

Role of the Informal Sector in Development of the Nigerian Economy: Output and Employment Approach

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Abstract

The problem focus of this paper is an observed general negligence of the informal sector or the informal economy in development policies and national accounting. This has been the case irrespective of the fact that the sector has been noted as accounting for about 21 percent of total employment in Sub-Saharan African countries (ECA, 2005), and about 38 percent of the gross domestic product (GDP) in Nigeria (FOS, 1999). This background informed our interest on the economic role of the informal sector, using Nigeria as a reference point. The methodology was a survey of available literature on growth, characteristics, and economic significance of the informal sector. The survey was empirically supported by data from the survey of the Nigerian informal sector, carried out by the Central Bank of Nigeria (CBN) in collaboration with the then Federal Office of Statistics (FOS) and the Nigerian Institute of Social and Economic Research (NISER). Our analysis indicate as follows: first, the traditional or informal sector is continuously expanding in developing countries, and has been serving as a 'safety belt' in providing employment and income to the teaming poor; secondly, informal sector activities, often described as unrecognised, unrecorded, unprotected, and unregulated by the public sector are no longer confined to marginal activities but also included profitable enterprises in manufacturing activities; third, the informal sector is largely characterized by low entry requirements, small-scale operations, skills acquired outside of formal education, and labour-intensive methods of production; forth, the informal sector is defined according to different classifications in terms of activity, employment category, location of actors, and income and employment enhancing potential. Other observations were that, in discussing issues concerning the informal sector, it is necessary to distinguish the traditional view from the current or modern view; in Nigeria, the dominant informal manufacturing activity appears to be in food, beverages, and tobacco; in the on-going economic and financial crisis that characterise the economies of African countries, including Nigeria, the informal sector has the potential to provide the needed impetus for employment generation; and, the existing policy responses to growth of the informal sector have not been encouraging. Given these observations, the paper recommends as follows: (i) emphasis on the informal sector's role in Nigeria's development policies; (ii) making data on the informal sector available for in-depth analysis; (iii) thinking in the direction of inclusion of the informal sector in national income accounting; (iv) financial and technical support of identifiable informal-sector activities such as, retail trade, small-scale home-based manufacturing activities, and services; and, (v) need for scholars to understand existing gaps in the economic use of the informal sector in Nigeria and other African countries.

1. Introduction

A general overview of the development literature would indicate that economists appear to have continuously neglected the importance of the informal sector in the development process. This situation may have arisen from predictions of the pioneer economists such as Arthur Lewis, as noted by Becker (2004). History informs us that in the mid-1950s, Arthur, W. Lewis developed a theoretical model of economic development based on the assumption that there was an unlimited supply of labour in most developing countries and that this vast pool of surplus labour would be absorbed as the modern industrial sector in these countries grew. It was then therefore, assumed that the traditional sector, comprised of petty traders, small-scale producers and a range of casual jobs would eventually be absorbed into the formal economy and subsequently disappear.

On the contrary however, the first International Labour Organisation's mission to Africa in 1972 had recognised that the traditional or informal sector had not just persisted but expanded. The mission also observed that the informal sector activities, described as activities that are unrecognized, unrecorded, unprotected, and unregulated by the public authorities, were not confined to marginal activities but also included profitable enterprises in manufacturing. It is on this background that this paper aims at re-emphasising the need for recognition of the informal sector as a significant activity sector capable of impacting positively to development of the Nigerian economy. The methodological approach here involves, in the first place, explanation of what an informal sector is all about, its composition and characteristics. This will be followed by measurement of the size of the informal sector specifically in developing countries, according to prescriptions of the International Labour Organisation (ILO) and the Swedish International Development Cooperation Agency (SIDA).

Using some survey data from the Central Bank of Nigeria (CBN), in collaboration with the Federal Office of Statistics (FOS), now National Bureau of Statistics (NBS), and Nigeria Institute for Social and Economic Research (NISER), we examine the economic significance of the informal sector with specific emphasis on income and employment in the Nigerian economy. The paper is organised as follows: section 2 presents the definitions and characteristics of the informal sector in general; section 3 presents the background and characteristics of the informal sector in Nigeria; section 4 examines the current debate on role of the informal sector worldwide; section 5 brings into focus the development and growth of the informal sector in developing countries; section 6 looks at the size and composition of the informal sector in Nigeria; section 7 examines the contributions of the informal sector to employment and output in general and specifically, in Nigeria; in section 8, we examine the current policy responses to the needs of the informal sector; and, in section 9, the paper concludes with some recommendations for a sustainable management of the informal sector in Nigeria.

