern of preferred mode of payment in the system (cash payment ) is also another hindrance to the effectiveness of monetary policy because monetary policy works through the banking system.

### **Conclusion**

This paper presents core issues in monetary policy in the context of objectives, instruments, policy targets and indicators, transmission mechanism and limitations. For reasons of exposition and lucidity, some of the issues were domesticated to LDCs generally and in particular to the Nigerian economic scenario. The general conclusion from the paper is summarized below

1. Monetary policy still remains a major part of broad economic policies relevant to the achievement of macroeconomic objectives.
2. Focus should be on monetary targets and indicators to make monetary policy more manageable and less cumbersome so as to have sufficient knowledge about the direction and force of actions that affect the society.
3. Monetary authorities should look into deepening the cashless society policy to enhance the effectiveness of monetary policy.

Conclusively, monetary policy still remains a major microeconomic policy instrument relevant for the management of the Nigerian economy and should be used in tandem with other policies such as fiscal policy, exchange rate policy, interest rate.

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CHAPTER **8**

## **Global Business Practice and Industrialization: An Issue for Structural Change Through Free Zone Scheme in Nigeria**

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### **Introduction**

**T**rade remains an important channel for less developed countries to harness the gains from globalization and to drive domestic structural change. Nigeria has a natural comparative advantages, but the overall slow pace of development is due to lack of urgency and understanding of the potential for free zone operations to create a new Nigeria in line with best international practice. The objective of the study is to point out ways which Nigeria non-oil sectors of the economy especially on areas where it has comparative advantage can compete favourably in the international market through the free zones scheme. The study employs desk review methodology whereby pertinent documents from various sources relevant to the topic were reviewed. The findings revealed that free zone scheme is a universal construct and the present trend globally is that government is using the scheme as a political and economic tool to fast track industrialization. The study concluded that proliferation of free zone in all the states of the federation will

contribute immensely to the growth and development of the nation's industrial sector and also attract foreign exchange to boost the nation's economy.

### **Background of the Study**

Globalization entails the increasing integration of economies around the world through the reduction of such barriers to international trade, such as tariffs, import quotas and export fees. The process of globalization has been precipitated by a number of factors, Business: The Ultimate Resource (2006) noted that rapid technological developments that make global communications possible, political developments such as the fall of communism, and transport developments that make travelling faster and more frequent. These produce greater development opportunities for companies with the opening up of additional market, allow greater customer harmonization as a result of the increased in shared cultural values and provide a superior competitive position with lower operating costs in other countries and access to new raw materials, resources and investment opportunities.

One current future of the global order is the international mobility of capital due to advances in communications, technology and liberalization of financial market forces through the deregulation of domestic markets, privatization and gradual withdrawal of government from economic management. Iommel, (2007) also noted that the key factors driving the development of globalization include; liberalization and deregulation of key industries, emergence of capitalism and free trade as the dominant economic model and creation of a seamless worldwide technical and logistics infrastructure.

Basically, the World Trade Organization (WTO) is a forum for trade negotiations, it's a place where governments sit together to negotiate trade agreements for the benefit of its countries. It operates a system of its own trade rules and provides a mechanism for the settlement of trade disputes and differences. Where countries have experienced trade barriers like tariff and want them lowered, the negotiation done at WTO has helped liberalized trade and opened up more opportunities. However, the WTO is not just about liberalizing trade in some circumstances, it rules support maintaining trade barriers to protect countries.



### **Statement of the Problem**

Bakare (2017) observed that trade remains an important channel for less developed countries to harness the gains from globalization and to drive domestic structural change. But most of the less developed countries are dependent on primary commodity export and are specialized in a relatively small range of exports. Diversifying their export is crucial not only for stabilizing export earnings but also for stimulating export-led growth and structural change which will benefit their economy in the long run.

Nigeria Industrial Revolution Plan (NIRP) which the federal government launched constitutes the nation's first strategic, comprehensive and integrated roadmap to industrialization. The plan focuses on developing sectors, where Nigeria has a natural comparative advantage and creating an enabling environment by reducing the current major barriers to development. The sectors identified as priority are agribusiness, solid minerals and oil and gas, and enablers targeted innovation, infrastructure, business environment, enforcement of adherence to standards and increased local patronage.

The overall slow pace of development is due to lack of urgency and understanding of the potential for free zone operations within Nigeria. Such barriers must be overcome and we must determine to make real economic progress, to create a new Nigeria in line with best international practice.

### **Objective of the Study**

The objective of the study is to point out ways by which Nigeria non-oil sectors of the economy especially on areas where it has comparative advantage can compete favourably in the international market through the free zones scheme for revenue generation and economic development.

### **Methodology**

The study employs desk review methodology whereby pertinent documents from various sources relevant to the topic were reviewed.

### **Literature Review**

#### **International Business Globalization**

According to Musselman and Hughes (2002) as cited by Ijewere (2009) international business can be defined as a trade between two or more

countries across national boundaries with the aim of achieving economic gains. International business is necessitated and crucial due to unequal distribution of resources, food, wealth, population and technology (Ijewere, 2009). Porter (1990) is of the view that companies at the first stage of internationalization which involves exporting and importing have only passive dealings with foreign individuals and organizations. Although license and franchises give co-operations access to foreign revenue, their role in management is limited. To gain a greater say in management, organizations have to turn to direct investment. In this last stage, to gain a greater say in management, organizations pool technology knowledge and share the expense and risk of research that many not produce marketable goods. Levit (1983) pointed out that the choice of which markets to enter usually follows extensive research focusing on local demand for the firm's products, availability of needed resources, and ability of the local workforce to produce world-class quality. In addition, product designers in internalization of their business must be aware of other factors which include political, local business issues, currency stability, accounting conventions and local cultural expectations or issues, existing and potential competition, tariff rates, investment barriers and even possible corruption in the customs service.

Several definitions have been given with regard to the concept of globalization. Echeta, Unachukwu and Adioha (2011) observed that globalization ushers in the widening scope, deepening impact and enhancement of interregional flows and increasing network interaction in all aspect of global activity. Ohmae (1995) sees globalization as been characterized by international capital driven investment, industry in the form of transformational organization and coordination of production, and individual consumer in pursuit of the best and cheapest products throughout the world. While *Business: The Ultimate Resource* (2006) argues that globalization is the creation of international strategies by organizations for overseas expansion and operation on a worldwide level. In the words of Obadan (2003), globalization in itself is not new to the world. It has been present since the ancient times, but its contemporary ramifications have been catalyzed by the new age of technology explosion.

Today, globalization is a revolutionary mantra, so much that different government had incorporate their requirements in their conditions for any pre-negotiations with countries. The Nigeria Economy Policy Blue Print had the following thrust: “the economy shall be market-oriented, private sector-led, largely competitive internally and globally, particularly in areas of comparative advantage”. The world has witnessed tremendous economic, political, technological and social changes and integration. These changes and integrations are often lumped together under the term globalization. Therefore, in this global market, organizations must fight to capture overseas markets while defending their home markets from foreign competition.

**Nigeria Government Effort at Industrialization:**

Before and after independence, efforts were made to industrialize the Nigeria Economy. The Nigerian government recognizes that industrialization is critical to national economic development and therefore put up policy measures aimed at industrializing the national economy. Some of these efforts at industrialization include:

- i. In the 1967-70, Nigeria pursued primarily a policy of industrialization based on import substitution.
- ii. From 1974 to 1980, the industrialization strategy changed swiftly from assemblage plants to heavy duty industrial structures.
- iii. The Central Bank of Nigeria (CBN) credit guidelines prescribed high allocation of credit to the industrial sector.
- iv. The establishment of the Nigerian Industrial Development Bank (NIDB) and the Nigeria Bank of Commerce and Industry (NBCI) were all aimed at promoting Nigeria industrialization.
- v. The structural Adjustment Programme (SAP) was aimed at diversifying Nigeria's economic base which includes the productive sector of the economy.
- vi. The Nigerian Industrial Development Bank (NIDB), the National Economic Reconstruction Fund (NERFUN) and the Nigerian Bank for Commerce and Industry (NBCI) have been brought together to form the Bank of Industry (BOI) to provide loanable funds to small and medium scale industries to facilitate Nigeria's industrialization.
- vii. In 1988, Nigeria launched an Industry Policy aimed at achieving an accelerated pace of industrial development for the country. The policy was principally targeted at increased export of manufactured

goods and promotion of industrial development and national integration through industrial disposal.

- viii. In 2012, the ministry of trade and investment announced a plan for the country's industrialization. The plan aimed at positioning and empowering the nation's manufacturing sector as the key driver of economic growth through job creation.

As a developing country, Nigeria need industrialization to ensure wealth creation, reduce poverty and inequality gap including Nigeria's back-aching unemployment level. However, it is very debatable how much these policies have actually imparted Nigeria's industrialization.

#### **Trade Liberalization Policies and Industrialization:**

Onmonya (2011) noted that through the negotiations and activities of World Trade Organization (WTO) and the United Nations Conference on Trade and Development (UNTCAD), trade barriers to a large extent have been lowered among member state. WTO is the multinational institution that monitors the world trading system and resolves trade disputes among members. It is in the forefront of promoting free trade globally. It was established in 1995 to replace the General Agreement on Tariffs and Trade (GATT), which had been overseeing free trade since 1947. Despite the failure of negotiation in 2006 meeting at Doha, the WTO has been a major factor in wiping out protectionist tendencies and encouraging member nations to take concrete measures to further liberalize their economies and trade regime.

Nigeria, alongside other members of the economic community of West African states (ECOWAS) adopted Common External Tariff (CET) which aims to harmonize ECOWAS states and strengthen its common markets. The Common External Tariff has a common nomenclature which supports that customs procedures are transparent, readily followed and delays at borders decrease.

The aim of the CET accompanying measures in majorly to moderate adjustment costs, provide assurance of short-term relief, offer escape, clause and political support for sustaining more liberal trade regime.

## **Discussion of Findings**

### **Free Zone Scheme**

Free zone scheme is a universal construct and its operations and management is dynamic. The present trend globally is that government are using the scheme as a political and economic tool to fast track industrialization, create wealth and for sustainable economic development.

The world's first free trade zone was established in Shannon, Ireland in 1959. This was an attempt by the Irish government in its transition from a rural country to a more developed and industrialized economy and to promote employment and generate revenue. It was hugely successful and is still in operation today. The zone offered investors secure access to European markets, attractive tax benefits, and subsidized rent and facilities. Specialized training and manpower development facilities were integrated into zone design from inception, as a result, export manufacturing activities accelerated. This has attracted a large number of multinational companies. Currently, there are over 110 international firms, a total employment level of 7,200 and an annual trade volume of £3.3billion.

In 1995, export of manufactured goods from Shannon accounted for almost one-third of the national total. Companies setting up were mainly manufacturing, the services sector was in its infancy. Production/assembly line therefore was the order of the day and the emphasis was on streamlining and efficiency. Sometimes the domestic government pays part of the initial cost of factory setup, loosens environmental protections and rules regarding negligence and the treatment of workers, and promises not to ask payment of taxes for the next few years.

The earliest foreign investors in Shannon free zone are:

- |                        |     |
|------------------------|-----|
| i. United State        | 57% |
| ii. Continental Europe | 27% |
| iii. United Kingdom    | 6%  |
| iv. Canada             | 4%  |
| v. Japan               | 2%  |
| vi. Others             | 4%  |

The term 'free zone' (FZ) or 'free economic zone' (FEZ) refers to areas in which companies are taxed very lightly or not at all in order to encourage economic activity. It is a region where a group of countries have agreed to reduce or eliminate trade barriers and are set up in order to attract Foreign Direct Investment (FDI). The taxation rules are determined by each country. Free-trade zones are established around major seaports, international airports, and national frontiers – areas with many geographic advantages for trade.

### **Benefits**

Some of the economic benefits from zone development to the host country are:

- i. Direct employment creation and income generation
- ii. Foreign exchange earnings
- iii. Foreign direct investment
- iv. Government revenues
- v. Technology transfer
- vi. Skills acquisition
- vii. Backward linkages among others.

The strategy adopted is to set up an agency that would be responsible for the licensing, establishment and operations of industrial zones across the country. Industrial zones are industrial clusters, staple crops processing zones, export processing zones, industrial estates and any industrial enclaves in which there is value addition or processing of any sort. An export processing zone (EPZ) is a specific type of FTZ, set up generally in developing countries by their government to promote industrial and commercial exports. Most FTZs located in developing countries include; Brazil, Colombia, China, Malaysia, Bangladesh, Pakistan, Honduras, Kenya, Srilanka and Madagascar. In the Republic of Philippines, for example, their Industrial Development Agency is known as the “Philippines Economic Zone Authority” (PEZA). In the people's Republic of China, it is “Special Economic Development Zones Commission” (SEDZC); in Saudi Arabia, it is “MODON”; in Abu Dhabi, UAE, it is “Zones Corps” among others.

### **Nigeria Export Processing Zone**

In Nigeria, Nigeria Export Processing Zones Authority (NEPZA) has been assigned the role of Nigeria Industrial Development and Zones Authority (NIDZA) under the Nigeria Industrial Revolution Plan (NIRP) with the

responsibility of licensing, establishing and regulating all industrial zones across the country with the ultimate aim of ensuring the nations industrialization, through economic and revenue diversification.

NEPZA was established in 1992 and derives its statutory powers from the Nigeria Export Processing Zones Act 63, of 1992. NEPZA is the government agency responsible for investment facilitation into the free zone areas in Nigeria. The free zone policy was introduced by the federal government to improve the investment climate, strengthen national policies, address infrastructural deficiencies, streamline administrative processes and provide a one-stop-shop for businesses both within and outside Nigeria. It operates various kinds of schemes ranging from Export Processing Zones, Free Trade Zones, Border Free Zones, Export Farms, Technology Parks, Tourism Resorts and many more.

### **Investment Opportunities in NEPZA**

Leather products	Electrical & electronics	Textile & garments
Wood products & furniture	Rubber and plastics	Cosmetics and other chemical products
Educational materials and sport equipments	Pharmaceutical products	Printing materials, communication and office equipments
Confectionaries and food processing	Medical kits, optical instruments and appliances	Ship building and repairs
Logistics and warehousing	Oil and gas products	

Others outside this list are considered on their individual merit.

**Source:** adopted from Industrialization Digest (2016).

### **Investment Incentives in NEPZA**

- I. Complete holiday from all federal, state and local government taxes, rates, custom duties and levies.
- ii. One-stop approvals for permits, operating licenses and incorporation papers.

- iii. Duty free and tax free import of raw materials and components for goods destined for re-export.
- iv. Permission to sell 100% of manufactured, assembled or imported goods into the domestic market.
- v. 100% foreign ownership of investments.
- vi. 100% repatriation of capital, profits and dividends, no import and export licenses.
- vii. Waiver on all expatriate quotes
- viii. Prohibition of strikes and lockouts for 10 years and rent free land during first 6 months of constructions.

#### **Reasons to Invest in Nigeria Free Zone**

- i. NEPZA is presently transforming to NIDZA and the process of transformation will culminate at the passage of NIDZA Bill. NIDZA Bill will provide the legal framework and mechanisms for creation, operation, administration and co-ordination of all industrial zones in the country.
- ii. Nigeria is by far the largest consumer market in Africa with approximately 170 million people.
- iii. Investors can take advantage of this market while working towards developing their export markets.
- iv. Nigeria is an excellent location from which to export to the rest of Africa, the Middle East, Europe and the America.
- v. Nigeria enjoys several preferential trade arrangement such as ECOWAS, WTO, GSTP, OPEC, D-8.
- vi. Nigeria is the largest Economy in Africa.
- vii. NEPZA has licensed 37 free zones in the country so far, and the zones have over 300 licensed Free Zone Enterprises (FZEs) operating within them.
- viii. Of the 37 FZs that NEPZA has licensed and supervised, only two i.e. Calabar and Kano – are public zones. The rest are private zones.
- ix. Between April to December, 2017, NEPZA has grossed over \$2.8bn in FDI.

