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**LIMITS TO LABOUR ABSORPTION:
CONCEPTUAL AND HISTORICAL BACKGROUND TO
ADJUSTMENT IN NIGERIA'S URBAN INFORMAL SECTOR**

by Kate Meagher with Mohammed-Bello Yunusa

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Preface

With the deepening of the economic crisis in many developing countries in the 1980s, the informal sector has emerged as an important sphere of activity for a variety of social groups that find it increasingly difficult to sustain their livelihoods in formal employment. Structural adjustment programmes challenge the African state's post-independence role in the economy as well as in social welfare provision. The assault on the state's role in development has had profound implications for Africa, whose public sector employs a higher proportion of its urban workforce than Asia or Latin America.

Implicit in the logic of structural adjustment, however, is the belief that the informal sector would benefit from market liberalisation as this would free up resources and encourage linkages with local industry. Deregulation would strengthen the comparative advantage of informal producers who are assumed to be less dependent on foreign inputs, use flexible production techniques and are less affected by high wage costs.

The growth of the informal sector in developing countries undergoing crisis and structural adjustment has led to renewed interest in studies on the informal sector and on the dynamics of informalisation in general. The questions of whether the informal sector can absorb the large pool of workers made redundant or economically insecure in the formal economy, and provide the basis for renewed growth, have emerged as central issues in the debate. A related issue is the question of how to characterise the complex economic activities that constitute the informal sector itself.

This paper addresses some of these issues from the vantage point of Nigeria's informal sector. It is a background paper to the authors on-going research on the livelihood strategies of informal groups in one of Nigeria's northern cities, Zaria, undertaken within the UNRISD project on Crisis, adjustment and social change. Several other social groups are being investigated within this programme by a team of multi-disciplinary researchers. Kate Meagher is a lecturer at the Department of Agricultural Economics and Rural Sociology, and Mohamed-Bello Yunusa is a research fellow at the Centre for Social and Economic Research, both at the Ahmadu Bello University in Zaria. Meagher has done considerable work on parallel market activities in Uganda; peasant responses to liberalisation and parallel trade in Northern Nigeria; and the impact of biotechnology on Nigeria's food crisis. Yunusa has worked on informal street trading activities in Zaria. The African component of the UNRISD project is being coordinated by Yusuf Bangura.

The paper takes a critical view of the absorptive capacity of the informal sector under conditions of crisis and structural adjustment. Challenging some of the widely held views about the capacity of the sector to thrive under conditions of free markets, the authors argue that Nigeria's informal sector has been squeezed from both the supply and the demand sides. On the supply side, the informal sector is affected by cost and scarcity of raw materials and the recent drive by formal industrial producers to recycle waste products which have been a major source of supply for the inputs of informal producers. Nigeria's informal sector is marked by a high level of dependence on foreign inputs and low technical capacity, and is unable to produce goods of suitable quality for use in industry.

On the demand side, the informal sector is said to have been adversely affected by the increase in unemployment and the sharp fall in real wages. The substantial contraction in demand among low-income wage earners who normally patronise the goods and services of informal producers has had

a particularly strong negative effect.

The paper also examines two institutional projects (the National Directorate of Employment, and the People's Bank) recently launched by the Nigerian government to moderate some of the negative consequences of the adjustment programme on unemployed youth and the urban poor. The authors contend that both institutions have not been effective in developing growth potentials within the informal sector as their operations are hampered by lack of sufficient funds, problems of patronage and high rates of default. The institutionalisation of these projects and other sectoral policies underlines, however, the growing awareness of the government of the need to intervene in the economy to stimulate the income-generating and labour-absorptive capacity of the informal sector.

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Director

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The Nigerian Structural Adjustment Programme (SAP) descended on an informal sector ill-prepared to withstand the onslaught of market forces. The new macro-economic environment created by SAP, which was supposed to promote informal sector development by freeing up resources and encouraging linkages with local industry, seems to have had precisely the opposite effect. Out-competed by industry for access to local raw materials and swelled by rising unemployment and falling real wages, the informal sector has found itself squeezed from both the supply and the demand sides, to the point of threatening its continued capacity to absorb surplus labour. By 1987, only one and a half years after the inauguration of SAP, the government was forced to intervene in order to stem the alarming rise in unemployment and urban poverty. The question now facing policy-makers is why the informal sector has failed, so far, to respond to market incentives, and, more urgently, what the precise impact of Structural Adjustment policies has been on the members of the informal sector.

Part of the attempt to answer these questions has involved increased concern over improved methods of statistical collection in order to find out why Structural Adjustment policies have not had the expected effect, and to monitor future developments. The problem, however, is not a function of the adequacy of available statistics but of the conceptual framework within which such statistics are collected and interpreted. As a socio-economic category, the informal sector is a recent creation; it arose in the early 1970s in the context of a disenchantment of neo-liberal development thinkers with the inefficiency of state-led capitalism in developing countries. Thus, the emergence of a concept of the informal sector as a form of popular development based on market forces is part of the political, economic and ideological context that ultimately produced structural adjustment programmes. As a result, the prevailing framework within which the informal sector is analysed within the literature¹ tends to support the structural adjustment perspective on the importance of deregulation for economic efficiency and popular participation in the development process. It is therefore important to disentangle the evolution of the concept, with all its ideological trappings, from the development of the informal sector itself.

With this in mind, the first section of this paper will trace the conceptual evolution of the informal sector in the development literature, consider some of the more recent critical perspectives on the concept of informality, and discuss definitional and statistical issues within this context. The following three sections will look at the development of the informal sector in Nigeria in the period prior to the Oil Boom, during the Oil Boom and during the crisis of the early 1980s. In each case, the examination of developments in the sector will involve a consideration of the prevailing policy attitudes toward the informal sector. The fifth section will consider the effect of Structural Adjustment policies on the informal sector, and possible strategies adopted by informal sector participants to deal with the effects of crisis, at the level of the workplace, the household and the community.

1.1 The Origins of the Concept of the Informal Sector

Prior to the 1970s, the informal sector was not regarded as a distinct socio-economic group but as part of an assembly of traditional, backward and unproductive activities operating at the margins of developing societies. Under the rubric of the dual sector model, the informal, or "non-capitalist" sector was considered completely lacking in developmental potential. Development depended on

¹ S.V. Sethuraman, **The urban informal sector in developing countries: Employment, poverty and environment**, ILO, Geneva, 1981.

its disappearance through absorption into an expanding modern sector.² Solutions to informal sector poverty were not sought in programmes to upgrade informal activities, but in intensified development of the formal sector, population control and strategies to slow down rural-urban migration.³

The ILO report on Kenya in 1972, and a 1973 study by Keith Hart on the urban poor in Accra, were the first to raise the issue of the developmental possibilities of the informal sector.⁴ Amidst the growing failure of state-led capitalism to generate sufficient employment to absorb a rapidly expanding informal sector, attention was turned to the capacity of the informal sector itself for labour absorption and increased income generation. The persistent poverty of the informal sector was no longer seen as intrinsic to the unproductive nature of informal sector activities, but as the fault of inappropriate state policy that had failed to provide an environment conducive to informal sector growth. Informal activities themselves were seen in a new light, as economically efficient, technologically adaptable and socially useful in the provision of goods and services to the large proportion of the urban population excluded from the benefits of formal sector development.⁵

Within this perspective, two distinct policy approaches have emerged. The first, represented by the ILO, maintains that informal sector development depends on enlightened state intervention. While advocating the economic efficiency of the informal sector, the ILO position recognizes that the current base line of poverty and low productivity can only be overcome by supportive state intervention in the areas of infrastructure, credit, and technical, managerial and marketing assistance.

The second approach, represented by the World Bank and popularized by Hernando de Soto's book, **The Other Path**, forms the basis of the Structural Adjustment view of the informal sector. It argues that the development of the informal sector has not been impeded by any weakness within the sector itself, but by the unfavourable legal and institutional framework within which the informal sector is forced to operate. In contrast to the ILO position, the World Bank approach assumes that the informal sector already possesses the prerequisites for growth, since it has managed to survive in the absence of state protection, and often under actively hostile legal restrictions. The key to informal sector growth is seen as deregulation rather than supportive intervention -- the dismantling of state controls and restrictions which protect a small and inefficient formal sector at the expense of the masses.

