

**Seibel, H.D., Coping with Scarcity: *Microenterprise Strategies in Nigeria*. Saarbrücken, Verlag für Entwicklungspolitik 1996, 121 – 132**

**Microenterprise Strategies in Nigeria: Results of a Study**

Summary

Survey findings indicate that craft enterprises in the informal sector of Lagos and Ibadan play an important role in terms of Supply, income and employment generation as well as occupational and entrepreneurial training. The macroeconomic environment (from *'Oil Boom'* to *'Oil Doom'*) is not very conducive for small and microenterprises in the informal sector. Austerity, anti-inflation measures, the restrictive monetary policy, discriminatory practices in combination with other national economic problems had negative consequences for small producers at the time of the survey in 1985. Major problems included shortages of funds (credit) to procure foreign and local inputs, contraction in demand and insufficient raw material supply. More recent studies suggest that the business situation has become even worse during the Structural Adjustment Programme started in 1986.

Despite uncertainty and scarcity of basic business inputs, most of the small and microentrepreneurs surveyed continued to conduct their business. To survive economically and to ease business problems they are simply forced to be adaptable, flexible and creative as indicated by the wide range of problemsolving strategies. The study has shown that there are considerable differences in business environments between crafts located in Lagos and their counterparts in Ibadan, associated with different characteristics of firms, problems and business behaviour. The impact of location (Lagos, Ibadan) far outweighs branch-specific effects:

„The dominance of locational factors to account for differences in firm characteristics and business behaviour seems to indicate that the informal sector does much less constitute a sector of its own, but that it is largely determined by a larger economic environment. Industry-specific differentiation matters much less than the embeddedness in an urban or regional economy" (Anheier 1992:1584).

The study proves that the development potential of carpentry and metal crafts is considerable. However, this potential is far from being fully exhausted. Existing business associations operate at a low level of efficiency. Assistance is needed in terms of finance (linkage banking), institutional development of craft unions, demand-oriented measures, access to basic business inputs, business Promotion programmes aimed at improving the active problem-solving capacity of informal sector entrepreneurs and their self-help organizations such as craft unions should be paralleled by sound monetary and economic policies as well as a change of the general policy framework for the small business sector.

Summary of Chapters

Chapter Three has proved that the popular image of Nigeria's informal sector entrepreneurs as being *'backward'* or *'traditional'* is misleading. The majority of the

informal sector entrepreneurs surveyed (average age in years: 34) have considerable work experiences. Of the total sample 83% belonged to the group 'primary level education and higher'. About 3% had post secondary and university education. Only 14% were illiterate compared to an average illiteracy rate in Nigeria of about 66%. Craftsmen in Lagos are somewhat better educated than their counterparts in Ibadan. Differences between the branches are less pronounced.

„Ease of entry" (ILO 1972:6) is not a universally valid characteristic of activities in the informal sector. Many of the practitioners received the necessary skills through in-service-training by working in their fathers' or friends' businesses (apprenticeship system). Every fourth respondent has a family business or craft background. More than 50% utilized skills and knowhow gained in formal industrial or public sector businesses, underlining the indirect linkages between both sectors in terms of job migration and transfer of skills.

In view of the fact that 55% of the total sample originate from farm families, that 47.8% come from neighboring regions such as Ondo State, Ogun State or Bendel State (of which only 15.7% are inter-regional migrants), and finally that a considerable proportion (52.1%) was previously employed in the formal sector, the following pattern of job migration emerges: rural-urban migration → urban informal sector employment → urban residency → urban formal sector employment → urban informal sector self-employment.

In 1985 inter-sectoral mobility via job migration from informal sector employment to formal sector employment was restricted due to the dismal economic situation. Surveys conducted in 1987/1988 by the Nigerian Institute of Social and Economic Research (1990) and Zdunnek (1990) support this assumption. There is a growing number of young unemployed university graduates who enter the informal sector supported by the so-called *Graduate Job Creation Scheme*. This has intensified intra-sectoral competition. Nevertheless, about two-thirds of the interviewed craftsmen would not abandon their current Operations for a job in larger enterprises which underlines their commitment to their own business.

Chapter Four has documented that about 80% of the firms were established by their present owners. Only a small percentage have inherited the business from their fathers, indicating a distinct change with regard to the traditional „hereditary" pattern of crafts (Seibel/Damachi 1982:82). The average business age is about 9 years (Lagos 7.4, Ibadan 10.3), underlining the continuity of producing crafts compared with other informal sector activities. Lagos-based firms are younger than Ibadan-based firms. Most of the companies were established in the 1970s (52.8% or 258), operating for 6 respectively 15 years.

