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STRUCTURAL ADJUSTMENT AND SMALL-SCALE INDUSTRIAL ENTREPRENEURS IN SOUTH-EASTERN NIGERIA

by Enwere Dike

April 1997

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United Nations Research Institute
for Social Development
Palais des Nations
1211 Geneva 10
Switzerland

E-mail: info@unrisd.org
World Wide Web Site: www.unrisd.org

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◆ Contents

◆ Preface

Small-scale industrial enterprises occupy a central place in Nigeria's rapidly growing informal economy. A dominant view in the development literature is that such enterprises can substantially contribute to the economic growth of poor countries, as well as provide employment opportunities and viable incomes to individuals who are increasingly being squeezed out of shrinking formal economies. In contrast to low-income groups that operate in the informal sector to support basic needs provisioning, small-scale industrial entrepreneurs tend to earn high incomes, are better educated, and have businesses with much higher levels of capitalization. This often makes it difficult to differentiate informal industries from more formal large-scale enterprises. A common claim in the adjustment literature is that informal sector industries have a better capacity than large-scale industries, which have enjoyed state patronage, to adapt to market reform policies that seek to shift relative prices in favour of tradables. This argument is often based on the assumption that the former industries are not burdened by massive social overheads, labour regulations, or rigid management styles, and rely mainly on local raw materials for their production inputs. It is not surprising that much of the recent policy debate on Africa's troubled history of industrialization has focused on the question of how to assist informal sector industries to meet the challenges of market reforms.

This Discussion Paper examines how small-scale informal industrialists in two of Nigeria's rapidly growing cities have coped with economic crisis and structural adjustment policies. Contrary to the myth of a dual industrial system operating in developing economies that are undergoing crisis and adjustment, the informal sector is found to be organically linked to the formal economy. Thus, both have been affected by key structural adjustment policies in broadly similar ways. The adjustment strategies of formal sector entrepreneurs also tend to impact upon the fortunes of informal industrial entrepreneurs in diverse and complex ways. It is difficult, therefore, to conclude on the basis of conventional theories alone about the likely effects of adjustment on the informal sector.

The paper reveals that recession and adjustment provided an enabling environment for the growth of small-scale industrial entrepreneurs: more than 40 per cent of the firms surveyed were established after the adjustment programme was launched in 1986. Enterprises took advantage of the recession to pay very low wages and subject their employees to long working hours. Indeed, there has been considerable new investment in the sector, with 70 per cent of entrepreneurs having made new investment in machinery, physical structures and land for new workshops; while 90 per cent have refurbished old machines or physical structures. About 60 per cent of the firms have also diversified investment in urban and rural land holdings or activities.

Most firms are said to be heavily dependent upon the formal sector for machinery and, to some extent, raw materials, though the degree of dependence varies across sub-sectors. However, dependence on the formal sector to service or repair machinery and equipment was very low: instead, there was greater reliance on internal staff or other informal sector technicians for these activities. Fairly strong direct forward linkages were found to exist between the informal enterprises and formal businesses; and linkages within the informal sector itself were particularly strong, with roughly 80 per cent of the output of all firms being consumed in, and more than half of the raw materials, machinery and labour requirements of firms being provided by, the informal sector. Rather heavy input-output linkages are also reported between the informal industrial firms and the rural economy. However, sub-contracting arrangements between formal and informal firms were noticeably absent, suggesting very weak vertical integration in the industrial sector.

The paper highlights a number of constraints that are likely to affect the future growth of the informal industrial sector: the over-exploitation of the labour force, which may undermine the morale of employees; the rising cost of new machinery and equipment in the formal economy; the erratic supply of electricity, water and other basic infrastructure; diversion of financial savings into the rural economy for food provisioning; and the adulteration of products to increase sales, which might weaken consumer confidence. The paper concludes with a set of proposals for policies that could help offset these constraints.

Enwere Dike is Lecturer in Economics at Ahmadu Bello University, Nigeria. This study has come out of the UNRISD research project on **Crisis, Adjustment and Social Change** in Africa, co-ordinated by Yusuf Bangura.

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Dharam Ghai
Director

◆ Abbreviations and Acronyms

EAP	economically active population
IDC	Industrial Development Centre
NDE	National Directorate of Employment
SICS	Small-Scale Industry Credit Scheme
UBA	United Bank for Africa

1. INTRODUCTION

Small-scale industrial enterprises occupy an important place in Nigeria's rapidly expanding informal sector. They are often seen as having a capacity to support capital accumulation as well as providing productive employment and viable incomes to low-income individuals who can no longer be absorbed into the formal economy. In terms of capital outlay, employment structure, value added, business organization and skills acquisition, small industries can be said to occupy the middle and upper levels of the informal economy. They experience relatively higher barriers to entry than low-level informal enterprises, which do not require significant investment capital or technical skills. Not surprisingly, compared to most of the groups in the lower sections of the informal economy, small-scale industrial entrepreneurs tend to earn higher incomes, be better educated, and recognize the value of collective workplace organization to regulate group competition and sub-sectoral corporate interests. Indeed, it is often difficult to draw a line between the activities of small-scale industrialists and those of formal entrepreneurs. Therefore, a study of how the former have coped with the crisis and economic reforms helps to broaden understanding of the structural changes taking place in the informal economy as a whole, including the way different types of entrepreneurs have responded to changing incentives.

A common claim, both in academic and policy circles, is that the urban informal sector is expanding as formal sector output and employment opportunities decline. Given that adjustment measures have shifted relative prices in favour of tradables and against imports, it is also claimed that small-scale industrial producers, who normally produce for the domestic market using largely locally-sourced inputs, are experiencing a boom as a result of the adjustment process. It is difficult, however, to conclude *a priori* that the impact of adjustment policies on urban informal sector producers has been favourable. It is necessary to understand the effects of the various macro-policies of adjustment on entrepreneurial development, employment, output and investment patterns. We also need to understand the internal structure, mechanisms and dynamics of the informal sector itself in order to appreciate how much freedom the entrepreneur has in attempting to adjust to the new environment.

Because the informal sector is organically tied to the formal economy, most of the macro-policies that have affected the performance of formal businesses — such as devaluation, interest rate deregulation and tariff reductions — have affected the informal sector in broadly similar ways. However, the actual impact of structural adjustment on small-scale industrial entrepreneurs is determined by the structural characteristics of the informal economy itself. As formal sector producers struggle to adjust to the pressures imposed by the policy reforms, the feedback effects on their informal sector counterparts are bound to be diverse and complex.

This paper examines the ways in which small-scale industrialists have coped with economic recession and structural adjustment in two of Nigeria's fastest growing cities. It seeks to identify patterns of social and economic change associated with coping strategies at the workplace and household levels.

Workplace issues deal with both individual and collective responses, and focus on questions relating to labour use and industrial relations; incomes, employment and output; input use and investment diversification; linkages with the formal economy and rural society; and enterprise-based and ethnic associations. Household issues deal with changes in consumption patterns, employment diversification and income sources. The final sections examine whether these coping strategies are compatible with the goals of long-term development and discuss a range of policy options for the informal small-scale industrial sector.

◆ 1.1 The Policy Environment

According to most international comparative statistics, by the mid-1970s, Nigeria had joined the ranks of the "middle-income countries" (thanks to expanding crude oil export earnings), whose average per capita GNP was put at US$ 850 in 1981. Between 1960 and 1981, Nigeria recorded an average per capita GNP growth rate of 3.5 per cent annually. By 1981, however, the world economic crisis had caught up with the country, terminating the positive growth trends.

Following the coup d'état of August 1985, which toppled the Buhari (1984-1985) régime and brought General Babangida to power, austerity policies initiated in the Second Republic (1979-1983) were jettisoned and replaced with a medium-term structural adjustment programme (SAP). The key elements of the SAP were import liberalization, installation of performance-oriented investment incentives, liberalization of interest rates, and privatization and commercialization of state-owned enterprises (SOEs). The cornerstone of the SAP package was the managed floatation of the naira: between 1986 and early 1992, the naira exchange rate against the US dollar was allowed to depreciate from N1.4 = US$ 1 to N18.78 = US$ 1. By January 1994, Naira floation was abandoned and the exchange rate fixed at N22 per US dollar. Following pressures from the international financial institutions, this fixed rate was later abandoned in 1995 for a two-tier rate: the rate of N22 to the dollar became applicable only to official transactions and a much more market-determined rate (rising to more than N80 to the dollar in 1995) was allowed to prevail for non-official transactions.

Several of the macro and sectoral policies introduced under structural adjustment have influenced the behaviour of small industrial entrepreneurs. The first two relate to changes in the exchange rate and levels of tariff protection. It has been argued in the conventional literature that currency over-valuation encourages high import consumption, distorts domestic cost structures and undermines export incentives. Devaluation therefore aims to shift domestic demand away from imports to domestic goods which, in turn, will encourage domestic investment, and boost output and employment, particularly in the export industries. However, devaluation exerts a contradictory impact on real incomes and employment, particularly in the short run. Devaluation reduces the real value of the financial assets of the private sector and, hence, its effective demand or purchasing power. As regards the impact of devaluation on export production, informal sector producers generally lack the technological capability to produce for export markets. Among the positive impacts of devaluation on local industry, however, may be cited the following: first, it acts as non-tariff protection for domestic industry; second, given rising import costs, local investors increasingly undertake technological improvization, economical use of imported inputs, and flexibility in the management of business enterprises. Small informal entrepreneurs are often much better equipped than formal enterprises to adapt to some of these changes.

A third policy change which has affected small entrepreneurs is interest rate deregulation. Deregulation is meant to induce high rates of domestic saving to finance investment. However, interest rate deregulation also causes the cost of borrowing from conventional financial markets to rise. This often penalizes the small entrepreneur, who may lack sufficient capital or strong links with officials of lending institutions and the state. The fourth policy change relates to privatization and budgetary cuts. These fuel retrenchment in the public sector, intensify competition in the informal sector and undermine real profits. Rising unemployment in the informal sector may also lead to reductions in aggregate demand. Reductions in or withdrawal of subsidies will raise operating costs, and adversely affecting living and working conditions. The bulk of small entrepreneurs in the informal sector are located in low-income residential districts characterized by poor access to public utilities. A fifth policy relates to financial reforms, viz. the reorganization of existing financial institutions and the introduction of new institutions to cater specifically for informal operators known to experience severely constrained access to formal sector financial markets. In Nigeria, these institutions include the People's Bank, the National Economic Reconstruction Fund, the Nigerian Industrial Investment Bank and the Nigerian Bank for Commerce and Industry.

◆ 1.2 Methods and Concepts

The empirical data analysed in this study were gathered through surveys — direct observation, interviews and use of questionnaires — over a nine-month period, from August 1991 to April 1992. One hundred and twenty small-scale industrialists were surveyed, of which 105 responded to our questionnaire. Samples were drawn from 10 predominant subsectors: foods, beverages, textiles and garments, furniture and sawmilling, footwear and bags, paper and paper products, chemicals (including soaps and cosmetics), metal working, spare parts fabrication, and building materials.

The definition of small-scale industry for this study is based on scale of employment and management structure. The literature distinguishes small-scale industry from household and cottage industries, which rely essentially on self-employment (although there is some hired labour) and have low barriers to entry. Thus small industry is defined as a production unit that involves enough investment in capital or skills to constitute a barrier to entry but is small enough to be managed by one person. Operationally, small industries employ less than 50 persons — those enterprises Davies et al. (1992) term "mini" enterprises, distinguishing them from household-type businesses. Small industry is distinguished from large industry by its simpler management, organizational and marketing forms. In general, final consumers contact small enterprises directly to place orders and production takes place in response to these orders; little inventory is accumulated.