1.2 Informality and Informalization

A critical alternative to the World Bank perspective has emerged in informalization theory, an approach which investigates the connection between the economic crisis in the formal sector since the mid-1970s and specific tendencies in the expansion of informal activity. The increasing emphasis on deregulation among the political and economic orthodoxy is seen, not as a purely technical policy recommendation, but as part of the process by which the formal sector creates

² W.A. Lewis, "Economic development with unlimited supplies of labour", **The Manchester School**, May, 1954, pp. 139-91.

³ Paul Bairoch, **Urban unemployment in developing countries**, ILO, Geneva, 1973.

⁴ ILO Mission, **Employment, Incomes, and Equality: A Strategy for Increasing Productive Employment in Kenya**, Geneva, 1972; K. Hart, "Informal income opportunities and urban employment in Ghana", **Journal of Modern African Studies**, March, 1973.

⁵ ILO Mission, "The informal sector", in G.M. Meier (ed.), **Leading issues in economic development**, Fourth edition, OUP, New York, 1984, p. 183.

pressures for the restructuring of productive relations in order to take advantage of reduced labour costs available in the informal sector.⁶ This places the neo-liberal tendency to celebrate the free market character of the informal sector within a wider historical context which calls into question both the objectivity of the neo-liberal approach and its capacity for discriminating historical and empirical analysis.

Empirical studies conducted within the informalization framework suggest that increased informal activity in the context of economic crisis rarely constitutes a path for development. Informalization under crisis conditions tends to take two distinct forms. The first involves increased subcontracting by formal sector firms to informal enterprises as a means of maximizing flexibility and minimizing wage costs through the evasion of labour laws. The second involves the withdrawal of the state from its post-War (or post-independence) role of safeguarding the reproduction of the urban working class. The working class is increasingly thrown back on a symbiotic cycle of informal income generation and consumption of low cost informal sector goods and services in its struggle to survive.⁷ While subcontracting of productive activities to the informal sector has become a widespread strategy in First World and Latin American countries, it remains extremely rare in African countries, owing to the lower levels of industrialization, and the lower levels of skill and quality in African informal sectors.⁸ Where subcontracting occurs, it is largely distributive, involving formal sector commercial firms subcontracting to informal traders and hawkers in order to take advantage of the low overhead and wider market available within the informal sector.⁹

The predominance of trade-based linkages and survival strategies in African informal sector expansion suggests a low potential for the emergence of a productive, dynamic informal sector, particularly under conditions of economic crisis and structural adjustment. As Alejandro Portes et al. point out, productive informal sector growth requires that at least some enterprises move beyond the production of low quality consumer goods into capital and intermediate goods, and up-market consumer goods.¹⁰ This capacity is not created simply by deregulation, but by such factors as state support in the area of credit and technical training, and increasing education among the young, both of which are increasingly eroded under structural adjustment programmes. Thus, the central question of productive informal sector growth becomes the extent to which the bases of informal sector development were provided in the period prior to the onset of crisis.

Within the informalization framework, three issues emerge as key to evaluating the development of the informal sector in Nigeria, and the effects of SAP on its participants. These are differentiation within the informal sector, linkages with the formal sector, and the role of the state. Differentiation focuses attention on the ways in which economic conditions and policy changes in the wider economy have affected wage relations, competition and barriers to entry within the informal sector.

⁶ A. Portes and S. Sassen-Koob, "Making it underground: Comparative material on the urban informal sector in Western market economies", *American Journal of Sociology* 93, 1987, pp. 30-61; Portes et al. (eds.), *The informal economy*, Johns Hopkins University Press, Baltimore, 1989.

⁷ M. Lanzetta de Pardo et al., "The articulation of formal and informal sectors in the economy of Bogota, Colombia", in A. Portes et al. (eds.), *The informal economy*, Johns Hopkins U.P., Baltimore, 1989, p. 109.

⁸ ILO, *Informal sector in Africa*, JASPA: Addis Ababa, 1985, p. 29; L. Trager, "A re-examination of the urban informal sector in West Africa", *Canadian Journal of African Studies*, 21(2), 1987, p. 245.

⁹ N.J. Nattrass, "Street Trading in Transkei -- A Struggle Against Poverty, Persecution and Prosecution", *World Development*, 15(7), 1987, p. 870; *The Economist*, "Into the Black", Nov. 5, 1988, p. 77; M.-B. Yunusa, *The Socio-Economic Structure of the Informal Sector: A Case Study in Street Trading in Zaria Metropolis*, mimeo, CSER, Ahmadu Bello University: Zaria, Nigeria, 1988, p.32; A. Portes and S. Sassen-Koob, "Making It Underground: Comparative Material on the Urban Informal Sector in Western Market Economies", *American Journal of Sociology*, 93, 1987, p. 38.

¹⁰ A. Portes et al., "Conclusion", in A. Portes et al. (eds.), *op.cit.*, p. 302.

This raises the issue that policies and programmes that benefit informal entrepreneurs may not benefit informal sector employees. The increased use of vulnerable forms of labour in the informal sector, such as women, youth and migrants, is also a central issue. Within the Nigerian context, particular attention should be directed to the use of apprentices, who are an increasingly important source of cheap and vulnerable labour in West African informal sectors.¹¹

The issue of linkages focuses not only on the type of linkages that exist with the formal sector, but on the conditions under which such linkages occur. The relative absence of forward linkages is not the only problem. In the Nigerian context, backward linkages with formal sector suppliers, and the role of middlemen, play a central role in determining points at which profits can be siphoned off, and hence influence the economic potential of the informal sector. The timing of the development of new types of linkages is also important; to the extent that new linkages arise under conditions of economic crisis, they tend to be prejudicial to informal sector development.

Finally, the policy attitude of the state, and the points at which it chooses to intervene, even under SAP, are important in determining the capacity of the informal sector to stand up to the market. In the case of Nigeria, there is a long-standing gap between official policy attitudes toward the informal sector and actual forms of intervention, which has contributed to the weakness of the sector despite the generally favourable state attitude towards it.

1.3 Definitional and Statistical Issues

Having located the informal sector within a more comprehensive conceptual context, the task of identifying a suitable definition of the sector is considerably simplified. Under the influence of the dual sector model, the tendency was to lump together in the informal sector everything that did not fall into the formal sector, to the point that an American social scientist complained that the informal sector has become a "conceptual tutti-frutti".¹² Definitions have tended to focus on descriptive characteristics of informal enterprises, such as their low levels of capital and technology, use of family labour, reliance on indigenous resources and small size. These characteristics, however, fail to identify any essential features of informality, and could just as easily be applied to small, family-owned formal sector enterprises. The result has been a proliferation of largely descriptive and intuitive definitions, which tend to complicate the gathering and reliability of informal sector statistics, as working definitions change and only imperfectly target the sector itself.

A clearer definition of informality requires that the definition be sought, not at the level of description, but at the level of productive relations within informal enterprises, and between these enterprises and the formal sector. The most compelling definition has been provided by Castells and Portes, who define informality as productive relations unregulated by the formal institutions of society where similar activities are so regulated.¹³ Although precise with regard to the concept of informality, this definition poses a problem for students of the informal sector. While in the past the fact of operating outside the formal institutional structure was sufficient to distinguish the informal sector from the rest of the economy, under SAP many small-scale industries may now be operating informally in order to cut costs, thus expanding the scope of informality well beyond what is traditionally intended by the concept of the informal sector.

¹¹ L. Trager, *op.cit.*, p. 243.

¹² Joseph Huber, 1985.

¹³ M. Castells and A. Portes, "World underneath: The origins, dynamics and effects of the informal economy", in A. Portes et al. (eds.), *op.cit.*, p. 12.

