

**THE INFORMAL SECTOR AND ECONOMIC
DEVELOPMENT IN NIGERIA**



PILOT STUDY

DRAFT REPORT

JUNE, 2014.

ACKNOWLEDGEMENT

This study was accomplished through the collective effort of the National Planning Commission (NPC), Nigerian Institute of Social and Economic Research (NISER), National Bureau of Statistics (NBS), Central Bank of Nigeria (CBN), Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), and Nigerian Association of Small Scale Industrialists (NASSI). The commitment and devotion of representatives of these organizations during the planning, implementation and preparation of this report is duly recognized and immensely appreciated. Our sincere appreciation also goes to the Steering Committee drawn from NPC, United Nations Development Programme (UNDP), CBN, NISER and NBS, for providing necessary support and guidance throughout the period of the study. We gratefully acknowledge the funding support of the United Nations Development Programmes (UNDP) and the NPC for executing the study.

In particular, this report benefitted at different times from the constant encouragement and tremendous support of the immediate past Hon. Minister/Deputy Chairman, National Planning Commission, Dr. Shamsuddeen Usman, CON and the Supervising Minister/ Deputy Chairman, National Planning Commission, Ambassador Bashir Yuguda. Their inspirational leaderships were instrumental in seeing this study to fruition.

The research team for this study comprises Professor Olufemi Taiwo, Director-General, NISER; Tunde Lawal, Director, Macroeconomic Analysis Department, NPC Dr. Michael Bolarinwa, NISER, Louis Chete, NISER, Dr. Andrew Onwuemene, NISER, Abubakar Oladeji, NISER , Felix Okonkwo, NPC; Phillip Obasi, NPC and Beatrice Adeniji, NBS. Our profound gratitude to you all for providing the perfect blend of knowledge and skills required for a robust implementation of this study and writing of this report.

We also wish to specially thank the members of the Steering Committee and the Research Sub-Committee of NISER for their professional guidance during planning and development of this study and for useful/constructive critiques of various drafts of the report.

We owe a debt of gratitude to Ministers/Commissioners, Permanent Secretaries and Directors in the Ministries of Commerce and Industry, Budget and Planning, Finance and Industry, Trade and Investment, of Abia, Bauchi, Kano, Lagos, Niger and Rivers States and the FCT for their patience, enthusiasm and valuable support during the fieldwork and data gathering exercise.

We also appreciate the cooperation and enthusiasm of the various Civil Society Organizations (CSOs)/Non-Governmental Organisations (NGOs), Professional Groups, including the Academia and Informal sector operatives, Representatives of the Ministries of Trade, Commerce, Cooperatives and Investment; National Directorate of Employment, Nigeria Association of Small Scale Industrialists (NASSI), Bank of Industries (BOI), Sector Unions/Associations and other stakeholders that attended and shared their thoughts at the various Institutional Sensitization and Advocacy sessions.

Finally, we are thankful to the Data Analysts and Word Processing Staff for excellent analytical and secretarial support.

LIST OF ABBREVIATIONS AND ACRONYMS

ADB	African Development Bank
BoI	Bank of Industry
CBN	Central Bank of Nigeria
CPC	Consumer Protection Council
DFIs	Development Finance Institutions
DMBs	Deposit Money Banks
EDC	Entrepreneurship Development Centres
EDP	Entrepreneurship Development Programme
FAAN	Federal Airports Authority of Nigeria
FCT	Federal Capital Territory
FEAP	Family Economic Advancement Programme
FERMA	Federal Road Maintenance Agency
FMoH	Federal Ministry of Health
GDP	Gross Domestic Product
GNP	Gross National Product
HPAE	High Performing Asian Economies
IDI	In-Depth Interview
ILO	International Labour Organization
IRAP	Industrial Research Assistance Partnership
LGAs	Local Government Areas
MAC	Manufacturing Advisory Centre
MAS	Manufacturing Advisory Services
MBA	Master in Business Administration
MDF	Microfinance Development Fund
MEP	Manufacturing Extension Partnership
MFBs	Microfinance Banks
MPR	Monetary Policy Rate
NACB	Nigerian Agricultural and Co-operative Bank
NACRDB	Nigeria Agricultural, Co-operative and Rural Development Bank

NAFDAC	National Agency for Food and Drug Administration and Control
NAPEP	National Poverty Eradication Programme
NQFs	National Qualifications Frameworks
NASSI	Nigerian Association of Small Scale Industrialists
NBCI	Nigerian Bank for Commerce and Industry
NBS	National Bureau of Statistics
NDE	National Directorate of Employment
NEEDS	National Economic Empowerment and Development Strategy
NEXIM	National Export and Import Bank
NERFUND	National Economic Reconstruction Fund
NETAN	National Electronics Technician Association of Nigeria
NIDB	Nigerian Industrial Development Bank
NIMC	National Identity Management Commission
NISER	Nigerian Institute of Social and Economic Research
NIPP	National Integrated Power Projects
NOA	National Orientation Agency
NPA	Nigerian Ports Authority
NPC	National Planning Commission
NV 20:2020	Nigeria Vision 20:2020
OMO	Open Market Operations
RAs	Research Assistants
SAP	Structural Adjustment Programme
SITC	Standard International Trade Classification
SMBA	Small and Medium Business Administration
SMECGS	Small and Medium Enterprises Credit Guarantee Scheme
SMEDAN	Small and Medium Scale Enterprises Development Agency of Nigeria
SMEs	Small and Medium Enterprises
SMIEIS	Small and Medium Industries Equity Investment Scheme
SON	Standard Organisation of Nigeria
SPSS	Statistical Package for the Social Sciences
SSSC	Senior Secondary School Certificate

ToR	Terms of Reference
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
WEP	World Employment Programme

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EXECUTIVE SUMMARY

1. Background, Objectives and Purpose

Nigeria has a large informal sector. This stems from its massive population of about 162 million and decades of poor economic performance, illustrated by an average national unemployment rate of 23.9 per cent in 2011 and poverty incidence of about 62.6 per cent in 2010 (NBS, 2010). According to Schneider (2002) which is the most recent information on this issue, the size of the sector in 2000 is estimated at 57.9 per cent of GDP. A robust and dynamic informal sector can contribute significantly to the GDP, create employment and reduce poverty. However, there remains significant contention about the character and appropriate role of the informal sector in the Nigerian economy. The objective of this study is to assess the contribution of the informal sector to economic development in Nigeria. It undertakes in-depth appraisal of the Nigerian informal sector including the characteristics (inclusive of institutions and networks), development potentials and linkages within and between the sector and the formal economy.

2. Approach to the Study

The method of collecting quantitative data for this study was the use of a structured questionnaire. Qualitative data were gathered through personal contact and in-depth interviews (IDIs). The structured questionnaire was administered to elicit information on informal sector activities in Abia State from South-east, Rivers State from South-south, Lagos State from South-west, Kano State from North-west, Niger State from North-central, Bauchi State from North-east and the Federal Capital Territory (FCT), Abuja. In each state, 400 copies of the questionnaire were administered totalling 2,800. The 400 copies of the questionnaire for each state were distributed across distributive trade, manufacturing, and technical services sectors. A ratio of 70 to 30 was applied for the distribution to urban and rural local government areas.

The fieldwork commenced in November, 2013 and involved the use of monitors, principal investigators and research assistants (RAs). Scrupulous efforts were made to ensure that experienced and competent people were recruited as RAs and monitors. Moreover, two-level training programmes were organised for all the field officers. The first-level training tagged 'Train the Trainer' was targeted at the field coordinators and held in Ibadan. The second-level training meant for the field assistants was implemented by the coordinators at the states and local government areas on the first day of the field activity. A working knowledge of the local language by the field assistants was a requirement for their recruitment which ensured accurate interpretation of questions and enhanced communications between the actors and the interviewers.

A two-stage field monitoring was undertaken in the course of the study. The first stage was the monitoring by members of the Steering Committees at the six geo-political zones and FCT when the field activities were in progress. The second was the visit to stakeholders in two selected states (Lagos and Niger) by Professor I.O Taiwo and Mr.Tunde Lawal, the Project Directors.

3. Key Findings

- a) The study identified sixty-two (62) informal sector activity groups across three sectors. These are 20 technical services sector activities led by automotive repairs, hairdressing/barbing, transport operators and fashion designers; 20 activities in the manufacturing sector mainly block making, wood products, furniture, etc, bakery, metal fabrication and agro-allied activities and 22 activities in the distributive trade sector made up mostly of operators of supermarket/provision stores, sellers of building materials, textile and wearing apparels, patent medicine; food stuffs and electronics/electrical and restaurant.
- b) The majority of the informal sector actors own their businesses. Most of the workers in the informal sector are in the 15 to 55 age bracket with a preponderance of them having Senior Secondary School Certificate (SSSC) as highest educational qualification. Male employees dominate the personnel profile of the enterprises numerically while the personnel stock of the enterprises also shows a dominance of the male gender.
- c) The analysis of the contributions of the informal sector to the states' GDP shows that the sector accounted for more than half of the total output of each state. Specifically, the contributions are 73.67%, 76.18%, 69.55%, 68.59%, 62.5% and 72.21% in Lagos, Abia, Niger, Bauchi, Rivers and Kano States, respectively.
- d) Personal savings is ranked highest as the source of initial capital for starting the business. Most of the informal sector enterprises operate as sole proprietorships. The prevalence of sole proprietorship is due to the fact that most of the enterprises interviewed operate in the retail and service sectors. Thus, the businesses are small and the capital outlay minimal, making it affordable to the proprietors. Contrary to expectation, most of the actors that were interviewed do not belong to any union or association.
- e) In general, there are significant interdependencies between the formal and informal and within the informal sectors. These linkages are evident for raw material, intermediate and capital inputs as well as for finished products.
- f) Lack of access to credit and inadequate electricity supply are the most severe constraints to the growth of the enterprises in the opinion of the actors. Some of the other constraints are insecurity, poor transportation and multiple taxes. Improvement in electricity supply, provision of adequate security and reduction in taxes top the list of suggestions by the actors to encourage growth of the informal sector. Other suggestions include improving access to credit, eliminating multiple taxes and reducing interest rates.
- g) Stakeholders' perception of informal sector operations indicated that inadequate funding and infrastructure deficiencies are the main problems confronting informal sector enterprises in the opinion of the unions/associations. Access to credit facilities is the dominant type of assistance required by informal sector actors according to the unions/associations and other stakeholders. Access to funds remains crucial to improving productivity of informal sector enterprises as indicated by majority of these respondents. Majority of these respondents had less than N200,000 as available funding for each of the years 2012 and 2013.

4. Recommendations

- a) The strengthening of the informal sector requires multi-sectoral synergy and coordinated efforts of federal, state, local authorities and donors in terms of mobilising the requisite resources including financial and infrastructural support for the sector to flourish. As a first step, policy-makers should accept the informal sector operators as partners in progress. They should work to provide sound regulatory framework, functional government services, friendly business climate, and enhanced access to financing, technology and infrastructure including markets and designated spaces.
- b) There is need for the elimination of all forms of anti-informal sector laws and legislation. In many states, there are various controls that impede the operation of the informal sector. The operators are often targets of harassment by the police and state agents for engaging in activities that are considered illegal. Given the job creation role of the sector in the face of a dwindling formal sector employment, it seems expedient to review all policies detrimental to the smooth functioning of the informal sector. This should not detract from the necessity to check criminal endeavours and activities that are inimical to the health and welfare of the population.
- c) Access to formal financing channels such as micro-credit could be instrumental in encouraging informal entrepreneurs to shift toward more formal economic activities. While informal sector actors' capital requirements are typically low in comparison to formal sector investment levels, they still experience difficulty accessing credit. This is because formal financial institutions often demand elaborate project proposals and collateral security which the informal sector operators are unable to provide. Thus heightening awareness of conventional banks of the potential of the informal sector is crucial. On their part, the actors may set up an informal insurance fund to help them in providing collateral to banks and also for underwriting debts that are not being serviced by members. Similarly, the authorities should provide training support on relevant skills for the actors.
- d) There is need for increased government patronage of the informal sector. Federal, state and local authorities should consider awarding tenders and subcontracting public works, supplies and other projects to informal sector operators, especially the large ones as a way of supporting the growth of the sector. This is especially important as many of the goods produced or supplied by the informal sector operators have been found to be of reasonably good quality.
- e) Informal sector actors should be encouraged to organise themselves into associations in their various areas of activity or business. This will facilitate their injection into the policy formulation process and improve their capacity to shape legislations impinging on the sector. The formation of these subgroups can also be fruitful for purposes of raw materials procurement (procurement cooperatives) and marketing (marketing cooperatives) which may afford them quantity discounts, reduce competition among them and enhance their profitability.
- f) The formalisation of the informal sector should be a decisive policy thrust of the government in the medium to long term. In prosecuting this agenda, the policy authorities

should recognise the heterogeneity of the informal sector by distinguishing between small and large informal firms. Thus, the government should adopt a systematic approach by enunciating specific policies to bring large informal firms under formal regulation before enforcing a comprehensive regulatory regime including, for instance, formal registration and incorporation into the formal tax structure.

- g) In order to continually analyse the contribution of the informal sector to the economy, it is important to routinely gather and keep relevant information on the sector. The lack of information may explain the reason why the sector does not feature in national accounts and other official statistics. A broad range of information covering characteristics of actors, employment and income effects, productivity and linkage effects should be collected periodically.
- h) The key to moving informal enterprises into the formal sector is to create incentives for those operating informally to see the benefits of becoming formal; in other words, to create an environment in which the benefits of formalizing outweigh the costs of remaining informal. This necessitates dismantling barriers such as lengthy registration processes, red-tape, licensing requirements, lack of access to private property rights and a complicated taxation policy. It also includes improvements in the accessibility of micro-finance and giving informal enterprises greater representation and voice in the policy making process.
- i) Policies and legal frameworks facilitating appropriate formalization need to be developed and implemented. This requires action at the macro, meso and micro levels. At the macro-level, policies concerning labour standards and legislation, social protection, worker benefits and property rights need to be made more pro-poor and pro-Medium and Small Enterprises (MSEs) in general. At the meso and micro levels, policies should be crafted to link formal training institutions and informal training systems; government should grant formal recognition and certification to skills acquired in informal apprenticeships; or work with informal sector associations in formalizing informal training systems.
- j) The government should establish a Micro Enterprise Advisory Centre (MEAC) with the main function of providing extension service to informal sector actors. Alternatively, SMEDAN may be reorganised to take on this role. Similarly, the government should, through its interface structures, strengthen the linkages among knowledge centres as well as the formal and informal sector of the Nigerian economy.

SECTION ONE

INTRODUCTION

1.1. Background

Nigeria has a large informal sector. This stems from a number of factors, including the country's massive population of about 162 million, rural-urban migration, high level of poverty and high level of unemployment. For instance, in 2010 the poverty incidence was about 62.6 per cent (NBS, 2010) and in 2011 the average national unemployment rate was 23.9 per cent. According to Schneider (2002), which is the most recent information on this issue, the size of the informal sector in 2000 was estimated at 57.9 per cent of GDP.¹

The Nigerian economy is dualistic in nature and dominated by subsistence agriculture as the mainstay of a large segment of the population. The economy has exhibited acute structural imbalances, typified by the over-dependence on agricultural production in the 1960s to the exclusive reliance on crude oil since the beginning of the 1970s. Thus, national economic development aspiration over the years has remained that of altering the structure of production and consumption activities so as to diversify the economic base, reduce dependence on oil and on imports in the bid to return the economy to the path of self-sustaining growth (Nigeria Vision 20:2020).

Since the inception of democratic governance in 1999, the Government has made several efforts to reform and revamp the economy with the introduction of development blue-prints such as the National Economic Empowerment and Development Strategy (NEEDS), the Nigeria Vision 20:2020 and the Transformation Agenda (TA). NEEDS was aimed at reversing the nation's over-dependence on oil, and repositioning the country for sustainable broad-based growth and development, while NV20: 2020 and TA aspire to consolidate on the gains of NEEDS and other reform programmes with the aspiration of launching the country into the league of the world's top 20 economies, by GDP size, by 2020.

A robust and dynamic informal sector can contribute significantly to the GDP, create employment and reduce poverty. In particular, self-employment which is dominant in the informal sector has been described as a community of the poor with a potential to raise output and reduce poverty (House, 1984; Djankov, *et al.*, 2002; ILO, 2004).

1.2. Statement of the Problem

There are lingering controversies on the character and appropriate role of the informal sector in the Nigerian economy. This encompasses the right definition of the sector, its structure and contribution to employment generation, output, training, technological development and linkages with the formal sector. It also includes problems confronting the sector and possible remedies and government policies that are facilitating or inhibiting the operations of the sector.

One of the cardinal principles of the Nigeria Vision 20:2020 is to bring about rapid industrial transformation of the economy. The document also targets creating industrial clusters and enterprise zones (NPC, 2009), a policy that could impinge on the informal sector. Despite the

¹Schneider (2002)

recognition of the importance of informal sector activities to the transformation of the nation's economy, no recent comprehensive assessment of the sector has been undertaken with particular attention to the features, processes and practices in the sector and its capacity to stimulate industrial development.

A crucial line of inquiry is the integration of the informal into the formal sector of the economy. Several studies have researched the factors that hinder the integration of the informal sector into the formal sector, emphasising the high costs of formalisation and the lack of incentives for operating in the formal sector.² However, little or no empirical study exists on the modalities for achieving this integration.

In light of the foregoing, some pertinent research questions are:

- What is the current composition, ownership and size of informal sector activities in Nigeria?
- What is the state-of-the-art of informal sector studies in Nigeria and elsewhere?
- What are the current informal sector statistics in Nigeria by geopolitical zone?
- What is the magnitude, contribution, prospects and implication of the informal sector in Nigeria to the growth of the economy?
- What are the employment and income generating capacities of the Nigerian informal sector?
- Are there any linkages and interdependencies between formal and informal sector activities in terms of intermediate input requirements and sale of output?
- What policy strategies can be designed to achieve integration of informal sector activities into the formal sector?
- What are the roles and activities of local institutions and international agencies in the growth and development of the informal sector in Nigeria?
- What factors constrain the growth of informal sector activities in the Nigerian economy?

1.3. Objectives of the study

The broad objective of this study is to assess the contribution of the informal sector to economic development in Nigeria. The study undertakes an in-depth appraisal of the Nigerian informal sector including the characteristics (inclusive of institutions and networks), development potentials and linkages within and between the sector and the formal economy. The Terms of Reference (ToR) for the study are as follows:

- | | |
|-------|---|
| ToR 1 | Identify the composition, ownership and size of informal sector activities in Nigeria; |
| ToR 2 | Review studies on informal sector in Nigeria and elsewhere; |
| ToR 3 | Generate a compendium of informal sector statistics for the country by geopolitical zones; |
| ToR 4 | Assess the magnitude, contribution, prospects and implication of the informal sector in Nigeria to the growth of the economy; |

²See De Soto, 1992; Loayza, 1996; Levenson and Maloney, 1998 and Ishengoma, 2005.

- ToR 5 Evaluate the employment and income generating capacities of the Nigerian informal sector;
- ToR 6 Examine linkages and interdependencies between formal and informal sector activities in terms of intermediate input requirements and sale of output;
- ToR 7 Determine strategies for integrating the informal sector into the formal sector of the economy;
- ToR 8 Examine the roles and activities of local institutions and international agencies in the growth and development of the informal sector in Nigeria;
- ToR 9 Identify the constraints to growth and development of the informal sector in Nigeria.

1.4. Rationale for the Study

This study is motivated by the need for a more systematic and coherent body of knowledge on the informal sector and its role in promoting economic development in Nigeria. The sector has generated a lot interest, which stems from the dynamism and resilience of the sector despite difficult operating policy and institutional environments. Most of the studies on the sector such as Akande and Akerele, eds (2008) focus on micro issues; and the most recent comprehensive study on the sector is CBN/FOS/NISER (2001).

The link between the size and structure of the informal sector and level of investment in the economy is unclear. Some studies have argued that the informal sector impedes investment and growth due to the operatives' inability to access credit, limiting the scale of their operations and exploitation of investment opportunities (Loayza, 1996). Others view the informal sector as a legitimate response to over-burdensome regulatory system, implying a positive association between the informal sector and investment³.

The study is intended to proffer policy initiatives that would complement several of the on-going and planned policy and development initiatives of the federal government. For instance, the study generates some results which could serve as input into the 2nd National Implementation Plan. It can also assist in quantifying States' Gross Domestic Products, an activity currently anchored by the National Planning Commission (NPC) and the National Bureau of Statistics in collaboration with States' Governments. Similarly, significant information on the nature of informal sector activities can facilitate the implementation of the Community Based Development Strategy under the Nigeria Vision 20:2020 and provide inputs for transforming rural communities as envisaged in the Transformation Agenda.

The study explores the potentials of the informal sector to provide incomes and livelihoods for the populace especially where formal sector employments are scarce or non-existent. While there are potentials for economic growth and development in the formal sector, this sector does not have infinite capacity to provide adequate livelihood opportunities for the burgeoning

³ See Barro, 2000; Schneider and Klingmair, 2004.

population of Nigeria. This signals a potentially important role for the informal sector as an alternative source of livelihood for the populace.

The study provides vital information on the opportunities for advancing economic development in Nigeria. By providing spatially based information on the array of informal sector activities taking place in the various geopolitical zones of the country, it offers insights into areas and activities that sector policies can target to stimulate development.