Nearly all craftsmen (88.2%) experienced start-up problems. 54.3% pointed to lack of finance as the biggest problem, followed by obstacles related to business location, customers/demand and machinery/tools. Lack of finance and the credit issue represented the most outstanding problem during the start-up phase:

„Ever since the informal sector was studied in Nigeria, the inaccessibility to credit facility has always been the main constraint to development and growth identified by them. Today, the story is still the same... Small enterprises are still

unable to acquire commercial credit in spite of government's efforts in this direction" (NISER 1990:102).

With regard to initial finance problems, owners of Ibadan-based workshops were particularly affected. As far as start-up problems related to business location (e.g. lack of space) are concerned, Lagos-based workshops were most strongly affected. Demand and customer related start-up constraints were predominantly faced by metal-processing firms.

85% of the craftsmen pursued active or passive business strategies such as borrowing money from relatives, sales promotion or sharing machines with other firms to ease starting problems. The majority appeared to be adaptable, flexible and to a certain extent innovative actors in solving initial business problems. Owners of Ibadan-based metal workshops turned out to be somewhat more active than the other subsamples.

Every second respondent needed credit during the start-up phase. One-third used own capital (savings etc.) as start-up capital. The utilization of informal financial credit sources such as parents, relatives and friends by far exceeded the use of formal financial institutions such as banks. Craftsmen in Lagos were mostly supported by friends and banks whereas small-scale industrialists in Ibadan received more assistance from parents.

Only 3.4% of the sample used *esusu* associations (informal savings clubs) as a source of initial funding. Indigenous saving and credit associations such as *esusu* may be conducive to local resource accumulation and productive agricultural investment (Bouman 1976, 1977, 1979; Seibel/Damachi 1982:108; Herwegen 1987). But they do not always meet the needs of inexpensive, timely and sufficient start-up capital. During the interviews craftsmen repeatedly articulated that they needed better financial services. Linkages between formal and informal financial institutions could provide a major instrument for financing craft enterprises (see below).

Chapter Five has illustrated that the 493 craft enterprises surveyed provided employment for 2,747 people at the time of the survey in 1985. About 94% of the firms were small and microenterprises with 1 to 15 workers and a total number of 6 workers on average. Crafts in Lagos are with an average number of 6,9 workers somewhat bigger than their counterparts in Ibadan (5,7). Survey findings indicate that there is a small decrease with regard to the total number of employed workers over time. Crafts in Ibadan appeared to be more affected than crafts in Lagos.

Each firm employed 2 full-time workers on average. The average monthly salary of full-time workers was estimated at Naira 178 (minimum = Naira 60, maximum = Naira 450). 18.4% of the respondents reported that their fulltime workers earn less than the minimum legal wage of Naira 125 (1985). In Lagos, average wages (Naira 192) are higher compared with Ibadan (Naira 156) where living costs are lower. Full-time workers in Lagos-based metal firms obtained the highest average monthly wages per month (Naira 201).

Nigerian crafts represent an important 'informal' training ground for apprentices. The sampled firms employed and trained a total number of 1,352 apprentices in 1985. Each firm had 2,7 apprentices on average (maximum 22) with an average period of

training of 4 years. Owners in Lagos (3,3) employ more apprentices on average than their counterparts in Ibadan (2,3).

After their apprenticeships many journeymen try to establish their own businesses. Of 461 craftsmen 67% pointed out that their former apprentices had become self-employed. The largest average figure was reported by Ibadan-based metal-processing firms (4,2), followed by Ibadan-based wood-processing firms (3,8), Lagos-based metal workshops (3,6) and Lagos-based carpentries (2,9). The total number of those former apprentices who became self-employed amounts to 1,142 persons.

Survey findings support the hypothesis that Nigerian crafts overtake important functions in terms of occupational and entrepreneurial training, labour and income generation based on the traditional apprenticeship system.

Chapter Six aimed at characterizing the small firms in terms of different variables such as equipment, production, forward and backward linkages and so forth. Do particular types of business environments correspond to distinct characteristics of the firms?

