EMPLOYMENT IN THE INFORMAL SECTOR IN NIGERIA: IMPLICATIONS FOR SUSTAINABLE ECONOMIC DEVELOPMENT

Amaka Ogochukwu Onwo
Nnamdi Azikiwe University, Awka

&

Gladys Amaechi Ohazulike
Nnamdi Azikiwe University, Awka

Abstract
The problem of employment has become a central global concern in recent times. This makes the government and development partners to be fully engaged in finding a lasting solution to the problems. In the past, development planning efforts were concentrated on the development of modern industrial sector. Today, there is renewed interest in the informal economy worldwide. This is because a large share of the global workforce and economy is informal and because the informal sector is growing in many contexts and appearing in new places and guises. The informal sector serves as a buffer against unemployment in times of economic downturn, allowing an increasing share of the population to earn a livelihood from the sector rather than stay openly unemployed with no income. The sector has also played a key role in cushioning the adverse impact of economic crises. The paper therefore interrogated the nature of employment in the informal sector and is anchored on Modernisation theory. This paper is based on a desk and literature review of relevant articles and publications as well as on employment and the informal sector. The paper revealed that Nigerian Informal Sector is a major contributor to the Nigerian economy, accounting for a significant portion of employment and national Gross Domestic Product and also the informal sector currently accounts for over half of global employment and as much as 90% of employment in some of the developing countries like Nigeria. The paper therefore recommends that efforts should be made by the government and its agencies to create more jobs. Secondly, policies should be introduced to address identified challenges in the informal sector towards improving productivity and incomes of informal sector workers.

Keywords: Employment, informal sector, informal employment, sustainable economic development, Nigeria.

Introduction
Nigeria is a country endowed with abundant natural and human resources and a population of about 150 million. Nigeria has the potentials to be a rich country, but, despite all these resources, it is a poor country. The country has a large unemployment rate. Unemployment remains a fundamental problem facing the Nigerian economy and further depriving her of achieving sustainable economic growth and development. Unemployment is one of the major problems of less developed countries. Patterson (2006) asserts that international statistics portray that industrial and service workers living in the developing regions account for about two-thirds of the unemployed. The problem has hindered the economic development of developing countries like Nigeria and has also generated other socio-economic problems which have contributed and continue to eat deep into the walls of the nation’s welfare. The situation has seriously degenerated and led to high dependency ratio, social crimes, insecurity, hunger, disease, frustration, low standard of living and death. The worldwide economic depression
which hit the developed countries over the past years has had particularly devastating effects on the Nigeria economy resulting in absolute decline in real per capital income, high rate of inflation, low and decreasing rate of capacity utilization in the manufacturing industries. The crisis also resulted in reduction of commercial activities in both public and private sectors causing loss of employment opportunities for millions of Nigerians. The corollary of this is increases in the level of unemployment of most energetic, imaginative, innovative, and highly educated a skilled sector of the labour force. The high unemployment rate has been largely affected by the economic situation in the country.

Since the attainment of political independence in 1960 the economy has undergone fundamental structural changes which Olalokun (2002) observes have not resulted in any significant and sustainable economic growth and development. The economic malaise of the country was due to a combination of many factors. There is the over dependence on crude oil which provides about 97% of Nigeria’s foreign exchange earnings. The Nigerian economy grew relatively in the earlier parts of the 1970s due to the oil boom but with the crash in the prices of crude oil in the world market in 1980s, Nigeria’s economic woes started. Government’s revenue fell significantly. Other factors that aggravated the situation were reckless expenditure by government, instability and corruption, poor attitude to work especially in the public sector, and the type of education given in schools and universities - an education oriented to wage employment rather than to being self-reliant. Nigeria’s economic condition escalated to a crisis during the 1983-84 period and many governments in the Federation could not meet their financial obligations. Both in the public and private sectors the work force was reduced to reduce the total wage bill. About 256,150 workers were retrenched in the public sector during the period compounding the problems of an already bad economy as unemployment increased.

