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Enhancing the Performance of the Informal Sector for the Economic Development of Nigeria: A Case Study of Lagos State

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ABSTRACT - The role which the informal sector plays in the management of an economy is of paramount importance to the development of such economy. However, the performance of the sector leaves much to be desired. This is likely due to the indifferent disposition generated towards its performance. This paper discusses the place of the informal sector in economic development such as employment creation, income generation, enhanced productivity and concludes with recommendation that the government should foster a linkage between the formal and informal sectors in order to facilitate the attainment of the state's developmental goals.

KEYWORDS: Performance, Informal sector, Economic development, Lagos State.

INTRODUCTION

The rapid industrialization of the 1960s and early 1970s in developing countries had unsatisfactory distribution effects on most economies. In particular, the accompanying employment derivative was insufficient to provide jobs for all the unemployed. The main beneficiaries were the city dwellers, while the rural communities were, in large part, neglected. This created a wide income gap between urban and rural residents. The immediate consequence was substantial rural-urban migration leading to an accelerated urban growth rate of up to 10 percent annually in some cases (Hemmer and Mannel, 1989). There were not

enough jobs in the urban entrants to cater for the existing job seekers, and this coupled with burgeoning new entrants into the job seeking cadre, resulted in a considerable rise in urban mass unemployment.

Moreover, the economic crisis of the late 1970s and early 1980s had a profound impact on developing countries. The debt crisis and global commodity shocks triggered off a protracted period of macroeconomic instability and a drop in external financing. This precipitated a drastic decline in investment in developing countries and a slowing down of economic growth. Concurrently, formal employment shrank contributing to the high incidence of unemployment.

The foregoing background illustrates the need for a robust informal sector—a need that has lately been recognized by scholars, policy makers and economists. Several theoretical and empirical enquiries into the informal sector reveal its vastness, resilience and dynamism. With little or no assistance from government, the units in these sectors have continued to perform creditably. The Nigerian government recently endorsed the informal sector as a vehicle for economic transformation. This is evident from an official pronouncement in the 1991 budget, but action in this arena has barely exceeded the level of rhetoric and the sector remains grossly neglected.

This paper discusses the role of the informal sector in the management of the Nigerian economy, particularly in the areas of enhanced productivity, employment creation and income generation. An attempt was made to conceptualize the informal sector from different perspectives with general features of the Nigerian informal sector, and went further to examine factors contributing to the success of the sector while highlighting the developmental policy imperatives of the sector. Special attention was paid to Lagos State as an example with a perusal of the mode of controlling this sector and the resultant contribution to the State's internally generated fund which serve as a positive lesson to other states of the federation.

Concepts of the Informal Sector

The concept 'informal sector' is multi-faceted and multi-dimensional. Its characterization has remained vague and slippery and reflects a wide range of interpretations of the findings of research in the sector. The informal sector has been labeled variously in the literature such as: underground, unorganized, invisible, unrecorded, irregular, backyard, unreported, block, hidden, shadow, etc. (Abumere, 1995a).

Recently, nomenclatures like the 'real sector' (McNeil, 1993), 'economy of the poor' (Hemmer and Mannel, 1989), 'petty commodity producers' (Gerry, 1978), and 'micro enterprises' (Lubell and Razour, 1990) have been used to describe the sector. For the purpose of this paper, however, we have adopted the operational concept of the informal sector, because it is, at present, the least

controversial and it aptly mirrors the activities within the sector.

Although there has been much thought on the conceptualization of the informal sector, no consensus has been reached by the way of a precise definition. Hart (1973) was the first to use the concept 'informal sector' in his study on the urban poor in Ghana. He defined an informal activity as any activity where income is derived from self-employment. This definition, however, fails to distinguish between a formal and an informal activity because it uses the individual unit of analysis rather than the activity.

