



THE INFORMAL SECTOR AND ECONOMIC DEVELOPMENT IN NIGERIA

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Executive Summary

Background, Objectives and Purpose

Nigeria's informal sector has, in the last two-and-half decades, generated considerable interest at both intellectual and policy levels. (Mustapha, 1992, Schneider, 2001 and Chukwuezi, 2010). The informal sector constitutes a source of livelihood for many households and communities and provides a wide range of services. It is not surprising that interest in the sector has arisen for a better understanding of the size and structure of the sector, Its interface with the formal sector, the role it can play in social and economic development and how to boost its performance. Despite the efforts stakeholders have made, a broad-based knowledge of the sector is still lacking, and policy initiatives are yet to provide a fillip for the sector. 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 broad objective of the study is to characterise the informal sector of the Nigerian economy and assess the contribution of the sector to economic development in the country. The knowledge of the sector will assist in articulating sectoral policies for accelerating the development of the country.

Process of the Study

This study was inspired by the observation that the informal sector plays an important role in providing employment, reducing poverty, and promoting economic development. Thus, in furtherance of efforts to achieve the national development agenda, an

understanding of the types of informal sector activities, their magnitudes and employment potentials are pertinent. The Nigerian Institute of Social and Economic Research (NISER), Ibadan, received the approval of the Federal Government to conduct this study. Funding was provided by the Ministry of Finance, Budget, and National Planning. The research team was drawn from the Institute's research staff. The study was carried out in 15 states of Anambra, Benue, Ekiti, Enugu, Gombe, Katsina, Kwara, Ogun, Sokoto, Taraba, Lagos, Rivers, Kano, Nasarawa, Kaduna and the FCT. The specific responsibilities of NISER included developing a detailed implementation plan; designing survey tools for the study; analysing the project data needs and reviewing relevant literature; developing a detailed budget for the task; and hiring and training field officers who executed the study.

The study began with an extensive review of conceptual issues, relevant literature and methods; mapping of informal sector activities in the 15 States and identification of clusters; development of survey instruments (questionnaire and in-depth interview guides), and development of concept note and draft proposal. The National Planning Commission (now Ministry of Budget and National Planning) and the Project Steering Committee comprising of CBN, SMEDAN, NBS and ITF participated in the review of the survey instruments at some points during the study.

The study commenced in the last quarter of 2018 but was slowed down by the COVID-19 Pandemic of 2020 when it was expected to be completed. However, the pandemic triggered an opportunistic element of the study which is to determine the impact of the pandemic on the informal sector activities, accomplished in 2021. The study entailed the collection of primary and secondary data. Primary data was collected through the administration of a

structured questionnaire and in-depth interviews (IDIs). The structured questionnaire obtained data on ownership, mode of entry, employment, start-up capital, cost of production, profit, linkages with the formal sector, etc. The sectors covered are distributive trade, manufacturing, small agricultural holdings, and technical services. In each of the 15 states and FCT, 400 copies of the questionnaire were administered, totalling 6,000. The secondary data were collected from states' ministries of trade, commerce and industry, sector unions/associations and other stakeholders such as National Directorate of Employment (NDE).

Key Findings

- a.* The size of the informal sector in the 15 sampled states and FCT, in terms of contribution to GDP, averaged 33.97 per cent. The mean annual income of the operators ranges from N690, 000 in Ekiti State to N3.61 million in Rivers State. The value-added of the informal sector range from N151.80 billion in Ekiti State to N8, 292.6 billion in Lagos State. The estimated share of the sector in GDP ranges from 16.9 per cent in Katsina State to 56.09 per cent in Lagos State.
- b.* The estimated total employment in the informal sector in the 15 sampled states is 32,882,153. This was derived from 6,400 sampled informal sector operators in the 15 states and FCT which generated 20,188 jobs, translating to employment of 3.19 persons per operator. Given the total number of informal sector actors in the 15 sampled states and FCT which is estimated at 8,704,966, the estimated total employment in the states is 32,882,153. The breakdown of estimated employment by state shows that Lagos has the highest informal sector

employment of 15,055,200 while Gombe has the least employment of 537,500.

