

International Journal of
Economic Policy
(IJECP)

**INFORMAL ECONOMY SECTOR AS A CATALYST FOR
NIGERIAN ECONOMY DEVELOPMENT AND
SUSTAINABILITY: A REVIEW**



CARI
Journals

INFORMAL ECONOMY SECTOR AS A CATALYST FOR NIGERIAN ECONOMY DEVELOPMENT AND SUSTAINABILITY: A REVIEW

BALOGUN, Michael Adelakun

Department of Sociology, Faculty of Social Sciences

Federal University Dutsin-Ma, Katsina State, Nigeria.

snazzy700uk@yahoo.com

Abstract

Purpose: The informal economy is a major part of the global economy sector that provides the needed development approach through the use of local aspects, small market size and social capital generated by the sector for sustainability. This paper assessed the impacts or important of the informal sector on the economy development of Nigerian and its challenges for sustainability.

Methodology: The Max Weber and Dudley Seers social developmental theory were used to explain the study, while some importance and challenges of the sector were explored.

Results: The paper therefore concluded that since informal economy sector can help to reduce the focus from globalized to the local alternative path of development and sustainable future.

Unique Contribution to Theory, Policy and Practice: The study recommends amongst other that efforts must made to understand the dynamics of the sector and how best to tap the potential that lies therein since it has the potential for Nigerian economy development. Secondly, policy to support the sector and to address the identified challenges towards improving, sustainability and productivity of the sector should made possible in Nigeria

Keywords: *Informal economy, catalyst, Nigerian economy, development and sustainability*

INTRODUCTION

Globally, informal economy activities are significant and remain integral part of both developed and developing nations. This incorporates activities that are structured within informal institutional boundaries or unregulated economy that produces goods and services. It includes economic activities such as street trade, agriculture (subsistence farmers), small scale manufacturers, hairdressers, private taxi drivers, carpenters and others related businesses.

Informal economies do not have a single common definition but the broadest covers any economic activity or source of income that does not subject to government regulation, taxation or observation (Burger & Fourie, 2018; Glinskaya, 2018). Therefore, it covers a wide range of activities that are not included in national accounts as mentioned above, such as subsistence farming, small-scale enterprises and many others. These usually serve as a key provider of opportunities and the important form of production and income to the populace.

The workers in the informal economy sector accounting over 85 per cent of employment nationwide (Chambwera, MacGregor and Baker, 2011). In 1988 for instance, the 15 countries that formed part of the EU increased in their informal sector from 25 to 33 percent in 1995 and also in US was increased significantly as at early 1980s. In 1990s, Swaziland's urban informal economy sector contributed 22% to national employment. Nevertheless, developing country shows high growth and increase in the informal sectors. In sub-Saharan African, labour force of 227 million was working in the informal economy sectors as at 1990 and in 1998, 40 to 60 percent of urban employment was estimated from the sectors (Chambwera et al, 2011; ILO, 2018; Vanek, Chen, Carre, Heinz & Hussmanns, 2018).

In Kenya for example, it grew at the rate of 9 percent in 1990 to 16.1 percent in 1994 and in Swaziland, urban informal sector accounted for 10 percent of national employment in year 1990. Thus, it grew at an average annual rate of 15 percent and with the decline in the formal employment annually. Hence, informal sectors contributed to the global economy and sustainable development. The sector accounted for over half of global employment especially in some of the poorer developing countries at the estimate of 1.8 billion when compared with 1.2 billion of the formal sectors (Chambwera et al, 2011; Glinskaya, 2018). Therefore, the paper assessed the contribution or importance of informal economy sector to the Nigerian economic development and sustainability and its challenges.

Overview of the Informal Economics Sector

Informal economy becomes a viable option due to the increased in unemployment, underemployment, low inflow of capital, and lack of social benefits (Balogun & Iduemre, 2019; Skinner, 2018). The sector serves as a medium where unemployed become economically active to earn a living, though its policies especially in sub-Sahara Africa are inappropriate as it experiences neglect and underdevelopment (Cichello & Rogan, 2017). In some part of the world where a lot of factors responsible for the inability of majority and/or the authorities to provide or cater for individuals especially in Nigeria, the sector made them to becomes

economically active for survival (Galdinoa, Kiggundu, Jones & Ro, 2018; Fasanya & Onakoya, 2012).