2. Methodology

The methodological approach looks at the available literature on such relevant issues as definitions and characteristics of the informal sector in general and specifically, in Nigeria, role of the informal sector in economic development, development and growth of the informal sector, size and composition of the informal sector in Nigeria, and policy responses to the informal sector. The aim is to gather information that aid in basic understanding of the informal sector and its role in output and employment in a developing economy.

3. Definitions and Characteristics of the Informal Sector

In a very general term, Becker (2004) defines the informal sector as the unregulated, non-formal portion of the market economy that produced goods and services for sale or for other forms of remuneration.

In effect, the term informal economy as, it is often used to denote informal sector, refers to all economic activities by workers and economic units that are not covered or are insufficiently covered by formal arrangements. The informal economy is largely *characterised by*: low entry requirements in terms of capital and professional qualifications; small scale of operations; skills often acquired outside of formal education; and, labour-intensive methods of production and adapted technology. Due to observed heterogeneous nature of the informal economy, numerous definitions have been elaborated according to different classifications in terms of activity, employment category, location of actors, and income and employment enhancing potential. Our analysis will however, concentrate on few of these classifications including: the definition by activities; the definition by employment categories; and, definition by income and employment enhancing potential.

3.1 Definition of the Informal economy/sector by economic activity.

This has been recognised as the most traditional of the various definitions. This is a definition based on production units. By this definition, the informal sector or economy consists of units engaged in the production of goods and services with the primary objective of generating employment and incomes to the persons involved. These units typically operate at a low level of organisation, with little or no division between labour and capital as factors of production and on a small scale.(International Conference of Labour Statisticians, 1993).

3.2 Definition of the Informal economy/sector by Employment Categories

Informal employment comprise of both self-and wage-employment that are usually not recognized, regulated, or protected by legal or regulatory frameworks. Informal economy has been identified according to the following employment categories (Amin, 2002; ILO, 2002, 2003; World bank, 2003):

- i. *Self-employment*, including own-account workers, heads of family businesses, and unpaid family workers;
- ii. *Wage workers*, including employees of informal enterprises, casual workers without a fixed employer, home workers, paid domestic workers, temporary and part-time workers, and unregistered workers; and,
- iii. *Employers*, including owners and owner operators of informal enterprises.

3.3 Definition of the Informal economy/sector by Income and Employment Enhancing Potential

This definition recognises the heterogeneous nature of the informal sector. The definition identifies the informal sector as comprising of enterprises or work with growing market demand that reflect high income-elasticity of demand, such as tourism services, and those that reflect low income-elasticity of demand, such as barbing services. It classifies the informal sector into three main segments including (Oberay et al, 2001; ILO, 2002):

- (i) enterprises with the potential of becoming a significant contributor to national economy and that take up informal economic activities because of their potential for generating growth or wealth. These enterprises can be linked to organised and emerging national or international markets;
- (ii) individuals or households who take up informal activities for survival purposes. Factors attracting these individuals include relative ease of entry, reliance on local resources, and minimum capital investment requirements;
- (iii) individuals that devote part-time to informal activities while working elsewhere, because of incidence of low and irregular salaries.

3.4 Definitions and Characteristics of the Informal Sector in Nigeria

A CBN/NISER collaborative workshop in 2001 defines the informal sector as that which operates without binding official regulations, as well as one who operates under official regulations that do not compel rendition of official returns on its operations or production process. This definition serves as our operational definition for the present analysis. The workshop classifies the conceptualization of the informal sector production units into four categories (CBN/FOS/NISER, 2001):

- (i) informal production unit operating under binding official regulations with autonomous internal regulations;
- (ii) informal production unit operating under binding official regulation without internal regulations;
- (iii) informal production unit operating without binding official regulations with autonomous internal regulations;
- (iv) informal production unit operating without binding official regulations without autonomous internal regulations.

The workshop asserts that in general terms, an informal sector activity consists of enterprises which renders no account to any statutory bodies. Such enterprises comprise heterogeneous set of activities. Characteristically, the activities cover almost every field of economic activity, ranging from petty trading and personal services to informal construction, transport, money lending, manufacturing, and repairs. The operators are generally of low level of education, risk takers, and accommodating.

4. The Current Debate on Role of the Informal Sector

In the current debate on the significance of the informal sector in developing countries, many authors do highlight their economic role in stimulating the growth of the market economy, promoting a flexible labour market, stimulating productive activities, and absorbing retrenched labour from the formal sector. Others claim that informal labour has become a convenient means of pursuing the global agenda of privatisation and liberalisation (Amin, 2002).

It is important to note that views on the nature and characteristics of the informal sector in general have been changing with recent developments. Table 4.1 below summarises the traditional and current views on the informal sector. In any event, this analysis draws from the current views.