**Source:** Industrial Digest 1(7) (2017), 1(3) (2016)



### **How to Participate in Nigeria Free Zones**

1. **As a Free Zone Enterprises (FZE):** An investor may be interested in locating in any free zone in Nigeria, in which case he or she will obtain an investor application form from any free zone of choice. The list of all free zones can be found on NEPZA website.
2. **As a Free Zone Developer/Manager:** An investor may decide to develop a free zone project either as a provider entity or public-private partnership. In which case, the applicant will write an application to NEPZA with the following documents:
  - a. An unencumbered piece of land i.e. land with a certificate of occupancy. (NEPZA could assist to secure this).
  - b. Survey plan of the area with the coordinates.
  - c. Feasibility studies of the free zone project.
  - d. Benchmark Environment Impact Analysis.

### **Conclusion**

In conclusion, globalization does not allow for a nation being an island unto herself. This implies that every nation must join in globalization or be left in a helpless wilderness. The free zone scheme which is also an avenue for industrialization and development of the nation's economy, create enabling environment that is conducive to the growth and development of oil and non-oil export, diversify, the nations revenue base, inflow of foreign direct investment (FDI) provide investment incentive, shield existing investment from unfair competition, and stimulate the expansion of domestic production capacity. The continuous funding of the large scale manufacturing enterprises, the small and medium scale manufacturing units and cottage industries by both public and private sector partnership and the proliferation of free zone in all states of the federation will contribute immensely to the growth and development of the nation's industrial sector and also attract foreign exchange to boost the nation's economy. The National Action Plan on Ease of Doing Business initiated by the Presidential Enabling Business Environment Council (PEBEC) as an Economic Growth and Recovery Plan (EGRP) envisioned on building a globally competitive economy and to give fillip to economic reforms objectivised on making Nigeria a progressively easier place to do business is a welcome development.

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CHAPTER **9**

## Dependency Theory and Intergovernmental Fiscal Relations: Insights into Nigeria

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### Introduction

**N**igeria is a federal state with delineation of political, economic and administrative powers and responsibilities among the federating national and sub-national governments. In tandem with the above framework, Nigeria adopts fiscal federalism, in order to achieve smooth conduct of public revenue and expenditure operations. The constitution of the federal republic of Nigeria 1989, as subsequently amended, allocates all fiscal responsibilities to the respective federating tiers of government. Commentaries by analysts, authors and observers allude to the lopsidedness of the allocation of responsibilities and fiscal capacities, in terms of “quantity” and “economic potentials”, in favour of the national government. This unfavourable skewness against the sub-national tiers, noted all critics, remained the fundamental harbinger of fiscal disequilibrium, leading to the incapacity and dependent position of the sub-national governments. This study examined the implications of the dependency in the intergovernmental relations enshrined in the Grundnorm, in the light of the backdrop of Andre Gunder Frank's Dependency Theory. The study identified the constitutional

“discrimination” against the sub-national governments and concluded that restructuring the fiscal responsibilities and tax allocation is inevitable, if the sub-national governments must be empowered to deliver on their responsibilities to the electorate. Accordingly, the study recommended an amendment to the constitutional schedule wherein fiscal responsibilities and tax allocation are contained, through a constitutional review.

### **Background to the Study**

Nigeria is a federation, operating three tiers of governments at federal, state and local levels. After a long period of changes, a political configuration which supports a dominant central government, 36 “peripheral” states and 744 appendages, otherwise known as local government areas was crafted and adopted in the Constitution of the Federal Republic of Nigeria. In tandem with the multi-level political structure, fiscal jurisdiction and responsibility were naturally shared among the federating units. The two aspects of federalism, political and fiscal, co-exist in the complementary or joint relationship. Implicit in the arrangement is covertly decentralised fiscal federalism.

Conceptually, federalism refers to a set of administration and legal relationships between co-existing government units, each unit assuming some measure of autonomy and authority within its level or jurisdiction. Impliedly, therefore, federalism connotes the co-existence of national and sub-national governments at different tiers within a political state or country. As a structure, each level of government is assigned a basket of functional responsibilities to perform, in order to meet the social, political, economic, security and other needs of society, within the political state.

Given that federalism is an amalgam of political units at different levels, saddled with different responsibilities, it is a trite corollary that each tier of government should have different expenditure responsibilities and powers of taxation. In support of this arrangement, Boadway (1979), Herber (1979) and Okigbo (1965) believe that public sector is stratified into more than one governmental level, each with a different set of expenditure responsibilities and powers of taxation. Arising from the foregoing, fiscal federalism encapsulates the fiscal relations among the tiers of government. For proper performance and optimality, fiscal transactions among the levels of government must be well coordinated; otherwise, efforts may run at cross

purposes and may produce unintended results. The above necessary is aptly advocated by Musgrave and Musgrave (1980).

The merit of fiscal federalism is indexed to the merit of political federalism: first fiscal federalism adapts easily to the choice of the people and the peculiarity at the appropriate level of government; and second, it allows for innovation in solving fiscal challenges. Third, fiscal decentralisation provides quasi-national and non-national goods and the benefits of intergovernmental externalities; and fourth, the arrangement provides an opportunity for collective decision-making (Anyanwu, 1997).

To the contrariwise, fiscally decentralised units may not properly position to executive policies aimed at achieving economic stabilization. Besides, the arrangement denies the taxing authorities the benefits of scale economies in tax administration. Furthermore, it is difficult in a decentralised fiscal system to enact and sustain fiscal legislation that holds a wide national appeal. Because of the relative importance of taxation, and tax revenue policy in the political economy of Nigeria, this paper is more deeply concerned with the intergovernmental relations among the tiers of government as a key determinant of their respective fiscal positions. The interest derives from the hypothesis that the “fiscal positions” of the tiers of government in a country have strong links with the relations that exist among the federating governments. Interestingly, “fiscal position”, as defined by Olaniyi and Abiola (2008), is the capacity of a government to generate the requisite tax revenue to provide the needed services for the citizenry.

### **Objective of the Study**

Whether traditional or modern, the widely known and most popular source of government revenue is taxation. In Nigeria, as in other less developed countries (LDCs), taxation played a major source of funding indigenous administrations particularly during the early independence era. For example, farm produce levies, cattle tax, capitation and other assortment of taxes provided the needed funding to traditional authorities for developmental and general administration purposes in northern Nigeria. The same was true elsewhere in southern Nigeria where produce taxes on palm produce, cocoa and timber provided major revenue sources. Granted that government, irrespective of the tier, is saddled with the responsibility of providing essential

services including security, administration of justice, physical infrastructure and social amenities, among others, it is imperative that government should design and enforce a robust funding arrangement, without which the realisation of her cardinal responsibility to the citizenry is impracticable. Such an arrangement is generally embodied in taxation.

Interestingly, given the federal nature of Nigeria, the 1989 Constitution of Nigeria, as variously amended in 1999 and thereafter provided the grundnorm for operationalising the concomitant fiscal federalism. Unfortunately, however, a perusal of the allocation of fiscal responsibilities among the tiers of government reveals a lopsided assignment in favour of the federal government. Undoubtedly, the unfavourable policy fiscally incapacitates other tiers of government, progressively towards the lower levels. The obvious implications of the situation are far-reaching: first, the policy is anti-grass root development and anti-poor; and second, the policy is repugnant to natural justice. Arising from the limitations, the objective of this study is to examine and challenge the efficacy of the prevailing architectural configuration of the fiscal arrangement, in Nigeria in meeting the responsibilities of the sub-national governments to the electorate, and to propose a panacea.

### **Statement of the Problem**

The focus of demands by authorities of the lower-tier governments, commentaries by public analysts and even agitations by marginalised citizens have largely been on the inadequacies of revenue allocation. This emphasis is not misplaced, given that all attention has been focused on oil revenue and the sharing. In effect, even if a higher tier of government, whether federal or state authoritatively allocated or fraudulently arrogated all taxes to itself, nothing would have been wrong, insofar as proceeds of crude oil were rolling in. As a corollary, there has been a dearth of analytical or empirical efforts on the disproportionate nature of the fiscal responsibilities and fiscal capacities among government tiers in Nigeria. Whether for the substance or for the polemics, this study promises to bridge the gaps in the analytical studies.

### **Research Question**

Items in the exclusive responsibility list, as scheduled in the Constitution, are to the exclusion of other tiers but the federal level. In line with best practice, such items as defence, immigration, foreign affairs, et cetera, are better

provided as common services at the centre. On the other hand, modern pro-poor development programmes should preferably be devolved to the state and local governments, because of their proximity to the people, who inhabit the hinterlands and rural areas, where the level of development is abysmally low. Thus, the omnibus question is why is Nigeria's fiscal base, and the concomitant fiscal position, highly skewed in favour of the Federal Government?. In search of a suitable answer to the question, it is hypothesised that the skewness is not disproportionate to the enormity of services assigned to the federal government, vis-a-vis other tiers of government.

### **Scope and Limitation of the Study**

This study is limited to an examination of the intergovernmental relations within the framework of Nigeria's fiscal federalism, as provided in the 1989 Constitution and the amendments. Tax administration is immaterial consideration, except for illustrations, since expectedly, whoever owns the tax, administers it and reaps the proceeds. In effect, the focus is directed at the skewness, its philosophy, equity and implications for the fiscal capacity of the lower tiers, in the allocative policy. The depth of this study was abridged by time constraint. In sections II of this paper, a review of the relevant literature is provided; while section III outlines the methods. Section IV concludes.

### **Conceptual Analysis and Theoretical Underpinning**

Fiscal responsibility connotes the legal capacity or authority of the appropriate governmental institution to impose tax over its citizenry. It may also refer to the territorial jurisdiction over which the legally authorised governmental institution can levy and administer taxes. The concept may also cover the assignment or allocation of taxes to the appropriate governmental levels or tiers, under federalism. In the present discourse, all three connotations are applicable.

Implicit in the above definitions is the necessity for the existence of a legal framework from which the authority to impose and administer taxes derives. In Nigeria, the assignment of responsibilities among the federating units is contained in the Second Schedule, Legislative Powers, Part 1, Exclusive List, as item 59 in the 1989 and 1999 Constitutions of Nigeria as amended. Legislating over items in the Exclusive List is the preserve of the Federal Government. Surprisingly, no criteria or principles seem to underpin the allocative policy on

the basis of which a tier of government is assigned its specific responsibilities. In the absence of such a “scientific” allocative approach, it is submitted that the arrangement is whimsical. Table 1 below presents the allocation of fiscal responsibilities to the tiers of government under the Constitution.

**Table 1:** Allocation of Responsibilities to Governmental Levels in Nigeria

Responsible level of Government	Expenditure category
Federal Only	Defence , Foreign Affairs, International Trade including export marketing, Currency, banking, borrowing. exchange control. Use of water resources, Shipping, Federal Trunk Roads. Elections, Aviation Railways, Postal Service. Policy & Other Security Services Regulation of Labour. Inter-state commerce, Telecommunication, immigration, Mines and Minerals. Nuclear Energy. Citizenship and Naturalization rights, Social Security, Insurance, National Statistical system (census. Birth, deaths etc) Guidelines and basis for minimum education, Business Registration. Price Control
Federal-State (shared)	Health, Social Welfare Education (Post Primary/ technology), Culture, Antiquities, Monuments, Archives. Statistics, Stamp Duties. Commerce. Industry, Electricity (generation, transmission, Distribution). Research Survey
State Only	Residual power i.e . any subject not assigned to federal or local government level by the constitution.



Local Government	Economic Planning and Development Health Services, Land use, Control and Regulation of Advertisement, pets, Small business. Market, Public Conveniences. Social Welfare Sewage and Refuse Disposal, Registration of Births, Deaths, marriages,
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**Sources:** 1989 and 1999 Constitutions of Federal Republic of Nigeria.

**Allocation of Revenue Powers**

It is expected, and rationally too, that the various tiers of governments should be allocated fiscal or revenue generating sources and power which are proportional to the assigned responsibilities. However, since no scientific bases were adopted in their assignment of constitutional responsibilities, the subsequent allocation of the fiscal powers with respect to taxation and revenue arbitrary followed the “norm” established by the constitution. Anyanwu (1997) attempt at explaining the key considerations by the policy revolves around reconciliation between efficiency and equity. While to him efficiency seeks to minimise product cost, equity requires that fiscal (expenditure and revenue) needs should be rationalised. Drawing from Musgrave (1959)'s position, Anyanwu (ibid) alluded to certain “principles” which a rational fiscal allocative policy should consider. His attempt was to match the allocation of fiscal powers with responsibilities and governmental tiers. Thus, to Anyanwu (ibid), in Musgrave (1959):

*...progressive redistributive taxes should be central; taxes suitable for economic stabilization should be central while lower level taxes should be cyclically stable; tax bases distributed highly equally between jurisdictions should be centralized; taxes on mobile factors of production are best administered at the centre; residence based taxes such as sales of consumption goods to consumer or excises are suited for state; taxes completely immobile factors are best suited for local level; and benefit taxes and user charges might be appropriately used at all levels.*

An interesting observation in the “principles” provided by Anyanwu and Musgrave is their largely normative characteristic. The recurrent use of the expression “should be” suggests that the realities are at significant variance with the expectations. In effect, the “Anyanwu-Musgrave hypothesis” and other contending views present some aporia. Adherents of “Anyanwu-Musgrave hypothesis” distinguish two scenarios in which tax allocative powers can manifest: one, revenue can accrue from a source and powers exercised by a tier of government for the exclusive benefit of the governmental tier; and two, taxing powers can be available to a governmental tier whereas the accrued revenue is available for the benefit of all tiers. Anyanwu (ibid) refers to the proceeds from the first scenario as independent revenue; while the second scenario generates revenue for intergovernmental sharing. Personal income tax and value-added tax revenues provide respective examples of the revenue types. Table 2 below presents the schedule of powers to levy taxes assigned to the various levels of governments in Nigeria in the 1989 Constitution, as amended.

