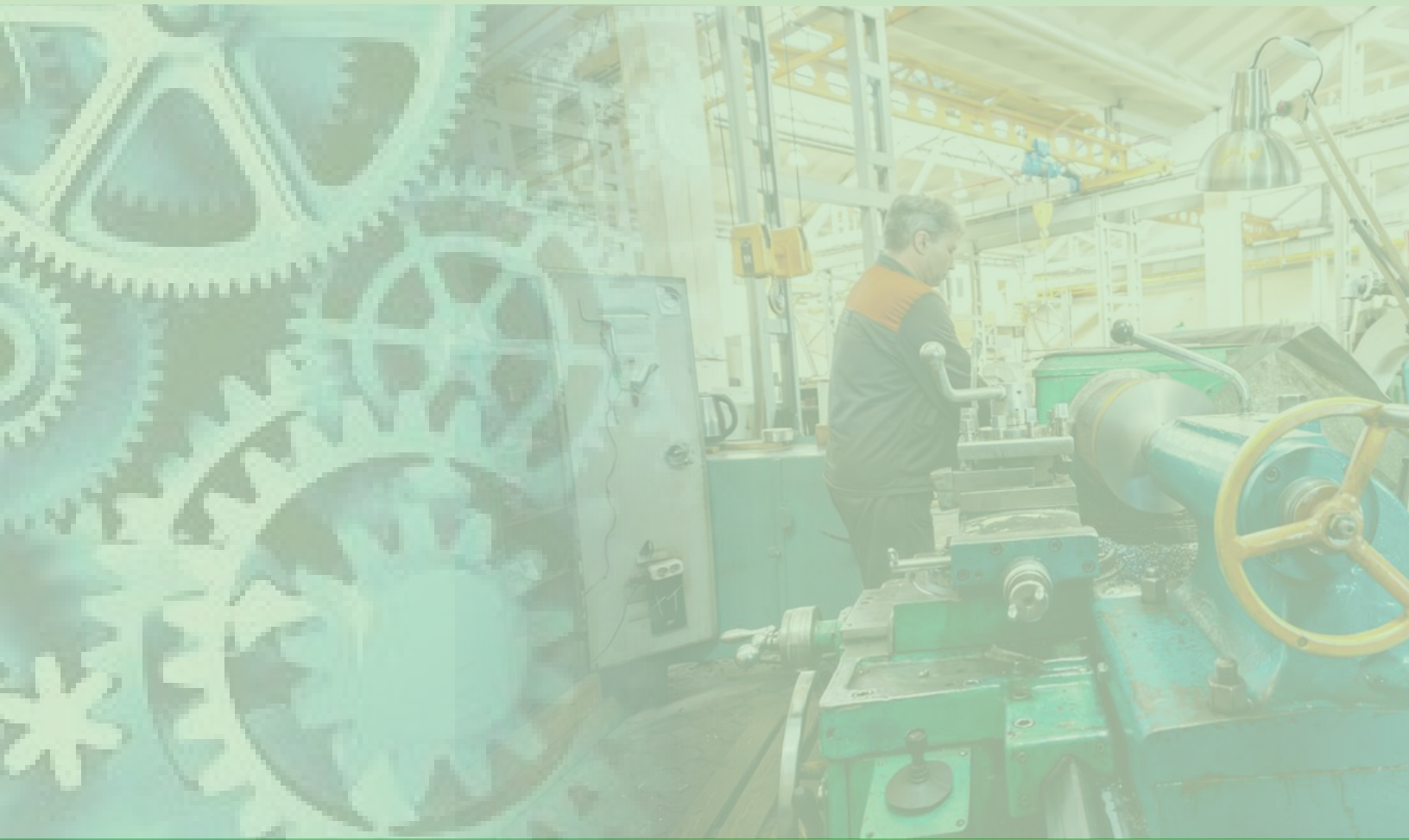


Report on India-Nigeria Webinar on Promoting MSME to Enhance Industrialization: Challenges and Prospects



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Zone IV B, 4th Floor, India Habitat Centre
Lodhi Road, New Delhi 110 003, India
Tel.: +91-11-24682177-80; Fax: +91-11-24682173-74
E-mail: dgoffice@ris.org.in
Website: www.ris.org.in

Promoting MSME to Enhance Industrialization: Challenges and Prospects

Background

Micro Small and Medium Enterprises (MSMEs) play a vital role in the economic transition of a country. Apart from generating much needed blue collar jobs, they ensure dynamic competition by preventing corporate concentration and also provide a mechanism for market regeneration. MSME also serves as building blocks of innovation and sustainable growth. Given these characteristics, MSME development has received special attention in all economies, particularly during the initial phase of industrialisation. India is one of the few developing countries which through carefully crafted state policies and promotional interventions have successfully developed a very large and vibrant MSME sector. Nigeria has recently started its journey of structural transition. It is trying to adopt an MSME led growth model. Given Indian success, Nigerian policy makers have shown keen interest in learning from the Indian MSME growth model. In order to understand Indian MSME growth model, the Nigerian Army Resource Center approached RIS through Indian High Commission in Abuja for organizing a collaborative webinar on “Promoting MSME to Enhance Industrialization: Challenges and Prospects”. The Webinar was successfully organized on 14 July 2021. Experts from India and Nigeria participated and discussed the status and challenges MSME are facing in both the countries.