Table 4.1: Views on the Informal Sector

| The Traditional View | The Current View |
|---|---|
| The informal sector is the traditional economy that will wither away and die with modern, industrial growth | The informal economy is increasing with modern, industrial growth – accounting for more than half of the new jobs in Latin America and 80 percent of new jobs in Africa. In India, more than 90 percent of the labour force is in it. It is a feature of economic transition as well as capitalist industrialisation. |
| It is only marginally productive. | Virtually everywhere the informal economy is efficient and resilient, creating jobs. It is a major provider of employment, goods and services for lower-income groups. It contributes significantly to GDP. |
| It exists separately from the formal economy. | It is linked to the formal economy – it produces for, trades with, distributes for, and provides services to the formal economy. |
| It represents a reserve pool of surplus labour. | Much of the recent rise in informality reflects the decline in formal employment associated with structural adjustment and global competition. It reflects not only the incapacity of formal firms to absorb labour, but also their unwillingness to do so. |
| Most of those in the sector are entrepreneurs of illegal and unregistered enterprises seeking to avoid regulation and taxation. | It should not be equated with the criminal or illegal economy. It is made up of non-standard waged workers as well as entrepreneurs and self-employed persons producing legal goods and services, albeit through irregular or unregulated means. Most entrepreneurs and the self-employed are amenable to, and would welcome, efforts to reduce barriers to registration and related transaction costs and to increase benefits from regulation. Most non-standard workers would also welcome more stable jobs and workers’ rights. |
| Work in the informal economy is comprised mostly of survival activities and thus is not a subject for economic policy. | Informal enterprises include not only survival activities but also stable enterprises and dynamic growing businesses. All informal enterprises are affected by economic policies. |
| It comprises mainly of unregistered business. | It comprises not only of informal enterprises but also of informal jobs, including employees of informal firms, casual day labourers, and domestic workers as well as industrial outworkers and other non-standard workers in both informal and formal firms. |
| It comprises mostly of street traders and very small-scale producers. | It is made up of a wide range of informal arrangements- both ”resilient old forms” and ”emerging new ones” (temporary and part-time jobs plus home-based work for high tech industries). Its two basic segments are informal enterprises and informal jobs. |
| It is unregulated. | Some informal enterprises-such as street vendors-are highly regulated, so much so that regulations are impossible to enforce or comply with and are often not clear either to local authorities or to vendors. Regulations become a tool of harassment and control, not a way to encourage economic contributions of street vendors. On the other hand, the employers of most informal workers often seek to avoid complying with labour legislation. |
| Because it is unregulated and untaxed, many working in the informal sector are wealthy. | Average incomes are lower in the informal economy than in the formal economy. A higher percentage of people working in the informal economy are micro entrepreneurs who hire others. The poorest are, typically, informal waged workers, especially industrial outworkers. |
| To regulate the informal economy is unnecessary interference with its workings. | In today’s globalised economy, the active role of government is needed in the regulation of economic activities, including the informal economy. Clear rules and appropriate legislation are needed to regulate the relationship between governments, foreign investors, local enterprises, and the workforce. |
| Street traders are to blame for crime in the inner sites. | Criminals are a threat to business interests of both formal and informal enterprises. |
| It does not contribute to economic growth. | It contributes substantially to the economy and needs to be encouraged and facilitated. |

Source: Adapted from Becker (2004), *The Informal Sector*

We also need to recognize the fact that informality in economic activities is of varying intensity. Informal activities often transit to formal status, depending on the nature of formal economic environment. Djankov et al (2002) presents a matrix illustrating the fact that transition from an informal to a formal status is gradual. They believe that it is important to initiate the relevant processes that could assist the enterprises to reach a more formal existence if an economy so desires. In table 4.2 below, we present the matrix illustrating the degrees of informality of informal sector enterprises.

Table 4.2: The Degrees of Informality

| | Informal Sector \longrightarrow Formal Sector | | |
|--|---|---|--|
| <i>Enterprises</i> | <i>Subsistence Enterprise</i> | <i>Unofficial Enterprises</i> | <i>Official</i> |
| Degree of Informality | 100% | High. Proportion of sales undeclared and workers not registered | Some proportion of sales undeclared and workers unregistered. May use outside the official purview (e.g. internet to deliver software) |
| Type of Activity | Single street traders, cottage/micro enterprises, subsistence farmers | Small manufacturers, service providers, distributors, contractors | Small and medium manufacturers, service providers, software firms |
| Technology | Labour intensive | Mostly labour intensive | Knowledge and capital intensive |
| Owner Profile | Poor, low education, low level of Skills | Poor and non-poor, well educated, high level of Skills | Non-poor, highly educated, sophisticated level of Skills |
| Markets | Low barriers to entry, highly competitive, high product homogeneity | Low barriers to entry, highly competitive, some Product differentiation | Significant barriers to entry, established market/product niche |
| Finance Needs | Working capital | Working capital, some investment capital, supplier credit | Investment capital and working capital, letters of credit, supplier credit |
| Other Needs | Personal insurance, social Protection | Personal and perhaps business insurance | Personal and business insurance, business development services |
| Least dynamic Completely informal \longrightarrow | | | Highly dynamic Partially formal |

