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**PASSING THE BUCK
STRUCTURAL ADJUSTMENT
AND THE NIGERIAN
URBAN INFORMAL SECTOR**

**by Kate Meagher
and
Mohammed-Bello Yunusa**

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◆ Preface

In recent years, the informal sector in Africa has been celebrated for its ability to generate employment, income and skills outside of the regulatory framework of the state. Much of this optimism has been fed by the rapid expansion of the informal economy as the state and formal enterprises fail to adjust rapidly to the structural adjustment policies of the 1980s. Thus, rather than the informal sector playing its previous supplementary role in the provision of employment and welfare, it is now expected to be the primary medium for sustaining the livelihoods of millions of people who have been retrenched from their jobs, or whose incomes are no longer sufficient to support basic needs. Whether the informal sector can deliver a basic level of well-being under conditions of far-reaching economic decline, and become a basis for renewed growth remains, however, an open question.

Much of the literature on adjustment and the informal sector adopts a dualistic framework in studying the relations between formal and informal economies. It also glosses over the complex ways resources and power are being redistributed within the informal sector, and the changing relations between informal economic agents and other groups in society. This Discussion Paper, which is the product of original field research, seeks to correct these problems, by locating the analysis of the informal sector within a broad political economy framework that takes into account the variety and complexity of pressures, incentives and responses that adjustment policies have created within the sector. It examines the coping strategies of a wide range of informal sector groups, from the enterprise to the household and community levels. It asks several important questions: To what extent, and for which groups, has structural adjustment increased the capacity for economic flexibility and innovation? Are any groups, such as migrants, women, children, apprentices and informal sector labourers, further disempowered by changes in the informal economy? Can the informal sector compete successfully with large-scale manufacturers and exporters for the use of local raw materials? Are informal organizations being formed as alternative ways of mobilizing resources, or are such organizations breaking down under the economic weight of adjustment? Does the expansion of the informal economy enhance economic freedom, or does it simply shift the burden of employment creation and social provisioning onto the weakest groups in society?

The authors use a medium-sized town in northern Nigeria to probe these sets of questions. Nigeria has the largest, and arguably the most dynamic, informal sector in sub-Saharan Africa. Informal activities are estimated to have increased from approximately 50 per cent of the urban workforce in the late 1970s to 65 per cent by the late 1980s. Even during the oil boom period of the 1970s, the informal sector continued to grow as rising urban wages encouraged rural migration to the cities. However, expansion was linked to increasing differentiation and a trend towards income stagnation at the lower end of the informal economy. Women and informal labourers were particularly affected by this dynamic. The economic crisis of the 1980s, and policies of wage restraint, devaluation and retrenchment, significantly raised the rates of open and disguised unemployment.

The study highlights new patterns of entry into Nigeria's informal sector. First, entry has intensified from the traditional sources of participation, particularly low income wage earners and the unemployed. Second, the category of the unemployed now includes not only retrenched workers and civil servants, but secondary school and university graduates. Third, there is an increase in female participation as part of a household level survival strategy. Finally, a growing number of employed civil servants are becoming very active in the informal economy. However, resource constraints have concentrated entry in the lower end of the sector, where there are increased levels of competition and declining returns. Competition has been much

less of a problem in high income activities, such as modern crafts and services, owing to rising capital costs of entry in these activities. Female participation is overwhelmingly concentrated at the lower end of the sector.

The study indicates that demand within the informal sector has been contracting under crisis and adjustment, owing largely to increased competition and falling real incomes among the urban and rural poor. In some activities, demand has been further threatened by external competition, largely from the increased level of trade in second-hand goods. However, despite the erosion of real incomes, adjustment policies have generated pockets of rising demand, which is associated with the rising cost of imported goods and formal sector services. There is an increase in demand for low cost essential services among low income consumers and enterprises that are ill-equipped. In addition, there is growing demand for modern goods and services of quality and variety from middle class consumers and large formal enterprises. The study shows that strategies for coping with adjustment on the demand side involve targeting one or the other of these two expanding market niches. On the supply side, informal sector entrepreneurs are faced with dramatic increases in the prices of equipment, raw materials and spare parts. The study indicates that supply-side adjustment has largely been a question of cutting corners, improvising inferior substitutes and gerry-rigging ageing equipment.

The study demonstrates that the impact of adjustment on informal incomes has been highly uneven, and has tended to widen the gap between low income and high income activities, and between male and female incomes. A growing number of informal agents are unable to generate incomes sufficient for basic survival, thus increasing the importance of engaging in more than one income activity. The study points out that there is a declining capacity among informal employers to absorb labour, a fall in real informal sector wages, and a growing labour shortage. At the same time, there is a noticeable drop in the efficiency of informal technical training despite a trend towards higher levels of education among informal sector workers. Although informal sector agents have tried to supplement individual coping strategies with collective approaches through unions and associations, the authors argue that trade-based unions appear significantly less important under adjustment than ethnic and religious unions.

The study concludes that the state needs to take an active role in supporting the informal sector in efforts to meet the economic challenges that have been thrown up by market liberalization.

Kate Meagher is a lecturer in the department of Agricultural Economics and Rural Sociology, and Mohammed-Bello Yunusa is a research fellow at the Centre for Social and Economic Research. Both institutions are at the Ahmadu Bello University in Nigeria. This study has come out of the UNRISD research programme on **Crisis, Adjustment and Social Change** in Africa, co-ordinated by Yusuf Bangura.

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Dharam Ghai
Director

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◆ Abbreviations and Acronyms

IDC	Industrial Development Centres
N	naira
NDE	National Directorate of Employment
NTC	Nigerian Tobacco Company
SAP	structural adjustment programme
TCC	Technology Consultancy Centre

The emerging policy...seems to be one of shrinking government responsibility in providing economic and social protection to the African people.... Governments are passing... the buck to the informal sector.¹

1. INTRODUCTION

For over two decades, the informal sector in African countries has been celebrated for its ability to generate employment, income and skills outside the regulatory framework of the state. Where such freedom from economic regulation was previously possible only at the margins of society, the deregulation of economic activity now taking place under the auspices of structural adjustment programmes (SAP) is expanding the scope of informality into the heart of the official economy. In the process, the previously supplementary role of the informal sector in employment and social welfare provision is being stretched toward a replacement of the role of the state in these matters, and this in a context of the unprecedented rates of inflation and unemployment created by SAP. The ability of the informal sector to deliver even a basic level of livelihood under these conditions, let alone a basis for renewed growth, remains an open question.

In much of the current structural adjustment literature, the dualistic framework within which the relationship between the formal and informal sectors is commonly analysed glosses over the more complex redistribution of resources and power taking place within the informal sector, and between informal actors and other social groups. In order to penetrate this ideological facade, it is necessary to locate the analysis of the informal sector within an appropriate historical and theoretical framework, which will take account of the variety and complexity of pressures, incentives and responses which SAP has created within the sector. To what extent, and for which groups within the informal sector, has SAP increased the capacity for economic flexibility and innovation? Are any groups, such as migrants, women, children or informal sector labour, further disenfranchised in the process? Can the informal sector compete successfully with stronger social groups, such as manufacturers and exporters, for the use of local raw materials? At the enterprise and community levels, are informal organizations being formed as alternative channels of resource mobilization and social welfare provision, or are such organizations breaking down under the mounting economic pressures of SAP? More fundamentally, is the process of informalization

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