Since, informal economy sector comprises of economic activity that does not maintain a complete set of accounts with government, there are common misconception that the sector comprises of illegal activities. The informal economy sector has been described as a survival activity for the masses which also known as medium or strategy for individuals to cope with economy crisis (Ozili, 2018; IMF,2017). Hence, any countries that aimed to achieve economic stability, low unemployment, low inflation and balanced of payment equilibrium and the internal problems of hunger and insecurity unrest to translate to the well-being of her people in the quality of life must have the country's goals and objectives at heart in the informal sector.

Nigeria have experienced economic growth over the years but not reflect in the quality of life of the people, for instance, the economic growth increased from -1.6% in 2016 to 0.8% in 2017, and 1.9% in 2018, and it increased in 2019 to 2.29%, which indicated the most increased growth since 2015 (Impalure & Dore, 2020). Yet, the citizens are still experiencing low quality of life because poverty, unemployment and inequality are increasing every day. For instance, according to them, Nigeria overtook India as the leading country with population of 86.9 million people living in extreme poverty

This indicates 46.4% of the total estimated population of 195.6 million. Also in 2019, there was an increased to 93.7 million in the first quarter of 2020, and further increased to 95.9 million people living in extreme poverty. That is both figures of the first quarter of 2019 and 2020 constitute 48% of the total population of Nigeria in the respective years (Impalure & Dore, 2020). Hence, Nigeria informal sector constitutes a significant segment in the Nigerian economy development but was not properly harness as it has the capacity to reduce poverty, unemployment and inequality in the country.

According to Nnabuife et al (2020), the informal sector is the highest in sub-Saharan Africa that has the share of the urban labor force and accounts for more than 50% of urban employment in the two thirds of countries surveyed. It simply means that informal activities in the sector are important in many African countries and in developing countries such as Nigeria. This indicate that more than 61% of the world's active population works in the informal sector, with 85.8% of employment in Africa in the informal sector and more than 65% of the active population in Nigeria belongs to the informal sector.

To them, Nigeria informal sector has contributed to the development of the economy in terms of job creation, capital and mobilization, efficiency, links with other sectors, use of local technology training for entrepreneurs (Balogun & Iduemre, 2019; Rivera-Santos, Holt, Littlewood & Koik, 2015). The informal sector constitutes a significant segment of the Nigerian economy.

Importance of informal sector in Nigerian economy development

According to Etim and Daramola (2020), the informal sector especially within sub-Saharan Africa contributed about 20% in South Africa, Lesotho, Namibia to 60% in Nigeria, Tanzania,

Benin to the national gross domestic products. Thus, Nigerian Informal Sector plays a huge role in Nigerian economy, accounting for a significant portion of employment and national GDP (Fasanya & Onakoya, 2012). In IMF (2017), the Nigerian informal sector accounted for 65% of Nigeria's Gross Domestic Product (GDP).

Hence, it provides employment and wages for survival. The fast growing view is that informal economy offers significant job creation and income generation potential, as well as the capacity to meet the needs of poor consumers by providing cheaper and more accessible goods and services in Nigeria (BOI, 2018; Ogunde, 2019), especially for workers and the informal micro-entrepreneurs operators at the survival level (Ikeji, Akomolafe & Onuba, 2016). Therefore, with the significant contribution of informal sector to the Nigerian economy, the notion of economic development in the country is hugely depends on the sector because the sustainable economic development and job creation may not be achieved unless the potential and needs of the sector be carefully considered.

In view of these, the informal employment continues the most viable option to workers amongst others things because it had contributed greatly to the economy and sustainable development with the use of local technology, capital management and efficiency (Balogun, 2020; IMF, 2020; Klapper & Singer, 2015), it is then a vital route to achieve the millennium development goals of eradicating extreme poverty and hunger, equality and empowerment in Nigeria.

Therefore, whatsoever produces in the sectors have a dramatic impact on the sustainability of the nations and in many ways perform more and better in the formal sector (Ruzek, 2015; Sallah, 2016). One of the advantages of the sector in this hard time of Covid-19 experience in Nigeria is that the local farmers' marketers encouraged millions of people in the cheapest way to cussing the pressure of living (Nnabuife, Okoli & Anugwu, 2020). Therefore, informal economic are of economic necessity especially in developing state and should be directed focus to flourished.

Therefore, the important of the sector are far enormous and entails more aspects than what mentioned to keep adjust to changing demands of market/goods and needed social capital, social interaction and increase to the populace.

Informal Sector and It's Challenges in Nigeria

Despite the huge importance of the economy activities in the sector, the developmental and environmental problems are alarming. It ranges from financial, managerial, marketing, incentives, technological, training, lack of basic physical infrastructure, raw materials and many more (Balogun & Osagie, 2020; Balogun & Orukotan, 2019; Farinmade & Anyankora, 2012).

