

The Place of the Cottage Industry in Rebuilding the Nigerian Economy in the Post Covid-19 Era

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Abstract

The researchers used descriptive statistical analytical method to explore the place of cottage industry in rebuilding the Nigerian economy in the post-covid-19 era and the challenges faced by the industry in Nigeria. It was argued that the role of cottage industry in nation building includes transformation of the rural economy, creation of employment opportunities for the rural community, poverty reduction, amongst others. Despite these benefits, the industry which is mostly situated in the rural areas faces some challenges, ranging from lack of access to credit facilities to poor infrastructures in the rural areas. It was, therefore, concluded that if properly developed, cottage industry can boost the economy of the rural communities in particular and transform the Nigerian economy in general, besides helping to ameliorate the effects of the health crisis. It was recommended that government should help in the provision of infrastructures in the rural communities and also help provide vocational training to the owners of these cottage industries to help them acquire the savvy to market their products.

Keywords: Cottage, Rural, Industry, Covid-19, Coronavirus

Introduction

Nigeria was at the verge of recovering from the 2016 economic recession, a consequent of the 2015 dip in the global crude oil price, at the onset of the coronavirus pandemic that threw it back into an unfathomable recession. The real GDP growth was expected to rise to 2.9% in 2020 and 3.3% in 2021 (AfDB, 2020) before the coronavirus pandemic. Coronavirus is the causative agent of the deadly coronavirus disease, Covid-19 (Bogoch, Watts, Thomas-Bachli, Huber, Kraemer & Khan, 2020). It started as a small outbreak in the Wuhan city of Hunbei Province in the People's Republic of China in December, 2019 and was declared a pandemic by the World Health Organisation (WHO) on the 11th of March, 2020 (Gulati, Pomeranz, Qamar, Thomas, Frisch, George, Summer, DeSimone & Sundaram, 2020). This Covid-19 pandemic has caused serious disruptions to the global economy throwing some economies into recession, especially in sub-Saharan Africa and Nigeria, not an exception. Nigeria's case is worsened because it is a mono-economy

depending on crude oil export as its source of government revenue and foreign exchange earnings (Okpi, 2018; Umeji, 2019; World Bank, 2020).

Over 70% of the Nigerian national budget and more than 90% of its export revenue is accounted for by crude oil export (OECD, 2020). Consequently, the Nigerian economy has experienced severe shocks as oil prices collapsed as a result of reduced economic activities due to the measures taken by various governments to curtail the spread of the coronavirus. As Olisah (2020) notes, the over-dependence of Nigeria on oil export for its source of revenue and foreign exchange earnings has continued to worsen its fiscal capacity; this is as the Nigerian foreign reserve fell from \$45 billion in August 2019 to \$34.5 billion in April 2020. Onoja (2020) puts it differently saying that the economic disruptions and uncertainties following efforts to curb the coronavirus are presenting a real threat to the economy of Nigeria. According to the author, the economic effect of the pandemic will be enormous following the collapse of the global oil prices which has resulted in a huge fall of the revenue of the Nigerian government. According to World Bank (2020), projected revenue for the Nigerian government is expected to fall by 5% in 2020; at a time fiscal resources is required by the Nigerian government to curtail the spread of the coronavirus and stimulate the economy. More so, foreign portfolio flows are declining, falling to 46% in the first quarter of 2020; similarly, remittances to Nigeria dropped from \$5,925.68 million in the fourth quarter of 2019 to \$5,629.04 million in the first quarter of 2020 (tradingeconomics.com). Thus, putting more pressure on the declining foreign reserve.

The Nigerian economy contracted by 6.1% in the second quarter of 2020 which is its steepest in the last ten decades, against the 3.2% forecast by the World Bank (Kazeem, 2020). The World Bank (2020) had earlier made a forecast of a 3.2% dip in the Nigerian economy assuming the annual average crude oil price to be \$30 a barrel and the virus curtailed by the third quarter of 2020. However, if the virus is not curtailed by the third quarter of 2020, the Bank continued, the recession will not only expand, but there will also be a pressure on the already burdened health care sector leading to an increase in morbidity and mortality rates, besides 5 million Nigerians falling into poverty. This is the first time Nigeria is going into a recession as a result of public health crisis. Prior to now, recessions in Nigeria are mostly caused by sustained and unexpected falls in price of oil; however, the 2020 recession or economic crisis was triggered by a public health crisis (Ozili, 2020). The researchers, therefore, examined the place of the cottage industry in rebuilding the Nigerian economy in the post Covid-19 era.