The term 'microenterprise' has been gaining currency in the donor community as a means of distinguishing between informal sector enterprises and small-scale industry, whether formal or informal.¹⁴ The central distinguishing feature between the two appears to be the level of capital needed to start up. This appears appropriate to the Nigerian situation, where small-scale industry refers to enterprises with a capital base of up to N500,000, while the informal sector involves enterprises with an average capital base of only a few hundred naira. A solution to the problem of an appropriate cut-off point requires further research into the socio-economic factors that distinguish the informal sector from small-scale industry under current economic conditions.

As regards the collection of official statistics, a possible statistical proxy for the informal sector is the category of the urban low-income self-employed, which has been used in Nigerian official household statistics since the early 1980s. The main problem with this category is that it eliminates the important sub-category of informal sector employees, as well as those strata of informal traders and middlemen who may occupy the middle income category of the self-employed, particularly under the speculative conditions created by SAP. However, where more elaborate collection methods are not feasible, this proxy would at least provide an indication of the effects of economic conditions on a large section of the informal sector.

Where more precise collection is possible, data should also be collected on the percentage of the workforce involved in informal activity; the percentage of the informal sector involved in the production of consumer goods, intermediate goods and capital goods; the composition of the informal workforce in terms of entrepreneur-employers, owner-operators, employees and apprentices, and the average income of each category; the percentage of inputs purchased from and output sold to the formal sector (backward and forward linkages); and the percentage of imported inputs used in the informal sector. This would give a good indication of the effects of economic policies on the development of integrative potential and the actual levels of integration of informal enterprises with formal sector firms, as well as of the impact of these processes on incomes of informal sector participants. At the household level, statistics on incomes and a separate consumer price index already exist for the urban low-income self-employed. To this could be added room occupancy rates and access to utilities for the same group in order to monitor more clearly the effects of consumer inflation on the living conditions of informal sector households.

2.1 The Informal Sector before the Oil Boom

Appraising the development of the informal sector before the mid-1970s poses a decisive statistical problem: the urban informal sector did not yet exist as an independent economic category. For statistical purposes, traditional crafts and petty trade are frequently lumped together with the rural subsistence sector.¹⁵ Informal activities that produced modern goods and services were often placed in the category of small-scale industry. In both cases, statistics focus on employment creation rather than production, since labour absorption was considered the only economic contribution of these sectors.

Owing to this imprecision, estimating the size of the informal sector prior to the mid-1970s is difficult. The Second National Development Plan (1970-1974) estimates non-agricultural small-

¹⁴ J. Levitsky (ed.), **Microenterprises in developing countries**, Intermediate Technology Publications, London, 1989, pp. xviii-xxi.

¹⁵ Federal Republic of Nigeria, **Second National Development Plan 1970-1974**, Lagos, p. 291; P. Bairoch, **Urban Unemployment in Developing Countries**, p. 2.

scale activities as constituting more than 25% of employment in the economy in 1966/7.¹⁶ Under this category is included mechanical and repair workshops, services, manufacturing and processing, crafts and petty trade. Despite the large size of the sector, a Pilot Study in 1965 found that most of these enterprises operated at low levels of productivity owing to a lack of marketing skills, inadequate working capital and a low standard of workmanship.¹⁷ A study conducted in 1970 suggests that the low level of workmanship severely limited the market for informal sector goods, particularly as wages began to rise and consumers were more able to buy imported goods.¹⁸

Training in the informal sector was largely through apprenticeship. According to Callaway's studies of the Nigerian apprenticeship system in the 1960s, apprentices ranged in age from 9 to 29 years, and were generally children of the poor who were unable to afford secondary school.¹⁹ While Callaway praised the indigenous system as a more relevant form of education, he also noted that apprentices worked extremely long and unregulated hours, and registered complaints by apprentices of being made to serve as house-servants to their masters wives.²⁰ A 1970 study of traditional crafts in Zaria City found that there was a preference among informal craftsmen to invest their capital in the formal education of their children rather than in expanding their enterprises, which suggests that incomes in the informal sector were sufficiently low as to make the hope of formal sector employment a more attractive investment opportunity.²¹

The policy attitude toward the informal sector was that it had some contribution to make in the areas of employment creation and the increased use of local raw materials.²² It was also seen to have some value in maintaining indigenous participation in some sectors of the economy, particularly retail trade. However, it was felt that low levels of technical education and consequent low productivity made even these contributions fairly marginal. The main solutions to the unemployment problem were seen in terms of the expansion of the formal sector and increased indigenous ownership of the industrial sector.²³ The only economic incentive extended to the informal sector in the Second National Development Plan, however, was the allocation of N800,000 for the creation of three Industrial Development Centres (IDCs) for the extension of technical advice to small-scale industry, including informal manufacturing enterprises.²⁴ The IDCs, however, were under-staffed and ill-equipped to carry out their functions, with the result that most of their objectives were not met.²⁵

¹⁶ **Second National Development Plan**, p. 313.

¹⁷ *Ibid.*, p. 313.

¹⁸ E.L. Sekuk, "Some Aspects of the Blacksmithing, Dyeing, Leatherworking and Tailoring Industries in the City of Zaria", B.A. Diss., Department of Geography, ABU, Zaria, 1970, pp.49-51.

¹⁹ O.Y. Oyeneye, "Apprentices in the Informal Sector of Nigeria", **Labour Capital and Society**, 13(2), 1980, p. 70.

²⁰ A.F. Mabawonku, "Costs and Returns to Indigenous Apprenticeship Training in Small-Scale Industries in Oyo and Ogun States of Nigeria", **Research for Development**, 1(2), July 1981, p. 165.

²¹ E.L. Sekuk, *op.cit.*, pp. 49-51.

²² **Second National Development Plan**, p. 313.

²³ U.I. Ukwu, "Industrialization and Economic Development in Nigeria: The Significance of SAP", in **Structural Adjustment Programme (SAP) and the Nigerian Economy**, Nigerian Economic Society Annual Conference, Ile-Ife, May 1988, p.3-4; P.O. Sada, "Urban Poverty -- The Case of Lagos, Nigeria", 1975 Annual Conference of the Nigerian Economic Society, Kano, p. 18.

²⁴ **Second National Development Plan**, p. 145; D.O. Ajakaiyi, "Structural Adjustment Programme (SAP) and the Nigerian Small-Scale Industries (SSIs)", National Conference on Small-Scale Industries and Development in Nigeria, NISER, Ibadan, 1987, p. 6.

²⁵ A.O. Osoba, "Development of Small-Scale Industries Strategy in the Fifth Nigerian National Development Plan (1986-1990)", in **The Fifth National Development Plan and the Restructuring of the Nigerian Economy**, Nigerian Economic Society Annual Conference, Lagos, May 1985, p. 7.

3.1 Informality and the Oil Boom

Most of the information available on the Nigerian informal sector during the Oil Boom is based on two studies of the informal sector in 1976, one carried out in Lagos by Fapohunda, and the other in Kano by Mabogunje and Filani. The findings, however, are corroborated by wider trends in informal sector development in Africa, as well as by supplementary material drawn from the Third National Development Plan, the Federal Office of Statistics, the Geography Department of Ahmadu Bello University, and from more recent informal sector literature which makes reference to developments during the Oil Boom. While the information is somewhat piecemeal, and contains no information on output or productivity levels, it permits the emergence of a relatively coherent picture of informal sector development during the Boom. Owing to the ideological climate of informal sector studies in the 1970s, there is a strong tendency in most of the sources to present informal sector data in the most beneficial light. A more critical appraisal of the statistics provided, however, reveals a less compelling reality.