The nature and type of environment is the determine factor and it crucial to ensure sustainability of the informal economy. In creating supportive measure, environmental actors can help improve the efficiency and values of the sector because most of their activities in developing countries especially in Nigeria are experience underdevelopment of one challenge and the other (Farinmade & Anyankora, 2012; Ikeji et al, 2016).

For instance, many of rural supplies of small-scale enterprises with the raw material mainly depend on subsistence livelihoods such as forests and other environmental services that have linkages with its use by individuals. Meanwhile, despite its contribution to the economic development from trade and forest products such as timber, medicine, fruit, wildlife, honey and many more, the sector still lack and mostly challenged or vulnerable to environmental degradation, climate change that affect its activities and many indecent challenges in Nigeria (Tamunomiebi & Ukachukwu, 2018; Farinmade & Anyankora, 2012). Unlike most country that pays attention to their informal economy sector, Namibia, for instance, made direct contribution of N\$1 billion equal to 3 per cent of GNP from forestry (Chambwera et al, 2011). That is, Contributions came from informal economic activity trading and the consumption of thatch, timber and other forest products, such as wildlife, medicine, fruit and honey

However, in Nigeria, informal economy has a weak voice in developmental policy. In Ghana for example, their informal economy known to be experience underemployment, low productivity and low incomes, but Ghana therefore inaugurated the National Secretariat of the Informal Economy Project in 2010. This aims to enhance the recognition of the sector, acknowledge the role and efforts of the informal labourer, build capacity, introduce micro-credit schemes, improve dialogue and flexibility in the labour market, and educate workers (Mahadea & Zogli, 2018).

Ironically, in Nigeria, they tend to have a lower level of labour organization as well as poor management with lack of access to public benefits. These and many others challenges label the sector to be highly vulnerable, less productive and abuse. Though, some time, there have been attempts to improve the interest of the workers in the informal sector but most time recorded little success because those at formal sector and corrupt individuals ended-up taking the advantage of the benefits (BOI, 2018; Ikeiji, et al, 2016).

Hence, social challenges have been barriers to the efficiencies of informal economy practitioners in Nigeria as more than 60 percent of world employed population are in the informal economy (ILO, 2018). Thus, many informal enterprises had deprived access to credit as well as lack of market information, infrastructure, and weak legal system. Instead of reducing this abnormality, it was at increased and lack of access to social protection was at its peak, the illegal businesses and crime suddenly took over against the original planed of the sector (Balogun & Iduemre, 2019; Farinmade & Anyankora, 2012).

Therefore, Nigeria likes Ethiopia, where most livestock traders have little access to credit scheme and only rely on personal efforts due to poor support, majority of the traders experienced series of losts and contract violations. With this, Nigeria always experience economic crisis due to the fact that much focus was on other sectors such as oil industries, health and many more at the detriment of the informal economy sector that have the capacity or landmark in the economy development of the country if well defined (Ogunde, 2019). For instance, the 2016 financial crisis in Nigeria and the sudden and prolonged drop in oil prices almost believe to have been the most important cause of the recession in Nigeria, until 2020 when no one knew that public health crisis could trigger a new economic crisis in the country

(Nnabuife et al, 2020). This is because the economies actors in the informal sector who should have helped revive the economy were not encouraged in their economic activities. To this, informal sector will continue to leave behind a gap in Nigeria until its place is recognized.

THEORETICAL ORIENTATION

Two things came to mind when talks of economy development and sustainability of any country, that is, growth and development. Growth is simply an increase in size of phenomenon; it is usually quantitative and also unidirectional. That is, growth is towards one side. Thus development is not just quantitative but also qualitative and multidirectional. It means increases in those variables that makes life better and makes the individual to be happier. This is not far from the primary aims of the informal economy and its role.

It is crucial to know that no country experienced development with its focus and the investment only in one direction which is formal economy sector and neglects or underplay the informal sector; otherwise it would experience growth not development because there is different between them (Ruzek, 2015; Ogunde, 2019).

