Informal Sector and Employment Generation in Nigeria

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By

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Abstract
The study examines The Informal Sector and Employment Generation in Nigeria. The study takes a quantitative dimension and employed pure descriptive statistics for its analysis. The study developed the appropriate theoretical framework for the discourse. There is finding that the informal sector plays significant role not only in employment generation but as well as contributing immensely to economic growth. As a result, problems bedevilling the sectors were identified alongside the prospects of the sector to the employment generation and booming of the economy. Ultimately, informal sector employment generation policies measures were highlighted as the way forward.
1. **INTRODUCTION**

**Background to the Study**

In spite of the gross neglect of the informal sector by the decision and policy makers, this section of the economy has shown resilience and strong dynamism in absorbing the low level qualification holders and rural-urban drift population which the country has started to experience as far back as 1970. Since the IMF-World Bank Structural Adjustment Program (SAP) led to inability of the formal sector to sustain employment generation in the late 80’s it is not an overstatement to say the informal sector plays a vital role and it has been the hub of employment generation in the economy.

Informal sector is a replica of the Dualistic Economy, a two sector development model of Arthur Lewis (1954) and Fei & Gustav Ranis (1961). The insatiable feelings of the rural population from the low yield (income) agriculture in the traditional set-up which led them to abandon the rural settings for the urban area in search of office jobs is far exceeding the growth of employment opportunities in the major cities in Nigeria, like Lagos, Ibadan, Abuja, Port Harcourt, Kano etc. Consequently, these migrants have been compelled to rely on low income urban small scale enterprises that constitute the so called informal sector. This sector is further burdened by the factors relating to the urban-biased educational system, job opportunity in urban area illusion, earning differentials in urban favour, greater availability of education and training opportunities alongside social infrastructure in the urban centre. These migrants from rural areas that were unable to find employment in the regulated sector often resorted to obtain insufficient incomes for survival, whereby they rely on their own indigenous skill and resources to start work.

The sector provides sporadic temporary employment for this population section, rural-urban migrants that are unable to secure wage employment in the modern sector. It is observed that the informal sector employment generation can be classified into two, which are the irregular sector; consist of dissimilar low grade activities like gardening, car washing, leaf raking, refuse and scrap collections ‘onibola’, illegal and immoral conducts like prostitutions, pocket picking, scamming ‘yahoo yahoo’. And, the proper formal consisting of small scale economic activities commonly non-wage that interact, compete, depend on formal sector and complement the formal sector which can be refer to modern informal sector.

The significant role that the informal sector plays in providing employment for the downtrodden Nigerians can be seen as a relief for the formal and regulated sector. According to Michael & Stephen (2006) assumed whether the informal sector is merely a holding ground for people awaiting entry into formal sector and such is a transitional phase or whether it is here to stay and should be promoted as a major source of employment and income for the urban labour force. The Nigeria case strongly support the latter view by Michael & Stephen (2006), as can be observed in the resilience and dynamism of the sector to large extent that major proportion of this section prefer to remain in this sector to the formal sector where all the workings conditions, wage, term of employment is regimented.
In fact, due to the nature of limited availability of the data on this discourse both employment generation and informal sector in Nigeria economy the topic still remain presumption to a reasonable level.

The objectives of this paper, is therefore, to examine the role of informal sector in employment generation in Nigeria that is greatly marred with the challenges of unemployment at highest level. And, to proffer policy measures to promote the informal sector employment generation amidst the problems and besieged the sector. It is important to emphasised that the sector is labour intensive and depend less on importation for its input and technology which represents a cushion mechanism for employment and national income in the mutability of highly susceptible of our Nigeria economy; there has been little discussion in the literatures as to measures required to promote the informal sectors employment generation which this discourse will give adequate attention and will also provide policy measures to the stakeholders. All these are the justifications for the attention being paid to this study.

Based on the foregoing the objective of this chapter is the background analysis of the informal sector employment generation in Nigeria. In connection with this, the study is structured into five sections. In section 2, the study presents conceptual and empirical / mythical review on the informal sector and employment generation. In section 3, the study presents the theoretical framework. Moreover, section 4 looks into the analysis of the sector in the generation of employment in the nation. Section 5 presents the problem, prospect and Informal Sector Employment Generation Policies. Finally, concluding remark is made.