1.5. Structure of the Report

The layout of this report is as follows: Section Two presents situation analysis of the informal sector in Nigeria. Section Three outlines the approach to the study, while Section Four discusses the conceptual issues on informal sector and its role in economic development. Section Five presents characteristics and activities of the informal sector. Furthermore, Section Six discusses the developmental potential of the informal sector and Section Seven analyses interdependencies within and between the informal and formal sectors. Section Eight elaborates on informal sector policies and management practices and Section Nine discusses the constraints and institutional framework for informal sector development. Section Ten presents stakeholders' perceptions and Section Eleven draws the conclusion and makes policy recommendations.

SECTION TWO

SITUATION ANALYSIS OF THE INFORMAL SECTOR IN NIGERIA

This section traces the evolution of the informal sector in Nigeria, reviews studies on informal sector in the country, appraises government policies and programmes for the sector, and highlights selected international experience in informal sector management.

2.1. Evolution of the Informal Sector in Nigeria

Informal sector activities have a long history in Nigeria. Over several decades, various ethnic groups have engaged in specific indigenous and craft activities which fall within the ambit of informal sector activities. In the Southwest (notably Saki in Oyo State), aluminium pottery was a major indigenous craft activity; bronze casting is prevalent in the South-South (notably Benin City in Edo State); and leather tanning thrives in the northern parts of the country (notably Sokoto, Zamfara, Kano, Jigawa, Bauchi and Borno States). These indigenous activities were generally passed on from one generation to another. While related informal sector activities exist in other cultures, the process of formalizing the informal sector began around the 16th Century in Europe and North America nearly three centuries before the famous conceptualisation of the informal sector by Keith Hart (Onyebueke and Geyer, 2011).

The concept of the 'informal sector' first entered the Nigerian discourse in 1975 with the publication of the International Labour Organization (ILO) Working Paper titled "*Urban development, income distribution, and employment in Lagos*". This publication was the Nigerian version of ILO World Employment Programme (WEP) aimed at expounding the relationship between income distribution and employment as well as the analysis of different types of income distribution and of redistributive measures in the city of Lagos. Prior to this, there were studies on indigenous/traditional enterprises and crafts which constitute informality. These pre-paradigm studies focused on the nature and attributes of indigenous entrepreneurship, the mechanisms of the traditional apprenticeship system and craft guilds and the spatial, economic and socio-cultural significance of the native periodic markets, among others. These early studies provided the foundation for the emergence of new concepts such as small-scale enterprise and subsequently the informal sector by scholars such as Aluko *et.al*, (1972) and Fapohunda and Van Dijk (1975).

A critical analysis of the historical and economic context that underpinned the evolution of the Nigerian informal sector is necessary to provide baseline information to guide contemporary informal sector policy direction in Nigeria. In the 1960s and 1970s, the Nigerian informal sector was operated in a policy environment in which the formal sector was regarded as the real engine of economic growth and consequently, received strong support from government. The corollaries of this were underfunding and lack of support for informal sector actors (Meagher, 1991). In spite of this lack of support from government, the informal sector continued to blossom within the period due to neglect of agriculture, rising urban wages and the oil boom of the period. The continuous expansion of the informal sector led to a build-up of market pressures resulting in labour shortage and stagnation of incomes at the lower end of the informal sector (Fapohunda, 1981). The poor and unemployed became increasingly concentrated in low income activities,

where incomes were barely adequate for survival, let alone accumulation. In addition, there were high rates of informal sector entry which depressed wages, contributing to a growing labour shortage (Sethuraman, 1981; Oyeneye, 1987; Birks and Sinclair, 1991). During this period, there was high dependence of the informal sector on low income consumers occasioned by low quality of production in the informal sector and the ready availability of imported goods during the oil boom. The economic environment of the oil boom thus gave rise to an informal sector which, though expanding, energetic and diversified, was also highly vulnerable on the supply side to formal and international market conditions, and, on the demand side, dependent on the buoyancy of working class incomes.

The economic crisis which started in the early 1980s negatively affected the informal sector. The formal sector experienced severe foreign exchange shortage caused by a fall in oil prices and a surge in debt servicing obligations. This crisis only exposed the extent of informal sector dependence on the formal sector. On the demand side, unemployment and falling real wages in the formal sector brought about a collapse of the traditional informal market. On the supply side, skyrocketing inflation in the formal sector pushed up informal production costs, while the collapsing conditions of formal sector employment intensified entry and competition within the informal sector, resulting in a dramatic squeeze on informal incomes (Onyebueke and Geyer, 2011). These were some of the conditions that informed the introduction of the Structural Adjustment Programme (SAP) in mid- 1980s.

Recent developments in the global oil market and global economic recession have influenced government perception of the relevance of the informal sector to the overall development of the country. It is now acknowledged that a well nurtured and robust informal sector can contribute significantly to the country's GDP. The Small and Medium Enterprises (SMEs) sector which includes the informal sector is being strategically positioned to generate employment, create wealth, reduce the prevalence of poverty and sustain economic growth and development in Nigeria. Thus, the objectives and goals set for the sector as encapsulated are "to be the main engine of economic growth, a driver of sustainable industrial development and a globally competitive SMEs sector". The situation in Nigeria and other climes are considered in what follows.

2.2. Review of Informal Sector Studies in Nigeria

Earlier studies are characterized by different interpretations of the concepts of informal sector. In Nigeria, the term small-scale enterprise was common among scholars of the period and persisted up to the 1980s even after the emergence of the concept of informal sector. Most of the earlier studies in the informal sector were directed at helping state governments achieve economic growth for their peoples by providing information on the problems and prospects of small scale enterprises along with their structures, sources of capitalization and marketing techniques (Onokerhoraye, 1999). Kilby (1962) carried out one of the pioneering studies on small scale enterprises in Eastern Nigeria, focussing on the processes of development of these enterprises. A decade later, Aluko (1972) undertook a similar study in Lagos, Ogun, Oyo and Ondo States. At the city level, Callaway (1965) examined the structure of small scale enterprises in Ibadan, Oyo State while Lewis (1974) analysed the structure and sources of capitalization of small-scale enterprises in Ile-Ife, Osun State.

Several other studies in Nigeria after 1975 adopted the concept of small scale enterprises in their study of informal sector activities. For instance, Mbagwu (1978) concentrated on traditional craft enterprises using the raw materials found in the country. After studying the intellectual and the policy neglect of the sector, he attempted to establish the place of these enterprises within the structure of the rural economy, although he had no statistical information to support his arguments. Similarly, Oyebanji (1980) studied small scale enterprises in Nigeria and found that they dominated the Nigerian industrial scene during the period.

Two main studies launched the new informal sector concept in Nigeria. These were Fapohunda *et al* (1975) and Mabogunje and Filani (1977), executed in Lagos and Kano, respectively. These two studies and subsequent ones by Fapohunda (1981; 1984) and Mabogunje and Filani (1981) demonstrated that rural-urban migration is the main driver of informal sector expansion in Nigeria. The studies further highlighted the importance of the sector to employment generation and national productivity. Other informal sector studies in Nigeria based on this new concept include Onokheroye (1977), Williams and Tumusiime-Mutebile (1978), and Abumere (1978). While these scholars recognised the duality of the Nigerian economy, their entry points were different. For instance, while Onokheroye (1977) explored the ethnic specialisation patterns in the informal sector of Benin City, Abumere (1978) examined the theoretical substantiation of the Nigerian dual economic framework, which permitted some degree of linkages and dependence.

Informal Sector studies blossomed following the launch of the SAP in Nigeria. For instance, Mustapha, (1992) focused on Structural Adjustment and multiple modes of social livelihoods in Nigeria. One finding from this study was the evidence of livelihood diversification into the informal sector as a cushion against SAP. Another study undertaken in the 1990s was conducted by Adamu (1996) who observed a boom in informal economic activities in Nigeria in form of a wide range of small-scale, largely self-employment activities most of which are traditional occupations. Much later, Loayza (1996) and Simeone (1997) focussed on the analysis of the linkages between the formal and informal sector.

More comprehensive studies of the informal sector in Nigeria emerged in the 2000s. This included CBN/NISER/NBS (2001). The study categorised the informal sector in line with Standard International Trade Certification (SITC) classification which is further aggregated into productive, service and financial activities. In the study, productive activity encompasses all economic activities involving the production of tangible goods. They included agricultural production, mining and quarrying (excluding petroleum), small-scale manufacturing, building and construction. Specifically, they manifested in food production, woodwork, furniture making, garment making, welding and iron works,

A strand of the literature has focussed on the employment and poverty reduction role of the informal sector. Chukwuezi (2010) explored the role of urban informal sector in the reduction of unemployment and poverty in Nigeria and found that the contribution of very small enterprises in the informal sector of the Third World is significant. Similarly, Fasanya and Onakoya (2012) pursued the impact of informal sector on employment generation in Nigeria during the period 1970 to 2010 using annual time series data. The results show that the informal sector plays a significant role in absorbing the large pool of labour force in Nigeria.

Akerele (1997) examined the impact of SAP on employment in the informal sector of Ibadan city. The study investigated the structure of employment, income effect of adjustment and

evaluates the employment generating institutions in the urban informal enterprises in selected activities. The findings show that there was increase in employment in the informal sector activities and that more entrepreneurs took these trades as part-time during SAP. Olokesusi (1999) investigated the effects of forced eviction on some informal sector operators in Lagos. He stressed that the cost of eviction in future should be mitigated despite the desirability of urban renewal. Akande and Akerele (2008) explored the employment creation and income generation capacity of the informal sector in the manufacturing, distributive trade and technical service sectors. The result showed that the informal sector absorbed all categories of workers irrespective of their educational attainment. They however argued that the problems faced by the sector led to poor quality and small quantity of products and low employment opportunity generated by the sector. Akerele (2011) analysed the technical and allocative efficiencies of the informal sector manufacturing enterprises in Ibadan. The result of the analysis revealed that education of workers was the most important determinant of both technical and allocative efficiencies in the sector. Other policy variables considered in the analysis include number of employees, level of investment, years of experience and age of operator as well as business.

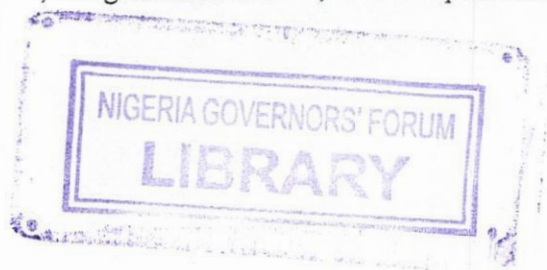
The considerable involvement of women in informal sector activities has also attracted the attention of scholars. According to Fapohunda (2012), women find succour in the informal sector as they are often denied employment opportunities in the formal sector as a result of family responsibilities, lack of skills, social and cultural barriers.

In conclusion, there is no recent comprehensive and holistic study of the sector across the geopolitical zones in the country. Clearly, the majority of the studies on the informal sector in Nigeria have been conducted at micro-level. A broad-based study is crucial for the purpose of informing policy formulation in respect of the sector's contribution to growth and development in Nigeria. Moreover, there is lack of agreement among scholars on the nature and type of linkages between the informal sector and the formal sector in Nigeria. A clarification of these issues will aid the formulation of strategies and modalities for integrating the informal sector into the formal sector in Nigeria.

2.3. Appraisal of Government Policies and Programmes for the Sector in Nigeria

The Nigerian government at various levels has articulated policies and intervention programmes aimed at promoting small and medium scale enterprises including the informal sector. Some of the policies include the following:

(a) *Entrepreneurship Development Policy*: The Federal Government in the late 1980s, initiated the Entrepreneurship Development Programme (EDP) run by the National Directorate of Employment (NDE). The policy aimed at addressing graduate unemployment problem through the NDE programme which provided participants with the opportunity to acquire entrepreneurial skills and secure loan capital to enable them establish and operate their own small scale enterprises. The Federal Government is currently partnering with the states and various organizations through its Entrepreneurship Development Centres (EDC). The CBN has three existing EDCs in Onitsha, Lagos and Kano with satellite locations in seven states and Abuja. The centres are expected to provide training for graduates and high school leavers. As at the end of June, 2012, a total of 29,323 participants made up of 4,113 graduates and 25,210 entrepreneurs



had been trained.⁴ However, this figure is quite infinitesimal considering the high rate of graduate unemployment in Nigeria. Several challenges facing the entrepreneurial policy have been identified to include poor infrastructure, inadequate working capital, and lack of adequate training among others (Anyadike, et al, 2012)

(b) *International Financial Assistance:* International organisations such as African Development Bank (ADB), World Bank and the United Nations Development Programme (UNDP) have also provided support for the informal sector through the provision of financial and technical assistance. For example, the Technology Incubator Scheme was promoted and executed by the Lagos State Ministry of Commerce and Industry, with United Nations Industrial Development Organisation's (UNIDO) financial and technical assistance and supported by the organised private sector in Lagos State and the Federal Government. The scheme was designed to promote the development of technology based SMEs in Nigeria. The initiative has so far facilitated in the creation of more TICs, new businesses with value - added products, utilization of viable R&Ds, entrepreneurial culture within the academic environment, resolution of hurdles associated with business start ups, industrial synergy and overall economic growth. However, sustainability of projects at the end of the funding period constitutes a major challenge for the programme.

(c) *Family Economic Advancement Programme:* The Family Economic Advancement Programme (FEAP) was initiated in 1997 as a catalyst to stimulate and encourage the growth of the informal sector. The programme was intended to harness the potentials in local areas to establish viable enterprises and projects that would ensure economic empowerment of the rural and urban poor. The programme was aimed at capacity building and providing credit support especially to its target group of the rural and urban poor. Significantly, FEAP existed for about two years (1998 – 2000) during which it received funding to the tune of N7 billion out of which about N3.3 billion was disbursed as loans to about 21,000 cooperative societies nationwide that were production oriented. The programme failed to achieve its stated objectives due to lack of clearly defined policy framework with proper guidelines for poverty alleviation and also polity instability, political interference, and policy and macroeconomic dislocations (Arogundade et al, 2011).

(d) *Monetary Policies:* Prior to 1993, the focus of monetary policy was the use of direct instruments to encourage the flow of credit to the productive sectors including SMEs, agriculture etc. The use of prescribed credit allocation was prevalent and widely used by banks as prescribed by the Central Bank of Nigeria (CBN). The use of indirect monetary policy control commenced in 1993 with the adoption of a market-based framework i.e. the Open Market Operation (OMO). The OMO is used at the discretion of the CBN to either buy or sell eligible securities in the money market from the private sector, depending on the objectives of the policy. Under this regime, the allocation of credit was at the discretion of the Deposit Money Banks (DMBs) based on market factors. The CBN only attempted to promote credit to the SMEs and other preferred sectors through the use of intervention schemes and programmes. The use of Monetary Policy Rate (MPR) as a nominal anchor for monetary policy began in 2006. The monetary policy as an operating target rate, serves as an indicative rate for transaction in the money market as well as

⁴ The Mid-term Report of the Transformation Agenda (2011-2013), page 83.

other DMBs retail interest rate. The monetary policy has over the years affected the operations of SMEs and young entrepreneurs especially in the areas of accessing loans at low interest rate. However, this has failed to achieve universal access to credit facilities among informal sector operators.

(e) *Regulations Policies*: There were also deliberate regulatory policies enunciated by the federal government aimed at promoting the growth of the informal sector. These include the Nigeria Enterprises Promotion Act No. 3 of 1997; Patent Right and Design Act No. 60 of 1979; and Industrial Development Tax Act No. 2 of 1971, among others. Regulatory policies to a very large extent have promoted informal sector activities through tax exemptions; there is need for further actions in this respect to support informal sector actors.

(f) *Micro-lending Institutions*: Government has also established some micro lending institutions to enhance capacity and development of SMEs including the informal sector. These institutions include the defunct Nigerian Bank for Commerce and Industry (NBCI), National Economic Reconstruction Fund (NERFUND), and the National Export and Import (NEXIM) Bank. Others are the Bank of Industry (BOI), Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN), National Poverty Eradication Programme (NAPEP), Small and Medium Industries +Equity Investment Scheme (SMIEIS), Small and Medium Enterprises Credit Guarantee Scheme (SMECGS), and the Microfinance Development Fund (MDF). In 2012, the Federal Government approved the sum of N200 billion for operation of the SMECGS fund (Uko, 2012). However, the impact of this on credit accessibility to informal sector actors is yet to be determined as poor access to credit facility has remained a priority challenge for informal sector actors in Nigeria.

(g) *Realignment of some sector Specific Development Finance Institutions (DFIs)*. The federal government has also carried out the merger of some key agencies as a way of promoting the growth of the informal sector in Nigeria. For instance, the NBCI, NERFUND and the Nigerian Industrial Development Bank (NIDB) were merged to form the BOI. There was also the merger of the FEAP, People's Bank of Nigeria and the Nigerian Agricultural and Co-operative Bank (NACB) into Nigeria Agricultural, Co-operative and Rural Development Bank (NACRDB). This was aimed at administering loan schemes to SMEs at lower than commercial rates (Aruwa 2004). This again has failed to address the challenges of poor access to credit by the informal sector actors.

(h) *NV:20:2020 and Transformation Agenda*: The Nigeria Vision 20:2020 aims at Nigeria becoming one of the 20 largest economies in the world by the year 2020. And one of the critical areas of policy focus with respect to informal sector relates to the aspect of improving the efficiency of operation of the small and medium scale enterprises. However, the critical perennial challenges of informal sector actors such as poor access to credit, erratic power supply and other relevant infrastructures to informal sector activities which are currently lacking were not addressed in the policy. Similarly, the Transformation Agenda policies are focused on addressing issues of public service, security, law and order, the legislature, anti-corruption measures and institutions, the judiciary, economic coordination, and support for private investment.

Overall, Nigeria is yet to embark on clear-cut policies on growth of the informal sector and the reason for this may not be unconnected with the non-recognition of activities of the informal sector and too much reliance on the formal sector.

2.4 International Experience in Informal Sector Management

The purpose of this subsection is to review and identify best practices in the organisation and management of the informal sector in some countries to serve as building blocks for the development of a model of the informal sector for Nigeria.

Higher levels of investment in human and physical capital, enhanced competitiveness and partnerships in the informal sector result in higher rates of growth in per capita income. The High Performing Asian Economies (HPAE) represented by Japan, Hong Kong, the Republic of Korea, Singapore, Taiwan, China, Indonesia, Malaysia and Thailand achieved tremendous growth in their economies with pragmatic government policies placed on three major areas relating to the informal sector: education and health; industrialisation and international competitiveness; and close partnership between government and the private sector. Human capital development was targeted to meet labour shortages in the various areas of the informal sector economy (Ezell and Atkinson, 2011).

Technology adoption and creation of innovation centres were fundamental policies that propelled the informal sector in the eight countries. There was massive public and private sector investment in knowledge generation centres such as the universities, research institutes, technical and vocational training centres, among others. This ensured that labour was readily available for absorption by the informal economy in the respective countries. The knowledge centres also played major roles in the development of new innovations to promote activities in the informal economy. While government and the private sector provided funding support and an enabling environment for the operation of the knowledge centres and the informal sector actors, the informal sector actors provided tax revenues to the government.

Great emphasis was placed in six areas of policy relevant to the informal sector (Table 2.1). These six policies were pursued simultaneously in the eight countries. In this framework, there are three partners involved in the interaction. The first is the government and its interface structures such as the universities and research institutes. The second is the private sector which supports the knowledge generation centres through funding and later benefits from innovations and knowledge from the centres. The third is the informal sector actors who adopt and utilize innovations from the knowledge centres as well as pay taxes to government to augment state revenue base.

Table 2.1: Informal Sector Policies and Intervention Programmes in the High Performing Asian Economies (HPAE)

Policy	Policy Objectives	Country	Status
Ensuring low inflation	Economic stability, management of fiscal deficit	Japan, Hong Kong, the Republic of Korea, Singapore, Taiwan, China, Indonesia, Malaysia and Thailand	Effective at achieving programme objectives by providing access to credit facilities to informal sector actors at low interest rates
Building human capital	Human capital development based on industrial needs	Japan, Hong Kong, the Republic of Korea, Singapore, Taiwan, China, Indonesia, Malaysia and Thailand	Provided the much needed manpower with demand driven skills for informal sector activities
Creating Effective and Secure Financial Systems	Encouraged financial savings, project financing and monitoring	Japan, Hong Kong, the Republic of Korea, Singapore, Taiwan, China, Indonesia, Malaysia and Thailand	Effective in improving savings which are channelled in informal sector activities with high social return
Limiting Price Distortions	Price stability	Japan, Hong Kong, the Republic of Korea, Singapore, Taiwan, China, Indonesia, Malaysia and Thailand	Effective management of prices and easy to plan on the part of informal sector actors
Absorbing Foreign Technology	Improve productivity	Japan, the Republic of Korea, Taiwan, China, Indonesia, Malaysia and Thailand	Foreign technology adoption promoted productivity
Promotion of Agriculture	Increase output	Japan, Hong Kong, the Republic of Korea, Singapore, Taiwan, China, Indonesia, Malaysia and Thailand	It proved access to agro-allied raw materials

Source: Ezell and Atkinson (2011).