**Table 2:** Allocation of Taxing Powers Under 1989 and 1999 Constitutions, Federal Republic of Nigeria

Types of Tax	Jurisdiction		Right to Revenue
	Law	Administration and Collection	
1. Import Duties	Federal	Federal	Federation Account
2. Excise Duties	Federal	Federal	Federation Account
3. Export Duties"	Federal	Federal	Federation Account
4. Mining Rents and Royalties	Federal	Federal	Federation Account
5. Petroleum Profit Tax	Federal	Federal	Federation Account
6. Companies Income Tax	Federal	Federal	Federation Account
7. Capital Gains Tax	Federal	Federal/States	States
8. Personal Income Tax (Other than those listed in 9)	Federal	States	States
9. Personal Income Tax: Armed Forces, External Affairs Officers, Non-Residents, Residents of the Federal Capital Territory and Nigerian Policy Force.	Federal	Federal	Federal

10. Licences Fees on Television and Wireless Radio	Federal	Local	Local
II. Stamp Duties	Federal	Federal/States	States
12. Capital Transfer Tax (CTf)	Federal	States	States
13. Value Added Tax	Federal	Federal/States	Federal/States/Local
14. Pools Betting and Other Betting Taxes	State	States	States
15. Motor Vehicles and Drivers' Licences	State	States	States
16. Entertainment Tax	State	States	States
17. Land Registration and Survey, Fees	State	States	States/Local
18. Property Taxes and Rating	State	Local	Local
19. Market and Trading Licence and Fees	State	Local	Local

**Sources:** 1989 and 1999 Constitutions, Federal Republic of Nigeria

In Table 3 below, the major taxes, administration, and right to revenue, is presented

**Table 3:** Major Taxes, Jurisdiction and Revenue Ownership by Level of Government

Federal	State	Local
Import	1. Football Pools and Other Betting Taxes	1. Rates
Excise Duties	2. Entertainment Taxes and Estate Duties	2. Tenement Rates
Export	3. Gift Tax	3. Market and Trading Licences and Fees
Mining Rents and Royalties	4. land tax other than on agricultural land	4. Motor Park Duties
Petroleum Profit Tax	5. land registration fees	5. Advertisement Fees
Companies Income	6. capital gains tax (administration )	6. Entertainment Tax
Capital Gains (Legal Basis)	Personal income tax (administration)	7. Radio/Television Licences
Personal Income Tax (Legal Basis )	Stamp duties	
Value Added Tax (VAT)		

**Sources:** 1. 1989 and 1999 Constitutions, Federal Republic of Nigeria,  
2. Joint Tax Board

A perusal of Table 3 above reveals that all the major revenue yielding tax types are allocated to the Federal Government of Nigeria (FGN). Only property and personal income taxes are the key tax allocations to local and state governments. In any case, the prospects of the yields from the two tax-types are unclear; for one reason, under the prevailing high rate of unemployment, personal income tax yield is expected to be low. For another reason, administering and allocating property tax, particularly at the local government level, is a may be in futility. The situation under the arrangement is therefore analogous to throwing the bare hard bone at the dog.

The disadvantaged position of the states and local governments under the tax allocation is clear, when the relative proportions of the federal and state tax revenues are examined, as percentages of total revenue realised over the period 1970-2012, as presented at Table 4 below, for illustrative purposes. Without doubt, it is assumed that the status quo ante remained, given that no changes had been effected in the tax allocation policy.

**Table 4:** Proportions of Collected Federal and State Government Tax Revenue in Nigeria, 1970-2012

Year	Total Current Revenue	Federally-Collected Revenue	States' Independent Revenue		
	(Nm)	(Nm)	(%)	(Nm)	(%)
1970	702.2	634.1	(90.3)	68.1	(9.7)
1972	1,524.7	1,404.8	(92.1)	119.9	(7.9)
1974	4,735.0	4,537.5	(95.8)	197.5	(4.2)
1976	7,059.2	6,766.0	(95.8)	293.2	(4.2)
1978	7,682.0	7,469.4	(97.2)	212.6	(2.8)
1980	16,561.7	15,234.0	(92.0)	1,327.7	(8.0)
1982	13,080.2	11,764.4	(89.9)	1,325.8	(10.1)
1984	12,148.1	11,766.8	(89.5)	1,318.3	(10.5)
1986	14,698.2	12,837.6	(87.3)	1,860.6	(12.7)
1988	29,489.6	27,310.6	(92.6)	2,178.8	(7.4)
1990	72,514.4	69,788.2	(96.2)	2,726.2	(3.8)
1991	81,787.4	78,640.7	(96.2)	3,147.1	(3.8)
1992	143,829.0	138,617.0	(96.4)	5,212.0	(3.6)
1993	144,845.0	138,873.8	(95.9)	5,971.2	(4.1)
2011	335,016.3	330,112.5	(98.5)	4,903.8	(1.4)
2012	365,149.5	359,305.5	(98.4)	5,844.0	(1.6)

**Sources:** Central Bank of Nigeria: Annual Report and Statement of Accounts (Various Years).

National Bureau of Statistics: Statistical Bulletins (various editions).

### **Federal, State and Local Government Fiscal Relations**

A cardinal economic problem faced by mankind, be they individuals, corporate organizations or even governmental entities is scarcity of resources,

in relation to the needs or desires. The acute deficits between assigned responsibilities and matching revenue resources are trite experience. This situation characterises the intergovernmental fiscal relations which confer a stronger position on the national government, against the weaker position on the sub-national governments. If therefore the sub-national governments must discharge their responsibilities to any appreciable degree, they must subserviently adopt aspects of “beggar-thy-neighbour” tactics in relating with the Federal Government who enjoys the status of fiscal supremo.

Critics of the lopsided characteristic of the prevailing intergovernmental relations among tiers of government blame the origin and evolution on military rule. With the emergence of the military rule in 1966, fiscal decentralisation gave way to “consolidated account” system depicted in the Consolidated Revenue Fund (CRF), administered and affectively controlled by the Federal Government. This arrangement was germane, given the unitary nature of the military. The scenario is one of near total dependence by the sub-national governments on the federal government, since all major revenues are consolidated in the CRF. With the realignment of critical responsibilities such as primary health care and education to the local governments, the revenue crunch on the sub-national governments was exacerbated. The advent of the Joint Local Government Account arrangement, in which the state and local government jointly own and manage revenue resources accruable to be local governments, presents lion-and-goat intergovernmental relations.

To be sure, states conduct the affairs of the Account as if any releases to the local governments are done ex-gratia. Given the scenario, it is expected that the sub-national governments should leverage on their deprivation by the centre to design and aggressively pursue strategies for enhancing their internally generated revenues, based on peculiar endowments. Unfortunately, experience or evidence is to the contrariwise. At an average 23 percent independent revenue contribution by the sub-national governments to the annual total federally collected revenues, the sub-national governments' confidence to demand for additional allocations may not be sustainable, inspite of their abysmally low finances. Thus, the huge deficit between the expenditure needs and revenue accounts for the inability of sub-national governments to provide the essential social services in their various

domains, leading to the poor welfare conditions of the citizenry. The situation worsens progressively towards the local government area. An attempt is now made to situate the observed relations existing among governmental levels, and their implications, within the context of a theoretical explanation.

### **Theoretical Considerations**

It has been argued that the poor fiscal condition of sub-national governments in Nigeria is traceable to the nature of relations among the various levels of government. This situation is similar to the one which existed (and still exists) among nations of the world, often partitioned into two blocks as Advanced and Developed Countries (ADCs) and Less Developed Countries (LDCs). In the plethora of theories, the Marxian and Frank's views are germane. While the Marxian contributions focus largely on the welfare of the labourer, the contributions of the range of dependency theories are more on the inhibitions to the economic development of the poor countries arising from their peripheral economic relationships. Although the Marxian and dependency theories offer considerable analytical foundations, this review is limited to the latter typology, because of its relevance in explaining the observed fiscal incapacity of sub-national governments by the federal government through the instrumentality of disproportionate revenue empowerment planted by the Constitution.

The attractiveness of the dependency approach stems from its obvious representation of advance over the earlier models in four major ways: one, unlike the evolutionary model, dependency theory does not assume the society or "nation" to be a self-contained unit; two, dependency theory attempts to be holistic; three, while evolutionary theory was idealist in its attempts to explain social change (Parsons, 1966), dependency theory closely considers the material bases of organised social life, in particular, at the growth and extension of the world capitalist system; and four, at its best, dependency theory has been historically specific, replacing the earlier evolutionary stages (which have clearly never been experienced by most of the social formations in the world) with concrete analysis of historical material, Harriet Friedman and Jack-Wayne (1977).

The above characteristics of analysis are found in the work of Andre Gunder Frank (1972), the most influential of the dependency theorists. Frank argued

that there has been a development of underdevelopment outside of Western Europe, North America, and Japan as a consequence of emerging relationships among political-economic formations which were brought into being as capitalism expanded. Thus, to Frank:

*...the expansion of the capitalist system over the past centuries effectively and entirely penetrated even the apparently most isolated sectors of the underdeveloped world. Therefore the economic, political, social, and cultural institutions and relations we now observe there are the products of the historical development of the capitalist system no less than are the seemingly more modern or capitalist features of the national metropolis of these underdeveloped countries.*

*In other words, for the period of time that capitalism has formed the dominant mode of production and distribution in the world, the most important fact about any nation has been its relations with other nations.*

The value of the dependency approach, therefore, lies in its recognition that development and underdevelopment have taken place in the context of the growth of capitalism as a world system. The approach usefully analyses relationships between nations and sees both development and underdevelopment as historically observable consequences of those relationships; and it attempts to be holistic in its perspective. The particular success of the approach lies in its view of underdevelopment as a product of the domination of one national economy by another. In its applicability therefore, Frank's dependency theoretical proposition exposes the historical development of capitalism and its covert holistic domination of the Third World, actualised through strangulating economic, social and allied ties.

The principal critics of the dependency theory have focused on the failure of this school in providing exhaustive empirical evidence to support its conclusions. Furthermore, this theoretical position uses highly abstract levels of analysis. Another point of criticism is that the dependency movement considers ties with transnational corporations as being only detrimental to countries, when actually these links can be used as a means of transference of technology. Irrespective of the alternative views, what seems clear is the effective operation of the nature of relations among units in any association. Put succinctly, the relations define the balance of powers and capacity. Frank's



theory tacitly explains the fiscal power configuration among the national and sub-national governments in Nigeria which has created a dependency relationship between the two tiers.

### **Methodology**

The study adopts content analysis approach. Consequently, extensive reliance is placed on documentary records, published at various times. The 1989 Constitution of the Federal Republic of Nigeria, as variously amended, published studies, texts, Federal Inland Revenue Service (FIRS), CBN and National Bureau Statistics (NBS) statistical bulletins provided sources of secondary data. Furthermore, a few interviews were held with a cross section of serving and retired top public servants, public analysts had academics, in order to capture diverse opinions on the current thinking about the challenges of Nigeria's fiscal federalism. Thus, data on tax revenue are presented in tables, and analysed, using sample percentages, for ease of comparison. The objective is to expose the practical situation of the prevailing intergovernmental fiscal relations.

### **Discussion and Conclusion**

The foundation for governmental relations in the fiscal federalist framework in Nigeria is rooted in the Nigerian Constitution, as amended. In the arrangement, expenditure responsibilities and revenue jurisdictions and powers are clearly allocated among the federating tiers of government. The framers of the Constitution realised the centrality of lower-tier governments in relation to the provision of services at the grass root, semi-urban and urban levels. Unfortunately, the framers, either inadvertently or intentionally, failed to accord commensurate importance to the instrument of revenue empowerment through proportionate assignment of taxing powers to the sub-national governments. The obvious implication of this "injustice" is the resultant poverty which progresses from the central to the local government.

Returning to the basics, a perusal at Table 2 indicates that the major revenue-yielding taxes which include petroleum profit tax, mining rents and royalties, capital gains tax, company income tax, value added tax (VAT) and export, import and excise duties all fall within the exclusive jurisdiction of the Federal Government. The same jurisdiction is true for personal income tax of residents of the Federal Capital Territory (FCT) Abuja, members of the Armed Forces,

the Police and Officers of Foreign Service. Coming on the fringes, the state governments contend with the paltry revenue-yielding taxes on items as football pool betting, gifts, entertainment, land registration and personal income tax, among a few others. The jurisdiction of municipal or local governments covers rates, tenements, hawking, market stall, radio and television licences, parks and gardens and entertainment, among other sundry services. The truth is that a horizontal summation of all the annual proceeds of the taxes assigned to the sub-national governments may not approximate the sum of the proceeds of a few major taxes assigned to the national government. This position is reinforced by the comparative analysis of the contributions of the various tiers of government to the total tax revenue realised during the period 1970-2012, as highlighted in Table 3. In summary, sub-national governments' contribution to total tax revenue in Nigeria averaged 6 per cent during the period. The implication of the fiscal relations among governmental tiers is the creation of imbalances and fiscal incapacity of sub-national governments.

In a nutshell, the prevailing framework of fiscal federalism capacitates the central government at the expense of the sub-national government. In the dependent intergovernmental relations among the tiers of government, the prospects of fiscal performance by sub-national governments in relation to the expectation of the citizenry are blurred. This is why the sub-national government has persistently clamoured for a review of the existing revenue sharing arithmetic, in order to adjust the imbalance and enhance their service-provision capacity.

### **Conclusion**

The fundamental disequilibrium between the assignment of service provision responsibilities and revenue empowerment is deeply rooted in the Constitution of Nigeria. In the circumstance, the central government assumes the commanding height over the sub-national state and local government which depend virtually on the centre as provider of all resources. The “centre-periphery” relations are analogous to the ones between the ADCs and LDCs, to which Andre Gunder Frank's dependency theory is widely applicable. In the relationship configuration, the capacity of the sub-national government to generate adequate revenue for prosecuting their constitutionally assigned responsibilities has therefore remained a mirage. That is why the sub-national

governments have remained appendages of the centre, in the supranational fiscal arrangement. To be sure, something fundamental is required to ameliorate the situation.

### **Way Forward**

Arising from the analysis and conclusion, the following basket of policy options are proposed.

1. The existing framework of tax jurisdictions and types among governmental levels should be reconfigured to increase the revenue capacities of sub-national governments. This requires a constitutional amendment to the relevant Schedule II, which allocates powers to tax.
2. The existing arrangement and practice of joint administration of revenues due to local governments in partnership with state governments under the institution of the Joint Local Government Account, or under any guise, should be abrogated, through a constitutional amendment. In the absence, local governments will remain in penury and perpetual beggars-of-sorts for their own resources. To perpetuate the anomaly, state governments have preferred the administration of local governments through unelected Chairmen as proxies. In the relationship, the states expect absolute subservience from the local governments, to which they extend ex-gratia gifts as monthly releases. A constitutional amendment is also required, to reverse this aberration.
3. The extension of the application of the principle of derivation to states and local governments, as a first line charge on the CRF Account, should be considered. This provision will enhance the revenue receipts by the sub-national governments which own and substantially contribute to federally collected revenues. This way, endowed and revenue focused sub-national governments will boost their earnings and fiscal capacities.

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CHAPTER **10**

## **Self-Reliance and Sectoral Complementarity: Recipes for Nigeria's Economic Transformation**

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### **Introduction**

**N**igeria currently operates a disjointed economic system, with an outward orientation. Consequently, the nation's economy is helplessly dependent on offshore technology, capital, markets, and control. This is in addition to the reliance on the production and exportation of crude oil; a commodity highly prone to price volatility in the world market. The economy is badly disarticulated to the extent that what happens in one sector of the economy does not have any bearing on other sectors of the same economy. In the light of the above observations, this study locates the genesis of the disarticulation of the Nigerian economy and examines the possibility of national economic transformation in the face of such fundamental fetters. The study's objective is to provoke a comprehensive redirection of development policy in Nigeria in such a manner that guarantees national economic transformation. Using secondary data sources, the study examines traditional economic forms in Nigeria, and observes that the country adopted a highly

diversified, highly complementary productive base; one that drew its capital, technology, and markets locally. The study observes further that disarticulation of the economy and lack of sectoral complementarity began with contact with the West, and the institutionalization of western political and economic hegemony. Finally, the study observes that post-independence economic management has attempted to engineer economic transformation without first addressing the fundamental flaws in the economy; and this explains the failure of all post-independence economic management strategies. Consequently, the study recommends economic management strategy anchored on sectoral complementarity and self-reliance.

### **Background to the Study**

The quest for economic transformation constitutes the substructure on which post-independence public policies in Nigeria have been anchored. Meeting developmental aspirations of the citizenry has propelled successive administrations, both civil and military, since independence, to conceptualize and execute myriad of policies. Such policies include: Nigerianization or indigenization of the economy; development of a local iron and steel sector; encouragement of agriculture; development of solid minerals; liberalization of the economy to attract foreign investments; integrated rural development as a means to improve living conditions in rural communities; skills acquisition for the younger segment of the population; adoption of an Bretton Woods Institutions inspired Structural Adjustment Programme; the list is inexhaustible. Religious pursuit of these economic schemes exhibits as an outcome, an unmitigated failure. The objectives of economic emancipation, improved standard of living, eradication of unemployment and poverty remain elusive and a mirage. The Nigerian economy is characterized by dwindling industrial capacity, reliance on food and raw materials importation, foreign exchange shortages, retrenchments, no value addition to agricultural or mineral resources, monoculture, and so on.