Crafts in Lagos (and metal works) dispose of more and younger tools and machines than workshops in Ibadan (and wood works). Major equipment goods used by metal works include welding, drilling and bending machines, hammers, gas cylinders and vices. Carpentries mainly use saws, saw machines, hammers, spraying machines and scrapers. Power-driven machines account for about one third of the major equipment goods mentioned by respondents. Unfortunately, there are no quantitative data available concerning technical innovations with regard to tools and machines.

Survey data concerning the origin of equipment goods support the hypothesis that metal works are more reliant on imported technologies than wood crafts. The proportion of imported tools and machines is considerable. 81.1% of the respondents declared that at least one of their (up to four) equipment goods originates from overseas.

It was found out that about 40% of the sample is encountered by problems such as insufficient supply of equipment goods (machines and tools). Collaborative activities with other firms in terms of joint acquisition of tools and machines are negligible. With proper assistance craft associations may help their members in organizing supply of necessary equipment goods. Active business strategies and forms of informal cooperation to ease equipment-related constraints are more pronounced in terms of sharing tools and machines with other firms (49%).

Crafts in Lagos and Ibadan produce a wide range of metalware, building materials, furnishings, accessories and other articles of daily use for local endusers (40.2%), businesses (2.8%) or both (56.9%). Major wood products include settees, chairs, beds, tables, wardrobes, cupboards and doors. Locksmiths and welders produce mainly burglar proofs, water tanks, gates, iron chairs, car bodies and fences.

In Lagos production development is stagnant compared with the previous year (1984). In Ibadan it is declining. Product diversification in Ibadan is more pronounced compared with crafts in Lagos. The latter are more specialized. Only about one-third

of the owners can be characterized as progressive 'improvement innovators' as far as product change is concerned. Further technical training and industry-specific assistance might be helpful to improve conditions for product innovations.

Participation in the wider economy and intra-urban exchange relations with other firms are considerable. Of 482 firms about three quarters were found to have business linkages with other small establishments in terms of subcontracting and work orders. Forward and backward integration of Ibadan-based firms is stronger compared with craft enterprises in Lagos which tend to meet final demand primarily.

Assistance in product management and marketing may ensure that products are of suitable quality for end-users and for use in industry. This is also one of several preconditions to establish more effective links to outside markets, e.g. in form of subcontracting arrangements with larger manufacturers or with merchants in the formal sector.

Altogether 64.3% of the sample regarded their business as 'successful'. The majority of these craftsmen came from Lagos. Low production costs, good profits, stable demand and reliable customers were mentioned as major reasons for successful business undertakings. Low incomes, insufficient profits, insufficient business location, lack of capital as well as the consequences of the austerity measures in terms of sluggish demand, supply and import problems etc. were cited as major reasons for 'not so successful' business results.

The overall economic climate in the 1970s was perceived as more favourable for business than the period 1982-1984. In the 1970s profit margins were better and necessary inputs were cheaper. There were more orders and sub-contracts either from the government or other companies. Customers were solvent and inflation was lower. Furthermore it was easier to secure raw material supply and imports. 70% of all respondents considered the period between 1982 and 1984 as extremely unfavourable for business. 1984 turned out to be the worst year. Only 21% characterized the business climate in 1985 as good.

Contraction in demand and cost factors were highlighted by the majority as major reasons for worst business years. Only about 10% regarded supply side factors such as scarcity of raw materials and spare parts as responsible for business downs. The figures mirror Nigeria's general economic slow down in the 1980s in combination with the 1979-1983 world economic crisis and the impact of the IMF induced austerity measures (1984). The deteriorating economy affected Lagos first and Ibadan somewhat later.

Survey findings with regard to monthly incomes (1985) indicate that 62.7% of the respondents fall below the minimum legal wage of Naira 125 in bad business times (mean Naira 779, mode Naira 0, median Naira 95). Those who earn less than the minimum wage of Naira 125 in good business times (mean Naira 2,506, mode Naira 200, median Naira 400, maximum Naira 89,120) account for about 7% of the total sample.

The mean of both income estimates (in bad and in good business times) signifies that craftsmen in Lagos (Naira 2,152) obtain higher monthly incomes than craftsmen in Ibadan (Naira 1,328). Branch-related differences are negligible. A similar trend

emerges with regard to the average amount of capital invested by the craftsmen in their workshops (Lagos: Naira 11,820; Ibadan: Naira 7,278).