The International Labour Organization (1972), influenced by Hart's work, characterized informal activity as any activity which possesses any or all of the following features: ease of entry and exit, unregulated and competitive markets, reliance on indigenous resources, family ownership of enterprises, small scale of operation, being labour intensive and having adapted technology and skills as the unit of analysis, its application does demarcate the boundary between the formal and the informal sectors without ambiguity. The major weakness here is that is not clear which of these attributes are necessary and which ones are sufficient for classifying an activity as informal or otherwise. It also fails to recognize heterogeneity of activities. Several contributors have refined the ILO attributes approach by adopting more precise definitions of these attributes in order to establish cut-off points. Sethuraman (1976) listed the following criteria: employment of not more than 10 persons, non-application of legal and administrative regulations, employment of family members, no fixed working hours or days, no institutional loans, production intended for final consumers, less than 6 years of schooling for workers, non use of mechanical and electrical energy for certain activities and peri-pathetic or semi-permanent character of the activity. This conceptualization still fails to classify these elongated criteria into necessary and sufficient conditions. Definitions adopted by Joshi and Joshi (1976), Berndt (1976), Mazumdar (1976), Aryee (1976), Santos (1976) and House (1984) are also similar to that of the ILO and share the same weakness.

To deal with the multi-criteria nature of the ILO-type conceptualization of the informal sector, scholars have come up with different single criteria for demarcating between the formal and informal sectors. Fields (1990) proposed ease of entry, which has been discovered to be weak in several respects. Others, such as Sethuranman (1990), Charnes (1990), Bromely and Gerry (1979), Hugon *et al.* (1977) adopted variants of the employment/income based classification similar to Hart's (1973) and which share the same conceptual weakness.

While searching for a single criterion that will precisely delineate formal sector from informal sector activities, the regulatory status of these activities was used. Castels and Porter (1989) defined the informal sector as composed of

those specific forms of income-generating production activities that are not regulated by the institutions of society in a legal and social environment in which similar activities are regulated. Ajakaiye and Akerele (1995) defined the informal sector as a production unit that operates without official regulations to govern its behaviour either in the input and output markets or in its production process. In our view, the informal sector is comprised of small-scale units producing and/or distributing goods and services for profits, pay or communal and social well-being without official regulations guiding their operations and, usually without being recorded in official statistics.

Special Status of the Lagos State

Lagos State is a unique state within the Federal Republic of Nigeria. It is one of the 36 constituent states of the Republic. It is more of a wetland urban environment located on a narrow coastal plain of the Atlantic Ocean on an area spanning 3577 square kilometers. Administratively, the state with Ikeja as capital has five divisions – Lagos, Ikeja, Ikorodu, Epe and Badagry. There are 20 local government areas in the state in accordance with the principle of federalism and grass root development. Apart from having played a dual role over a long period of time as the capital of the country and principal commercial and financial hub of the country and entire West Africa sub-region, it also has established an enviable administrative system at the state government level. Lagos ceased to serve as the Federal Capital Territory by December 12, 1991 when the function moved to Abuja. In addition, the state has a high level of activity of the private sector in the state. The state attracts the private sector at its best in the financial sector as well as in business. The state also harbours the principal sea and airports of the country, receiving and handling exporting goods and services to the other parts of the world.

Lagos is a highly urbanized State with over 75 per cent of its 15 million inhabitants living in Metropolitan Lagos. However, it is faced with grave urban crisis characterized by decaying infrastructure, widespread poverty, unemployment, security threats, high immigration rate, emergence of slums and conurbations as well as environmental and institutional deterioration.

The economy of Lagos state is basically private-sector driven especially financial, production and service industries. The overall policy thrust of the democratic government of Lagos state is Poverty Alleviation and Sustainable Economic and Urban Growth. The state is the hub of business room in the country. As a result, the state government involves the private sector of the state in the growth, development and general business strategy of economic management. Forum at which the political leaders, civil servants, the organized private sector and the other interest groups meet to articulate the economic policy thrust of the

government, articulate the policies into a budget format and distribute the role of the private sector in achieving the general goal of the state government. The annual contribution of the private sector is articulated in the Report of the Lagos State Economic Summit Forum. The well organized public-private sector collaboration in the Lagos State Economic Summit provides the forum for State Government and the Organized Private Sector to appreciate the problem of limited resources at the state level and hence obtain the contribution of the private sector in the development of the State.