Another best practice in the informal sector especially in the developed countries is the establishment of manufacturing extension services within the informal sector economy to support competitiveness, innovation and productivity. Indeed, Argentina, Australia, Canada, Germany, Japan, Spain, the United Kingdom and the United States have each created formal agencies to provide extension services to their informal sector actors (Table 2.2). The role of these extension agencies can be likened to the role of agricultural extension officers in Nigeria. In the United States, the agency is called Manufacturing Extension Partnership (MEP). MEP works with micro, small and mid-sized U.S. manufacturers to help them create and retain jobs, increase profits, and save time and money. The MEP is a nationwide network which provides a variety of services, from innovation strategies to process improvements to green manufacturing. It also works with partners at the state and federal levels on programmes that put manufacturers in position to attract new customers, expand into new markets, and create new products.

Table 2. 2: Manufacturing Extension Agencies of Countries

Country	Agency	Centres/ Regional Offices	Total Staff	Year Founded
United States	Manufacturing extension partnership (MAP)	60 state and regional offices	1300	1988
Australia	Enterprise Connect	12 Centres	250	2008
Canada	Industrial Research Assistance Partnership (IRAP)	150 Offices in 90 Communities	220	1962
Germany	Steinbeis Centres	750 Steinbeis Centres	4600	1971
Japan	Public Industrial Technology Research Institutes	262 Offices (182 Kohsetsushi Centres)	6000	1902
United Kingdom	Manufacturing Advisory Services (MAS)	9 Regional Centres	150	2002

Source: Ezell and Atkinson (2011).

A number of reasons have been adduced to justify the establishment of manufacturing extension service agencies for informal sector economy. First, it is understood that informal sector actors under-invest in research and development (R&D) and innovation relative to societal optimal levels. Second, informal sector actors are less likely than the formal sector actors to implement new technology, to adopt modern manufacturing processes, to invest in worker training, to adopt new forms of work organization, and to deploy improved business practices (DTZ Consulting, 2010). In other words, informal sector actors lag behind in adopting new technologies that would make them more productive. This lag is due to lack of information networks, technical skills, and resources available to larger firms. This also may partially account for productivity gaps between the formal and informal sector. Thus, the critical role of manufacturing extension service agencies is to close this knowledge and best practices gap in the country.

The agencies also help in linking informal sector actors with universities and other knowledge generation centres. In Japan, the agency is called *Kohsetsushi* Centre. The staffs spend up to half their time on research, mainly on applied projects often undertaken in direct conjunction with informal sector actors. The informal sector actors typically send one or two of their staff members to *Kohsetsushi* Centre projects, providing opportunities for them to gain research experience, develop new technical skills, and transfer technology back to their firms. For example, MEP in the United States has had a focus on providing formal mechanisms for coaching innovation skills and has also developed a Web portal called the *National Innovation Marketplace* to facilitate relationships between informal sector actors and the knowledge generation centres (Ezell and Atkinson, 2011).

The range of services provided by manufacturing extension service agencies of selected countries are shown in Table 2.3. These include:

- 1). Technology Acceleration Programmes and Practices
- 2). Technology Acceleration Funding Mechanisms
- 3). Next Generation Manufacturing Technical Assistance and
- 4). Connect SMEs

In the eleven countries examined, the manufacturing extension service promotes technology adoption and innovation among SMEs. Other universal service common to the eleven countries include promoting technology transfers and commercialization as well as promoting technology/knowledge diffusion from the knowledge centres such as the universities. The last common service is the annual hosting of best practice events for SMEs. This provides opportunity to show case cutting-edge innovations which can be adopted by other firms.

These countries have adopted varied models of technology transfer and diffusion from the universities to firms. In Germany, *Steinbeis* Centres co-finance the placement of recent PhD graduates in SME firms to facilitate the transfer of new knowledge from universities to SMEs. It covers 50 percent of what it costs an SME firm to employ a recent PhD graduate for up to two years (Ezell and Atkinson, 2011). In a similar programme, Canada's IRAP provides direct financial support for Youth Employment in Canadian SMEs, funding up to \$30,500 in salary for six to twelve months for recent college or university graduates employed by SMEs. IRAP also organizes mentoring programmes in which local Master in Business Administration (MBA) students are assigned to local SMEs to identify and to help solve innovation, technical, and scientific challenges in the SMEs by connecting them to resources available at their graduate schools. Likewise, Korea's Small and Medium Business Administration (SMBA) encourages the linkage of enterprises with technical high schools and junior colleges that produce graduates especially suited to SME requirements (Ezell and Atkinson, 2011).

Table 2. 1: Range of Services Provided by Manufacturing Extension Service Agencies in Selected Countries

Category	Services	Countries												
		United States	Australia	Canada	Germany	Japan	United Kingdom	Argentina	Austria	China	Korea	Spain		
Technology promotion programmes and Practice	Promote technology adoption by SMEs	X	X	X	X	X	X	X	X	X	X	X	X	X
	Provide Audits of SMEs' Lean Mfg. & Innovation Processes & Skills	X	X	X	X	X	X	X	X	X	X	X	X	X
	Business Advisers Work Hands-on with SMEs to Improve Manufacturing & Process Techniques	X	X	X	X	X	X	X	X	X	X	X	X	X
	Support Tech Transfer & Commercialization	X	X	X	X	X	X	X	X	X	X	X	X	X
	Promote Tech/Knowledge Diffusion from Universities	X	X	X	X	X	X	X	X	X	X	X	X	X
	Perform R&D in Direct Partnership with SMEs	X	X	X	X	X	X	X	X	X	X	X	X	X
	Provide Access to Research Labs/Prototyping Facilities	X	X	X	X	X	X	X	X	X	X	X	X	X
	Get SMEs into Mfg./ Technology Consortia	X	X	X	X	X	X	X	X	X	X	X	X	X
	Provide SMEs Direct R&D Funding	X	X	X	X	X	X	X	X	X	X	X	X	X
	Grants	X	X	X	X	X	X	X	X	X	X	X	X	X
	Provide SMEs loans to scale and grow business	X	X	X	X	X	X	X	X	X	X	X	X	X
	Technology Acceleration Funding Mechanisms	Use innovation vouchers	X	X	X	X	X	X	X	X	X	X	X	X
Fund joint pre-competitive Research Programmes		X	X	X	X	X	X	X	X	X	X	X	X	X
Teach Innovation and new product development skills		X	X	X	X	X	X	X	X	X	X	X	X	X
Provide SMEs export assistance and training		X	X	X	X	X	X	X	X	X	X	X	X	X
Next generation manufacturing technical Assistance	Promote energy efficient manufacturing skills	X	X	X	X	X	X	X	X	X	X	X	X	X
	Provide assistance with standards	X	X	X	X	X	X	X	X	X	X	X	X	X
	Teach role of design in manufacturing	X	X	X	X	X	X	X	X	X	X	X	X	X
Connect SMEs	Act as broker to other SMEs support service	X	X	X	X	X	X	X	X	X	X	X	X	X
	Host best practice events	X	X	X	X	X	X	X	X	X	X	X	X	X

Source: Ezell and Atkinson (2011).

SECTION THREE APPROACH TO THE STUDY

This section discusses the approaches to the study. It gives the full description of how the study was conceptualised, developed and implemented.

3.1. Process of the Study

The study was inspired by the observation that Nigeria's informal sector plays an important role in providing employment, reducing poverty and promoting economic development. Thus, in furtherance of efforts to achieve the Transformation Agenda and NV20:2020 of the Federal Government, an understanding of the types of informal sector activities, their magnitudes and employment potentials was considered pertinent. The Nigerian Institute of Social and Economic Research (NISER), Ibadan, in collaboration with the National Planning Commission (NPC), Abuja, was charged with the responsibility of conducting the study. The research team for the study comprises representatives of NPC, NISER, National Bureau of Statistics (NBS), CBN, SMEDAN and Nigerian Association of Small Scale Industrialists (NASSI). The study was anchored by a Steering Committee, drawn from NPC, UNDP, CBN, NISER and NBS, to provide support and guidance for the study. Funding was provided by the NPC and the UNDP.

The plan is to conduct the study in two phases. This report deals with the first (pilot) phase which covers six states (one per geo-political zone) and the Federal Capital Territory (FCT). This phase was designed to accomplish four milestones, namely: (i) preparation, planning and documentation of the informal sector clusters; (ii) advocacy/sensitization programme; (iii) fieldwork (iv) data analysis, report writing, validation and dissemination of report. The second phase of the study is expected to cover the whole country.

At the inception of the study, a concept note was developed. Several meetings were held by the study team in Abuja and NISER, Ibadan. The meetings dwelt on conceptualisation, assignment of responsibilities and the study trajectory. The study took off with an extensive review of conceptual issues, relevant literature and methods; mapping of informal sector activities in the geo-political zones and identification of clusters; development of survey instruments (questionnaire and in-depth interview guides) and development of concept note and draft proposal.

The Steering Committee met severally to deliberate on strategies for mobilising funds to jumpstart the study. At a meeting held on Wednesday March 18, 2013, the Steering Committee adopted a two-pronged advocacy programme for the study, i.e., sensitization of stakeholders during visits by the research team to the selected states and FCT; and high-level advocacy programme at the FCT by the Minister of National Planning. The sensitization programme at the state level consisted of visits by the research team and coordinators to community leaders; mounting of workshops for stakeholders in the selected urban and rural Local Government Areas (LGAs); and institutional sensitization and advocacy to the Ministries of Trade, Commerce, Cooperatives and Investment; National Directorate of Employment, sector unions/associations and other relevant stakeholders.

At another meeting held on Wednesday, August 21, 2013, the Steering Committee resolved to pursue additional funding for completing the first phase of the study. The Committee endorsed the work plan covering the period September to November 2013 and approved an

amended version of the budget presented by the research team for the second and third milestones.

3.2. Data Types and Sources

Primary and secondary data were employed for this study. Primary data was collected through interviews and questionnaire administration. The questionnaire covered issues such as business status, educational qualification of actors, ownership and products, employment, profits and income, start-up capital, cost of production, method of entry into the sector and linkages between informal and the formal sector. Secondary information was obtained from States' Ministries of Trade, Commerce and Industry, sector unions/association and other stakeholders.

3.3. Sampling Technique and Sample Size

A two-stage sampling procedure was utilised to determine the sample size for the study. One state was randomly selected from each of the six geo-political zones and the FCT. In each of the states identified, one urban and one rural local government areas were selected. The survey was carried out at the Federal Capital Territory and in six states and 12 local government areas. A questionnaire was administered to 2,800 respondents/actors.

3.4. Data Collection

The main method of collecting quantitative data for this study was the use of a structured questionnaire. Qualitative data were gathered through personal contact and In-Depth Interviews (IDIs). The structured questionnaire was administered to elicit information on informal sector activities in the selected states. In each state, 400 copies of the questionnaire were administered totalling 2,800. The 400 copies of the questionnaire for each state were distributed across distributive trade, manufacturing, and technical services sectors. A ratio of 70 to 30 was applied for the distribution to urban and rural local government areas.

The fieldwork commenced in November, 2013 and involved the use of monitors, principal investigators and Research Assistants (RAs). Scrupulous efforts were made to ensure that experienced and competent people were recruited as RAs and monitors. Moreover, two-level training programmes were organised for all the field officers. The first level training tagged 'Train the Trainer' was targeted at the field coordinators and held in Ibadan. The second level training meant for the field assistants was implemented by the coordinators at the states and local government areas in the first day of the field activity. A working knowledge of the local language by the field assistants was a requirement for their recruitment. This ensured accurate interpretation of questions and enhanced communications between the actors and the interviewers.

A two-stage field monitoring was undertaken in the course of the study. The first stage was the monitoring by members of the Steering Committees to the six geo-political zones and FCT when the field activities were in progress. The second was the visit to stakeholders in two selected states (Lagos and Niger) by Professor I. O Taiwo and Mr. Tunde Lawal, the Project Directors.

3.5. Data Processing and Analysis

The data analysis phase commenced with manual editing and coding of the completed questionnaires. This was followed by data entering, data editing and processing; survey data analysis and IDIs. The Statistical Package for the Social Sciences (SPSS) and EPI-INFO were the main statistical software employed in the analyses.

Descriptive statistics was adopted to determine interdependencies among informal sector activities on the one hand, and between the informal and formal sectors on the other in terms of cost structure (intermediate input requirements and value added), intermediate sales and final demand. The size of the informal sector in each state is computed using the mean income of the informal sector operators to generate the relative share of the informal sector in each state GDP. Data were analysed by using SPSS package to present educational attainment, age group, rural-urban divide, gender and number of hours of work etc. The qualitative data gathered from the in-depth interviews were subjected to info-technology computer package processing to generate appropriate narratives.

3.6. Deliverables

- A Research Report on Informal Sector and Economic Development in Nigeria (May, 2014).
- A policy memorandum on the report of the study of the informal sector and economic development in Nigeria (June, 2014).
- A Compendium of informal sector statistics (June, 2014).
- A policy memorandum derived from a Stakeholder Dissemination Workshop (June, 2014).

SECTION FOUR

CONCEPTUAL ISSUES ON THE INFORMAL SECTOR

This section reviews conceptualisations, interpretations and definitions of the informal sector globally and in Nigeria.

4.1. Definition of the Informal Sector

The informal sector refers to economic activities in all sectors of the economy that are operated outside the purview of government regulation. This sector may be invisible, irregular, parallel, non-structured, backyard, underground, subterranean, unobserved or residual⁵. Informal sector enterprises are characterized by their smallness (less than 10 workers), frequently relying on family labour.

The informal sector is generally defined as an economic sector consisting of small-scale, self-employed activities (with or without hired workers), typically at a low level of organisation and technology, with the primary objective of generating employment and incomes. Unlike the formal economy, these activities are usually not taxed, not monitored by any governmental agency, nor included in a country's Gross National Product (GNP)⁶.

The lives of informal sector workers are a daily struggle to meet basic needs, often in very poor working conditions where people endure long working hours for minimal and fluctuating income⁷. They have neither income nor social security; many are self-employed, but the sector also includes persons who are in wage employment, apprenticeships, work as industrial outworkers, and unpaid family members⁸. Their struggle is also a longer-term one to gain control of assets and to make provision against contingencies⁹.

4.2. Nature of the Informal Sector

Informal economic activities encompass a wide range of small-scale, largely self-employment activities. Most of the informal sector activities are traditional occupations using simple methods of production. Often, they include financial and economic endeavours of subsistence nature such as retail trade, transport, restaurant, repair services, financial intermediation and household or other personal services¹⁰.

Generally, informal sector activities can be grouped into four (4) major areas:

1. Primary activities produced for immediate consumption, such as crop farming, and fishing;

⁵Magbagbeola (1996) in Ekpo I A. H. and O. J. Umoh (2006) The Informal Sector [www. onlinenigeria.com](http://www.onlinenigeria.com) retrieved on 25/09/2006

⁶International Labour Organization, 'The informal sector', updated 11 May 2000, http://www.ilo.org/public/english/region/asro/bangkok/feature/inf_sect.htm

⁷ Chambers, R. (1982), *Rural Development: Putting the Last First*, London, Longman; M. Bose, (1990), *The Urban Informal Sector Revisited: Some Lessons from the Field*, IDS Discussion Paper no.276

⁸ Young, K.(1993), *Planning Development with Women: Making a World of a Difference*, Basingstoke, Macmillan

⁹ Chambers, 1982 (op.cit)

¹⁰Ademu, W.A. (2006) The informal sector and employment generation in Nigeria: The role of credit. *Paper presented at the Annual Conference of the Nigerian Economic Society (NES)*. 22-24 August, Calabar, Nigeria

2. Secondary activities which comprise non-agricultural occupations/traditional crafts, such as weaving, black smiting and auto-repair;
3. Small-scale distribution concerned with geographic spread of commercial activities, such as hawking and petty trading; and
4. Tertiary activities which enable urban residents have adequate and comfortable surroundings for higher productivity, such as transport operators and dry cleaning/laundry services.

For ease of analysis, the informal sector in Nigeria is categorised into three sub-sectors in this study: (i) Manufacturing/Productive; (ii) Technical Services; and (iii) Distributive Trade.

(i) **Manufacturing/Productive Sub-sector:** This sub-sector encompasses all economic activities involving the production of tangible goods. They include agricultural production, mining and quarrying (excluding petroleum), small-scale manufacturing, building and construction. Included in this sub-sector are textile/weaving products; leather products; plastic product manufacture; wood product; metal fabrication; rubber and plastic products; food products; grass/reed crafts; stone crafts; mining/quarrying; boat building and net making; block making; agro-allied processing (Gari, Soya milk, Zobo processing); animal husbandry (poultry, piggery, fish farming, etc); bakery; sachet/table water manufacturing; and drug making.

(ii) **Technical Service Sub-sector:** This sub-sector includes economic activities such as repairs and maintenance, informal education services, health services, counselling services as well as labour for menial work. Repairs and maintenance services include tailoring, vehicle repairs and maintenance, tinkering, carpentry and servicing of various household and commercial tools. Informal health services, especially in the rural areas, include traditional birth attendants, herbalists and other traditional medical practitioners. There are also traditional spiritualists who offer counselling services. These services are rendered for fees paid to those who render them. Main activities covered in this sub-sector include automobile repairs (mechanics, rewire, vulcanizer, panel beater, painter); Bicycles/motorcycle repairs; footwear repairs (cobbler); Hairdressing/barbing; electronics, including radio/TV/computer repairs; carpentry/furniture; boat repairs; plumbing/pipe fittings; bricklaying; blacksmith; welder and frame cutters; potters and related clay and abrasive formers; fashion designing; and transport operators (taxi, buses, motorcycles (*okada*), tricycle (*keke*)).

(iii) **Distributive Trade Sub-sector:** The activities of this sub-sector are mostly buying and selling. They include food stuff; textile; furniture and fittings; coal and charcoal; plastics and rubber products; building materials; fabricated metal products; computer software and hardware; agro-allied, chemical and charcoal products; spare parts; electronics/electrical; laundry and dry cleaning; restaurants (foods and drinks centres); patent medicine; and supermarket/provision store.

The informal sector can be advantageous when adequately and strategically channelled to benefit the unemployed¹¹. This further gives an insight to the nature and characteristics of people involved in informal activities.

¹¹Olunloyo, (2007)

4.2.1. Typology of Informal Sectors

The informal sector has a number of distinguishing features. Economic activities in the sector are predominantly owned by one person and characterised by employment of family labour as apprentices; a threshold size of less than 10 employees is often associated with the sector; and operators do not report or make returns to government agencies. Essentially, an informal enterprise is "that which operates without binding official regulations (but may or may not regulate itself internally) as well as one which operates under official regulations that do not compel rendition of official returns on its productive process".¹² In terms of spatial location, majority of informal enterprises are neighbourhood-based,¹³ typically operating in single-room tenement buildings making it the dominant house-type for home-based enterprises.¹⁴

The Nigerian informal sector has distinct gender and age segmentation. In the informal manufacturing subsector (food, beverage and tobacco; wears and leather works; metal fabrication; paper and paper products, etc.), women have a slight dominance over men, whereas in the non-manufacturing (water supply; building and construction; wholesale and retail trade; repair works, etc.), the reverse is the case with men in a clear majority above women.¹⁵ Moreover, male-headed enterprises are much more capital-intensive than their female-headed counterparts and as such report much more profit. The dominant age cohort in the Nigerian informal sector, accounting for over 50% of the workforce is the 20-40 years group.¹⁶

Actors in the informal sector are often people of low education levels and low status. Even though many informal entrepreneurs do possess secondary school-level education, the serious scarcity of jobs in the country is forcing an increasing number of better educated people (polytechnic and university graduates) to enter into the sector. In addition, the informal sector is viewed as a possible solution to the problems of people with low positions in society including the poor in developing countries because of its autonomous capacity to generate employment.

¹²CBN/FOS/NISER (Central Bank of Nigeria/Federal Office of Statistics/Nigerian Institute of Social and Economic Research) (2001a) *A Study of Nigeria's Informal Sector, Volume 1: Statistics on Nigeria's Informal Sector*. Abuja: CBN. Pg. 2

¹³Abumere, S.I., Arimah, B.C. and Jerome, T.A. 1998. The Informal Sector in Nigeria's Development Process. *Development Policy Centre (DPC), Research Report no. 1*. Ibadan, Nigeria: DPC, pg.37,

¹⁴CBN/FOS/NISER (Central Bank of Nigeria/Federal Office of Statistics/Nigerian Institute of Social and Economic Research) (2001a) *A Study of Nigeria's Informal Sector, Volume 1: Statistics on Nigeria's Informal Sector*. Abuja: CBN.

¹⁵CBN/FOS/NISER (Central Bank of Nigeria/Federal Office of Statistics/Nigerian Institute of Social and Economic Research) (2001a) *A Study of Nigeria's Informal Sector, Volume 1: Statistics on Nigeria's Informal Sector*. Abuja: CBN. CBN/FOS/NISER (Central Bank of Nigeria/Federal Office of Statistics/Nigerian Institute of Social and Economic Research) (2001b) *A Study of Nigeria's Informal Sector, Volume 2: in-depth Study on Nigeria's Informal Manufacturing Sector*. Abuja: CBN.

¹⁶Abumere, S.I., Arimah, B.C. and Jerome, T.A. 1998. The informal sector in Nigeria's development process. *Development Policy Centre (DPC), Research Report no. 1*. Ibadan, Nigeria: DPC, pg 40; Oduhet *et al.*, 2008: 37.