The question of who is an entrepreneur has generated considerable debate in the literature. The Schumpeterian concept views the entrepreneur as the individual playing the role of (innovative) decision maker: he/she detects investment opportunities and makes "strategic decisions" (as regards when, where, and how to invest) within the firm. This role of decision maker may be independent of ownership — i.e., the entrepreneur may not necessarily be the owner of the firm. Yet in Nigeria, as in most developing countries, the decision maker for the small enterprise is invariably its owner. For the purposes of this study, an entrepreneur is an individual who shares in the risk capital of the small firm — as sole owner or as joint owner — and, on that basis, takes responsibility for mobilizing and utilizing the firm's productive resources.

Furthermore, the informal economy denotes a situation or process of income generation characterized by one central feature: a lack of regulation or control by the institutions of the state in a situation where similar economic activities come under institutional regulation one way or another (Portes et al., 1989). The absence of state regulation, which differentiates the informal economy from the formal economy, may affect various elements of the work process in the former: the status of the worker (through lack access to social benefits, paid wages inferior to the minimum wage, insecure work contract, etc.); the conditions of work (through violation of safety and health standards); and the form of management (through use of non-standard accounting rules, sole proprietorship, etc.).

◆ 1.3 Study Locations

The empirical data analysed in this study were gathered in Aba (Abia State) and Nnewi (Anambra State), both in south-eastern Nigeria. These two cities occupy prominent positions in the Nigerian economy, particularly as locations for small industry. Aba grew in the colonial economy as an important centre of the palm produce trade. Linked by rail and road to Port Harcourt, Nigeria's second seaport and seat of the oil industry, Aba vied with Onitsha as the dominant commercial heartland of the old Eastern Nigeria. The railroad and proximity to Port Harcourt helped to centre both trade and production in Aba. Its location within the densely populated "Igbo heartland" guarantees a steady supply of informal sector labour. Aba presently has a population estimated to exceed 0.5 million and is growing at a rate of 7-8 per cent annually, though much of the in-migration into the city is, as in other Nigerian cities, circular in nature. The massive migration from rural areas to the city has been made more obvious by the lack of absorption of a large segment of the labour force into formal wage employment, a phenomenon which has continuously swollen the city's informal economy.

Aba occupies a frontline position in contemporary Nigerian economic life. Dubbed the "Taiwan of Africa", the city boasts vibrant enterprises producing industrial products for markets in the West and Central African sub-regions. Two factors seem to have catalysed its rapid transformation into its current pre-eminent position. The first is its proximity to and road and rail links with Port Harcourt, 80 kilometres to the south. The second, and perhaps more important, is that the city provided "refuge" for Igbo businessmen displaced from other Nigerian cities during the Civil War (1967-1970). Many of these businessmen exploited the booming import trade of the 1970s, accumulating enormous financial capital with which they later diversified into import substituting small-scale production to supply an expanding national market. The Aba Ariaria market is the largest Nigerian market for textiles, leather bags and shoes, and other products.

Aba's growth can be said to be driven by commercial capital, the latter divided among a number of relatively large, medium and small-scale firms. Large-scale commerce is based on import distribution; some 70-80 per cent of goods coming to Port Harcourt are destined for Aba, from where they are distributed to other Nigerian cities. Large-scale commerce grew rapidly in the 1950s and 1960s, centred on Scandinavian stockfish, second-hand clothing, consumer goods and textiles. In the 1970s, the oil boom restructured demand; products of import-substitution industrialization including soap, beer, textiles and building materials supplemented imports to further boost commerce. Aba is also one of Nigeria's major industrial centres, specializing in beer, soap, glass, timber processing, food processing and textiles. But the city's economic strength resides in food processing, soap, automobile parts, metal fabrication, shoes and assorted leather products, textiles and garments produced largely by an expanding informal economy of tradesmen and artisans.

Nnewi, in contrast to Aba, is not a major urban centre but a predominantly homogenous Igbo community rapidly converting into a commercial-industrial centre of national importance. The population of Nnewi is currently put at about 100,000. Located about 40 kilometres south-east of Onitsha, the old commercial centre of the Lower Niger, Nnewi boasts a large and expanding population of "native sons" with prosperous business connections dating to the colonial and early post-colonial decades. Nnewi has undergone more industrialization than probably any other indigenous community in Nigeria since the 1970s. Forrest describes the "silent industrialization" of the community since the 1970s in the following terms:

> Over the the last decade . . . Nnewi has experienced . . . rapid industrialization. About 20 medium to large-scale industries have been established across a variety of sectors. Since the end of the Civil War in 1970, Nnewi indigenes have controlled some 80-90 per cent of the motor parts trade in Nigeria. Nnewi Nkwo market is the major import and wholesale point for motor spare parts in Nigeria. This extraordinary marketplace, which extends over a wide area, is thus located not in a major city but in an Igbo community. The trade proved a formidable generator of wealth and a spur to industrialization. The manufacture of motor parts currently employs over 1,000 persons . . . it is entirely the product of private initiative and does not involve foreign investment. Here the common syndrome where the local community struggles to attract government projects, and indigenes complain that local sons are not investing at home, has been broken. Industrial plants are scattered over the four quarters of Nnewi, sometimes on family land and hidden from view behind compound walls (1990: 28).

After the Civil War, enterprise in Nnewi shifted from commerce to manufacturing, which reflects a pattern observed in many Igbo communities. The automobile parts production industry in Nnewi is by far the most developed in Nigeria. The largest firm, Ibeto, opened in 1988, employs more than 1,000 people, and produces batteries and accessories based on Taiwanese technology.

Another major automobilie parts firm, Edison Industrial Limited, produces brakes and brake linings. The informal sector in Nnewi is centred on these enterprises. — including motor parts and automobile repair works — but also includes production of building and construction materials, garments and textiles, soap and cosmetics, wines and gins, and transportation services. Informal small-scale industrial production in Aba and Nnewi is relatively highly developed, providing products for regional and national markets.

2. THE NIGERIAN ECONOMY PRIOR TO STRUCTURAL ADJUSTMENT

This section provides an overview of the Nigerian economy prior to structural adjustment in late 1986, which is useful as a backdrop for understanding why the informal economy expanded during SAP. The Nigerian economy grew steeply in the 1970s, thanks to oil exports, only to collapse by the beginning of the 1980s. Sectoral dichotomies grew, particularly in terms of productivity and incomes, between agriculture and non-agricultural undertakings.

◆ 2.1 Output, Employment and Sectoral Income Trends

One clear feature of Nigeria's post-colonial economic growth up to the mid-1980s is the tremendous sectoral shifts in terms of output and distribution of the "economically active population" (EAP) (see Dike, 1991). These sectoral shifts also reflect intersectoral resource shifts largely in response to the incentive and disincentive effects of changes in the relative prices of inputs and final products. According to Oyejide (1986), between 1970 and 1982, Nigerian (peasant) agriculture lost some 400,000 members of its work force annually to the non-agricultural sectors, the bulk of this to the urban informal sector. Even within the rural economy itself, employment shifted towards non-farm activities (Okafor, 1983). Nevertheless, the Nigerian population remains fundamentally rural: although the share of the rural population in total population had declined to 68.6 per cent in 1980, it had risen to 70 per cent by 1985. Tables 2.1, 2.2 and 2.3 show such structural shifts in the economy.

Table 2.1: The Nigerian population (% distribution)

General population	1970	1975	1980	1985
Rural	77.8	75.3	68.6	70.0
Urban	22.2	24.7	31.4	30.0
Population growth (% annual)	2.5	2.8	3.5	3.5
Economically active population				
Agriculture	69.8	64.0	60.0	56.6
Industry	12.8	12.8	18.3	10.3
Services	17.2	17.8	21.4	32.1

Source: Federal Office of Statistics, various publications.

Table 2.2: Structural shifts in the Nigerian economy (%)

	1970-1979	1980-1982	1985
Sectoral distribution of GDP			
Agriculture	33.1	18.0	27.0
Industry[a]	37.1	32.0	17.0
Services	26.0	45.5	55.2
Annual growth rate of real per capita GDP	**1969-1979** 2.9	**1979-1989** -4.6	
Consumer Price Index (1975 = 100)	**1975** 100	**1980** 205	**1985** 484
Exchange Rate (N equivalent to US$)	1.4	1.4	1.34

[a] includes manufacturing, mining, construction and water and energy generation.
Source: Federal Office of Statistics, various publications.
Exchange rates are from International Monetary Fund (IMF), **International Financial Statistics**.

Table 2.3: Urban and rural income estimates in Nigeria

Year	Rural wage rate (N/month)		Urban minimum wage rate (N/month)		Ratio of real urban to real rural wage
	Nominal	Real	Nominal	Real	
1970	16.80	5.6	100	16.1	2.875
1975	81.20	8.12	150	15.0	1.847
1980	151.20	5.32	150	7.3	1.372
1985	198.90	4.12	250	5.1	1.238
1986	205.52	4.11	250	4.6	1.119

Note: The nominal rural wage rate is obtained as value added per capita in agriculture. The nominal urban minimum wage rate is equated with the legislated minimum wage rate obtaining in the public sector. The real wage rates are obtained by deflating the nominal rates by the corresponding urban and rural cost of living index.

The share of industry in the economically active population (EAP) remained low during the period, reflecting the inherent incapacity of the industrial sector to absorb labour proportionately to its size in GDP. In contrast to the declining shares of agriculture and industry, respectively, in the EAP, the share of services roughly doubled, growing from 17.2 to 31.2 per cent during 1970-1985 (see table 3.1). High rates of inflation contributed to sharp declines in real incomes over the period, particularly in the early 1980s. (The consumer price index — an indicator of the inflation rate — rose roughly five hundred per cent during 1975-1985.) Real incomes in urban areas appear to have declined much more rapidly than those in rural areas, thus apparently bridging the rural-urban income divide (table 2.3). As real incomes declined in the urban economy and employment opportunities in large industry in the formal sector contracted severely, many people of diverse socio-economic backgrounds initiated part-time economic activities or became self-employed in the informal sector (Mustapha, 1991).

◆ 2.3 Development of the Informal Economy

What is the nature of the informal economy in Nigeria? What forces have influenced the dynamics of the informal economy in its various phases of development? What is the structure of employment in the sector? The Nigerian experience shows that the extension of the informal economy is not limited to periods characterized by slow economic growth or depression, as witnessed since the 1980s. The informal economy has also grown and changed during expansive economic cycles, as witnessed in the oil boom years of the 1960s and 1970s. The informal economy in Nigeria has been recreated and expanded under the most diverse economic circumstances and in all economic activities, including manufacturing, construction, mining and services. However, the actual dynamics and employment structure in the informal economy have been very much affected by the nature of public policy, particularly as the latter affects the "regulated economy".

Unfortunately, data upon which to base accurate estimates of the actual size and employment structure in the informal economy remain inadequate (Meagher, 1991). Estimates available for individual Nigerian cities must be interpreted with extreme caution; they merely serve as indicators of broad trends and should not be considered accurate depictions of the size of the informal economy. Offical and other estimates put the size of the informal economy in terms of employment in the 1960s and early 1970s at 25.3 per cent (FRN, 1970, 1974; FOS, 1975; Oyeneye, 1980; Fapohunda, 1981). Still other estimates claim that 50 per cent of total urban employment can be accounted for by the urban informal sector (ILO, 1985; Mabogunje and Filani, 1981). Yet others put the employment size of the sector in the urban labour force in the range of 70-75 per cent (Dike, 1994).

The actual size of the Nigerian informal economy may never be accurately estimated. What is obvious, however, is that since the 1980s, given the employment difficulties in the formal sector and inducements offered by public policy for self-employment, an increasing proportion of the Nigerian urban workforce has become integrated into the informal economy. Working either full-time or part-time, as self-employed or wage employees, it is possible that these new entrants have pushed the share of the urban workforce occupied in the informal economy well beyond what available statistics would suggest.