To sociologist, development does not only relate to qualitative increase but development stressed much on increase in the quality of life of people within a given geographical area over a period of time. That is why scholars like Max Weber, views development as a shift from one form of socio-organization to another or socio-differentiation which manifested in the form of increase in society's institutions and the various mechanisms for coping with the problem. Thus, informal economy activities is a medium in which many Nigerian are coping with their problems including the poor but there is no laudable encouragement to harness the sector

In same vein, Dudley seer social development theory has some satisfactory orientation about a country being developed and was therefore adopted in the study. He argued that the question to ask about the development of a nation must be, 1. what is happening to poverty? 2 what is happening to unemployment? 3 what is happening to inequality and? 4. What is happening to self-reliance? (Seer, 1969). His questions therefore can be melted with the demands of informal economy sector in Nigeria

To him, if 1, 2 &3 declines appreciably and 4 increases, then one could conclude that development has taken place but if 1, 2, 3 increases, but 4 did not; it is then difficult to say that there is development in a country. To seer, development is about eliminate or reduction of the level of poverty, unemployment and inequality in a nation. Development only occurred if these three variables have declined over a period of time in a nation, hence it will be strange to say there is development if one or two of these variables have been growing worse, especially if the three added; because development is something that should be seen in the lives of the people (Impalure & Dore, 2020).

Therefore, increased in the Gross Domestic Product (GDP) does not have any direct effect on quality of life of the people and the general levels of living of the masses. That is, the widespread of poverty, increasing inequality in income distribution and rising unemployment among Nigerian can be reduce or dealt with help of informal economy sector.

That is, in every nation, there are always an aspect that much more important to the development. In Nigeria for instance, informal sectors play a huge and vital role in the advancement of the economy and sustainability of the citizen even more than the formal sector. Hence, there is need for proactive strategies to harness the increase contributions of the sector in the economies development and the sustainability of Nigerian.

CONCLUSION AND RECOMMENDATIONS

In conclusion, informal economy sector help to reduce the focus from globalized to the local alternative path of development and sustainable future. Thus, the limited emphases have been made on the important and challenges of Nigeria informal economy sector for the development and sustainability of the individuals and country economy. The sector frontier with several challenges ranging from inadequacy of technology, education, markets, land and physical infrastructure, limited access to finance, and limited skills development to mention but few.

It is therefore recommended that efforts must be made to understand the dynamics of the sector and how best to tap the potential that lies therein. In this, stakeholders and government need to map out intervention strategies on how to give best to the economy activities in the sector and to effectively integrate them, since it has the potential for Nigerian economy development.

Secondly, policy to support the sector and to address the identified challenges towards improving, sustainability and productivity of the sector should make possible. In line with this, training and financial support for the sector actors or practitioners irrespective of their status must be taking care of through collaboration with government (in social security, economic empowerment; also with Bank of Industries for capacity building and enable environment for their economic activities) with the help of agencies, individuals and other cooperate bodies.

REFERENCES

- Balogun, M.A & Osagie, A (2020). Assessment of Organization Incentives in Enhancing Employees Performance in Nigeria: Obafemi Awolowo University, Ile-Ife, Osun State. *FULafia Journal of Social Sciences*, 3(1): 14-27.
- Balogun, M.A & Iduemre, O (2019). Harnessing Indigenous Technologies in its Value Chain for Economic Expansion in Nigeria: Analysis from Ondo State. *Verstehen Journal of Social Research, plateau State University*, 2(1):77-93
- Balogun, M.A & Orukotan, C.I (2019). Effects of Staff Training and its Challenges in Organisations Development: Nigerians Experiences. *Maiduguri Journal of Arts and Social Science*, 17(1): 89-103
- Bank of Industry (2018). Economic development through the Nigerian informal sector: A BOI Perspective. Research publication of the strategy and corporate transformation group, working paper series, No 2, May, 17th

