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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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Dharam Ghai  
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 literature<sup>1</sup> 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

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<sup>1</sup> 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.<sup>2</sup> 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.<sup>3</sup>

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.<sup>4</sup> 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.<sup>5</sup>

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

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

<sup>3</sup> Paul Bairoch, **Urban unemployment in developing countries**, ILO, Geneva, 1973.

<sup>4</sup> 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.

<sup>5</sup> 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.<sup>6</sup> 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.<sup>7</sup> 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.<sup>8</sup> 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.<sup>9</sup>

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.<sup>10</sup> 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.

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