Lagos State Development Indicators, 2002

| | |
|---------------------------------|----------------|
| Territorial Area (Sq.km) | 3577 |
| Share of Country Total (%) | 0.4 |
| Population | 13.4 (UN 1999) |
| Population Growth (%) | 8 |
| City Product/Person | 42.1 |
| Infrastructure Development (%) | 29.5 |
| Health Care Service (%) | 44 |
| Poverty Level (% of population) | 70 |
| Capacity Utilization | 35 |
| Power Demand (megawatts) | 2000 |
| Power Supply (megawatts) | 600 |
| Dependency Ration (youth %) | 68 |
| Sustained Economic Growth | 8 (by 2005) |

Source: World Bank Report, 2003

The Nigerian Informal Sector

In Nigeria, the informal sector covers a wide range of the economic activities of non-agricultural small-scale enterprises that exist in both rural and urban areas of the country. In terms of size, the number of persons engaged in these enterprises is on average five persons per enterprise. The basic distinguishing characteristics of this sector are the dominance of sole proprietorship. This sector accounted for 33 per cent of the total employment between 1970 and 1989. Strikingly, the growth of informal sector employment has been on the increase, rising from 27.3 per cent in 1970 to 38.2 per cent in 1989 (FGN, 1993).

Wage employment in the Nigerian informal sector has similarly been on the rise. It was 17 per cent of the informal sector labour force in 1970, rising to 30 per cent in 1989. Poor working conditions remain a disturbing feature of this sector. This is as a result of the insecurity of the entrepreneurs due to the temporary nature of their workshops. While about 67.4 per cent of the enterprises were operated from permanent locations in 1989, 32.6 per cent were in temporary sheds and open spaces (FGN, 1993).

The educational status of informal sector entrepreneurs in Nigeria has improved substantially due to the expansion in education at all levels. In 1994, those with primary education accounted for 57 per cent while those with post

secondary education were about 10 to 12 per cent (Akerle, 1995). The major source of skill acquisition and development in the informal sector is through the apprenticeship system. This explains why the structure of employment is heavily dependent on apprentice labour. The dependence on apprentices is, however, gradually declining as it fell from 32 per cent in the 1970s to 21 per cent in the 1980s (FGN, 1993).

Minimum wage requirements are not usually observed by informal sector operators since apprentices and family members constitute the bulk of their workers. The technology is flexible and the method of production is usually labour-intensive.

Economic Importance of the Nigerian Informal Sector

The Nigerian informal sector encapsulates a plethora of production and service activities spanning manufacturing, transportation, construction, and all types of services. Undoubtedly, this sector has made significant contributions to the economic and social life of the country. Its various contributions are discussed below.

Contribution to Job Creation

The employment creation capacity of informal sector activities is, indisputably, its cardinal contribution to the economy and is especially relevant, now that formal sector employment capability is fast shrinking. The informal sector employs 59 per cent of the total labour force in the urban areas. It also accounts for 68 per cent of non-agricultural employment as against the 18 per cent of the formal sector. This suggests that the informal sector is a veritable engine of employment in the Nigerian economy.

Provision of Income

The informal sector constitutes an important source of poverty alleviation by providing incomes for the vast number of people operating within the sector. It also provides supplementary cash income to farming and wage earning households. In Nigeria, engaging in informal sector activities has become an important survival strategy in the face of excruciating hardship. Households, as a way of shorting up their declining living standards, engage in trading of all kinds.

Research findings indicate that the average income generated by rural non-farm households exceeds that generated by full time farming households (Akerle, 1991; Chinta and Lieholm, 1985). It has also been found that entrepreneurs in the informal sector earn incomes that are comparable to, if not higher than, the wages of workers in the modern manufacturing sector (ILO/JASPA, 1985).