Employment in the informal sector encompasses a rather broad spectrum of entrepreneurial activities, as well as all sections of the labour force; it runs across the entire social structure. Entrepreneurial activities range from farming and other extractive activities (fishing and mining) to manufacturing, construction and services of all types. Small-scale enterprises generally predominate. They fall into two broad categories:

- **household activities**, which use family labour and produce mostly differentiated non-durable consumer goods and services in mass demand by the low-income urban population; and
- **"micro" enterprises**, which exploit wage labour, employ apprentices and locate production in "workshops".

Both categories of enterprises use varying types of mechanization, although the "micro" enterprises are much more capitalized than the household-type activities. It is with the former that this study is concerned. The major household activities include: farming, construction, manufacturing, leather processing, metal working, auto repairs, electrical and electronics-based trades, textiles and garment production, transportation, beauty salons, petty commerce, hotels and restaurants, education (including secretarial and specialized schools in computer programming), and word-processing. However, the dominant traditional activities remain small-scale commerce and services and artisanal trades. The latter occupy well over 45 per cent of the informal labour force and this proportion is continuously swollen by ease of entry due to low skill and capital requirements. For example, an incomplete survey of Kano city in the early 1980s recorded over 10,000 street hawkers (Gano, 1983); a complete count might yield five to six times that number.

The crisis has substantially altered the socio-economic composition of "actors" in the informal economy. Traditionally dominated by artisans and small-scale commercial and service operators, the sharp decline in urban real incomes across the board since the 1980s has broadened the participation of the urban working and professional classes in the informal economy.

◆ 2.4 Phases in the Development of the Nigerian Informal Economy

The rapid expansion of the informal economy in Nigeria proceeded hand-in-hand with agricultural export boom (in the 1950s); rapid urbanization, oil boom, and agricultural stagnation and decline (in the 1970s); and internal migration, import substitution industrialization, and external debt crisis (in the 1980s onwards). As noted earlier, it would be facile to imply a causal relationship between these processes and the expansion of the informal sector. Each phase in the economy's development has had its particular dynamics in informal economy development. We can, however, distinguish in three distinct historical phases the development of the informal sector: (a) the pre-oil boom era; (b) the oil-boom era; and (c) the post-oil boom era.

(a) The pre-oil boom era

This period encompasses the 1960s through the early 1970s if we confine our analysis to the post-colonial decades. Otherwise, development of the informal economy can be traced back to the colonial decades, when colonial capitalism and urbanization began with their attendant element of wage employment. For this period, however, there are some conceptual and statistical difficulties in trying to demarcate the informal economy. Indeed, the informal economy was never considered an independent category in official statistics prior to the 1970s. Consequently, traditional crafts and petty trading were frequently lumped together with activities in the rural economy (Meagher, 1991). On the other hand, informal sector activities that produced modern goods were often categorized as small-scale industries belonging in the formal sector.

Nevertheless, official estimates exist, which put the size of the informal sector in 1966/67 at 25 per cent of the urban workforce (FRN, 1970:313). Under this category were included mechanical and repair workshops, services, manufacturing and processing, crafts and petty trade. A 1965 pilot study found that most of these enterprises functioned at low productivity levels, owing to lack of marketing skills, inadequate working capital and a low standard of workmanship (cited in FRN, 1970:313). In turn, low standard of workmanship severely limited the demand for informal sector products, particularly as wages began to rise and taste preferences began to shift in favour of imported goods (Sekuk, 1970).

Offical policy towards the sector was more or less passive during this early period, though the employment generation of the sector as well as its capacity to utilize local raw materials and maintain indigenous participation in some sectors of the economy, particularly small-scale commerce, were recognized (FRN, 1970:313). However, it was equally felt that the sector's technological limitations and low productivity precluded any substantial contribution in employment and raw material exploitation. Consequently, the main solutions to the urban employment problem were seen in increased investment in the formal sector as well as increased indigenous ownership of industrial capital. The only major policy initiative on the informal sector prior to the oil boom period, apart from the Indigenization Laws of 1972, was the establishment of Industrial Development Centres (IDCs) to provide technical advice to small-scale industry.

(b) The oil boom era

This period encompasses the rest of the 1970s and is characterized by rising (nominal) per capita incomes and expanding imports. The expansion of the informal sector during this period was propelled by growth in consumer demand among the low-income segments of the urban working classes and population at large. The sector generated 25 to 30 per cent of the non-agricultural wage employment during the period (FRN, 1974:385). For Lagos, Fapohunda (1981) estimated that the informal sector occupied 50 per cent of the work force in 1976. The major source of informal sector expansion was massive rural-urban migration, supported by rising incomes in the urban sector on the one hand and declining agricultural opportunities on the other, both of which were accelerated by the impact of the oil boom. Furthermore, the Civil War (1967-1970) induced a high out-migration of informal sector actors from the

Eastern states to urban centres located in the Western and Northern states of the country.

The major growth poles in the informal sector during the 1970s were in services and manufacturing. In Kano, some 37 per cent of informal sector operators were reported to have earned incomes above the minimum wage of 60 naira per month (Mabogunje and Filani, 1981), while in Lagos, due to greater competition, around 15 per cent of informal operators earned above the minimum wage (ILO, 1985; Fapohunda, 1981).] It was during the 1970s that the informal sector received recognition as a distinct sector of the economy (FRN, 1974). Rising urban unemployment, in spite of the oil boom, had awakened the belief in policy circles that the informal sector might offer a solution to the looming employment crisis. However, the major impediments to the sector's development were perceived as the absence of skilled manpower and over-regulation (FRN, 1974:29, 369). The IDCs that were started in the 1960s and the Small-Scale Industry Credit Scheme (SICS) were the major policy interventions of this period.

(c) The post-boom era

This period encompasses the 1980s onwards. The economic crisis and the crash of the oil economy had altered the conditions under which the Nigerian economy, particularly the regulated formal sector, functioned. If the expansion of the informal economy in the 1970s was sustained more by rising purchasing power among the urban low-income groups, its expansion since the 1980s has been supported by declining purchasing power among the urban working and middle classes who now demand the cheaper goods and services produced in the informal sector.

Moreover, rising unemployment among the urban labour force as a whole has pushed many, otherwise located in the formal sector, to relocate into the informal economy as self-employed workers and investors. This has increased competition in the sector.

3. THE NATURE OF THE FIRMS SURVEYED

◆ 3.1 Introduction

As already noted, small industries are defined on the basis of the number of workers they employ: firms employing fewer than 50 persons can be considered small-scale. The employment criterion has the advantage of accommodating the subgroups of "dwarf enterprises", "household units", "handicraft shops", etc., which engage five person or even less. However, small industry should not be understood exclusively on the quantitative criterion. Equally important are certain qualitative criteria, namely the types of labour employed, types of markets served, types of technology deployed, sources of credit and forms of ownership.

◆ 3.2 Size and Composition of Employment

The sampled firms were typically small, employing on average 6.3 persons (table 3.1). The firms employing the largest number of workers are located in footwear and leather, building materials, and textiles and clothing, areas that are relatively more labour-intensive than metal fabrication and mechanical/electrical spare parts, for example.

Table 3.1: Ownership forms of firms (% distribution) and number of workers

Line of activity	Small proprietor	Partnership	Corporation (limited liability company)	Co-operatives	Employment size (number of persons/firm)
Food	100	0	0	0	4
Beverages	100	0	0	0	3
Textiles and clothing	71	0	0	29	8
Furniture	100	0	0	0	6
Footwear and leather	90	10	0	0	15
Paper and paper products	80	20	0	0	6
Chemicals	100	0	0	0	4
Metal works and fabrications	90	8	2	0	4
Mechanical and electrical spare parts	100	0	0	0	5
Building materials	60	0	0	30	10
Average					6.3

Source: Field survey.

The survey reveals that the composition of the workforce is dominated by apprentices and labour supplied by members of the household/relatives almost in equal terms, while about 25 per cent of the workforce is hired labour (table 3.2), which conforms well with findings in the existing literature: at the upper end of the entrepreneurial scale in the informal sector, substantial use is made of hired/wage labour and apprentices, with apprentices constituting a source of capital accumulation for entrepreneurs through provision of unpaid labour.

Table 3.2: Composition of workforce (% distribution)

Subsectors	Hired/ wage	Household/ relatives (%)	Apprentices	Employment size (average workforce/ firm)
Food	2	86	12	4
Beverages	20	53	27	3
Textiles and clothing	6	54	40	8
Furniture	65	-	35	6
Footwear and leather	39	13	48	15
Paper and paper products	63	6	31	3
Chemicals	65	12	23	4
Metal works and fabrications	6	14	80	4
Mechanical and electrical spare parts	6	37	57	5
Building materials	10	87	3	10
Average	24.5	40.2	39.6	6.3

Source: Field survey.

Of course, there are sectoral differences in the workforce composition. The proportion of household labour is relatively high in food, beverages, textiles and clothing, and building materials, averaging more than 60 per cent of their total workforce, but it is low in footwear and leather, paper, chemicals and metal fabrication. On the other hand, metal fabrication, mechanical/electrical spares, footwear and leather, and textiles have a heavy concentration of apprentices in their workforce. Generally, those firms employing a relatively high proportion of apprentices also tend to have a high proportion of hired labour. We return to these themes in the discussion on coping strategies in section 5.

◆ 3.3 Ownership

All the surveyed firms are 100 per cent Nigerian-owned; and most of those in foods, beverages, furniture, chemicals, metal working and fabrication, and mechanical/electrical spares are sole proprietorships. Few of the firms are partnerships; cooperatives are equally rare, but some can be found in the building materials, and textiles and clothing sub-sectors (table 3.1). Various past studies on Nigeria confirm that the structure of business ownership in the informal sector is dominated by "sole proprietorship" and "family ownership" (Konto, 1983; Aluko et al., 1973). A more recent study found 80 per cent of the 150 firms surveyed to be sole proprietorships (Babajo, 1990).

Table 3.3: Institutional regulation of economic activitiy

Type of institutional regulations	Response	Food	Beverages	Textiles and clothing	Furniture	Footwear and leather	Paper and paper products	Chemicals	Metal work and fabrications	Mechanical and electrical spare parts	Building materials	Total	%
Is enterprise formally registered with Trade and Industry Ministry?	Yes No	9 1	1 3	15 6	9 1	1 12	3 1	9 1	6 15	12 3	3 1	66 39	63 37
Must enterprise submit audited accounts to tax officials?	Yes No	9 1	1 3	1 21	1 9	1 12	1 3	1 9	3 18	3 12	3 1	18 87	17 83
Are employees covered by labour legislation laws, e.g. minimum wage, pension and gratuity, social security benefits?	Yes No	1 9	1 3	1 21	1 9	1 12	1 3	1 9	1 21	9 6	3 1	12 93	11 89
Is enterprise guided by quality and technical norms?	Yes No	9 1	1 3	6 15	3 6	1 12	3 1	9 1	15 6	9 6	3 1	57 48	54 46
Is enterprise guided by Health and Safety laws?	Yes No	3 6	1 3	6 15	1 9	3 9	3 1	6 3	12 9	6 9	3 1	42 63	40 60

Source: Field survey.

The preference for "intense individualism", being one's own boss and an unwillingness to entrust capital to others probably explain the predominance of sole proprietorships and family businesses. Most Nigerian informal sector entrepreneurs would prefer to run a chain of sole proprietorships managed by themselves and/or close family members rather than enter into a partnership. This might also explain why the majority of informal businesses remain small-scale.

◆3.4 Institutional Regulation of Firms

In terms of institutional regulation of economic activities, a substantial number of the firms surveyed may not qualify as informal sector firms in the conventional sense. Among the conventional criteria for belonging to the informal economy are the following: income-generating activities are not regulated by, say, minimum wage laws; enterprises are not required to be registered with the appropriate state agencies for tax assessment; standard conditions of work in terms of health and safety regulations are not enforced, etc. Our survey data reveal, however, that these standard criteria are violated in many instances in regard to enterprises located at the intermediate and upper zones of the informal economy. It seems that as we move out of household-based activities and petty production towards the intermediate and upper zones, the demarcation between firms in the latter and those in the formal economy tends to get blurred.