Employment Growth

It was in the Third National Development Plan (1975-1980) that the informal sector was recognized as a distinct sector of the economy.²⁶ This recognition came in the context of increasing government concern over unemployment. The Plan focused on the informal sector together with small-scale industry as offering the main opportunities for labour absorption. According to the Third National Plan (1975-1980), by 1975 the informal sector had grown from 25% to 30% of non-agricultural wage employment in the country.²⁷ In Lagos, Fapohunda estimated the informal sector to be 50% of the urban workforce in 1976.²⁸ The major source of expansion was the large influx of migrants, drawn by rising urban wages and declining earnings in agriculture, both of which were accelerated by the impact of the Oil Boom.²⁹ In Lagos, one third of the migrants in the informal sector had arrived between 1971 and 1976; in Kano, the figure was two thirds, owing to a high influx of informal actors from the South East of the country, many of whom may simply have been returning after having fled during the Civil War.³⁰

Official recognition of the informal sector was not accompanied by any concerted state support, even in the areas recognized by the government to be blocking informal sector development. Policy attention and resources remained focused on encouraging growth and indigenous ownership in the formal sector, which was still perceived to be the real engine of growth in the economy. Despite their failure in the previous Plan period, the programmes addressed to the informal sector were essentially a continuation of the previous initiatives, though with higher levels of funding. These included an increase in the Industrial Development Centres from 3 to 13, the creation of the Small-Scale Industry Credit Scheme for which N20 million was allocated, and programmes for vocational training, placement and assistance for self-employment.³¹ These programmes, however, were undermined by poor staffing, underfunding and political lending,³² in addition to being largely

²⁶ Federal Republic of Nigeria, **Third National Development Plan 1975-1980**, Lagos, pp. 29, 369.

²⁷ *Ibid.*, p. 385.

²⁸ O.J. Fapohunda, "Human Resources and the Lagos Informal Sector", in S.V. Sethuraman (ed.), **The Urban Informal Sector in Developing Countries**, ILO; Geneva, 1981, p. 82.

²⁹ A.L. Mabogunje and M.O. Filani, "The Informal Sector in a Small City: The Case of Kano (Nigeria)", in S.V. Sethuraman (ed.), *op.cit.*, p. 83; O.J. Fapohunda, *op.cit.*, p. 71.

³⁰ O.J. Fapohunda, *op.cit.*, p. 71; Mabogunje and Filani, *op.cit.*, pp. 84-85.

³¹ The **Third National Development Plan**, p. 385.

³² A.O. Osoba, *op.cit.*, pp. 8-10.

inappropriate to the needs of the informal sector, which had virtually no access to formal sector credit, and little knowledge of or access to IDCs.

Without effective state programmes to break the low productivity trap, the rapid growth in informal sector employment did not necessarily represent a growth in income generation. Figures from the 1975 Annual Abstract of Statistics show that in informal sector industries of ten people or more employment grew at an annual average of 10% between 1971 and 1974, while formal industrial employment grew at only 7%.³³ However, more than one third of the growth in informal employment was due to an increase in unpaid apprentices and unpaid family workers.

Incomes and Differentiation

Both the Lagos and the Kano studies indicate that by the mid-1970s average incomes among informal sector entrepreneurs were above the minimum wage.³⁴ However, the tendency of both studies to average informal sector wage levels across the whole range of entrepreneurs disguises an increasingly sharp differentiation between entrepreneur-employers in such subsectors as auto mechanics, metal work and furniture making, and the much larger group of owner-operators in low income subsectors such as tailoring, hawking and shoe repair. While a small percentage of Lagos entrepreneurs earned over one and a half times the minimum wage of N60 a month, well over 50% earned less than the minimum wage.³⁵ With earnings of under N50 a month, the majority of entrepreneurs were little better off than informal sector employees with average incomes of around N40.³⁶ (N1 = \$1.83 in 1980). In Kano, while 37% of informal actors earned above the minimum wage, 36% earned no wage at all.³⁷

Entrepreneurs in low-income subsectors together with informal sector employees and apprentices constitute what Portes refers to as the 'informal proletariat', who are generally in too weak a position to capture the benefits of increased informal sector activity. Fapohunda documents this trend in the growth of the Lagos informal sector. Because of high initial capital requirements in the more lucrative subsectors, the bulk of new entrants were absorbed in the lower end of the entrepreneurial scale, or as apprentices and workers, where they faced stagnating incomes owing to increased competition from the influx of new entrants.³⁸ Women tended to suffer disproportionately from this process; while studies show that the informal sector provides well over half of total female employment in West African cities, women tend to be concentrated in low-income subsectors such as dressmaking and petty trade.³⁹ Both Fapohunda and Mabogunje and

³³ Federal Republic of Nigeria, **Annual Abstract of Statistics**, Federal Office of Statistics, Lagos, 1975. These statistics refer only to industries of 10 people or more, thus eliminating the bulk of informal sector industry which averages 3 to 5.3 persons, but provides some indication of trends in informal sector employment.

³⁴ Statements concerning the relationship of informal sector incomes to the minimum wage are not measuring informal incomes against subsistence requirements so much as comparing them to the minimum standard of formal sector income, usually with a view to challenging claims that the informal sector is inferior to the formal sector in its capacity to generate income. Particularly in the case of Nigeria, the minimum wage is a poor indicator of urban subsistence requirements. Both in 1974 and in 1981, the minimum wage was set with more attention to political than economic requirements. Any assessment of subsistence needs that might have entered into the calculation was in both cases immediately overtaken by inflation (**West Africa**, "Background to Udoji: 3", 3008, Feb.17, 1975; D. Otobo, "The Nigerian General Strike of 1981", **Review of African Political Economy**, 22, Oct.-Dec. 1981).

³⁵ Fapohunda, op.cit., p. 72.

³⁶ Ibid., pp. 74, 78.

³⁷ Mabogunje and Filani, op.cit., p. 86.

³⁸ Fapohunda, op.cit., pp.72, 79.; ILO, **Informal Sector in Africa**, JASPA: Addis Ababa, 1985, pp.16, 42.

³⁹ C.M. Becker et al., op.cit., p. 164; Fapohunda, op.cit., p. 71; Mabogunje and Filani, op.cit., pp. 84, 86.

Filani found that the incomes of women in the informal sector were significantly lower than male incomes.⁴⁰

Evidence suggests that the lower wages of workers were a significant factor in the accumulation process of informal sector employers at the higher end of the entrepreneurial scale,⁴¹ particularly since continued low levels of technology prevented significant increases in productivity. As an accumulation strategy, however, the dependence on cheap informal sector labour was becoming self-defeating; despite high levels of unemployment in Lagos during the mid-1970s, 30% of Lagos enterprises reported labour shortages, owing to low wages and poor working conditions.⁴² Although surplus labour was available, the downward competition of informal sector wages in accordance with market forces was becoming an impediment to labour absorption within the sector, thus restricting the expansion of informal enterprises despite an environment of high demand.⁴³ This negative development was recognized in the Fourth Development Plan, which saw the low levels of informal sector incomes as a threat to the capacity of the informal sector to act as a vehicle for labour absorption.⁴⁴

The Apprenticeship System

The paradoxical situation in the informal labour market appears to have given increasing importance to the apprenticeship system as a means of acquiring labour. In the Kano study, over 45% of informal employees were apprentices, over 80% of them under 14 years of age. In general, apprentices are not paid, or are given only pocket money, thus constituting a source of labour even cheaper than informal employees. A number of West African informal sector studies have indicated that apprentices play a key role in informal sector accumulation.⁴⁵ While the advocates of informal sector-led development tend to emphasise the training function of the apprenticeship system, the evidence suggests that its central economic contribution has increasingly been the provision of cheap and vulnerable labour.⁴⁶ A 1976 study conducted in South-Western Nigeria found that apprentices stayed at the workshop for up to twelve hours a day often performing tasks unrelated to their field.⁴⁷ Oyeneye's study from the late 1970s found that less than one third of masters gave their apprentices regular instruction.⁴⁸

The contention that apprenticeship constituted a more appropriate form of training than formal education is contradicted by the findings of both Fapohunda and Oyeneye that the informal sector was dependent for improvements in its level of technical skills on participants transferring in from

⁴⁰ Fapohunda, op.cit., p. 74; Mabogunje and Filani, op.cit., p. 86.

⁴¹ Fapohunda, op.cit., pp. 72-3; Mabogunje and Filani, op.cit., p. 83; ILO, **The Informal Sector in Africa**, pp.18, 66; Lillian Trager, "A Re-Examination of the Urban Informal Sector in West Africa", **Canadian Journal of African Studies**, 21(2) 1987, p. 243.

⁴² Fapohunda, op.cit., pp. 72-3.

