

Graduate Unemployment in Nigeria: Entrepreneurship and Venture Capital Nexus

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Abstract

It is observed that the rate of unemployment in Nigeria is alarming and intolerable, moreso, graduate unemployment. However, government alone cannot provide all the required jobs. We therefore advocate establishment of venture capital bank managed by men of proven integrity to provide loans to unemployed graduates with promising ideas. We also solicit that government should provide conducive environment that enables private sector to thrive while universities should finetune their curricula to reflect the needs of the employers and university students should study to acquire necessary knowledge that makes them employable.

Keywords: Graduate unemployment, entrepreneurship, venture capital infrastructure, loan monitoring.

1. Introduction

Every economy both developed and less developed desires full employment of her resources that is both human and material resources. Attainment of full employment mostly in developing economies, it is agreed can reduce poverty and foster growth of their economies. The idea is based on the linkage between income and poverty (Boateng, 2004). Unemployment represents wasted resources (Mankiw 1994:137). Unemployed labour has the potential to contribute to national income but are not doing so because they are jobless. It is necessary to state here that global unemployment is not a respecter of any economic system. Unemployment are experienced in capitalist economies, socialist economies and even mixed economies.

Nigeria started experiencing intolerable level of unemployment since early 1980s as a result of economic downturn that the economy was into. Even with the introduction of the structural Adjustment Programme (SAP) in 1986 did not salvage the situation.

However, entrepreneurship reduces unemployment and therefore poverty through creation of industries. An entrepreneur is a person who is willing and able to take risk to convert a new idea or invention into a successful innovation. But many "high value" entrepreneurial venture need venture capital or (seed money) so that capital could be raised to build the business. Knight (1921) says entrepreneurship is about taking risk. Till today, this statement remains axiomatic. Yet a reasonable risk is one that can be borne by the taker. The risk may include measurable risk, ambiguity risk which is difficult to measure and true uncertainty risk which is impossible to estimate or predict statistically.

For venture capital to produce entrepreneurs there is need for government to create an enabling environment through provision of both economic and social infrastructure. Cross-country studies such as Munnell (1990) and CBN (1999) of economic growth and infrastructure, particularly those concerned with public investment in transportation and communication and those using capital stock of road, railway and telephone, had shown that infrastructure variables were positively and significantly correlated with economic growth.

The objective of this paper is to bring to fore the establishment of venture capital to help create entrepreneurs and therefore create industries and also create employment and finally reduce poverty.

Then rest of the paper is split into sections. Section 2 makes a brief incursion into unemployment in Nigeria, with emphasis on graduate unemployment, some programmes enunciated by government with aim to reducing unemployment. Section 3 discusses entrepreneurship, section 4 takes a look at the need for venture capital and section 5 summarises, offers recommendations and concludes the paper.

2. Unemployment in Nigeria

An unemployed person is a person that is qualified for job (whether the job is physical or mental) and willing to work at the current rate of wages but does not find job. Along with unemployment are different dimensions to it, there are underemployment cases in which people can earn income that is inadequate to take care of their basic needs in terms of food, clothing and shelter. There are cases of disguised unemployment where people take up jobs that are not commensurate with their educational qualification and training, while the most serious case is one where some who are willing and ready to work do not find jobs.

Below we present Table 1.0 showing rate of unemployment in Nigeria posted by both the Central Bank of

Nigeria (CBN) and Nigerian Institute of Social and Economic Research (NISER).

Table 1.0: Rate of Unemployment

Year	Unemployment (1)	Unemployment (2)	No. Of Unemployed (1) ('m) +	Unemployed (2) in ('m) +
1990	6.8	73.3	2.6	28.0
1991	4.1	76.7	1.6	30.0
1992	3.2	75.4	1.3	30.3
1993	5.0	75.7	2.2	31.2
1994	2.2	72.8	0.9	31.0
1995	1.8	71.0	0.8	32.2
1996	3.8	71.0	1.7	32.0
1997	3.6	72.8	1.7	33.8
1998	3.2	68.9	1.5	33.0
1999	3.0	72.8	1.5	36.0
2000	3.6	63.5	1.8	32.0
Average	3.7	72.1	1.6	31.7

Sources: 1. Ndebbio 2006: 26. The author explains that data are from various CBN Annual Reports and Statement of Accounts.
 2. NISER 2002:9
 + calculated by authors.

