

## **Informal Economy and Employment Creation in Nigeria: Issues, Challenges and Prospects**

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### **Abstract**

The informal economy in Nigeria according to Hart (1973) is that sector of the economy that is not regulated by the state, operates outside formal legal frameworks and is characterized by low barriers to entry and minimal capital requirements. Employment creation itself refers to the process or strategy made to generate job opportunities either for a Sector in the economy, a locality, region, or for the overall economy in a country. The aims are to reduce the rate of unemployment, generate income, reduce poverty and in the long run, achieve sustainable development in the country. The aim of this paper is to examine the relationship between the informal economies in Nigeria made up of artisans, street traders and vendors, small scale rural farmers, etc and employment creation. The theory linked to this study is the dualistic development theory propounded by Hla Myint in 1958. It was observed that the government recognizes the presence and benefits of those that belong to the informal economy in Nigeria and various programmes or strategies have been implemented to encourage the participants in the informal economy like the National Directorate of Employment (NDE) programme, the National Social Investment Programme (NSIP), the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and so on. The importance of this work is to identify those that belong to the informal economies, the roles they play and their importance to the national economy cum sustainable development in a bid to strengthen their existence towards employment creation.

**Keywords:** Informal Economy, Employment Creation, Dualistic, Development and Sustainable Development

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## **Introduction**

The informal economy encompasses a wide range of economic activities that are not regulated or protected by formal government institutions. In Nigeria, where formal employment opportunities are limited, the informal economy serves as a crucial source of livelihood for a significant portion of the population. This raises the importance of understanding the dynamics of the informal economy and its contribution to employment creation.

Employment creation is a pressing concern for all developing countries of the world especially, Nigeria, given its rapidly growing population and high rate of unemployment. The informal economy has emerged as a key driver of job opportunities providing employment for millions of individuals who would otherwise have been unemployed. Thus, exploring the relationship between the informal economy and employment creation in contemporary Nigeria is crucial for understanding the dynamics of Nigeria's labor market and formulating effective policies to promote inclusive economic growth of every sector of the economy.

In this work, we will delve into the concept of employment creation, informal economy, its prevalence in Nigeria and its impact on employment creation. We will look into the dualistic development theory, the participants in the informal economy in Nigeria like the drivers, street vendors, waste collectors, artisans, etc. government policies to support the informal economy in order to reap the benefits therein and the challenge of the informal economy together with the way forward to encourage the development of the informal economy and its subsequent employment creation drive. By doing all these, the government and the general public would see the need to strengthen the informal economy so as to reap its benefits of employment creation and sustainable development.

## **The informal economy**

The informal economy has been given various definitions by many authors but we shall look into a few of them with a view to understanding the concept. Hart (1973) defined the informal economy as "a sector of the economy that is not regulated by the state, operates outside formal

legal frameworks and is characterized by low barriers to entry and minimal capital requirements" De Soto (1989), defines the informal economy as "the set of economic activities that are not regulated by the state and are not included in official statistics". According to Portes and Castells (1989), the informal economy refers to "economic activities that are not regulated by the state do not comply with labor market regulations and are not protected by the legal system".

While, Williams (2009) describes the informal economy as "economic activities that are unregulated, untaxed and often hidden from official records and statistics"

### **Employment creation**

Employment creation refers to the process or strategy made to generate job opportunities either for a Sector in the economy, a locality, region, or for the overall economy in a country. The aims are to increase the quantity of jobs in a country, reduce the unemployment rate, increase individual income and promote economic growth and development.

### **Factors Associated with the Informal Economy**

According to the IMF (2021), the informal economy is a global and pervasive phenomenon. Some 60 percent of the world's population participates in the informal sector. Although mostly prevalent in emerging and developing economies, it is also an important part of advanced economies. The informal economy consists of activities that have market value but are not formally registered. The informal economy embraces professions as diverse as minibuses drivers in Africa, the market stands in Latin America and the hawkers found at traffic lights all over the world.

In advanced economies, examples can range from rig and construction workers, through domestic workers, to registered firms that engage in informal activities. The International Labor Organization estimates that about 2 billion workers or over 60 percent of the world's adult labor force operate in the informal sector-at least part time. The informal economy is a global phenomenon but there is great variation within and across countries. On average, it represents 35 percent of GDP in low- and middle- income countries versus 15 percent in advanced

economies. Latin America and sub-Saharan Africa have the highest levels of informality and Europe and East Asia are the regions with the lowest levels of informality. The informal economy is difficult to measure. This is because activities within it cannot be directly observed and for the most part, participants in the informal economy do not want to be accounted for. The Informal sector can be measured in two different ways. The direct approach is based on surveys, voluntary replies and other compliance methods to directly measure the number of informal workers and firms.