⁴³ Ibid., p. 79. Sethuraman expresses perplexity over the "apparently inelastic demand for labour" in the face of a general increase in demand for informal sector goods. He tentatively attributes this phenomenon to lags in adjustment, since his ideological position would make it difficult to consider the low market wage within the sector as a constraint on growth, despite explicit evidence within the body of the study (p. 73).

⁴⁴ Federal Republic of Nigeria, **The Fourth National Development Plan 1981-1985**, Lagos, p. 423.

⁴⁵ ILO, **Informal Sector in Africa**, pp. 18, 66.

⁴⁶ C.M. Becker et al., "Urban Africa in Macroeconomic and Microeconomic Perspective: Issues and Options", World Bank Discussion Paper, Washington, DC, 1986, pp. 184-5.

⁴⁷ A.F. Mabawonku, "Costs and Returns to Indigenous Apprenticeship Training in Small-Scale Industries in Oyo and Ogun States of Nigeria", **Research for Development**, 1 (2), July 1981, p. 165.

⁴⁸ O.Y. Oyeneye, "The Training Functions of the Informal Sector in Nigeria" op.cit., CSER, p. 6.

the formal sector.⁴⁹ Thus, even during the Boom period, 63% became apprentices because they lacked the funds for secondary education.⁵⁰ The assumption that all apprentices became entrepreneurs was becoming increasingly inaccurate by the end of the 1970s; Oyeneye's study found that raising start-up capital to enter into self-employment upon completion of an apprenticeship was already posing increasing difficulties even before the onset of the economic crisis.⁵¹

Linkages and Independent Growth Potential

The expansion of the informal sector during the Oil Boom was dependant largely on growth in consumer demand among low-income wage earners, rather than on direct linkages with industry or the public sector. Both the Kano and Lagos studies found that low-income household made up 87% of the market for informal sector goods, while direct forward linkages with the formal sector were negligible, largely as a result of continued low levels of informal sector skills and technology.⁵² The types of enterprises that predominated also inhibited the development of forward linkages with industry, since the structure of informal sector demand during the 1970s encouraged the development of enterprises oriented toward low-income consumer goods, while the pursuit of a strategy of import substitution in the formal sector discouraged the development of intermediate goods capacity in the informal sector. Fapohunda found that of the 67% of informal enterprises in his sample that had started since 1971, most were concentrated in the food, beverage, tobacco and trade subsectors.⁵³

The main interface between the informal and formal sectors was through backward linkages. In both Kano and Lagos, the majority of enterprises obtained their inputs from formal sector enterprises, though only the higher income enterprises could buy directly from formal sector suppliers. Owing to capital constraints, the rest were forced to buy in smaller quantities through retail traders, at higher unit costs.⁵⁴ In addition, there appears to have developed a considerable dependence on imported inputs during the 1970s in both the goods and services subsectors. The metal-working industry, one of the highest income subsectors, is characterized by very low local content, since the pipes and rolled sheets it uses have to be imported.⁵⁵ Blacksmiths had become dependent on imported scrap metal, auto mechanics and electronics repair used imported parts, tailors used imported machines, and even traditional basket and mat weavers used imported British dyes and twine.⁵⁶

It is also important to note that the majority of informal enterprises operated on rented premises -- 55% in Kano and 81% in Lagos.⁵⁷ Over 60% operated in residential locations, which contributed to a deterioration in sanitation and living conditions. It was suggested in the Kano study that

⁴⁹ Fapohunda, op.cit.; O.Y. Oyeneye, "The Training Functions of the Informal Sector in Nigeria", op.cit., CSER, 1987, p. 10.

⁵⁰ O.Y. Oyeneye, op.cit., 1980, p. 74.

⁵¹ Ibid., pp. 78-9.

⁵² Fapohunda, op.cit., p. 76; Mabogunje and Filani, op.cit., p. 87.

⁵³ Fapohunda, op.cit., p. 80.

⁵⁴ Mabogunje and Filani, op.cit., p. 87; S.V. Sethuraman (ed.), op.cit., p. 30; "Small Businesses Seek Help as Debate Swirls", *The Urban Edge*, 13(1), Jan./Feb. 1989, p. 1.

⁵⁵ M.D. Ogegbo and A.O. Esubiyi, "Policy on Raw Materials Sourcing and Utilization", National Conference on Developing National Economy Through Appropriate Technology Policy and Planning, Ile-Ife, June 1987, p. 38.

⁵⁶ Z. Moukhtar, "The Role of the Informal Sector in Urban Growth: A Case Study of Suleja -- Niger State", B.Sc. Diss., Department of Geography, ABU, Zaria, 1985, p. 36; C. Magbaily Fyle, "The Informal Sector Metal Working Industry in Sierra Leone", First Nigerian Workshop on Technology in the Informal Sector, CSER, Zaria, Oct. 1987, p. 2; E.L. Sekuk, op.cit., p. 16; T. Aina, "Shanty town economy: The case of Metropolitan Lagos, Nigeria", p. 139.

⁵⁷ Fapohunda, op.cit., p. 75; Mabogunje and Filani, op.cit., p. 89.

increased security of informal employment could encourage investment in improved housing conditions. However, Aina's work on the urban poor in Lagos indicates that the land tenure arrangements in the residential areas of the urban poor actively discourage any long-term investment in housing in order to maximize the speculative options of the landowners.⁵⁸

4.1 The Informal Sector in Crisis

The onset of economic crisis, which began to trouble the economy in 1978 and emerged in full force in 1981 with the collapse of the oil price, dramatically altered the conditions under which the informal economy had operated during the 1970s. Contrary to the dualist assumption that the informal sector operates according to market forces and is therefore relatively independent of crises in the formal sector, the informal sector was hard hit by the crisis from both the demand and the supply-sides. Inflation, import scarcity, rising unemployment and falling real wages in the formal sector produced in the informal sector a situation of rising input costs, contracting markets and the erosion of capital in the face of rising household expenses. Under these conditions, the failure of market forces to create a strong economic base in the informal sector during the 1970s became painfully obvious.

Crisis on the Demand-Side

The expansion of informal activity during the Oil Boom had been sustained by rising wages among low-income wage earners, who made up over 80% of the market for informal sector goods and services. The drop in foreign exchange earnings in the formal sector led to large-scale retrenchment in public and private sectors, producing a doubling of the unemployment rate between 1981/2 and 1984/5.⁵⁹ Loss of wages among the unemployed was compounded by the erosion of real incomes among wage earners as a result of rising inflation, severely limiting demand for informal sector goods. The rate of consumer inflation faced by urban low-income wage earners jumped from 10.8% in 1980 to 18.5% in 1981.⁶⁰ In addition to eroding demand for informal sector goods, rising unemployment increased competition within the informal sector itself for the low level of demand that remained. Some of the fall in demand among low-income wage earners has been compensated for by increased demand among middle income salary earners forced into informal markets by the erosion of their own incomes, but it is unclear to what extent this is taking place.

Crisis on the Supply-Side

In the face of moderate informal sector dependence on imported equipment and raw material that had developed in the 1970s, the import scarcity produced by the crisis resulted in serious inflation in production and operating costs that touched not only the modern craft sectors, but also the petty trade and artisanal sectors.⁶¹ The crisis not only affected costs but also had a negative effect on the level of technology in the informal sector. A study conducted in 1985 in Niger State found that 59.2% of informal manufacturing and service enterprises depended on simple imported technology,⁶² a figure that is likely to have been even higher immediately before the crisis.

⁵⁸ T. Aina, "Many routes enter the market place': Housing submarkets for the urban poor in Metropolitan Lagos, Nigeria", *Environment and Urbanization*, 1(2), Oct. 1989, pp. 46-7.

⁵⁹ UBA, **Monthly Business and Economic Digest**, Feb. 1987, p.1; FOS, *Social Statistics in Nigeria 1985*.

⁶⁰ Federal Republic of Nigeria, **Digest of Statistics**, Vol. 28, FOS: Lagos, June 1981; Federal Republic of Nigeria, **Social Statistics in Nigeria 1985**, FOS: Lagos, p. 161.

