HARNESSING THE POTENTIALS OF THE INFORMAL SECTOR FOR SUSTAINABLE DEVELOPMENT – LESSONS FROM NIGERIA

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Abstract

The informal sector plays a very important role in the development of the economies of nation. In Africa, the majority of the informal sector organisations are involved in small businesses and social services that are vital to economic development. Apart from laying the foundation for promoting the evolution of large firms that ultimately dominate the formal sector, it also provides employment opportunities in both rural and urban settings. Indeed, against the strong economic storm that pervades the economic landscape of most African Countries, the informal sector stood its ground. Evidence abound indicating that the informal sector has been providing refuge for the army of workers laid off from and for many still employed in the formal sector by providing employment and avenue for earning additional income thereby ameliorating their declining standard of living. This paper is an assessment of the role and performance of this sector. After reviewing some concrete issues with specific reference to Nigeria, the paper offers some recommendations for policy makers and the future.
INTRODUCTION

The importance of the informal sector can be situated within the context of the remark of the former Head of State of Nigeria, Ibrahim Babangida in 1991, at the height of the SAP crises. He posited thus “...the Nigeria economy has defied all known economic prescriptions, yet it has not collapsed. The reason for the non collapse of the economy is not fetched. It is the sustaining power and ‘ability’ of the neglected informal sector.

Indeed, the commercial landscape of Africa is littered with mosaics of these unregulated enterprises which slowly but firmly support the economy of member countries with the dexterity and flexibility of an octopus. It is a sector whose activitism has crystallized into an indispensable partner which is increasingly referred to as the underground Economy (Daodu, 2001).

With specific reference to Nigeria, the various economic reforms embarked upon since the 1980's by various government have yielded no positive result, especially in the area of balance of payment deficits, high and increasing unemployment rate, galloping inflation, high debt overhang, high poverty rate and general slump in the standard of living. Against those backdrops one can posit that the formal sector has failed in its attempt at steering the economy of the nation forward.

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**CONCEPTUAL FRAMEWORK**

**Definition of Informal Sector Enterprises**

Many authors and researchers contextualise the informal sector within the framework of small scale ventures. And there has been no one definition that holds the allegiance of all stake-holders; economists, operators, government and donors. However, the lack of a universally agreed-upon definition does not imply that the term is indefinable or that it is a simple concept that admits of no further definition and therefore must be accepted without enquiry.

The term informal simply means free of conventional forms or restrictions. While sector, connotes a distinct part of an economy. Given the foregoing, the informal sector can be defined as follows:

The Dictionary of Modern Economics (1987) defined informal sector as the large volume of self employed in developing countries who are engaged in small scale labor-intensive work. These people are often regarded as unemployed or underemployed.

Ajakaiye and Akerele (1995) postulated that an entity may operate some form of government laws but still be an informal enterprise. They simply put it as a production unit that is operating without official regulations to govern its behaviour in the input and output market as well as units production process is unambiguously an
informal production unit.

Ajakaiye and Akerele therefore, posited that two possibilities may exist for an enterprise operating under certain official regulations. The first is for the level of binding official regulations not to compel the installation of a set of rules to govern its behaviours in all markets as well as in its production process. Such enterprises are informal regardless of whether or not it autonomously imposes regulations on its operations. Example of this class of regulations is enterprises operating with simple licenses, permits, registered business names and registered premises.

Similarly, UNECA/AAPAM (1990) consider informal sector to mean small scale income-generating activities that are not registered under law, do not comply with legislated standards of quality, minimum pay and safety, and more often than not, do not pay taxes.

Amins (1987) definition of the informal sector is akin to that of the ILO. By his definition, the informal sector includes enterprises that have in common, one major and dominant attribute – the absence of official status. In other words, enterprises and individuals in the informal sector operate outside the incentive or social security offered by the State and its institutions. To the World Bank, the ‘informal’ sector is almost the “illegal” sector and contains most micro-enterprises which escape government regulations and pay taxes.

However, it would appear, from existing literature that the most frequently adopted definition comes from the ILO (1976) which defines informal sector enterprises as those that employ a handful of workers, who earn low income, utilize rudimentary or subsistence technology and operate outside the boundaries of
government regulations governing business in general.

The informal sector in Africa has its roots in traditional arts and crafts and rural production, a phenomenon that goes back to the colonial period. Broadly, informal sector activities traversed the following: Hawking, street vending, retail trading of all sorts, repairs and maintenance works of all types, carpentry, small scale artisan, personality and beauty care activities, fashion design, etc. One can say without prejudice that the informal sector is dominated by a large number of small scale production and service activities that are sole proprietors, partnerships, co-operatives, and even private limited liability companies.