Current statistics for unemployment globally are staggering arising from the global economic recession. The UNDP (2012) reports that as at the end of 2011, the western economies had collectively recorded an average of about 5.6% rate of unemployment. France and the US were the worst hit with about 7.3% and 7.2% rates of unemployment, respectively. In the US, this rate was about 9%. No sector was left unaffected: banks and financial institutions including investment firms, home building and mortgage operations, retailing and manufacturing industries, the automobile sector, energy and even food manufacturing businesses. The high unemployment rate has long been a constant feature of the Nigerian economy and the global recession acted as another wake-up call for the country to address its curious case of unemployment.

A strategy advanced for reducing unemployment in Nigeria is the expansion of the scope of the informal sector. A 2009 World Bank Report observes that one of every five adults in Nigeria is unemployed, and one out of every ten university graduates gets a job. The unemployment situation in Nigeria poses serious inhibitions to the significant and sustainable economic growth and development of its human resources and national development. The informal sector is an integral part in the overall industrial sector and plays an active role in the growth and development of a nation’s economy. These enterprises contribute significantly to the employment generation and output growth of different developed and developing.

The establishment of one’s own enterprise represents a viable opportunity for overcoming poverty and providing work to others. The ILO World employment report says that the majority of new jobs in developing countries are being created in the informal sector, which employs
about 500 million workers (ILO, 1998). A lack of skills for a large section of the labour force, as well as a lack of sufficient job growth in the formal sector of the economy, has resulted in growth for the informal sector. The informal sector is making an enormous contribution to national economies, but remains a weak area for governmental policy. Hence this paper sets to point out various ways through which the activities of the informal sector can be improved to curb the problem of unemployment in Nigeria. This study situates the relationship between employment and the informal sector in Nigeria. It examines the role of the informal sector in employment or job creation and mitigating unemployment in Nigeria, and highlights possible ways through which the informal sector can be improved in order to enhance its economic activities.

**Literature Review**

The significance of informal employment in the developing world is no longer in doubt. When workers cannot find opportunities in traditional wage employment, the need for subsistence demands makes them to find work somewhere else. Much of what accounts for “informal” employment is familiar even to the most casual observers: street vendors and shoeshine workers in the large cities of the developing world, for example. Other informal employment situations are a less visible feature of an economy’s landscape, like home-based garment assembly and manufacturing or industrial waste recycling. There are a number of reasons to be concerned about the existence and persistence of informal employment in the developing world. Such employment is often characterized by poor working conditions, both in terms of remuneration and the existence and/or enforcement of basic labor standards. Further, informal employment can leave too many workers frozen out of the networks they need to access to insert themselves higher up in the global value chains that their labor so often serves.

Carr, Chen, and Tate (2000) demonstrate how home-based production can leave workers with insufficient information and bargaining power to claim the economic rents that globalization makes increasingly available to employers and contractors, concentrating them instead in the hands of local middlemen and transnational corporations. Improving the economic position of informal workers is thus a powerful potential lever for raising living standards and reducing poverty in the developing world. Understanding the extent, characteristics, and dynamics of informal employment is a crucial first step in this process. To this end, this paper seeks to make an important contribution, both in benchmarking how informal employment should be viewed and in identifying the opportunities within the country for useful policy changes.

**Conceptualization of the Informal Sector**

Informal sector was first introduced in 1973 by Keith Hart, who is a social anthropologist. Since that time, it has attracted much interest and discussion among various scholars and policy-makers. The concept was introduced to describe a part of the urban labour force in Ghana, who worked outside formal organized labour market. Hart described informal sector the same way as the small self-employed individuals. International Labour Organization (ILO) later used the concept in its reports to describe labour market conditions in other African countries, and the World Bank also used it in its series of studies of urbanization and poverty throughout the Third World counties. Informal economy for instance was called irregular economy by Ferma (1973), the subterranean economy by Guttmann (1977), the underground economy by Simon (1982). Abumere (1989) described the economy as invisible, hidden, shadow, non-official, unrecorded, imperfectly recorded in the official national accounting systems. These different terminologies show that no single definition of informal economy could serve different fields. The concept of informal sector since its inception becomes elusive.
because of different paradigms, disciplines, interests, and moments in history, that had mutated the meanings Habib-Mintz (2009).

