

Informal Sector Activities in the Nigerian Economy: A Survey Analysis

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Abstract

The informal sector may support economic growth by decreasing input cost as a result cheap labour, and enhancing competitiveness, and in the same vein, economic growth may be enhanced by an increase in informal employment. However, a well-functioning and regulated informal sector may be a critical prerequisite to achieve sustainable growth. The sector has been noted as contributing about 65% to the 2017 GDP of Nigeria (International Monetary Fund, 2017), and providing over 50% jobs in Nigeria (UNDP, 2014). This may inform the interest on the economic relevance of informal sector activities in Nigeria, as sustainable economic growth and job creation can be achieved if the potential and needs of the informal sector are adequately considered. Hence, this study seeks to bring to the fore the relevance of the informal sector operations in the Nigerian economy, with emphasis being placed on its potential role of contributing to economic growth thus, alleviating unemployment and poverty, using the statistical survey of National Bureau of Statistics (NBS). The major findings from the survey analysis reveal that informal sector is one sector that massively provides employment and generate a source of livelihood for unemployed persons. This study will recommend the provision of adequate electricity supply (in particular) needed for their operations, in addition to improving the quality of critical infrastructures such as road, communication, and rail among others. These facilities will enhance the growth of the sector; and therefore stimulate Nigeria economy.

Keywords: Informal Employment; Informal Sector Activities; Nigeria Economy

Introduction

The informal sector represents an important part of the economy and plays a major role in creating jobs. Hence, the activities of persons operating in the informal sector in Nigeria cannot be disregarded in the development of the Nigerian economy. The sector has significantly contributed about 58% and more of the nation's Gross Domestic Income (GDI), as it creates means of livelihood or essential income for most of the population (Ijaiya et al, 2015; International Monetary Fund [IMF], 2017). This implies that, the informal sector drives the Nigerian economy, having a significant portion of employment and national gross domestic product, thereby making the sector a social safety net as it creates jobs and income to many people that may otherwise be unemployed in the absence of sufficient opportunities in the informal sector.

In 1993, the International Conference of Labour Statisticians (ICLS) adopted a definition based on the features of enterprises that comprise the informal sector (i.e. unregistered enterprises, which may be unincorporated or small). Subsequently, in 2002, ICLS expanded its definition to include the nature of employment (International Labour Organization [ILO], 2013), namely whether or not the informal sector workers had legal and social protections, be it in enterprises – or outside (ILO, 2003). Within this framing, the National Bureau of Statistics (NBS) defined an

informal sector activity as that which operates without binding official regulations, as well as one that operates under official regulations that do not make compulsory the rendition of official accounts on its operations or production process (NBS, 2010). Thus, the informal sector comprises of any economic activity that is not fully regulated by public authorities and is engaged in small scale intensive work such as shoe making and repairing, tailoring, fashion design, hair dressing, food vendors, trading, photography, carpentry, barbing, clothes dry cleaning, etc. Hence, informal employment exists in the informal sector; and it refers to employment without legal and social protection – both inside and outside the informal sector.

However, such unregulated activities assume different names in different circumstances. Hope (1997; 2001) has names describing various activities of the informal sector, such as, “subterranean”, “underground”, “unofficial”, “hidden”, “shadow”, “invisible”, “black”, “small-scale”, “micro-enterprise”, and the “second-economy”. According to United Nations (as cited in Hope, 1997), these terms describe the different activities in the informal sector, and thereby exclude those activities which by their nature are indeed criminal, and have been legally proscribed and sanctioned.

Due to its unregulated operating environment and flexible nature of making business, the informal sector in some ways is better able to adapt to economic challenges (Nyamnojoh, 2002) such as the recent economic distress in Nigeria, providing some measures of support to those most in need. Although, the operators in this sector are not enlisted in the national income statistics but they are highly productive, influence employment generation; as they significantly contribute to economic growth in Nigeria (Buba, et al. 2018; Osinbajo, 2017).

This means that informality is a wide term that refers either to the nature of the enterprise or the nature of the employment therein. The focus in this study is on the informal sector, which – is being characterized by persons working outside the formal sector and therefore beyond the control of typical authority.