**Sustainable Development (SD)**

The term sustainable development was brought into common usage by the World Commission on Environment and Development (The Bruntland Commission) in 1987. Sustainable Development calls for development that “meets the need of present generation without compromising the needs of future generations. (Finance and Development, December, 1983, page 7).

The tripod objectives of Sustainable Development:

(i) Economic objectives (Growth; Equity and Efficiency);

(ii) Social objectives (Empowerment; Participation; Social Mobility; Social Cohesion; Cultural Identity; Institutional Development);

(iii) Ecological objectives (Ecosystem Integrity; Carrying Capacity; Biodiversity; Global Issues).

Sustainable Development could be regarded as a process of change in which the exploitation of resources, the direction of investment, the orientation of
technological Development, and institutional change are all in harmony and enhance both current and future potential to meet human needs and aspirations.

Sustainability stresses the importance of participation as a means to sustain the development process and to ensure a more equitable distribution of benefits created by development initiatives. Its main focus is the utilization of national resources (physical and human) to:

(i) Meet the countrys need;
(ii) achieve sustainable livelihood system in a given community;
(iii) eliminates poverty;
(iv) maintain the physical and human environment for the present as well as succeeding generations of members of the community, and above all
(v) Achieve global inclusion by ensuring the mobilization of the participation of all members of the community in the development process as well as equitable distribution of benefits produced.

CHARACTERISTICS OF THE INFORMAL SECTOR

Policy and regulatory constraints have restrictive effect on the production potentials of micro and small scale enterprises (MSE’s). Thus MSE’s have remained largely informal which, though allowing them to escape such burdensome regulations as taxation, labour legislation, entry and exit restrictions, curtails their access to finance, steady input resources and markets information and technology. Internal constraints are also a factor, since entrepreneurs, managers and workers often lack the key skills necessary to modernise (page 18 World Bank Discussion
The informal sector operations are more likely to be owned and managed by a single person; major decisions can be made directly and promptly. They have a more intimate feel for the changing needs of their customers in serving local markets. They concentrate in relatively labour intensive businesses, create more employment opportunities, and effect a more equitable income distribution, while also supporting increases in productivity (Stanley and Morse 1965; Steel and Takayi 1983; Spela Webstar 1981). They help the entrepreneurial base flourish among diverse ethnic groups and regions and among relatively low income people in rural areas because they are typically found throughout the country. (Abate 1980, Sandsara 1989, World Bank 1991.

According to Dr. (Mrs.) Shekera Khan Journals of Pakistan Administrative Staff College Vol.xxii Jan-June 1985 No.1; In Pakistan the characteristics include:

(i) ease of entry;
(ii) reliance on indigenous resources;
(iii) family ownership of enterprises;
(iv) small scale of operations and adapted technology;
(v) skills are acquired outside the formal sector education system and
(vi) unregulated and competitive markets; and
(vii) Largely having little access to government services.

According to the Research Report No.1 1988 by Development Policy Center pg.23, the informal sector possesses certain characteristics which set it apart from the formal sector. It is important to have a clear understanding of those distinguishing
characteristics in order to formulate policies and programmes to guide the growth and development of the sector. Some of these characteristics are size; age; ownership; registration status; investment and income; major consumer of products and services; sources of finance; location of enterprises; gender educational attainment and job history.

**Size and Control**

In their report on The Informal Sector in Nigeria’s Development Process, undertaken for the Development Policy Center, Arimah and Jerome (1998) contextualise the size and composition of the Informal Sector. They hold that during the early stages of economic development, the informal sector tends to be poorly developed and employment is usually in the informal sector. The size of the informal sector can consequently be expected to be large in many Third World countries. They identified factors that could contribute to this large size to include high rural-urban migration, lack of skills by majority of the migrants, etc. Also the slow pace of development and investment mean little job opportunity in the formal sector. Coupled with these is mismanagement of the economy with its attendant effect of retrenchment. These factors have resulted in an excessively large informal sector.

With regard to the composition of the sector, Abumere, et al sees this in terms of the age of the sector enterprises, ownership and registration status and investment and income. On age, they reported that relatively few informal enterprises existed in Nigeria before 1981; only 4.5% of them were in existence
before 1970 and about 16.4% up to 1980. Phenomenal growth occurred after 1981 with the mid-1980s to-date witnessing a proliferation of informal enterprises.