**Informal Economy: An Overview**

International Conference of Labour Statisticians (ICLS), (2003) identified informal businesses as small and family-run or run by a single entrepreneur. It includes own-account workers employed in their own informal sector enterprises. Employers employed in their own informal sector enterprises. Contributing family workers irrespective of whether they work in the formal or informal sectors enterprises. Others include: members of informal producers’ co-operatives employees holding informal jobs whether employed by formal sector enterprises or informal sector enterprises .Informal sector businesses also include, domestic workers employed by households, own-account workers engaged in the production of goods exclusively for own final use by their household. Other examples from the informal economy include workers operating off the books for cash, such as: street vendors, construction workers, and taxi drivers, home based workers, micro, and small-scale members of informal producers. Tokman (2001) noted that, there is often no clear distinction between formal and informal sectors labour as large factories, and state-run enterprises have informal labour forces working beside their formal counterparts.

However, as the world economy changed from the state-led domination of the 1970’s to market-led economic forces in the 1990’s and now to an increasingly integrated and globalised world economic growth, the share of informal economy is on the increase. International Labour Organization (2000) statistics indicate that the share of the informal economy employment in the non-agricultural workforce ranges from 55% in Latin America to 45 - 85% in different parts of Asia to nearly 80% in Africa. Specifically, 47 per cent in the Middle East and North Africa; 51 per cent in Latin America, 71 per cent in Asia, and 72 per cent in sub-Saharan Africa. In Africa, informal work account for almost 80 percent of non-agricultural employment, and over 60 percent of urban employment and over 90 percent of new jobs over the past decade or so (Chen, 2002).

Charmes (2000) argues that Informal economy continues to grow as the bulk of new employment in recent years, particularly in developing countries and transition countries, has been in the informal economy. Most people have been going into the informal economy because they cannot find jobs or are unable to start businesses in the formal economy. Moreover, there is growing agreement that these activities are not declining, but continue to represent a resilient element of these economies.

**Employment in the Informal Sector**

The informal sector represents an important part of the economy, and certainly of the labour market, in many countries and plays a major role in employment creation, production and income generation. In countries with high rates of population growth or urbanization, the informal sector tends to absorb most of the expanding labour force in the urban areas. Informal employment offers a necessary survival strategy in countries that lack social safety nets, such as unemployment insurance, or where wages and pensions are low, especially in the public sector. In other words, employment in the informal sector basically comprises all jobs in unregistered and/or small-scale private unincorporated enterprises that produce goods or services meant for sale or barter. ICLS defined informal employment as the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households, during a given reference period. Included are:
• Own-account workers (self-employed with no employees) in their own informal sector enterprises.
• Employers (self-employed with employees) in their own informal sector enterprises.
• Contributing family workers, irrespective of type of enterprise.
• Members of informal producers’ cooperatives (not established as legal entities).
• Employees holding informal jobs as defined according to the employment relationship (in law or in practice, jobs not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (paid annual or sick leave, etc.).
• Own-account workers engaged in production of goods exclusively for own final use by their household.

Informal employment is also seen as a situation in which there is no formal contractual arrangement between employer and employees regarding the employment of workers and there is no job security as normally found in a formal job and at the end of the contract the workers will go without social security. Informal sector is a group of enterprises or unincorporated enterprises that are owned and the people voluntarily choose to join informal employment to avoid formal regulations and taxation.

The term unemployment denotes a condition of joblessness or lack of employment. In other words, anyone who is fit and available to work but fails to get one may be considered as being unemployed for the concerned period (Olubukola, 2013). In the work of Arosanyin (2011) Unemployment and poverty are two of the challenges facing the Nigerian economy. Most urban, semi and unskilled labour have found solace in the informal sector. Ishola (2008) noted that, in 2003, Nigerian’s unemployment rate declined substantially to 2.3 percent. This decline was attributed to the various government efforts aimed at addressing the problem through poverty alleviation programmes. He further noted that the decline also pointed to an increased number of people who engaged in the informal sector activities. Ishola (2008) observed that, unemployment as one of the macroeconomic problems could be reduced through the informal sector participation provided it is well supported and managed.

