

# Industrial Clusters in Nigeria: Waking the 'Sleeping Giant' for Growth and Job Creation

## NESG Policy Brief

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### Abstract

Making Nigeria an industrialised nation has been a key programme of many successive governments towards achieving economic prosperity. Evidence from recent studies on industrial clusters in Nigeria has suggested that employment creation and contribution to economic growth are significantly low. This contradicts results from other emerging countries like China, India, Turkey, etc. This study provides key policy suggestions towards reviving and leveraging the industrial clusters for economic prosperity and inclusive growth in Nigeria.

### Introduction

Achieving a significant level of prosperity (economic growth, job creation, and economic development) in a country typically comes with systemic changes in the geographic and sectoral composition of the economy. As the country develops, there is a shift to higher value-added within existing industries for operational efficiency and other business reasons. As a result, industries offering similar and complementary products and services converge at a location (Hausmann et al., 2013; Christian, 2017). This is because the location gap between industries, inputs source, and market negatively impacts the overall prosperity growth in an economy (OECD, 2019).

This mode of inter-sectoral collaboration among firms from diverse industries engenders innovation, knowledge transfer, new product and value chain development (Malacarne, 2013). Therefore, helping to stimulate more investments (both local and foreign) and diversification of sources of

economic security, stability, and prosperity in a country. According to Porter (1998; 2000), industrial clusters are the engine for economic growth. Many advanced economies used it as a foundation to achieve inter-sectoral spill-overs of technical knowledge and economy-wide diversification. Notwithstanding, the potentials of industrial clusters to generate economic growth, Nigeria has failed to benefit from the presence of industrial clusters across the country. The adoption of national cluster policy in 2007 could not significantly revive existing industrial clusters from their current comatose state due to crippling challenges — both cyclical and structural issues.

Meanwhile, industrial clusters in Nigeria are developed to reflect the potentials of their immediate environment. On a hand count, they are over 100 products and activities specific industrial clusters across the country. Moreover, each region in Nigeria possesses the potential to advance its

competitiveness and job creation across key sub-sectors of the manufacturing sector (see Box 1). For example, Southeast Nigeria demonstrates considerable potentials for investments in processing and manufacturing activities. This is evident with the widespread of specialised industrial clusters like Ariaria Leather Products Cluster, Abia, Nnewi Automotive Components Cluster, Umuahia/Aba Garment Cluster, Osakwe Industrial Cluster, Onitsha among others. In Southwest Nigeria, there is a mixture of economic opportunities due to the presence of a large consumer market along with many manufacturing hubs.

Many states in the Northern part of the country like Kano, Kaduna, Borno, Zamfara e.t.c. also host many agro-allied and processing clusters. Some of these include Kadawa Tomato Cluster in Kano, Gassol Rice Cluster in Taraba, Makurdi Citrus Cluster in Benu, Agadu-Alapa Cassava cluster in Kogi, Dawanau Processing Cluster, Kano among others. All these provide opportunities that

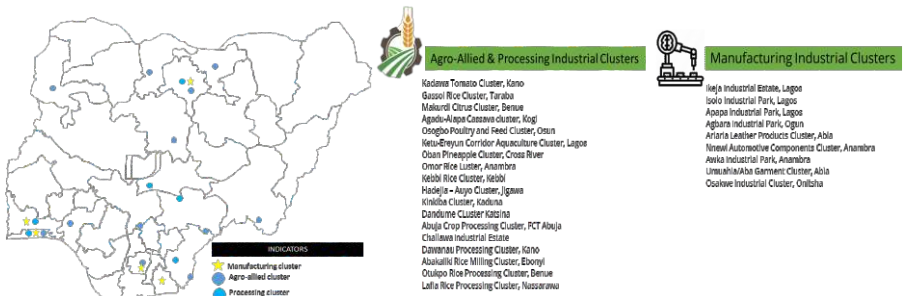
Nigeria can leverage to establish a robust industrial sector and achieve economic growth.