2. LITERATURE REVIEW

This aspect of the study reviews the key concept of the study and the empirical issues of the discourse.

2.1 Conceptual Review

Informal Sector

The term was first coined in Ghana in the study of income and employment opportunities of Ghana by Hart (1971). ILO (1972) used the description in its report on employment mission to Kenya. The study of urban poor in Calcutta, India also adopted the concept by Dasgupta (1973). This concept is rooted in the dualistic economy structure as propounded by Arthur Lewis (1959) and others. Michael & Stephen (2006) documented that the sector is unorganised, unregulated and mostly legal but unregistered. It is further described as the large number of small scale production and service activities that are individually, family-owned and use simple labour intensive technology which tends to operate like monopolistically competitive firms with ease of entry, excess capacity and competition driven-profits or income. The players in this sector have little or no informal education, hence are generally unskilled and there is dearth of access to financial capacity. Though, this definition by characterisation of unskilled and financial capacity has been refuted on certain grounds.
The productivity and income in this sector is lower compared to the formal sector. The large participants in the informal sector do not enjoy the measure of protection afforded by the formal modern sector in terms of job security, adequate work conditions.

Ojo A. (1997), reveals that informal sectors as consisting mainly of wood working including joinery and carpentry, vehicle repairs; other mechanical and electrical enterprises including watch repairs, blacksmithing, metal working, radio repairs, textile enterprises including watch repairs, textile enterprises including tailoring, weaving, dyeing and upholstering; bricklaying and masonry; transport and associated enterprises; miscellaneous services including hairdressing, laundering, photography etc; and, retail trade which includes market women. In Nigeria specifically, informal sector should include legitimate activities such as car washing, shoe shining, street vending, hawking and illegal/criminal or immoral activities of ‘419’ operators area boys, motor park and airport tout and prostitutes (Ojo, 1997).

Fashola & Akano (2013) cited Fapohunda (1985) and documented that informal sector constitutes “enterprises” distinguished by the following characteristics: Small-scale of operation in respect of capital and turnover; ownership of the enterprise by a family (or close relations); relatively low level of education of the owner of the enterprises; small number of employees, if any, apart from relations; predominant use of local resources; labour intensive and primitive technology; ease of entry and unregulated perfectly competitive market structure; skills acquired mainly informally or on the job and low labour productivity.

**Employment Generation**

This is the process involve in engaging the labour force in productive activities in the economy. Full employment is the most desire employment condition in the economy. But, this is a ruse in developing countries like Nigeria, because it is a dream that is yet to be achieved. Beveridge (1994) defined full employment as situation where there are more jobs than men. Full employment does not mean that everybody in the labour force is employed. A condition of full employment can be said to exist if the number of unfulfilled vacancies is equal to the number of people who are out of work (Hanson, 1996). In any dynamic economy, some unemployment rate of 4 and 5 % will be compatible with the aims of full employment. Unemployment has been the problem that is beaguering Nigeria and has been given the stakeholders (government, employers of labour) sleepless night. In fact unemployment is a phenomenon of Nigeria, which has degenerated the living condition of the masses. In realisation of this, several bodies, state, federal government, UN and others multilateral agencies have incorporated employment generation as their key target. It is generally believed that the formal sectors of the developing and under-developed nations lack capacity to absorb large number of labour force. Hence, the alternative sector, known as informal sector has always been serving as back up for the formal sector in employment generation. As a result of magnitude of labour force that has this sector has their last resort, the sector demand maximum attention from the stakeholders like Government, employers of labour, multilateral agencies, financial organisations and researchers.
2.2 Empirical Review

There is no gain saying that this aspect of study has been exhaustively researched on, still, the room for further study is always exist as the previous study would have created the other loopholes that demand further study. Since pioneer study on this topic by Hart (1971), in Ghana which focused on the income and employment in the micro-sector called Informal sector, the study has attracted attention of the researchers. The unrelenting efforts of ILO starting from the year 1972 and the study of poor in Calcutta, India (Dasgupta, 1973) have to be acknowledged which has created avenue to contribute and fill the knowledge gap in this area of study.