There are numerous and inconsistent perspectives with regard to the informal sector. Some studies have viewed the informal sector in totality to be murkily obscure and a reflection of disinterest (Becker, 2004; Chen, 2004; Onwe, 2013). Its activities are usually not recorded in the process of computing Nigeria’s Gross Domestic Product (GDP) values. Meanwhile, working in the informal sector is pleasant due to the ease of operations as a result of no bureaucratic regulatory framework, and little or no educational requirements (Otekhile and Matthew, 2017), but, government, academics or public opinion leaders do not consider it necessary to gather facts on its operations and performance, making it limited to patchy and inconsistent data, and difficult to research upon. However, the optimists view is that the informal sector provides significant job creation and income generation potential, as well as the capacity to meet the needs of poor consumers by offering cheaper and more accessible goods and services.

Hence, this study seeks to carry out a survey analysis of the informal sector operations in the Nigerian economy, with emphasis on examining the potential role of the informal sector in contributing to the economy thus, alleviating unemployment and enhancing livelihood, using the statistical survey of NBS. This study is organized as follows: section 2 reviews the definitions and features of the informal sector; section 3 views the informal sector activities in Nigeria; section 4 examines the contributions of the informal sector to the Nigeria economy, specifically in

alleviating unemployment and poverty; as well as the current policy responses to the needs of the informal sector; and finally, section 5 provides the conclusion on the analysis of informal sector in Nigeria.

Conceptual Clarification

Informal Sector

A clear definition of the term informal sector does not exist; however there are different perspectives on the informal sector, which are being reviewed upon in this study. The term informal sector, for instance connotes “an informal enterprise” which is said to accommodate ‘all economic activities that are – in law or practice – not covered or inadequately covered by formal arrangements’ (Central Bank of Nigeria/Nigerian Institute for Social & Economic Research (CBN/NISER), 2001, p.2). The ILO (1976) defines the informal sector as that which activities are unrecognized, unlisted, unsecured, employing a handful of workers, who earn minimum income, utilize low standard techniques and operate largely outside the boundaries of government regulations guiding business in general. Also, Becker (2004) defines the informal sector as non-regulated, non-formal option of the business economy that produced goods and services for sale or for other kind of remuneration. As such, the term informal sector refers to every economic activity engaged by workers and production units that are not covered or are partly covered by formal arrangements thus, informal sector employment exists therein. Informal sector employment refers to employment of labour having no legal and social protection – both inside and outside the informal sector (Chen, 2004). Nevertheless, there exist some persons working for the formal sector but are being declared or regarded as informal employees (Otekhile & Matthew, 2017).

However, the informal sector is enormously characterised by: low start-up funds; no or limited professional qualifications; minimum scale of operations; skills mostly acquired outside of formal education; does not have fixed wages or fixed hours of work and mostly relies on daily earnings. Its existence is merely on verbal understanding and largely labour-intensive methods of production and adapted technology exists (Onwe, 2013).

The Nigeria’s Informal Sector Activities

The Nigeria’s informal sector is regarded as the largest in Africa (Abumere, Arimah & Jerome, 1998), as it predominantly rises from its massive projected population figure of about 195 million in 2018 (Worldometers, 2019). As at June 2016 the NBS puts the size of Nigeria’s informal sector at 41.43% of its GDP. A national survey in the year 2010 put the number of informal sector enterprises in the country at 13,563,427 enterprises where a total number of 48,602,017 persons were employed (NBS, 2010: 37-42). However, “an informal enterprise is that which operates without binding official regulations (but it may or may not regulate itself internally) as well as one which operates under official regulations that do not compel rendition of official returns on its operations or productive process” (NBS, 2010: 51). The activity comprises almost all aspect of economic activity, which ranges from petty trading and personal services to informal building and construction, agricultural activities, transportation and storage, financial, manufacturing and repairs, etc. In this instance, the survey recognised that the informal sector consists of enterprises established, owned and operated by self-employed persons, either alone or with the assistance of

others for the primary purpose of generating their own employment and income through the production or distribution of goods or provision of services.

Table 1. Informal Sector Employment Statistics in Nigeria by Activity Category

Activity Category	Numbers Employed	Percentage %
Agriculture	14,837,693	30.5%
Mining and Quarrying	146,488	0.3
Electricity, Gas Steam and Air Conditioning Supply	152,610	0.3
Water Supply and Waste Management	86,778	0.2
Building and Construction	1,142,569	2.4
Manufacturing	5,337,000	11.0
Wholesale and Retail Trade	12,097,189	24.9
Transportation and Storage	2,009,183	4.1
Hotel and Food Services	2,730,308	5.6
Information and Communication	469,513	1.0
Financial and Insurance Activities	171,403	0.4
Real Estate Activities	68,697	0.1
Professional, Scientific and Technical Activities	710,511	1.6
Administrative and Support Service Activities	986,480	2.0
Defense and Security	800,333	1.6
Education	1,557,665	3.2
Human, Health and Social Work Activities	739,936	1.5
Art, Entertainment and Recreation	390,275	0.8
Household/Domestic Services	551,353	1.1
Extraterritorial Organisation and Bodies Activity	75,635	0.2
Other Services (such as Repairs of Computers, etc.)	3,471,702	7.1
Total	48,602,017	100