The above information is based on unemployment for the period (1990-2000) differently calculated by both CBN and NISER respectively, with all categories of the unemployed inclusive. Comparing the unemployed percentages posted by both CBN and information provided by CBN is highly conservative. Indeed, if tempted to accept six percentage rate of unemployment, as natural rate of unemployment, then Nigeria would be at the verge of full employment. For instance, in 1995 with the unemployment rate 1.8 percent, it implies that 98.2% of the labour force was employed. A casual observation points to the fact that labour market in Nigeria approaches saturation and the information posted by the CBN merely occupies space. The unemployment rate posted by the CBN between 1991 and 2000 convey information of full employment which is not true.

The unemployment measurement documented by NISER offers closeness to real situation. On the average for a period marginally longer than a decade (1990-2000), the average unemployed rate was 3.7% by CBN measurement, while that of NISER was 72.1%, these rates translate to 1.6million and 31.7million, unemployed Nigerians, respectively.

Such figures posted by CBN portray success activities in relation to a ray of employment policies and programmes put forward by various governments. But presenting accurate figures to government can send correct signal (to government) that most of the programmes have not achieved their objectives they were intended.

According to Bassey and Atan (2012:67-76) within the Nigerian Labour Market distortion are prevalent. This accounts in part for graduate unemployment. According to them, this reflects in the rising incidence of unemployment among university graduates and those of other tertiary institutions, particularly wage rate differential not related to productivity and universities teaching curricula that are not closely linked to the demand of employers. According to Dabalén et al (2000) as quoted by Bassey and Atan (2012) graduate unemployment accounted for 32% of the total unemployed labour force between 1992 and 1997. Probably by now the percentage of unemployed graduates might be higher. This is due to the fact that Nigerian graduates are lacking in-indepth knowledge of ICT necessary for running knowledge economy. Two reasons are principally responsible for this; (i) the reading culture is progressively or fastly parting way with Nigerian University Students, and (ii) Universities are facing enormous decay in terms of functional libraries and equipment and general infrastructure.

Table 2.0 here presents statistics of registered unemployed and vacancies declared (Professional and Executives/graduates) for the period (1990-2004) selected years.

Table 2.0: Graduate Unemployment Statistics (1990-2004)

Year	Registration	Declared vacancies	Placement	No. Of Unemployed out of No. Registered	% of placement to registered No. (+)	% of placement to vacancies (+)
1990	10182	3695	986	9787	9.6	26.7
1993	108153	12605	79	95348	0.07	0.63
1995	32442	3708	49	28734	0.01	1.3
2000	104960	115	110	104845	0.10	95.7
2001	84359	127	93	84332	0.11	73.2
2002	94663	121	102	94542	0.10	84.3
2003	61961	917	657	61044	1.06	71.6
2004	87731	617	510	87114	0.58	82.7

Source: Bassey and Atan (2012:70) + calculated by authors

From table 2.0, there is need to mention that labour exchange or registration of the unemployed has a long history in Nigeria right from the 1970s. The practice then was that when you register with the labour exchange they (labour exchange) will with time contact you for job or link you up with job depending on your discipline and the nature of the job.

As the labour market become increasingly saturated with each passing day, it became difficult for the labour exchange to connect an applicant to job. One glaring effect this development had was that the unemployed or an applicant felt reluctant or completely discounting the idea of registering with the labour exchange. However, some of the unemployed still summed up courage to register. The implication is that the number of the registered unemployed has distanced itself from the total figure of the unemployed. Limiting ourselves to the information available in table 2.0, we observe that 10182 unemployed graduates registered in 1990 while declared vacancies were 3695 and placement was 986. That means the number of those not engaged was 9787 and the percentage of placement to registration was 9.6, while percentage of placement to registered vacancies was 26.7. The unanswered question is why was the placement figure 986 against declared vacancies of 3695 probably leaving unfilled vacancies of 3599.