One of these issues is limited access to modern industrial equipment and technologies. For example, the Aba leather and Nnewi automobile clusters in Southeast Nigeria have over the years relied on locally fabricated equipment and crude ways of knowledge transfer from one generation to the others. This is despite the availability of newer and more modern technologies that can foster productivity and increase outputs; but the adoption of such technologies stays low or non-existent. Also, there is little or no known linkages between industrial clusters in Nigeria and universities as well as institutional research activities. In Kano, the age-long leather processing activities rely solely on traditional technologies use. This is despite the presence of many universities of technology and science in the region. Consequently, there is low value-addition as well as poor quality of leather products from

### **Box 1: Industrial clusters & job creation potentials in Nigeria**

There is widespread key agro-allied, processing, and manufacturing industrial clusters in Nigeria. Specifically, Lagos and Kano have all key industrial potentials and large retail markets. On top of that, Ogun State is reaping the spill-over benefits of the presence of sizeable retail markets in Lagos and Ibadan. Abia, Kaduna, and Anambra are key processing states with massive export potentials. These states have the most considerable potentials for job creation, economic growth, and enhancing inclusiveness. Within the industrial clusters below, agro-allied and manufacturing clusters have the highest potentials to absorb talents. According to the Nigerian Job Creation Strategy 2016, an enhancement of the operations of key agro-Allied industrial clusters could stimulate over 2 million new jobs in three

Figure 1: Distribution of clusters & Job creation potentials



the clusters. (Aremu et al, 2016). All these account for the disappointing performance of many industrial clusters. Therefore, this paper addresses policy suggestions towards reviving and using the industrial clusters for economic prosperity and inclusive growth in Nigeria.

**Industrial clusters and economic prosperity: Some conceptual and empirical evidence**

There are established shreds of evidence (both theoretical and empirical) on the pivotal roles played by industrial clusters in fostering economic prosperity in many modern development economics literatures. It is claimed that the presence of industrial clusters in many developing countries provides employment opportunities for many low-skills workers. This is because there is a low barrier to entry to the labour market and less external competition for this class of workers (McCormick, 1999).

Several studies have also confirmed the

association between the presence of industrial clusters and low poverty rate (Fowler and Kleit, 2013; Mano et al, 2011; Weijland, 1999 among others). The studies argued that industrial clusters had the potential to reduce the isolation that Small and Medium Enterprises (SMEs) face in developing countries. In this way, many SMEs are linked to large-sized companies which bring about a synergy that unlocks employment opportunities for a large number of people (Fowler and Kleit, 2013). On the other hand, an improvement in the performance of industrial clusters through the upgrading of technology will increase labour productivity and provide workers with the opportunities to receive higher wages. With this, workers earn a wage rate that will make them escape the poverty trap (McCormick, 1999). A study by Fowler and Kleit (2013) found growth in industrial clusters is associated with a reduction in poverty rates in the United States of America. In the same way, Kimura (2011) discovered that the transformation of a traditional handicraft village into a modern

industrial cluster in Northern Vietnam. As a result, the per capita income of the village increased from USD 400 in 1995 to USD 2000 by 2005. Along the process, there were increased in employment opportunities in the country as many surrounding agricultural settlements benefitted from the spill-over effects.

In most African countries, including Nigeria, the degree of impact of industrial clusters on economic prosperity is limited. Many of the available industrial clusters are staying too long at stagnation or demise and critical mass effect stages of development (see box 2). Owing to many structural issues, these clusters have failed to achieve significant progress and are staying overly long in this stage. Therefore, making industrial clusters to contribute little to economic prosperity in many African countries (Christian, 2017; Aremu et al, 2016.).

### **Challenges impeding the growth of Industrial Clusters performance in Nigeria**

A couple of challenges have constituted headwinds to the performance of many industrial clusters in Nigeria. Some of these challenges are noted below.