Atoloye A. S. (2007) carried out the study titled the informal sector and employment generation in Nigeria and documented that the sector like hydra-headed animal is difficult to describe, but it is indispensable all the same. Its presence is felt everywhere and, as a result, its existence defies any level of economic development, although there is evidence that it is more pervasive in developing economies because of its resilience in addressing the employment needs of the unskilled poor and mass underemployed.

Ogunrinola I. O. (2010) in the study titled Informal Self-Employment and Poverty Alleviation: Empirical Evidence from Motorcycle Taxi Riders in Nigeria, using the descriptive analysis and OLS technique and has two major cities in Nigeria as the focus of study. The study concluded that the informal sector is a high employer of young school leavers the study analysis showed that 86% of the participants earn above the minimum wage level. The study further confirmed that some graduates of tertiary institutions that had to get involved in auto-cycle riding due to lack of desired formal sector employment. The study recommended a more rigorous regulation of the sector to promote safety of participants.

Tshuma M. C. & Jari B. (2013) conducted a study titled the informal sector as a source of household income: The case of Alice Town in the Eastern Cape Province of South Africa, the study pointed out and concluded that that the small business (informal) sector has to nations show that the poverty circle can be escaped and a faster rate of economic growth and development achieved especially if these small businesses are supported. As a result, enhancing the productivity of informal traders and making them competitive is crucial as it absorbs the job-seeking and able-bodied people who in turn produce thereby increasing national output and speeding up economic development.

Onyemachi J. O. (2011) in the study of Role of the Informal Sector in Development of the Nigerian Economy: Output and Employment Approach. The study employed the survey of the Nigerian informal sector carried out by CBN in collaboration with FOS and NISER. The study indicated that the traditional or informal sector is continuously expanding in developing countries and has been serving as safety belt in the provision of employment and income to the teeming poor.

Farinmade A. (2012) worked on the challenges of improving informal sector activities conditions in Lagos Island, Nigeria. The survey was carried out using stratified random sampling to ensure a fair representation of the population on each selected streets. The study
reveals that there is a relationship between employment in the informal sector and formal sector unemployment, illiteracy, environmental degradation and the rampant violation of planning regulations. The study further recommended the formulation of policies and programmes that will enhance the effectiveness of both the informal sector and planning administration, provision of infrastructure such as markets and designated open spaces to enhance and promote the activities of the sector.

Arosanyin G. T., Olowosolu A. T. & Oyeyemi G. M. (2011) conducted research on Employment Generation and Earnings in the informal Transport Sector in Nigeria. Using a case study, logistic models and Mincerian equation for the analysis of the study, it was documented that the informal sector is a source of employment for 21.7% of jobless people and 72.3 percent of those who shift job. The study pointed out that employment and earnings can be improved upon in the informal sector if the government regulates its operation.

Emmanuella C.O. (2010) conducted study on The Informal Sector and the Environment in Nigeria Towns: What we know and what we still need to know. Concluded that people of low-income in Nigerian towns/cities rely on the informal sector for survival because the sector provides ample opportunities to support their livelihood; the study further pointed out that the sector develops and changes over time and it interacts with and affects the environment leading to environmental degradation resulting from the informal sector activities which has been neglected on a large scale.

2.3 Mythical Review

According to ILO (2000) in its study titled Employment and social protection in the informal sector enunciated and demystify three commonly held beliefs that have influenced and even introduced biased into the work of many analysts. They are:

1) *All people who engaged in informal sectors activities are poor:*

Informal sector participants are indeed poor, empirical evidence has made it cleared that the informal sector as is not synonymous with poverty. It has a highly heterogeneous structure: the very poor are engaged in subsistence activities at the bottom of the ladder, while at the top there are some very profitable economic ventures. In many cases those active in the latter earn incomes well above the minimum wage in the formal sector of the economy.