Moreso, Olubukola (2013) stated that the rapid rise in the country’s unemployment rate has become a major source of concern. Several school leavers and employable adults are either finding it difficult to secure employment or are laid off work for one reason or the other. Also, Sanda (2006) used a sample of 360 firms in Kano and its environs to examine whether or not, large firms were better than small firms at creation of employment opportunities. Their results were positive in that small firms were found to be relatively better, and the conclusion they derived was that a policy that gives special preference to small firms is justified. Fajana (2000) also opined that unemployment can lead to the following: loss of status, loss of prestige and economic strength or power as a result of the loss of wages and benefits of job, infliction of psychological injury as a result of the breakdown in social contacts and isolation from the world of work, loss of responsibility, identity and respect which the position at work ensures, loss of purchasing power, loss of union check off dues, loss of production and stunting of gross national product, etc. Akin (2013) argued that, the challenges to sustainable youth employment are multi-dimensional. They encompass economic, social, political, and cultural issues which include weak economic, political and social institutions, accountability and transparency in governance, high cost of governance reducing available resources to support job-creation opportunities for young people at Federal and State level, jobless economic growth, etc.
Generally speaking, the contributions of the informal sector to the development of the Nigerian economy cannot be over emphasized. Since the beginning of 1980s, the economic position of Nigeria has worsened seriously. The per-capita income fell considerably and wage employment has declined (NISER Report, 2007). One of the major social problems facing Nigeria youth is the high level of unemployment among youths. The youth has the highest unemployment rate in Nigeria in the range of 40-60% among this age between 15 and 25 years. Youth unemployment denied them of their legitimate livelihood which resulted to visible idleness. This is referred to the gathering of youth in the bars and restaurants to drink and smoke, and at the end nurse a culture that encourages criminal behaviour (Akande and Okuwa, 2009).

The Informal Sector and Nigerian Economy

The informal sector has been variously described as a vital source of employment and income for the poor, the seedbed of local entrepreneurship and a potent instrument in the campaign to combat poverty and social extension (Akande and Akerele, 2006). The employment generation capacity of informal sector activities is indispensably crucial and cardinal in its contribution to the economy and is especially relevant now that formal sector employment capacity is fast shrinking. This suggests that the informal sector is a veritable engine of employment generation in Nigeria. In literature the informal sector activities in Nigeria and West Africa had been categorized succinctly to include trade and commerce, manufacturing, technical work, transportation, farming, and service business. These activities cover the needs of the informal sector and thus absorb a lot of people that do not fit into the formal sector.

In Nigeria, the informal economy is significant because it provides employment opportunities for the teeming unemployed citizens and the medium to meet the needs of poor consumers through cheaper and accessible goods and services (Ogbuabor and Malaolu, 2013; Yusuf, 2014). Also, due to the ease and flexibility attached to the operations of informal enterprises, the sector is devoid of bureaucratic regulatory framework with little or no formal educational requirements (Awojobi, Ayakpat and Adisa, 2014; Fapohunda, 2013). The Nigerian Informal Sector is a major contributor to the Nigerian economy, accounting for a significant portion of employment and national GDP. According to the IMF, the Nigerian informal sector accounted for 65% of Nigeria’s 2017 GDP. The Informal Sector comprises any economic activity or source of income that is not fully regulated by the government and other public authorities; this includes enterprises that are not officially registered and do not maintain a complete set of accounts; and workers who hold jobs lacking basic social or legal protection and employment benefits. Examples of informal employment workers include street traders, subsistence farmers, small scale manufacturers, service providers (e.g., hairdressers, private taxi drivers, and carpenters), etc. The sector currently accounts for over half of global employment and as much as 90% of employment in some of the poorer developing countries. Due to its flexible nature, the informal sector in some ways is better able to adapt to difficulties such as the current global recession, providing some measure of support to those most in need. Today there is no unanimous perspective with regard to the informal economy. Some take the view that the informal sector encourages fraudulent activities that results in the loss of revenue from taxes, weakens unions, creates unfair competition, leads to a loss of regulatory control, reduces observance of health and safety standards, amongst others. However, a fast-growing view is that informal economy offers significant job creation and income generation potential in Nigeria, as well as the capacity to meet the needs of poor consumers by providing cheaper and more accessible goods and services.
Informal Sector and Sustainable Development

Informal sector can be seen as those economic activities that is not subject to government regulations or taxation that sustains a large part of the world’s workforce. It is diverse, complex, and growing area of activity (ECON, 2017). The incidence and persistence of informal labour, especially in emerging market and developing economics is highly recognized as an obstacle to a sustainable development due to its inability to contribute to tax base. It tends to remain small, with low productivity and limited access to finance (Delechat and Medina, 2020). Consequently, people who work in informal sector are often more likely to be poor than their counterparts in the formal sector because some people in the informal sector lack formal contacts and social protection as they tend to be less educated.