- c. In general, there are significant interdependencies between the formal and informal sectors and within the informal sector itself. These linkages are evident for raw materials, intermediate and capital inputs as well as for finished products. For instance, about 58 per cent of the informal sector actors purchased raw materials worth between N1, 000 and N49, 999 per week from the formal sector firms while about 55 per cent obtained their intermediate inputs worth between N1,000 and N49,999 from the formal sector on weekly basis. Similarly, over fifty percent of the actors supplied raw- materials worth between N1, 000 and N49, 999 to other informal sector enterprises per week, while approximately a quarter of informal sector actors sold final goods worth N50, 000 and above to other informal sector operatives per week.
- d. 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.
- e. 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 most of these respondents. Majority of these respondents had less than N200,000 as available funding for each of the years 2020 and 2021.

Recommendations

The following short to long term recommendations (with governmental and institutional responsibility) were made in the light of the findings and the proposed model of the informal sector.

Short-Term:

1. The Federal Government should establish a Micro Enterprise Advisory Centre (MEAC) with the main function of providing advisory services to the informal sector on:
 - ✚ Education and Training.
 - ✚ Technological Knowhow; and
 - ✚ Financial Services
2. The Federal Government should put measures in place for routine collection of information on the sector for Monitoring and Evaluation (M&E) and policy formulation.
3. SMEDAN should be designated as the national coordinating agency for informal sector activities.
4. The Inspectorate and Extension Services Department of SMEDAN should be renamed as Micro Enterprise Advisory Centre (MEAC) and strengthened to provide advisory services for the informal sector.

5. State ministries of commerce and industry should be designated as coordinating agencies for informal sector operations at the state level.
6. SMEDAN, together with State Ministries of Commerce and Industry, should identify and access relevant sources of soft credit for informal sector operators through their unions/associations.
7. SMEDAN, together with Office of the Head of the State Civil Service should identify relevant knowledge centres to upgrade the skills of informal sector operators.
8. SMEDAN and State Ministry of Commerce and Industry should routinely collect information/data on the Informal Sector for policy formulation and Monitoring and Evaluation (M&E).
9. State ministries of commerce and industry in liaison with relevant associations should carry out a comprehensive registration of informal sector operators in their respective states.
10. The Federal Ministry of Finance, in collaboration with FIRS and SMEDAN, should review and reform the administration of the Personal Income Tax System and Value-Added Tax for the Informal sector to bring them into the tax net while avoiding multiple taxes.
11. Similarly, State Ministries of Finance, in collaboration with their respective Board of Internal Revenue, SMEDAN at the state level and state ministries of commerce and industry, should review and reform the administration of the Personal Income Tax System and Value-Added Tax for the informal sector to bring them into the tax net while avoiding multiple taxes.

12. Development Partners should work closely with Federal Ministry of Industry, Trade, and Investment, SMEDAN and State Governments in providing technical and financial support to informal sector operators.
13. The Federal Ministry of Finance, CBN, OSSAP-MDGs, Development partners and State Governments should assist by providing financial support for the implementation of the second and third phases of the informal sector study.

Medium to Long-Term

1. The Federal Government should put measures in place for the formalisation of the informal sector as a decisive policy thrust of the government. This will help:
 - ✚ In fast-tracking the country's Industrial Revolution Plan;
 - ✚ Improve the living standards of informal sector actors; and
 - ✚ Create ample opportunities for government revenue
2. The Federal Ministry of Industry, Trade and Investment should, in collaboration with relevant MDAs and State Government pursue formalisation of the informal sector as a decisive policy thrust of the government.
3. MEAC/SMEDAN should provide a link with key stakeholders, including the Private Sector, Informal Sector Actors and the Innovation Centres to appraise their challenges and proffer solutions
4. NISER in collaboration with Ministry of Finance, Budget, and National Planning, NBS, and SMEDAN should undertake periodic study of Informal Sector.

5. SMEDAN, in liaison with the Corporate Affairs Commission, should review the condition for registration of informal sector actors with a view to making it less cumbersome and affordable.
6. SMEDAN, together with Office of the Heads of the State Civil Service should identify relevant knowledge centres to ensure standardization and certification of informal sector operators.
7. Government, at all levels, should address the challenge of infrastructure deficit, particularly electricity and water, to facilitate the operations of informal sector.
8. The Ministry of Industry, Trade and Investment should work closely with Ministry of Information and SMEDAN to develop a communication strategy for the formalisation and development of the informal sector.