Source: Adapted from Becker (2004), The Informal Sector

5. Development and Growth of the Informal Economy

Contrary to the predictions of many economists that were influenced by the conceptions of Arthur Lewis, the informal sectors in developing countries appear to have been steadily growing in recent times. The observed huge pool of the jobless community has decided to create its own source of livelihood in order to survive. As a result, the informal sector is increasingly being referred to as the informal economy, so that informality can no longer be confined to a specific sector of economic activity. Economists now recognise the fact that informal sector activities cut across many sectors. The term informal economy also emphasises the existence of a continuum from the informal to the formal ends of a given economy and thus, the interdependence between informal and formal economic activities (see the degrees of informality in table 4.2). Economists, and other observers at large, have cited some eight interrelated and to some extent overlapping reasons for the growth of the informal economy as follows (De Soto, 2000; ILO, 2002):

1. *Limited absorption of surplus labour.* It was observed that the limited capacity of agriculture and the formal economy to absorb surplus labour, in addition to increasing number of job seekers, has boosted the size of the informal economy. In countries such as Nigeria, with increasing rates of population growth or urbanization, the informal economy tends to be able to absorb most of the surplus labour, especially in urban areas.
2. *Barriers of entry into the formal economy.* The formal sector in most developing countries are so saturated that new entrants find it difficult to find opportunities. Barriers to entry are often in the form of monopolistic practices of the actors in the formal sector.
3. *Weak Institutions.* The weak capability of formal institutions to provide education, training, and infrastructure, as well as other incentives for structural reforms also contributed to the growth of the informal economy.
4. *Redundancies.* The structural adjustment programmes that were introduced in developing countries in the 1980s and 1990s appear to have fueled the growth of informal economy in such countries. The observed disappearance of public sector jobs, as well as closure of uncompetitive businesses forced many laid-off workers to find alternative means of survival through the informal economy.
5. *Favouring of Capital over Labour.* Global integration, encouraging foreign companies to move across borders, has not been helping in the absorption of the surplus labour. The integration has constantly favoured capital over labour, especially lower-skilled workers that find it difficult to migrate. Ultimately, these workers must find alternative sources of employment in the informal economy.
6. *Demand for Low-Cost Goods and Services.* Urban migration and consequent demand for low-cost goods and services produced by formal and informal enterprises have also helped to boost the growth of the informal economy.
7. *Uncommitted Governments.* Many governments of the developing economies appear to be very much unaware of the economic significance of the informal economy and, as such, are not committed to it. They often believe that the informal economy will eventually die out, as predicted by Arthur Lewis. The result is an informal economy that has few government obstacles for its growth.
8. *Economic Hardship and Poverty.* Rural-urban migration, due mainly to poverty and lack of public utilities, have contributed significantly to growth of the informal economy. Lack of appropriate mechanisms that would have contributed to absorption of labour force into the national economy has resulted in bulk of the employment being taken care of by the informal economy. This is especially the case in developing countries.

Different approaches have been used by different scholars in the explanation of the informal sector. Chen (2004) outlines three of the basic approaches:

1. *The Dualist School Approach.* This approach adopts the Arthur Lewis predictions. It assumes that, with development and rising per capita incomes, the informal sector would disappear, particularly insofar as these entities were considered to be peripheral to capitalist production systems. The approach sees a high prevalence of informal firms as a sign of underdevelopment.

However, there has not been any evidence that informal firms disappear completely in rising per capita incomes. Ptatap and Quintin (2006) observe that informal sector accounts for about between 10 and 15 percent of official GDP figures in most developed economies.

2. *The Legalist School Approach.* This approach assumes that informal sector is comprised of entrepreneurs who want to avoid the costs and hassles associated with formalisation, particularly in respect of registration and taxation. This phenomena has been basically found however, in high income economies and the Latin America.

3. *The Structuralist Approach* which considers the informal sector as a part of continuum within the market, located in a subordinate position. The approach considers the interactions between formal and informal sectors, whether in buyer-supplier relationships, or in employment relationships such as contracting out or casualisation. The informal sector contributes to the formal sector's risk mitigation and cost reduction strategies, so that the informal sector is not seen as a feature of a traditional sector, but instead a central feature of modern capitalist development.