Box 4.1: General essential/ operational criteria of informal sector

- *Essential criteria:*
 - Legal status: unincorporated enterprise;
 - Ownership: belongs to a household;
 - Type of accounts: absence of separate complete accounts;
 - Production destination: at least some production is destined for sale or barter, being excluded household enterprises with no market production (own-account agriculture or construction), services of paid domestic workers, and services from owner-occupied dwellings.
- *Operational criteria:*
 - Size limit of the enterprise: the number of employees engaged in the production is left to the country's discretion (for international reporting, countries provide figures separately for enterprises with less than five employees);
 - Location of units: urban and rural areas.

Source: Various Sources, 2013

Table 4. 1: Typology of Characteristics of Informal Versus Formal Sector

	Characteristics	Informal	Formal
1.	Employment of no more than 10 persons	√	
2.	Legal and administrative regulations		√
3.	Employment of family members	√	
4.	Fixed working hours or days		√
5.	Institutional loans		√
6.	Production intended for final consumer	√	√
7.	Less than six years of school for workers, and for certain activities	√	
8.	Use of mechanical and administrative energy		√
9.	Peripatetic or semi-peripatetic nature of the activity	√	
10.	Typically owned by one-man	√	
11.	Employ family labour as apprentices	√	
12.	Do not report or make returns to government agencies	√	
13.	Ease of entry	√	
14.	Unregulated and competitive markets	√	
15.	Reliance on indigenous resources	√	
16.	Family ownership of enterprises	√	
17.	Small-scale operation	√	
18.	labour intensive	√	
19.	Adapted technology skills acquired outside the formal school system	√	

Source: Compiled from Literature

4.3. Economic Development and Informal Sector in Nigeria

The informal sector plays a significant role in the growth of the Nigerian economy even though its activities, which cut across the productive, services and financial services sub-sectors, are hardly factored into the computation of GDP. At this stage of the study, the contribution of the informal sector has not been adequately ascertained either. The sector has contributed immensely to the growth of the Nigerian economy through the provision of employment, income and supplying ignored markets. The informal sector has also contributed to the Nigeria's GDP growth via the existing interdependencies between the formal and informal sectors. Of note are the linkages between the informal and formal sectors in the areas of supply of raw materials, intermediate inputs, machineries and equipment. However, working and employment conditions within the sector are still poor and have further shown that formalization will bring immense benefits for the growth of the Nigerian economy.

Economic development refers to the sustained, concerted actions of policy makers and communities that promote the standard of living and economic health of a specific area. It can also be referred to as the quantitative and qualitative changes in the economy. Such actions can cover multiple areas including development of human capital, critical infrastructure, regional competitiveness, environmental sustainability, social inclusion, health, safety, literacy, and other initiatives. Economic development differs from economic growth. Whereas economic development is a policy intervention endeavour with aims of economic and social well-being of people, economic growth is a phenomenon of market productivity and rise in GDP. Consequently, Amartya Sen points out that: "economic growth is one aspect of the process of economic development. The scope of economic development includes the process and policies by which a nation improves the economic, political, and social well-being of its people".

Economic development has been understood since World War II to involve economic growth, namely the increases in per capita income, and (if currently absent) the attainment of a standard of living equivalent to that of industrialized countries. Economic development can also be considered as a static theory that documents the state of an economy at a certain time. According to Schumpeter and Backhaus (2003), the changes in this equilibrium state can only be caused by intervening factors coming from the outside.

There have been several major phases of development theory since 1945. From the 1940s to the 1960s, the state played a large role in promoting industrialization in developing countries. This period was followed by a brief period of basic needs development focusing on human capital development and redistribution in the 1970s. Neo-liberalism emerged in the 1980s pushing an agenda of free trade and import substitution industrialization.

Economic development typically involves improvements in a variety of indicators such as literacy rates, life expectancy, and poverty rates. This is because a country's economic development is related to its human development, which encompasses, among other things, health and education. These factors are, however, in turn, related to economic growth such that development and growth often go together. The relationship between human development and economic development can be explained in three ways. First, increase in average income leads to improvement in health and nutrition (known as Capability Expansion through Economic Growth). Second, social outcomes can only be improved by reducing income poverty (known as Capability Expansion through Poverty Reduction). Lastly, social outcomes can also be improved with essential services such as education, healthcare, and clean drinking water (known as Capability Expansion through Social Services).

SECTION FIVE

CHARACTERISTICS AND ACTIVITIES OF THE ACTORS IN THE INFORMAL SECTOR

This section presents the characteristics of the responding firms in the informal sector of Nigeria. The discussion includes demographic characteristics of the actors, size of the sector, activities, work place, hours of work, competition and unionisation.

5.1. Distribution of Actors in the Informal Sector

The informal sector actors for this study were equally distributed across the geo-political zones in Nigeria and the Federal Capital Territory (FCT). This implies that out of the 2800 actors, 400 each were drawn from each zone. Specifically, the actors were from six states in Nigeria and Abuja, the FCT, one state each per geo-political zone: Abia State from South-East, Rivers State from South-South, Lagos State from South-West, Kano State from North-West; Niger State from North-Central, Bauchi from North-East and the FCT.

Most of the informal sector enterprises operate in the urban areas. Specifically, 65 per cent of the actors are located in the urban areas, while the remaining 35 per cent are in the rural areas. This translates to 1823 actors operating in the urban and 779 located in the rural areas. The gender distribution of the actors show that majority of them are male. Specifically 77 per cent of them are male while 23 per cent are female. In terms of the sectoral distribution, 38 per cent operate in the distributive trade sector, 38 per cent are in the technical services sector and the 24 per cent in the manufacturing sector (Table 5.1).

Table 5. 1: Distribution of the Informal Sector Actors by Sector, Gender and Settlement

	Item	%	Item	%	Item	%
Settlement	Rural	35	Urban	65		
Sex	Male	77	Female	23		
Sector	Distributive Trade	38	Technical Service	38	Manufacturing	24

Source: NPC-NISER study on Informal Sector, 2013

Majority of the actors (83.7 per cent) own their businesses. Another 11.6 per cent are employees in their respective firms. 1.8 per cent are unpaid family workers, while 2.3 per cent of the actors are apprentices. Only 0.6 per cent of them are journey men. The marital status of the actors shows that majority of them (65.9 per cent) are married, those that are single are 28.1 per cent, and about 4.4 per cent are divorced.

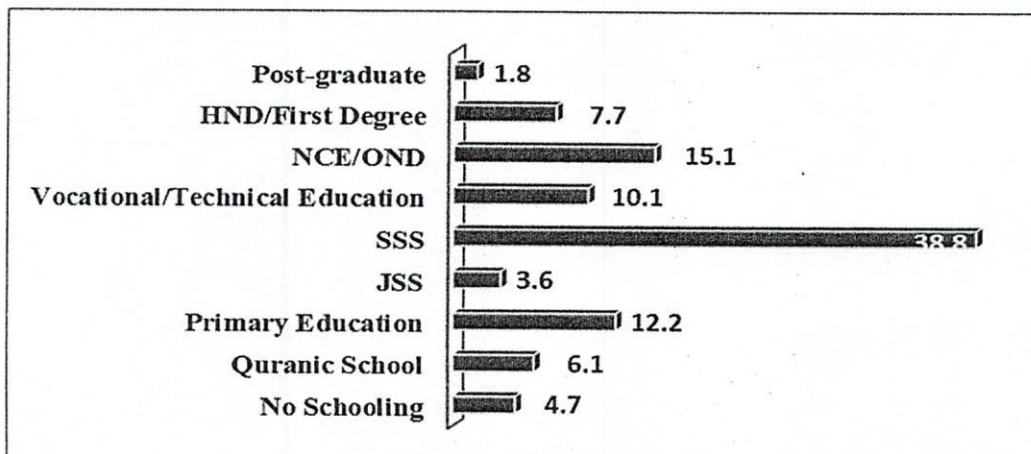
Table 5. 2: Distribution of the Informal Sector Actors by Nature of Business and Marital Status

Nature of Business						
Options	Unpaid Workers	Family	Apprentices	Journeyman	Employees	Owners
%	1.8		2.3	0.6	11.6	83.7
Marital Status						
Options	Widowed	Separated	Divorced	Married	Single	
%	1.1	0.4	4.4	65.9	28.1	

Source: NPC-NISER study on Informal Sector, 2013

The highest educational qualification of majority of the actors is Senior Secondary School Certificate (SSSC). Specifically, 38.8 per cent of them hold SSSC, 15.1 per cent are holders of National Certificate of Education (NCE) or Ordinary National Diploma (OND). Twelve per cent of them have Primary School Leaving Certificate. Those that have Vocational or Technical Education are 10.1 per cent. Those that have Junior Secondary School Certificate and Quranic Certificate are respectively 3.6 per cent and 6.1 per cent, while 4.7 per cent have no formal education. This suggests that most of the informal sector operatives are secondary school certificate holders (see Figure 5.1).

Figure 5. 1: Distribution of informal Sector Actors by Highest Educational Qualification



Source: NPC-NISER study on Informal Sector, 2013

On the size of the informal sector, Table 5.3 illustrated the yearly income distribution of the informal sector operations in the selected states. The average yearly income of the operators in the informal sector ranged between N1.7 million and N3.5 million across the states, with the highest in Rivers and the lowest in Niger. Lagos state has the highest number of informal operators, about 3.8 million actors, while Niger has the lowest, about 400000 operators. The distribution of the standard deviation across the states implied uneven distribution of income within the sector. The proportion of income generated by the informal sector to the state GDP revealed that informal sector accounted for more than half of the total output of each state. For instance in Lagos state, informal sector accounted for 73.67% of the total output of the state, while that of Kano state was 72.21%. Rivers state has the lowest among the sampled states (62.5%), while Abia state has the highest (76.18%). Informal sector as percentage of total output in Niger and Bauchi states were 69.55% and 68.59%, respectively.

Table 5. 3: Yearly Income Distribution of the Informal Sector Operations in the selected states

	Lagos	Abia	Niger	Bauchi	Rivers	Kano
Mean (Naira)	2280110	2036356	1669861	2248659	3512275	3177696
Median	960000	960000	576000	960000	1680000	1680000
Mode	720000	480000	480000	960000	1680000	1440000
Std. Dev	3073782	2865486	2967141	3153781	4606867	3756628
Maximum	16800000	19200000	19200000	19200000	19200000	19200000
Minimum	48000	48000	48000	48000	48000	48000
Operators	3860000	520000	400000	230000	600000	440610
GDP (\$'m) ¹⁷	74674	8687	6002	4713	21073	12393
Informal Sector as percentage of Total GDP						
	73.67	76.18	69.55	68.59	62.5	72.21

Source: NPC-NISER study on Informal Sector, 2013

5.2. Classification of Informal Sector Activities

Informal sector activities in the manufacturing category are classified into 20 groups. These include block making and wood products constituting 17.4 per cent and 16.5 per cent respectively of all activities in this category. The activities also include bakery, metal fabrication and agro-allied activities which constitute 9.3, 8.8 and 8.1 per cent, respectively. Animal husbandry, metal fabrication (furniture), sachet and table water production and leather products make up 7.8, 7.2 and 8.8 per cent, respectively. Some other activities with low percentages in this category include textile/weaving products makers (2.7 per cent), food products (1.3 per cent), cane products (2.2 per cent), drug making (1.0 per cent), rubber and plastics (0.6 per cent) (Table 5.4).

¹⁷ The total GDP for all the sampled States are from Wikipedia (at N160/\$1). See http://en.m.wikipedia.org/wiki/list_of_Nigerian_states_by_GDP

Table 5. 4: Distribution of Informal Sector Actors by Nature of Business (Manufacturing)

	Manufacturing	Respondents	
		No.	% Share
1	Wood products (Furniture, etc)	116	17.4
2	Block making	110	16.5
3	Agro-allied processing (Garri, Soya milk, Zobo processing, etc)	75	11.2
4	Bakery	62	9.3
5	Leather Products (Shoe makers)	59	8.8
6	Animal husbandry (Poultry, Piggery, Fishery, etc)	54	8.1
7	Metal fabrication (Furniture, etc)	52	7.8
8	Sachet/ Table water manufacturing	48	7.2
9	Other Manufacturing	21	3.1
10	Textile/Weaving Products Makers	18	2.7
11	Cane products (Furniture, etc)	15	2.2
12	Food Products	9	1.3
13	Boat Building and Net making	8	1.2
14	Drug Making	7	1.0
15	Rubber and Plastic Products	4	.6
16	Grass/ Reed Crafts	4	.6
17	Stone Crafts	2	.3
18	Mining/ Quarry workers	2	.3
19	Plastic products manufactures	1	.1
20	Soap making	1	.1
	Total	668	100.0

Source: NPC-NISER study on Informal Sector, 2013

The percentage distribution of actors by nature of business and state for the manufacturing sector is captured in Table 5.5. The table reveals that while more actors engage in textile/weaving products making in Niger (5.2%), more actors engage in leather products making in Bauchi (13.1%). Again, more engage in wood products making in Abuja (24.8%), Rivers (23.5%), and Bauchi (16.7%).

Table 5. 5: Distribution of Actors by Nature of Business (Manufacturing) and State

Manufacturing								Total (%)
	Niger	Lagos	Kano	Abia	Rivers	Bauchi	Abuja	
Textile/Weaving Products Makers	5.2	1.0	2.2	3.3	4.1	1.2	1.7	2.7
Leather Products (Shoe makers)	7.3	7.2	10.1	7.8	6.1	13.1	10.3	8.8
Plastic products manufactures	0.0	0.0	0.0	0.0	0.0	1.2	0.0	0.1
Wood products (Furniture, etc)	12.5	14.4	12.4	14.4	23.5	16.7	24.8	17.3
Cane products (Furniture, etc)	0.0	11.3	2.2	2.2	0.0	0.0	0.0	2.2
Metal fabrication (Furniture, etc)	5.2	17.5	5.6	1.1	7.1	4.8	11.1	7.7
Rubber and Plastic Products	0.0	0.0	0.0	2.2	1.0	0.0	0.9	0.6
Food Products	4.2	1.0	4.5	0.0	0.0	0.0	0.0	1.3
Grass/ Reed Crafts	1.0	0.0	2.2	0.0	0.0	0.0	0.9	0.6
Stone Crafts	0.0	0.0	2.2	0.0	0.0	0.0	0.0	0.3
Mining/ Quarry workers	0.0	0.0	1.1	0.0	0.0	0.0	0.9	0.3
Boat Building and Net making	1.0	0.0	0.0	5.6	2.0	0.0	0.0	1.2
Block making	12.5	15.5	18.0	13.3	17.3	14.3	22.2	16.4
Agro-allied processing (Garri, Soya milk, Zobo processing, etc)	25.0	7.2	14.6	6.7	6.1	14.3	6.0	11.2
Animal husbandry (Poultry, Piggery, Fishery, etc)	6.3	8.2	3.4	15.6	10.2	7.1	6.0	8.0
Bakery	8.3	6.2	14.6	10.0	11.2	7.1	7.7	9.2
Sachet/ Table water manufacturing	8.3	8.2	6.7	7.8	6.1	9.5	4.3	7.2
Drug Making	2.1	2.1	0.0	2.2	1.0	0.0	0.0	1.0
Other Manufacturing	0.0	0.0	0.0	7.8	4.1	10.7	3.4	3.6
Soap making	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: NPC-NISER study on Informal Sector, 2013

There are also 20 informal sector activity groups identified under technical services. These include automotive repairs, hairdressing/barbing, transport operators and fashion designers constituting 16.6 per cent, 14.6 per cent, 10.7 per cent and 10.3 per cent, respectively. Others are electronic and computer repairs, Welder and Frame cutters, bicycle/motor cycle repairs, foot wear repairs and radio/TV repairs with percentages of 6.6, 6.5, 6.0, 5.0 and 5.0 respectively. The other activities in this category include masonry/carpentry, brick-laying,

plumbing/pipe fittings and blacksmith/goldsmith with percentages of 4.8, 3.2, 3.1 and 2.2, respectively. Some other activities with low percentages in this category include potters, generator repairs, refrigerator/air conditioner repairs and boat repairs (Table 5.6).

Table 5. 6: Distribution of Informal Sector Actors by Nature of Business (Technical services)

	Technical services	Respondents	
		No.	% Share
1	Automobile Repairs (Mechanics, Rewire, Vulcanizer, Panel Beater, Painter etc),	175	16.6
2	Hairdressing/Barbing	154	14.6
3	Transport operators (Taxi, Buses, Okada, Keke)	113	10.7
4	Fashion designer	109	10.3
5	Electronic/ Computer/GSM Repairs	70	6.6
6	Welder and Frame cutters	69	6.5
7	Bicycle/ Motorcycle Repairs	63	6.0
8	Footwear repairs	53	5.0
9	Radio/TV Repairs	53	5.0
10	Masonry/ Carpentry	51	4.8
11	Brick laying	34	3.2
12	Plumbing/ Pipe fittings	33	3.1
13	Blacksmith/Goldsmith	23	2.2
14	Other Technical services	18	1.7
15	Potters related clay and abrasive former	12	1.1
16	Generator repairs	7	.7
17	Boat Repairs	5	.5
18	Refrigerator/Air conditioner repairs	5	.5
19	Artwork	5	.5
20	Photographing	4	.4
	Total	1056	100.0

Source: NPC-NISER study on Informal Sector, 2013

In terms of distribution of actors by nature of business and state for technical services, Table 5.7 is incisive. The table reveals that while more actors engage in automobile repairs (mechanics, rewire, vulcanizer, panel beater, painter etc) in Abia (5.2%), more engage in footwear repairs in Kano (10.5%), yet more actors engage in radio/TV repairs in Abuja (24.7%).

Table 5. 7: Distribution of Respondents by Nature of Business (Technical services) and State

Technical services								Total (%)
	Niger	Lagos	Kano	Abia	Rivers	Bauchi	Abuja	
Automobile Repairs (Mechanics, Rewire, Vulcanizer, Panel Beater, Painter etc),	0.6	1.5	0.7	5.2	1.4	1.9	0.6	1.7
Bicycle/ Motorcycle Repairs	15.6	22.7	12.4	14.4	16.4	20.4	14.8	16.6
Footwear Repairs	6.5	1.5	10.5	6.5	6.8	7.6	1.9	6.0
Hairdressing/Barbing	5.8	3.8	5.9	6.5	5.5	4.5	3.1	5.0
Radio/TV Repairs	9.7	13.6	9.8	11.1	19.2	13.4	24.7	14.6
Electronic/ Computer/GSM Repairs	5.2	3.8	7.2	7.8	3.4	5.1	2.5	5.0
Masonry/ Carpentry	5.8	6.8	9.2	5.9	9.6	5.7	3.7	6.6
Boat Repairs	3.9	4.5	6.5	4.6	4.8	7.6	1.9	4.8
Plumbing/ Pipe Fittings	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.5
Brick Laying	3.2	3.0	2.0	3.9	6.2	1.9	1.9	3.1
Blacksmith/Goldsmith	5.8	3.8	3.9	5.2	0.0	1.9	1.9	3.2
Welder and Frame Cutters	5.2	1.5	3.9	2.0	0.0	2.5	0.0	2.2
Potters Related Clay and Abrasive Former	5.8	5.3	5.2	5.9	4.1	7.0	11.7	6.5
Fashion Designer	3.2	0.0	1.3	1.3	0.0	0.0	1.9	1.1
Transport Operators (Taxi, Buses, Okada, Keke)	8.4	12.9	12.4	8.5	10.3	8.9	11.1	10.3
Refrigerator/Air Conditional Repairs	11.0	10.6	7.8	10.5	12.3	9.6	13.0	10.7
Generator Repairs	0.6	1.5	0.7	0.0	0.0	0.6	0.0	0.5
Photographing	0.0	2.3	0.7	0.7	0.0	1.3	0.0	0.7
Artwork	0.0	0.8	0.0	0.0	0.0	0.0	2.5	0.4
Other Technical Services	0.0	0.0	0.0	0.0	0.0	0.0	3.1	0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: NPC-NISER study on Informal Sector, 2013

There are 22 informal sector activity groups identified in the distributive trade category. These include supermarket/provision, restaurant, building material; food stuffs sellers, textile and wearing apparels, patent medicine; and electronics/electrical constituting 13.3 per cent, 10.7 per cent, 10.2 per cent, 7.6 per cent, 7.2 per cent, 6.6 per cent and 6.3 per cent,

respectively. Others are spare parts, food stuff, laundry and dry cleaning and computer software and hardware and plastics/rubber products with percentages of 6.2, 5.8, 5.3, 4.6 and 4.0, respectively. It also includes coal and furniture and fittings with percentages of 3.9 and 2.5 per cent respectively. Some other activities with low percentages in this category include charcoal and agro-allied, chemical products, fabricated metal products and car wash (Table 5.8).