The explanation for the growth of the informal sector is the structural adjustment programme which produced an army of unemployed labour that has been and is being absorbed by the informal sector.

On ownership, the general picture in Nigeria is that about 83.4% are individually owned. From the report of Abumere, et al this varies across the cities with Nnewi displaying a sole ownership rate of 98.5% while Aba has a rate of 57.3%. For the other cities, sole ownership rates of at least 80% are commonplace. Forms of ownership such as partnerships, cooperatives and limited liability are either negligible or non-existent. Abumere, et al also found that altogether; about 50% of the enterprises are registered in one form or other with government. The figures range from 89.4% for Suleja to 91% for Nnewi. As for registration with appropriate unions, about 54% of these are affiliated to one union or the other. The figure range from 14.7% in Kano to 79.4% in Nnewi.

Investment and Income also represent an indication of how well informal sector enterprises are doing. The study by Abumere and others shows that the bulk of investment lies between 10,000 and 100,000. Very few informal entrepreneurs have annual income in-excess of 500,00. For the entire sample, this group constitutes 6.9% . The only notable exception occurs in Aba with 13,8%. For the cities of Ibadan, Kano, Lagos, Nnewi and Suleja, this group constitutes just 3.0%, 1.7^%, 1.3%, 5% and 0.8% respectively. This is further indication of the low capitalization associated with the informal sector.
Socio-economic Importance

The informal sector attracted tremendous interest from many interest groups, academics, researchers, economists, governments and institutions. The increasing interest is in recognition that not only does the sector provide employment for a considerable proportion of the labour force, but with the virtual collapse of the formal sector in the country as in several other countries of the world, it is this sector that had kept the economy going. The Economist, in 1984, estimated that the informal sector provided work for at least 80% of the workforce in Zaire and 75% in Morocco and Nigeria. The contributions of the sector to income and productivity are equally considerable.

The size of the informal sector is, thus, a direct measure of the failure of socio-economic policies. It is also a stage of development phenomenon. In the SAP years, for example, the informal sector would appear to have taken up the challenge admirably. For instance, with the massive devaluation of the Nigerian currency, following the inception of SAP in 1987, many Nigerians found it difficult, if not impossible, to buy new vehicles. The task of keeping aged vehicles on the road has fallen heavily on the local mechanics that seem to be coping admirably. Similarly, tailors and local fashion designers have performed excellently with respect to the market for clothing and garments of various types. Indeed, in Nnewi, Aba and Awka in Eastern Nigeria (now South-East), motor spare parts, such as plugs, contract sets, bolts and nuts, etc. as well as shoes and some electrical applications are made in the informal sector. Thus, the opportunities for this type of local entrepreneurship was greatly enhance by SAP.
Simultaneous with the down-sizing in both the public and private sectors following the inception of SAP, was the dramatic rise in the number of graduates from primary, secondary and tertiary institutions. With little and diminishing employment opportunities in the formal sector, many of these new graduates looked to the informal sector for jobs. As ILO in its World Employment Report (1995:92) reported, the falling formal-sector employment since the 1980s has witnessed corresponding growth in the informal sector employment. Thus, the sector is serving as a source of subsistence income during recessions.

During the SAP years, incomes earned by both public and organised private sector workers were so low that many of the workers, while keeping their jobs in the formal sector, turned to the informal sector for survival as petty farmers, traders, tailors, cab drivers, hairdressers, petty consultants, etc. Indeed, many earn more in the informal sector than they do in the formal sector.

The informal sector has also been very supportive of the formal sector. Abumere (1978, 1980), Helliner (1986) and Logan (1972) emphasize that not only do many farmers in the traditional sector produce for the modern sector and even for export, but that links between the formal and informal sectors are even more striking.

**Constraints to Development**

(i) Non-availability of policy and institutional support;

(ii) Inadequate exposure to capacity building;

(iii) Non (or limited ) access to micro-credit
(iv) Reliance on self help type organisation
(v) Poor management and operational capacity.

With respect to Access to Micro-credit, the following are the constraints to informal sector borrowing:

(i) Riskiness of lending because of:
   (a) poor management
   (b) High rate of business failure.
(ii) High Administrative cost;
(iii) Low productivity;
(iv) Under capitalization;
(v) Shortage of skills;
(vi) Poor Attitudes of the loanees;
(vii) Aversion to disclosure of information;
(viii) Inadequate infrastructure;
(ix) Lending Requirements which often include:
   (a) Collateral .....;
   (b) Registration as a limited liability company;
   (c) Submission of feasibility studies.