In section 6, we throw some light on the size and composition of the informal sector in Nigeria. The section will enable scholars understand the strength of the informal sector as an economic sector capable of influencing development and growth of the Nigerian economy.

6. Size and Composition of the Informal Sector in Nigeria

Generally, the global economic crisis of the past decades has been noted as the cause of enlargement of the informal sector in almost all developing countries including Nigeria. Estimates of the size of the informal sector in these countries appear to vary with fuzziness of the informal concept and across countries, but representative contributors place almost half of the urban workforce in developing countries in the informal sector. Leidholm and Mead (1987) for example, observed that 35 percent of manufacturing employment in Jamaica takes place in firms with fewer than 10 employees in the informal sector, while this figure is 90 percent for Sierra Leone. A survey carried out by the Central Bank of Nigeria (CBN), in collaboration with the Nigerian Institute of Social and Economic Research (NISER) and Federal Office of Statistics (FOS) in 1998, put this figure at about 83 percent.

The composition of the informal sector in Nigeria is basically of two categories: informal manufacturing and non-manufacturing activities. The composition of non-manufacturing informal sector is as listed above. In table 6.1 below, we present the composition of the informal manufacturing sector in Nigeria. According to the table, the dominant manufacturing activity in Nigeria is in food, beverages, and tobacco. This comprises of about 69 percent of all informal manufacturing activities. Other components of the informal manufacturing sector are: textile, 11.2 percent; wood products, 8.8 percent; paper products, 0.6 percent; chemicals and petroleum products, 0.5 percent; non-metallic mineral products, 0.8 percent; basic metal product, 1.6 percent; fabricated metal products, machinery and equipment, 2.2 percent.

Table 6.1: Distribution of Informal Manufacturing Enterprises in Nigeria by Activity, 1998.

| Activity Unit | Number of Enterprises | Percentage |
|--|-----------------------|------------|
| Food, Beverages and Tobacco | 1,458,048 | 69.1 |
| Textile and Wearing Apparel | 236,736 | 11.2 |
| Wood and Wood Products | 186,535 | 8.8 |
| Paper and Paper Products | 12,404 | 0.6 |
| Chemical, Petroleum, etc. | 11,469 | 0.5 |
| Non-metallic Mineral Products | 16,533 | 0.8 |
| Basic Metal Industries | 34,127 | 1.6 |
| Fabricated Metal Products, Machinery and Equipment | 45,428 | 2.2 |
| Others (including home-based manufacturing) | 109,882 | 5.2 |
| Total | 2,111,162 | 100 |

Source: CBN/NISER/FOS Informal Sector Survey, 1998.

7. Contributions of the Informal Sector to Employment and Output in Nigeria

According to Altman (2008), the first and foremost point on the proportion of employment in the informal sector is that the share of employment in small informal enterprises tends to fall as a country's per capita income rises. Amin (2002) observes that the proportion of the labour force engaged in the informal sector fell by between 60 and 70 percent of the labour force in low income South Asian economies, by between 30 and 50 percent in middle-income South-East Asian countries, and by about 25 percent in high-income Taiwan, Japan, and Singapore. It was also pointed out however, that in Sub-Saharan Africa, excluding South Africa, 78 percent of non-agricultural employment is found in informal-sector firms, accounting for about 21 percent of total employment, including domestic workers (ECA, 2005).

Considering the on-going economic and financial crisis that characterizes the economies of many African countries, including Nigeria, the informal sector has the potential to provide the needed impetus for employment generation. The sector is expected to serve as a viable mechanism for the creation of job for both rural and teaming urban population in Nigeria. This has been the case in Nigeria over the years. Employment in the Nigerian informal sector is characterized by variable hours of work over a period of time, due to lack of contractual relationship in the sector, as well as the prevalence of self-employment and home-based family workers. It therefore, appears an average worker in the Nigerian informal sector suffers from a significant degree of under-employment. The result is a differential in the average earnings between the formal and informal sector.

Though Nigeria does not, at present, have accurate statistics on the proportion of labour force in the informal sector, the CBN/NISER/FOS survey of 1998 indicates that informal manufacturing enterprises are small. The average number of persons employed in an enterprise was about 2. By implication, bulk of the informal employment in Nigeria can be found in non-manufacturing activities such as street trading, barbing saloons, restaurants, and other informal sector activities. The 1998 survey of the Nigerian informal sector gives some interesting insights on size of the labour force employed in the informal manufacturing enterprises in Nigeria. The employment statistics, according to the survey are as presented in tables 7.1 and 7.2 below.