2) *The sector is unorganised and unstructured:*

Regarding the second might studies have indicated that informal sector activities are far from being unorganized or unstructured. The urban informal sector has its own mechanisms financial services, training, marketing, welfare schemes and social safety nets. These rely largely on traditional, kinship, neighbourhood, occupational and family ties, and these have proven effective and durable. Secondly, while the bulk of informal sector workers are engaged in own-account activities run by individuals with or without the participation of unpaid family workers – the sector also includes micro- and small-scale enterprises, largely in manufacturing, which hire workers on a continuous basis and often have operating links with formal sector enterprises.
3) **Informal sectors activities are illegal.**

It has become clear that the illegal situation in which many informal sector workers may find themselves is due to the non-applicability of existing regulations to the economic conditions of informal sector activities and lack of knowledge of the regulations, rather than to any outright desire to circumvent the law. Moreover, most of the subsistence and micro-businesses operate at the periphery of or beyond the law because of the unaffordable costs that compliance with existing regulations would impose on their economic activities, putting at stake their ultimate survival. (Employment and Social protection in the informal sector: ILO activities concerning the urban informal sector: Thematic evaluation pg 2)

3. **TECHNIQUE AND METHODOLOGY**

This study employs quantitative analysis with the help of descriptive statistics and discusses theoretical framework in this section.

3.1 **Theoretical Framework**

Implicit in economy structure and structural change theories is the notion of dual societies/structures in the developing countries Nigeria. Dualism is a popular concept in development economics. It depicts the presence of increasing divergence between reach and poor, formal and informal sector, traditional and modern sector. The following arguments persist:

1) Two conditions of which one is superior (formal sector), regulated and the other is inferior (informal sector), unregulated sector exist together.
2) The existence is a permanent phenomenon. Therefore, coexistence is no transitional.
3) The relationship between the formal and informal sector does little or nothing to pull up informal sector. It may eventually push it down to promote the underdevelopment of the informal sector

**Model of Complementarities between Informal Sector and Formal Sector on Employment Generation.**

Informal sector provides a vast employment opportunity in Nigeria, through the absorption of labour force that are not playing any role in the formal sector in spite of its neglect. Meanwhile, the formal sector according to Michael Stephen (2007), the formal sector also depends on the informal sector for cheap inputs of his workers (Demand Side Analysis); the informal sector in turn depends on the growth of the formal sector for a good portion of its income and clientele (Supply Side Analysis).

Therefore: Supply Side Analysis

\[
\text{EG}_{\text{inf}} = f (\text{EG}_f, L_e) \tag{1}
\]

\[
\text{EG}_f = f (W_f/W_{\text{inf}}) \tag{2}
\]
$\text{EG}_{\text{inf}} = \text{Employment Growth in informal sector}$

$L_e = \text{Labour Efficiency (This is constant)}$

$W_f = \text{Formal sector wage}$

$W_{\text{inf}} = \text{Informal sector wage}$

Hence, $\frac{\delta \text{EG}_{\text{inf}}}{\delta W_f/W_{\text{inf}}} > 0$  \hspace{1cm} (3)

Wage in formal sector must be increasing more than wage in informal sector. It will get to a point that it must not go beyond so that the profit of employer in the formal sector will not be eroded. The higher the wage in the formal sector the higher the employment in the informal sector because the employees in the informal sector constitute the clientele of the informal sector employee or self employers. This is graphically presented below:

![Diagram](image)

It was mentioned above that the formal sector also depends on the informal sector to fetch his employee. This depicts the demand side in the dualism.

$\text{EG}_f = f (\text{EG}_{\text{inf}}, L_e)$  \hspace{1cm} (4)

$\text{EG}_f = f (W_f/W_{\text{inf}})$  \hspace{1cm} (5)

$\frac{\delta \text{EG}_f}{\delta W_f/W_{\text{inf}}} < 0$  \hspace{1cm} (6)

This implies the lower Wages in the formal sector the higher the formal sector employment level.