Opening Remarks



Professor Sachin Chaturvedi
Director General RIS

South-South Cooperation is Critical for Promoting MSME Centric Value Chains

Prof. Sachin Chaturvedi, Director General RIS chaired. In his opening remarks, He highlighted the growing partnership between India and Nigeria and asserted that there are several areas where India and Nigeria cooperation can shape the global narrative to benefit global South. Underlining the importance of MSME, Prof. Chaturvedi argued that the MSME plays a vital role in the economic transition of a country and therefore deserves special attention from the policy makers in developing economies. He pointed out that the MSME sector is a heterogeneous group. It includes micro, small and medium enterprises and the capacity of these sub segments to gain from government initiatives varies significantly. Traditionally small and medium enterprises have benefited more from government policies at the cost of micro enterprises. He, therefore, advocated that heterogeneity of the MSME sector should be kept in mind while designing policies to ensure a balanced growth of the MSME sector. Prof.. Chaturvedi strongly felt that availability and quality of infrastructural facilities such as rail, road, electricity, internet, along with developed financial sector plays an important role in the development of MSMEs. Lack of these facilities results in high transaction cost for MSMEs, hindering their growth and participation in the Global Value Chain. He, therefore, emphasized on improving the overall ecosystem for supporting the MSME sector rather than merely relying on promotional schemes. He also felt that South-South cooperation is urgently required for promoting MSME centric value chain.

Special Remarks



Major General Ayodeji Wahab
Director General, Nigerian Army Resource Centre

Understanding of Indian MSME Growth Model can Benefit Nigeria to Fine Tune Its Own MSME Development Policy

Delivering special remarks, Maj. Gen. Wahab, Director General Nigerian Army Resource Centre provided an overview of work Nigerian Army Resource Centre is engaged with. He pointed out that the centre was established primarily to conduct research on defense and security matters. However, since defense and development go hand in hand, the centre has ventured into research and capacity building in the field of trade, finance and industrialization to facilitate economic development of Nigeria. Centre is offering courses on research and policy analysis. Maj. General Wahab pointed out that the webinar was being conducted for the participants of an ongoing strategic management and policy study course at centre. He exuded confidence that webinar will expose the participants to the important area of MSME development and enhance their capacity to undertake research on this area which is paramount for structural transition of Nigeria. Maj. Gen. Wahab paid rich gratitude to the Indian High commissioner to Nigeria H.E. Shri. Abhay Thakur and Prof. Sachin Chaturvedi for organize the webinar at a short notice. He concluded his remarks by asserting that understanding of the Indian MSME growth model will benefit Nigeria to fine tune its own MSME development policy.

Goodwill Message



Mr Abhay Thakur
Indian High Commissioner to Nigeria

India and Nigeria Should Expand the Spectrum of Cooperation to Add Element of Collaboration in the MSME Sector

Mr Abhay Thakur, Indian High Commissioner to Nigeria also addressed the participants. In his goodwill message, Mr Thakur asserted that India and Nigeria have very long standing fraternal ties. Both economies are integrated with each other through deep trade and investment relations and have been effectively collaborating in the field of big businesses, capacity building and training for a very long time. He, however, pointed out that for populated countries like India and Nigeria, employment generation is the key and for maximizing employment generation, MSME development is critical. He, therefore, argued that India and Nigeria should expand the spectrum of collaboration to add the element of collaboration in the MSME sector. He identified two specific areas for collaboration. First, he suggested that both countries should engage to find ways to improve market access for MSME. Second, and most importantly, both countries should establish formal channels to share experience, expertise, best practices, financing modes and technology platforms to mutually learn from each other. Mr Thakur pointed out that India has a very successful MSME growth model and Nigeria may want to follow that model. Concluding his address, Mr Thakur exuded confidence that the webinar will pave the way for government to government level interaction for collaboration in the MSME sector.