Again, there is unrevealed information as to how the vacancies are declared, example, is it through radio, newspapers, television or hand bills? Indeed some organizations who want to open up only advertise their vacancies on bill boards of their corporation. Some advertise through “rights issue”. That is top management of the organization send information of the available vacancies to their relatives and cohorts. For the year 1993, 79 vacancies were filled out of declared vacancies of 12605 and the percentage of placement to registered unemployed was 0.07. A striking case is that of 1995 where 49 was placed out of 3708 declared vacancies and 0.01 percent placement took place. Except for 1990 where about 10 percent of the registered unemployed was placed probably followed with that of 2004 with percentage of 6, there is no other year that the percentage of the placed applicants reached 2 percent. For the percentage of placement to declared vacancies, it is clear that 95.7%, 73.2%, 84.3%, 71.6% and 82.7% were placed in the years 2000, 2001, 2002, 2003 and 2004 respectively. For other years, 1990 through 1995, the percentage was not even up to 30.

Here, we introduce Table 3.0 calculating the number of unemployed graduates 1990-2004.

Table 3.0: Number of Unemployed graduates 1990-2004

Year	Labour Force (m)	+ Unemployed Graduate (‘m) (32%) *
1990	38.0	12.2
1993	41.4	13.2
1995	45.2	14.5
2000	50.3	16.1
2001	51.7	16.5
2003	54.5	17.5
2004	56.1	18.0
2005	56.3	18.0
2007	56.7	18.1
2009	57.0	18.2

Sources: World Development Indicators 2005

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+ calculated by the authors

* We calculated graduate unemployment figure based on 32% information from Dabalen et al (2000). We also consider this percentage conservative enough.

Comparing the figure of the unemployed graduates in table 2.0 and the one calculated in table 3.0, we could observe a very wide disparity. Again, the implication of this is that public institutions that post figures of the unemployment in Nigeria notably. National Bureau of Statistics (NBS) and Central Bank of Nigeria (CBN) do not capture all information on this and therefore the information they display hardly send red alert to government. Employment is a derivative of demand for labour. Labour demand is a typical case of derived demand. Labour is demanded because it is used for production of goods and services. But demand for labour in Nigeria is not systematically documented and formal. More especially in the inorganized private sector and informal sector where prevailing practice is fire at will and leave at will. However, it is the public sector that hires majority of Nigerian graduates. Abstracting from Bassey and Atan (2012) (Table 6 p. 72) between 1993 and 2000 graduate applications to the public sector numbered 184,433 and the number of offer was 8005 representing a percentage of absorption of 4.3 for the period under review (1993-2000). The resulting effect is that 95.7 percent of the application were not successful.

One of the things that account for high level of graduate unemployment in Nigeria is the low quality of the graduates themselves. A myriad of other factors also account for this, they include poor funding of universities, non up-date and functional libraries no functional laboratories, poor and inadequate learning space, very poor working environment for staff leading to low psychic income, admission overload, incessant strikes, lack of motivation for staff, corruption, cultism, exchange of gifts and money between student and teacher called "sorting" for examination grades, inadequate staffing, lack of electricity that renders learning environment too hot for such exercise and also the hatred students have developed against reading. Of a truth no government of any nation can singlehandedly provide all the needed employment. Employment is provided in partnership of government with the private sector. But government has a fundamental role to play. It is the role of providing adequate infrastructure both economic and social, offer good policies that compensate hard work and encourage production, provide adequate security and tame corruption.

One of the most important infrastructure that can help Nigeria grow is constant provision of electricity with appropriate voltage. This service has beneficial externalities aiding industrial and commercial growth. Several policies have been formulated toward adequate provision of electricity in Nigeria, but suffice to say that as at date, we are still waiting for electricity improvement. This is a case of insincerity and unseriousness on part of government, we say this because from Electricity Corporation of Nigeria (ECN) to Power Holding Company of Nigeria (PHCN), electricity supply worsens every passing day. This institution was created by government and by extension Nigeria but the unanswered question is how it (PHCN) has grown taller and bigger than Nigeria.

