

UNITED NATIONS RESEARCH INSTITUTE FOR SOCIAL DEVELOPMENT

DP 81

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

by Enwere Dike

UNRISD Discussion Papers are preliminary documents circulated in a limited number of copies to stimulate discussion and critical comment.

April 1997

NOTE: Page numbering in this electronic version may differ from the printed publication.

The **United Nations Research Institute for Social Development (UNRISD)** is an autonomous agency that engages in multi-disciplinary research on the social dimensions of contemporary problems affecting development. Its work is guided by the conviction that, for effective development policies to be formulated, an understanding of the social and political context is crucial. The Institute attempts to provide governments, development agencies, grassroots organizations and scholars with a better understanding of how development policies and processes of economic, social and environmental change affect different social groups. Working through an extensive network of national research centres, UNRISD aims to promote original research and strengthen research capacity in developing countries.

Current research themes include: The Challenge of Rebuilding War-torn Societies; Integrating Gender into Development Policy; Environment, Sustainable Development and Social Change; Crisis, Adjustment and Social Change; and Volunteer Action and Local Democracy: A Partnership for a Better Urban Future. New research is beginning on: Social Policy, Institutional Reform and Globalization; Business Responsibility for Sustainable Development; New Information and Communication Technologies; Culture and Development; Gender, Poverty and Well-Being; Land Reform in Developing Countries; Emerging Mass Tourism in the South; and Public Sector Reform and Crisis-Ridden States. Recent research programmes have included: Ethnic Conflict and Development; Socio-Economic and Political Consequences of the International Trade in Illicit Drugs; Political Violence and Social Movements; and Participation and Changes in Property Relations in Communist and Post-Communist Societies. UNRISD research projects focused on the 1995 World Summit for Social Development included: Rethinking Social Development in the 1990s; Economic Restructuring and Social Policy; Ethnic Diversity and Public Policies; and Social Integration at the Grassroots: The Urban Dimension.

A list of the Institute's free and priced publications can be obtained from the Reference Centre.

**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**

ISSN 1012-6511

Copyright © United Nations Research Institute for Social Development (UNRISD). Short extracts from this publication may be reproduced unaltered without authorization on condition that the source is indicated. For rights of reproduction or translation, application should be made to UNRISD, Palais des Nations, 1211 Geneva 10, Switzerland. UNRISD welcomes such applications.

The designations employed in UNRISD publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of UNRISD concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by UNRISD of the opinions expressed in them.

◆ Contents

◆ Preface	i
◆ Abbreviations and Acronyms	iii
1. INTRODUCTION	1
◆ 1.1 The Policy Environment	2
◆ 1.2 Methods and Concepts	3
◆ 1.3 Study Locations	4
2. THE NIGERIAN ECONOMY PRIOR TO STRUCTURAL ADJUSTMENT	6
◆ 2.1 Output, Employment and Sectoral Income Trends	6
◆ 2.3 Development of the Informal Economy	8
◆ 2.4 Phases in the Development of the Nigerian Informal Economy	9
3. THE NATURE OF THE FIRMS SURVEYED	11
◆ 3.1 Introduction	11
◆ 3.2 Size and Composition of Employment	12
◆ 3.3 Ownership	13
◆ 3.4 Institutional Regulation of Firms	15
4. THE DEVELOPMENT OF ENTREPRENEURSHIP	16
◆ 4.1 Introduction	16
◆ 4.2 Growth of Entrepreneurs	17
5. COPING STRATEGIES AT THE WORKPLACE	22
◆ 5.1 Introduction	22
◆ 5.2 Exploitation of Cheap Labour	25
◆ 5.3 Expansion in Investment, Employment and Output	25
◆ 5.4 The Apprenticeship System	27

◆ 5.5 Investment Diversification	28
◆ 5.6 Changes in Input Use	28
◆ 5.7 Linkages to the Formal Sector and Rural Economy	29
◆ 5.8 Subcontracting Deals with Large Industry	32
◆ 5.9 Entrepreneurs' Perceptions of Key Constraints	33
<hr/>	
6. HOUSEHOLD COPING STRATEGIES AND INFORMAL ENTREPRENEURSHIP	35
<hr/>	
◆ 6.1 Introduction	35
◆ 6.2 Background of Entrepreneurs Surveyed	35
◆ 6.3 Changes in Household Consumption Pattern	36
◆ 6.4 Diversification of Employment and Income Sources	37
<hr/>	
7. COLLECTIVE ACTION STRATEGIES OF SMALL ENTREPRENEURS	39
<hr/>	
◆ 7.1 Introduction	39
◆ 7.2 Trade-Based Associational Coping Strategies	39
◆ 7.3 Ethnic Unions and Coping Strategies	42
<hr/>	
8. CONCLUSION	43
<hr/>	
◆ Bibliography	46

◆ 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.

April 1997

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

预览已结束，完整报告链接和二维码如下：

https://www.yunbaogao.cn/report/index/report?reportId=5_21630