Against the above background, this study intends to attempt an explanation for this state of affairs. Why is it that the implementation of development policy in Nigeria has not yielded the anticipated dividends? Where is the nation getting it wrong? Is there a way out of this quagmire? The objective in view is to identify the fundamental pitfalls in Nigeria's economic management, and to proffer remedies that will transcend the fetters to

Nigerian economic development. The central thesis canvassed here is that Nigeria's economic transformation will receive the needed impetus when development policies are conceived and executed within a framework of self reliance and sectoral complementarity. Monoculture and policies that have outside orientation or an offshore nucleus constitute fetters to national economic transformation. In pursuit of its objective, and to advance its arguments, the study explores historical sources of data; and the data subjected to objective descriptive analysis. Furthermore, political economy constitutes the framework for analysis because data of diverse backgrounds were employed.

### **Definition of Concepts**

1. Self Reliance: describes an economy which uses indigenous initiatives, capital, human, agricultural and mineral resources to effectively and efficiently address developmental challenges.
2. Sectoral Complementarity: refers to an economy whose various elements constitute a harmonious and mutually dependent whole.
3. Economic Transformation: describes desired changes in an economy which enhance standard of living of the citizens now and in the foreseeable future.

### **Indigenous Forms of Economic Management in Nigeria**

Institutionalization of British hegemony in Nigeria did not only forge a union out of hitherto unrelated polities, it also amalgamated economies of diverse backgrounds. Though those economies exhibited some differences, they undoubtedly shared some common features, viz: self reliance and sectoral complementarities. Ajayi and Alagoa (1980) show that indigenous Nigerian society moved from gathering of wild crops to cultivation of such crops as their immediate environments permitted. As early as the late Stone Age Nigerians moved from gathering of wild crops to the domestication, production, and cultivation of crops, using technology evolved by them. Crops cultivation went side by side with the development and production of iron and bronze products. Gavin and Oyemakinde (1980) argue convincingly that at the beginning of the 19<sup>th</sup> Century, and even much earlier, the Nigerian economy went beyond subsistence production; observing that , “within each community and beyond, the products of the soil were stored and exchanged against other products or against men's labour”. The economy described

above displayed certain unquestionable features: agriculture gained its tools and implements from the local foundries. These implements, perhaps crude, unsophisticated by today's standards, enabled agriculture to (i) feed the local population engaged in agriculture, (ii) feed the local population of iron and bronze workers, as well as religious and medicine practitioners. Individual communities had surplus which they sold to neighbouring communities after meeting the various levels of local consumption.

Omer-Cooper, Ayandele, Gavin and Afigbo (1968) show that West African states, including Nigeria, were able to cultivate a variety of crops, mine a wide range of solid minerals, and using these products, participated in the trans Sahara trade. The Portuguese, enjoying the benefits of being the first Europeans in the area, traded in "natural produce, such as gold, ivory, and pepper", with the people. There is no reliable data to the effect that the production of the aforementioned items depended on European manpower, technology, or capital. European knowledge of the interior was very poor, largely based on inaccurate accounts of armchair geographers. They were therefore in no position to determine economic outcomes in Nigerian communities. King (1998) explains that Nigerian communities cultivated several crops and minerals. Food and cash crops produced included "maize, beans, citrus, fruits, coconuts, yams and millet, cocoa, coffee, oil-palm and tobacco. Marble and tin are major mineral resources... and there are also large deposits of iron ore and limestone". Indigenous economic forms were not limited to the agricultural and mining sectors, some form of manufacturing actually took place.

Azaiki (2007) discusses what he termed secondary occupations, identifying local gin making in several Niger Delta communities, textiles manufacturing among the Ijaw of Bonny, Urhobo and Ika-Ibo, amongst others. He also identifies boat carving, a common product of manufacturing among coastal and river bank communities in Nigeria. These industries pre-date contact with Europeans and totally relied on local technology and capital. The advent of European trade and foreign political domination spelt doom for most of these local industries, forcing them into extinction or into perpetual state of comatose. Unable to match the quality of locally produced gin, British colonial authorities produced a series of anti-local gin legislations. The local gin was tagged illicit gin, while the imported one became the legitimate gin.



The dependence on local technology and capital clearly demonstrates self reliance: and high premium placed on agriculture, mining and manufacturing at the same time shows economic diversification. In addition, the reliance of agriculture and mining on the manufacturing sector for their tools and implements strongly demonstrates sectoral complementarity.

### **Economic Disarticulation**

The Portuguese merchants were the first set of Europeans on the Nigerian coast, landing in Lagos in about 1470 and reaching the Edo city of Benin about two years later. Northern Nigerians interacted indirectly with Europeans and Arabs through the people of Maghreb Africa. Contact with Europeans changed the political economy of the country. Though initially these Europeans exchanged their goods with Nigerian commodities, the trade in the course of time degenerated into commodification of Nigerians. The slave trade uprooted Nigerians on which the economic edifice described above rested and transplanted them in the Americas. This singular act disrupted indigenous economic forms and also ignited the disarticulation of the economy.

In the Niger Delta region, Cooley (1974) posits that from the Sixteenth Century onwards the region's participation in the international capitalist system merely involved the capture, purchase and stealing of human beings and selling same to the Europeans. Eremie (2004) summarizes the effects of the trade in humans to include depopulation of parts of the country, enactment of the Hobbesian state of war, and "distortion of the dynamics of social, political and economic advancement". Agriculture, mining and manufacturing were disrupted, as people generally went into hiding to escape capture and commodification. The end of the slave trade and the coming into being of the legitimate trade consolidated economic disarticulation in Nigeria. International political economy dictated the production of certain crops demanded in Europe. Regionalization of the economy began as various parts of the country engaged in the cultivation of crops assigned to them by international capital. Crops produced in one region were not traded in other regions but were rather exported to Europe. Gradually but steadily the technology and capital needed were provided by offshore sources. Disarticulation of the Nigerian economy garnered momentum with the discovery of crude oil. The exploration and exploitation

of oil rest squarely on offshore sources, in terms of technology, capital, market, and storage. Ascendancy of oil translates into scooping up the commodity from the bowels of the earth, and exporting it to Asia, Europe and America, without the necessity of adding value. It made available tones of cheap and ready money.

However, the level and quantity of oil produced has no direct bearing on local conditions, unlike what happened in the past; oil relied on imported tools therefore no link between it and local manufacturing sector has been made.

Public policy also abandoned the solid mineral sub-sector, as well as encouraging the massive importation of food. Oil presently constitutes the most significant and relevant source of foreign exchange, yet its contribution to employment is insignificant. It has also failed to effect any reasonable degree of backward and forward integration, rather leaving in its trail environmental degradation, violence and inter-communal crisis. Okigbo (1986), after x-raying the Nigerian economy, laments thus: "The development of the economy for sometime in the future will thus depend precariously on a single resource". Nigeria has, within this faulty framework, attempted a plethora of economic theories and models, each of which had failed. New efforts at economic management will fail unless there is a conscious paradigm shift.

### **Paradigm Shift: The Inevitability of Sectoral Complementarity**

Nigeria emerged from a self inflicted civil war in 1970 and found out that the international economy was in high demand for oil. Nigeria quickly went into harvesting her huge oil and gas resources and sold them to ready and willing international buyers. Huge petro-dollars rained in, and a national culture of monoculture or mono- cultivation quickly set in, characterized by abandonment of agriculture and solid minerals, disarticulation of the national economy and massive importation of food and consumer goods using the huge revenues from the petroleum sector. International oil market is usually defined by periods of boom and burst; whereas the boom brings in money, the opposite brings loss of money and suffering. Western response to the Arab use of oil as a political weapon was the exploration of alternative sources of oil and development of alternatives to oil. Added to this is the economic truism that boom encourages new entrants in to the market while existing participants

undertake capacity expansion. The net effect of the above factors was over supply of the oil market and a sudden sharp drop in prices in the 1980s.

Nigeria suffered a paralyzing economic stroke: foreign exchange reserves were wiped out over night; financial obligations to local and international partners could no longer be met; factories began to shut down with the attendant rise in unemployment; basic food and consumer goods went off the shelves; and the country crashed violently to her knees. Shehu Shagari, President of Nigeria (1979-1983), was forced to adopt economic stabilization measures as a means of tackling the harsh effects of monoculture and monocropping. State of the economy was one reason advanced by Major General Muhammadu Buhari for toppling the Shagari administration in December, 1983. He too, just like Shagari before him and General Ibrahim Babangida after him, adopted a Bretton Woods Institutions inspired Structural Adjustment Programmes in a desperate attempt to salvage Nigeria. Nigerians suffered the pains of adjustment but never gained the promised revival. It was in this setting of economic crises that national leadership, scholars and commentators began talking about economic diversification. Surprisingly all such talks are forgotten whenever oil prices rebound and the wind fall comes again. What does diversification entail in the Nigerian context? An examination of this question shows that diversification is incapable of generating economic transformation in the Nigerian sense of the word.

Alapiki and Odondiri (1996) explain that Nigerian governments appreciated the desirability of diversification and therefore adopted tripod approach to bring it about - "invest heavily in agriculture, petro-chemicals and iron and steel as the leading sectors". The idea usually expressed is that such three prong approach will diversify the revenue base of the country in such a manner that if one sector experiences a revenue shortfall, earnings in the other sectors would provide a soft landing for the economy. Coleman (1986) gives a graphic presentation of this kind of diversification, using agricultural produce. He identified four agricultural produces, insisting that drop in price for one of the crops did not cripple the economy because the others acted as safeguard. He explains that such diversification accounted "in part why there was comparatively little suffering or nationalist protest when the value of Nigerian exports dropped 50 percent immediately after World War 1 and again in the early 1930's". Diversification along this line is what the

government also pursues. For instance, General Sani Abacha, military Head of State (1993-1998), states that “to attain economic growth and development, it is necessary to squarely face the problems of the so-called oil economy syndrome and excessive dependence on oil. Agricultural production must be enhanced while we strengthen our industrial base” (Abacha, 1997). Abacha's positions the typical official line in the country.

The strategy fails because it is fundamentally flawed. To begin with, this is not an enduring economic framework. It is usually an adhoc strategy adopted whenever oil revenues witness sharp drop. The strategy is usually poorly conceived, poorly implemented, and quickly abandoned as soon as oil revenues improve. Secondly, the sectors of the economy that are scaffolded into the revenue structure are managed in the same way the oil sector is managed. Commodities are simply harvested and exported without any value addition. Activities in one sector therefore produce negative impact on other sectors of the economy. Impetus for the given economic activity is almost solely driven by external forces: tools are imported, and demand from abroad is usually the only demand considered. There is inadequate government coordination of the different sectors of the economy.

All government is interested in is to earn revenue from those other sources to reduce the pains caused by shortfall in oil revenue. The clamor for diversification in Nigeria can be likened to what a roadside retailer does. On a small table the retailer displays a number of items. Poor sales in one item are compensated for by better sales in other items. This ensures a diversified revenue base, but has no regard for sectoral complementarity. The latter is much more complex, and much more rewarding in the long run.

Sectoral complementarity requires knitting together various economic activities in such a way that the different activities adopt a single heart, a single head, a single pair of hands, a single set of legs, and so on. The national economy operates as a single body, with each sector or sub-sector acting as a part of the whole, reinforcing mutual interdependence. Each unit serves as a link in a well oiled chain. What this translates into in practical terms is something like this, using the oil sector as an example. Gas from oil fields could be used to generate and supply electricity to nearby communities. This would bring in its wake small and medium scale industries: such as preservation of

fresh fruits, vegetables, meat and fish; hair dressing, sports viewing centers and drinking joints and so on. The oil sector could give birth to refineries and petro-chemical plants. Refineries will not only make petroleum products available locally, but would add value to the oil before it is exported thereby fetching more money. Petrochemical plants will come up with petroleum by-products that would benefit agriculture, plastic industry, textiles sector, and a host of other industries. The presence of such a huge oil and gas sector would encourage the establishment of an oil tools factory, trucks factory, oil storage equipment plants, and things along such lines. There would be millions of jobs, government tax revenue would shoot skywards. Local demand for goods and services would increase, and there would be a wide variety of goods to export. This is what sectoral complementarity implies, and this is what Nigeria needs for economic transformation. Once this system is put in place it would become a self-regulating organism which would hardly be destroyed by even the most determined sadist or the most irresponsible political leadership.

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CHAPTER **11**

## **An Assessment of the State of Secondary Education in Sokoto State 2006-2012: A Study of Three Senatorial Zones of the State**

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### **Introduction**

**A**n Assessment of the State of Secondary Education in Sokoto State 2006-2012 is a study that was conducted in the three senatorial zones of the State which were Central, Eastern and Western Senatorial Zones. The study specifically focused on the state of manpower, educational infrastructures and gender disparity in some secondary schools of the State. A political economy theory was employed in the study because it provides explanations and solutions to educational issues and challenges. There were two research instruments that were used and these were structured questionnaires and in-depth interview (IDI Guide). In the analysis of data, a Statistical Package for Social Sciences (S.P.S.S.) was used; no hypotheses were tested. The findings of the study discovered that there were shortages of manpower and educational infrastructures; gender disparity was also high. It was recommended in the study that the government should employ more teachers, they should be given the opportunities to further their studies and

they should also be given some rewards when they perform better. However, the government should provide adequate educational infrastructures in order to provide a conducive atmosphere for learning and for educational development. There is the need to build more secondary schools for girls in Sokoto State and more gender sensitization programmes should be organized. The female teachers should also be given the opportunities to develop themselves educationally so that they can contribute very well to the development of education in general and Sokoto State in particular.

### **Background to the Study**

Education is an important tool that is used by many societies in the modern world for development and it is one of the greatest gifts of nature to mankind because it is an important means of survival for the individual and society. In every society, education is needed and this is because when the members of a society are educated and make practical use of it, a development can be achieved; they can properly maintain the norms and values of the society in order to ensure social control and conformity and with that, they can live happily with one another. A good leadership can only be achieved when there is education and for a society to develop politically, quality education is needed in achieving its goals. The production, distribution and consumption of goods and services which is for the economic development of societies is important and it can be achieved with education. When the United Nations declared the Fundamental Human Rights in 1948, education was considered as something that could bring about many positive developments and as such, access to education is a right of every citizen (UNESCO, 2000).

Education is the transmission of society's norms and values and it perpetuates and reinforces homogeneity which the society needs for survival (Durkheim, 1913). It can also be said that education involves the process of imparting knowledge, skills, and attitudes through various activities which include experimenting in the laboratory or organizing educational excursions, field trips, projects etc; with a view to bring a change in desirable ways (Age, 2005). These definitions of education show that it is important because it can help in bringing about better changes that will make our societies to develop. Education at all levels and in all forms constitutes a vital tool for addressing virtually all global problems and it is also a key instrument for bringing about changes in knowledge, values, behaviours and lifestyles (Bajaj & Chiv, 2009).