Only 37 per cent of the firms surveyed are not registered with the Ministry of Trade and Industry; 17 per cent are required to submit audited accounts; 11 per cent are guided by labour laws on minimum wage, and 40 per cent observed health and safety legislation (table 3.3). All the entrepreneurs admitted that they pay income taxes, but since the firms keep no standard accounting procedures it was not easy to ascertain whether such taxes are assessed on the basis of their income levels. Nevertheless, the contention that informal operators and their activities "are outside the tax net" (Elkan, 1988:180) may be accepted as valid only if taxes paid by informal entrepreneurs are not based on their income levels or if informal enterprises are not taxed as corporate bodies.

All surveyed firms make use of the public utilities — electricity, water and telephone — to varying degrees, which exposes them to the impact of the adjustment policy instruments. In terms of location of economic activity, 80 per cent located their "workshops" outside their residential premises (in rented accommodation or commercial/industrial zones). Their relatively large-scale operations vis-à-vis the household-type enterprises, and use of mechanized technology and electricity require that enterprises be located away from the residential homes of their owners.

4. THE DEVELOPMENT OF ENTREPRENEURSHIP

◆ 4.1 Introduction

In this section we focus on the growth of entrepreneurship induced by changes in the structures of opportunities, including those caused by structural adjustment. What is the nature of enterprise growth in the informal sector? How are entrepreneurs distributed over different lines of activity? What factors can be identified as influencing the sectoral distribution of entrepreneurial development?

Entrepreneurship is a generic term embracing several attributes and functions of those who start-up, run, expand or even contract business. There is often a distinction between (a) those functions that are related to the making of investment decisions to establish or expand a business; and (b) those that are related to the running of the business after the investments are made (Anderson, 1982). This definition thus tends to distinguish between the investment and management sides of entrepreneurship. In practice, however, there may be little distinction between these two roles: an entrepreneur is one who perceives investment opportunities, establishes the enterprise, and sees to its successful running or management; he or she initiates the economic life of the firm, assembling inputs (labour, capital, raw materials, etc.) in the right proportions, establishing goals, and seeing to their accomplishment.

African entrepreneurs have been found to originate typically from five backgrounds (Elkan, 1988; Schamp, 1989; Illiffe, 1983; Kilby, 1965, 1969; Forrest, 1990). The first are artisans who move up from the informal sector, which is often the case in metal working, tailoring and furniture production. The second are former employees of foreign firms who retire into the private sector to set up the same or similar product lines. The third are traders and merchants who started out as import distributors and/or participants in the colonial commodity trade. The fourth are politicians and employees of the public sector who exploit their links with the state to acquire financial resources, often illegitimately, and then set up an "independent base" in the private sector. Finally are the young school leavers, usually with tertiary education, who take to informal sector business either by default (because they could not find a satisfying job) or to fulfil personal ambition.

The above typology seems to fit the Nigerian experience (Kilby, 1965, 1969; Hopkins, 1973; Osoba, 1977; Hogendorn, 1978; Andrae and Beckman, 1985; Forrest, 1990). But what is the background of the entrepreneurs found in our sample? How did their education and former employment experience influence their present choice of investment lines and their capacity to adjust successfully to the changing environment under structural adjustment?

◆ 4.2 Growth of Entrepreneurs

If entrepreneurship is measured by the growth of small-scale enterprises, we could obviously conclude that structural adjustment seems to have induced further growth in Nigerian enterprise. Indeed, the crisis and attendant structural adjustment policies seem to have provided an "enabling environment" for further expansion of small entrepreneurs in the informal sector. Table 4.1 provides a crude indication of the growth of small-scale enterprises which, of course, does not tell us about rates of increase in the number of enterprises and closures in pre- and post-structural adjustment programme (SAP) periods. At any rate, of the 105 firms surveyed, 57 per cent were established prior to the introduction of structural adjustment in late 1986, 43 per cent of the firms surveyed were established after the programme was introduced.

Table 4.1:Time of establishment of small-scale industries

Line of investment	Pre-SAP (prior to 1987)	SAP era (since 1987)
Food	6	3
Beverages	3	-
Textiles and clothing	12	9
Furniture	3	6
Footwear and leather	12	-
Paper and paper products	-	3
Chemicals	3	6
Metal works and Fabrications	12	9
Mechanical and electrical spare parts	9	6
Building materials	-	3
Total	60	45
Percentages	57.14%	42.86%

Source: Field survey.

The previous employment backgrounds of the entrepreneurs surveyed are shown in table 4.2. Former employees of private firms account for 31.4 per cent of the entrepreneurs surveyed; 30 per cent were unemployed youth, 24 per cent were traders, 15 per cent were former civil servants and 3 per cent were artisans. The entrepreneurs surveyed come from a variety of employment backgrounds.

Table 4.2:Distribution of entrepreneurs according to previous employment background (%)

Product lines	Unemployed	Trader	Artisan appren-tices	Civil servants	Employed in private firms
Food	-	6	-	-	3
Beverages	3	-	-	-	-
Textiles and clothing	9	-	6	-	6
Furniture	-	3	3	-	3
Footwear and leather	9	3	-	-	-
Paper and paper products.	-	-	-	-	3
Chemicals	-	-	-	-	9
Metal work and fabrications	3	6	6	-	6
Mechanical and electrical spare parts	6	3	-	3	3
Building materials	-	3	-	-	-
Total	30	24	15	3	33
Percentages	28.57%	22.86%	14.29%	2.86%	31.43%

Source: Field survey.

What factors influenced entrepreneurs' choice of employment? Answers to this question are analysed according to lines of investment (see table 4.3). The bulk of entrepreneurs (34.3 per cent) entered their business simply because "others seemed to be successful" in those lines of investment — namely textiles and clothing, metal fabrication, foods, and chemicals, which seem to be the leading sectors or "growth poles" in the informal sector. On the other hand, entrepreneurs seem to have flocked into foods, textiles and clothing, footwear and leather, chemicals, and building materials due to "easy access to raw materials". The factors influencing choice of investment activities are therefore varied and complex. The varied backgrounds of operators in the informal sector are illustrated in the following three case studies.

Table 4.3: Factors influencing choice of activity line of investments

Factors/Line of investments	Food	Beverages	Textiles and Clothing	Furniture	Footwear and leather	Paper and paper products	Chemicals	Metal work and fabrications	Mechanical and electrical spare parts	Building materials	Total	%
Distributor of products in earlier employment	3	-	-	-	3	-	-	-	3	-	9	8.57
Earlier worked for a (foreign) firm producing this product	-	-	-	-	-	3	3	3	6	-	15	14.29
Easy entry due to low capital requirement	-	3	6	6	3	-	-	-	-	-	18	17.14
Low technological requirements	-	-	-	-	-	-	-	-	3	-	3	2.86
Easy access to raw materials	3	-	3	-	3	-	3	9	-	3	24	22.86
Others seem to be succeeding in it	3	-	12	3	3	-	3	9	3	-	36	34.29
											n=105	

Source: Field survey.

Entrepreneur X (metal working and mechanical/electrical repairs)

I was born in 1944 at Uruagu Nnewi. I stopped schooling in Standard Three because my family could not pay the school fees any longer. I went to Bendel to become a houseboy, later served at Onitsha and then went to Kano to serve as a conductor of vehicles. I continued the work of conductor for many years, then I got my own driving licence, then became a qualified driver — and started driving on my own for about three years. Then I used the money which I saved to purchase aluminium scraps, brass, condemned batteries, copper cast and scrap iron. I traded these products about five years then I switched over to old motor parts. After dealing in motor parts for some years I was able to save some money to start off my small industry. I used the money to build up the house and the machinery and tools involved. I am married to two wives and have sixteen children.

Entrepreneur Y (metal fabrication)

I went into a company under supervision of my uncle. I was being paid as an employee. I stayed five years in the company, from 1982-1988, until I felt that I had enough capital to establish my own enterprise. My company was born on 21 June 1990. Initially, I stayed alone; later my friend joined me.

Entrepreneur Z (chemicals)

I was born in 1958. After primary school in Aba I attended a secondary grammar school and later went to a university to read chemistry. I graduated Second Class, was recruited as Marketing Manager by Lever Brothers in 1985. After two years I left Lever Brothers and entered into a partnership with a friend to establish a small soap firm. I had a loan from UBA (United Bank for Africa) and supplemented this with savings from my previous employment.

Entrepreneurs X and Y typify the informal sector operator, barely possessing primary school education. With little or no technical school background, they have succeeded in establishing prosperous businesses designing and producing engineering products. Enterpreneur Z represents the "new breed" of informal sector operators. This category of informal entrepreneurs possesses better-than-secondary school education, which reflects the fact that choosing to work in the informal sector is acquiring social recognition. The growth of this category of entrepreneurs also reflects a substantial reduction in formal sector alternatives.

Notable efforts to adapt their enterprises to conditions under SAP have been made by two broad groups of entrepreneurs. First, there are those who have created comfortable niches for themselves through relatively minor innovations and diversifications, using primarily local raw materials. These entrepreneurs are located mainly in the foods, textiles and garments sectors. Among the latter, there is imaginative designing of garments to capture demand from expanding markets. These are groups which Jonathan Dawson (1988), writing on the Ghanaian experience, has characterized as "an organic growth from informal sector seedbeds". According to Dawson, they normally continue as labour-intensive enterprises that produce in small quantities and sell to individuals. Their adaptations and innovations permit them to prosper. Entrepreneur X, above, fits this type.

The second group involves those who may be described as "an injection of new blood". They normally possess good technical education, usually university engineering graduates, with access to large firms and bank loans. They are capable of upgrading local artisanal engineering products or adapting known products to suit prevailing local demand. Their more advanced technical skills, financing ability and marketing channels place the firms here in a more dynamic frame. Entrepreneuer Z fits this type.

The entrepreneurs surveyed in the sample all completed primary school education; 22.86 per cent received secondary school and tertiary (polytechnic and university) education. When asked how they acquired the skills for their present business, more than 80 per cent of those without tertiary education replied "through apprenticeship"; those with tertiary education had acquired some technical and professional skills that enabled them to launch their businesses (table 4.4).

Table 4.4:Distribution of industrialists according to educational background

Line products	**Number of retained question-naires**	**Primary education**	**Seconday education**	**Tertiary education**	**Technical/ vocational education**
Food	9	-	9	-	-
Beverages	3	-	-	3	-
Textiles and clothing	21	9	6	6	-
Furniture	9	6	-	-	3
Footwear and leather	12	9	3	-	-
Paper and paper products	3	-	-	3	-
Chemicals	9	-	3	6	-
Metal work and fabrications	21	12	-	3	6
Mechanical and electrical spare parts	15	6	3	3	3
Building materials	3	3	-	-	-
Total	N = 105	45	24	24	12
Percentages		42.86%	22.86%	22.86%	11.43%

Source: Field work

The survey thus reveals a relatively high level of formal education among industrial entrepreneurs at the intermediate and upper levels of the informal sector. The claim in the literature that the informal sector harbours operators who are largely illiterate may be valid only for those operating at the sector's lowest rungs. The relatively high level of post-primary education among industrial entrepreneurs in the informal sector seems to reflect the increasing social prestige attached to working in private business or being the owner/operator of a private firm. Also, it reflects a substantial reduction in formal sector employment options for secondary school and university graduates. Perhaps more importantly, it reflects an understanding on the part of actors in the informal sector that some form of formal education and/or vocational training is necessary for successful entrepreneurial activity in the industrial sector.

There are, of course, differences in the level of education attained by entrepreneurs in the various subsectors. Most of those surveyed in beverages, paper and paper products, chemicals (soaps, cosmetics, etc.), and mechanical/electrical spare parts progressed beyond secondary school education. On the other hand, those in textiles and clothing, furniture, footwear and leather, metal fabrication, and building materials did not progress beyond the secondary school level; 80 per cent of the entrepreneurs in metal fabrication and 100 per cent in building materials attained only primary school education, which was supplemented later with several years of apprenticeship and accumulated experience before entering their present employment.