Provision of Training

About 80 per cent of new entrants into the informal sector are young primary school leavers. They are only equipped with basic numeracy and literacy skills which make them unprepared for direct entry into production. As a result of this deficiency, some sort of training on the job is required. Even those who join informal sector enterprises from the vocational school system still need some form of skill adaptation through training because their orientation is geared to the needs of formal sector enterprises. Research shows that the majority of the entrepreneurs in the informal sector acquired their vocational skills from within the sector (Oyeneye, 1981; Akerele, 1995). This is substantiation of the fact that the informal sector contributes immensely to skill development in the country.

Contribution to the GDP?

The contribution of informal sector activities to the Gross Domestic Product (GDP) is crucial to the recovery of the Nigerian economy, though this is often difficult to measure in developing countries. Available data show that during the period 1970 to 1989, the contribution of the sector to GDP was, on average, 18 per cent annum. This is high by African standards. For instance, the corresponding percentage for Guinea was 5 per cent (FGN, 1993).

Provision of Social Services

The informal sector also features prominently in the provision of social services. In rural and disadvantaged communities, self-help schemes are used to provide credit, build and run schools, and provide health-care facilities. It is through these self-help scheme in the rural communities and urban peripheries that dwellings are constructed and maintained and children are cared for during the day. All these functions which are ignored in social accounting, contribute significantly to the welfare of the beneficiaries. These activities serve as a cushion against the ravaging effect of poverty, especially for the poor.

Provision of Employment and Incomes to Women

Presently, there are relatively few gender-specific studies in the informal sector. But causal empiricism suggests that the rate of participation of women in informal sector activities is quite high. They are mostly engaged in marketing, food retailing, dress-making, cross border trading, hawking, etc.; in the process creating employment and generating income.

It is clear that the informal sector perform important functions of an economic character. This reinforces the need for the authorities to accord the sector adequate attention by formulating and implementing appropriate policies.

THE LAGOS STATE EXPERIENCE

The informal sector in Lagos State is classified under what is known as the “National Council of Tradesmen and Artisans with registered associations of Tradesmen and Artisan of about one hundred and fifty (150) in number consisting of Taylors, Spare parts dealers, plank sellers, mechanics, vulcanizers, barbers etc.

The Lagos State chapter of the National council of trademen and Artisans in 2004 estimated the revenue from its members by the State Board of internal Revenue to One Billion, eight Hundred and seventy Five Million niara (N1,875 billion) from about 150 associations of about 5,000 members and a minimum of N2,500 per member for a year.

Lagos state gave recognition to the informal sector via its Tradesmen and artisans Edict 17 of 1989 which specifically provides for a Council of Tradesmen and Artisans. Currently, the Council serve as agent of collection of taxes from these associations under them with a percentage commission. One can therefore deduce from the contribution of the informal sector above in Lagos state that the informal sector complements the efforts of the formal counterpart to enable the state achieve its overall objectives.

Factors Influencing the Success of the Informal Sector

To appreciate the role of the informal sector in the management of the Nigerian economy, one need to understand the factors that have sustained it. Some of these factors are intrinsic and peculiar to informal enterprises others are policy-related and potentially transient. It is these factors that are crucial to the continued existence of the informal sector.

Small-scale Production and Simple Technology

Productive enterprises of the informal sector are usually small-scale in nature. Most of the tasks are done to meet personal requirements and the technology is usually simple, due to lack of capital. Despite these, the sector is a moving frontier, covering a wide range of goods and spreading production and skills into rural centers. The flexible specialization characteristic of this sector gives room for the dispersal of its activities. Indigenous machines used are fabricated locally and the techniques are easy to comprehend. Thus, informal enterprises flourish, due to the presence of diversification and improvisation, which are largely lacking in formal industrial production.