The development of our intellectual abilities, skills, habits and values is part of education and Aminu (1995), observed that the greatest investment a nation can make for the development of its human resources is that of education which is a useful tool for achieving a sustainable socio-economic and political development in our societies. Nigeria, for example, is one of the developing countries of the world and the country is vast; it is abundantly blessed with many things which include human agricultural, solid mineral, atmospheric and water resources which all need proper utilization. The greatest investment that all our governments need in Nigeria is to give priority on education so that the country can develop. The history of Western Education in Nigeria was around 1840s and it was also introduced by a group of people called the Christian Missionaries (Fafunwa, 1974). The primary aim of the early Christian Missionary Education was to convert people and train them for missionary work which was started in the Southern part of Nigeria. In the North, there was a problem because many people did not give support to Western Education and Christianity; as result of that, the Christian Missionaries found it difficult to do their work effectively. It was Lugard in 1902 that directed the Christian Missionaries to stay away from the Muslim North in order to avoid political and religious crises and because of that, up to today, the Western Education is not fully developed in the northern part of Nigeria compared with the Southern Part which is a serious challenge that needs to be given attention because it leads to underdevelopment (Fafunwa 1974).

According to National Bureau of Statistics in 2012, the Nigerian Educational System particularly the Secondary Education was characterized by many challenges but the challenges were largely found in the north. Some of the challenges include shortage of teaching personnel, inadequate educational infrastructures, gender disparity, inadequate funding, etc and this means that for the educational system of Nigeria to be well developed a lot of measures are to be taken to address the challenges. Sokoto State which was recognized for scholarly activities in the whole of West Africa and beyond has since the advent of colonization been witnessing a relatively slow progress in Western Education and the state was also recognized by the Federal Government of Nigeria in 1997 as one of the educationally disadvantaged states in the country (Blue Print for Education in Sokoto, 1997).

Secondary Education in Sokoto State has been facing many challenges and some of the challenges include shortage of manpower, inadequate educational infrastructures and gender disparity. Most of the secondary schools in the state did not have enough teaching personnel and majority of the teachers did not have qualifications that were relevant to education and as such, they were not qualified; other important issues such as seminars and workshops were not attended by many teachers. Under the educational infrastructures, the study was concentrated on facilities such as the classrooms, tables, chairs, libraries, laboratories, water, sanitation and electricity and all these facilities were not adequate and functional. Gender disparity was also a challenge because the number of male teachers was greater than the female teachers and the schools that were for boys were greater than the schools that were for girls.

It was stated by the National Bureau of Statistics in 2012 that there were some socio-cultural and economic factors that were responsible for poor educational development particularly the secondary education in Sokoto State. Some of these factors were poverty, ignorance and negligence. There were many parents that did not have the enough means of livelihood most particularly in the rural areas of the State. For that reason, they could not enroll their children in schools which as a result of that many children lost the opportunities of being educated. Ignorance is another contributory factor because there were some parents that did not know the value of western education due to the fact that they were not enlightened. They considered western education as something that could destroy their ways of life which they have been living for many years. As a result of negligence on the side of the government, the facilities such as the schools, roads, hospitals, water and electricity were not adequately provided most particularly in the rural areas. That has also become a barrier to the development of secondary education in the State. However, some communities that were living in the State did not use to make complaints concerning the problems they were facing to the government so that serious measures could be taken to address the problems.

This study, therefore, assessed the state of secondary education in Sokoto State 2006-2012 and it was conducted in the three senatorial zones of the State which were Central, Eastern and Western Senatorial Zones.

### **Statement of the Problem**

It is the wish of every society or State to see that it develops and development can only be achieved when the government places much emphasis on education particularly the secondary education. This is because it as an aspect of education that prepares an individual for a useful living within the society and for a higher education. One of the ways to achieve meaningful and positive progress of a State largely depends on the amount and quality education acquired by its citizens (Ozigi & Canham, 1979). Several factors have been identified by the National Bureau of Statistics in 2011 as the challenges of secondary education in Sokoto State. Shortage of manpower is one of the major challenges and it was concerned with inadequacy of teaching staff and qualifications that were not relevant to education which as a result of that, majority of the teachers in secondary schools of Sokoto State were not qualified, the educational programmes, such as seminars and workshops that are important in improving the quality and efficiency of the teaching staff were also not adequately organized for educational development. Some scholars were of the view that manpower shortage is a challenge that occurs as a result of underfunding, mismanagement and lack of focus (Udey, 2009). Inadequate infrastructures is also part of the challenges of secondary education in Sokoto State and according to the National Bureau of Statistics 2011, the educational facilities such as the classrooms, libraries, laboratories, water, sanitation and electricity were not adequate and functional in the State and this is also one of the reasons for the failure of the students in examinations.

Gender disparity is another challenge of secondary education in Sokoto State because the percentage of male teachers and school administrators was greater than their female counterparts and most of the secondary schools built by the State were for the boys. The UNICEF Report on Educational Development of Sokoto State (2010) showed that the ratio of boys and girls in schools between 2006 and 2007 was 67.19 to 32.81% in secondary schools of the State.

All the challenges of secondary education mentioned above can be considered as the problems that are social in nature and this is because they adversely affect the educational development of the society or Sokoto State. The study, therefore, focused on the assessment of the state of secondary education in Sokoto State 2006-2012.

### **Objectives of the Study**

The main objective of the study is to assess the state of secondary education in Sokoto State and the specific objectives are as follows:

- (i) To assess the quality of manpower in secondary schools of Sokoto State;
- (ii) To examine the educational infrastructures in secondary schools of Sokoto State;
- (iii) To ascertain if there is gender disparity in secondary schools of Sokoto State.

### **Research Questions**

The study has three research questions and they include the following:

- (i) Is there adequate manpower in secondary schools of Sokoto State?
- (ii) Are there adequate educational infrastructures in secondary schools of Sokoto State?
- (iii) Is there gender disparity in secondary schools of Sokoto State?

### **Methodology**

The Context of the Study was Sokoto State and it was conducted in the three senatorial zones of the state which comprised the Sokoto Central, Eastern and Western Senatorial Zones. The study was mainly focused on the state of educational manpower, infrastructures and gender disparity. Under the study design, a survey research design was employed whereby the structured questionnaires were utilized and the actual population of the study comprised the three categories of respondents who were the school administrators, teachers and students. There were 199 secondary schools in Sokoto State and in the Sokoto Central Senatorial Zone, there were 79 schools, in the Eastern Senatorial Zone there were 57 secondary schools and in the Western Senatorial Zone, there were 63 secondary schools. All these constituted a total of 199 secondary schools. However, the total number of all the respondents of the study consisting the school administrators, teachers and students was 16,947 and in this case, the school administrators were 199, the teachers were 2,958 and the students were 13,790.

Furthermore, with regard to sampling size and technique, a proportionate sampling technique was employed and the justification was that, the number of respondents in the study area was not equal. The sample size of the study

was 495 respondents and 45 secondary schools were also selected. The researcher selected from each senatorial zone 15 secondary schools and also from those schools employed a simple random sample to select 45 school administrators, 180 teachers and 270 students which all constituted a sample size of 495 respondents. The study was however conducted using both quantitative and qualitative techniques of data collection and quantitative method was concerned with the administration and distribution of questionnaires to the respondents and in the case of qualitative technique, an in-depth interview was conducted. In the analysis of data, a descriptive statistics was employed using simple percentage and the Statistical Package for Social Sciences (S.P.S.S.) to analyse the quantitative data. The in-depth interview which was part of the qualitative data was analyzed by coding the data into identified categories whereby the comparison was made between the data obtained from the questionnaires and the data of the interviews.

Below are the tables showing the names and number of schools, the school administrators, teachers and students that were selected from each senatorial zone (i.e. Central, Eastern and Western Zones) of the State. In each of the Senatorial Zone, there were 15 secondary schools and 15 school administrators, 60 teachers and 90 students that were selected and that was also for the easy conduct of the study and analysis of data.

**Table 1:** Sokoto Central Senatorial Zone

S/No	No. of Schools	No. of School Administrators	No. of Teachers	No. of Students
1.	Nana Girls Sec. School	1	4	6
2.	Sultan Bello Sec. Sch	1	4	6
3.	Sultan Atiku Sec. Sch.	1	4	6
4.	A.A. Raji Sec. Sch.	1	4	6
5.	G.D.S.S. Sabon Birni Area	1	4	6
6.	G.D.S.S Kofar Marke	1	4	6
7.	G.D.S.S. Runjin Sambo	1	4	6
8.	G.D.S.S. Kofar Rini	1	4	6
9.	Sani Dingyadi Sec. Sch.	1	4	6
10.	G.D.S.S. Dundaye	1	4	6
11.	G.D.S.S. Durbawa	1	4	6
12.	G.D.S.S. Gidan Madi	1	4	6
13.	G.S.S. Tangaza	1	4	6
14.	G.D.S.S. Binji	1	4	6
15.	G.S.S. Kware	1	4	6
<b>Total</b>	<b>15</b>	<b>15</b>	<b>60</b>	<b>90</b>

**Source:** Field Survey, 2014

**Table 2:** Sokoto Eastern Senatorial Zone

S/No	No. of Schools	No. of School Administrators	No. of Teachers	No. of Students
1.	G.D.S.S. Gwadabawa	1	4	6
2.	G.D.S.S. Asara	1	4	6
3.	G.D.S.S. Gigane	1	4	6
4.	G.D.S.S. Illela	1	4	6
5.	G.G.C. Illela	1	4	6
6.	G.D.S.S. Salame	1	4	6
7.	G.S.S. Gada	1	4	6
8.	G.D.S.S. Gada	1	4	6
9.	G.D.S.S. Wauru	1	4	6
10.	G.D.S.S. Achida	1	4	6
11.	G.G.C. Rabah	1	4	6
12.	G.S.S. Wurno	1	4	6
13.	Shehu Malami S.S. Wurno	1	4	6
14.	G.D.S.S. Goronyo	1	4	6
15.	Adamu Mu'azu S.S. Goronyo	1	4	6
<b>Total</b>	<b>15</b>	<b>15</b>	<b>60</b>	<b>90</b>

**Source:** Field Survey, 2014

**Table 3:** Sokoto Western Senatorial Zone

S/No	No. of Schools	No. of School Administrators	No. of Teachers	No. of Students
1.	G.D.S.S. Takatuku	1	4	6
2.	G.G. Unity Bodinga	1	4	6
3.	G.D.S.S. Bodinga	1	4	6
4.	G.D.S.S. Danchadi	1	4	6
5.	G.D.S.S. Sifawa	1	4	6
6.	G.D.S.S. Sanyinna	1	4	6
7.	G.S.S. Yabo	1	4	6
8.	G.D.S.S. Yabo	1	4	6
9.	G.D.S.S. Yabo	1	4	6
10.	G.D.S.S. Shagari	1	4	6
11.	Magaji Rufa'I Islamiyyah School Shagari	1	4	6
12.	G.D.S.S. Kajiji	1	4	6
13.	Army Day Sec. Sch.	1	4	6
14.	G.D.S.S. Shuni	1	4	6
15.	G.D.S.S. Dange	1	4	6
<b>Total</b>	<b>15</b>	<b>15</b>	<b>60</b>	<b>90</b>

**Source:** Field Survey, 2014

### Literature Review

#### Challenges of Education in Sokoto State

This part of the literature is concerned with some challenges of education in Sokoto State, which are also similar with the general challenges of education in Nigeria. Some of the challenges discussed include inadequate infrastructures, gender disparity, manpower shortage and lack of access to basic education.

- i. **Inadequate Infrastructures:** This is a challenge that affects educational development of many schools in Sokoto State. According to the Sokoto State Economic Empowerment and Development Strategy Document in 2007:4 and 2010:6, the facilities such as classrooms, libraries, laboratories, water, sanitation and electricity etc. are inadequate in most of the schools in the State and this is a serious challenge that contributes to falling standard of education in the State.
- ii. **Gender Disparity:** In Sokoto State, there is gender disparity in access to education between boys and girls in secondary schools and the ratio between 2006 and 2007 was 67.19% to 32.81% (National Bureau of

Statistics, 2011). In addition, the UNICEF Report (2010), clearly showed that the major challenges to achieving gender equality in education in the State are religious and socio-cultural values, a high level of female participation in the informal and agricultural sector, increase in female poverty and harmful traditional practices such as early marriage.

- iii. **Manpower Shortage:** Adequacy of teaching staff is important because it brings about development in the schools and society at large. Manpower shortage is one of the challenges of educational development in Sokoto State and this is because there were many secondary schools that do not have enough teachers and majority of them were not qualified to teach in the schools; the percentage of unqualified teachers is 68% (National Bureau of Statistics, 2011).
- iv. **Lack of Access to Basic Education:** There are many parents that do not have the means to enroll their children in schools in Sokoto State and the reason why they cannot do that is because of poverty. The UNICEF report in 2010, showed that the percentage of the people living in poverty in 1992 increased from 37.9% to 83.9% in 1996 before declining to 78.8% in 2007; those living in absolute poverty were 74.50% in 2007 and those living under U.S. \$1.0 a day was 70.54% in the State. This is a serious challenge that needs to be addressed because it adversely affects educational development in Sokoto State.

### **Theoretical Framework**

The theoretical framework that was used in this study was the political economy theory and it is a theory developed by scholars such as Adams Smith, and David Rocardo. The theory has its roots in the works of Marx (1818-1883). The perspective of political economy theory tells us the analysis of modes of production, distribution and consumption of goods and services in the society. For Marx, the economy is something that is very important in the society because it shapes or controls the other sectors of the society such as education, politics, health, etc. The political economy has to do with the exercise of authority and competition for authority within a society in the process of allocation and exchange of scarce resources which include the social, political and economic resources and it also provides the alternative activities, costs and benefits that are directed toward achieving the objectives and goals of the society (Uphoff, 1996).



Most of the changes that have taken place in the history of societies of the world have given rise to the expanded scope of political economy and it covers areas which include political choices and effects as well as the economic choices and effects. In other words, the choice of political systems, the effects of such systems on the production and distribution of available human and material resources are important in the political economy. The interplay of market forces of demand and supply as a product of political decisions at various levels of government are important elements in political economy and it is also concerned with the problems and development of societies through policy decisions and options. Therefore, from the foregoing analysis, it can be understood that the political economy theory deals with the societal effort through political decisions to produce and distribute the scarce resources in order to meet the needs of the members of the society. This also shows that the political economy theory is relevant because it helps a society to make efficient and effective use of its resources for socio-economic and political development.

In this research, which is an Assessment of the state of Secondary Education in Sokoto State, the researcher specifically used the political economy of education developed by a scholar called Gradatein (2010), who argues that education is necessary for personal and societal wellbeing. This means that education is useful because it can be acquired by the members of the society and it also helps in the development of an individual's personality and the society as a whole. The economic organization of education according to Gradatein (2010), depends on political as well as market mechanisms to resolve issues that arise because of contrasting views on such matters as income inequality, social mobility and diversity. He pointed out that a State has an important role to develop education and the dominant role played by the State in the financing, regulation and provision of secondary education reflects the widely held belief that education is necessary for personal and societal wellbeing. The State plays an important role in the provision of adequate manpower, educational infrastructures and gender equality; it also does that in order to ensure proper and sound development of secondary education which is for the benefit of the society. Manpower development is concerned with how the State helps in providing the members of the society with knowledge, skills and competencies for gainful employment. In the school environment, for example, the purpose of education is to develop an

individual so that he/she can be useful to the society. Educational infrastructures such as the classrooms, libraries, laboratories, water, sanitation and electricity are also provided in the schools by the State in order to provide a conducive atmosphere for learning and development. A society normally consists of male and female members that are expected to be given equal educational opportunities by the State so that they can contribute in many ways to the development of the entire society. The political economy theory that was used by the researcher in the study has both the strength and weakness. The theory has strength in the sense that it is capable of providing useful explanations on issues and challenges of secondary education on manpower, educational infrastructures and gender disparity which were the main objectives of the study. The weakness of the theory was that it is too broad because it touches so many areas such as health, politics, law, culture etc. The theory does not specifically provide explanations to a particular issue in the society which can be easily studied and analyzed.