Indirect methods focus on certain characteristics or proxies that can be observed and are related to informal economic activity. Examples of proxies include electricity consumption, night-light satellite data and cash in circulation. Using these methods, the share of the informal economy in total output can be measured.

The COVID-19 pandemic hit informal workers particularly hard, especially women. This uneven impact of the pandemic is because the majority of informal workers are employed in contact-intensive sectors (such as domestic workers, market vendors and taxi drivers) and in insecure jobs that do not offer paid leave or the ability to work from home. Close to 95 million more people—many of them informal workers—are estimated to have fallen below the threshold of extreme poverty in 2020 compared with pre-pandemic projections. Gender inequality is also increasing as millions of women who are informal workers, have been forced to stop working since the start of the pandemic. For example, women make up 80 percent of domestic workers globally and 72 percent of them have lost their jobs as a result of the pandemic.

In sub-Saharan Africa, 41 percent of women-owned businesses closed, compared with 34 percent of those owned by men. The informal economy is central to the economic development process. Understanding the drivers and consequences of informality is central to sustainable and inclusive development as informality is critically related to how fast countries grow. Whereas some individuals and firms operate informally by choice, 85 percent of all informal workers are in precarious employment, not through choice but due to a lack of opportunities in the formal sector. This has important economic consequences.

First, countries with large informal sectors tend to grow below their potential. Informal firms tend to remain small with low productivity and limited access to finance. Also, they do not contribute to the tax base thus, depriving governments of resources to provide basic services to their populations.

Second, informal workers are more likely to be poor and to earn lower wages compared to their peers in the formal sector. They lack social protection, access to credit and are generally less educated.

Third, informality is related to gender inequality. Globally, 58 per cent of employed women work in the informal sector and are more likely to be in the most precarious and low-paid categories of informal employment. In sub-Saharan Africa, women's average share of informal employment in the region's nonagricultural sector is 83 percent,

A balanced approach is crucial in addressing the informal economy as it currently represents the only source of income and a critical safety net for millions of people. It is important for policymakers to focus on implementing policies that help reduce informality gradually by tackling the drivers of informality in each country, including social exclusion and the incentives for individuals and firms to operate informally. Attacks on the sector motivated by the view that it operates illegally and evades taxes are not the answer. Rather, policies that have been found to be effective include reforms to ensure equitable access to education for boys and girls; increasing access to finance, including by leveraging mobile money and digital reforms and putting in place measures to improve the business environment. Specific measures include simplifying registration and regulatory requirements for new firms, simple tax systems including easy registration and electronic payment of taxes and labor market reforms.

### **Theoretical framework**

One theory that is deemed relevant to this work on informal economy and employment creation in contemporary Nigeria is the Dualistic Development Theory, which was propounded by Myint in 1958. The Dualistic Development Theory suggests that in developing countries there exists a dual economy consisting of a modern formal sector and a traditional informal sector. The

modern formal sector typically includes large-scale industries, modern agriculture and formal employment while the informal sector comprises small-scale enterprises, self-employment and subsistence activities.

According to Myint (1958), the informal sector plays a crucial role in employment creation and poverty reduction in developing countries. He argued that due to limited opportunities in the formal sector, the majority of the populations in developing countries are forced to engage in the informal sector for their livelihoods. The informal sector therefore acts as a safety net by absorbing surplus labor and providing income-generating activities for those who cannot find employment in the formal sector.

Myint's theory emphasizes that the informal sector should not be seen as a hindrance to development but rather as a potential driver of economic growth. He argued that policies should be implemented to support and promote the informal sector, such as providing access to credit, improving infrastructure and reducing bureaucratic barriers and by doing so, the informal sector can expand, create more employment opportunities and contribute to the overall economic development as can be seen in Nigeria. The Dualistic Development Theory has been influential in shaping policies and strategies aimed at addressing the challenges of the informal economy and employment creation in Nigeria and other developing countries. It recognizes the importance of the informal sector and highlights the need for targeted interventions to harness its potential for inclusive growth which the country has taken serious.

### **Participants in the informal economy in Nigeria**

The informal economy in Nigeria comprises of individuals engaged in one or more informal activities. These include but not limited to;

- **Street vendors and petty traders**

Street vendors and petty traders are part of those involved in the informal economy in Nigeria. They engage themselves in the sale of varieties of goods, such as food, clothing, articles and household items. According to a study by Okafor&Onyeonuru (2019), street vending is a

common form of informal economic activity in Nigeria, contributing to employment and income generation.