Focus of Governmental support

What could be termed support policies for the informal sector in Nigeria were designed to cater for Small Scale Industries, though such policies influence the
informal sector activities can be categorized into three broad groups:

(i) Credit Policies and Strategies;

(ii) Managerial/Technical Training;

(iii) Creating Enabling Environment.

(i) Credit Polices and Strategies

Having realized that finance is the major back-bone of the economic enterprise, the Federal Government of Nigeria has since 1970 been formulating supporting credit policies. A few of these policies are:

(a) Small Scale Credit Scheme (SSIC) - 1970-80
(b) People’s Bank - 1989
(c) Community Banks – 1990

(ii) Management/Technical Training

Management and technical training are necessary for the development of Small Scale Industries and indeed the informal sector, Agencies that provides these services/training includes:

(a) National Directorate of Employment(NDE) – 1987
(b) Industrial Development Centers;
(c) Mature People’s Scheme;
(d) Entrepreneurship Development Programmes (EDP’s);
Various Management Development Institute such as ASCON, CMD, ITF etc.

(iii) **Creating Enabling Environment**

For Small Scale Industries, infrastructure facilities such as electricity, water, transport and roads are a sine-qua-non. Lack of these basic amenities has crippled many businesses in Nigeria, including Small Scale Enterprises and informal sector activities. This led to the creation of such agencies as:

(i) National Directorate of Food, Road and Rural Infrastructure (DFFRI);

(ii) MAMSER;

(iii) NERFUND etc.;

(iv) Establishment of Industrial Estate

As maintained earlier on, these interventions were not directly targeted at the informal sector. Indeed, it was not until 1999, that specific support for informal sector activities came into focus in the national plan, the objectives being to expand income earning opportunities for the urban poor engaged in the informal activities.

The implication in the urban focus intervention is that majority of the informal sector operators who are predominantly in the rural areas were left out.

**CHALLENGES AND PROSPECTS OF THE INFORMAL SECTOR IN NIGERIA**
As other studies have shown, the informal sector is faced with many problems, ranging from poor infrastructure facilities, low patronage, low capital base, high interest rate and lack of training. These problems are responsible for retarding the growth and development of the informal sector.

Based on the findings of the survey conducted by WAMDEVIN as shown in table 1 below, the most important problem faced by the informal sector is low patronage. Two hundred and ninety-eight (298) respondents indicated this as the most important problem confronting them. The second important problem is the erratic or irregular power supply which affects production. Two hundred and twenty-nine (229) respondents confirmed this as a major problem. Another major problem that was ranked third in order of importance is high transport cost while inadequate equipment, bad business location, credit sales, lack of good working environment, difficult customers, local government harassment, and poor economy are other problems militating against the informal sector operators in descending order of importance.

Table I: RANKING OF MAJOR CHALLENGES FACING THE INFORMAL SECTOR.

<table>
<thead>
<tr>
<th>S/N</th>
<th>NO. OF RESPONDENTS</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Low Patronage</td>
<td>298</td>
</tr>
<tr>
<td>B</td>
<td>Irregular Power Supply</td>
<td>229</td>
</tr>
<tr>
<td>C</td>
<td>High Transportation Cost</td>
<td>137</td>
</tr>
</tbody>
</table>
In spite of the problems facing the informal sector in Nigeria, the future prospects of the sector is not in doubt. The informal sector thrives as the unrecognized nursery of entrepreneurship. While its business mortality rate may remain high due to the problem areas enumerated above, its potentials for growth and transformation into the league of the organised sectors remain equally high.

The hardships of the informal sector characterized by deprivations on several fronts have on the one hand toughened its members, unwittingly forcing them to imbibe entrepreneurial discipline and personal commitment. Plan of the outcome of their survival in the face of insufficiencies is that the situation prepares them to respond better to opportunities and remedial measures. Therein lays the future prospects of the informal sector. The enabling factors that will enhance the prospects of the informal sector in Nigeria are as shown in Table II below.