Professor M. H. Bala Subrahmaya

**Professor, Department of Management Studies,
Indian Institute Science**

- MSMEs occupy a place of strategic significance in the Indian economy. Sector has received consistent policy support since independence. However, the nature of support has changed drastically from protection to promotion. Protective measures such as reservation of products for exclusive manufacture in small scale sector, price preference and constitutional credit etc dominated of MSME development policy till early 1990s before being replaced with promotional measures gradually.
- India has developed an extensive institutional infrastructure to support MSME. Exclusive ministry for MSME, special institutions for policy implementation at centre, state and district level along with exclusive financial institutions, market promotion institutions, training and policy research institutions have been established.
- Strong policy support along with extensive institutional infrastructure led to a vibrant MSME Sector.
- COVID-19 crisis has severely affected MSME. Government has lent appropriate support to protect the sector through fiscal and monetary policy measures. A quick assessment of covid induced damage to MSME sector is required to further fine tune the fiscal and monetary policies measures to ensure sustainable recovery of MSMEs.
- MSME are facing several structural issues. Formalisation of MSMEs, especially of micro enterprises, has remained a challenge. At the same time, MSME participation in global value chains as well as their Interlinkage with domestic big enterprises has remained less than warranted. These challenges need urgent attention to realise the true potential of MSME sector.
- Research and Development/innovation has remained scant among Indian MSME. R&D platforms in all clusters of MSME are required to build innovation ecosystems. Efforts are also needed to further strengthen the partnership between MSME and educational/research institutes. Establishing an exclusive Innovation Finance Corporation to fund both high-risk radical innovation and low-risk incremental innovation projects of MSMEs should be considered.



Professor S. K. Mohanty
RIS

- India has several organically grown MSME clusters. Given the difference in ecosystem, these clusters are performing differently, some are growing fast, some are stagnant and some are on the verge of collapse. Immediate technology improvement is required in lagging clusters. Standardisation of cluster approach should be considered to ensure a uniform ecosystem everywhere.
- Data on MSME continues to be elusive. Benchmark survey of MSME is required to understand nuances of trade, cost, production and technology related dynamics of MSMEs to formulate more informed promotional policies.
- MSMEs have been a significant contributor to exports. However, export potential is yet to be fully realised. Incentives for product development, trade facilitation, steps to improve access/affordability of trade finance and incentives for modernisation are required to boost MSME exports and their participation in global value chains.
- Focus on indigenisation of imports has increased. Incentives are being offered to encourage domestic production to reduce important dependence. These incentives can be leveraged to promote MSME.



Mr Joseph Oltayo Omidiji

**Deputy General Manager and Head Strategic Planning
Department NEXIM Bank**

- MSME sector accounts for half of Nigerian GDP and 86 per cent of total employment. Sector has more than 41 million active units. However, the predominant majority of MSMEs are engaged in retail trade and other services. Less than 10 percent of active MSME are involved in manufacturing.
- The Nigerian government has taken several initiatives to promote MSME. Institutions such as the Small Medium Enterprise Development Agency along with a special development fund and MSME Clinics have been established to address the challenges MSMEs are facing. However, despite these initiatives, survival rate of MSME in Nigeria has remained very low. More than three-fourths of MSME in Nigeria fail within the first five years operations. High mortality rate represents waste of valuable resources.
- MSEs are facing a plethora of challenges. Financial constraint has remained the biggest concern. Given the informality induced highrisk perception, bank credit to MSME has remained extremely low. Speedy formalisation of MSME is required to ensure financial inclusion of MSMEs.
- Nigerian MSMEs are also grappling with lack of market access, extremely poor infrastructure, skill shortage and multiplicity of taxes. These bottlenecks need urgent attention to promote MSME, especially engaged in manufacturing.



Mr Adeyemi Folorunsho,
Assistant Director, Manufacturers Association of Nigeria

- Given the ability to fast tract industrialisation with limited resources, MSMEs are catalysts for the development of the Nigerian economy. Lack of industrialisation in Nigeria can largely be attributed to its inability to promote manufacturing MSMEs.
- Lack of adequate finance to MSMEs need great attention. MSMEs in Nigeria borrow money at the rate of 25 percent. Without reducing the cost of finance, development of MSME sector would remain a pipedream. Recent measures to liberalise the financial market along with the entry of venture capitalists are positive developments. These would have a positive impact on MSME finance.
- Skills shortage is hurting Nigerian MSMEs severely. In the absence of qualified and motivated staff, MSMEs are struggling to innovate and market their products. Inadequate infrastructure is another serious issue. To address these constraints and promote interlinkage of business activities, industrial clusters should be established where MSMEs would be able to enjoy economies of scale and fruits of positive technology spillover.
- Multiplicity of regulations is another serious constraint. There are too many regulations for SMEs to handle. The government is expanding the tax burden instead of the tax net. A simple and consistent regulatory regime is required to unleash MSME growth.

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Research and Information System for Developing Countries (RIS) is a New Delhi-based autonomous policy research institute that specialises in issues related to international economic development, trade, investment and technology. RIS is envisioned as a forum for fostering effective policy dialogue and capacity-building among developing countries on global and regional economic issues.

The focus of the work programme of RIS is to promote South-South Cooperation and collaborate with developing countries in multilateral negotiations in various forums. RIS is engaged across inter-governmental processes of several regional economic cooperation initiatives. Through its intensive network of think tanks, RIS seeks to strengthen policy coherence on international economic issues and the development partnership canvas. For more information about RIS and its work programme, please visit its website: www.ris.org.in

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Core IV-B, Fourth Floor, India Habitat Centre
Lodhi Road, New Delhi-110 003 India., Ph. 91-11-24682177-80
Fax: 91-11-24682173-74, Email: dgoffice@ris.org.in
Website: www.ris.org.in

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