The wage in the formal sector must reduced but must be greater than the wage in informal sector, if it is equal or less than the wages in the informal sector, the formal sector will lose the employee for informal sector, hence $W_f$ must always be greater than $W_{\text{inf}}$ in order for the labour not to move from formal sector to informal sector. Diagrammatically, this is expressed below:
Fig 3.2
(W_f/W_{inf})

EG_f

0

EG_f

Fig 3.2
EG_f

(W_f/W_{inf})

Fig 3.3
(W_f/W_{inf})

EG_f

EG_{inf}

W_2

W^*

W

0

EG_1

EG_2

Employment formal/informal

W2 – this is the higher and increasing wage in the formal sector that bring about an increment in the clientele of the informal sector employee thus bring about increasing self employed and employee in the informal sector. As a result, informal sector employment level is fast increasing and increasing rural-urban drift where by these set of people are ready to engage their little resources and skill in the low income jobs like okada, retail sellers, danfo drivers, begging, prostitutions, bricklaying, refuse collectors, hairdressing, barbing, road-side

bringing equation 3 and 6 together, equilibrium will be attained in the employment generation between the informal and formal sector in Nigeria.

\[
\frac{\delta E_{G_f}}{\delta W_f/W_{inf}} = \frac{\delta E_{G_{inf}}}{\delta W_f/W_{inf}} \quad (7)
\]

To determine and maintain employment level between formal and informal sector that would be beneficial to both sector. The equilibrium between the sectors on employment generation will be determined by superimposing supply side on demand side. i.e. fig 1 on fig 2.
mechanic etc in the major cities in Nigeria. This results to EG$_2$ employment level in the informal sector. This analysis is a dynamic in nature, as there is higher wages in the formal sectors and leads to increase in the clientele of the informal sectors participant, the employer in the formal sector cannot just reduce the wage as a result in order to minimise cost of operation they will absorb less employee and retrench some, this will lead to reduction in the informal sector employment level to EG$_1$ and will have effect in the expansion of the employment in the informal sector as those that are retrenched will also join and establish business in the informal sector. This is the prevailing scenario in the informal sector employment generation in Nigeria.

4. DATA ANALYSIS AND PRESENTATION

4.1 Analysis of Employment Generation in the Informal Sector

The analysis here take the quantitative dimension and purely descriptive statistics to present what the employment generation in the informal sector portrays.

Distribution of Informal Sector’s workers by State

Distributions of Informal Sector (Micro Enterprise) Workers by State, 54,643,676 persons were reported to be workers engaged in informal sector businesses. State distribution, according to table below, showed that Kano state had the highest employment of informal sector workers (3,530,891), and followed by Rivers (3,348,571) and Jigawa (3,262,894). Cross River and Delta had the least employment in the informal sector with 220,623 and 245,355 workers respectively.

FIG.: 4.1

SOURCE: NBS: constructed by authors
Household Distribution of Employed of Person by State

48,533,319 persons were reported to be engaged in one or of economic activity or the other as shown in table 2 below. The distribution of the total persons working as at the time of the survey showed that agriculture, forestry and fishing sector had the highest number of persons employed with 14,837,693 followed by wholesale and retail trade sector with 12,097,189; manufacturing (5,337,000) and other service activities (3,471,702). Mining and quarrying recorded the least employment figure (146,488) at the household. This is graphically depicted below:

FIG. 4.2

SOURCE: NBS; AUTHOR

Distribution of Total Persons in Different Productive Sectors

Pie diagram below clearly depicts the information of the proportion of people in different sectors. Agriculture, forestry and farming has the highest number of people in the informal sector with the number of employed of 14,837,693 of the percentage of 30.5%. The wholesale and retail trade has the next higher participants with the 12,097,189 with the 24.9% of the whole. Manufacturing sector has the third largest participants with 5,337,000 which carried 11% of the total participants. Other Service Activities with the participants number of 3,471,702 which carry 7.1% of the informal sectors participants. The Accommodation and Food Services take the next highest number of participants with 2,730,308 which bear 5.6% of the informal sector workers. Transportation & Storage and Education are with total participants of 2,009,183 and 1,557,665 of the 4.1% and 3.2% respectively. Construction sector has total participants of 2.4%. It is important we emphasize that agriculture, Wholesale
& retail trade, manufacturing, other services, accommodation, with transport, education and construction take 88% of the informal sector participants. This is graphically presented below:

Fig. 4.3

Disaggregation of Category of Workers

Decomposition of the informal sector into different categories of workers are proprietors active participant in business which is 56% of the total category of workers. Unpaid workers bear 22% of the total disaggregated population of informal sector workers. Apprentice workers and casual workers has 11% and 11% respectively. This is shown in fig 4.4 below:
5. PROBLEMS, PROSPECTS AND EMPLOYMENT GENERATION POLICIES MEASURES OF INFORMAL SECTOR.