Table 7.1: Distribution of Informal Manufacturing Enterprises by Size of Employment and Activity Sector

| Activity Sector | No of Establishments | Number of Persons Employed | | | | | | | | Total |
|------------------------------------|----------------------|----------------------------|----------------|----------------|----------------|----------------|----------------|---------------|---------------|------------------|
| | | 1 Person | 2 Persons | 3 Persons | 4 Persons | 5 Persons | 6-10 Persons | 11-20 Persons | 20+ Persons | |
| Food, Beverages & Tobacco | 1,458,048 | 1,027,924 | 469,491 | 319,313 | 157,469 | 102,063 | 174,966 | 56,864 | 32,077 | 2,340,167 |
| Textiles and Apparel | 236,736 | 189,626 | 34,090 | 41,902 | 28,408 | 22,490 | 35,984 | 3,078 | 0 | 355,577 |
| Wood & Furniture | 186,535 | 122,740 | 54,468 | 58,199 | 33,576 | 17,721 | 31,338 | 12,125 | 12,311 | 342,478 |
| Paper & Paper Products | 12,404 | 5,532 | 5,383 | 7,182 | 2,382 | 1,488 | 5,954 | 645 | 3,275 | 31,841 |
| Chemicals, Petroleum, Coal, Rubber | 11,469 | 8,499 | 3,234 | 1,617 | 1,101 | 688 | 3,211 | 0 | 0 | 18,350 |
| Non-Metallic Mineral Product | 16,533 | 12,763 | 2,910 | 1,736 | 2,315 | 2,893 | 2,381 | 0 | 6,547 | 31,545 |
| Basic Metal Industries | 34,127 | 17,405 | 15,016 | 17,814 | 6,279 | 4,266 | 5,733 | 1,775 | 0 | 68,288 |
| Fabricated Metal | 45,428 | 23,623 | 16,627 | 21,942 | 14,355 | 4,089 | 11,630 | 2,362 | 3,998 | 98,624 |
| Others | 109,882 | 90,543 | 16,922 | 14,502 | 14,504 | 5,494 | 9,670 | 1,428 | 0 | 153,066 |
| Total | 2,111,162 | 1,498,654 | 618,141 | 484,209 | 260,390 | 161,192 | 280,866 | 78,277 | 58,208 | 3,439,937 |

Source: CBN/NISER/FOS Informal Sector Survey, 1998.

Table 7.2: Distribution of Informal Manufacturing Enterprises by Number of People Employed

| Activity Sector | Employment Size (Percent) | | | | | | | | Total |
|------------------------------------|---------------------------|-----------|-----------|-----------|-----------|--------------|---------------|-------------|-------|
| | 1 Person | 2 Persons | 3 Persons | 4 Persons | 5 Persons | 6-10 Persons | 11-20 Persons | 20+ Persons | |
| Food, Beverages & Tobacco | 70.5 | 16.1 | 7.3 | 2.7 | 1.4 | 1.5 | 0.3 | 0.1 | 100 |
| Textiles and Apparel | 80.1 | 7.2 | 5.9 | 3 | 1.9 | 1.9 | 0.1 | - | 100 |
| Wood & Furniture | 65.8 | 14.6 | 10.4 | 4.5 | 1.9 | 2.1 | 0.5 | 0.3 | 100 |
| Paper & Paper Products | 44.6 | 21.7 | 19.3 | 4.8 | 2.4 | 6 | - | 1.2 | 100 |
| Chemicals, Petroleum, Coal, Rubber | 74.1 | 14.1 | 4.7 | 2.4 | 1.2 | 3.5 | - | - | 100 |
| Non-Metallic Mineral Product | 77.2 | 8.8 | 3.5 | 3.5 | 3.5 | 1.8 | - | 1.8 | 100 |
| Basic Metal Industries | 51 | 22 | 17.4 | 4.6 | 2.5 | 2.1 | 0.4 | - | 100 |
| Fabricated Metal | 52 | 18.3 | 16.1 | 7.9 | 1.8 | 3.2 | 0.4 | 0.4 | 100 |
| Others | 82.4 | 7.7 | 4.4 | 3.3 | 1 | 1.1 | 0.1 | - | 100 |
| Weighted Average | 71.4 | 14.2 | 7.6 | 3.2 | 1.5 | 1.6 | 0.3 | 0.1 | 100 |

Source: CBN/NISER/FOS Informal Sector Survey, 1998.

Tables 7.1 and 7.2 reveal that majority of the informal sector manufacturing enterprises in Nigeria employ less than 3 employees, and about 82 percent of the unidentified activities sectors are single-owner enterprises. By implication, the nature of the informal sector activities in Nigeria does not permit clustering of people. This may also suggest that most informal sector activities are done with high degree of secrecy, making it difficult to account for majority of such activities. We can also observe from the tables that, as at 1998, Nigeria had on record over two million informal manufacturing enterprises, with the majority in food, beverages and tobacco production. The tables appear to suggest policies aimed at improving the production environment for food, beverages, textile and wearing apparel.