#### **Socio-Economic Characteristics of the Respondents**

This section is concerned with the personal data of the school administrators, teachers and the students. The information contained in their tables include the sex, educational qualifications, length of service, the rank as well as the school system of the (students) respondents.

**Table 4:** Personal Data of the School Administrators

<b>Sex</b>	<b>Frequency</b>	<b>Percentage</b>
Male	40	88.8
Female	5	11.2
<b>Total</b>	<b>45</b>	<b>100</b>
<b>Qualification</b>	<b>Frequency</b>	<b>Percentage</b>
Diploma	0	0.0
HND	14	31.1
NCE	2	4.4
B.Sc. B.A. B.Ed.	27	60
M.Sc. M.A. M.Ed.	02	4.4
Phd	0	0.0
<b>Total</b>	<b>45</b>	<b>100</b>
<b>Length of Service</b>	<b>Frequency</b>	<b>Percentage</b>
1-5 years	0	0.0
6-10 years	02	4.4
11-15 years	05	11.2
16-20 years	16	35.6
21 and above	22	48.8
<b>Total</b>	<b>45</b>	<b>100</b>
<b>Rank</b>	<b>Frequency</b>	<b>Percentage</b>
Principal	45	100
Vice Principal	0	0.0
Others	0	0.0
<b>Total</b>	<b>45</b>	<b>100</b>

**Source:** Field Survey, 2014

Table 4 shows the personal data of the school administrators which consist of their sex, educational qualifications, length of service as well as the rank. It was indicated in the table that 88.8% of the school administrators were males and 11.2% were females and this clearly showed that there was gender disparity and it was very high. On the educational qualifications, 31.1% had HND, 4.4% had N.C.E, 60% had B.Sc, B.A, B.Ed., and 4.4% had M.Sc., M.A; M.Ed. This means that the manpower strength was not enough because majority of the school administrators were first degree holders; those that had masters degree had 4.4% only and none had a P.hd degree. The school environments are places that require administrators that have higher degrees and practical experience for them to be managed effectively and without that, there may not be a significant development of education in the society. On the

length of service of the respondents, 4.4% have 6-10years, 11.2% have 11-15years, 35.6% have 16-20years, and 48.8% have 21 and above years. This means that the majority of the respondents (i.e. school administrators) had high length of service and if their experiences were to be effectively utilized, they could contribute to the development of the school environments.

**Table 5:** Personal Data of Teachers

Sex	Frequency	Percentage
Male	110	61
Female	70	39
<b>Total</b>	<b>180</b>	<b>100</b>
Educational Qualification	Frequency	Percentage
Diploma	40	22.2
HND	19	10.6
N.C.E	80	44.4
B.sc., B.sc. Ed B.A., B.A.Ed	36	20
M.Sc., M.A., M.Ed.	5	2.8
Phd	0	0.0
<b>Total</b>	<b>180</b>	<b>100</b>
Length of Service	Frequency	Percentage
1-5 years	30	16.7
6-10 years	13	5.6
11-15 years	14	7.8
16-20 years	61	33.9
21 and above	65	36.1
<b>Total</b>	<b>180</b>	<b>100</b>

**Source:** Field Survey, 2014

Table 5 is on the personal data of teachers and the most important things it discusses are their sex, educational qualifications, and length of service.

The table shows that 61% were males; the remaining 39% were females. This shows that there was a gender disparity and the only way is to increase the number of female teachers so that the disparity could be reduced to a certain extent. On the educational qualifications, 22% of the respondents have Diploma, 10.6% have H.N.D., 44.4% have N.C.E., 20% have first degrees, 2.8% have masters degree and none of the respondents had Phd degree. It can be clearly understood from the table that the percentages of the respondents that

had N.C.E and Diploma qualifications were higher and this implies that there was low manpower strength in the secondary schools of Sokoto State; that was also a challenge that could hinder educational development in every society. With regard to the length of service, 16.7% of the respondents had 1-5years, 5.6% had 6-10years, 7.8% had 11-15years, 33.9% had 16-20years and lastly, 36.1% had 21 and above years. This means that the percentages of the respondents that had 16-20years and 21 and above years were higher than the others.

**Table 6:** Personal Data of Students

Sex	Frequency	Percentage
Male	140	51.9
Female	130	48.1
<b>Total</b>	<b>270</b>	<b>100</b>
School System	Frequency	Percentage
Day	216	80
Boarding	54	20
<b>Total</b>	<b>270</b>	<b>100</b>

**Source:** Field Survey, 2014

Table 6 shows the personal data of the students and it specifically focuses on the sex, and school system of the students. The table shows that 51.9% of the students were males while 48.1% were females and this also showed that there was gender disparity but it was not high. In the school system, 80% of the respondents were from day schools and 20% were from the boarding schools. This shows that the percentages of day schools were higher than the boarding schools and it means that there was a problem because more students were supposed to be in boarding schools where they could entirely concentrate their attention and do their studies very well but if they were in day schools and they were not looked after anything could happen; they might decide to be going to football viewing centres where they could not achieve anything.

In an in-depth interview, some of the respondents (i.e. male boarding students) were of the view that:

There were some football viewing centres outside the school environment and the students could go there provided it was after the closing hours. That was also the reason why many students could not perform well during the examinations.

### Educational Manpower in the Study Area

This section focuses on the views of the three respondents (i.e. the school administrators, teachers and students) on staff adequacy, staff effectiveness, training programmes, attending workshop as well as the in-service training.

**Table 7:** Views of the School Administrators on Educational Manpower

<b>Staff Adequacy</b>	<b>Frequency</b>	<b>Percentage</b>
Adequate	12	26.7
Not adequate	33	73.3
<b>Total</b>	<b>45</b>	<b>100</b>
<b>Staff Effectiveness</b>	<b>Frequency</b>	<b>Percentage</b>
Very effective	0.0	0.
Effective	38	84.4
Less effective	07	15.6
<b>Total</b>	<b>45</b>	<b>100</b>
<b>Training Programmes</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	7	37.8
No	38	62.2
<b>Total</b>	<b>45</b>	<b>100</b>
<b>No Training Programmes</b>	<b>Frequency</b>	<b>Percentage</b>
Lack of funds	36	80
Unreadiness of the government	9	20
Inability of some school to inform the government	0.0	0.0
<b>Total</b>	<b>45</b>	<b>100</b>
<b>Attending Workshop</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	26	57.8
No	19	42.2
<b>Total</b>	<b>45</b>	<b>100</b>
<b>In-service Training</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	41	91.1
No	4	8.9
<b>Total</b>	<b>45</b>	<b>100</b>

**Source:** Field Survey, 2014

Table 7 shows the views of the school administrators on the manpower and some of the issues they responded to were on staff adequacy, staff

effectiveness, training programmes and whether there were no training programmes, attending workshop on teachers' effectiveness as well as in-service training. On staff adequacy, the table shows that the number of staff are inadequate and from the responses of the school administrators, 26.7% were of the view that staff posting to their various schools was adequate and 73.3% were of the view that the staff posting to their various schools was inadequate. On the issue of staff effectiveness, 84.4% were of the view that staff were effective and 15.6% said that the staff were less effective. From the table, it can be understood that there was inadequate staffing which is a serious challenge under manpower and when there is a manpower shortage, there is a problem because it can hinder the development of any organization most particularly the school environment where the students are trained to be educated and be socially responsible members of the society. When the respondents were asked whether there were training programmes organized by the Ministry of Education for the teachers, 37.8% of the school administrators were of the view that there were training programmes and 62.2% of them were of the view that apart from educational qualifications of their teachers, there were no training programmes organized by the Ministry of Education for the teachers.

In an in-depth interview, some of the respondents (i.e. male and female school administrators) were of the view that:

If the ministry can organize a relevant programme for the training of teachers, it will not only encourage the performance of the staff, but also serves as a means of motivation.

When the school administrators were asked whether there were training programmes in some schools 80% of them were of the view that lack of fund was the major hindrance to why teachers were not on any training programmes and 20% were also of the view that on the part of the government, it was lack of readiness to pursue the tasks of sponsoring teachers on training programmes.

In an in-depth interview, some of the respondents (i.e. male and female school administrators) were of the view that:

Without money, no any goal can be achieved. And most importantly, the government is the financial backbone of the schools. When the government is not ready to make available funds; no goals can be achieved.

On the issue of attending workshop on teachers' effectiveness, 57.8% of the school administrators were of the view that the teaching staff attended workshop on teachers' effectiveness and 42.2% were of the view that the teachers did not attend workshop. The analysis shows that more teaching staff were supposed to be attending workshop because it was a serious challenge that could affect manpower development in schools. The workshop is very important to both the school administrators and teachers because it is concerned with a period of discussion and practical work on a particular subject that give them the opportunities of sharing knowledge and experience; it also helps them to be well equipped in so many ways that they can contribute to the development of education in the schools. So lack of workshop was a serious challenge that needs to be tackled. On the issue of in-service training in various schools, 91.1% of the school administrators were of the view that there were, while 8.9% were of the view that no any provision for in-service training for the teachers. When asked whether there was encouragement for staff to go for in-service training programmes 100% of the respondents (i.e. the school administrators) were of the view that they do encourage staff to go for in-service training programmes.

In an in-depth interview, some of the respondents (i.e. male and female school administrators) were the view that:

The teachers are always encouraged to go back to schools and further their studies but they do complain that even if they do that they may not get adequate support from the government and other stakeholders in the State.

Going by the analysis above, it can be understood that giving emphasis on in-service training programme by the State government is important to the teaching staff because of the advantages it has. It is a training or courses of study that the teachers do while they are in service in order to learn new teaching skills that will make them to be efficient and effective. In a situation whereby the teachers and the school administrators do not go for in-service training programmes, they may not have the chances of making meaningful contributions to the development of education in the schools; as a result of that, manpower development is affected.



**Table 8:** Views of Teachers on Educational Manpower

<b>Training Programmes</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	14	13.3
No	156	86.7
<b>Total</b>	<b>180</b>	<b>100</b>
<b>Scholarship</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	80	44.4
No	100	55.6
<b>Total</b>	<b>180</b>	<b>100</b>
<b>Specialization</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	88	48.9
No	92	51.1
<b>Total</b>	<b>180</b>	<b>100</b>
<b>Motivation</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	4	2.2
No	176	97.8
<b>Total</b>	<b>180</b>	<b>100</b>

**Source:** Field Survey, 2014

Table 8 shows the views of the teachers on manpower and some of the important things in the table include the training programmes, scholarship, specialization as well as the motivation of teachers when they perform well. It was indicated in the table that 13.3% of the teachers reported that apart from educational qualifications, they attended training programmes and 86.7% of other teachers said that they did not attend training programmes. And when asked how relevant was the programme to their profession only 3.3% (6) said the programme was relevant and 96.7% (174) said that the programme was not relevant. This clearly shows that manpower is still one of the serious challenges facing many secondary schools in Sokoto State and it was because of the fact that there were many teachers that do not attend teacher training programmes that would widen the horizons of their knowledge and perform better. On the issue of scholarship, the table shows that 44.4% of the teachers were of the view that the school encouraged or awarded scholarship to teachers for in-service training and 55.6% said that the schools did not encourage or award scholarship to teachers for in-service training.

In an in-depth interview, the respondents (i.e. male and female teachers) were of the view that:

Encouraging teachers can only be informed of financial support for educational achievement. Apart from that there is no any encouragement.

The table indicated that 48.9% (88) of the teachers reported that they taught subjects other than their areas of specialization while 51.1% (92) said that they did not teach subjects other than their areas of specialization. This was also a very big challenge affecting the development of manpower in an organization like the school and the reason is because when the teachers take other subjects than their areas of specialization, they might not concentrate attention very well to develop themselves and the school environments where they teach. On the issue of motivation, it was found in the table that 2.2% of teachers said that they were rewarded when they perform better and 97.8% were of the view that they were not rewarded and with that, it can be said that majority of the teachers were not motivated. One of the better ways of developing an organization, such as school is through motivation of the staff. In a school environment, for example, the teachers are expected to be motivated by giving them enough salary, better housing and health care facilities as well as giving them the opportunities to further their studies so that they can contribute to the development of education. All these things are very important but they were not adequately provided to our teachers.

In an in-depth interview some of the respondents (i.e. male and female teachers) were of the view that:

With motivation, the teachers can perform better and without motivation, they cannot end their careers in the classrooms.

**Table 9:** View of Students on Educational Manpower

Assignment/Homework	Frequency	Percentage
Yes	270	100
No	00	0.0
<b>Total</b>	<b>270</b>	<b>100</b>
Organizing Debate	Frequency	Percentage
Yes	114	42.2
No	156	57.8
<b>Total</b>	<b>270</b>	<b>100</b>
Organizing Quiz	Frequency	Percentage
Yes	114	42.2
No	156	57.8
<b>Total</b>	<b>270</b>	<b>100</b>
Organizing Lesson	Frequency	Percentage
Yes	114	42.2
No	156	57.8
<b>Total</b>	<b>270</b>	<b>100</b>

Table 9 shows the views of the students on educational manpower and there are some important issues that the students responded to which include whether their teachers give them assignment or homework to evaluate their performances and other issues such as organizing debates, quiz and lessons for improving the academic performances of the students. It was found that 100% of the students were of the view that the teachers gave them assignment/homework. When the students were asked how often the teachers give them assignment, 42.2% (114) of them said that it was every day and 57.8% (156) said that it was once in a week and as such, majority of the students said that it was once in a week. With regard to the issue of debate, 42.2% of the students were of the view that the teachers organize debates for improving academic performances while 57.8% were of the view that the teachers did not organize debates for improving academic performances.

In an in-depth interview, some of the respondents (i.e. male and female students) were of the view that:

The majority of the teachers did not organize lessons and debates and even if they do that it is only when they think that they can get something better from the schools.

When the students were asked whether the teachers organize quiz activities, 42.2% were of the view that the teachers organize quiz activities while 57.8% were of the view that the teachers did not organize quiz activities and this also shows that majority of the teachers did not organize quiz activities for the students. Therefore, it can be said that manpower development can only be achieved when the teachers organize lessons, assignments/homeworks, debate and quiz activities. And when those conditions are not adequately provided, there may not be any meaningful development in the schools.

### Educational Infrastructures

This section shows the percentages of the views of the school administrators, teachers and students on the educational infrastructures such as the libraries, laboratories, electricity, water, classrooms, sanitation and etc.

**Table 10:** Views of School Administrators on Educational Infrastructures.

<b>Libraries</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	4	8.9
No	41	91.1
<b>Total</b>	<b>45</b>	<b>100</b>
<b>Laboratories</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	9	20
No	36	80
<b>Total</b>	<b>45</b>	<b>100</b>
<b>Electricity</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	3	6.7
No	42	93.3
<b>Total</b>	<b>45</b>	<b>100</b>
<b>Water</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	5	11.1
No	40	88.9
<b>Total</b>	<b>45</b>	<b>100</b>
<b>Classrooms</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	7	15.6
No	38	84.4
<b>Total</b>	<b>45</b>	<b>100</b>
<b>Sanitation</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	1	2.4
No	34	75.6
<b>Total</b>	<b>45</b>	<b>100</b>

Source: Field Survey, 2014

The table 10 above shows the views of the school administrators on the educational infrastructures in the schools such as libraries, laboratories, electricity, classrooms, water and sanitation. It can be seen in the table that 8.9% of the school administrators said that the libraries were adequate and 91.1% were of the view that the libraries were not adequate.