Women own only about 6 per cent of the firms surveyed, located in foods, and textiles and clothing (table 6.1). As noted above, foods, and textiles and clothing are among the sectors which have attracted entrepreneurs because “others seem to be successful” in those lines. These two sectors are also “easy entry” areas, which may account for the relatively large presence of women in these lines of investment.

5. COPING STRATEGIES AT THE WORKPLACE

◆ 5.1 Introduction

The workplace is the locus of investment and production; it is the place where the entrepreneur takes decisions regarding when and in what activities to invest, depending upon the macro-economic constraints and incentives facing his/her enterprise. In this section, we examine the interface between the workplace and the macro-economic environment. We analyse how the various categories of entrepreneurs have adjusted their investment and production in reaction to the changing environment under crisis and structural adjustment policies, which has been characterized by rising production costs, uncertain demand and stiffer competition.

The particular coping strategies adopted by an entrepreneur are determined, invariably, by the nature of the product(s) produced, the type of institutional regulations faced by the firm, the nature of market demand. Enterpreneurs producing products with dynamic national demand, e.g. foods, evolve different strategies from those producing, say, chemicals, which may be facing sluggish and uncertain markets; similarly, import-intensive enterprises react differently than those firms rooted in domestic inputs. It is thus not possible to speak of unified coping strategies, given the diverse ways entrepreneurs may be affected by changing incentives.

Table 5.1: Coping strategies at the workplace

Question	% of entrepreneurs using coping strategy
Altered working hours	
longer	63
shorter	6
unchanged	31
Wage rates/remunerations to employees	
increased	10
reduced	10
unchanged	60
Employment/size of workforce:	
increased	80
reduced	10
unchanged	5
casualized	15
Apprentices taken on:	
increased	80
reduced	15
unchanged	0
Apprentices made to spend longer time	40
Use of family labour	
increased	95
reduced	20
unchanged	0
Made new capital investment	70
Expanded old ones	90
Product mix changed	50
Lowered product quality	0
Changed input mix	80
Reorganized business's management pattern	70
Install own private source of:	
electricity	95
water	95
Explored new markets	100
Overseas markets	80
Retained old market	
maintaining product quality	80
through advertising	3
credit to consumers	6
Share of domestic raw materials	
greater	100
smaller	nil
Diversifying investments into other areas	60
Retuning/modifying old equipment and technologies and recycling raw materials	70
Pooling equipment	60
Benefited from SAP financial institutions	10
Benefited from NDE programmes	9

Source: Field survey; N = 105

Table 5.2: Linkages with the formal sector (%)

Line of activity	Food	Beverages	Textiles and clothing	Furniture	Footwear and leather	Paper and paper products	Chemicals	Metal works and fabrications	Mechanical and electrical spare parts	Building materials
Proportion of inputs secured from big industries										
Raw materials %	60	20	100	10	10	60	50	20	20	70
Machinery and tools %	10	90	70	60	100	80	70	70	70	90
Labour %	0	0	0	0	0	0	0	30	30	0
Proportion of inputs secured through middlemen and contractors										
Raw materials %	30	20	30	0	30	40	60	15	50	60
Machinery %	20	0	60	0	40	20	30	30	0	0
Labour %	30	0	0	0	0	0	0	0	0	0
Proportion of products sold directly to large enterprises %	7	1	6	10	20	20	5	10	10	5

Source: Field survey.

◆ 5.2 Exploitation of Cheap Labour

All enterprises surveyed are able to exploit cheap labour — being exempt from minimum wage laws — to expand output. Just over 60 per cent of the entrepreneurs reported that they work longer than the eight-hour working day prescribed in the formal sector (table 5.1). A bakery manager in Aba reported that his employees put in 10-12 hours daily for a monthly wage of 250-300 naira. In Nnewi, an entrepreneur dealing in regrinding broken-down automobile engine parts reported that his employees, including apprentices, have no fixed work-day, since on many occasions, they work far into the evening — "particularly when there are many customers with urgent work". Labour exploitation seems to be the major source of accumulation for informal entrepreneurs given the dearth of productivity growth in the sector.

Informal sector entrepreneurs exploit cheap wage labour, paying wage rates that are inferior to the minimum wage rate that can be obtained in most instances in the formal sector. On the other hand, the prices of their products follow closely the rate of inflation — producers and entrepreneurs in the informal sector mark up their selling prices in line with inflation trends. Consequently, the widening gap between low wage rates and escalating product prices constitutes a major source of profit accumulation for informal entrepreneurs.

How do employees cope with low wages in the face of rising living costs? Entrepreneurs reported increasing incidence of pilfering of raw materials and finished products by employees, particularly in the foods, textiles and clothing, and chemicals sub-sectors. Employees may also divert work otherwise intended for the workplace to their private, part-time workshops, usually located at home. This is prevalent in the textiles and garment enterprises, where many employees and apprentices are known to endeavour to acquire their own sewing machines for "practice at home" and/or to engage in private work to supplement low incomes from their regular employment.

◆ 5.3 Expansion in Investment, Employment and Output

The survey data reveal that despite the depressed state of the economy, considerable new investment is going on in the informal sector. Some 70 per cent of entrepreneurs surveyed reported that they made new investment in machinery, infrastructure and land for new workshops, while 90 per cent reported that old machines and/or structures have been refurbished (table 5.1). New firms are flocking into the informal sector, particularly in foods, chemicals (soap and perfumes), textiles and clothing, and metal fabrication. Although the majority of firms surveyed (57.14 per cent) reported that they were established prior to 1987, the 42.86 which reported that their firms had been established since 1987 seems to indicate a dynamic investment trend in the sector (see table 4.1). As the construction boom took hold in the 1970s in the wake of the oil boom, informal sector metal fabrication firms tended to expand, supplying metal gates, burglar-proof doors and windows and assorted metal-based inputs to construction and housing firms. Metal fabrication is also linked to the expansion of automobiles in Nigeria: body-part builders and refurbishers, otherwise known as "panel beaters", and welders are operators in this sector.

Garment production remains, however, a dominant artisanal trade in Nigerian cities and is characterized by widespread informalization. As in most developing countries, the sewing trades flourish in Nigeria because of the relatively high expense of ready-made clothes (mostly imported) and the low cost of labour. Besides, tailoring is promoted by a cultural tradition that prefers tailor-made traditional styles. In this regard, it is relevant to note that every Nigerian ethnic group has its particular mode of dressing that differentiates its members from other ethnic groups.

The expansion in investment is also reflected in expansion in employment, including hiring of apprentices (see below). Only 10 per cent of the entrepreneurs surveyed reported reducing their workforce; neither is casualization of labour, which is so pervasive in the formal sector, common in the informal industrial sector. Concurrent with the expansion of employment, however, entrepreneurs are exploiting family labour and using apprentices to cut down on the use of paid wage labour. In many instances, so-called hired labour turns out to be close relatives and ethnic compatriots whose employment is more often a strategy to provide employment to ethnic kin and close relatives, rather than a way to expand output. But this does not exacerbate the under-employment and low productivity syndrome in the informal sector.

On the basis of the Peruvian experience, de Soto (1990) estimates that the average productivity of an informal worker is around 33 per cent of a "formal" worker. There is no adequate data base to estimate the Nigerian productivity level, but productivity in the Nigerian informal sector vis-à-vis the formal sector is likely to be low.

Several past studies argued that in the absence of productivity growth in the informal sector, downward pressure on wages in that sector limit its capacity to expand and absorb labour (Fapohunda, 1981; Mabogunje and Filani, 1981; ILO, 1985; Trager, 1987). Upgrading incomes is predicated on technical change and productivity growth. The latter have been used to argue for training programmes for small investors.

The picture emerging so far from our analysis is that of an informal sector with considerable dynamism in investment. While this may be true generally, the entrepreneurs surveyed had encountered constraints on investment and future growth: many complained that escalating production costs, limited access to investment finance and constrained market demand occasioned by steep decline in real incomes limited their scope for expansion (see section 5.9).

◆ 5.4 The Apprenticeship System

As noted earlier, our survey data reveal that the workforce is composed of household labour (40.2 per cent), apprentices (39.6 per cent) and hired labour (24.5 per cent). The findings thus seem to conform with other studies: at the upper end of the informal sector entrepreneurial ladder, substantial use is made of apprentices and hired labour. Our findings show, however, that those sub-sectors which make extensive use of hired labour also tend to employ a relatively high number of apprentices in their workforce. Our interest here is with the apprenticeship system: how does it fit into the coping strategies of informal sector entrepreneurs?

The apprenticeship system provides the dominant medium for entry into most informal sector occupations, in particular retail trading, artisanal trades, automobile repairs, shoe-making, tailoring, metal fabrication, etc. The channels for recruitment of apprentices can be complex, with new entrants into the informal sector linked to their prospective masters through kin or friends who have learned the trade. Written contracts tend to underpin the transaction, even where kinship relations are involved. Such contracts usually specify the length of time to be spent, fees to be charged, entitlements during and after graduation, etc. The written agreement may also stipulate whether the master will provide part of the "start up" capital for the apprentice upon graduation, in which case the duration of the apprenticeship may be extended.

Upon graduation, a large proportion of apprentices decide to work for their masters for a certain length of time, as hired workers. This enables them to accumulate "start up" capital and make the necessary connections to set up their own workshop. Apprentices tend to originate largely from poor households unable to finance secondary school education for their children (Oyeneye, 1980, 1987). A 1970 study of craftsmen in Zaria revealed a preference among rural households to invest their capital in giving their children formal (secondary school) education (for wage employment in the formal sector and/or to prepare them for tertiary education) rather than in apprenticeship training. This suggests that, prior to the 1970s, economic opportunities were perceived to be better in the formal sector.

Beginning in the 1970s, the apprenticeship system began to acquire greater importance: the oil boom expanded opportunities in many artisanal occupations, particularly those linked to building and construction, manufacturing, and mechanical/electrical repairs. As from the 1980s, the depression further contracted opportunities in the formal sector, which forced primary and secondary school graduates to seek apprenticeship training for self-employment. Female apprentices tend to be concentrated in petty trading, dressmaking and tailoring ("fashion designing"), beauty and hair salons, restaurants and hotels. Male apprentices dominate in metal fabrication, automobile repairs, construction, etc. On the whole, apprentices tend to be quite young: a Kano city study ascertained that, of the 17 per cent of informal participants who were apprentices, over 80 per cent were under 14 years of age (Mabogunje and Filani, 1981).

Again, a number of studies from the 1970s onwards have established that the majority of apprentices had entered their training as a second-best choice

(Oyeneye, 1987). Besides, apprenticeship is reported to impart low-level technological skills, which severely constrain productivity growth in the informal sector (Fapohunda, 1981). As a result, the informal sector can only engage in "routine" operations, and depends on "technology transfer" from large industry in the formal sector for most of its technical progress.

◆ 5.5 Investment Diversification

Generally, diversification of the investment portfolio aims to minimize the risk arising from dependence on a single investment. It is thus a hedge against risk, a response to perceived economic vulnerability occasioned by the uncertain market demand and rising competition that have eroded profit margins in many activities. The price incentives embodied in structural adjustment seem to have induced considerable changes in investment. The major lines of investment include small-scale farming to feed the family (see section 6), petty trading, restaurants and transportation. Product mix has also been altered (table 5.1). A bakery manager located adjacent to a commercial district diversified into restaurant investment; a Nnewi timber entrepreneur established a carpentry workshop beside his sawmill; another reported investment in intra-city taxi business. A good number of entrepreneurs surveyed (60 per cent) reported investing in urban and rural land purchases.