Table 5. 8: Distribution of Informal Sector Actors by Nature of Business (Distributive Trade)

	Distributive Trade	Respondents	
		No.	% Share
1	Supermarket/ Provision store	143	13.3
2	Restaurants (Foods and Drinks Centres)	115	10.7
3	Building Materials	110	10.2
4	Food Stuffs Sellers	82	7.6
5	Textile and Wearing Apparel	77	7.2
6	Patent Medicine	71	6.6
7	Electronics/Electrical	68	6.3
8	Spare Parts	67	6.2
9	Food Stuff	62	5.8
10	Laundry and Dry Cleaning	57	5.3
11	Computer Software and Hardware	49	4.6
12	Plastics and Rubber Products	43	4.0
13	Coal and Charcoal	42	3.9
14	Furniture and Fittings	27	2.5
15	Agro-allied, Chemical and Charcoal Products	20	1.9
16	Other Distributive Trade	20	1.9
17	Fabricated Metal Products	10	.9
18	Car Wash	7	.7
19	Decorator/Event Covering	2	.2
20	Sales of Phone Accessories	2	.2
21	Games/Viewing Centre	1	.1
22	Lottery Agents	1	.1
	Total	1076	100.0

Source: NPC-NISER study on Informal Sector, 2013

Table 5. 9: Distribution of Actors by Nature of Business (Distributive trade) and State

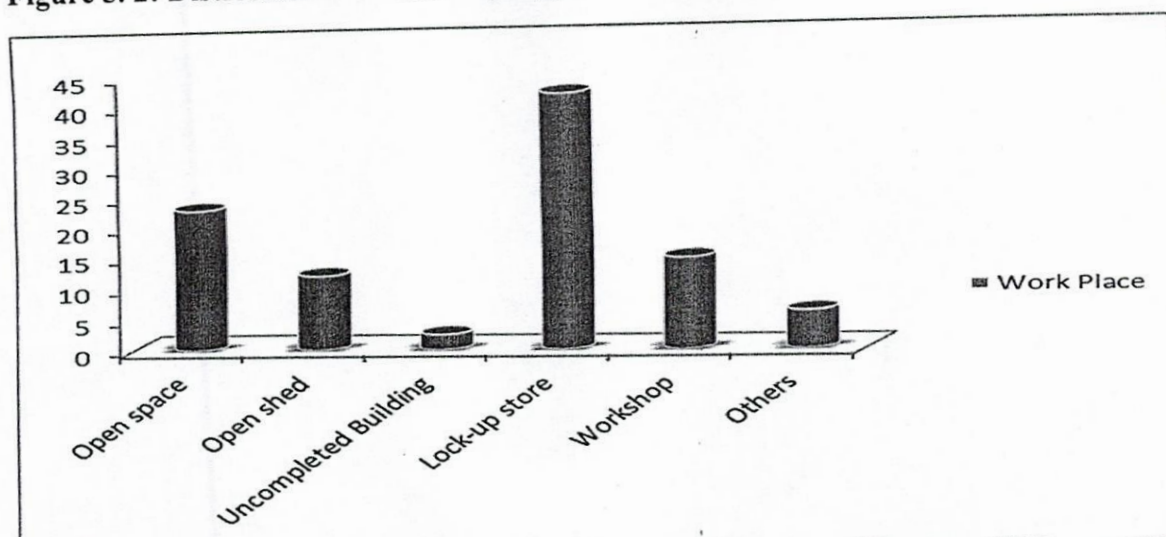
Distributive Trade	State							Total (%)
	Niger	Lagos	Kano	Abia	Rivers	Bauchi	Abuja	
Foodstuff	4.6	4.1	4.5	2.6	9.0	8.2	7.9	5.8
Textile and Wearing Apparel	3.9	8.8	3.2	11.0	5.8	8.2	9.4	7.2
Furniture and Fittings	2.6	1.2	3.2	5.2	1.9	3.2	0.0	2.5
Coal and Charcoal	6.6	1.8	4.5	5.8	4.5	3.2	0.8	3.9
Plastics and Rubber Products	4.6	4.7	3.2	3.9	3.8	3.8	3.9	4.0
Building Materials	9.2	8.8	14.0	7.7	14.1	8.9	8.7	10.2
Fabricated Metal Products	2.0	0.6	1.3	1.9	0.6	0.0	0.0	0.9
Computer Software and Hardware	3.9	8.2	0.0	6.5	2.6	7.0	3.1	4.6
Agro-allied, Chemical and Charcoal Products	3.9	2.9	1.3	1.3	0.6	2.5	0.0	1.9
Spare Parts	7.9	4.1	8.3	7.1	4.5	7.0	4.7	6.2
Electronics/Electrical	6.6	3.5	5.7	7.1	9.0	7.0	5.5	6.3
Laundry and Dry Cleaning	4.6	3.5	3.8	3.9	6.4	7.0	8.7	5.3
Restaurants (Foods and Drinks Centres)	8.6	15.2	7.0	9.7	11.5	10.1	12.6	10.7
Patent Medicine	8.6	4.7	7.6	6.5	4.5	7.0	7.9	6.6
Supermarket/ Provision Store	13.8	16.4	13.4	8.4	15.4	8.9	17.3	13.3
Food Stuffs Sellers	7.2	7.0	15.3	7.1	5.8	5.1	5.5	7.6
Car Wash	0.0	1.8	0.6	0.6	0.0	0.6	0.8	0.7
Games/Viewing Centre	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.1
Decorator/Event Covering	0.0	1.2	0.0	0.0	0.0	0.0	0.0	0.2
Sales of Phone Accessories	0.0	0.6	0.0	0.0	0.0	0.0	0.8	0.2
Lottery Agents	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.1
Other Distributive Trade	1.3	0.0	3.2	3.9	0.0	2.5	2.4	1.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: NPC-NISER study on Informal Sector, 2013

The percentage distribution of actors by nature of business and state for the distributive trade is contained in Table 5.9, which reveals that more actors engage in Food stuff distribution in Rivers (9.0%), in Building materials in Kano (14.0%), and in supermarket/provision store in Abuja (17.3%) (Table 5.9)

Most of the informal sector actors (41.6 per cent) operate from lock-up stores. 22.8 per cent of them operate from open spaces; some 14.9 per cent and 12 per cent operate in workshops and open sheds, respectively, while 2.5 per cent run their businesses from uncompleted buildings (Figure 5.2).

Figure 5. 2: Distribution of Actors by Type of Work Place



Source: NPC-NISER study on Informal Sector, 2013

Majority of the actors (69.2 per cent) open for business for 6 to 10 hours during normal demand. The proportion that opens for business for 11 to 15 hours daily is 26.9 per cent while 1.8 per cent and 1.7 per cent open for business for 1 to 5 hours and 16 to 20 hours daily during normal demand. In time of high demand, 50.2 per cent open for business for 11 to 15 hours daily and 41.6 per cent open for business for 6 to 10 hours while 5.4 per cent and 2.0 per cent open for business for 16 to 20 hours daily and between 21 to 24 hours daily, respectively. In time of low demand, 71.8 per cent open for business for 6 to 10 hours daily, 15.4 per cent open for business for 11 to 15 hours, while 11.1 per cent open for business for 1 to 5 hours daily (Table 5.10).

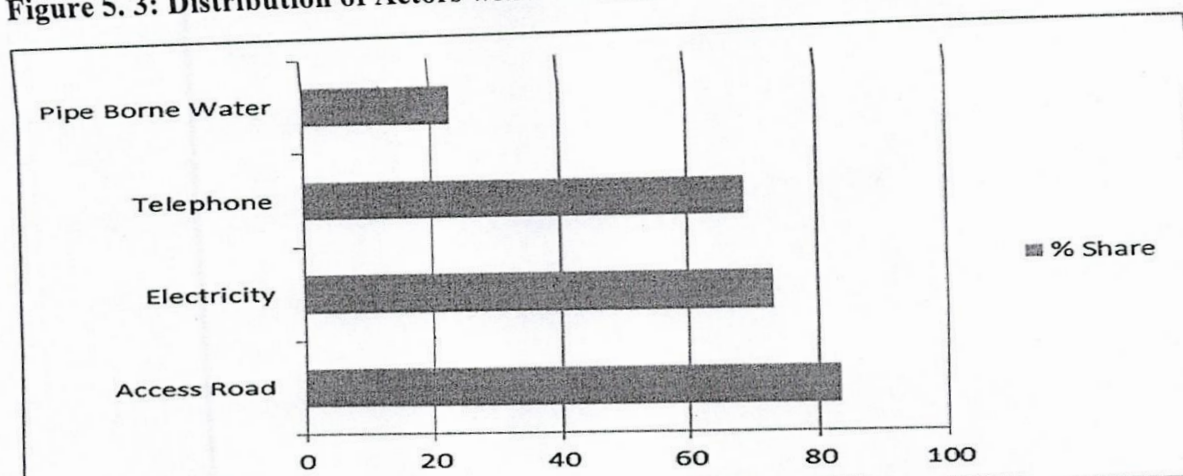
Table 5. 10: Distribution of enterprise daily business opening hours

Demand	Btw 1-5 hrs	Btw 6-10 hrs	Btw 11-15 hrs	Btw 16-20 hrs	Btw 21-24 hrs
Normal (%)	1.8	69.2	26.9	1.7	0.5
High (%)	0.7	41.6	50.2	5.4	2.0
Low (%)	11.1	71.8	15.4	1.4	0.3

Source: NPC-NISER study on Informal Sector, 2013

There are varying degrees of availability of infrastructural facilities in the work places. Indeed, 73.3 per cent of the actors have electricity, 23.1 per cent have access to pipe borne water, and 68.7 per cent have access to telephone, while 83.4 per cent have access road leading to their work places (Figure 5.3).

Figure 5. 3: Distribution of Actors with Facilities



Source: NPC-NISER study on Informal Sector, 2013

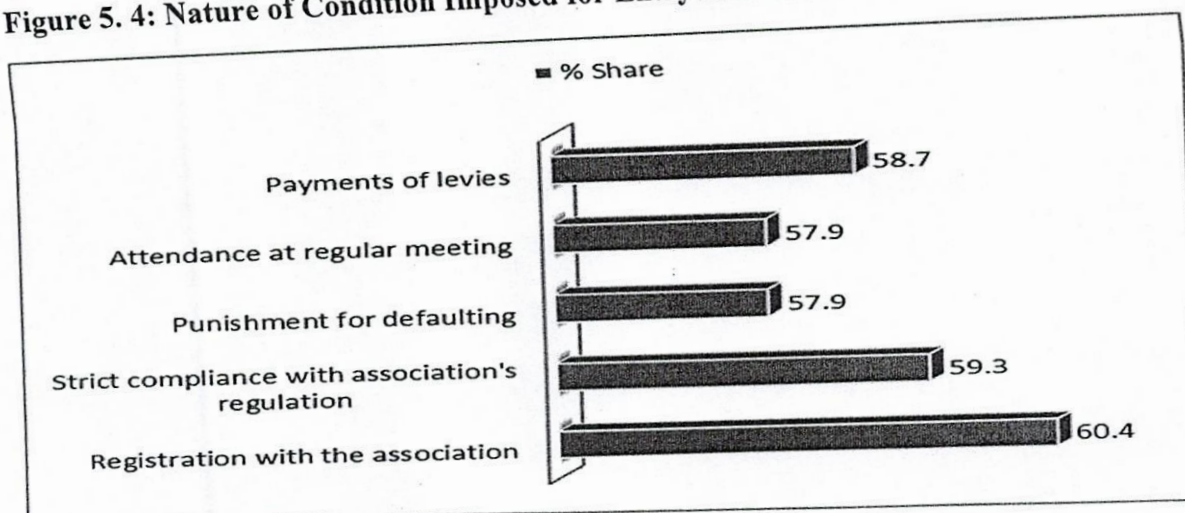
A significant proportion of the informal sector actors (69.6 per cent) rented their work places, while 21.8 per cent owned their work places. Only 10.6 per cent of them squat. Contrary to expectation, most of the actors (71.7 per cent) do not belong to any union or association. For those that belong to a union/association, 54.7 per cent indicated that the union/association imposed condition for entry into business (Table 5.11). On the nature of restriction imposed, 60.4 per cent of them indicated that registration with the association was a condition for entry into the business while 59.3 per cent and 58.7 per cent, respectively, indicated that strict compliance with association regulations and payments of levies were conditions imposed for entry. Almost 58 per cent of the actors indicated that punishment for defaulting and attendance at regular meetings were imposed as condition for entry into business (Figure 5.4). On the influence the association had on their businesses. 63.5 per cent of the actors contended that it was positive, 14.6 per cent submitted that it was negative, while 21.8 per cent revealed that the association had no effect on their business (Table 5.11).

Table 5. 11: Classification of Actors by Other Characteristics

Ownership of Work Place					
Options	Owner's Premises	Squatting	Rented		
%	21.8	10.6	69.6		
Belonging to a Union/Association					
Options	Yes	No			
%	28.3	71.7			
Imposition of Condition for Entry into Business					
Options	Yes	No			
%	54.7	45.3			
Influence of the Association on Business					
Options	Positive	Negative	No effect		
%	63.5	14.6	21.8		
Form of the Business Enterprise					
Options	Sole Proprietorship	Partnership	Family Owned	Registered Private Company	Others
%	93.3	3.2	2.6	0.5	0.4
Support from International Agency for their Business					
Options	Yes	No			
%	2.3	97.7			

Source: NPC-NISER study on Informal Sector, 2013

Figure 5. 4: Nature of Condition Imposed for Entry into Business



Source: NPC-NISER study on Informal Sector, 2013

Most of the actors (93.3 per cent) operate as sole proprietors. 3.2 per cent are partnerships, while family-owned business accounted for 2.6 per cent. Only 0.5 per cent of the enterprises are registered private company. The prevalence of sole proprietorship is due to the fact that most of the enterprises interviewed operate in the retail and service sectors. Thus, the businesses are small and the capital outlay minimal, making it affordable to the proprietors.

Majority of the actors experienced rising input costs from 2010 to 2014. While 77.6 per cent indicated rising costs, 20.5 per cent indicated that input costs were stable over the period, and 2.0 per cent indicated that costs were falling. The proportion of them that indicated that cost of labour was rising between 2010 and 2014 was 76.1 per cent, 22.2 per cent opined that it was stable, while 1.6 per cent revealed that it was falling. Cost of production trended upwards between 2010 and 2014 according to 81.2 per cent of the actors, 17.0 per cent indicated that it was stable, while 1.8 per cent suggested that it was falling (Table 5.12).

Table 5. 12: Distribution of Actors by Cost, Availability and Quality of Input, Labour and Level of Production

Trend of cost	Input	Labour	Production
	% Share	% Share	% Share
Rising	77.6	76.1	81.2
Stable	20.5	22.2	17
Falling	2	1.6	1.8
Total	100	100	100
Availability of Input, Labour and Production's Attribute between 2010 and 2014			
Availability	Input	Labour	Production
	% Share	% Share	% Share
Readily available	94.3	92.9	96
Not available	5.7	7.1	4
Total	100	100	100
Quality of Input, Labour and Production's Attribute between 2010 and 2014			
Quality	Input	Labour	Production
	% Share	% Share	% Share
Good	83	79.7	85.9
Fair	16.7	18.5	14
Bad	0.3	0.2	0.1
Total	100	100	100

Source: NPC-NISER study on Informal Sector, 2013

Many of the actors indicated that their inputs were readily available in the period 2010 to 2014. While 94.3 per cent held this view, only 5.7 per cent suggested that their input were not available. On the availability of labour, 92.9 per cent indicated that labour was readily available. Similarly, 96.0 per cent of them indicated that their products were readily available in the market between 2010 and 2014.

The quality of input was considered good by majority of the actors in the period 2010 to 2014. Specifically, 83.0 per cent held this opinion, while 16.7 per cent and 0.3 per cent, respectively, indicated that the input quality was fair and bad. About 79.7 per cent indicated that the quality of labour was good, and 85.9 per cent indicated that the quality of products was good in the same period.

SECTION SIX

INFORMAL SECTOR AND DEVELOPMENT POTENTIALS

This section analyses the development potentials of the informal sector in terms of employment creation, income (wealth) generation and capital and production structure as well as constraints to the growth of the sector.

6.1. Employment Generation

Total employment in the sampled informal sector enterprises increased from 6079 in 2010 to 6213 in 2011 and to 6466 in 2012 (Tables 6.1.1 - 6.1.3). The sector distribution shows that technical services have the highest employment of 2238 in 2010 followed by distributive trade (2109) and manufacturing (1732). Employment in the technical services sector increased to 2271 in 2011 and 2344 in 2012, that of distributive trade increased to 2184 in 2011 and 2277 in 2012. Employment in the manufacturing sector rose to 1758 in 2011 and 1845 in 2012. The gender distribution of employment shows a clear dominance of males relative to females across the three sectors.

Table 6.1. 1: Distribution of Employment by Gender and Sector, 2010

Personnel	Manufacturing			Technical Services			Distributive Trade			Total		
	M	F	T	M	F	T	M	F	T	M	F	T
Owner	502	109	611	834	118	952	592	310	902	1928	537	2465
Paid Employees	348	117	465	371	83	454	347	205	552	1066	405	1471
JourneyMen	161	34	195	139	25	164	92	32	124	392	91	483
Apprentices	246	44	290	444	82	526	195	76	271	885	202	1087
Unpaid family workers	98	73	171	102	40	142	120	140	260	320	253	573
Total	1355	377	1732	1890	348	2238	1346	763	2109	4591	1488	6079

Source: NPC-NISER study on Informal Sector, 2013

Note. For this Table and subsequent ones in this section, M=male; F=female; T=Total

Table 6.1. 2: Distribution of Employment by Gender and Sector, 2011

Personnel	Manufacturing			Technical Services			Distributive Trade			Total		
	M	F	T	M	F	T	M	F	T	M	F	T
Owner	465	115	580	787	116	903	565	314	879	1817	545	2362
Paid Employees	371	119	490	400	85	485	377	219	596	1148	423	1571
JourneyMen	165	33	198	151	36	187	91	38	129	407	107	514
Apprentices	251	56	307	450	87	537	200	80	280	901	223	1124
Unpaid family workers	108	75	183	114	45	159	131	169	300	353	289	642
Total	1360	398	1758	1902	369	2271	1364	820	2184	4626	1587	6213

Source: NPC-NISER study on Informal Sector, 2013

Table 6.1. 3: Distribution of Employment by Gender and Sector, 2012

Personnel	Manufacturing			Technical Services			Distributive Trade			Total		
	M	F	T	M	F	T	M	F	T	M	F	T
Owner	480	109	589	790	119	909	589	315	904	1859	543	2402
Paid Employees	369	137	506	406	103	509	377	233	610	1152	473	1625
JourneyMen	168	37	205	152	36	188	95	44	139	415	117	532
Apprentices	267	59	326	467	98	565	205	85	290	939	242	1181
Unpaid family workers	130	89	219	136	37	173	149	185	334	415	311	726
Total	1414	431	1845	1951	393	2344	1415	862	2277	4780	1686	6466

Source: NPC-NISER study on Informal Sector, 2013

Table 6.1. 4: Distribution of Employment by State and Sector

State	Sector			Total
	Manufacturing	Technical Services	Distributive Trade	
Niger	196	206	315	717
Lagos	303	409	348	1060
Kano	200	315	273	788
Abia	348	370	530	1248
Rivers	339	392	401	1132
Abuja	267	251	247	765
Bauchi	192	401	163	756
Total	1845	2344	2277	6466

Source: NPC-NISER study on Informal Sector, 2013

There are 2400 sampled informal sector operators in the six states studied and this generated 6, 466 employments (Table 6.1.4). This translates to 2.4 persons per operator (Table 6.1.5). From the table, the total informal sector operators in the six sampled states were estimated at 6,056,610 operators. Given the size of employment generated by the sampled operators which is 2.4, the estimated total employment in the six states studied will amount to 14,372,720.

Table 6.1. 5: Distribution of Total Employment by State

State	No. of Operators Sampled	No. Employed by Sampled Operators	No. Employed per Sampled Operator	Total No. of Operators	Estimated Employment
Abia	400	1,248	3.1	520,000	1,622,400
Bauchi	400	756	1.9	230,000	434,700
Kano	400	788	2.0	440,610	868,002
Lagos	400	1,060	2.7	3,860,000	10,229,000
Niger	400	717	1.8	400,000	717,000
Rivers	400	1,132	2.8	600,000	1,698,000
All-State	2,400	5,701	2.4	6,050,610	14,372,720
Source: NPC-NISER Informal Sector Study, 2013					

The distribution of employment by state in the sampled informal sector enterprises largely shows an increase in employment between 2010 and 2012 across the states (Tables 6.2.1 – 6.2.3). Specifically, employment increased from 960 in 2010 to 1060 in 2012 for Lagos; 732 in 2010 to 788 in 2012 for Kano, 1238 in 2010 to 1248 in 2012 for Abia; 1092 in 2010 to 1132 in 2012 for Rivers; 676 in 2010 to 765 in 2012 for Abuja and 660 in 2010 to 756 in 2012 for Bauchi. In the case of Niger, employment increased from 721 in 2010 to 736 in 2011, but declined to 717 in 2012.