The wide variation in the income distribution indicates that the secondary (informal) sector is very diversified in terms of size and income levels generated. There are several medium-sized businesses with more workers, higher capital investments and turnover than the average informal sector firm. The community of the poor is not necessarily confined to 'traditional' cities in the rural hinterland such as Ibadan (although craft enterprises in Lagos are bigger in size than their counterparts in Ibadan). Dynamic entrepreneurs do not only operate in prime cities such as Lagos but also in smaller towns like Ibadan.

More than one-third of the interviewees want to expand their firms, motivated by the expectation of higher incomes and a higher living standard. Such reasons were chiefly mentioned by craftsmen in Ibadan. Survey findings indicate that members of the poorer stratum are more likely to aspire to status improvement by enlarging their Operations. However, there are several obstacles with regard to planned expansion. Money matters appeared as the most outstanding issue, followed by lack of space, government support, labor and equipment goods. 21.9% of the sample declared that they are unable to solve such problems. Nearly all craftsmen stressed that government measures to assist small and microenterprises are insufficient respectively lacking in prime cities such as Lagos and Ibadan but also in smaller towns.

Chapter Seven has shown that the most important problems of informal sector entrepreneurs in Lagos and Ibadan are money (credit), followed by lack of raw materials, sluggish demand and shortage of customers, insufficient working space, limited access to (modern and imported) equipment goods such as machines, tools or spare parts as well as insufficient supply of electricity and water. Access to machine servicing and repair, labor related matters, competition, collecting credit and insufficient storage space were less frequently mentioned issues. This finding is relevant for informal sector policies and policy makers since it provides foodholds for interventions (see below).

Diagram 26 summarizes the different problem domains in descending order of importance by subsamples. Crafts in Lagos and metal workshops encounter more problems on average than workshops in Ibadan and wood crafts. Lagos-based metal firms ranked highest on the problem score, Ibadan wood crafts ranked lowest (Table 17). The business situation and business environment in Lagos seems to be more turbulent compared with Ibadan.

The more detailed exploration of specific problem domains proves that 63.9% of the 493 craftsmen surveyed were affected by at least one of several problems with regard to finance such as credit, foreign exchange and customers' insolvency. 61.9% reported problems related to demand (no customers, no work) and high competition. 61.7% faced difficulties related to their equipment (obtaining tools, machines, imported equipment goods, spare parts etc). 60.6% were affected by obstacles related to electricity and water supply, sewage system and business location. 59.8% had problems with raw material supply and other necessary business inputs.

In terms of problems related to obtaining credit and raw material supply, Ibadan-based firms appeared to be slightly more affected than crafts in Lagos.

With regard to sluggish demand, competition, unreliable or absent supply of electricity and water, lack of space and premises as well as problems related to equipment such as shortages in the supply of tools, machines, spare parts, repair services etc., Lagos-based firms turned out to operate in the most difficult business environment.

The findings support the hypothesis that metal workshops are more reliant on imported technologies and spare parts, cater to more recent demand, and rely on material and inputs not always available on local markets. Carpenters operate in a more traditional market, meet traditional tastes and demands and have better access to raw materials.

Craftsmen in Lagos and Ibadan pursue different forms of business behaviour and strategies to cope with business problems. Business strategies were examined with regard to start-up constraints (Chapter 4), product improvements in terms of product change and design (Chapter 6), difficulties in finding the right equipment as well as informal cooperation in terms of joint acquisition and sharing of equipment goods (Chapters 6+7), difficulties related to business expansion (Chapter 6), finance, competition, demand, supply and location (Chapter 7) as well as integration into business organizations (Chapter 8).

A valid and reliable classification of die craftsmen in innovative (active), adaptable (passive) or regressive problem-solvers is difficult due to the questionnaire used in the primary study and associated measuring, (re)coding and allocation problems during die secondary analysis.

According to the different problem domains, the questionnaire contained different types of questions such as *'How do you solve these problems?'*, *'What do you think can be done to solve them?'* or *'How do you propose to solve them?'*. A large proportion of the craftsmen surveyed made general proposals such as *'the government should provide suitable sites'* or *'prices should be lower'* when they were asked what they do to solve business problems. Are such answers indicators for the inability to solve business problems?

Nevertheless, there is evidence that many informants pursued concrete (active) strategies and activities to cope with business problems as indicated by responses such as *'I try to manufacture spare parts myself'* or *'I shared tools with other businesses'*. But even in those cases where owners pursued active behavioural strategies (i.e. *'innovative'* strategies according to the research design of the primary researchers) such as the self-production of spare parts or sales promotion, it is open to question whether this leads to a sustained improvement of business performance.