Along with changes in investment portfolio and product mix have come efforts to explore new market outlets within and outside Nigeria. Several entrepreneurs who produce travelling bags, textiles, clothing and shoes for the Aba Ariaria market have thriving export outlets in neighbouring CFA currency areas, including Cameroon, Gabon, Niger and Chad. Otherwise, the huge Nigerian market absorbs the bulk of the output of these firms.

◆ 5.6 Changes in Input Use

The proportions of imported and locally sourced inputs in Nigerian industry have been affected in two ways by structural adjustment. First, import liberalization appears to have made more imports available to industry — imports hitherto restricted or embargoed by the restrictions of previous economic policy régimes. Second, rapid depreciation of the naira has raised the cost of imported inputs, thus putting at severe disadvantage on those industries with a high proportion of imported inputs in their production processes. Informal sector firms have traditionally made limited use of imported inputs, and structural adjustment seems to have further boosted the reliance of informal sector enterprises on locally sourced inputs. The substitution effect of the depreciation of the naira has further induced informal entrepreneurs to shift towards local inputs. All the firms surveyed reported greater and increasing share of local raw materials in their input consumption (table 5.1). Eighty per cent reported changing their input mix, which has involved reducing consumption of the more expensive or scarce inputs, though none admitted engaging in product adulteration.

The rapid depreciation of the naira, though providing non-tariff protection to domestic firms by keeping imported goods expensive and thus shifting demand onto local products, has adversely affected domestic industry by escalating production costs at the same time as it has undermined consumer demand by reducing real incomes. Continuously escalating input costs have been passed onto consumers, thus further undermining demand. Another problem is that many locally produced raw materials for industry have become exportables in the wake of the export drive under structural adjustment. This has further increased the domestic competition for local raw materials, bidding up the costs of production for all categories of industrial investors. The price of all agricultural raw materials — timber, grains, palm oil, etc. — has tended to rise out of proportion to the depreciation of the naira exchange rate. Good scrap metal, the dominant input in metal fabrication, has become increasingly scarce and, therefore, expensive. Gross defects in the supply of electricity and water have added to rising production costs. Of the entrepreneurs surveyed, 95 per cent reported that they have invested heavily in private generators, bore holes and even access roads to their business premises. Retuning and modifying existing equipment and recycling of raw materials are dominant strategies to ameliorate problems imposed by growing input scarcity. Old vehicles, machinery and tools are kept going by careful repairs.

◆ 5.7 Linkages to the Formal Sector and Rural Economy

Earlier development literature assumed or hypothesized eventual integration of the formal and informal sectors. As this failed to materialize, the separate existence and distinctive roles of the sectors in the urban economy was conceded. Hirschman (1958) likens the coexistence of the two sectors to “a situation where both airplane and mule fulfil essential economic functions”. Finally, it was pointed out that the penetration of capitalist relations was no longer specific to the formal sector, but has also pervaded the informal sector and was now a “dynamic fact”. The informal and formal sectors are linked in a system of “functional symbiosis” (Bienefeld, 1975; Santos, 1989). This differs from the view that relationships between the two sectors are pervaded by subordination and exploitation of the informal by the formal sector (Geery, 1974; 1978). Similarly, the informal sector is linked to the rural economy. Indeed, the three sectors have cultivated extensive symbiotic linkages in terms of labour, financial, raw material and technology exchanges.

How has structural adjustment affected the cultivation of linkages between the informal sector, the formal sector and the rural economy? Have crisis and structural adjustment undermined or boosted cultivation of linkages between informal entrepreneurs and the rest of the economy? What are the traditional channels through which informal entrepreneurs exchange resources with other sectors of the economy?

Table 5.3: Linkages with other firms in the informal sector (%)

	Food	Beverages	Textiles and clothing	Furniture	Footwear and leather	Paper and paper products	Chemicals	Metal work and fabrications	Mechanical and electrical spare parts	Building materials
Proportion of output sold in informal sector	70	60	95	95	80	80	80	100	80	60
Proportion of total raw materials from informal sector	50	20	55	60	45	na	90	60	70	50
Proportion of machinery from informal sector	50	30	50	50	55	50	60	65	0	40
Proportion of labour from informal sector	70	30	80	60	60	50	40	50	65	60

Source: Field survey.

Most of the firms surveyed are heavily dependent on the formal sector for machinery, and to some extent for raw materials, though the degree differs across subsectors. Table 5.3 summarizes the findings in this regard. The data relate to the proportion of inputs secured from large enterprises in the formal sector. The textile firms reported that they secure their raw materials and machinery 100 per cent from the formal sector, either purchased directly from the large firms or through traders and middlemen in the open market. In the building materials subsector, the firms in block moulding report that they secured cement as well as equipment and machinery for mixing and moulding blocks from the large firms. In contrast, the sawmilling firms secure raw materials from timber contractors but buy their machinery (electric-powered saws, cranes, trucks, etc.) for processing the logs from the large firms. The footwear and leather, metal fabrication and furniture firms buy a relatively limited amount of raw materials from the formal sector but are heavily dependent on the latter for machinery and tools. Dependence on the formal sector for servicing and repairs of machinery and equipment was discovered, however, to be low: about 86 per cent of surveyed firms report that they depend on internal staff and/or other informal sector technicians for these purposes.

Another dominant theme in the literature concerns the limited forward linkages by the informal sector with the formal sector. It is argued in the literature that informal sector producers have rather limited direct forward linkages with the formal sector because of poor technology and, hence, poor quality products. It is also argued that the informal sector can not produce for the export market and that it makes virtually no use of imported inputs (production being bound to local raw materials). Our findings do not seem to validate this position in several specific instances. We came across firms with quite strong direct forward linkages with the formal sector: e.g. a Nnewi engineering firm making and selling gas burners for the Nigerian National Petroleum Corporation (NNPC), and another one producing electric poles (for street lighting) for the Anambra State Ministry of Works and Housing.

About 40 per cent of those surveyed in the food subsector (bakers and those who prepare cakes, sweets, etc.) report that they have business contracts with the large firms and retail department stores to supply the latters' food stores and restaurants. A bakery firm in Aba reported that 70 per cent of its output is sold in the large department stores in Aba, Owerri and Port Harcourt. Yet others reported producing for the export market. Another Aba firm specializing in travelling bags reported that upwards of 20 per cent of its monthly output (of more than 500 travelling bags) finds its way into the African export market. Many small-scale shoe firms that dominate the Aba Ariaria market also reported producing increasingly for the African market, apart from their national marketing outlets in Lagos, Kano, Kaduna, Jos, Maiduguri, etc.

Surprisingly, none of the textile and clothing firms surveyed reported selling directly to the large domestic department retail stores. It has long been observed that the small "fashion designers" constitute a major source of competition for organized manufacturers of garments (**Business Concord**, Lagos, 5 July 1988:1, 9). One particular advantage of these small manufacturers and others over the large organized manufacturers is that they can sell fairly easily across all income groups. The chemical firms (soap, cosmetics and hair cream), for instance, produce cheap products that were formerly imported, as do the furniture firms.

What about linkages within the informal sector itself? All the firms surveyed responded that they have heavy input-output linkages to other informal sector firms (table 5.3). On average, 80 per cent of the output of all firms surveyed is consumed within the informal sector. Metal fabrication and furniture firms reported 100 per cent and 80 per cent, respectively, of their outputs finding demand in the informal sector. The data thus suggest a very high level of interaction taking place across firms in the informal sector in terms of consuming each other's output. In terms of input relations, we find also high linkages, averaging 50-57 per cent for raw materials, machinery and labour. Sectoral comparisons show differences, however. For instance, the building materials and beverage firms secure just about 40 and 30 per cent, respectively, of their machinery from the informal sector. It is in raw materials and labour that the informal sector firms seem heavily reliant on informal sector sources.

On the other hand, the informal sector maintains important input-output linkages with the rural economy. Here, middlemen, credit and cash constitute the mediating factors. Rural artisans obtain their inputs from the urban informal sector (Jaggar, 1973), and produce speculators, food-crop retailers, etc. often obtain their commodities directly from rural producers (Mohammed, 1989).

◆ 5.8 Subcontracting Deals with Large Industry

Though the informal sector has extensive input linkages to large industry, there appears to be an absence of vertical integration by the latter firms with the informal firms surveyed — if this is mesured in terms of subcontracting deals. Earlier attempts in the literature to explain the growth of small firms in the informal sector relate to a different set of activities, namely those in which subcontracting or local assembly is common (Staley and Morse, 1965). Two types of subcontracting arrangements have been identified. First, there is horizontal subcontracting, which involves orders of goods regularly produced and sold by a firm to a variety of clients — e.g. when a garments firm orders from, or contracts production of its garments orders to, another competitor. Second, there is vertical subcontracting or "putting out", which involves transfer of work done within a large firm to another firm, an artisan workshop or to domestic outworkers (Watanabe, 1983; Murray, 1983).

The absence of subcontracting deals by large industries in Nigeria with informal sector firms may not be unconnected with the fact that relatively few large firms exist in the two survey locations, Aba and Nnewi. Besides, the depression in large-scale manufacturing since the early 1980s has resulted in low capacity utilization, which makes subcontracting unprofitable.

In other developing countries, where subcontracting deals with large firms are more common, this helps to boost the commercial orientation of informal sector firms. Subcontracting is understood here as "a shift of production in search of cheap labour" (Beneria, 1989:180). Large firms subcontract jobs to firms lower labour costs, for example; considerable savings can result from wage disparities existing between subcontracting levels, particularly when work is done at home by workers who earn much less than the minimum wage.

◆ 5.9 Entrepreneurs' Perceptions of Key Constraints

Schamp (1989) identifies several bottlenecks often encountered by African indigenous entrepreneurs: insufficient investment finance; lack of appropriate technological capability; and lack of knowledge of market outlets. Schamp argues that because small industry entrepreneurs in Africa have little access to foreign technical assistance or foreign participation, they tend to compensate for these "deficits" by choosing simple methods of production and simple or known products (which also helps them to solve the problem of marketing). It thus turns out that the small-scale industrialist merely endeavours to "acquire a portion of the imports of the existing domestic competition".

Informal entrepreneurs were asked to indicate the most serious constraint encountered in their individual lines of employment and to list up to three to four other constraints. Table 5.4 contains the answers: 55 per cent of the entrepreneurs surveyed listed high cost of inputs; 48 per cent, limited working capital; 30 per cent, difficulties in procuring spare parts; 15 per cent limited access to bank credit; 6 per cent, competition and defective infrastructure; only 3 per cent mentioned labour problems.

Thus, the entrepreneurs do not perceive demand as a major constraint on their growth; on the contrary, they perceive their key constraints on the supply side. Interestingly enough, none of the firms surveyed cited problems linked to technology, management or government regulation. Most felt that they were competent in their various fields, at least to produce for informal sector consumers and rural markets, and that they could manage their businesses very well. Besides, they felt that deregulation of the financial sector was harmful to their investment interests, as that strategy further limits their access to investment finance by raising the cost of borrowing.

Entrepreneurs complained that they could not expand on the basis of limited financial resources; they depend on and are underpinned by heavy reliance on internal profits and limited access to external credits. Given limited working capital, entrepreneurs tend to purchase working materials only to the extent required to fulfil immediate orders or supply actual or expected short-run demand. Nevertheless, stocking of raw materials goes on, promoted by uncertainties about price trends and availability of inputs; this, in turn, has tended to push up prices of inputs continuously.

Table 5.4: Key industrial problems as perceived by small-scale industrialists

	% of firms surveyed mentioning constraint
Raw Materials * High cost of raw materials * Some raw materials are difficult to get physically * Locally procured ones are often of low quality	60
Working Capital	48
Spare Parts of Equipment * Prices of imported spares are exorbitant. * There are many fake ones in the market. * Because of high cost of replacement, machines may lie unused for several months.	30
Limited Access to Institutional Finance * Too much bureaucracy to get bank loan * Interest rates are becoming too high	15
Demand * Competition is too high; everybody is `rushing' into private business. * People have no money to buy, so that stocks pile up.	6
Infrastructure * Electric power supply is unreliable so that extra costs are incurred installing stand-by generators. * Water supply is also not steady.	6
Labour Cost of labour is rising	3

Source: Field survey.