Table 6.2. 1: Distribution of Employment by Gender and State, 2010

Personnel	State																		Total					
	Niger			Lagos			Kano			Abia			Rivers			Abuja						Bauchi		
	M	F	T	M	F	T	M	F	T	M	F	T	M	F	T	M	F	T	M	F	T			
Owner	269	100	369	252	119	371	344	28	372	294	106	400	295	69	364	226	80	306	248	35	283	1928	537	2465
Paid Employees	74	38	112	140	81	221	196	11	207	185	115	300	243	88	331	65	47	112	163	25	188	1066	405	1471
JourneyMen	25	7	32	103	20	123	13	1	14	98	32	130	74	16	90	43	12	55	36	3	39	392	91	483
Apprentices	103	24	127	134	35	169	100	7	107	171	55	226	190	45	235	105	26	131	82	10	92	885	202	1087
Unpaid family workers	40	41	81	42	34	76	20	12	32	106	76	182	27	45	72	39	33	72	46	12	58	320	253	573
Total	511	210	721	671	289	960	673	59	732	854	384	1238	829	263	1092	478	198	676	575	85	660	4591	1488	6079

Source: NPC-NISER study on Informal Sector, 2013

Table 6.2. 2: Distribution of Employment by Gender and State, 2011

Personnel	State																								Total		
	Niger			Lagos			Kano			Abia			Rivers			Abuja			Bauchi			M	F	T			
	M	F	T	M	F	T	M	F	T	M	F	T	M	F	T	M	F	T	M	F	T						
Owner	235	95	330	250	124	374	349	26	375	267	105	372	274	76	350	207	87	294	235	32	267	1817	545	2362			
Paid Employees	86	42	128	146	81	227	206	12	218	194	115	309	250	94	344	73	48	121	193	31	224	1148	423	1571			
JourneyMen	24	11	35	104	22	126	13	1	14	95	42	137	77	17	94	48	13	61	46	1	47	407	107	514			
Apprentices	98	33	131	137	36	173	101	3	104	174	65	239	186	54	240	118	23	141	87	9	96	901	223	1124			
Unpaid family workers	53	59	112	45	40	85	22	12	34	102	79	181	31	47	78	42	39	81	58	13	71	353	289	642			
Total	496	240	736	682	303	985	691	54	745	832	406	1238	818	288	1106	488	210	698	619	86	705	4626	1587	6213			

Source: NPC-NISER study on Informal Sector, 2013



Table 6.2. 3: Distribution of Employment by Gender and State, 2012

Personnel	State																		Total					
	Niger			Lagos			Kano			Abia			Rivers			Abuja			Bauchi			M	F	T
	M	F	T	M	F	T	M	F	T	M	F	T	M	F	T	M	F	T	M	F	T			
Owner	225	87	312	255	123	378	364	29	393	275	100	375	278	81	359	219	92	311	243	31	274	1859	543	2402
Paid Employees	77	45	122	148	92	240	213	16	229	185	122	307	244	103	347	81	62	143	204	33	237	1152	473	1625
JourneyMen	26	12	38	109	26	135	12	1	13	97	43	140	74	19	93	49	14	63	48	2	50	415	117	532
Apprentices	101	30	131	152	44	196	111	5	116	168	64	232	195	55	250	120	35	155	92	9	101	939	242	1181
Unpaid family workers	60	54	114	68	43	111	23	14	37	112	82	194	35	48	83	45	48	93	72	22	94	415	311	726
Total	489	228	717	732	328	1060	723	65	788	837	411	1248	826	306	1132	514	251	765	659	97	756	4780	1686	6466

Source: NPC-NISER study on Informal Sector, 2013

Majority of workers in the informal sector are in the 15 to 55 age bracket. The ratio of this age group for owners, paid employees and journey men are 85, 81.7 and 84.9 per cent, respectively. The corresponding ratios for apprentices and unpaid family members are 78.6 and 72.6 per cent, respectively. The proportion of workers in the 55 years and above age group range from 7.3 per cent for apprentices and 10.9 per cent for owners, while the less than 15 years age group range from 4.1 per cent for owner to 19.9 per cent for unpaid family labour (Table 6.3.1).

Table 6.3 1: Percentage Distribution of Workers by Age group

Age group	Number of workers														
	Owner			Paid Employees			Journey men			Apprentices			Unpaid family members		
	M	F	T	M	F	T	M	F	T	M	F	T	M	F	T
Less than 15 yrs	2.6	8.6	4.1	8.9	9.7	9.1	6.1	12.9	7.5	14.3	13.5	14.1	18.3	21.9	19.9
15-54 yrs	86.4	81.0	85.0	82.2	80.4	81.7	86.2	79.8	84.9	78.3	79.9	78.6	72.4	72.9	72.6
55 yrs & Above	11.0	10.4	10.9	8.9	9.9	9.2	7.7	7.3	7.6	7.5	6.6	7.3	9.3	5.2	7.5
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: NPC-NISER study on Informal Sector, 2013

Most of apprentices that graduated from informal sector enterprises in the last three years started their own businesses. The ratio of apprentices in this category stood at 45.2, 41.8 and 38.8 per cent in 2010, 2011 and 2012, respectively. A significant proportion of employees remained with the master as employee/journey men. Those in this category were 24.8, 26.6 and 28.6 per cent, respectively in 2010, 2011 and 2012. The proportion of apprentices that were looking for jobs are about 13 per cent in each of those years; while 5.5, 6.4 and 7.7 per cent of the apprentices were employed in the formal sector (Table 6.4.1).

Table 6.4 1: Distribution of Apprentices by Categories that have undergone training in the last 3 years; 2010, 2011 and 2012

Apprentice category	Year								
	2010			2011			2012		
	M	F	T	M	F	T	M	F	T
Started own business	46.1	41.7	45.2	42.0	40.9	41.8	38.2	41.2	38.8
Remained with master as employee/journey men	23.7	29.0	24.8	26.8	25.6	26.6	28.9	27.3	28.6
Looking for job	14.2	9.3	13.2	13.1	12.7	13.0	12.7	12.2	12.6
Got formal employment	5.5	5.6	5.5	6.1	7.5	6.4	8.0	6.7	7.7
Engaged with other master as employee/journey men	10.5	14.4	11.3	12.1	13.2	12.3	12.3	12.7	12.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: NPC-NISER study on Informal Sector, 2013

An overwhelming proportion of owners/employees of the enterprises were trained by their bosses or other informal sector masters. This proportion stood at 85.5, 82.3 and 84.6 per cent for owners, paid employees and journeymen. Evidently, relatively smaller percentages of the owners/employees were trained by the National Directorate of Employment, private and public firms and government training organisations (Table 6.5.1).

Table 6.5 1: Distribution of Employees by Mode of Training

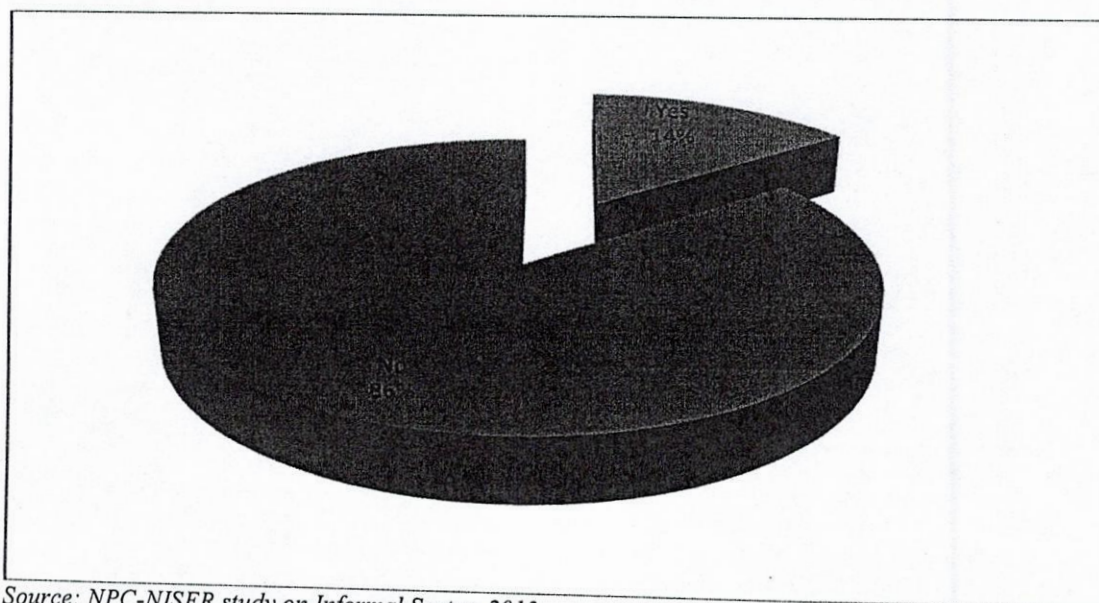
Mode of Training	Number of Employees								
	Owners			Paid Employees			Journey Men		
	M	F	T	M	F	T	M	F	T
Trained by Informal Sector Masters	86.6	81.4	85.5	84.7	75.1	82.3	83.5	88.9	84.6
Trained by NDE	2.5	5.2	3.1	2.9	5.0	3.5	3.5	6.5	4.1
Trained by Firms (Private and Public)	3.8	5.9	4.2	6.9	9.4	7.5	8.3	2.8	7.1
Govt.- Owned Training Organisation	3.3	1.7	3.0	3.5	8.2	4.7	2.8	0.0	2.2
Others	3.8	5.7	4.2	2.0	2.3	2.1	2.0	1.9	2.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: NPC-NISER study on Informal Sector, 2013

6.2. Profits, Income and Capital

A small proportion of the actors engage in other jobs. While 14.5 per cent of the enterprises indicated that they engage in other jobs apart from their primary occupation, 85.5 per cent indicated that they do not. This suggests that for most of the actors, informal sector activity is a full time occupation (Figure 6.1).

Figure 6. 1: Distribution of Enterprises by Engagement in Other Jobs



Source: NPC-NISER study on Informal Sector, 2013

Majority of the enterprises realised N10, 000 to N49,000 as profit in the previous week of business. The proportion of enterprises in this category is almost 44 per cent. About 39 per cent of the enterprises realised N1, 000 to N9, 000 in the previous week. A greater majority of the enterprises realised N10, 000 to N49, 000 from other jobs in a week. Thirty per cent of the actors each realised N1, 000 to N9, 000 and N50, 000 and above from other jobs per week. The average weekly income of 43.9 per cent of the actors is N10, 000 to N49, 000. Almost 30 per cent has an average weekly income of N50, 000 and above (Table 6.6.1).

Table 6.6 1: Distribution of Enterprises by Profit and Income

Average value (N)	Profit realised in previous week		Amount realized in other jobs per week		Average weekly income	
	No.	%	No.	%	No.	%
Less than N1,000	124	4.8	24	5.0	88	3.4
N1000 - N9,000	1017	39.2	145	30.0	605	23.4
N10,000 - N49,000	1139	43.9	169	35.0	1135	43.9
N50,000 & above	314	12.1	145	30.0	760	29.4
Total	2594	100.0	483	100.0	2588	100.0

Source: NPC-NISER study on Informal Sector, 2013

A considerable proportion (58.5 per cent) of the actors recorded average weekly production value of N50, 000 and above. About 29 per cent have a weekly production value of N10, 000 to N49, 000 (Table 6.7.1). Almost 42 per cent of the enterprises used raw materials valued at N50, 000 and above for one week's production while almost 40 per cent used N10,000 to N49,000 worth of raw materials for one week's production. About 62 per cent of the actors sold goods worth N50, 000 and above in a week while 25 per cent sold goods amounting to N10, 000 to N49, 000 on average every week.

Table 6.7 1: Distribution of Actors by Average Value of Production, Raw Materials Used and Sales

Average value (N)	Average value per week					
	Production		Raw materials used for one week's production		Average value of sales	
	No.	%	No.	%	No.	%
Less than N1,000	18	3.1	28	4.9	12	2.2
N1000 - N9,000	56	9.8	80	13.9	59	10.8
N10,000 - N49,000	164	28.6	229	39.8	135	24.7
N50,000 & above	335	58.5	239	41.5	340	62.3
Total	573	100.0	576	100.0	546	100.0

Source: NPC-NISER study on Informal Sector, 2013

The bulk of the actors started their business with capital worth N50, 000 and above. While 50.5 per cent of the firms fall into this category, almost 34 per cent of the enterprises opened shop with capital worth N10, 000 to N49,000. The current capital of most of the firms (70 per cent) is valued at N50, 000 and above. About 21 per cent of the firms have capital value of N10, 000 to N49, 000 (Table 6.8.1).

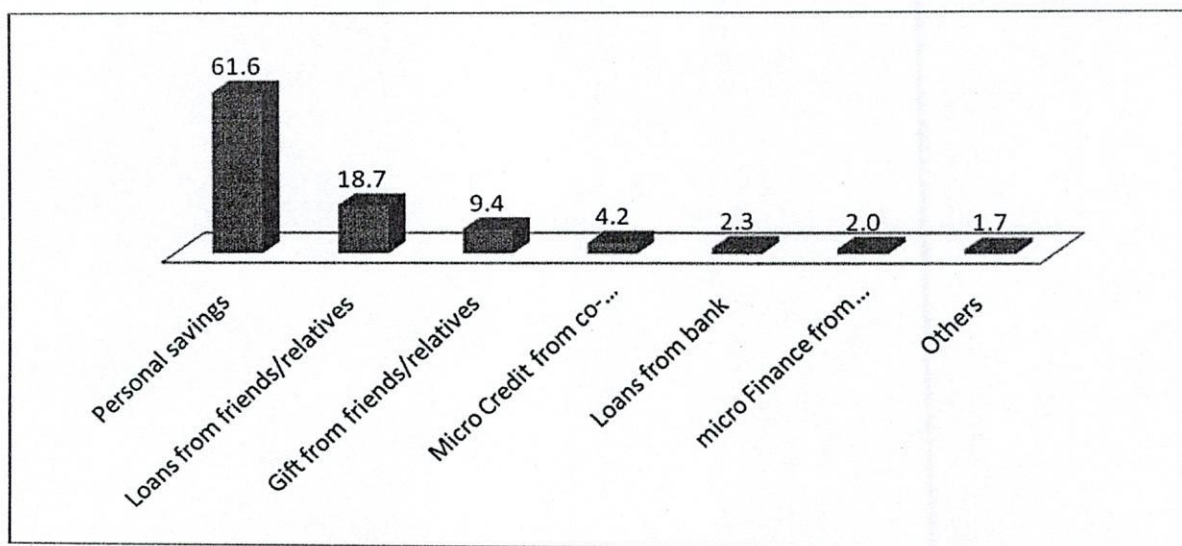
Table 6.8 1: Distribution of Actors by Amount of capital used to start business and current capital

Amount of capital	Capital used to start the business		Current capital	
	No.	% Share	No.	% Share
Less than N1,000	100	3.8	23	.9
Btw N1,000 and N9,000	322	12.2	195	7.3
Btw N10,000 - N49,000	894	33.8	562	21.1
Btw N50,000 & above	1327	50.2	1879	70.7
Total	2643	100.0	2659	100.0

Source: NPC-NISER study on Informal Sector, 2013

Personal savings is ranked highest as the source of initial capital for starting the business. Next in the ranking order are loans from friends and relatives, gift from friends/relatives, micro credit from cooperative societies and loan from banks (Figure 6.2).

Figure 6. 2: Distribution of Actors by Mode of raising initial Capital



Source: NPC-NISER study on Informal Sector, 2013

6.3. Constraints to Growth of Informal Sector Enterprises

Lack of access to credit and inadequate electricity supply are the most severe constraints to the growth of informal sector enterprises. Some of the other constraints are insecurity, poor transportation and multiple taxes (Table 6.9.1).

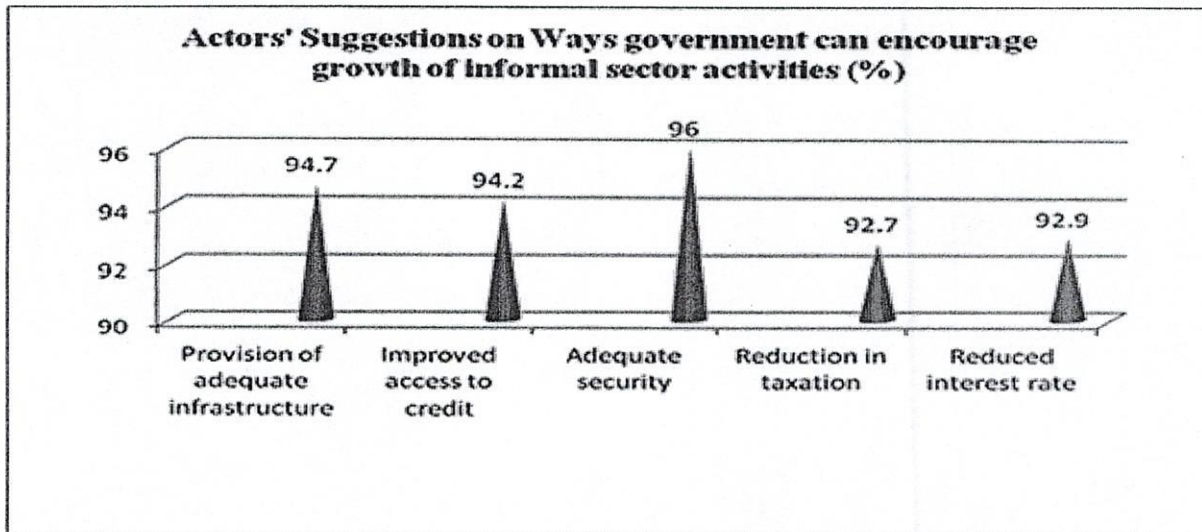
Table 6.9 1: Distribution of Actors by Constraints to growth of the enterprises and level of severity

Constraints	Level of Severity						Order of importance
	Very important		Not important		Total		
	No.	%	No.	%	No.	%	
Lack of access to credit	2290	92.5	185	7.5	2475	100.0	1st
Inadequate electricity supply	2247	91.7	204	8.3	2451	100.0	2 nd
Insecurity	2231	92.6	177	7.4	2408	100.0	3 rd
Poor transportation	2204	91.1	214	8.9	2418	100.0	4 th
Declining sales	2128	90.1	235	9.9	2363	100.0	5 th
Multiple taxation	2101	88.7	268	11.3	2369	100.0	6 th
High interest rate	2100	90.6	219	9.4	2319	100.0	7 th
Fuel scarcity	2074	88.0	284	12.0	2358	100.0	8 th
High cost of rentals/shops	2067	89.4	244	10.6	2311	100.0	9 th
Inadequate water supply	2020	87.1	299	12.9	2319	100.0	10 th
Shortage of qualified manpower	1958	86.6	303	13.4	2261	100.0	11 th
Bribery and corruption	1928	86.8	293	13.2	2221	100.0	12 th
Competition with other informal sector enterprises	1899	89.9	213	10.1	2112	100.0	13 th
High tariff	1882	85.2	327	14.8	2209	100.0	14 th
Scarcity of raw materials	1833	86.2	294	13.8	2127	100.0	15 th
Poor storage facilities	1793	84.3	335	15.7	2128	100.0	16 th
Competition with formal sector	1782	84.9	317	15.1	2099	100.0	17 th
Lack of modern equipment	1678	95.7	76	4.3	1754	100.0	18 th
Others	729	82.7	153	17.3	882	100.0	19 th

Source: NPC-NISER study on Informal Sector, 2013

Provision of adequate security, provision of infrastructure, especially improvement in electricity supply, and improved access to credit and reduction in interest rate top the list of suggestions offered by the enterprises to encourage growth of informal sector (Figure 6.3).

Figure 6. 3: Actors' Suggestions on Ways government can encourage growth of informal sector activities (%)



Source: NPC-NISER Study on Informal Sector and Economic Development, 2013

SECTION SEVEN

INTERDEPENDENCIES WITHIN AND BETWEEN INFORMAL AND FORMAL SECTORS

The section analyses interdependencies between formal and informal sectors and within the informal sector of the economy in terms of input and output relationships. Three types of inputs, namely, raw materials, intermediate and capital goods were considered.

7.1. Interdependencies between Informal and Formal Sectors

Majority of the informal sector actors purchased raw materials worth between N1,000 and N49,000 weekly from formal sector firms. While 30.7 per cent of them obtained raw materials worth between N1, 000 to N9, 000 from the formal sector on weekly basis, 35.6 per cent of them are supplied raw materials worth between N10,000 to N49,000 on weekly basis by the formal sector and 25.3 per cent of them get their weekly raw material supplies worth N50,000 from the formal sector (Table 7.1).

Table 7. 1: Distribution of Actors by the Average Value of Raw Materials Purchased from the Formal Sector Weekly

Average Value of Raw Materials (N/ week)	Formal Sector	
	No.	% Share
Less than N1,000	19	8.4
Btw N1,000 - N9,000	69	30.7
Btw N10,000 - N49,000	80	35.6
N50,000 & Above	57	25.3
Total	225	100

Source: NPC-NISER study on Informal Sector, 2013

Majority of the informal sector actors obtained half of their intermediate inputs worth N1,000 to N9,000 from the formal sector weekly. About 14 per cent purchased intermediate inputs valued at less than N1, 000 on weekly basis from the informal sector while 22 per cent of the actors obtained intermediate inputs worth between N10,000 to N49,000 weekly from the formal sector. Intermediate inputs worth N50,000 and above are obtained weekly by 14 per cent of the informal sector actors from the formal sector (Table 7.2).

Table 7. 2: Distribution of Actors by the Average Value of Intermediate Inputs Purchased from the Formal Sector in a Week

Intermediate inputs (N/ week)	Formal Sector	
	No.	% Share
Less than N1,000	7	14
Btw N1,000 - N9,000	25	50
Btw N10,000 - N49,000	11	22
N50,000 & Above	7	14
Total	50	100

Source: NPC-NISER study on Informal Sector, 2013

Over 50 per cent of the actors sourced their machinery and equipment costing over N50,000 from the formal sector. Similarly, 35.9 per cent of the actors obtained their machinery and equipment valued at N10,000 to N49,000 from the formal sector. Clearly, the actors appear to patronise formal channels especially for costly machinery and equipment. This may be due to the fact that local fabricators are unable to afford the production of more expensive machineries or find them too sophisticated to manufacture or that the enterprises find the capital goods produced by registered companies more reliable and of better quality than those produced by local artisans (Table 7.3).