In an in-depth interview, this was also revealed further by one of the respondents (i.e. male principal) thus:

“I do not believe there are any libraries when what we have are just structures without materials.”

On the issue of laboratories, 20% of the respondents were of the view that there were adequate laboratories while 80% said that the laboratories were not adequate and this simply means that there were many schools that do not have adequate and functional laboratories.

In an in-depth interview, some of the respondents (i.e. male and female school administrators) were of the view that:

“What we have are just building structures where laboratories are written but we don't have any apparatus in them.”

With regard to the issue of electricity, the table indicated that 6.7% of the school administrators were of the view that there was adequate electricity and 93.3% said that the electricity was not adequate.

In an in-depth interview, some of the respondents (i.e. male and female school administrators) were of the view that:

The schools used to get the supply of electricity but it was not very functional.

On whether there were adequate and portable water, 11.1% of the school administrators were of view that there was adequate water and 88.9% of the school administrators were of the view that the water was not adequate.

In an in-depth interview, some of the respondents (i.e. male and female school administrators) were of the view that:

There were many schools that did not have adequate supply of water and even in some schools where there were boreholes,

the water might not be portable for drinking which was as a result of some problems such as poor maintenance culture of the machines being used.

The other things contained in the table were the classrooms and sanitation and the table shows that 15.6% of the school administrators were of the view that there were adequate classrooms in their schools and the 84.4% were of the view that the classrooms were not adequate. Going by this analysis, it can be said that the supply of classrooms was inadequate in many schools. On whether there were adequate tables and chairs in the classrooms, only 13.3% (6) of the school administrators were of the view that there were adequate tables and chairs in the classrooms while 86.7% (39) were of the view that the tables and chairs were not adequate.

In an in-depth interview, some of the staff (i.e. male and female school administrators) were of the view that

There were no adequate classrooms, no adequate tables and chairs and it was their wish to see that they see something better.

Sanitation is another issue that is in the table and as the table shows, 24.4% of the respondents were of the view that there were adequate toilets while 75.6% were of the view that the toilets were not adequate. In addition to that, when the respondents were asked whether they had good sanitary conditions (i.e whether the school facilities such as classrooms, libraries, laboratories, water, playgrounds etc are very clean), 95.6% were of the view that they had good sanitary conditions.

From the foregoing analysis, it is clearly understood that the supply of educational infrastructures in the secondary schools of Sokoto State was very short. The analyses showed that there were many facilities that were important in providing a conducive atmosphere for learning and development of secondary education in the State but they were not adequately provided. These facilities include classrooms, libraries, laboratories, water, sanitation electricity, tables and chairs etc. Shortage of all these facilities is a serious challenge that can lead to other challenges of educational development in state such as mass failure of many secondary students in the examinations. There were many students that finished their

secondary education and obtained admissions in institutions of learning such as the colleges of education, polytechnics and universities within and outside the State but they found it difficult to perform better; their ability to express themselves clearly was also a challenge.

**Table 11:** Views of Teachers on Educational Infrastructures

<b>Libraries</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	42	23.3
No	138	76.7
<b>Total</b>	<b>180</b>	<b>100</b>
<b>Laboratories</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	14	7.8
No	164	92.2
<b>Total</b>	<b>180</b>	<b>100</b>
<b>Classrooms</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	30	16.7
No	150	83.3
<b>Total</b>	<b>180</b>	<b>100</b>

**Source:** Field Survey, 2014

Table 11 shows the views of teachers on educational infrastructures such as libraries, laboratories, classrooms and other things that were relevant. Starting with the libraries, the table shows that 23.3% of teachers were of the view that there were adequate libraries while 76.7% were of the view that libraries were not adequate. There were also some teachers that were asked how equipped were the libraries only 4.4% (8) of them said that the libraries were equipped while the remaining 95.6% (172) said that the libraries were not equipped. With regard to the issue of laboratories, 7.8% (14) of teachers were of the view that there were adequate laboratories while 92.2% (166) were of the view that the laboratories were not adequate. In addition to the questions on adequacy of the laboratories, there were some teachers that were asked how functional the laboratories and 13.3% (24) of them were said that the laboratories were functional; the other teachers said that the laboratories were not functional with 86.7% (156). In a learning environment such as the school, the educational infrastructures such as classrooms, libraries, laboratories etc. are very useful because they help in facilitating proper understanding and practical application of knowledge but when these facilities are not adequately provided, there may not be any significant development.

In an in-depth interview, some of the respondents (i.e. male and female teachers) were of the view that:

There used to be laboratories in the schools but they may not have enough equipment that could be used in doing the practical works.

On whether there were adequate classrooms, 16.7% of teachers were of the view that there were adequate classrooms in their schools and 83.3% were of the view that the classrooms were not adequate. Some teachers also responded to the questions on tables and chairs whereby 22.2% (40) said that there were adequate tables and chairs and 77.8% (140) were of the view that the tables and chairs were not adequate.

In an in-depth interview, some of the respondents (i.e. male and female teachers) were of the view that:

The tables and chairs were supplied in the schools but they might not be adequately distributed in the classrooms which as a result of that, some students had to bring tables and chairs from their homes.



**Table 12:** Views of the Students on Educational Infrastructures

<b>Libraries</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	9	3.3
No	261	96.7
<b>Total</b>	<b>270</b>	<b>100</b>
<b>Laboratories</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	10	3.7
No	260	96.3
<b>Total</b>	<b>270</b>	<b>100</b>
<b>Classrooms, table and chairs</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	22	8.1
No	248	91.9
<b>Total</b>	<b>270</b>	<b>100</b>
<b>Electricity</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	0	0.0
No	270	100
<b>Total</b>	<b>270</b>	<b>100</b>
<b>Water</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	20	7.4
No	250	92.6
<b>Total</b>	<b>270</b>	<b>100</b>

**Source:** Field Survey, 2014

Table 12 shows the views of the students on educational infrastructures and some of the facilities in the table include libraries, laboratories, classrooms, tables and chairs, electricity and water. The table shows that 3.3% of the students were of the view that there were adequate libraries while 96.7% were of the view that the libraries were not adequate. When asked how equipped were the libraries only 11.1% (30) of the students said that there were well equipped libraries and 88.9% (240) were of the view that the libraries were not equipped. With regard to the issue of laboratories, 3.7% of the respondents were of the view that there were available laboratories and 96.3% said that the laboratories were not adequate. When the respondents were also asked how equipped were the laboratories, 8.9% (24) of them were of the view there were well equipped laboratories and 91.1% (246) were of the view that the laboratories were not well equipped. This is clear evidence that inadequate educational infrastructures are part of the challenges of secondary education

in Sokoto State and it is a serious challenge that brings about many unpleasant development if care is not taken in the State.

In an in-depth interview, some of the respondents (i.e. male and female students) were of the view that:

There were libraries and laboratories in the schools with materials and equipment that were not up to date and their teachers had to use cardboards to draw pictures for them to see and understand.

On the issue of tables and chairs, as well as the classrooms, 8.1% of the respondents (i.e. students) were of the view that the facilities were adequate and 91.9% were of the view those facilities were not adequate. Electricity is another important issue that is in the list of the table and 100% of the students said that the electricity supply was not stable. When the respondents were asked on water, 7.4% were of the view that there were adequate and portable drinking water while 92.6% said that the supply was not adequate.

In an in-depth interview, some of the respondents (i.e. male and female students) were of the view that:

Most of the secondary schools in the State did not have constant and adequate supply of water and as a result of that, sometimes, the students had to trek some kilometers in order to fetch water.

### **Gender Disparity**

This section is concerned with the views of the school administrators, teachers and students on gender disparity. There are important things in the tables of the respondents which include the schooling system, distribution of the respondents by gender, the gender sensitization programme, training programme by gender and the teaching of both the science and art subjects by gender.

**Table 13:** Views of School Administrators on Gender Disparity

Schooling System	Frequency	Percentage
Boys	25	55.6
Girls	05	11.1
Mixed	15	33.3
<b>Total</b>	<b>45</b>	<b>100</b>
Distribution of principals by gender	Frequency	Percentage
Male principals	40	88.9
Female principals	05	11.1
<b>Total</b>	<b>45</b>	<b>100</b>
Training for female teachers	Frequency	Percentage
Yes	24	53.3
No	21	46.7
<b>Total</b>	<b>180</b>	<b>100</b>
Gender sensitization programme	Frequency	Percentage
Yes	18	40
No	27	60
<b>Total</b>	<b>45</b>	<b>100</b>

**Source:** Field Survey, 2014

Table 13 shows the views of the school administrators on gender and some of the important issues they answered were on the schooling system that was whether the school was for boys or girls or mixed, the distribution of principals by gender, training for female teachers as well as the gender sensitization programme. The table shows that 55.6% of the respondents were of the view that their schools were for boys, 11.1% for girls and 33.3% for mixed schools and this clearly showed that the percentage of the schools for boys was the highest in the table then followed by the percentage of the mixed schools. The analysis also showed that there was gender disparity. On the distribution of principals by gender, the table shows that the male principals had 88.9% and the female principals had 11.1% and this clearly shows that the male principals had the highest percentage. Considering the percentage of male principals over the female principals, it can be said that there was gender disparity and it is a serious challenge that does not give equal educational opportunities for men and women to develop very well. Questions as to whether there were any provisions for female teachers in terms of teacher in-service training, 53.3% (24) of the school administrators were of the view that there were provisions for female teachers and 46.7% (21) were of the view that

the provisions for female teachers in terms of in-service training were not given much consideration.

In an in-depth interview, some of the respondents (i.e. male and female school administrators) were of the view that:

It is the policy of the State government that the female teachers have provisions for in-service training which is for the development of the State but the problem is that the policy is not fully implemented.

On whether there was any sensitization programme on Girl Child Education 40% were of the view that there was a programme on Girl Child Education while 60% were of the view that there was nothing as such. This shows to a large extent that the women were not given much consideration in the school activities.

In an in-depth interview, some of the respondents (i.e. male principals) were of the view that:

It is the government that comes with the idea of Girl Child Education Programme and it is important but the government fails to actually implement the programme towards the development of education in the state.

**Table 14: Views of Teachers on Gender Disparity**

School System	Frequency	Percentage
Boys	120	55.6
Girls	100	11.1
Mixed	60	33.3
<b>Total</b>	<b>180</b>	<b>100</b>
Distribution of Teachers by Gender	Frequency	Percentage
Male teachers	130	72.2
Female teachers	50	27.8
<b>Total</b>	<b>180</b>	<b>100</b>
In-service Training	Frequency	Percentage
Male teachers	140	77.8
Female teachers	40	22.2
<b>Total</b>	<b>180</b>	<b>100</b>
Gender Sensitization Programme	Frequency	Percentage
Yes	60	33.3
No	120	66.7
<b>Total</b>	<b>180</b>	<b>100</b>
Teaching Science Subjects	Frequency	Percentage
Male teachers	150	83.3
Female teachers	30	16.7
<b>Total</b>	<b>180</b>	<b>100</b>
Teaching Art Subjects	Frequency	Percentage
Male teachers	146	81.1
Female teachers	34	18.9
<b>Total</b>	<b>180</b>	<b>100</b>

**Source:** Field Survey, 2014

Table 14 shows the views of teachers on gender disparity and it highlights on the schooling system, the distribution of teachers by gender, in-service training programme, gender sensitization programme, as well as the teaching of science and art subjects by both the male and female teachers. It was indicated in table that the schools for boys had 55.6%, for girls was 11.1% and for the mixed schools was 33.3%. This shows that there was a gender disparity because all the schools for boys had the highest percentage. On the issue of distribution of teachers by gender, the male teachers had 72.2% while the female teachers had 27.8% and this is also a clear indication of gender disparity in the schools. On in-service training programme it showed that the male teachers had 77.8% and the female teachers had 22.2%; here, it can be

understood that majority of the male teachers used to go for in-service training in colleges of education and the universities than their female counterparts.

In an in-depth interview, some of the respondents (i.e. female teachers) were of the view that:

There were provisions for in-service training programme for the female teachers but when they obtain admissions to further their studies, they might not be given adequate financial support.

With regard to the issue of gender sensitization programme, 33.3% of the respondents were of the view that the programme was organized in their schools while 66.7% said that the programme was not organized in their secondary schools, this is a clear evidence that there was a problem of gender disparity and if care is not taken, it can lead to many failures of development of secondary education in the State. When the respondents were asked on teaching science subjects, the male science teachers had 83.3% and the female teachers had 16.7% and when they were also asked on teaching art subjects, the male teachers had 81.1% and the female teachers had 18.9%. Going by all these analyses, it can be said that the level of disparity between the male and female teachers was high and it was a serious challenge that should be tackled so that many developments could be achieved.

**Table 15:** Views of Students on Gender Disparity

School System	Frequency	Percentage
Boys	150	55.6
Girls	30	11.1
Mixed	90	33.3
<b>Total</b>	<b>270</b>	<b>100</b>
Gender Sensitization Programme	Frequency	Percentage
Yes	80	29.6
No	190	70.4
<b>Total</b>	<b>270</b>	<b>100</b>
Teaching Staff	Frequency	Percentage
Male teachers	210	77.8
Female teachers	60	22.2
<b>Total</b>	<b>270</b>	<b>100</b>

**Source:** Field Survey, 2014

The table above shows the views of the students on gender disparity and the important things that are in the table include the school system, gender sensitization programme as well as the number of male and female teaching staff. It can be seen in the table that under the school system, 55.6% of the respondents were of view that the schools were for boys, 11.1% for girls and 33.3% for the mixed schools and this also shows that there was gender disparity because the number of schools that were for boys had the highest percentage. Concerning the gender sensitization programme, 29.6% of the respondents (i.e. the students) said that their schools organized gender sensitization programme such as the Girl Child Education and 70.4% also said that their schools did not organize gender sensitization programme.

In an in-depth interview, some of the respondents (i.e. male and female students) were of the view that:

Many students have been hearing about Girl Child Education through the mass media and public lectures but they did not actually understand what it means and the significance of it in their schools.

When the students were asked questions on the number of their male and female teaching staff, 77.8% of the students responded for male teachers and 22.2% responded for female teachers. This also shows that there was a gender disparity and for a meaningful development to be achieved in our secondary schools, it has to be corrected.

### **Discussions of the Major Findings**

This part highlights on some of the major findings of the study which are on the personal data of the respondents, the manpower, educational infrastructures and gender disparity.

The study shows under the personal data that the respondents were predominantly males and for the school administrators, the males had 88.8%, for the teachers the males had 61% and for the students, the males had 51%. This is also consistent with the UNICEF report of 2010 that the ratio of boys and girls in schools was very considerably different. It was discovered in the study that the manpower was considerably low. This can be seen from the school administrators, teachers and the students' responses that to a large

extent the numbers of staff were very low; 73.3% of the respondents from the school administrators showed that there were inadequate teaching staff to teach in the schools. This shows to a large extent that achieving the goal of education would be impeded and the dream would also be a mirage. This is also consistent with Wasagu (2006) who stated that “teachers are the way to improvement since they are the final brokers when it comes to educational policy. “With regard to the issue of educational infrastructures, the study discovered that the educational infrastructures were very inadequate and poor; they were not also very functional and equipped. From the classrooms, libraries, laboratories, tables, chairs, water, sanitation and electricity; it shows from the responses of the school administrators, teachers and students that things were not okay. This is consistent with Adekale (1993), who was of the view that poor school facilities were some of the reasons for examination malpractices. Gender disparity is another important thing in the study and it was discovered that most of the secondary schools in the State were for boys and the schools for girls were not many. It was stated in the study that 55.6% of the school administrators, teachers and students were of the view that most of the secondary schools of Sokoto State were for the boys and others were mixed schools with 33.3%. Other things such as the gender sensitization programmes were also not organized by many schools in the State and from respondents' views, majority of the teachers were males.