The supply bottlenecks also involve defective infrastructure, a point already noted, including erratic supply of electricity and water, high transportation costs and unreliable telephone facilities. Almost all entrepreneurs surveyed reported installing their own private sources of electricity and water (table 5.1) and pooling resources to construct access roads to their business premises. Besides, as we have seen, the firms possess limited internal structural ability to generate technical progress to boost productivity; consequently, output growth has to depend almost solely on exploitation of unskilled wage labour, apprentices and household members.

Nevertheless, the informal firms surveyed seem to draw on factors, both internal and external, which promote their viability. First, they produce mostly for a domestic market, which, in spite of import liberalization, still remains shielded from imports. Informal firms tend to produce mostly products that have limited import competition, e.g. bread, construction products, furniture and traditional apparel. Second, they are rooted in locally procured inputs; third, they use flexible technologies which can adapt much more easily to changing raw material scarcities and relative price shifts. Fourth, the informal sector itself, which consumes the bulk of the outputs of these firms (80 per cent), is expanding very fast.

It would appear that, relatively speaking, informal sector industry has coped far better under structural adjustment than has large-scale industry. Heavy dependence by the latter on imported inputs has tended to undermine its viability. Though large industry is better endowed to engage in backward integration to source inputs, few large firms have successfully done this. Severely constrained by rising cost of production, many large firms now produce at less than 25 per cent of capacity.

6. HOUSEHOLD COPING STRATEGIES AND INFORMAL ENTREPRENEURSHIP

◆ 6.1 Introduction

The household and the community at large are relevant socio-economic units when examining the individual informal entrepreneur's coping stragegies in a period of social and economic stress and uncertainty. Informal entrepreneurs articulate their coping strategies within the framework of opportunities and constraints offered by the nature of their households. It should be noted for this purpose that informal sector enterprises tend to be unincorporated; consequently, there is considerable overlapping between activities in the enterprise and household.

Since the inception of structural adjustment, Nigerian households have been caught in the "scissors" action between a massively depreciated naira on the one hand, and spiralling consumer prices on the other. Consequently, most households, both in rural and urban areas, have been forced to adopt multiple income-generation activities. Besides, many households are now saddled with unemployed and underemployed members who must depend upon gainfully employed members to survive. It is against this background of rising cost of living and high rates of urban unemployment that we situate our analysis of the types of coping strategies devised at the household level by urban informal entrepreneurs. However, before embarking upon examination of these strategies, let us briefly look at the entrepreneurs surveyed in terms of their family backgrounds.

◆ 6.2 Background of Entrepreneurs Surveyed

As Table 6.1 shows, the majority of the entrepreneurs (roughly 69 per cent) are married; the mean family size, defined to include the nuclear family plus immediate dependants, averages 7.3 persons. The largest households are found in foods (mean size 13.66), metal fabrication (mean size 10.14), and footwear/leather (mean size 7.5), in that order. The gender distribution of entrepreneurs is weighted heavily in favour of males, who make up 94.3 per cent of the 105 entrepreneurs surveyed. The female entrepreneurs are located in foods, and textiles and clothing.

Table 6.1:Distribution of industrialists according to sex and marital status

Line of activity	Sex		Marital status		
	Male	Female	Single	Married	Mean family size
Food	6	3	3	6	13.66
Beverages	3	-	-	3	6.0
Textiles and clothing	18	3	9	12	4.85
Furniture	9	-	3	6	8.0
Footwear and leather	12	-	-	12	7.5
Paper and paper products	3	-	3	-	na
Chemicals	9	-	6	3	1.66
Metal works and fabrications	21	-	6	15	10.14
Mechanical and electrical spare parts	15	-	3	12	7.2
Building materials	3	-	-	3	7.0
Total	99	6	33	72	7.3
Percentages	94.29	5.71	31.43	68.57	

na = not available;
Source: Field survey.

◆ 6.3 Changes in Household Consumption Pattern

The decline in the real incomes of the salaried groups has been far steeper than that of the entrepreneurial groups, which can always mark up their incomes by selling outputs at prices dictated by current inflation rates. Nevertheless, for the small investor in the informal sector, it is a constant struggle between accumulating enough capital to expand business and ensuring that the living standards of household members are not eroded further. Virtually all entrepreneurs reported that they have had to restructure the quantity, variety and nutritional content of their household's food consumption, given the rising cost of basic food staples. Although all entrepreneurs surveyed reported heavy dependence on the urban market to purchase food items, small-scale farming of vegetables, fruits and livestock has emerged as a dominant strategy among urban households to reduce the proportion of household food items purchased from the market (table 6.1).

Table 6.2: Household-level coping strategies of small-scale industrialists (% of respondents reporting "YES" to questions)

Question	All surveyed
Feeding habit changed	99
Farming to provide food for family	95
Encouraged grown-up members of the household to hold multiple jobs to supplement family income	70
Own residential accommodation?	10
Changed size of residential accommodation	20
Changed use of utilities, e.g. electricity, telephone, etc	74
Changed schooling arrangement of children:	
- Secondary	7
- Tertiary	93
Withdrawn children from school to look for employment	10
Any member of household forced to migrate for employment purposes	40
If unmarried, has the SAP affected your decision to marry?	22
If married, has the SAP threatened break-up of your family?	43
Has the SAP changed your conception of the need for family planning?	60
Borrowed money from relations, social clubs, etc. to meet family needs	31
Pooled resources with other families to strengthen coping capacity	40

Source: Field survey.

◆ 6.4 Diversification of Employment and Income Sources

Diversification of employment and income sources occupies a central position in urban household coping strategies. Diversification here has involved not only the output mix and investment portfolio of the entrepreneurs, but also the income sources of members of the household, including spouses, children and dependants. Urban households involving all sections of the social structure have traditionally diversified their income sources, but the current crisis and consequent drastic reductions in real incomes have put more pressure on households to diversify income sources.

The typical pattern of employment and income diversification among informal households could run as follows. The wife is most likely to have an independent source of income, operating a street-side retail shop or working in some other informal employment. Nigerian urban housewives abandoned long ago their so-called role as homemakers; undertaking out-of-home employment due to necessity. Some take on wage employment largely located in the informal sector. More than 70 per cent of entrepreneurs reported that their wives and other female household members have taken on work in sewing, small-scale food processing and food vending, hair dressing and beauty salons, restaurants and hotels, and petty trading.

In southern Nigeria, where Aba and Nnewi are located, female participation in out-of-home employment has been relatively high historically — both when compared to the situation in the northern states of Nigeria, which have a dominant Islamic tradition of keeping women in seclusion, and other parts of sub-Saharan Africa — and has been an important component of household incomes. Southern Nigerian women have been known to engage in relatively high-income urban informal activities, involving, in many cases, long distance trade within and outside Nigeria, and lucrative tailoring (fashion design) and restaurant activities.

Of the entrepreneurs surveyed, 70 per cent responded that grown-up members of the household hold other jobs to supplement family incomes. Grown-up members of the household, where they are currently attending school, have to juggle between school and work. The phenomenon of school-age children hawking goods and doing all sorts of street trading has been a common phenomenon in urban Nigeria. This phenomenon has acquired added importance since the inception of the current crisis and structural adjustment, and is a dominant part of the multiple survival strategies evolved by households to cushion themselves against further erosion of living standards.

Only 10 per cent responded that they have had to stop their children's school completely; as high as 93 per cent, on the other hand, reported postponing or forgoing tertiary education for their children, and 40 per cent reported that some members of their households had migrated elsewhere for employment purposes. Only about 10 per cent of entrepreneurs reported that they own their own residential accommodation; 20 per cent changed the size of their (rented) accommodation. Rental costs were reported to have increased enormously, in some instances by more than 300 per cent, between 1986 and 1991. Another 74 per cent answered they have had to adjust their consumption of utilities.

Many in the sample reported linking up with the rural economy to grow food to supplement family food needs purchased in the market. Otherwise they rent farmland at the outskirts of town to engage in small-scale subsistence farming. Farming activity located back in the village often leads to splitting the household, the wife and some of the children living in the village to tend to the family farm while the husband lives in the city to run the family enterprise. Given the rising cost of rural labour since the 1970s, remittances may have to be sent home to the village to pay for hired labour to supplement the labour supplied from within the household. As well, remittances are made to members of the extended family to supplement their equally declining incomes. All these remittances eat deep into the capital of the informal entrepreneur.

The impression created by our sample study seems to be that rural-urban ties are being strengthened and that households of informal entrepreneurs have responded to the food crisis and steeply deteriorating real incomes by reaching out to the rural economy, exploiting the agricultural resources of the latter to supplement market-purchased household food requirements. When compared to the working class and operators at the "base" of the informal sector, the category of entrepreneurs surveyed for this study does not fit into the category of the urban poor. Small industry households are not trapped at the poverty level. Although, like most urban households, they have had to make drastic cutbacks in household expenditures, resorting to inferior levels and structure of consumption, they cannot be described as pursuing subsistence strategies at the household level. Small-scale entrepreneurs constitute a "fraction" of the urban petty bourgeoisie and can be described as "middle class" in aspiration. Like their counterparts in the urban professional classes, the household coping strategies of this category of entrepreneurs, which include inserting their household members in "multiple modes of earning a livelihood", do not constitute a desperate bid for survival but, rather, an effort aimed at containing the general slide in living standards and preventing any further encroachment on business capital by spiralling household livelihood requirements. This category of informal entrepreneurs adroitly exploit the personalized relationships within the urban economy, securing employment for members of their households, procuring apprentices, securing credit lines from formal and informal sources, etc. They also link up with the village economy, exploiting the agricultural resources of the latter to supplement commercially procured food supplies for their families.

7. COLLECTIVE ACTION STRATEGIES OF SMALL ENTREPRENEURS

◆ 7.1 Introduction

In analysing the collective action strategies of small entrepreneurs, we are interested to find out how informal sector entrepreneurs organize their relationships with competitors as well as with other professional groups. We seek to understand how entrepreneurs and households create new organizational arrangements and institutions to overcome rising production costs and uncertainties. Are collective action strategies and solidarity being undermined or strengthened by the crisis and adjustment reforms? Contrary to the perceptions of some authors, the results of our survey in south-eastern Nigeria show that economic crisis and reforms have strengthened rather than weakened solidarity and collective action among entrepreneurs in matters relating to accumulation and livelihood. In line with developments in the wider society, the more dynamic types of collective strategies tend to be organized largely along ethnic and religious lines. However, for most small industrial entrepreneurs, the two forms of solidarity are not contradictory, but would seem instead to reinforce each other.

◆ 7.2 Trade-Based Associational Coping Strategies

Are trade-based associational strategies being undermined or developed in the wake of the crisis? The acceptance or rejection of business associations and professional organizations among entrepreneurs would depend upon entrepreneurs' awareness of their objective problems and recognition of business associations as a means for meeting them. For entrepreneurs to accept the legitimacy of business associations, they must see them as viable instruments for achieving entrepreneurial goals. It is the feeling generally among the entrepreneurs in our sample that, as individual entrepreneurs, they encounter limitations and constraints in the progress of their businesses, which membership of a professional or trade association can more or less mitigate. There is therefore a fairly strong acceptance of business associations as a coping strategy.

Asked if they belonged to business associations, upwards of 80 per cent of entrepreneurs surveyed answered that they are affiliated to one type of organization or another. The reasons advanced for accepting business organizations range from business protection and financial assistance to business conditionalities (see table 7.1). Associational membership, or unionization, is "instrumentally" accepted; it supplements rather than substitutes individual entrepreneurs' pecuniary success. That is, it constitutes a collective instrument for pursuing individual material gains. The various business associations in Aba and Nnewi serve different purposes from those of ethnic unions, such as protection of input and product markets, regulation of entry into the respective trades, helping members to get access to institutional credits, lobbying government officials for concessions in, say, location of enterprises and strengthening competition against other professional groups.