Table 7. 3: Distribution of Actors by the Average Value of Machinery and Equipment Purchased from the Formal Sector Annually

Machinery and Equipment (N/Yearly)	Formal Sector	
	No.	% Share
Less than N1,000	7	4.8
Btw N1,000 - N9,000	13	9
Btw N10,000 - N49,000	52	35.9
N50,000 & Above	73	50.3
Total	145	100

Source: NPC-NISER study on Informal Sector, 2013

Majority of the actors purchased products worth N10,000 and above from the formal sector. Specifically, 46 per cent of the actors bought goods costing N10,000 to N49,000 from the formal sector, while almost 47 per cent purchased goods worth N50,000 and above from the formal sector (Table 7.4).

Table 7. 4: Distribution of Actors by the Average Value of Major Products Sold to The Formal Sector in a Week

(N/ week)	Formal Sector	
	No.	% Share
Less than N1,000	4	2.3
Btw N1,000 - N9,000	9	5.2
Btw N10,000 - N49,000	79	45.9
N50,000 & Above	80	46.5
Total	172	100

Source: NPC-NISER study on Informal Sector, 2013

7.2. Interdependencies within the Informal Sector

Most of the actors supplied raw materials worth between N1, 000 and N49, 000 to other informal sector enterprises per week. Specifically, 39.1 per cent of the actors supplied raw materials worth between N1,000 and N9,000 weekly, while almost 36 per cent supplied raw materials worth between N10,000 and N49,000 to other informal sector actors. Similarly, 14.5 per cent of informal sector actors supplied raw materials valued at N50,000 and above to their counterparts in the sector on a weekly basis (Table 7.5).

Table 7. 5: Distribution of Actors by the Average Value of Raw Materials Purchased from the Informal Sector

Average Value of Raw Materials (N/week)	Informal Sector	
	No.	% Share
Less than N1,000	141	10.7
Btw N1,000 - N9,000	517	39.1
Btw N10,000 - N49,000	472	35.7
N50,000 & Above	191	14.5
Total	1321	100

Source: NPC-NISER study on Informal Sector, 2013

Over half of the actors supplied intermediate inputs valued at N1,000 to N9,000 to other informal sector actors weekly. 26.7 per cent of the firms supplied intermediate inputs worth N10,000 to N49,000 while 17.2 per cent supplied intermediate inputs costing less than N1,000 to other informal sector actors weekly (Table 7.6).

Table 7. 6: Distribution of Actors by the Average Value of Intermediate Inputs Purchased from the Informal Sector in a Week

Intermediate inputs (N/ week)	Informal Sector	
	No.	% Share
Less than N1,000	67	17.2
Btw N1,000 - N9,000	209	53.6
Btw N10,000 - N49,000	104	26.7
N50,000 & Above	10	2.6
Total	390	100

Source: NPC-NISER study on Informal Sector, 2013

Majority of the actors supplied machinery and equipment worth N1,000 to N49,000 to other informal sector actors. About 31 per cent of the actors supplied machinery and equipment valued at between N1, 000 and N9, 000 weekly to other enterprises within the sector; 33 per cent of the informal sector firms supplied machinery and equipment worth between N10,000 to N49,000 weekly to their counterparts within the sector while 18.5 per cent of the informal sector firms bought machinery and equipment worth less than N1,000 from other informal sector actors weekly (Table 7.7).

Table 7. 7: Distribution of Actors by the Average Value of Machinery and Equipment Purchased from the Informal Sector

Machinery and Equipment (N/ yearly)	Informal Sector	
	No.	% Share
Less than N1,000	75	18.5
Btw N1,000 - N9,000	127	31.3
Btw N10,000 - N49,000	135	33.3
N50,000 & Above	69	17
Total	406	100

Source: NPC-NISER study on Informal Sector, 2013

A great majority of the informal sector actors bought major finished products worth N50,000 and above from other actors within the sector weekly. While 45.5 per cent of the actors fall into this category, 35.4 per cent of the informal sector actors bought major products costing between N10,000 and N49,000 weekly from their counterparts in the same sector and 14.4 per cent bought major products worth between N1,000 and N9,000 weekly from within the sector (Table 7.8).

Table 7. 8: Distribution of Actors by the Average Value of Major Products Sold to the Informal Sector Firms in A Week

Average Value of Major Products sold (N/ week)	Informal Sector	
	No.	% Share
Less than N1,000	38	4.7
Btw N1,000 - N9,000	116	14.4
Btw N10,000 - N49,000	285	35.4
N50,000 & Above	366	45.5
Total	805	100

Source: NPC-NISER study on Informal Sector, 2013

In general, this analysis suggests significant interdependencies between the formal and informal and within the informal sectors of the Nigerian economy. These linkages are evident for raw material, intermediate and capital inputs as well as for finished products.

7.3 Formalizing the Informal Sector

The key to moving informal enterprises into the formal sector is to create incentives for those operating informally to see the benefits of becoming formal; in other words, to create an environment in which the benefits of formalizing outweigh the costs of remaining informal. This necessitates dismantling barriers such as lengthy registration processes, red-tape, licensing requirements, lack of access to private property rights and a complicated taxation policy. It also includes improvements in the accessibility of micro-finance and giving informal enterprises greater representation and voice in the policy making process.

In countries where the informal sector has successfully been integrated into the formal sector, the main areas where formalization was promoted include: employment policies; basic education and vocational training; occupational safety and health; social protection; access to critical resources; dialogue and representation. In effect, efforts to formalize the informal economy often involve the coming together of multiple forms of 'best practice'; best practice in microfinance, best practice in formalizing informal training (including best practice in skills recognition), best practice in reforming formal skills training for the informal economy, best practice in formalizing informal trade and community associations, best practice in formalizing informal social protection, best practice in formalizing land rights and so on.

Policies and legal frameworks for facilitating formalization of informal enterprises need to be developed and implemented. This requires action at the macro, meso and micro levels. At the macro-level, policies concerning labour standards and legislation, social protection, worker benefits and property rights need to be made more pro-poor and pro-Medium and Small Enterprises (MSEs) in general. At the meso and micro levels, policies should be crafted to link formal training institutions and informal training systems; government should grant formal recognition and certification to skills acquired in informal apprenticeships; or work with informal

sector associations in formalizing informal training systems. With regard to formalizing recognition and certification of skills acquired in the informal economy, some countries (e.g. Ghana) are attempting to use the "best-practice" of National Vocational Qualifications Frameworks (NVQFs). Though not yet functional, Nigeria has an elaborately developed NVQF, which is believed could facilitate the formalization of the informal sector.

Necessary incentives and other mechanisms making formalization more affordable and appealing to informal economy workers and economic units need to be created.¹⁸ In doing this, informal ventures are more likely to voluntarily opt to formalize¹⁹ (Nelson and de Bruijn, 2005), and governments will have to expend less resources in enforcing formalization. Such incentives for informal enterprises formalizing might include improvements in the accessibility of micro-finance, improvements in labour standards and legislation, social protection²⁰ and worker benefits, secure property rights, stronger and more representative informal sector associations that can add the voice of informal workers to the policy process

There are immense benefits for operating formally. The key benefits that need to be emphasized include improved access to finance and market information, access to public infrastructure and services, and enforceable commercial contracts. Others include legal ownership of their place of business and means of production, access to government subsidies and incentives, including procurement bids and export promotion packages, membership in formal business associations, and access to formal system of social security. The formalization of the informal sector jobs will bring about such benefits. Hence, it is essential to ensure that formalization offers the benefits and protections that come with being formal.

The key threats to formalization that need to be discouraged are that the informal enterprises do not like paying taxes and licensing fees, as well as disclosing their accounts. These may be a very big obstacle to entry into the formal economy. Hence, the need to offer some of the informal enterprises tax holidays in order to encourage them to formalize and remain competitive. There is also the need to offer benefits and incentives in return for paying taxes. These include securing legal protection (i.e., property rights, labour rights and business rights) and social protection like cash transfers and access to affordable healthcare for the many working poor in the informal sector. Other incentives for informal sector operators may include ensuring functional health and pensions facilities for informal sector workers. There is also need to improve the productivity of informal enterprises and incomes of the informal workers. This will require provision of productive assets, technical and business skills, financial and infrastructure services to better compete in the markets.

¹⁸ De Medina, R. (2006) Towards a more comprehensive model of change for the informal economy: an ILO perspective, DFID labour standards and poverty reduction forum (Geneva, ILO).

¹⁹ Nelson, E. and de Bruijn, E. (2005) The voluntary formalisation of enterprises in a developing economy ? the case of Tanzania, *Journal of International Development* 17(4): 575-593

²⁰ De Medina, R. (2006) Towards a more comprehensive model of change for the informal economy: an ILO perspective, DFID labour standards and poverty reduction forum (Geneva, ILO).

SECTION EIGHT

MODEL OF THE INFORMAL SECTOR ECONOMY

8.1 A Model on the Organization of the Informal Sector

A diagnosis of best practices in the informal sector of developed economies reveals key imperatives that are germane to the development of a dynamic informal sector. The key strategic imperatives identified are provision of adequate infrastructure, sufficient institutional support, education and skills upgrading, technological adaptation and innovation, and availability and access to funding and financial services.

Based on best practices in some developed nations, a new model of informal sector organization and management is proposed for Nigeria (Figure 8.1). The model recognises five main actors: government, private sector, knowledge and innovation generation actors which can be seen as government interface structures. The fourth actor is the Micro Enterprise Advisory Centre (MEAC). The fifth actor is the group of formal and informal sector operators.

The roles of the various actors in the proposed model vary from one actor to another although there are some overlaps. As expected, the government actors are expected to provide an informal sector-friendly policy framework and regulation as well as funding. The private sector actor is expected to perform funding roles in collaboration with the government where necessary. The knowledge and innovation generation actors are agents of innovation and knowledge generation centres. They provide innovation solutions for actors in the informal sector economy and also work closely with the informal sector actors with a view to identifying knowledge and innovation gaps and needs.

Micro Enterprise Advisory Centre, which are the fourth category of actors in the model, play the roles of extension services to the informal sector actors. The manufacturing advisory centre acts as bridge between the informal and formal sector actors and innovation centres. Specifically, they identify the innovation needs of the informal sector and then pass same to the knowledge generation centres to provide innovation and knowledge solutions. Thus, they provide strong linkages between knowledge centres and the informal economy. By so doing, knowledge and innovations from universities, research institutes and other knowledge centres are demand-driven and effectively utilized. They also serve as a bridge between the informal sector actors and the formal sector. Being a government interface structure, MEAC also helps in popularising government policies as it affects the informal sector economy. MEAC provides general extension services to the informal sector economy such as how to source for funds and skills to expand production and general entrepreneurial skills. Formal and informal actors, which constitute the fifth actors in the model, are expected to make adequate use of MEAC services while paying their taxes to the government. They are also expected to work closely with MEAC and link up with other actors in the economy.

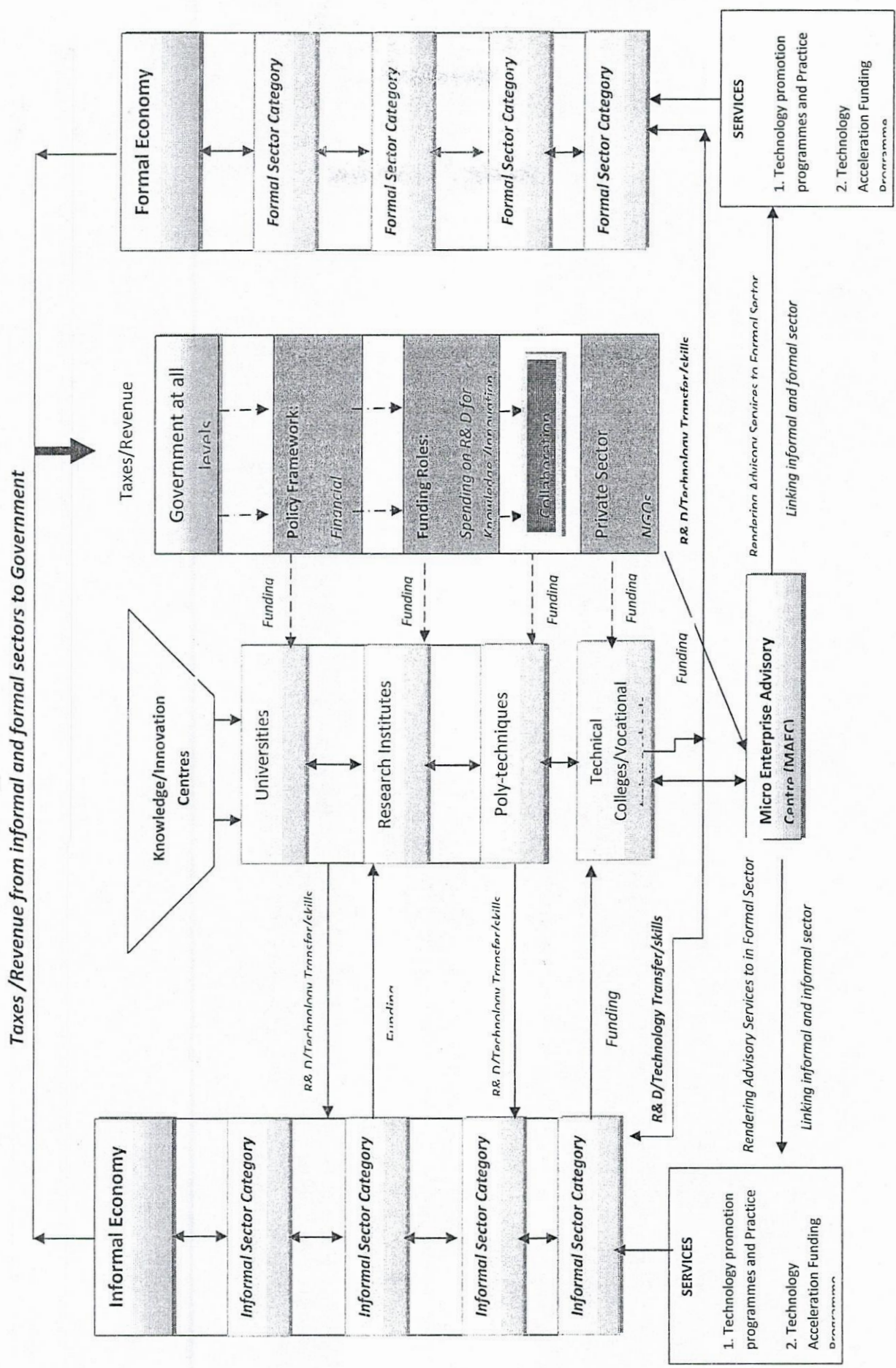
The relevance of this model is evident in the context of the challenges plaguing the informal sector economy in Nigeria. According to the NV 20:2020 programme (2009), the challenges which were classified as endogenous as well as exogenous include lack of coordination among various programmes, absence of linkage programmes, poor data issues, poor access to funds and advisory services, weak corporate governance, management and accounting practices among informal sector operators, low human capital development and low level of technology among

others. The first major challenge is lack of coordination among various SMEs programmes. There are currently many agencies of government in the SMEs sector. However; none is specifically dedicated to coordinate the programmes in the sector. The closest agency is SMEDAN but its focus is more on capacity building of SMEs operators. Issues of linkage of informal sector with knowledge centres features less in its activities. In the model proposed, MEAC is specifically dedicated to act as a bridge among the various agencies and government interface structures in the SMEs sector in Nigeria. Since it works directly with the informal sector actors, it can also provide data and advisory service to the actors which is currently lacking in the existing framework in Nigeria. The issues relating to low human capital development and low level of technology are major challenges.

The knowledge and innovation centres as proposed in the model are capable of addressing these two challenges. One of the contributing factors to these two challenges is the lack of linkages between the knowledge centres and the SMEs. While knowledge and innovations which are useful to SMEs are developed at the knowledge centres, they are hardly accessible to the SMEs. Another major factor is that the innovations and knowledge from the innovation centres are not demand-driven. In the model, the MEAC is expected to liaise with the knowledge centres and the informal sector operators. This will ensure that the innovations from the knowledge centres are not only accessible to the informal sector operators but also meet their innovation and knowledge needs.

In conclusion, there is urgent need for government to establish a Micro Enterprise Advisory Centre with the main function of providing extension service to informal sector actors. Moreover, the government should, through its interface structures strengthen the linkages among knowledge centres as well as the formal and informal sectors of the Nigerian economy.

Figure 8. 1: Model of Informal Sector Organization and Management



SECTION NINE

CONSTRAINTS AND INSTITUTIONAL FRAMEWORK FOR INFORMAL SECTOR DEVELOPMENT

9.1. Constraints on the Informal Sector

Three major factors contribute to business failure among the informal sector operators. These are lack of appropriate technical know-how, poor financial management and indiscipline²¹. These factors are part of what actors considered as major constraints against growth of their businesses in this study. Actors' perception of the constraints to growth of informal sector enterprises and the level of severity of the constraints are presented in Figure 6.1, which contains first twenty constraints to business growth. It is therefore recommended that those prospective informal sector operators should be trained before embarking on any project, and that the training should include technological acquisition, cash and business management.

Access to credit is important for small businesses aspiring to grow and become more profitable. For the urban informal economic sector, the most relevant initiatives targeted at providing credit were the establishment of the People's Bank, the Community Banks, and the National Directorate for Employment. Government needs to restructure the informal sector; and encourage its development by making it official. By so doing, access to the credit market will be easier and grants will then be possible. Governments at various levels have adopted policies aimed at enhancing the performance of the informal sector. Various policies have also been formulated to promote small and medium scale enterprises. Some of the policies include the entrepreneurship development policy and establishment of institutions such as the NDE. Others include government efforts to promote the development and acquisition of entrepreneurial skills as part of its efforts to support SMEs. The State Governments have also been involved in providing support to the informal sector. Many states have Small Scale Credit Schemes which were planned to provide informal sector operators with financial and technical support. However, the effort was frustrated by a phenomenon in which the beneficiaries were citizens other than those intended by the government. This issue of hijack of the micro-credit scheme is critical and needs to be closely looked into.

The informal sector is weak and lacking in bargaining power. Large firms control markets and access to raw materials. They obtain credit easier than the informal sector, and enjoy the support of governments²². In contrast, the informal sector is prevented from generating substantial growth due to lack of access to resources and the monopolistic practices of the formal sector.

²¹Soneye, M. (2000) "Public Finance and Growth in Nigeria Informal Sector" *Journal of Modern Africa Studies* Vol. 13, p.p. 16-28

²²Schlunitz, (1982), "Growth constraints on small manufacturing in developing countries: a critical review", *World Development*, vol.10, no.6

The informal sector is characterized by poor bargaining power, lack of working capital or access to training and technology, and has little support from government. The main policy issue is how to empower the sector to make it a real player in economic development.

Sometimes, informal sector enterprises, especially those located in residential areas, pose real health hazards for the urban community, particularly for the urban poor who can least afford the high cost of health care. The continuous proliferation of informal sector activities without a corresponding increase in urban amenities has contributed to the decline of cities. This gradual deterioration is on the increase as informal sector activities are found on most public open spaces, road setbacks and medians in most parts of Nigeria. Essentially, informal sector activities do not respect legal, social, health and quality standards, and furthermore do not pay taxes. They, therefore, violate the rules of fair competition. This tends to reinforce the ambivalence and hostility of official attitudes towards the sector.

The main policy challenge is how to support and regulate the urban informal sector in order to provide employment and income for the poor, and at the same time ensure a safe, healthy and socially acceptable environment. The policy dilemma appears to be how to contain the adverse environmental impacts of many of the activities of the urban informal sector without disrupting livelihoods, and causing social distress; how to promote environmental awareness and guarantee the right to the city, while at the same time protecting the vulnerable groups in the informal sector, especially women, children, and apprentices, from harm and exploitation.

Informal sector activities are characterised by poor technology which has continued to undermine its contribution to the national economy. Thus, the sector requires a dramatic increase in funding. For developing countries, like Nigeria, this would certainly take an immense amount of political will to commit the substantial amount required especially given the fact that the sector has to compete with other important sectors of the economy.

9.2. Implementation Framework

The institutional framework for addressing the challenges posed by the constraints identified in Section 9.1 is contained in Table 9.1. The framework elaborates the issues, programmes of action, and the coordinating and implementation agencies.