### **Conclusion and Recommendations**

Conclusively, it was discovered in the study that the educational manpower was very low in most of the secondary schools of Sokoto State especially in the area of staff adequacy, effectiveness, training programmes as well as the workshops. The educational infrastructures such as the classrooms, tables and chairs, laboratories, water, sanitation and electricity were also very poor and inadequate. However, there was also gender disparity in the secondary schools of Sokoto state as most of the female teachers did not go to schools to further their studies and the gender sensitization programmes were not organized most the times. Based on the findings of the study, it was recommended that more teaching staff should be employed and the serving teachers should be encouraged to go for in-service teaching programme. Other issues such as workshops, mentoring programme, motivation and more infrastructures should be provided by the government.



Lastly, it was also recommended that the Sokoto State Government should establish more schools for the girls; the women should be adequately empowered; both the state and private individuals should also sufficiently finance secondary education for the attainment of sustainable development.

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CHAPTER **12**

## **Innovation and Entrepreneurship: The Footpath to Industrialization, Diversification and Development of African Economy**

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### **Introduction**

**A**frica is by far the world's poorest inhabited continent, and it is, on average growing poorer and poorer as economic growth geometrically lags behind population growth. The continent's current poverty is rooted, in part, in its history of colonization. While China and India have grown rapidly and South America has experienced moderate growth, lifting millions above subsistence living, Africa has stagnated and even regressed in terms of foreign trade, investment, and per capita income. Many African countries are trapped in commodity dependence, relying heavily on a few primary commodities for most of their export earnings. In order to achieve a sustainable development, it is critical for these countries to break away from this commodity dependence and to diversify their

economies. Industrialization which engenders economic diversification and development is regarded as increased and continuous productive and manufacturing activities in a state leading to the positive and steady change in economic and social life of the people. Apart from the raw material availability factor being pertinent for industrial productivity, an interest in developing new technologies in a society, verily also allow for industrialization. New methods, ways, processes and machineries to make production more efficient are usually the indispensable conditionality. The evolution and creation of these new methods, ways, processes and machineries are easily achieved through the mechanism of innovation and entrepreneurship. Innovation indeed is the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or a different service. It is this new and different products and processes that can transform Africa from produce export dependent continent to processed goods producing continent with humans and machineries clicking their hands steadily at productive work. This paper proposes the creation, enhancement, dissemination and promotion of innovative entrepreneurial ventures as the road to Africa's industrialization, diversification and economic development.

### **Background to the Study**

Where was Africa and what led to its underdevelopment are questions left to history though a little insight may aid in forging the way forward out of its economic backwardness. What caused Africa underdevelopment is a complex issue? Europe past (and present) exploitation of Africa played a significant part. Before the Europeans arrived in Africa, Africa had vibrant economic, social and political structures. These were severely disrupted by Europeans to create wealth for themselves. It is well known that Africa is falling behind the rest of the world in terms of economic wellbeing. Even though global poverty is declining due to rapid economic growth in India, China, and other parts of the world, Africa contribution to this decline is disappointing and absolute poverty in many of the African nations is on the increase. The African condition of underdevelopment has today manifested in the increasing inability of African countries to provide the basic essentials of life to their citizens. The problem of hunger, unemployment, disease, illiteracy, socio-economic anxiety and insecurity, have tended to overwhelm mass majority of the people, resulting in mass frustration, alienation and disorientation of the citizenry (Micahet, 2017)

The imposition of colonialism on Africa altered its history forever. African modes of thought, patterns of cultural development, and ways of life were forever impacted by the change in political structure brought about by colonialism. The African economy was significantly changed by the Atlantic slave trade through the process of imperialism and the economic policies that accompanied colonization. Prior to the "Scramble for Africa or the official partition of Africa by the major European nations, African economies were advancing in every area, particularly in the area of trade. The aim of colonialism is to exploit the physical, human, and economic resources of an area to benefit the colonizing nation (Settles, 1996). The main reasons for the colonization of Africa were the need for a suitable market where the numerous European manufactured goods could be easily disposed of at a reasonable profit (Ocheni & Nwankwo, 2012).

Though man has always exploited his natural environment in order to make a living, subsequently there also arose the exploitation of man by man, in that a few people grew rich and lived well through the labour of others. Then a stage was reached by which people in one community called a nation exploited the natural resources and the labour of another nation and its people. Since underdevelopment deals with the comparative economics of nations, it is the last kind of exploitation that is of greatest interest here specifically the exploitation of nation by nation. One of the common means by which one nation exploits another and one that is relevant to Africa external relations is exploitation through trade. When the terms of trade are set by one country in a manner entirely advantageous to itself, then the trade is usually detrimental to the trading partner. To be specific, one can take the export of agricultural produce from Africa and the import of manufactured goods into Africa from Europe, North America and Japan. The big nations establish the price of the agricultural products and subject these prices to frequent reductions. At the same time the price of manufactured goods is also set by them, along with the freight rates necessary for trade in the ships of those nations. The minerals of Africa also fall into the same category as agricultural produce as far as pricing is concerned. The whole import/export relationship between Africa and its trading partners is one of unequal exchange and of exploitation (Micah *et al.*, 2017).

It was to ensure that Africa was made a consumer nation for European manufactured goods that colonialist sought and took full control of the African economy and administration. If Europe had not guaranteed this control, it would have adversely affected the development and progress of their new industrialization, because most of the industries would be compelled to close down if there are not ready market and consumers for their products. Also direct control of the African economy and political administration enabled the colonialist to ensure that African colonies or states did not take to manufacturing. It helped to restrict Africans and their technology to the confines or role of producing only primary goods or agricultural raw materials needed by the industries in Europe. This is the main reason why today African states find it very difficult to industrialize and to go into full manufacturing. This also explains why Africa is a consumer nation for foreign manufactured goods. The situation equally accounts for the present underdevelopment of the African states and their technology (Ocheni & Nwankwo, 2012).

They make us producers of primary raw materials with little zeal for manufacturing engagements. They pay us peanuts for our raw materials and give us finished products at exorbitant costs. This practice dating from colonial times persists till today, as they make their finished products very palatable and drive them through our throats at unbearable costs. Today virtually all African countries are trapped in commodity dependence, relying heavily on a few primary commodities for most of their export earnings. In order to achieve a sustainable development, it is critical for these countries to break away from this commodity dependence and to diversify their economies (Gregow, 2011). As it is, the role of Africa economy and states in the world market or international trade is the production of primary goods and agricultural products. The advanced countries of Europe control the production of manufactured goods.

A number of countries, especially in developing countries, highly depend on revenues from primary commodity exports making them vulnerable to the vagaries of international commodity markets. Unstable commodity prices create macro-economic instabilities and complicate macroeconomic management of these economies whose principal means of foreign exchange earnings come from the exports of primary commodities, Erratic price movements generate erratic movements in export revenue, cause instability in

foreign exchange reserves and are strongly associated with growth volatility. The more commodity-dependent an economy – that is, the higher the share of primary goods in a country's exports – the more likely it is to be vulnerable to commodity price shocks UNCTAD (2017).

This is the bane of economic development in Africa, reason for the continent's abysmal development index as our major earnings stem from export of primary products which prizes are set by the user advanced countries that simultaneously import finished goods into our countries and sell at their choice profit costs. It is opined that in so far as we are concentrated on production of primary raw materials of farm produce and minerals we shall continue our economic slavery to advanced countries; selling our raw materials to them at their prize and buying their finished products from them at their prize also. The indispensable attitude to ensure quick reversal of the trend is the employment of innovation and entrepreneurship towards the varied diversification of African economy leading to industrialization of the individual economies that make up the whole. This paper posits that innovation and entrepreneurship is the footpath to industrialization, diversification and economic development of the continent.

### **Methodology**

Data for this paper were derived from secondary sources: previous researches and analyses of scholars, government documents; as well as journal articles that are related to the subject. The study involved an extensive literature review which critically analyzed the reason for Africa's economic backwardness, colonization and its continued adverse impact on the overall economic development of the continent. The study included physical visits to some countries in the continent with interactions that offered a sit for appraising their general economic status and securing some insight into their economic strategies for future industrialization.

### **Innovation, Entrepreneurship, Diversification and Economic Growth**

Innovation is the process of making changes, large and small, radical and incremental, to products, processes, and services that result in the introduction of something new for the sector and which adds value to users and contributes to the knowledge store of the economy. Applying innovation is the application of practical tools and techniques that make changes, large

and small, to products, processes, and services that result in the introduction of something new in the sector and which adds value to users and contributes to the knowledge store of the economy (O'Sullivan and Dooley, 2008). It can be easily inferred that raw materials and minerals are turned into more useful products through the brain processes of innovating and applying the innovations. Processes of agricultural and other raw materials production are obviously attended by routine or less new changes than in the production of new value added finished goods.

To fully assimilate the meaning of innovation we would decipher the Latin Origin of the word. Innovation or 'innovare', which means 'to make something new', The Latin concept is quite cryptic and can be better understood when divided into three parts. To make something new one has to: (a). Generate or realize a new idea (invention and creativity) (b). Develop this idea into a reality or product (realization) (c). Implement and market this new idea (implementation). The phenomenon refers to replacing old products, processes or services with new ones, continually updating and improving them. As the brain of man is limitless, virtually every product, process or service can be improved to add value in time, space and utility and the action can be continuous.

Entrepreneurs possess the zeal and acumen to purposefully search for the sources of innovation, the changes and their symptoms that indicate opportunities for successful innovation. And they then apply the successful innovation to achieve fruitful new product, process or services. Admittedly, all new small businesses have many factors in common. But to be entrepreneurial, an enterprise has to have special characteristics over and above being new and small. Indeed, entrepreneurs are a minority among new businesses. They create something new, something different; they change or transmute values. However, an enterprise does not need to be small and new to be an entrepreneur. Indeed, entrepreneurship is being practiced by large and often old enterprises. The General Electric Company (G.E.), one of the world's biggest businesses and more than a hundred years old, has a long history of starting new entrepreneurial businesses from scratch and raising them into sizable industries (Drucker, 2002).



The rapid economic growth of Tiger Asia (Korea, Thailand, China, Malaysia, Taiwan and Singapore), was secured by their ability to capture the manufacturing industries from more economically developed countries through entrepreneurial activities anchored on innovation proliferation. Lower labour costs, combined with rapidly improving infrastructure, allowed them to build large industrial bases making everything from textiles to cars and electronics. From there, these economies were able to move further up the value chain, innovating, developing their own technologies and brands, in some cases then off shoring manufacturing again. Attempts to build manufacturing bases in Africa have proceeded slowly during the various commodity booms and with most booms over, African economic development stagnate as we continuously maintain our tract in the vicious circle of exporting primary raw materials at cheap rates while we buy finished goods at exorbitant prizes. African governments have known for decades that they need to diversify, but over the post-2000 years of booms in various commodities, which were driven largely by high commodity prices, they did not prioritize investments in other productive sectors. Today Africa is locked in this vicious circle to the utmost benefit of advanced countries. It can economically liberate itself and develop only if it diversifies and break into global manufacturing supply chains. Diversifications are easily achieved through consistent innovative activities anchored on entrepreneurship. When entrepreneurial innovative activities are engendered in all sectors of the African economy the result would be diversification of the economy in all ramifications.

Innovation is thus a basic factor for economic diversification and a crucial driver in boosting growth. Innovation is also seen as key to addressing pressing societal problems such as pollution, health issues, and unemployment. Rented schools of thought view innovation as the tool or instrument used by entrepreneurs to exploit change as an opportunity. Innovation involves more than just science and technology. It involves discerning and meeting the needs of the masses in all ramifications. Improvements in marketing, distribution, and service are innovations that can be as important as those generated in laboratories and work places involving new products and processes. Although innovation is largely driven by entrepreneurs and the private sector, government actions play a strategic supportive role (Miniaoui & Schilirò, 2017).

Growth can basically be attributed the following fundamental forces: an increase in factors of production, improvements in the efficiency of allocation across economic activities, knowledge and the rate of innovation. Given full employment and efficient allocation, growth is thus driven by knowledge accumulation and innovation. The process of innovation is typically modeled as a function of the incentive structures, principally- institutions, assumed access to existing knowledge, and a more systemic part. Innovation also implies that the stock of (economically) useful knowledge increases. In other words, innovation is one vehicle that diffuses and upgrades already existing knowledge, thereby serving as a conduit for realizing knowledge spillovers. The process of innovation is consequently considered to be one of the critical issues in comprehending growth (Braunerhjelm, 2010).

Advanced economies recognize the importance of innovation in helping an economy grow and thrive. And this is the bane of the African economy where we have limited ourselves hitherto to production of raw materials and minerals. Entrepreneurs can create the solutions that can improve the standard of living for the citizens of a country. They are a critical engine for economic wealth. They are critical to reducing the need for older, inefficient technologies by replacing them with new and evolved systems. Entrepreneurial firms and their ability to learn rapidly, has been a critical factor behind the success of Korea, Taiwan and China with their performance supported by their business policy environments. Case studies of East Asian firms, particularly in electronics show the significant influence of entrepreneurship and a deliberate pattern of learning and innovation (Swierczek & Quang, 2004). Africa must change its style of economic activities if it must rise in the global ladder of world economies. Consistent and continuous production and sales of primary goods to advanced countries at prizes set by the purchasing countries and the consequent importation of finished products at exorbitant rates from foreign lands is abysmal poverty and economic retrogression amidst population explosion.

African countries depend predominantly on primary commodities for their export revenues: food products, agricultural raw materials, crude petroleum, and minerals. Furthermore, each African country exports an extremely narrow range of primary commodities. Most African countries earned 50 percent or more of their total export revenues from just one primary commodity and nine

of these earned 75 percent or more from just one commodity. Only about four African countries earned at least 50 percent of their export revenues from no more than three commodities. Three of these namely: Kenya, Senegal, and the Seychelles, produce and export refined petroleum products based on imported crude; these exports are really more in the nature of re-exports. Many primary commodities are important for more than one of the countries. Cocoa, coffee, sugar, tea, groundnuts, cotton, and animals and their products of hides and skins are significant agricultural exports for three or more countries. Crude petroleum, copper, diamonds, and iron ore are important for at least two countries (Gersovitz & Paxson, 1990).

The position of this paper is that rather than exporting these primary commodities at giveaway prices and importing finished products from advanced countries at exorbitant costs, African countries should employ innovative entrepreneurship to convert these primary products to useful finished products through value addition. This would reduce the quantity of finished goods imports and with time some of the finished goods would be exported to other countries to earn foreign reserves. Technologies for such innovation implementation abound and could be enhanced through research and in some cases technology transfer or purchase can be employed to foster value addition manufacturing in pertinent sectors. There are numerous innovation centres in Africa including Research Institutes, Universities, Polytechnics, Companies and research based outfits and they continuously churn out innovations on paper and the board without ensuring the application of the innovations to impact on the economy. Hence in Africa, lots and lots of papers are presented and discussed without savoring the accruing advantages that would be harnessed through proper application of the innovations.

### **Conclusion**

Africa is endowed with many natural resources and agricultural raw materials used for the production of many essential goods. Since the time of colonization these primary goods are taken to advanced countries where they are converted to more useful products and brought back to us at exorbitant costs. This exploitation has continued till date and would continue unless African countries rise to the occasion and re-strategize their economic productive activities and policies. The tool of transformation of economic

production is innovative entrepreneurship and this is where the West has excelled us and remains their hinge of exploitation. This paper canvasses a paradigm shift in policy, research, economic productions and trade by African countries if we shall liberate ourselves from this all-time exploitation of the continent by the West.

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