Apprenticeship System

Although the level of education among operators in the informal sector varies, it is generally low. Skills are produced at less cost through apprenticeship (the main source of skill development), compared to the cost of acquiring similar

skills in formal vocational schools. The use of apprentices and family workers enables entrepreneurs to circumvent possible working capital problems. In addition to the free labour, apprentices usually pay certain fees for acquiring the skills and these as a source of income to the entrepreneur.

Internal Financing

Capital investment is usually low in virtually all informal sector activities. This is due to difficulty in obtaining credit for both investment and working capital purposes. Clearly, this is a major constraint. It is well known that most enterprises get their initial capital from personal savings. Other sources of funding are loans from family, friends and credit associations. These internal sources of financing, though they do not provide large amount of capital, have been a regular source of funds to the enterprises in the absence of access to formal sources of financing.

Incentives and Accumulation

The informal sector encourages rural-urban migration, generates skills, provides employment and a source of livelihood. Generally, wages are often low in this sector but heads of enterprises sometimes earn more money than their counterparts in the formal sector.

Government intervention through marketing institutions, price distortions and variations in policies between one country and another could lead to windfall profits and invested in other activities that will boost the economy. For instance, farmers can increase production if more profitable markets across the borders are opened up, and traders may hire porters or bicycles to convey their goods to these markets and to import goods that are needed locally.

Reliance on Personal Relations

The operation of the informal sector through ties of kinship, ethnicity, community and clientship reinforces the social relations of the participants. This relationship accounts for the success of informal financial institutions as the administrative and transactional costs associated with loans are waived or kept very low. The processing and recovery costs of loans are also minimal. Peer pressure on borrowers in arrears accounts for the low default rate.

Linkages with the Formal Economy

Much debate has centered on whether the informal sector is a separate sector with an autonomous capacity for generating growth in a benign relationship with the formal sector or whether the linkage is a relationship of exploitative integration into the overall structure of the economy. The relationship between the formal and informal sector is not neutral but dynamic and occasionally problematic.

This is typified by the link the informal sector has with the formal economy through several intermediaries.

The informal economy contributes to the formal economy by supplying goods and services that the formal sector low wage earners can afford. Besides, the formal sector enterprises depend on the informal sector for its raw materials and other supplies in varying degrees.

An in direct linkage between formal and informal sectors which is mostly restricted to the financial market should be overlooked. Since most of those engaged in informal activities have no access to official credit institutions, they source for credit from the informal credit market. This group therefore operates in the two financial markets. Savings by some of these operators in the organized money market often meant for organized market operators are extended by them to informal sector operators. The informal sector operators also borrow from these people. Hence there is significant interaction between the formal and informal segments in the areas of credit allocation and savings mobilization.

Operation on the Margins of Legality

The absence of overhead costs is one of the main factors responsible for the profitability and success of informal sector activity. Enterprises in this sector seldom keep accounts nor are they licensed. They evade taxation and observe no labour regulations. The premises they use are mostly rented or illegally occupied, and at times, businesses are conducted in the open air. Hence their costs are minimal.

The Need for Policy Priorities for the Informal Sector

The informal sector is described as the most accessible and competitive part of African economies with the capacity to foster self-reliant growth. It promotes popular participation and takes up activities neglected by the state. The sector, by so doing, serves as a stimulus for socio-economic development. All these underscore the need to integrate the sector into the mainstream of the national economy. The elements of the sector which could spearhead socio-economic transformation have been elucidated in this paper. We now explore the areas of possible policy and programme intervention.

Productivity and Incomes Improvement in the Informal Sector

Several policy options have been suggested on how informal sector activities could be more productive and how its labour-absorptive capacity could be enhanced.

Creating a Favourable Policy Environment

Informal sector enterprises are constrained by the lack of access to formal capital markets and a discriminatory macro-economic environment. Credit and market policies have, in general, favoured formal sector enterprises. Local authorities often deny informal sector operators the use of sites for their businesses and consistently harass them. Removal of these constraints will no doubt enhance the informal sector's production and labour absorptive capacity.