Statement of the Problem

The over-dependence on oil export has made the Nigerian economy vulnerable to oil price shocks. It is, therefore, expedient that Nigeria tackles the issue of diversifying its economy to protect it from shocks from oil price volatility. Besides, the Nigerian government has a herculean task at hand already, that is, rebuilding the Nigerian economy post Covid-19.

Covid-19 has significantly affected the Nigerian economy in the form of reduced productivity occasioned by reduction in the workforce due to loss of lives and high rate of skiving as a result of illness or taking care of the sick. Economic activities were also disrupted due to measures put in place to curtail the spread of coronavirus (World Bank, 2020). It is, therefore, imperative that measures are put in place to ameliorate the impact of the Covid-19 pandemic in Nigeria and to ensure the economy does not remain in recession beyond 2021. In re-building the Nigerian economy post Covid-19 era, it is important that Nigeria aims at attaining self-reliance through intensive industrialisation, especially of its rural communities. That industrialisation is a prerequisite to development is never a subject of debate. However, the effectiveness of the industrial policy being adopted to bring about this desired development could be a subject for argument (Dagogo, 2014). This study was, therefore, motivated by the need to determine the place of the cottage industry in rebuilding the Nigerian economy in the post Covid-19 era.

Objective of the Study

This study is aimed at:

1. Examining the role of cottage industry in nation building.
2. Examining the challenges faced by cottage industry in Nigeria.
3. Making policy recommendations that could facilitate the rebuilding of the Nigerian economy post Covid-19.

Conceptualisation of Covid-19

Covid-19 is a human to human transmitted virus through droplets or direct contact; its common symptoms include fever, difficulty in breathing and cough (Gulati *et al* 2020; Lai, Shih, Ko, Tang & Hsueh, 2020). It belongs to the beta coronavirus with a single stranded RNA (Lai, Shih, Ko, Tang & Hsueh, 2020). According to Shereem, Khan, Kazmi, Bashir & Siddique (2020), the virus was named SARS-COV-2 and the disease COVID-19 by the International Committee on Taxonomy of Viruses (ICTV). The novel coronavirus disease, Covid-19, started as a small outbreak in Wuhan city in the Province of Hubei of the People's Republic of China in late December 2019 and was declared a pandemic on 11th March, 2020 by the World Health Organisation (WHO), (Gulati *et al* 2020). It was declared a pandemic because according to Xie & Chen (2020), as at 11th March 2020, a total of 80, 955 confirmed cases had accumulated in China with 3, 162 deaths and 37, 364 confirmed cases and 1, 130 deaths in 113 other countries of the world.

Covid-19 is zoonotic, meaning that it is contracted by humans through interactions with animals, just as 75% of all emerging infectious diseases (UNEP, 2020). According to this organisation, some of these recently emerged or re-emerged zoonoses include Zika virus, Ebola, Severe Acute Respiratory Syndrome (SARS), Middle East Respiratory Syndrome (MERS), Bird flu and now Coronavirus, which emerged as a result of human or livestock interaction with wildlife exposing them to the risk of potential pathogen spill-over. Global knowledge on Covid-19 is limited though it is rapidly evolving; the pandemic is being managed by the medical team from gleaned

evidence of related pandemics in the past to predict the clinical behaviour and treatment of Covid-19 (Gulati *et al* 2020). At the moment, there is no vaccine for Covid-19 or a specific effective antivirus therapy. Treatment is generally by nutritional interventions and immune-enhancers (Xie & Chen, 2020).

Cottage Industry: An Overview

Cottage industry is home-based, with a workforce of about five employees who are mostly members of the same family or extended family making use of locally-sourced raw materials for production of mostly consumer goods. According to Onwumere, cited in Omoare, Oyediran & Fakoya (2015), a cottage industry is a small scale business being operated from home, producing daily necessities that are not high-tech products, but basic materials produced with little or no automation. Taseen & Biswas (2014) described cottage industry as the traditional artisanship of the rural people who produce different kinds of household items with locally available raw materials and artistic skills inherited from past generations. Cottage industry is cheap and stress free to set up as it does not require large space or huge machineries. According to Makokha (2016), they are production units mostly located in home-steads, within household units making use of locally available raw materials, depend on manual strength and skills (at times run on fuel) and whose production mostly end up in the local market for utilisation. The author further stated that they rely on simple and reliable technologies; with low overhead costs, they have the ability to adjust faster to local environment.