**Low government commitment to the execution of industrial policies.** In almost all industrialisation policy documents in Nigeria, development or enhancing the growth of industrial clusters remain a key component. However, there has been little commitment by the government at all level to this part of the industrial development plans.

Frequent change of policies by successive governments in Nigeria has led to the discontinuation of projects or procedures kick-started to improve performance of targeted industrial clusters. For example, the National Industrial Revolution Plan of 2012 identified the development of mid-sized logistics hub close to key industrial clusters. But this plan was never mentioned in the New Job Creation Strategy of 2016. Also, both plans identified various categories of industrial clusters as a focus for development. Therefore, creating policy inconsistency risk for the growth of industrial clusters in the country.

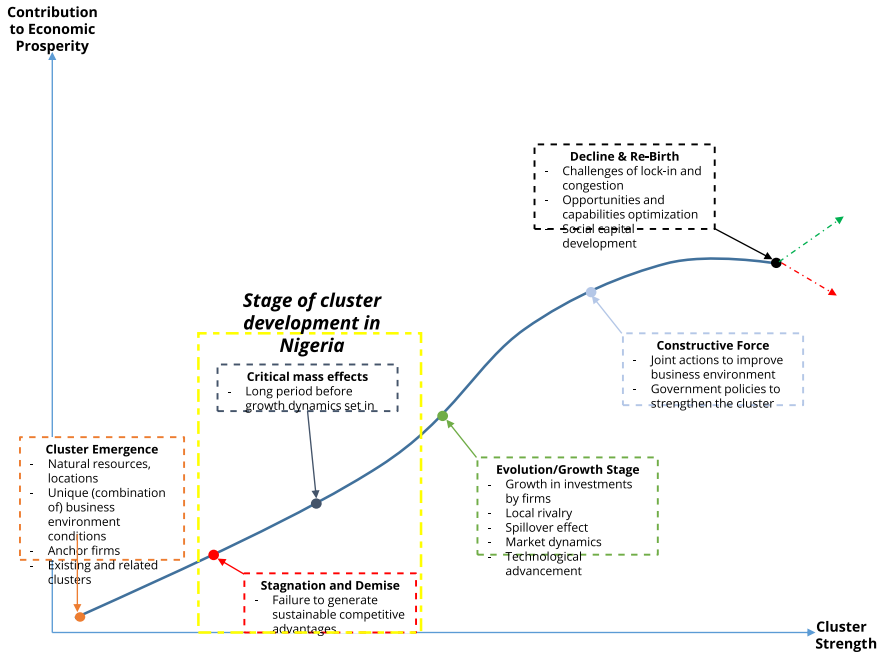
### **Poor market infrastructure.**

There is a huge decay of market linkages infrastructure, especially within industrial

#### **Box 2: Evolution of industrial clusters and economic prosperity**

The stage of development of industrial clusters reflects the level of economic prosperity in an economy. Thereby demonstrating to the potency of industrial clusters in boosting growth, job creation and effective distribution of resources. There are about six stages of development of industrial clusters – cluster emergence, stagnation and demise, critical mass effects, evolution/growth, constructive force, and demise and re-birth. Having achieved little progress in industrialization, Nigeria has been struggling to transcend beyond the stagnation and demise stage.

Figure 2: Industrial cluster & economic prosperity



cluster areas. As a result, many clusters are currently performing sub-optimally in terms of job creation and contributing to the overall growth of the economy. Key roads connecting many industrial clusters in Lagos and Ogun are in poor shape, and this has led to the loss of income and shut-down of many industries in Nigeria. For instance, all key roads connecting the Agbara industrial estate in Ogun state are in a terrible state including the Lagos-Badagry Expressway. All these contribute to an increase in the cost of production and distribution, among others. Other key market infrastructure in short supply in major industrial clusters are power supply, social capital like water and sanitation, e.t.c

**Insufficient supply of labour with critical skills and talents needed to improve the productivity of industrial clusters.** The level of skill of a mass of available workforce is below the required level for the effective functioning of industrial clusters. Owing to this, many industrial clusters concentrate on the primary stage of production. In the case of manufacturing activities, the sophisticated industrial processes are usually managed by expatriates from Asian countries.