We have aggregated the figures concerning the type of strategies and activities used by craftsmen to cope with business problems as outlined in Chapter 7. Hence, almost 50% of the craftsmen surveyed can be characterized as active (*'innovative'*) and adaptable (passive) problem-solvers. 27% made general suggestions for improvements while 24.6% stated that they are unable to solve or to ease business

difficulties. No signs of regressive behavioural strategies in terms of business closures were found.

Table 24 summarizes which subgroup showed a higher degree of adaptability with regard to specific problem domains, i.e. a higher variety of active vs. passive business strategies.

With regard to problems such as foreign exchange, competition and demand, equipment and raw materials, Lagos-based firms turned out to show the highest variety of problem-solving activities. Active approaches to solve problems related to competition and demand comprised sales promotion or strategies aimed at improving product quality. More passive strategies included price reductions or adjustment of output.

In terms of scarcity of inexpensive raw materials and insufficient sewage systems, all subsamples appeared to be particularly inactive.

**Table 24: Problem Domains and Adaptability by Subsamples**

Problem Domains	Adaptability Active & Passive Strategies			
	LW	LM	IW	IM
<b><u>1. Finance</u></b>				
“Getting credit”			x	x
“People not paying their bills”			x	x
“Getting foreign exchange”	x	x		
<b><u>2. Competition and Demand</u></b>				
“Because there is no demand and work”	x	x	x	
“Competition”	x	x		
“too many workshops”	x	x		
<b><u>3. Equipment (Tools and Machines)</u></b>				
“Imports”	x	x		
“Tools”	x	x		
“Spare parts”	x	x		
“Machines”	x	x		
“Inexpensive machines & tools”		x		x
“Poor quality of tools & machines”	x	x	x	
“Machines and tools repaired”	x	x		
“Machines and tools serviced”	x	x		
<b><u>4. Location and Utilities</u></b>				
“Electricity supply”	x	x	x	x
“Workshops”	x	x	x	x
“Space/premises”		x		x
“Sewage”				
“Water”	x	x	x	
<b><u>5. Raw Material Supply, Fuel etc.</u></b>				
“Lack of inexpensive raw materials”				
“Lack of raw materials at all”	x	x		
“Lack of Fuel”		x		

LW=Lagos wood, LM=Lagos metal, IW=Ibadan wood, IM=Ibadan metal



Ibadan-based crafts were comparatively more active in coping with problems such as getting credit and customer's insolvency.

All subsamples were quite resourceful in solving water supply (solution: buying water from water tanks or going to wells), energy (solution: buying generators or lanterns) and workshop problems. The findings indicate that NEPA's services are insufficient.

With regard to problems such as lack of space and premises, wood crafts in Lagos and Ibadan turned out to be quite resourceless. Active strategies pursued by owners of metal workshops included buying of land and shops or 'networking' along friendship or kinship lines, i.e. approaching relatives or friends for help. Several microentrepreneurs were forced to operate 'mobile shops', another more 'passive' strategy to cope with location problems or harassment by city councils and bulldozers.

Chapter Eight indicates that craftsmen in Nigeria's informal sector have no lobbying power. Without a pressure group they are forced to employ particularistic problem-solving strategies to secure the continuation of their businesses. The activities of local business organizations and joint interest associations are far from being fully developed and successfully coordinated at the local, regional and national level. A lot more could be achieved if microentrepreneurs would present a united front to the government (NISER 1990:109). But collective action is discouraged by the military government whose measures (e.g. military tribunals) created a climate of distrust and fear at the time of the survey in 1985. The demolition campaign (Lagos 1985) has documented that the government enforces its authority through the federal security apparatus (the national police, the military, and the Nigerian Security Organization) regardless of the interests of small and microentrepreneurs. Craft unions and other self-help organizations were powerless.

Self-help associations such as craft unions and other interest organizations reach only about 15% of the craftsmen surveyed in Ibadan and Lagos. The organizational degree (especially in Lagos) and the contributions of craft associations to the solution of business problems of their members are low. Most of the respondents expected more loans, i.e. better financial services from craft associations. It was criticized that formal financial institutions such as banks are inaccessible. Informal financial institutions such as craft unions with their secondary financial functions or savings and credit clubs operate on a low level of efficiency. Both are far from exhausting their potential. The implications of these findings for informal sector policies will be discussed in the following paragraphs.