The cottage industry has the ability to reduce or increase production at will in response to demand. It is a catalyst for generating employment, reducing poverty, increasing material growth and enhancing economic growth (Abdulhamid, 2005, cited in Omoare, Oyediran & Fakoya, 2015). It helps in improving rural infrastructure, improving the standard of living of the rural dwellers, utilisation of indigenous technology and increases revenue base of both the individual families and government. Many people who would have been unemployed are absorbed by the cottage industry, thereby, leading to wealth creation and poverty reduction. There are different types of cottage industry in Nigeria; they include, but not limited to soap making, tie and die, hair dressing, cloth knitting (Aso-oke), bread making, block moulding, sachet and table water production, etc. Cottage industry is labour-intensive and, therefore, possesses the potential to absorb the excess labour in the economy. More so, it makes use of locally sourced raw materials and energy supplies; it ensures local resource mobilisation. The industry also operates from home or small workshops with a small number of employees, usually members of the same family. It can be established in the most remote areas as they do not require huge machineries or electricity in most cases. The operations of the cottage industry are smooth as it does not have labour union challenges, employees are very few and most times family members, hence, there is no disruption of production due to labour unrest. Cottage industry also develops to firms helping in actualising diversification in existing firms.

Methodology

This study uses descriptive statistical method of analysis in analysing the data from secondary sources, especially World Bank reports.

Review of Empirical Studies

Several studies have been carried out on the role of cottage industry in economic development; we will review a few of them here. Taseem & Biswas (2014) studied the role of cottage industry in the economic development of Bangladesh. The researchers used analytical and descriptive statistics on 50 samples and argued that the industry contributes to poverty reduction in the study area, but faces a dearth of capital and poor infrastructure, hence, the industry's poor expansion and productivity. Dagogo (2014) looked at the challenges and prospects of industrialisation in Nigeria between 1943 and 2013. He found that one of the major problems facing industrial development in Nigeria is multiplicity of policies in the sector; some of which do not even take off before they are discontinued, while some others are changed and replaced with another, but the change is in name alone as the fundamentals of the policy remain the same.

In another study conducted by Omoare, Oyediran & Fakoya (2015) to assess the roles played by select cottage firms in reducing poverty in Odeda Local Government Area of Ogun state, Nigeria, it was found that cottage industry is a major source of employment and income in the study area. The researchers concluded that cottage industry contributes to poverty reduction in the study area employing both educated and young women. Makokha (2016) in another study on the role of cottage industry in socio-economically transforming rural areas in Kakamega county of Kenya discovered that cottage industry created wealth and job opportunities in the study area. Adebayo & Bhadmus (2016) in their study reviewed the socio-economic contribution of cottage industry to rural livelihood in Nigeria. Using descriptive analysis, the findings showed that despite poor infrastructural development in the country, especially in the rural areas, the industry ensures equitable distribution of the national income as well as ensuring balanced industrial development by regions. Besides, it raises the household income of the rural communities, hence, improved standard of living in the rural areas. It was recommended that the government should support the industry so as not to allow the industry go extinct.

Theoretical Framework

This study is anchored on the structural change theory, also referred to as the two sector model propounded by Sir W. Arthur Lewis in 1954 (Nafziger, 2006). The theory focuses on developing countries transforming their economic structures from the agricultural sector, with low productivity of labour, to the higher labour productive manufacturing sector (Todaro & Smith, 2012). According to the authors, the basic focus of the model is on both the process of transferring labour and the output and employment growth in the industrial sector; output growth being the major cause of labour transfer and employment growth in the industrial sector.

The major assumption of the theory, according to Todaro & Smith (2012), is a two- sector economy in developing countries, a traditional subsistence sector and the industrial sector. The traditional sector which is the agricultural sector has surplus labour which has near zero marginal productivity. Another assumption of the model is that labour is transferable from the agricultural sector to the industrial sector and this transfer of labour from agricultural sector does not reduce the economy's total productivity. Constant level of wages in the industrial sector is another assumption made by Lewis in propounding this theory. This will encourage labour transfer from the traditional sector to the industrial sector. The influx of labour to the industrial sector will increase its output and profitability, making industrialisation possible as the profits will be re-invested leading to more profits; hence, capital accumulation and sustainable economic development.

Sustainable development due to capital accumulation may be a mere wishful thinking because the profit from the sector may find its way out of the economy to the developed countries in the form of capital flight. Even if this is not the case, that is, the profit is retained in the economy; it may not have a multiplier effect on the economy as it may not be equitably distributed. This theory is adopted in this study because it depicts the idea of increasing the employment level in Nigeria through the cottage industry by absorbing the underemployed labour in the agricultural sector and the excess labour laid off by other sectors due to the public health-induced recession.