In terms of the contributions to national output, it has been observed that, despite an existing low productivity in the informal sector, the sector accounts for a sizable percentage of the Gross Domestic Product (GDP) in developing countries. The CBN/NISER/FOS study of the informal sector in 1998 also revealed that the contribution of informal manufacturing sector to GDP in 1998 was 0.3 percent, while its contribution to manufacturing GDP was 4.2 percent. And the share of the manufacturing sector as a whole in GDP was 7 percent during the same period. In addition, according to FOS (1999), inclusive of the agricultural sector, known as the dominant informal sector in Nigeria, the contribution of the informal sector to the GDP was 38 percent. Thus, if accurate statistics on the share of the Nigerian informal sector in the GDP can be obtained, we would discover that the informal sector has great potentials in development of the Nigerian economy.

We can now appreciate the output and employment potentials of the informal sector in Nigeria. We also appreciate the difficulties in keeping track of the size, composition, and activities of the informal sector. But it is becoming clear that Nigeria needs to look into the possibility of emphasizing the informal sector in its development policy options. In the following section, we examine some of the existing policy responses to the development potentials of the informal sector.

8. Policy Responses to the Informal Sector

It has sometimes been asserted that despite two decades of informal sector promotion in many developing countries, there has been very little evidence of improvement in the conditions of the poor populace found in the informal sector. In this section of the paper, we examine the extent to which policies aimed at supporting the informal sector have been successful worldwide.

International evidence indicates that there are four policy aims for the informal sector including, creating employment; promoting increased output and greater productivity of activities in the informal sector; generating more stable and better working conditions for workers in the informal sector; and, reducing the vulnerability of the poor found in the informal sector. Three types of policies for addressing these aims have been suggested:

- (i) productivity-enhancing policies;
- (ii) policies which seek to improve the legal/institutional environment of the informal sector; and,
- (iii) welfare-type policies.

8.1 Productivity enhancing policies

These policies would include:

(i) Availability of Credit for the Informal Sector

It has been noted that one of the most common policy prescriptions for assisting the informal sector is to improve its access to credit. Evaluations of the effectiveness of such programmes in many developing countries have emphasised three basic issues: the firstly has do do with the observation that subsidized credit is often 'hijacked' by the more prosperous sections of the informal sector instead of reaching the poorest entrepreneurs. If policy-makers see the need to allocate subsidised credit to the poorest parts of the informal sector (those who may not be able to afford market interest rates), then methods must be sought to discourage the better-off from joining the programme (such as compulsory solidarity meetings and other collective activities which the better off are likely to find unattractive).

A second lesson which emerges from the international experience of policymaking for the informal sector concerns the riskiness of lending to the informal sector; although the conventional view has been that lending to the informal sector is a high-risk activity, substantial evidence has emerged which challenges this assertion, demonstrating relatively high repayment rates. Costs of administering such small loans are admittedly still high, especially since the most successful experiences of repayment have taken place in the context of solidarity groups (which have associated administration costs).

However, the recognition that the poor have a relatively acceptable record of repayment has helped to instill more confidence amongst the financial institutions about lending to the informal sector. The third issue has to do with the bias towards credit programmes over other types of assistance. It is argued that institutions dealing with the informal sector find credit an attractive method of assisting the informal sector, since it requires less administrative effort than other types of support.

(ii) Technical and management training

Like credit programmes, business management courses have gained enormous popularity in institutions dealing with the informal sector. However, these have been criticised as often being inappropriate to the needs of the individual enterprise, and sometimes forced on entrepreneurs by a programme which ties credit support with business training. McLaughlin (1990) point out that one of the most important determinants of the success of any training programme is the degree of demand for the skill. This implies that if training programmes are to be effective, it should be responding to a real demand or need for training.

(iii) Use of Appropriate Technology

The issue of appropriate technology for the informal sector has been a major source of concern for many scholars. The way existing technologies can be adapted is an important concern. Another important concern is on how new technologies introduced in order to improve the productivity and efficiency of small and informal producers can be managed. There is currently little evidence demonstrating the success of these innovations in new technologies.

(iv) Organisation of informal manufacturers

Recent studies have placed increasing attention on policies that can promote effective organisation of informal sector enterprises. The flexible specialisation literature has devoted much attention to the role of small firms in the industrialization process, especially in industrially-advanced economies. One of the tenets of the flexible specialisation theory is that the organisation of small firms into networks and associations may be an important factor stimulating their growth and competitiveness, contributing towards their 'collective efficiency' (Schmitz, 1990).