Table II: Solutions

<table>
<thead>
<tr>
<th>S/N</th>
<th>NO. OF RESPONDENTS</th>
<th>RANK</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>D</td>
<td>Inadequate Equipment</td>
<td>93</td>
<td>4</td>
</tr>
<tr>
<td>E</td>
<td>Bad Business Location</td>
<td>80</td>
<td>5</td>
</tr>
<tr>
<td>F</td>
<td>Credit Sales</td>
<td>80</td>
<td>6</td>
</tr>
<tr>
<td>G</td>
<td>Lack of Good Working Environment</td>
<td>79</td>
<td>7</td>
</tr>
<tr>
<td>H</td>
<td>Difficult Customers</td>
<td>75</td>
<td>8</td>
</tr>
<tr>
<td>I</td>
<td>Local Government Harassment</td>
<td>67</td>
<td>9</td>
</tr>
<tr>
<td>J</td>
<td>Poor Economy</td>
<td>67</td>
<td>10</td>
</tr>
</tbody>
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16
<table>
<thead>
<tr>
<th></th>
<th>Provision of Financial Assistance</th>
<th>333</th>
<th>1</th>
<th>24.8</th>
</tr>
</thead>
<tbody>
<tr>
<td>b</td>
<td>Availability of Loan Facilities</td>
<td>229</td>
<td>2</td>
<td>17.0</td>
</tr>
<tr>
<td>c</td>
<td>Improved Power Supply</td>
<td>162</td>
<td>3</td>
<td>12.0</td>
</tr>
<tr>
<td>d</td>
<td>Improved Economy</td>
<td>115</td>
<td>4</td>
<td>8.6</td>
</tr>
<tr>
<td>e</td>
<td>More Collaterals</td>
<td>97</td>
<td>5</td>
<td>7.2</td>
</tr>
<tr>
<td>f</td>
<td>Improved Patronage</td>
<td>88</td>
<td>6</td>
<td>6.5</td>
</tr>
<tr>
<td>G</td>
<td>Regular Fuel Supply</td>
<td>86</td>
<td>7</td>
<td>6.4</td>
</tr>
<tr>
<td>h</td>
<td>Improved Transport Cost</td>
<td>83</td>
<td>8</td>
<td>6.1</td>
</tr>
<tr>
<td>i</td>
<td>Better Working Location</td>
<td>79</td>
<td>9</td>
<td>5.9</td>
</tr>
<tr>
<td>j</td>
<td>Reduced Cost of Raw Materials</td>
<td>74</td>
<td>10</td>
<td>5.5</td>
</tr>
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</table>

In this analysis, the four most pertinent areas identified are: Provision of Financial Assistance; Availability of Loan Facilities; Improved Power Supply (Infrastructure) and Improved Patronage.

**CONCLUDING COMMENTS AND RECOMMENDATIONS**

The need to harness the potentials of the informal sector in development at this point in time in the history of the Africa cannot be overemphasized. In this respect therefore, the following recommendations become imperative:

(i) **Mainstreaming of Informal Sector:** Deliberate attempt should be made to incorporate
the informal sector into the main stream economy by

(ii) Deliberate study of the sector at country and regional levels should be undertaken inorder to develop a reasonable data base on which sector specific policies could be designed and implemented

(iii) Concerted efforts should be made to eliminate the various restrictions militating against maximum performance of the sector. If need be, deliberate reviews of various WTO and other bilateral agreements should be embarked upon, with the objective of expanding the operating frontiers of the sector

(iv) Public and Private financial institutions should be encouraged to grant the sector access to loanable funds on flexible terms to reflect their distinct characteristics.

(v) It has been demonstrated that entrepreneurship can be developed through training and planned efforts. Since training has emerged as a powerful intervention for accelerating the process of entrepreneurship development in the developing world, it is suggested that it should be attempted with all seriousness with the aim of standardizing skills and knowledge.

(vi) Provision of modern market structures. To make it cost effective and affordable to the target beneficiaries, the use of local building materials and simple design should be considered.

(vii) There is the need for deliberate infrastructure development, expansion and maintenance programme in order to open up the vast rural areas where majority of the informal sector operators reside.

(viii) Intensification of capacity building initiatives targeted at the sector. Such capacity effort should be geared towards skills improvement and basic business
management knowledge.

In order to realize its full benefits, training should not be attempted as isolated effort/event. It must be preceded by identification/selection of potential entrepreneurs and followed by sustained support activities.

(ix) Given that majority of the informal sector operators are women, special consideration should be accorded them to ensure that their peculiar interest and characteristics are taken into consideration.

(x) Partnership with donor agencies focusing on capacity building requirements (technical and managerial) should be pursued as part of the NEPAD initiative.

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