Government should inject more funds into the Peoples' Bank's portfolio to enable it meet the financial requirements of informal sector operators and guarantee them unhindered access to credit. Moreover, a less stringent broad banking policy on lending should be introduced to accommodate the special needs of informal sector entrepreneurs. Here, the emphasis should be on the viability of the project, management skill levels, experience and character of the borrower rather than on collateral. Incentives should be offered to viable informal sector enterprises to obtain licenses and/or register their enterprises without compromising health requirements and other standards.

Skill Upgrading

Low skill levels account, in part, for low productivity in the informal sector. This underlines the need to improve training. Training programmes should be designed to enhance skills, especially in the area of modern production, to improve the quality and quantity of products.

Performance could also be significantly enhanced by way of training in the area of basic book keeping, procurement and supply management, staff supervision and marketing. The collaboration of non-governmental organizations, international agencies, etc., could be enlisted in the area of training.

Market Protection

Since the informal sector produces goods meant for formal sector enterprises, policies should be designed to open up outlets for those goods in the formal sector. These policies should stimulate the demand for informal sector goods in the domestic economy and ensure that scarce resources are not wasted on the importation of goods that can be produced locally. Government should also guarantee informal sector enterprises access to foreign exchange for the importation of raw materials, technology and other production inputs.

Literacy and Numeracy Programme

Informal sector operators, particularly women, face acute literacy and numeracy problems. There is the need to upgrade literacy and numeracy skills to enhance efficiency in this sector. This calls for the establishment of special literacy

and non-formal education programmes. NGOs, International Agencies, etc could complement government efforts in this type of training.

Institutional Support

In Nigeria, public institutions responsible for labour and employment matters have largely ignored the concerns of informal sector workers. Ministries of labour and productivity, education and the National Planning Commission have generally not recognized the emerging role of the informal sector in their policy formulations. Neither do employers' associations nor workers' unions draw any membership from the sector.

Given the crucial role of the informal sector in terms of job creation and income generation and the felt need for more explicit forms of government support, it is imperative to put in place a mechanism for planning and monitoring the growth and efficient functioning of the sector. The National Planning Commission, National Manpower Board and the Ministry of Labour, Productivity and Employment have important responsibilities in this regard.

Trade Unions and employers' associations should also be encouraged to broaden their scope of activities to incorporate the needs of the informal sector. The implied institutional support that all these could provide is important for the fashioning of the informal sector into the mainstream of the economy.

Development of Social Services through the Informal Sector

The increasing neglect of the social sector by governments of developing countries has been a source of concern to scholars and the international community, especially in recent years. These problems could be linked to development strategies that have marginalized traditional ways of doing things.

There are informal (traditional) means of health care, birth spacing, care for the aged, the child and youths. The extended family system which is now disappearing, gave vulnerable members of the society some measure of social protection. Thus the informal sector performs the important role of social welfare and development. Their neglect fosters inefficiency in the delivery of these social services.

Policies and programmes to increase the sector's efficiency should therefore be articulated. The National Association of Traditional Healers, whose objective is to make informal health practitioners deliver better services to their clientele and to collaborate with those in the formal health system in a mutually reinforcing manner should be offered encouragement by government. The aggregative effect of this will be an improved and functional national health care delivery system.

Training should be given to those informal sector operators for improved efficiency in the social sector. This training could prove handy in family planning programmes, traditional midwifery systems and so on.

Conclusion

In this paper, the important role of the informal sector in the economic development of Nigeria was highlighted some of which are productivity enhancement, employment generation, poverty alleviation, income generation etc.

Special emphasis was laid to Lagos State with her global capture of various associations under the informal sector with the aim of improving revenue generation for the state. The achievement so far was also enumerated which is a lesson to other States of the Federation and the country as a whole.

Recommendation

We recommend that various tiers of government should appreciate this sector, set up policies and programmes to enhance its efficiency and foster a better linkage between it and the formal sector so as to facilitate a joint attainment of national developmental objectives.

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