Some of the other benefits assumed to be accruable to informal enterprises from associations activities include: reducing costs through bulk-buying; increasing the scale of production through the establishment of production lines by groups of producers; facilitating price-setting, through co-operation about optimum prices amongst entrepreneurs; creating the conditions for small informal firms to reap the benefits from economies of scale, through joint R&D, adoption and innovation of new technologies; providing an institutional base which facilitates governments and NGOs easier access to the informal sector, stimulating political networking of individuals in the informal sector, and reducing the isolation which reinforces the vulnerability of large parts of the informal sector (Sanyal and Pradhan, 1990; Livingstone, 1991).

8.2 Policies that Address the Legal and Institutional Environment

A recent study for the ILO (Teshfashew, 1992) has outlined a number of ways in which government policy may discriminate against the informal sector. These include: trade policies; tax policy; government regulations concerning land allocation, infrastructure development, industrial sites, health and licensing requirements; public spending patterns. According to Teshfashew (1992), governments concerned with promoting the informal sector will need to consider orienting the macroeconomic environment to become more favourable to the informal sector.

It is a belief however, that reconciling the needs of the informal sector with the needs of other sectors of the economy and society into one policy framework is not an easy task; promoting the informal sector may involve compromising the interests of other sectors of the economy. The issue of regulation, for example, is usually treated by most governments with a considerable degree of caution. Even in a country like Kenya for which government has long articulated a commitment to promoting the informal sector, there is a very little evidence of changes in the regulatory environment in support of the informal sector.

8.3 Welfare measures

There are two groups usually targeted by policy makers in promoting welfare support for the informal Sector. These include: (i) the less productive, more vulnerable informal units, who may not qualify for productive assistance; and (ii) workers in informal enterprises. With the notion that these two groups tend to be excluded from the benefits of productive support, Tokman (1989) recommends that broad welfare policy be devised to raise the welfare levels of these sections of the informal sector. Policies should be aimed at social infrastructure development, credit delivery (micro-loans) to the poor, low-level technical assistance, education (such as literacy), and other 'basic needs' requirements, which can improve basic nutrition, health and housing of the poor. In their evaluation of the effectiveness of these programmes, Farbman and Lessik (1989) acknowledge that in narrow economic or business terms, there are some evidence that such programmes have been successful. Evidence also seems to suggest that while micro-loans may not necessarily improve the output of an informal enterprise, it may be used on other income generating activities to improve the welfare of the family. These policies may also indirectly raise productivity levels, according to Tokman (1989), in that improvements in the welfare of the poorer parts of the informal sector (especially health and education) may enable them compete for better jobs in the formal sector.

9. Conclusions and Recommendations

This paper adds to the existing literature on the informal economies and serves as a source of information on this often neglected and important economic unit of the developing economies.

The aim was to bring into focus the important role of the informal sector on development of the Nigerian economy in particular, and to emphasise the need for policies that recognize the importance of the informal sector in Nigeria.

Using the available literature on informal economies in general and secondary information from surveys of the informal sector in Nigeria, the paper observes as follows: first, the traditional or informal sector is continuously expanding in developing countries, and has been serving as a 'safety belt' in providing employment and income to the teeming poor; secondly, informal sector activities, often described as unrecognised, unrecorded, unprotected, and unregulated by the public sector are no longer confined to marginal activities but also included profitable enterprises in manufacturing activities; third, the informal sector is largely characterized by low entry requirements, small-scale operations, skills acquired outside of formal education, and labour-intensive methods of production; fourth, the informal sector is defined according to different classifications in terms of activity, employment category, location of actors, and income and employment enhancing potential.

Other observations were that, in discussing issues concerning the informal sector, it is necessary to distinguish the traditional view from the current or modern view; in Nigeria, the dominant informal manufacturing activity appears to be in food, beverages, and tobacco; in the on-going economic and financial crisis that characterise the economies of African countries, including Nigeria, the informal sector has the potential to provide the needed impetus for employment generation; and, the existing policy responses to growth of the informal sector have not been encouraging, nevertheless, three types of policies for addressing for issues on informal sector growth have been proposed including, productivity-enhancing policies, policies that improve on legal environment of the informal sector, and welfare-type policies. Nigeria is yet to embark on clear-cut policies on growth of the informal sector. Part of the reason may be the non-recognition of activities of the informal sector and too much reliance on the formal sector.

Given these observations, the paper recommends as follows:

- (i) emphasis on the informal sector's role in Nigeria's development policies;
- (ii) making data on the informal sector available for in-depth analysis;
- (iii) thinking in the direction of inclusion of the informal sector in national income accounting;
- (iv) financial and technical support of identifiable informal-sector activities such as, retail trade, small-scale home-based manufacturing activities, and services; and,
- (v) need for scholars to understand existing gaps in the economic use of the informal sector in Nigeria and other African countries.

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