⁶¹ T. Aina, "Shanty town economy", p. 139.

⁶² Z. Moukhtar, *op.cit.*, p. 36.

Adjustment to import scarcity is therefore likely to have had a detrimental effect on quality and technology levels.⁶³

While there was a strong tendency to improvisation and recycling in response to the scarcity of imports, there were elements of import dependence that were difficult to break even by that strategy. As Aina points out in a study of informal activity in Lagos, even recycling and improvisation has a measure of import dependence. The scrap metal used by metal workers and blacksmiths comes from imported vehicles and other imported metal goods; improvised spare parts are made from other imported parts that are adapted or recycled.

Informal enterprises that used locally made goods also faced rising input costs as a result of the rising cost structure of local firms, who were themselves grappling with import scarcity and declining capacity utilization. With the bulk of informal sector raw materials and inputs coming from the formal sector, rising costs in formal sector production and distribution necessarily translated into rising costs to informal enterprises.

Impact on Informal Incomes

The situation of falling demand and rising costs faced by informal enterprises had a negative effect on incomes among informal sector entrepreneurs. Table 1 shows that basic cash incomes among the low-income self-employed fell by 4.8% between 1980/1 and 1982/3, while incomes among low-income wage earners rose by 8% during the same period. This shows a severe deterioration in the economic position of informal entrepreneurs relative to low-income wage earners.

Table 1: Average monthly household income by source and employment status (in Naira)								
	Low-income wage earners				Low-income self-employed			
	1980/81	1981/82	1982/83	1983/84	1980/81	1981/82	1982/83	1983/84
Basic cash incomes	205.7	218.6	220.2	222.5	140.2	134.8	125.8	133.4
Total cash	239.2	241.5	250.8	267.6	165.9	155.0	146.9	166.1
% spent on food	46.2	48.4	48.4	51.9	50.7	52.9	52.5	54.9

Source: Federal Republic of Nigeria, **Social Statistics in Nigeria 1985**, FOS: Lagos.

In addition to falling incomes, the informal sector had to grapple with rising inflation. Table 2 shows that, from the onset of the crisis, the low-income self-employed faced a higher rate of inflation than low-income wage earners, although they had confronted a lower rate of inflation before the crisis. As the crisis worsened, the gap widened. The consumer price index for low-income self-employed rose from 3 index points below that of low income wage earners in 1976, to 30 index points above that of wage earners index in 1985, indicating that the low-income self-employed were less able to insulate themselves from rising costs than low-income wage earners. The high rate of inflation increased the tendency of informal operators to dip into operating and investment capital to meet household expenses, further eroding their earning capacity.⁶⁴ Given the fact that most informal enterprises were funded from personal savings, the erosion of informal sector incomes is likely to have intensified the capital shortage in the sector. Being drawn from official sources, the reliability of the data in Tables I and II can be called into question, but the logic and consistence of the pattern they show is clearly indicative of a decline in the economic position of the low-income self-employed relative to working class wage earners.

⁶³ Osoba, op.cit., p. 14.

⁶⁴ "A Fresh Look at Urban Unemployment", **The Urban Edge**, 9(8), Sept./Oct. 1985, p. 5.

Table 2: Consumer price indices of urban low-income wage earners and urban low-income self-employed

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Food										
Self-employed	127	150	196	209	232	310	334	409	606	592
Wage earner	132	156	193	210	227	297	322	390	549	548
Inflation gap	-5	-6	3	-1	5	13	12	19	57	44
All items										
Self-employed	123	140	178	197	221	270	291	350	496	506
Wage earner	126	143	174	195	216	256	275	327	456	476
Inflation gap	-3	-3	4	2	5	14	16	23	40	30

Source: Federal Republic of Nigeria, *Digest of Statistics*, Vol. 28, FOS: Lagos, June 1981; FRN, *Social Statistics in Nigeria 1985*, FOS: Lagos, 1985.

4.2 Policy Attitudes during the Crisis

The policy interest expressed in the informal sector as a vehicle for labour absorption had shifted in the Fourth Development Plan to concern over the effect of rising unemployment on informal sector incomes.⁶⁵ It was becoming clear that the informal sector would not be able to continue to absorb labour without some form of government intervention to raise incomes. Nonetheless, policy initiatives remained focussed on the same programmes which had been failing for over a decade.

At the local level, policy attitudes toward the informal sector appear to have been more negative during the early 1980s. During the Buhari regime, the campaign for environmental sanitation targeted informal activities as unsightly, resulting in the destruction of many premises and forcing operators into semi-permanent structures and courtyards, thereby increasing operating costs among non-itinerant actors.⁶⁶

5.1 The Informal Sector under SAP

The Structural Adjustment Programme, initiated in mid-1986, was expected to have little negative effect on the informal sector, which was supposed to be well placed to benefit from shifts in demand as imported consumer goods became too expensive for the bulk of consumers.⁶⁷ The strategy of deregulation was supposed to increase the access of the informal sector to resources previously controlled in the interest of the formal sector, while leaving the informal sector, which used little in the way of imported inputs or commercial credit, relatively free from the rising cost of operation in the formal sector.⁶⁸ The economic crisis of the early 1980s clearly demonstrated these assumption to be false. The development of the informal sector during the 1970s, based on labour intensive, low technology, low quality consumer goods and services -- attributes which neo-liberal theory had turned into virtues -- perpetuated its dependence on the formal sector for access to resources and markets. The dynamic potential that Structural Adjustment was expected to liberate presupposed an independent capacity for the development of modern, if simple, technology and skills, and an orientation toward the production of intermediate and export quality goods, none of which obtained in the Nigerian informal sector.⁶⁹ As a result, SAP only brought an intensification

⁶⁵ *Fourth National Development Plan*, pp. 423, 441.

⁶⁶ *New Nigerian*, Feb. 18, 1984, p. 12; Feb. 29, 1984, p. 9; April 4, 1984, p. 3; Dec. 30, 1984, p. 16.

⁶⁷ R. Hood et al., "The Socioeconomic Impact of Macroeconomic Adjustment", Centre for Development Technology, International Science and Technology Institute, 1988, p. 99.

⁶⁸ United Bank for Africa, *Monthly Business and Economic Digest*, Nov. 1989, p. 2.

⁶⁹ V. Capecchi, "The Informal Economy and the Development of Flexible Specialization in Emilia-Romagna", and "Conclusion" in Portes et al. (eds.), *op.cit.*, pp. 211, 302-3.

of the problems of rising costs and low aggregate demand which had arisen during the early 1980s, accelerating crisis conditions among the social group least equipped to insulate itself from these effects.

5.2 The Effects of Macro-Policies of Structural Adjustment

Because of informal sector dependence on the formal sector, most of the macro-policies that have affected the real sectors of the formal economy have affected the informal sector in similar ways. The actual and likely impact of SAP on the informal sector, however, is given its specific determination by the subordinate position of the informal sector, and the feedback effects of attempts by formal sector firms to adjust to the pressures of SAP.

Devaluation

The devaluation of the Naira was carried out through institutionalized foreign exchange auctions known as SFEM (Second tier Foreign Exchange Market) or FEM (Foreign Exchange Market), with the objective of bringing the value of the Naira into line with market conditions. A stated aim of devaluation was to promote backward integration of the formal sector with the informal sector by discriminating against imports. The policy, however, ignored the extent of informal sector dependence on imports, as well as the lack of technical capacity in the informal sector to produce goods of suitable quality for industrial use. The result has been input strangulation in the formal sector, from which the informal sector continues to procure over 60% of its supplies,⁷⁰ and high costs and shortages of both imported and local inputs in the informal sector.

Inflation in informal sector supply costs is likely to reduce direct supply linkages with the formal sector, and increase the intervention of informal middlemen who will sell in smaller quantities, but at higher unit costs.⁷¹ The effect will be to increase operating costs, and reduce the scale of operations of many informal enterprises, though it will increase the income opportunities of retail traders who have sufficient capital to buy directly from formal sector firms.