It is an indisputable fact that the informal sector plays significant role on employment generation as this is clearly depicted in the analysis above. Considering the larger section of population that rely on it as the sole means of their livelihood it is not an overstatement to say that hardly can any third world countries survive without it. The sector is also beleaguered with some challenges which might hinder its employment generation capacity. These challenges will be slightly looked into as follows:

The low incomes accruing to the participants of the sector that are also employer of labours impinge on the ability of the proprietors to engage more hands. The low incomes in this sector are resulting from other factors that would be analysed as this study progresses.

as a corollary to the above, inability of the informal sector participants to access loan or mean of funding also contributes to its limitation to its employment capacity. Take for instant an apprentice/technician that required fund to acquire his or her work tools and equipments and such is unable to access funding to float his or her business; definitely, such will be forced out of employment.

The low skills and low level of education that characterise the informal sector due to their inability to benefit from modern education and skill development is a matter of concerns. This also denied them the ability to cope with modern technology that can improve their productivity, hence, increase their ability to engage more hands.
The trade policies of liberalisation and others that have turned Nigeria to a dumping place, where
developed countries can bring their least cost competitive products to compete with the
output of infant industries that are yet to gain feet to compete with their international
counterpart is a threat for the sector’s employment generation capacity. Imported apparels
from abroad have reduced employment creation in local fashion industry; where by tailoring
activities are displaced.

The prospect of informal sector in the provision of employment and alleviating poverty in
LDCs country like Nigeria is a reality. The sector relieves the formal sector from the
responsibility of accommodating fast growing labour force in the country.

The sector provides employment for over 48 million Nigerians. It also provides and serves as
holding grounds for people awaiting entrance into the formal sector.

The informal sector’s productivity contributes immensely to the economic growth that will in
turn generate employment opportunity. Michael & Stephen (2006) pointed out that as a result
of its low capital intensity; only a fraction of the capital needed in the formal sector is
required to employ a worker in the informal sector.

The sector tendencies to adopt and employed local appropriate technologies and allowing for
more efficient allocation of resources which would in turn promote employment generation.

Informal sector employment generation can be provided by putting in place the following
helpful policies:

The governments through the banks like microfinance and commercial banks should make
policies that will promote credit delivering to this promising sector in order to promote their
effective and efficient productivity and stimulate employment generation capacity of the
sector.

Land and Premises (resources) facilitation for informal sector participants should be
enhanced by the government activities. This will go a long way in increasing productivity
and output expansion of the informal sectors.

Another giant stride that can be taken by government is the establishment of elementary and
intermediate technical and vocational training institutes for the purpose of improving the
skills of informal sectors participants and exposing them to the modern technology
development. The training, in this sense will enhance their productivity technological
advancement, output expansion and finally employment generation.

Government should through reliable policies protect this feeble sector from the parasitic
influence of dumping the product of advanced nations with very low cost of production.

Promotion of inter linkage effects between agriculture and other sectors of the economy. This
will have the ultimate effect of the formal sectors or industrialised sectors to rely on the small
scale enterprises for sourcing their input. This will generally create expansion of output and
promote employment generation.
6. **Concluding Remarks**

Having achieved the objectives of this study, examination of the role of informal sector in employment generation, it is clearly revealed that this sector of the economy cannot be relegated to the background by any ambitious economy that has poverty alleviation and promotion of socio-economic growth of his citizenry as the watchword. More so, the nation like Nigeria can formulate and establish sound economic policies having in mind to involve the informal sector as an agent of change and promotion of the socio-economic development of the nation. This sector can play a significant role in achieving the targets enunciated by Millennium Development Goals; its local version, National Economic Empowerment Development Strategies and President Jonathan’s National Transformation Agenda if the sector is properly integrated into the economic planning of the nation.
REFERENCES