2.1 Some Government Programmes aimed at reducing unemployment

A number of policies, programmes and laws have been designed and executed by successive governments in Nigeria to tackle the problem of unemployment and poverty (Oni, 2006:4). Some of the programmes include National Development Programmes (NDPs), the relatively recent National Economic Empowerment and Development Strategy (NEEDS), the introduction of Structural Adjustment Programme (SAP) with its attendant affiliates such as Directorate of Food Roads and Rural Infrastructure (DFRRI), the National Directorate of Employment (NDE), Better Life Programme (BLP) for rural women, Family Support Programme (FSP) and the Family Economic Advancement Programme (FEAP). Among other mandates the NDE was given the responsibility of designing and implementing of programmes to tackle the problem of mass unemployment in the economy, stressing work programmes that are labour intensive obtaining and maintaining a data bank on employment and vacancies. In the face of these various programmes and others, unemployment in Nigeria continues unabated.

3. Entrepreneurship

Entrepreneurship is the process of searching out opportunities in the market place and arranging resources (factor inputs) required to exploit these opportunities for long term gains. Entrepreneurship involves bringing something new to existence whose market never exists. Entrepreneurship is a partner to economic growth provided that the environment is right for its striving. In a conscious effort, there is need to promote entrepreneurship through integrating it (entrepreneurship) into education system, legislating to encourage risk-taking, economic incentives and national campaigns.

Entrepreneurship activity in Nigeria is primarily based on necessity and survival instinct. Nigeria's economic downturn since the 1980s has created a hostile environment that is unfavourable to entrepreneurship success. As we earlier mentioned, the Nigerian infrastructural system limits entrepreneurial effectiveness and is a barrier to success. Lack of electricity, poor communication system, insecurity and corruption are all inimical to entrepreneurship. The Nigerian government systematically ignore laws that are already in place to promote free enterprise. Lack of enforcement of Nigerian patent laws discourages entrepreneurs from commercializing their

ideas and inventions. Moreso, female entrepreneurs in Nigeria, are often underestimated and overlooked. In Nigeria where many people struggle to eke out, living, the spirit of entrepreneurship does not sit high in people's economic consciousness.

Entrepreneurship involves change. Change is with cost. Therefore, most people prefer the status quo. The effort required to move a head with an idea requires faith, persistence and communication. The courage needed to risk failure prevents many from trying, and therefore effort must be rewarded when accepted at the market place.

It is imperative at this point, to make effort to define entrepreneurship. According to Sundharam and Vaish (1989:517) as quoted by Eze, Udu and Udu (2008:3)

An entrepreneur is a daring person, with vision, and originality who acts as the boss, who decides as to how the business shall run, who coordinates the activities of different factors of production, who anticipates the future trend of demand and prices, who invests and introduces new ideas, a new commodity, a new process or some revolutionary machine and who, in general carries out new activities.

This definition carries with it some ingredients or characteristics of an entrepreneur – risk taking, organizing wealth creation, initiative and innovativeness. Entrepreneurship curriculum that is recently introduced into university syllabus should not only be taught by theoretic lecturers but seriously punctuated by successful entrepreneurs that can share their experiences with the would-be entrepreneurs.

4. Need for Venture Capital

Venture Capital (VC) is a significant innovation of the twentieth century. It is considered synonymous as risky capital. Venture capital finance is often thought of as “the early stage financing of new and young enterprises seeking to grow”. It involves the commitment of a venture capitalist in management of the client enterprises. According to Pandey (2005:477) venture capital plays a strategic role in financing small scale enterprises and high technology and risk of ventures. Venture capitalists-institutions are not very keen in financing a treaded path in business but rather novel ideas that are pregnant with prospects.

A venture capitalist can be identified as any individual or institution who provides “debt” or equity capital for the growth of small busines at any stage before going public; or any individual or institution that provides “high risk” debt or equity capital which is not available from traditional sources for growth (or seed funding) of small scale businesses before going public (Kryzanowsk, 1977). According to Udu, Udu and Eze (2008:116) venture capital is risky, hence there are at present no real venture capital institutions in Nigeria.

Ibanez (1989) remarked “the aim of venture capitalist is to build up creative men and companies, and capital gains are reward not a goal. The first venture capital started in America under American Research Development Corporation (ARDC) in 1957 with investment of US \$61,400.00 with the Company Digital Equipment Corporation (DEC). By 1971 DEC employed 7000 people and its annual sales were \$147 million and ARDC's seed money presenting 45% of DEC's shares was worth \$345.6million.