The Export Drive, Local Sourcing and the Cost of Raw Materials

The export promotion drive, through the devaluation of the Naira and an additional package of export incentives, has had a further inflationary impact on supply costs, and on food costs, for informal sector participants. A leading financial journal complains of the "indiscriminate export" of particular foodcrops and raw materials for reasons connected with foreign exchange hunger and capital flight, causing high prices and scarcity for consumers and local industry.⁷² Following liberalization in 1986, the scramble for cocoa drove local prices above the world market price, while the quantity of skins exported rose 166% between the first and second half of 1986, and another 39% in the first half of 1987.⁷³ The domestic availability of hides is said to have fallen by

⁷⁰ ILO, op.cit., 1985, p. 30; see also Z. Moukhtar, op.cit., p. 41.

⁷¹ S.M. Isako, "The Role of the Informal Sector in Urban Development: A Case Study of Minna Township in Niger State", B.Sc. Diss., Department of Geography, ABU, Zaria, 1987, p. 83. I.A. Jatau, "The Role of the Informal Sector in Urban Growth: The Case of Kaduna", B.A. Diss., Department of Geography, ABU, Zaria, 1987, p.54; *The Urban Edge*, 13(1) 1989, p.1.

⁷² **Monthly Business and Economic Digest**, June 1989, p. 2.

⁷³ M.O. Ojo, "Agricultural Performance and Policy under the Structural Adjustment Programme (SAP) and the Nigerian Economy", Nigerian Economic Society Annual Conference, Ile-Ife, 1988, p. 10. **Monthly Business and Economic Digest**, Jan. 1990, p. 5.

35% between 1987 and 1989 due to buoyant exports.⁷⁴ Increased smuggling of food crops was encouraged both by sky-rocketing production costs, which were rising at a higher rate than local crop prices, and by the increasing attractiveness of CFA denominated prices across all four of Nigeria's borders as the devaluation of the Naira proceeded.⁷⁵

By 1989, industries with a local raw materials base were lobbying for the imposition of export quotas, claiming that the massive export of food and fibre encouraged by devaluation was threatening the goals of local sourcing and food self-sufficiency.⁷⁶ Meanwhile, the rise in industrial demand for local raw materials has been causing scarcity and high prices for informal enterprises and low-income consumers. The malting demands of the breweries alone amount to 15% of Nigeria's annual sorghum production, which has led to rising grain prices despite otherwise encouraging increases in grain production.⁷⁷

Complaints from local industry about local raw materials scarcity forced the government to institute a ban at the beginning of 1990 on the export of selected raw materials, including hides and skins, palm kernel and scrap metal,⁷⁸ but the bans have in some cases been reversed by more powerful export interests, and have in other cases actually driven up the price of raw materials, such as leather, where local processing facilities are inadequate to meet local needs.⁷⁹ At the bottom of the whole process, the informal sector has found its access to raw materials and to staple food squeezed between the increased demand of exporters and local industry, and is too weak both economically and politically to compete effectively with either sector.

A further pressure on informal sector access to inputs has been created by the feedback effects of the adjustment strategies of local industry. In addition to local sourcing, many firms are now recycling scrap and reconditioning spare parts, which is creating a materials scarcity for informal sector metal workers, blacksmiths and mechanics.⁸⁰ Informal leather workers are facing similarly negative feedback effects from low-income consumers, who have resorted to increased consumption of animal skin as a substitute for meat, further contributing to the shortage and high cost of leather.⁸¹

While threatening the operation of some members of the informal sector, the recycling efforts of industry have opened up a new income opportunity for others. The task of collecting and sorting such items as polythene bags, glass jars, worn out plastic shoes and vessels, and rusted out enamel dishes has been taken up by informal actors, whose piles of recyclable goods are now visible in local market places. A study of similar activities in Colombia notes that formal sector enterprises find it more profitable to subcontract the labour-intensive task of collecting materials for recycling than to hire workers themselves.⁸² In Nigeria, the link between scrap collectors and industry appears to be hierarchically organized. In Kaduna State, for example, scrap is delivered to industry through a hierarchy of larger and larger scrap dealers, and a highly organized scrap collectors' union has emerged since 1989 to control the access of small-scale collectors to outlets. Under such

⁷⁴ Economist Intelligence Unit, **Nigeria Country Report**, No.2, 1990, p. 18.

⁷⁵ K. Meagher, "The Effect of Liberalization and Parallel Trade on Smallholder Incomes in Northern Nigeria", forthcoming.

⁷⁶ **Monthly Business and Economic Digest**, Jan. 1989, p. 1.

⁷⁷ K. Meagher, "Believing in Miracles: Biotechnology and the Nigerian Food Crisis", forthcoming.

⁷⁸ UBA, **Monthly Business and Economic Digest**, Jan. 1989, p. 1; *Ibid.*, Jan. 1990, pp. 2, 5-6.

⁷⁹ UBA, **Monthly Business and Economic Digest**, Jan. 1990, p. 5-6.

⁸⁰ Central Bank of Nigeria, **Annual Report and Statement of Accounts for 1989**, Lagos, p. 45.

⁸¹ UBA, **Monthly Business and Economic Digest**, Jan. 1990, p. 6.

⁸² M. Lanzetta de Pardo et al., "The Articulation of Formal and Informal Sectors in the Economy of Bogota, Columbia", in A. Portes et al. (eds.), *op.cit.*, p. 88.

a system, it is likely that the profits of scrap recycling are retained by the large collecting depots, constraining the income opportunities available to the informal small-scale collectors at the bottom.

Privatization, Unemployment, and Spending Cuts

Privatization and reduced subsidies to public sector firms have resulted in a high rate of retrenchment, contributing to the problems of unemployment. Along with increasing retrenchment in the private sector owing to reduced capacity utilization, this is severely constricting demand for informal sector goods and services, at the same time as it is swelling the ranks of the informal sector with the unemployed, as well as with moonlighters whose wages have been too severely eroded by inflation. The wage freeze that was in effect from 1984 to 1988 has exacerbated this effect by contracting real earnings among the employed. With urban unemployment running at over 10% and inflation at 51% in 1989, the contraction in demand among low-income wage earners is substantial.⁸³ Some of the decline in low income markets is being made up by the shift of middle income earners to informal sector goods and services as they attempt to cope with falling real incomes, but it is unclear to what extent this is taking place.

Slashes in government subsidies to utilities and the resulting increases in tariffs are likely to have negative effects on operating costs and living and working conditions in informal enterprises. Earlier studies have shown that over 60% of informal enterprises are located in the residential areas of informal actors,⁸⁴ and that the already poor access of these areas to utilities posed a threat to health and to the environment. In the face of rising utility costs and declining service, access to utilities is likely to be reduced even further.

A further threat is posed by cutbacks in social and community services, since informal sector participants are among the least able to afford alternatives. According to Federal Government Expenditure Estimates, recurrent expenditure on community and social services fell from 20.4% in 1986 to 7.2% in 1987, and rose again slightly to 11.2% by 1989. Capital expenditure fell less drastically, from 13.3% in 1986 to 11.2% in 1989.⁸⁵

5.3 Institutional Measures for the Informal Sector

There are two main institutional measures created under SAP that have had an impact on the informal sector: the National Directorate of Employment and the People's Bank. Neither of these were part of the original Structural Adjustment package; they were created subsequently as a palliative measure to moderate some of the negative effects of SAP and stave off potential opposition from unemployed youth and the urban poor. Both institutions contribute to the maintenance of the informal sector as a "shock absorber" rather than making any contribution to developing growth potential within the sector, and both constitute an awareness on the part of the government that exposure to market forces, far from unleashing the developmental potential of the informal sector, is eroding the capacity of the sector for even low level labour absorption and income generation.

⁸³ UBA, **Monthly Business and Economic Digest**, Oct. 1990, p. 2.

⁸⁴ Fapohunda, *op.cit.*, p. 75, Mabogunje and Filani, *op.cit.*, p. 86.

⁸⁵ Central Bank of Nigeria, **Monthly Report**, Jan. 1988, Table VI; *Ibid.*, Jan. 1989, pp. 27-28.