Source: Author's compilation from NBS, 2010: 38

Table 1 depicts the informal sector worker's statistics in various activities. It is being observed that national survey in 2010 put the number of urban and rural informal (sector) enterprises in the country at 8,604,048 and 1 enterprise, comprising a total employment generation of 12,407,3484 (NBS, 2010). The statistics revealed that the share of informal employment in the non –agricultural activities is more; contrary to the longstanding belief that the informal sector workforce comprises of mostly farmers thus, informality has persistently continued to emerge in new unexpected areas.

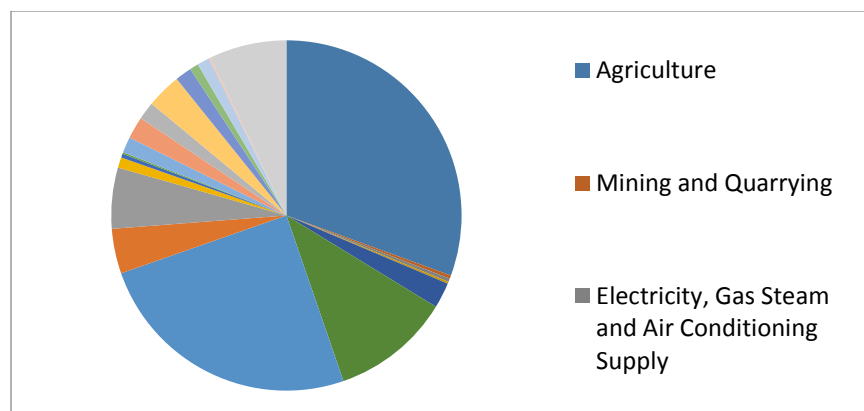


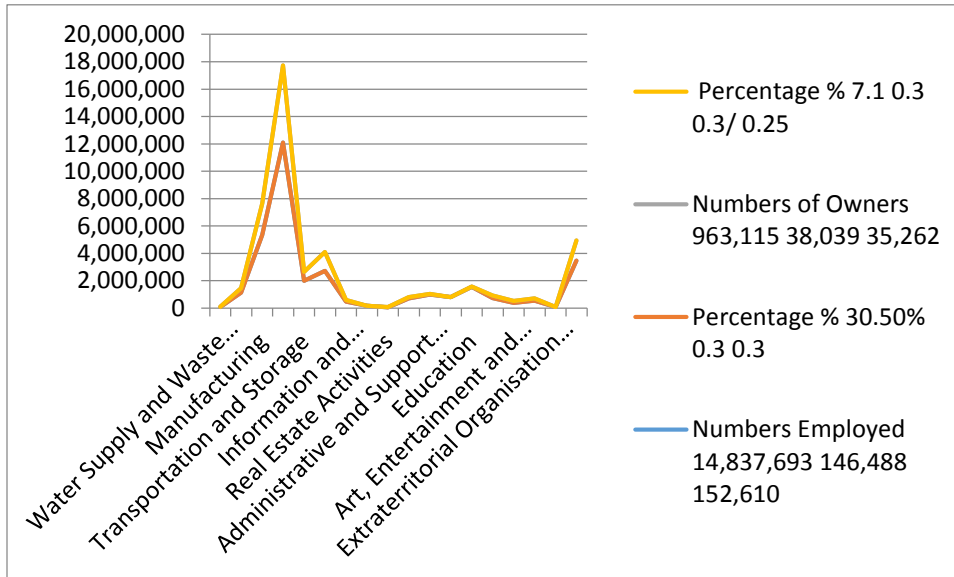
Figure 1: Proportions of Employment in the Informal Sector as a Share of Agriculture and Non-agriculture Activities