The Nexus between the Cottage Industry and the Nigerian Economy

Most industrialised nations started by building upon simple rural-based cottage industry that metamorphosed into the current sophisticated industry. Looking at China, it transformed from a poor agrarian economy to an industrialised economy within thirty-five years which was achieved by industrialising its rural economy (Wen & Wolla, 2017). According to the authors, this reforms resulted in an increase in its annual economic growth rate from 3.6% from 1952-1978 to about 10% from 1978-2012 and the share of labour force in agriculture fell from 75% in 1977 to 33% in 2012. In the United States, they account for more than half the non-farm, private GDP and around half the private sector employment and contributing over 67% of the United Kingdom's private sector employment (Osigbesan, 2013).

Thus, the importance of cottage industry in the industrialisation process of Nigeria cannot be over-emphasised. Besides, in the post Covid-19 era, the cottage industry will play an enormous role in rebuilding the Nigerian economy and help bring it out of recession because as Mohit (2020) puts it, there will likely be a re-birth of industries as people sit down at home during the lockdown re-evaluating consumption, interaction, supply and productivity patterns. Cottage industry will play a major role in helping the Nigerian economy out of recession in the new normal.

It will lay the foundation for the transformation of the Nigerian rural economy from a traditional subsistence economy, to an industrialised economy. Developing the cottage industry in the rural communities in Nigeria will serve as a means to improve the

economy of the communities and diversify their production. Through the cottage industry, the country will experience a balanced regional development as employment opportunities will be equitably distributed, there will be income re-distribution and rural-urban drift of labour will come to an end. In addition, the cottage industry has the potential to generate employment opportunities. Since it is labour-intensive, it has a high labour-capital ratio. Consequently, it will help in the absorption of the surplus labour laid off as a result of the Covid-19 pandemic from the capital-intensive industry and service sector. The industry provides employment not just for the educated, but also, for the large number of uneducated, the semi-skilled and unskilled manpower in the rural areas. It will also help to cushion the effect of the seasonal unemployment resulting from the agricultural sector as it can utilise the labour force post-agricultural harvest.

By creating economic opportunities for the rural dwellers, the cottage industry helps in reducing the poverty level of the rural communities. It helps them to generate income in order to meet their basic consumption needs; thereby, increasing their standard of living. More so, the industry can contribute to export earnings in the post Covid-19 Nigeria if it is properly harnessed. Products of the industry can be exported to other countries thereby generating foreign exchange earnings. Some of these products include animal skins, palm oil, palm kernel oil, aso-oke, etc. Encouraging cottage industry can return Nigeria to a major exporter of these products and reduce the dependency on crude oil as a major source of foreign exchange earnings and government revenue. Finally, the industry can provide backward and forward linkages in both the agricultural and manufacturing sectors. This is because they make use of locally sourced raw materials ensuring domestic resource mobilisation. This helps in reducing the burden on import and foreign reserves and at the same time, encouraging the primary industries.

One of the major challenges facing the industry in Nigeria is lack of access to finance. Cottage industry is usually a small business with little or no assets valuable enough to serve as collateral for bank loans; hence, it is difficult for such industry to access credit facilities from financial institutions for expansion. More so, granting credit to start-ups is near impossible in the Nigerian financial system. This is a serious impediment to the expansion of the industry. Besides, such industry is generally located in the rural communities with poor infrastructural facilities, especially poor road networks and bad state of the existing ones. This makes it difficult for wider distribution of the products of the industry and it also adds to its operational cost as bad roads lead to hike in transportation cost. In some cases, if not in almost all cases, the proprietors in the industry lack the know-how to proper branding, packaging and marketing of their products thereby making poor sales. Poor sales also results from competitions from cheap mass produced goods imported from other countries, especially Asian countries. The recent fuel subsidy removal with its attendant inflationary pressure will also constitute a challenge to the industry. Cost of raw materials will go up causing low productivity; transportation cost will also increase adding to operational cost. Low productivity and high operational cost will only result to low profitability.

Conclusion and Recommendations

The benefits of cottage industry to a developing country like Nigeria are enormous. Apart from creating employment for the rural communities and reducing poverty, cottage industry can serve as a catalyst for economic development. If properly developed, cottage industry can boost the economy of the rural communities in particular and transform the Nigerian economy in general besides helping to ameliorate the effects of the current health crisis. Thus, government should ensure infrastructural development in the rural communities to enhance production and distribution of products. Vocational training should also be provided to the owners or proprietors of the cottage industry to enable them acquire not just production and managerial skills, but also, marketing skills. Microfinance and development banks should also be encouraged to provide properly structured credit facilities to the operators of the cottage industry.

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