The National Directorate of Employment

The NDE was launched in January 1987 with the goal of solving the increasing problem of mass unemployment, particularly among youth. By September 1990, it had managed to place 757,000 out of over 3,000,000 unemployed, less than one quarter of the total.⁸⁶ While a few of its programmes provide loans and training to graduates and other unemployed youth to enter into self-employment, the bulk of the placements of the NDE have been in agriculture. According to the Central Bank Report for 1989, 66% of the 242,160 jobs created by the NDE in that year were in the agricultural scheme.⁸⁷ A leading financial journal claims that a predominance of placements in agriculture has been the pattern since the inception of the NDE.⁸⁸ This reverse migration strategy is a further indication of the saturation of the informal sector. However, the effectiveness of the Directorate in reducing the burden of unemployment has been increasingly limited by lack of funds and a high level of default on its loan schemes.⁸⁹

The People's Bank

The People's Bank is an essentially populist institution, launched on the anniversary of Nigeria's Independence Day, 1st October 1989, with the mandate of providing finance for petty business.⁹⁰ The bank was modelled on similar banks for the poor set up in Asian countries, though, according to critics, the Nigerian variant lacks the demographic and statistical groundwork of the former. According to a senior consultant with the African Development Bank, even with the strategy of small loans (N50 to N2,000, later raised to N5,000), the capital base of N200 million (N11.33 = \$1 in July 1991) is too small to make any appreciable difference given the large number of informal sector participants in need of capital. Furthermore, the use of "solidarity groups" of applicants who mutually guarantee each other's loans, while relatively successful in encouraging repayment, tends to restrict applications to the wealthier and more established strata of the informal sector. Owing to risk aversion and a lack of resources, poorer informal actors have greater difficulty in forming such groups.⁹¹ Thus, People's Bank loans are unlikely to find their way to those informal participants who need them most. The most dubious aspect of the People's Bank, however, is the management. A recent probe of the Bank's activities has revealed that the chairman and chief executive run the institution like a personal charity, making loans directly through PBN headquarters to such non-target groups as civil servants, soldiers' wives, members of the Better Life Programme, and transporters -- the latter receiving loans of as much as N500,000, one hundred times the Bank maximum.⁹²

⁸⁶ UBA, **Monthly Business and Economic Digest**, Sept. 1990, p. 5.

⁸⁷ Central Bank of Nigeria, **Annual Report and Statement of Accounts**, Lagos, 198 45.

⁸⁸ UBA, **Monthly Business and Economic Digest**, Sept. 1990, p. 5.

⁸⁹ CBN, **Annual Report and Statement of Accounts for 1989**, p. 45; UBA, **Monthly Business and Economic Digest**, Oct. 1990, p. 5.

⁹⁰ S. Biaghere, "Ties in the Peoples Bank", **The African Guardian**, 4(44), Nov. 13, 1989, pp. 20-22.

⁹¹ "PISCES Project Yields Lessons on Aiding Informal Sector", **The Urban Edge**, 9(8), Sept./Oct. 1985, p. 3.

⁹² D. Babarinsa, "Better life for People's Bank," **Tell**, 2, April 22, 1991.

5.4 Strategies for Coping with SAP

There are a variety of strategies that informal sector participants may adopt in order to cope with the effects of SAP. They are likely to vary according to the status of the participant as an informal employer, an owner-operator, a worker or an apprentice, and are more likely to be individualist than collectivist owing to the risk aversion and lack of time and resources among informal sector participants. An exception to this may be found among entrepreneurs in the modern craft and service subsectors, such as metal working and auto mechanics, where incomes are higher and particular ethnic groups tend to predominate. Under these conditions, there may still be scope for collectivist, perhaps ethnic-based, organizations to combat the effects of SAP.

Workplace Strategies

In the workplace, informal entrepreneurs are likely to adopt such strategies as rushed work, lower quality inputs and adulteration of goods in order to protect profit levels. Longer working hours are also a likely strategy, though long working hours have always been common in the informal sector, and the leeway for extending them further is limited. A study conducted in Kaduna in 1987 indicated that 78% of informal enterprises already operated for 9-12 hours per day, while 14% operated for 13-17 hours per day.⁹³ With regard to labour use, informal employers appear to be making greater use of apprentices, both taking them at a younger age, as indicated by the falling minimum age of apprentices, and delaying certification beyond the originally agreed time in order to benefit longer from apprentices' free labour.⁹⁴ Apprentices are also tending to stay longer on their own initiative, owing to the high cost of starting up on their own. The cost of basic tools for an auto-mechanic had risen from N500 in the 1970s to N8,000 by 1987, and is certainly much higher by now. Another strategy among apprentices may be to enter into occupations for which they are not trained, but which have a lower level of starting capital,⁹⁵ which would tend to undermine the commitment of both parents and apprentices to informal technical training.

Among owner-operators, particularly petty traders, a possible strategy involves entering into subcontracting arrangements or other forms of vertical integration. As the cost of traded goods rises beyond the capacity of petty traders, they may resort to commission selling for formal sector firms, middlemen retail traders or private individuals in the middle classes, possibly relatives, who engage in trade to help maintain their standard of living. A 1988 study of street traders in the town of Zaria, Nigeria, found incidences of subcontracting to street traders by the multinationals, Lever Brothers and PZ.⁹⁶

Strategies among informal sector workers may range from theft from customers, to seeking cliental relationships, to reverse migration to the rural areas, a trend that has been accelerating in Nigerian cities as incomes fall and costs rise.⁹⁷

⁹³ I.A. Jatau, *op.cit.*, p. 39.

⁹⁴ O.Y. Oyeneke, "Apprentices in the Informal Sector", p. 70-1; S. Adjebeng-Asem, "In Search of Employment: The Automobile Mechanic Occupation and Human Resources Development and Utilization", First Workshop on Technology in the Informal Sector, CSER, Zaria, Oct. 1987, p. 8; S.M. Isako, *op.cit.*, p. 77; E.M. Rathgeber, "Technology, Education, Employment and Development: A Review of Some Recent African Research", First Nigerian Workshop on Technology in the Informal Sector, CSER, Zaria, Oct. 1987, pp. 10-11

⁹⁵ E.M. Rathgeber, *op.cit.*, p. 12.

⁹⁶ M.-B. Yunusa, "The Socio-Economic Structure of the Informal Sector: A Case Study of Street Trading in Zaria Metropolis", CSER, Zaria, 1988, p. 32.

⁹⁷ UBA, **Monthly Business and Economic Digest**, Dec. 1986, p. 1.

Household and Community Strategies

Household strategies are likely to include the rationalization of expenditure, involving buying less and cheaper food, and second-hand clothing. There is evidence that informal sector households engage in farming to supplement their food purchases,⁹⁸ and they may also switch from kerosine to the use of wood for cooking. Attempts to cut down on rent payments may lead to increased rates of occupancy per room. Children may be denied even primary schooling so that they can be sent to earn money as load bearers or petty traders, or apprenticed to other informal operators who will bear their feeding costs. Alternatively, children may simply not be fed, and be forced to look for their own food by working or begging. Less participation in ceremonies and visiting are also possible strategies, which would tend to break down the cohesion of the extended family.

Community associations among informal actors are more likely to break down under SAP than to form. Where they do form, they are likely to be along ethnic or religious lines, and to be restricted to the wealthier strata of entrepreneurs.

Conclusions

The history of the informal sector in Nigeria has been one of fending for itself in the context of inappropriate policy initiatives and distorted market conditions. Far from developing the capacity of the informal sector to compete under the 'free' market conditions introduced by SAP, however, this situation has produced an informal sector largely lacking in both the capital, and the technical and managerial capacity to respond to the incentives created under SAP. Given this history, it seems unlikely that the attempts of informal actors to cope with the new economic environment will create a more developmentally-oriented informal sector. What is clear is that the coping strategies of informal actors will alter the operation of the informal sector, as well as its relations with other sectors of the economy, in ways which the current policy framework is ill-equipped to predict. A movement toward committed empirical research as a basis for meaningful government intervention is essential if SAP itself is to cope with the economic situation it has created.

⁹⁸ I.A. Jatau, *op.cit.*, p. 42.

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