Sustainable development can be defined as development that meets the needs of the present without compromising the abilities of future generations to meet their own needs. The best secured means to economic sustainability is by creation of local or region self-reliant, community economies. Locally produced and sold goods can have a dramatic impact on the sustainability of a city, lifestyle and in some cases perform better than globalized mega-corporations. So, promoting local business should not be a side note in cities polices but a major directive in the future development of cities (Ruzek, 2014). Meaningful earnings from the informal sector jobs can dramatically reduce the poverty level of the population. The informal sector can create jobs, promote local economies, and proffer economic shift toward a sustainable development.

Modernization Theory

This paper is anchored on modernization theory. Rostow (1960), (cited in Offiong 1980) in his titled book, The Stages of Economic Growth: A Non-Communist Manifesto in the aftermath of World War II, proposed modernization approach to national development. Proponents of modernization theory saw the informal sector as a remnant of traditional, pre-capitalist modes of production and subsistence strategies common to isolated rural peoples. Informal were trapped outside the modern economy because they lacked the proper education, skills, and value-orientations. The language used to describe the growing informal or excess labour includes “marginality,” “abnormally swollen,” “over distended tertiary sector” and “bazaar types” (Moser, (1978). In line with this patronizing prescription for national development, the prescription by modernists connotes the idea that urban surpluses would eventually disappear with the rise of industrialization. That capitalists manipulate the reserve army confronting workers in the formal sector with the replacement by cheaper labour in the informal labour market. Informality is seen as a quasi-evolutionary process, where the informal activities will conduct its actors to the formal sector. Challenging this theory was International Labour Organization (1972) and Hart, (1973). They rejected the Modernization theory and see informal economy as a ‘different way of doing thing’ rather than a strategy to manipulate the reserve army in achieving growth and development. However, the weakness of modernization theory was that informal sector was not seen as an area of economic growth or dynamism, nor was it characterized as a reservoir of entrepreneurial training and talent. It was seen as a problem to be solved and not a development strategy to be harnessed and promoted.

Conclusion

The informal sector plays a pivotal role in the socio-economic advancement of Nigeria. Yet enough mechanism has not been put in place to encourage it through funding, capacity building, infrastructural facilities since its impact to the wellbeing of the citizens vis-à-vis overall national economy deserves more than effort being put so far to sustain it. With the
significant contribution of informal sector to the Nigerian economy, an undeniable truth is that any notion of economic development in the country is one that hugely depends on the state of affairs of the informal sector. Sustainable and inclusive economic development and job creation are unlikely to be achieved unless the potential and needs of the informal sector are adequately considered. Consequently, efforts must be made to understand the dynamics of the sector and how best to tap the latent potential that lies within.

Historically, stakeholders’ interventions in the informal sector have been focused on how to regulate businesses, and effectively integrate them into the formal economy in order to create employment. Limited emphasis has been given to identifying the drivers of growth in the various sub-sectors within, and the challenges experienced by employees. The Nigerian informal sector players face a myriad of challenges including inadequacy of technology, education, markets, land and physical infrastructure, limited access to finance, and limited skills development. Overall, there are a number of implications arising from this study. First, more effort should be made by the government and its agencies to create more jobs. Secondly, policies should be introduced to address identified challenges in the informal sector towards improving productivity and incomes of informal sector players. Government at all levels should set-aside funds that will principally and sincerely be disbursed to the informal sectors so as to encourage them. Infrastructural facilities should be provided and the dilapidating ones upgraded so as to reduce the cost of doing business. Compulsory training of both employers and employees in the informal sector should be carried out so as to broaden their professional and vocational skills for better performance. Government should establish more industries so as to broaden employment opportunities for the teeming unemployed youth. The state of insecurity should be addressed so as to attract potential investors to open industries in the country.

References


Patterson, West (2006), Organizational climate and company productivity, Journal of occupational organizational psychology, 77(20), British psychological society.