With the current level of skills, many industrial clusters in Nigeria are less competitive, innovative and can't enhance the value-chain of their products. This,

therefore, makes many industrial clusters operate at subsistence levels.

### **Failure to conform to international standards.**

Because of the limited use of technology in the production process, goods produced from many clusters in Nigeria are below safety and quality standards set by advanced countries. Many of the products produced by these clusters routinely fail the quality tests of both local and international standard agencies like SON, NAFDAC, Global GAP, NICERT among others. The failure to meet these standards significantly contributes to the poor linkage of industrial clusters in Nigeria to the global value chain of their respective product. Consequently, this resulted in low exports earnings for many manufacturing and processing clusters in the country.

### **Policy Interventions**

In making the industrial clusters work for Nigeria's prosperity and inclusive growth agenda, the following interventions are needed to improve the business environment and enhance growth for firms in the industrial clusters. Thereby, making them properly placed to achieve job creation targets.

**Actively engage the private sector to drive market infrastructure provision.** A framework for co-operation between public and private sectors to development needed market infrastructures like roads, energy and electricity, water among others. The

private sector will provide funds while the government monitors and reinforces the implementation. By doing this, the mobilization of investments and a conducive business environment will be achieved. Also, this will foster the Box 3: Energizing Economies Initiative of the Rural Electrification Agency(REA)

The Energizing Economies Initiative represents a case example of market infrastructure project which is funded by private-sector investors/developers but implemented by the government through the REA. The project is aimed to provide off-grid electricity solutions to over 100,000 MSME's in over 340 economic clusters (like markets, shopping complexes and agricultural/industrial clusters) in Nigeria by 2023.

Under Phase 1 of the project, over 80,000 shops across 16 economic clusters in Lagos, Ondo, Ogun, Abia and Edo states were covered. According to Executive Director of REA, the project has created over 2,500 jobs, while serving over 18 million Nigerians. growth of output and development of many industrial clusters.

Supported by the availability of infrastructural facilities, the output and quality of products of industrial clusters in Nigeria will improve leading to efficiency and better competitiveness. In this case, the problem of access to finance will be minimized as businesses operating in these clusters become more attractive for bank

financing, local and foreign investors.

**Strengthen value-chain and linkages to market for industrial clusters with comparative and competitive advantages.**

The first step for the government to identify key clusters (products) with substantial comparative and competitive advantages. This will provide the government with key

clusters to prioritise in driving economic growth and job creation. There is a need to work on increasing the value addition at the level of processing, packaging and secondary production, of key products. Also, a platform connecting both local and international key stakeholders – operating firms, buyers, investors, off-takers and regulatory bodies, should be developed to increase the performance of the clusters

**Box 3: Energizing Economies Initiative of the Rural Electrification Agency (REA)**

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while connecting effectively to the global value chain. A one-stop shop like **One-Stop Investment Centre (OSIC) of the Nigeria Investment Promotion Council (NIPC)** can be considered for industrial clusters. Nigeria stands a chance to harness more benefits from the intervention given the country's market size and potentials of having many commodities that can serve as a foundation for global integration.

**Provision of information on market opportunities and capacity building on modern production process and technology.**

There is a need to provide adequate and timely information on market opportunities

to clusters across the country. The government can incentivize the private sector to manage the process. Besides from information, there is an urgent need for capacity building of firms operating in existing industrial clusters across the country on the use of modern technology in their operation. In most clusters, especially in processing, many firms significantly rely on the traditional method or use of hoary equipment thereby reducing the output level, productivity and quality of products. In addressing the situation, the government can enter into PPP arrangements wherein training of workers and other unemployed persons in areas close to the clusters are structured to meet the need of clusters.

Because of this arrangement, the quality of opportunities in the international market products from many clusters will be while increasing patronage from the enhanced. Therefore, unlocking them to domestic market.



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