Features of venture capital include the following:

- (i) Equity participation
- (ii) Long-term investment; and
- (iii) Participation in management.

In equity participation, a venture capitalist can sell off the share of the business once the business becomes profitable. For long-term investment, venture financing is a long-term illiquid investment. It is not repayable on demand. It requires long time to make profit. Participation of venture capitalist in management ensures his involvement to protect his capital in the entrepreneur business. Stages of venture capital financing are basically divided into early stage financing, expansion financing and acquisition-buyout financing growth.

For an entrepreneur to attract a venture capital, he has to prepare business plan for the consideration of the venture capitalist. The business plan should include among others executive summary of the business plan, background to the venture, product type or services, market analysis, marketing, business operation that is the production process and source(s) of raw material, the management team and financial budgeting.

5. Recommendations

- (a) This section starts with a question: Why venture capital? The advocate for venture capital originates from the fact that young unemployed graduates are relatively poor. In other words, they (unemployed graduates) lack collaterals to pledge and benefit from commercial bank loans. Our banks are not matured to the point of having faith in bankable feasibility reports that could convince them to commit working capitals into such projects. And even if they do, they lack time and personnel to monitor such projects to maturity and function.
- (b) To reduce unemployment mostly among the unemployed university graduates provision of venture

capital (VC) can no longer be postponed. The second question is; who are those to provide the venture capital? These are: the federal government, state governments, local governments, rich individuals, non-governmental organizations (NGOs) and religious organization. If equal number of beneficiaries are expected from each state, then each state government and local government should proportionally contribute equal amount to the venture capital.

- (c) The third question is: who should manage the fund? There is need to create venture capital bank on zonal basis with clear and unambiguous mandates on its operationalities. Recruitment of personnel to run this outfit should be based on men and women of proven integrity who are able to share the plight of the unemployed than appointment of some mindless politicians whose selfish interest is “pharoahean”. Once a satisfactory business plan has been presented and acceptable guarantors (not less than two) stand in for the beneficiary, then fund should be released to the applicant to start business – noting that partial funding would lead to the unrealisation of the business objective(s) and timeliness of releasing the fund, given time value of money. The venture capital bank should not limit its activities to only purveying of credits but should be co-managers of the projects to ensure success and also for the fact that monies so far released are used for the purpose it was meant.
- (d) The fourth question is: should venture capital beneficiary pay interest and should the capital be repaid? The market determined interest rate in Nigeria in the formal money market ranges between 20-30% per annum. In the informal money market, it is as astronomical as 240% per annum. Therefore, a concessional interest rate of a single digit is recommended, say 8% with moratorium period of twelve months. Repayment of the loan should commence after two years of grace given the fact that some projects have relatively longer period of gestation.

Repayment here is considered necessary because such loan is expected to be rotational or revolving. A case of default is where the attention of the guarantors are drawn to. Of course, default could be minimized if the bank managers disengage themselves from arm-chair banking. The management of the bank should be in such a way that the unemployed develops confidence in the system. In addition, adequate economic and social infrastructure should be provided by the government.

- (e) The universities should finetune their curricula to reflect interest of employers and should be properly equipped to produce quality graduates.
- (f) University students should be re-oriented into the habit of reading so that they could acquire reasonable knowledge that can make them employable.

6. Summary and Conclusion

We have noted the alarming rate of graduate unemployment in Nigeria and the labour market approaching complete saturation and the unwillingness of formal commercial banks to lend to this category of borrowers. This unacceptable rate of unemployment is a clear case of waste of human resources in the first round and material resources in the second round, given resources expended in their training (considering exchange value of education). We have advocated the establishment of venture capital bank and modalities of managing it for effective result and unemployment reduction.

We are also assertive that government should provide both economic and social infrastructure to create conducive environment for private sector to strive and help reduce unemployment.

In addition, universities should be well equipped to produce functional graduates and also students should learn or study to make themselves employable.

In conclusion therefore, we appeal to the organs we have mentioned to provide the venture capital to give it a serious consideration it deserves. No sacrifice is too much to reduce unemployment that represents outright waste. When this exercise becomes successful, the beneficial externalities or the multiplier effects would be great.

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