- Burger, P & Fourie, F (2018). Informal sector, economic growth and the business cycle in South Africa: Integrating the sector into macroeconomic analysis. In South African Informal Sector: Creating Jobs, Reducing Poverty; HSRC Press: Cape Town, South Africa.
- Chambwera, M., MacGregor, J. & Baker, A (2011). The informal economy: A prime for development professionals on the importance of the informal economy in developing countries. International institutes for environment and development. Park communication: UK
- Cichello, P.; Rogan, M (2017). Informal Sector Employment and Poverty in South Africa: Identifying the Contributions of “Informal” Sources of Income on Aggregate Poverty Measure; Working Papers 34, Southern Africa Labour and Development Research Unit, Cape Town, South Africa.
- Seer, D (1969). The New Meaning of Development. *International development review*, 11(4)
- Etim, E & Daramola, O (2020). The informal sector & economic growth of South Africa and Nigeria: Comparative systematic review. *Journal of Open Innovation: Technology, market and complexity*, 6(34):1-26
- Farinmade A. & Anyankora M. I. (2012). The Challenges of Improving Informal Sector Activities Conditions in Lagos Island, Nigeria. *British Journal of Arts and Social Sciences*, 6(2): 218-232.
- Fasanya, I. O. & Onakoya, A. B. O. (2012). Informal Sector and Employment Generation in Nigeria: An Error Correction Model. *Research on Humanities and Social Sciences*. 2(7):48-55
- Galdinoa, K. M., Kiggundu, M. N., Jones, C. D., & Ro, S. (2018). The informal economy in pan-Africa: Review of the literature, themes, questions, and directions for Management Research. *Africa Journal of management*, 4(3)
- Glinskaya, M (2018). Analysis of the Spread of Informal Employment in Russia: Causes, Forms, Scope. *Plekhanova, Vestn. Ross. Ekon. Univ. G.V.* 4, 123–134.
- Ikeije, U. U., Akomolafe L. & Onuba C. O. (2016). The Labour Practices in the informal sector of Nigerian economy: A critical analysis. *Global Journal of Arts, Humanities and Social Sciences*, (2):6-14
- Impalure, A.D & Dore, F.A (2020). Employing the Dudley theory of development on the Nigeria economy. *International Journal of Research and Review*, 7(5):81-88

International Monetary Fund (2017). Nigeria's Informal Economy Accounts for 65% of GDP.

Available online: Businessamlive.com/nigerias-informal-economy-accounts-65-gdp-imf/, accessed on 21/12/2021

International Labour Organization (2018). Informal Economy: More than 60 percent of the World's Employed Population Are in the Informal Economy. Retrieved: https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_627189/lang-en/index.htm, accessed 22/12/2021

International Monetary Fund (2020). IMF Regional Economic Outlook: Sub-Saharan Africa: COVID-19: An Unprecedented Threat, International Monetary Fund, Washington, DC, Retrieve from <https://www.imf.org/en/Publications/REO/SSA/Issues/2020/04/01/sre>, accessed on 21/12/2021

Klapper, L., & Singer, D (2015). Role of informal financial services in Africa. *Journal of African Economies*, 24(1), 112–131

Mahadea, D.; Zogli, L.J (2018). Constraints to growth in informal sector activities and formalization: A case study of Ghanaian slums. *South African Journal of Entrepreneur Small Business Management*. 2(10): 1–9.

Nnabuife, K., Okoli, I.N & Anugwu, C.C (2020). Informal sector and Nigeria economic prospects: The Covid-19 experience. *European Journal of Business and Management Research*, 4(5):1-5

Ogunde, O. (2019). Nigeria's informal economy: A catalyst for economic growth. Retrieved from <https://businessafricaonline.com/nigeria-3/>, on 21/12/2021.

Onyemaechi, J. O (2013). Role of the informal sector in development of the Nigeria economies: Output and employment approach. *Journal of economic and development studies*, 1(1): 60-74

Ozili, P.K. (2020). Covid-19 pandemic and economic crisis: The Nigerian experience and structural causes. MPRA Paper No. 99424, 1-12. Retrieved from <https://pra.ub.uni-muenchen.de/99424/>, accessed on 20/12/2021

Rivera-Santos, M., Holt, D., Littlewood, D., & Kolk, A (2015). Social entrepreneurship in sub-Saharan Africa. *Academy of Management Perspectives*, 29(1), 72–91.

Ruzek, W (2015). Informal economy as a catalyst for sustainability. *Journal of Sustainability*, 3(7): 23-34; doi:3390/su7010023

Sallah, A. (2016). Re-reading the narrative of informal economy in the context of economic development in sub-Saharan Africa. *International Journal of Social Economics*, 43(10),

1063–1078.

Skinner, C (2018). Informal Sector Policy and Legislation in South Africa: Repression, Omission and Ambiguity. In the South Africa's Informal Sector: Creating Jobs, Reducing Poverty;

Fourie, F., Ed.; Human Sciences Research Council: Cape Town.

Tamunomiebi M. D. & Ukachukwu, C. C. (2018). Indecent work and workers in the informal sector in Nigeria. *International Journal of Scientific & Engineering Research*, 9(3): 630 – 643.

Vanek, J.; Chen, M.; Carre, F.; Heintz, J.; Hussmanns, R (2014). Statistics on the Informal Economy: Definitions, Regional Estimates and Challenges. WIEGO Working Paper. WIEGO: Cambridge, Manchester, London, UK, Volume No. 2, p. 48. <https://www.wiego.org/sites/default/files/publications/files/Vanek-Statistics-WIEGO-WP2.pdf>, accessed 21/12/2021.