Table 9. 1: Institutional Framework of Programme Implementation for Informal Sector Operators

Constraint	Programmes	Coordinating Agency	Principal Implementation Agencies	Supporting Implementation Agencies
1. Lack of appropriate technical know-how	Establishment/support of skill acquisition/vocational centres for youth	Federal Ministry of Youth Development, Raw Materials Research and Development Council, SMEDAN	NDE Private Sector Women Development Centre, State Governments	<ul style="list-style-type: none"> • Industry, Trade & Investment • NPC • NISER
2. Lack of access to credit facilities	Provision of credit facility/ Loan at reduced interest	CBN, FMF,	NDE, Finance, Science & Technology, DMB, MFB, DFIs, BoI, SMEDAN Self-Help Groups	<ul style="list-style-type: none"> • Min. of Science & Technology • Industry, Trade & Investment • NPC • NISER
3. Weak bargaining power and access to raw materials	Empower the sector to make it a real player in economic development.	Federal Ministry of Agriculture, Ministry of Trade and Investment	Federal Ministry of Agriculture, Ministry of Trade and Investment, Raw Materials Research and Development Council.	<ul style="list-style-type: none"> • Min. of Science & Technology • Industry, Trade & Investment • NPC • NISER
4. Poor enabling environment	Good governance/ enabling environment, including policies that encourage purchase of locally made products;	Federal Ministry of Finance/	Federal Ministries of Finance, Power, Works and Transport, Aviation Infrastructure Concession Regulatory Agency,	<ul style="list-style-type: none"> • Ministry of Science & Technology • Industry, Trade & Investment • NPC • NPA, FAAN, FERMA, NIPP
4. Health hazards for the urban community	1. Curbing the adverse environmental impacts of many of the activities of the urban informal sector 2. Promote environmental awareness	Federal Ministry of Health Federal Ministry of Information/ National Orientation Agency	Federal Ministry of Health, Federal Ministry of Environment NOA Ministry of Environment	<ul style="list-style-type: none"> • Federal Ministry of Youth Development • NAFDAC, SON, CPC
5. Poor technology	Establish local Science & Technology Centres	Ministry of Science & Technology	Ministry of Science & Technology, Research Institutes	<ul style="list-style-type: none"> • Private sector • Industry, Trade & Investment • Research Institutes • NPC • NISER

Source: NPC-NISER study on Informal Sector, 2013

SECTION TEN

STAKEHOLDER PERCEPTIONS

This section presents the results of in-depth interviews held with Unions/Associations, officials of the National Association of Small Scale Industrialists, Ministries of Commerce and Industries and other stakeholders. A snap shot kind of questions was asked because of memory recall. This deviates from trends analysis captured for actors/respondents

10.1. Major Goals of Enterprise Unions/Associations and Other Stakeholders

Protection of the interests of members, coordination of their activities and fostering unity among members are the dominant goals of informal sector unions and other stakeholders. This is according to 29.2 per cent of the unions/associations and almost 39 per cent of other stakeholders. Reduction in unemployment and poverty as well as creation of job opportunities and economic empowerment are indicated as major goals of the associations by 27.4 per cent of the unions while 39 per cent of other stakeholders indicated provision of services/promotion of the private sector as major goals of the enterprises (Table 10.1). Here are a few commentaries from some respondents on this issue:

The major goal of our Union/Association is to promote the unity and security of the members, and also create jobs without waiting on the government. Our activities also help to reduce unemployment through various trainings offered to younger ones that ultimately promote self-reliance in the society -Iron Welders Association, Dutse, Bwari, FCT.

The activities of our Association help to create employment, wealth, and the promotion of economic growth and development -Panel Beaters Association, Kano State Branch.

The activities of the Union is to provide security and instil sanity in the market, advance non-interest loans and settle disputes among traders, Ngwa Road Market Association, Aba, Abia State.

Table 10. 1: Major Goals of Respondents

Major goal of the respondents	Union/ Association	Other Stakeholders
Reduction of unemployment/ poverty/ create job opportunities/ economic empowerment/ development	27.4	38.9
To protect interest of members, unity among members, coordination of the activities of members and speak with one voice	29.2	11.1
To provide services/promote activities of private sector	19.5	38.9

Source: NPC-NISER study on Informal Sector, 2013

10.2. Target Beneficiaries of Informal Sector Agencies/Union

The activities of the unions/associations are targeted predominantly at the members/general public. This view was expressed by 76.7 per cent of the union respondents. Other target beneficiaries were women and youths (8.6 per cent) and unemployed persons (5.2 per cent) (Table 10.2). Some of the responses to this question are as follows:

Our target beneficiaries include unemployed persons and those who cannot afford to further their education- Bauchi State Vulcanizers Union, Bauchi, Bauchi State

Target beneficiaries are members of our association and the general public, especially in rural areas -Lagos State Textile Dealer and Cloth Sellers' Association, Lagos, Lagos State

Our target beneficiaries include widows, especially the indigent widows and orphans- Peculiar Women Widows Association, Minna, Minna, Niger State

Table 10. 2: Target Beneficiaries of Union/Association Activities

Target beneficiaries of the enterprise	Union/ Association
Members/General public	76.7
Women /Youth in the society	8.6
Unemployed persons	5.2

Multiple Response Table: Source: NPC-NISER study on Informal Sector, 2013

10.3. Sources of Funding for Agencies/Union Activities

Members' annual/weekly dues/levies, subscription and their day-to-day jobs are the major sources of funding of association activities in the view of 87.6 per cent of the associations respondents. Other sources of funding include Banks/Cooperative Societies (5.3%) and Personal Efforts/Savings (4.4 per cent). Other stakeholders indicated members' annual, weekly dues/levies, subscription/ day to day jobs as their only sources of funding, according to 25 per cent of the respondents in this category (Table 10.3).

Table 10. 3: Sources of Funding for Informal Agencies/Union Activities

Sources of Funding	Agencies/ Unions	Other Stakeholders
Members' annual, weekly dues/ levies, subscription/ day to day jobs	87.6	25.0
Loans from Banks/cooperative societies	5.3	0.0
Personal efforts/savings	4.4	0.0

Multiple Response Table: Source: NPC-NISER study on Informal Sector, 2013

10.4. Expected Programme Outcomes of Informal Sector Agencies/Unions

Increased availability of products and services, wealth creation and service provision to the public are the major expected programme outcomes of informal sector agencies and associations. This is the expression of 17.8 per cent, 16.8 per cent, 15.0 per cent and 13.0 per cent, respectively, of respondents of the agencies /associations. Only self-reliance and the creation of wealth are the expected programme outcomes applicable to a few (8.3 per cent) of other stakeholders (Table 10.4).

Table 10. 4: Expected Programme Outcomes of Agencies/Unions

Expected programmes outcome	Agencies/ Association	Other Stakeholders
Increase availability of product and services/ Performance/ Promote business	17.8	0.0
Self-reliance /sustained /sufficient/ create wealth	16.8	8.3
To render service satisfaction to the public	15.0	0.0
To ensure safety and unity of members	13.1	0.0

Source: NPC-NISER study on Informal Sector, 2013

10.5. Factors Militating Against Realisation of Expected Programme Outcomes

Inadequate funding from members and lack of capital are the overriding obstacles to realisation of expected programme outcomes. This is evident from the response of 44.0 per cent of the Agencies and Unions and 63.6 per cent of other Stakeholders. Other factors affecting Agencies and Unions include poor infrastructural facilities, such as electricity, water and road (10.1 per cent) and lack of equipment and machineries (8.3 per cent). Inadequate funding was the major militating factor affecting other stakeholders (63.6 per cent) (Table10.5). In regard to this issue, some responses from the interviewees are as follows:

The factors hindering the realisation of our programme outcomes are lack of sufficient power supply and insufficient funds to meet the various demands of members of the union – Groundnuts Processing Union, Bara, Bauchi, Bauchi State

Lack of sufficient machineries, lack of government support and access to capital are major militating factors –Seal Commodities Oil milling, Kano, Kano State

Default on loan, Some die before repaying loans or become too ill to work to repay the loans, some members reject the dispute settlement mechanism of the union and head to the police/court -Food stuffs sellers Association, Ngwa Road, Aba, Abia State.

The need to respond to changes in the operating environment by the artisans pose major challenges to our expected programme outcomes – Lagos State Ministry of Commerce & Industry, Lagos, Lagos State

Table 10. 5: Factors Hindering the Realisation of Programme Outcomes

Factors hindering the realisation of programme outcomes	Agencies/ Union	Other Stakeholders
Inadequate funding from members/Lack of capital	44.0	63.6
Poor infrastructural facilities (electricity, water and road)	10.1	0.0
Inadequate access to fund/Finance	8.3	0.0
lack of equipment/sufficient machineries	8.3	0.0

Source: NPC-NISER study on Informal Sector, 2013

10.6. Expected Direct Impact of Programmes

Making beneficiaries more efficient service providers was the major expected direct impact of programmes as expressed by 32.4 per cent of association respondents. This was followed by the creation of employment, self-reliance, offering job opportunities, provision of wealth and the promotion of economic growth and development in the opinion of 22.9 per cent of same respondents. This was also the most important expected direct impact among other stakeholders, in the perception of 30 per cent of the respondents, followed by improvement in skills and increase in productivity (20 per cent) (Table 10.6). One of the affiliate members had this to say:

The expected direct impact of the Association's activities include increasing knowledge and skills, as well as giving right sense of work attitude and the delivery of quality services – Ushafa Tailoring Association, Ushafa, Abuja

Table 10. 6: Expected Direct Impact of Programmes to the Beneficiaries

Expected Direct Impact of Programmes to the Beneficiaries	Union/ Association	Other Stakeholders
Making beneficiaries efficient service providers	32.4	10.0
Create employment, self-reliance, job opportunities, provide wealth and promote economic growth and development	22.9	30.0
Improve their skills/Acquisition of skills/Increase productivity	14.3	20.0

Source: NPC-NISER study on Informal Sector, 2013

10.7: Performance of Association Activities on Enterprise Activities

Majority of Agencies and Union respondents (68.5 per cent) and Other Stakeholders (84.6 per cent) rated the performance of their enterprises as quite satisfactory. However, 29.6 per cent of Agencies and Unions indicated that their performance was average (Table 10. 7).

Table 10. 7: Evaluation of the Performance of Association Activities on Enterprise Activities

Evaluation of the performance of the activities in the enterprise	Union/ Association	Other Stakeholders
Satisfactory/Very effective/Very good	68.5	84.6
Average	29.6	7.7
Very low	1.9	7.7

Source: NPC-NISER study on Informal Sector, 2013

10.8. Awareness of Skill Acquisition Centres

The level of awareness of the existence of skill acquisition centres is very high among the stakeholders. Specifically, 64.9 per cent of Agencies and Union respondents and 100 per cent of other stakeholders are aware of the presence of these centres. However, as high as 35.1 per cent of the Agency and Union respondents indicated that they are not aware of any skills acquisition centre (Table 10.8).

Table 10. 8: Awareness of Skill Acquisition Centres

Whether the enterprise is aware of any other skill acquisition centres around them	Union/ Association	Other Stakeholders
Yes	64.9	100.0
No	35.1	0.0

Source: NPC-NISER study on Informal Sector, 2013

10.9. Problems Facing Informal Sector Operations

Inadequate funding and infrastructure deficiencies are the main problems confronting informal sector enterprises in the opinion of the associations. However, funding was considered more problematic by Other Stakeholders (61.5 per cent) relative to Agencies and Unions (28.3 per cent). Poor infrastructure (electricity, roads, water, etc) was indicated by 24 per cent of the Union/Associations respondents (Table 10.9). This is how some agencies and unions respondents characterized this problem:

The major problems faced by enterprises are lack of government involvement and supervision – Bauchi State Federation of Women Entrepreneurs Cooperative Federation, Bauchi, Bauchi State.

We face problem of poor electricity supply – National Electronics Technician Association of Nigeria (NETAM) Lagos, Lagos State Chapter

The problems we face include high rent of workshops, lack of mechanical village, high cost of materials and lack of soft loans – Panel Beaters Association of Nigeria, Kano State Branch.

Table 10. 9: Problems Facing Informal Sector Activities

Problems facing informal sector activities	Union/ Association	Other Stakeholders
Unavailable fund/capital/finance	28.3	61.5
Poor infrastructure (Electricity, Roads and Water supply)	24.1	0.0
Location/site has been major problem/unstable business location	7.3	0.0
Lack of government involvement/ supervision/ assistance/ support	6.8	0.0

Source: NPC-NISER study on Informal Sector, 2013

10.10. Assistance Required by Informal Sector Agencies/Unions

Access to credit facilities is the dominant assistance type required by informal sector actors according to the respondents. Indeed, 44.5 per cent of the union/association respondents and 54 per cent of other stakeholders indicated that they want assistance in this area. Improving infrastructural facilities was also considered very important by 13.3 per cent of Agencies and Unions respondents (Table 10.10). The forms of assistance indicated by some of the respondents are as follows:

The informal sector enterprises should be recognized by the government and financial aid should be made available to them – Nigerian Association of Women Entrepreneurs, Minna, Niger State

By providing a business friendly environment with constant power supply – Barbers Association Dutse, Abuja

Additional machineries and equipments are needed for better performance by the enterprises– Bauchi state YOUWIN awardees, Bauchi

Table 10. 10: Ways to Assisting the Informal Sector

Ways by which informal sector can be assisted	Union/ Association	Other Stakeholders
Access to credit facilities/ loan/financial market sourcing	44.5	53.9
Improved Infrastructural facilities (Water, Road)/Uninterrupted power supply	13.3	0.0
Government to provide enabling environment for business	7.8	0.0

Source: NPC-NISER study on Informal Sector, 2013

10.11. Suggested Ways of Improving Productivity

Access to funds remains crucial to improving productivity of informal sector enterprises as indicated by majority of the respondents. Specifically, 39.2 per cent of Agencies and Unions respondents and 25 per cent of other stakeholders gave this indication. Other suggestions by

responding agencies and unions include good governance/policy of government for support (16 per cent) and constant power supply/developed infrastructure (11.2 per cent) (Table 10.11). Here are some suggestions pertaining to ways of improving productivity in the informal sector:

Improvement of infrastructure (power), security, government support/patronage – Lagos State Association of Foods and Drinks Sellers, Lagos

Encouraging farmers; creating awareness on importance of farming and acquiring more capital will increase productivity – Vegetable Sellers' Association, Kano

Funding, training, permanent place of work, mechanics should not be put in a place but should widely spread across the state – Niger State United Motorcycle Mechanics Association, Minna

Table 10. 11: Suggested Ways of Increasing the Productivity of the Informal Sector

Ways of Increasing the Productivity of the Informal Sector	Union/ Association	Other Stakeholders
Provision/Access of fund/capital/finance and loan at lower interest rate	39.2	25.0
Good governance/policy of government for support	16.0	6.3
Constant power supply/ developed infrastructure	11.2	0.0

Source: NPC-NISER study on Informal Sector, 2013

10.12. Funds Available to Informal Sector Enterprises

Majority of the respondents had less than N200,000 as available funding for each of the years 2012 and 2013. Specifically, 41.2 and 42.4 per cent of the respondents respectively indicated that funds available to them for business operation in 2012 and 2013 were less than N200,000. It is noteworthy though that as high as 25.5 and 31.3 per cent of respondents had over a million naira available for business operations in 2012 and 2013 (Table 10.12 and Figure 10.1).

Table 10. 12: Amount of Funding available to Informal Sector Enterprises, 2012-2013

Amount of funding Available to Agencies	2012 Respondents (%)	2013 Respondents (%)
Less than N200,000	41.2	42.4
Btw N200,000-N400,000	11.8	8.1
Btw N400,001-N600,000	8.8	3.0
Btw N600,001-N800,000	7.8	5.1
Btw N800,001-N1,000,000	4.9	10.1
Above N1,000,000	25.5	31.3

Source: NPC-NISER study on Informal Sector, 2013

SECTION ELEVEN

CONCLUSION AND RECOMMENDATIONS

11.1 Conclusion

The informal sector is an important source of employment creation, income generation, poverty reduction and economic development in Nigeria. This provided the motivation for this pilot study of informal sector activities in six states and the FCT. Some of the findings from the study are as follows:

- a) The study identified sixty-two (62) informal sector activity groups across three sectors. These are 20 technical services sector activities led by automotive repairs, hairdressing/barbing, transport operators and fashion designers; 20 activities in the manufacturing sector mainly block making, wood products, furniture, etc, bakery, metal fabrication and agro-allied activities and 22 activities in the distributive trade sector made up mostly of operators of supermarket/provision stores, sellers of building materials, textile and wearing apparels, patent medicine; food stuffs and electronics/electrical and restaurant.
- b) The majority of the informal sector actors own their businesses. Most of the workers in the informal sector are in the 15 to 55 age bracket with a preponderance of them having Senior Secondary School Certificate (SSSC) as highest educational qualification. Male employees dominate the personnel profile of the enterprises numerically while the personnel stock of the enterprises also shows a dominance of the male gender.
- c) Personal savings is ranked highest as the source of initial capital for starting the business. Most of the informal sector enterprises operate as sole proprietorships. The prevalence of sole proprietorship is due to the fact that most of the enterprises owners interviewed operate in the retail and service sectors. Thus, the businesses are small and the capital outlay minimal, making it affordable to the proprietors. Contrary to expectation, most of the actors that were interviewed do not belong to any union or association.
- d) In general, there are significant interdependencies between the formal and informal and within the informal sectors. These linkages are evident for raw material, intermediate and capital inputs as well as for finished products.
- e) Lack of access to credit and inadequate electricity supply are the most severe constraints to the growth of the enterprises in the opinion of the actors. Some of the other constraints are insecurity, poor transportation and multiple taxes. Improvement in electricity supply, provision of adequate security and reduction in taxes top the list of suggestions by the actors to encourage growth of the informal sector. Other suggestions include improving access to credit, eliminating multiple taxes and reducing interest rates.
- f) Stakeholders' perception of informal sector operations indicated that inadequate funding and infrastructure deficiencies are the main problems confronting informal sector

enterprises in the opinion of the unions/associations. Access to credit facilities is the dominant type of assistance required by informal sector actors according to the unions/associations and other stakeholders. Access to funds remains crucial to improving productivity of informal sector enterprises as indicated by majority of these respondents. Majority of these respondents had less than N200,000 as available funding for each of the years 2012 and 2013.

11.2 Recommendations

- k) The strengthening of the informal sector requires multi-sectoral synergy and coordinated efforts of federal, state, local authorities and donors in terms of mobilising the requisite resources including financial and infrastructural support for the sector to flourish. As a first step, policy-makers should accept the informal sector operators as partners in progress. They should work to provide sound regulatory framework, functional government services, friendly business climate, and enhanced access to financing, technology and infrastructure including markets and designated spaces.
- l) There is need for the elimination of all forms of anti-informal sector laws and legislation. In many states, there are various controls that impede the operation of the informal sector. The operators are often targets of harassment by the police and state agents for engaging in activities that are considered illegal. Given the job creation role of the sector in the face of a dwindling formal sector employment, it seems expedient to review all policies detrimental to the smooth functioning of the informal sector. This should not detract from the necessity to check criminal endeavours and activities that are inimical to the health and welfare of the population.
- m) Access to formal financing channels such as micro-credit could be instrumental in encouraging informal entrepreneurs to shift toward more formal economic activities. While informal sector actors' capital requirements are typically low in comparison to formal sector investment levels, they still experience difficulty accessing credit. This is because formal financial institutions often demand elaborate project proposals and collateral security which the informal sector operators are unable to provide. Thus heightening awareness of conventional banks of the potential of the informal sector is crucial. On their part, the actors may set up an informal insurance fund to help them in providing collateral to banks and also for underwriting debts that are not being serviced by members. Similarly, the authorities should provide training support on relevant skills for the actors.
- n) There is need for increased government patronage of the informal sector. Federal, state and local authorities should consider awarding tenders and subcontracting public works, supplies and other projects to informal sector operators, especially the large ones as a way of supporting the growth of the sector. This is especially important as many of the goods produced or supplied by the informal sector operators have been found to be of reasonably good quality.

- o)* Informal sector actors should be encouraged to organise themselves into associations in their various areas of activity or business. This will facilitate their injection into the policy formulation process and improve their capacity to shape legislations impinging on the sector. The formation of these subgroups can also be fruitful for purposes of raw materials procurement (procurement cooperatives) and marketing (marketing cooperatives) which may afford them quantity discounts, reduce competition among them and enhance their profitability.
- p)* The formalisation of the informal sector should be a decisive policy thrust of the government in the medium to long term. In prosecuting this agenda, the policy authorities should recognise the heterogeneity of the informal sector by distinguishing between small and large informal firms. Thus, the government should adopt a systematic approach by enunciating specific policies to bring large informal firms under formal regulation before enforcing a comprehensive regulatory regime including, for instance, formal registration and incorporation into the formal tax structure.
- q)* In order to continually analyse the contribution of the informal sector to the economy, it is important to routinely gather and keep relevant information on the sector. The lack of information may explain the reason why the sector does not feature in national accounts and other official statistics. A broad range of information covering characteristics of actors, employment and income effects, productivity and linkage effects should be collected periodically.
- r)* The key to moving informal enterprises into the formal sector is to create incentives for those operating informally to see the benefits of becoming formal; in other words, to create an environment in which the benefits of formalizing outweigh the costs of remaining informal. This necessitates dismantling barriers such as lengthy registration processes, red-tape, licensing requirements, lack of access to private property rights and a complicated taxation policy. It also includes improvements in the accessibility of micro-finance and giving informal enterprises greater representation and voice in the policy making process.
- s)* Policies and legal frameworks facilitating appropriate formalization need to be developed and implemented. This requires action at the macro, meso and micro levels. At the macro-level, policies concerning labour standards and legislation, social protection, worker benefits and property rights need to be made more pro-poor and pro-Medium and Small Enterprises (MSEs) in general. At the meso and micro levels, policies should be crafted to link formal training institutions and informal training systems; government should grant formal recognition and certification to skills acquired in informal apprenticeships; or work with informal sector associations in formalizing informal training systems.
- t)* The government should establish a Micro Enterprise Advisory Centre (MEAC) with the main function of providing extension service to informal sector actors. Alternatively,

SMEDAN may be reorganised to take on this role. Similarly, the government should, through its interface structures, strengthen the linkages among knowledge centres as well as the formal and informal sector of the Nigerian economy.

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