Table 2. Informal Sector Owners Statistics in Nigeria by Economic Category

Activity Category	Numbers of Owners	Percentage %
Agriculture	963,115	7.1
Mining and Quarrying	38,039	0.3
Electricity, Gas Steam and Air Conditioning Supply	35,262	0.3/ 0.25
Water Supply and Waste Management	20,195	0.15
Building and Construction	308,151	2.3
Manufacturing	2,284,647	17.0
Wholesale and Retail Trade	5,623,954	41.5
Transportation and Storage	639,787	4.7
Hotel and Food Services	1,363,882	10.1
Information and Communication	122,497	1.0
Financial and Insurance Activities	11,545	0.1
Real Estate Activities	16,154	0.1
Professional, Scientific and Technical Activities	97,564	1.0
Administrative and Support Service Activities	51,024	0.4
Defense and Security	7,928	0.1
Education	28,587	0.2
Human, Health and Social Work Activities	180,662	1.3
Art, Entertainment and Recreation	134,609	1.0
Household/Domestic Services	153,660	1.1
Extraterritorial Organisation and Bodies Activity	3,874	0.03
Other Services (such as Repairs of Computers, personal goods etc.)	1,478,290	11.0
Total	13,563,427	100

Source: Author's compilation from NBS, 2010

From Table 2, available information from NBS (2010) show that 5,623,954 informal enterprise owners were engaged in wholesale and retail business, followed by those that are into manufacturing activity (2,284,647), other economic services which include repairs of computers, personal goods, etc. (1,478,790), hotel and food service activities (1,363,882). The least number of owners were engaged in activities of extraterritorial organisation and bodies (3,874).



Source: Author’s Computation

Fig. 2. Share of Employed Individuals to Numbers of Enterprises in the Informal Economy of Nigeria as of 2010.

From fig. 2, it is shown that the rise in the number of labour employed commensurate with the number of enterprises in the informal sector. These established enterprises provide the needed impetus for employment generation, improves livelihood; hence boost the economy of Nigeria.

Contributions of the Informal Sector to Nigeria Economy

The informal sector represents an essential part of the economy and plays a major role in employment creation and income generation in Nigeria. The 2014 World Development Report states that in many developing countries, particularly in sub – Saharan Africa (of which Nigeria is included), ‘even if economic growth rates are high, the formal sector cannot generate enough wage employment in the near future to absorb the large number of the labour force’ (World Bank 2014: 179). Therefore, the informal sector remains ‘the paramount contributor to GDP and to employment. The informal sector contributes to growth by reducing labour cost and improving competitiveness thus, a well – functioning and regulated informal economy is a critical prerequisite to achieving sustainable economic growth (Yelwa, Obansa and Awe, 2015). However, at the last occurrence of economic recession in Nigeria between 2015 and 2017: the first quarter provoked a rise in informal employment and a rescue from the economic distress. The sector served as a

necessary mechanism for jobs creation for the teeming population, leading to a sharp upturn in the economy of Nigeria. Also, the informal sector creates government revenue via value added tax payments and through the payments for basic services - notably consumption tax - which includes water, electricity, storage, and waste removal. It is worth noting that this tax payable connotes a higher share of tax revenue obtainable in Nigeria. Hence, the informal sector makes significant contributions to the Nigeria economy.

Based on its contributions the present administration of the federal government is making effort to overhaul the informal sector by re-training (they acquire more skills for a particular informal activity, thereby learning and working side-by-side with an experienced craftsman), and offering financial support (in form of loans between ₦10,000 and ₦100,000) to market women, artisans, traders through the federal government's national social investment programme under the Government Enterprise and Empowerment Programme (GEEP) at no monthly cost to the beneficiaries. This is commendable, albeit more attention is required. Though, Nigeria does not at present have accurate statistics on the proportion of labour force in the informal sector in concurrence with (Onwe, 2013).

Conclusion and Recommendations

This study has observed that the Nigeria informal sector has the potential to create employment and contribute to the nation's gross domestic output/income. Although, the existing policy responses to support and develop the informal sector have not been fully encouraging thus, much still needs to be done to promote the informal sector. The sector is expected to serve as a viable tool for the creation of jobs for both rural and teeming urban population in Nigeria. Hence, these workers require more money/credit at no cost to acquire tools and equipment that are either fundamental to their business activities and/or necessary for them to carry out their activities with more ease. Also, the informal sector operators in Nigeria generally require a steady electricity supply for their operations, thus electricity demands varies across different activities; for example, the electricity requirements are more in areas like laundry services, barbing, hairdressing, welding than photography and shoe making for instance. Activities like transport and waste disposal services generally require little or no electricity for their operations. Creating a business friendly environment by making policies that improve access to finance/credit facility, plus addressing electricity and other critical infrastructure challenges demand rapt attention, will go a long way in enabling the informal sector to achieve its best.

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