Table 7.1: Coping strategies at the community level (percentage responding positive)

Question	All industries surveyed
Belong to organization:	
- business association	80
- social club	80
- political party	20
- religious fraternity	100
- ethnic/town union	100
Reason(s) for belonging to (1):	
- business protection	28
- financial assistance	19
- business conditionalities	5
- to promote community development	90
How has the SAP affected relations with membership of organizations:	
- weakened	43
- strengthened	80
- unchanged	48

Source: Field survey.

A long-standing claim in the Nigerian literature is that there is free entry into the informal sector, and that there is no unionization (see Olakanpo, 1963; Kolawole, 1974). More recent literature claims that "collective unionist consciousness" stands to be undermined by the impact of the economic crisis and its attendant survival strategies (Mustapha, 1991:21); and the data on low-income informals (Meagher and Yunusa, 1996) demonstrates a process of de-unionization and resurgence of collective action based on ethnicity.

The situation of small industries entrepreneurs is different. At the lowest rungs of the informal sector, such as street trading, where limited capital is required, no apprenticeship needs to be served to acquire the requisite skills, and trade or professional unions tend to be absent. Towards the intermediate and upper zones of the sector, however, the potential entrepreneur may need to meet some institutional obligations. Among entrepreneurs in the bakery industry, for instance, the Association of Master Bakers, founded in 1951, acts as a pressure group to secure cheap raw materials, e.g. wheat flour (Andrae and Beckman, 1985). No doubt, "particularistic ethnic and religious groupings" are in resurgence. However, for small-scale entrepreneurs, these operate at a different level and serve different purposes. Collective bargaining at the workplace cannot be pursued through ethnic organizations. Similarly, the role of employers' associations cannot be fulfilled by ethnic unions and/or social clubs. Individual entrepreneurs attempt to supplement collective strategies with personal strategies in their attempts to secure access to needed resources.

Collective action among small entrepreneurs in Aba and Nnewi takes place largely through networks of social support at the workplace level. For instance, many of the security problems arising from the crisis that now confront urban households can only be resolved collectively — by pooling resources, for instance — which expands the scope for community-based strategies. In many Nigerian urban centres, the threat to physical life and property by armed robbers and marginalized groups has led to the formation of vigilante groups along street or neighbourhood lines for mutual protection of property. In Aba, for instance, such vigilante groups are formed to "rid the city of night marauders", and most entrepreneurs in our sample either participate directly in them or provide financial support.

Slashes in government subsidies to utilities have put upward pressure on production costs and household expenditures. Earlier studies have shown that informal enterprises tend invariably to be located in residential areas, with poor access to utilities and other infrastructural facilities (Fapohunda, 1981; Mabogunje and Filani, 1981). Nnewi and Aba are, like most Nigerian cities, notorious for inadequate supply of water and electricity. Rapid urban growth, particularly since the 1970s, seems to have led to demand outstripping available capacities in electricity and water, which have failed to expand *pari passu* with the various cities; physical structures in roads, sewage treatment, etc. have also deteriorated enormously (see Lee and Anas, 1991).

Of the entrepreneurs surveyed, 95 per cent reported that they have had to invest considerably in providing private generators, bore holes and even access roads to their business premises. Resource pooling is common in this regard, with businesses located in the same zone pooling resources to cover such costs. Entrepreneurs have thus created and developed networks of social support, pooling resources and extending credit facilities to fellow informal sector entrepreneurs both within and outside their trade groups. There is also solidarity in situations where a member has "a case with the police" and needs financial support to "settle the police". Other situations which attract the support of members are marriages, and funerals and other distress situations such as sickness and hospital expenses. There is considerable overlap between workplace relations and community or social relations.

The picture created so far is one of co-operation and solidarity among entrepreneurs. There are, however, coping strategies that tend to undermine this apparent group solidarity. The tendency towards a recomposition rather than equitable expansion of the informal sector does breed a deepening of intra- and inter-group divisions. The politically well-connected and technologically better-endowed entrepreneurs outcompete other informals in gaining access to state-controlled credits and lucrative niches in the informal sector; in contrast, entrepreneurs less well-endowed are marginalized further. The intensive and rising competition, the distance between the successful and the not-so-successful operators, the need to cope with everyday chaos and the development of a rather fragile network of personal contacts and bonds, now in an unstable socio-economic environment, tend to undermine group solidarity.

Composed as they are of a wide range of fragmented and competing business interests, and lacking the political reach of formal corporate groups, it is not surprising that the collective activities of small-scale entrepreneurs have not had much impact on public policy compared to what other groups have been able to achieve. Informal entrepreneurs are especially vulnerable to many cross-pressures. Only 20 per cent of the entrepreneurs reported that they participate in wider political processes. Entrepreneurs whose businesses were founded prior to military rule in 1983 indicated little acceptance of party politics as a viable means of coping with the crisis. Some of those who reported political affiliation seem to have exploited such affiliations to expand their businesses. Generally, the informal sector lacks the institutional base to link up effectively with debates on public policy. Instead, the sector creates an image of an atomized community in its corporate relations with wider groups in society.

This lack of effective engagement with public policy issues may explain why informal sector entrepreneurs have not benefited from the various financial institutions that have been set up to help the growth of informal enterprise. Only 10 per cent of respondents reported that they had borrowed funds from the People's Bank; and 9 per cent reported having benefited from the training schemes of the National Directorate of Employment. The main complaints of entrepreneurs were in the areas of working and expansion capital. Yet, rather than resort to formal credit institutions to raise funds, entrepreneurs make extensive use of informal sources: credit from competitors, suppliers of inputs, and distributors of products; family savings; loans from town unions, social clubs, etc. Entrepreneurs blame the adjustment programme for the sky-rocketing cost of inputs, but none cited governmental regulation as a problem.

◆ 7.3 Ethnic Unions and Coping Strategies

As already noted, group solidarity and community-based organizations are also forming along ethnic lines, but these play a different role from those forming along professional and trade lines. Ethnic/town unions supplement the social support offered by trade associations. Associations of urban Nigerians, formed along ethnic/town lines, have been extensively examined in the literature (see Melson, 1971; Gugler, 1971). Such unions provide help in times of illness, police arrest, funeral expenses, etc. They are also solidarity groups, lobbying for political and state amenities; urban individuals feel obliged, in most instances, to belong to and financially support such unions. Given the absence of formal channels of employment, entrepreneurs secure apprentices through personal contacts, family, ethnic and other extra-market channels, including such ethnic- and town-based unions.

As indicated earlier, artisanal skills are acquired through years of apprenticeship. Labour migrates, and the capacity to establish successfully in the urban sector is greatly facilitated not only by economic background but also by migrants' connections with urban dwellers. All of the entrepreneurs surveyed reported belonging to ethnic/town organizations. Most entrepreneurs (90 per cent) responded that association with ethnic/town unions was motivated by desire to promote community development.

8. CONCLUSION

A major source of conflict resulting from structural adjustment is the growing gap between wage rates and cost of living. A largely unresolved question in the adjustment debate is whether wages should reflect the subsistence needs of workers or whether they should reflect "the level of labour productivity". Compared to the formal waged economy, the exploitation of labour has indeed been far more intense in the informal sector, where employees have been much less capable of organizing collective action to augment wages. As we have seen, because of low levels of technological development, informal industrial entrepreneurs rely substantially on cheap labour for accumulation. Wages are quite inferior to actual levels of profitability. This strategy would seem to undermine the morale of employees and could threaten possibilities for sustained productivity growth from workers and apprentices.

The informal industrial sector relies for much of its technological change on technology transfer, but the rising cost of technical inputs purchased from large industry has rendered that strategy unviable. Although the strategy of technological improvization has kept many informal firms running, such firms are condemned to low productivity and growth. Also, the diversion of financial savings into the rural economy, both to finance farming to produce food for the family and to maintain relatives, further undermines limited working capital. Many small-scale investors are known to abandon their businesses during planting and harvesting seasons to participate in farm work. Others divide the workday between their businesses and their farms, which tend to be located at the outskirts of the two towns. This disregard for specialization, though meant to overcome the income constraints imposed by adjustment, undermines productivity and, hence, productivity growth.

Nevertheless, as we have seen, many aspects of the coping strategies of entrepreneurs seem conducive to boosting long-term development in the informal economy in general. Such strategies include backward integration, which creates direct and indirect employment and income opportunities; reductions in import consumption; technological improvization; and linkages with the rural economy. In general, while structural adjustment has provided incentives for informal sector industrial expansion, it has also induced the emergence of new structural limitations, such as steeply rising production costs, raw materials scarcities and difficulties in procuring spare parts.

Any policy intervention in the (Nigerian) informal sector must proceed from the premise that the sector is not a transitory phase, but, in fact, a permanent feature of the economy that is bound to assume even greater importance in the very near future. For any policy intervention in the sector to be relevant, it must come to terms with the internal structure, mechanisms and institutions of the sector. It is upon the latter that policy must build to establish a long-term basis for the development of productive enterprise in the informal sector. Mabogunje has observed that:

> ". . . although many of the programs and policies designed to address urban issues are unexceptional — and in many cases necessary — their long-term success is vitiated by their failure to transform the traditional institutions that are relevant to the lives of most urban residents. The failure to pay serious attention to these institutions is also marked by the preoccupation with urban poverty and the somewhat patronizing response that it elicits. As a result, the more challenging task of improving the productivity of urban economies tends to be neglected" (1991:192).

Mabogunje suggests a new paradigm of "institutional radicalization" which must attempt to use existing institutional networks in the informal sector to support the more productive enterprises. The apprenticeship system and the credit system are examples of these existing institutional networks.

Current Nigerian policy towards the informal sector seems premised on using the existing networks of informal sector institutions to build completely new structures, the purpose of which is to enable informal sector operators to gain easier access to capital and raw materials; increase productivity by training and better management; and improve infrastructural facilities.

The establishment of networks of community-based banks and People's Banks in urban and rural Nigeria mentioned earlier is aimed at creating easier access to credit for small entrepreneurs. The People's Bank, set up in 1989, is modelled on similar "populist" banks set up for the poor in Asian countries, though according to critics, the Nigerian variant lacks the demographic and statistical groundwork of its Asian counterpart (Biaghere, 1989). The maximum loan allowed per borrower is N5,000; given the bank's small capital base and the large number of informal sector participants, it is doubtful whether the People's Bank can make any appreciable difference in the financial constraints confronting the informal sector producers. Furthermore, the use of "solidarity groups" of applicants who mutually guarantee each other's loans, while relatively successful in encouraging repayment, tends to restrict beneficiaries to the wealthier and more established strata of the informal sector. Poorer informal operators may have greater difficulty in getting access to such solidarity groups to guarantee their loans. Thus, People's Bank loans may never find their way to those informal participants who most need them. Besides, it is doubtful whether the Nigerian state can continue to sustain the huge subsidy on the interest rate of loans advanced by People's Bank.

In the area of apprenticeship training, the National Directorate of Employment (NDE) set up in 1987 attempts to fulfill that purpose. By September 1990, the NDE had secured jobs for 737,000 out of over 3 million unemployed. While a few of NDE programmes provide loans and training to graduates and other unemployed youth to enter into self-employment, the focus has been to set up the unemployed in agriculture and allied activities, perhaps in an effort to induce "reverse migration" as well as in recognition of the fact that the urban informal sector is reaching saturation point.

Not every inefficiency and business failure could be eliminated by special management training or by removing so-called economic disincentives like the lack of access to credit facilities. Inefficiencies could also originate on the production side: in poor maintenance, failure to recognize the advantages of keeping a stock of spare parts, raw materials, poor labour management, etc. (Elkan, 1988). Many informal sector enterprises in Nigeria need to improve their record on that side if they are to prosper in difficult economic times.

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