- **Artisans and craftsmen**

Artisans and craftsmen, like welders, upholstery makers, tailors, plumbers and shoe cobblers are an integral part of the informal economy in Nigeria. They provide various goods and services. According to Ogunrinola and Ogunrinola (2017), the importance of artisans in the informal sector includes that they contribute to the economic growth of the country through their various activities.

#### Waste collectors and Waste recyclers

According to Oyedokun and Adeyemi (2019), waste collectors and recyclers are those individuals that collect, sort, compile and sell recyclable materials from waste. Sometimes, they move from one location to another in search of waste or it's brought to them at their collection sites by individuals.

- **Informal agriculture and farming**

Especially in the rural areas, there are a large number of individuals engaged in agriculture like small scale farmers, those involved in husbandry, fishing etc. they all are essential parts of the informal economy in Nigeria and most times they are often overlooked when dealing with the agricultural sector (BOI, 2022)

- **Motorcycle riders and tricycle operators**

Motorcycle riders and tricycle operators, commonly known as "Bike men" and "Keke" drivers, respectively, are an important part of the informal economy in Nigeria as they play various roles in its existence. They are engaged in the transportation of goods and people from one location to another thus facilitating the movement of goods and services to the benefit of the overall economy in Nigeria.

- **Household workers**

These include house helps, cleaners, cooks, nannies, gatemen and gardeners. They all are participants in the informal economy in Nigeria. According to Ogunrinola and Ogunrinola (2018), they provide various household services to individuals and families.

- **Informal financial services**

According to Ogunrinola and Ogunrinola (2019), the informal economy in Nigeria includes informal financial services which contain participants like Rotating Savings and Credit Associations (ROSCAs) like the credit and thrift societies and moneylenders.

This group of people assists individuals and businesses that may not have access to the formal banking services either for one reason or the other. But in all, they help in the reduction of poverty in Nigeria.

- **Informal construction and building workers**

This includes people like block molders, iron benders, bricklayers, carpenters, masons and their servers including painters. They group of people often work for themselves as they are independent and are often overlooked by the government (BOI, 2022).

- **Road transport operators**

These include truck, lorry, bus and taxi drivers. Also included are the bus conductors. They assist in the movement of persons and goods and facilitate trade from one location to another. They play a very important role in the import and export industries and in the manufacturing sector of the economy (BOI, 2022).

### **Government policies in Nigeria to support the informal economy and employment creation**

- **Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)**

The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) was established in 2003 to promote and support the growth of Small and Medium-Sized Enterprises (SMEs) in Nigeria, including those in the informal sector. SMEDAN provides training, capacity



building, and financial support to informal businesses with the aim of creating employment opportunities (SMEDAN, 2023).

- **National Directorate of Employment (NDE)**

The National Directorate of Employment (NDE) was established in November 1986. But it began operations fully in January 1987. The birth of the directorate was predicated on the effects of the economic recession of the 1980s which led to a drastic reduction in capital utilization and the consequence outright closure of industries in Nigeria. Other macro-economic policies made by the government of the day that time included the Structural Adjustment Programme (SAP), the devaluation of the naira, privatization and commercialization, etc, which resulted to massive job losses in both the public and private sectors of the economy. As a direct response to the rising trend of unemployment, the then military government headed by General Ibrahim B. Babangida, set up a committee headed by Mr. Stephen O. Chukwumah. The committee was charged with the task of proffering a sustainable intervention solution to mitigate the rising levels of unemployment in Nigeria.

The committee then established that the informal sector of the country mainly consists of low skilled, semi-skilled and or unskilled people and that this group of people also constitutes about 90% of the workforce within the sector. This situation then, placed skills acquisition/training on the front burner in respect of employment creation for the Committee (NDE, 2022)

- **National Social Investment Program (NSIP)**

The National Social Investment Program in Nigeria was established in 2016 with the aims to reduce unemployment, hunger and poverty through various initiatives, including the Government Enterprise and Empowerment Program (GEEP). GEEP provides micro-credit loans and other financial support to small businesses in the informal sector. It targets traders, artisans, farmers and women by providing loans between 10,000 and 100,000 at no monthly cost to beneficiaries. Thereby generating employment opportunities (The State House, 2020)

- **Small and Medium Enterprise Equity Investment Scheme (SMEEIS)**

The Small and Medium Enterprise Equity Investment Scheme is a policy in Nigeria that encourages financial institutions to allocate a percentage of their profits towards equity investment in SMEs, including those operating in the informal economy.

It was approved by the Bankers Committee at its 246<sup>th</sup> meeting held on 21<sup>st</sup> December, 1999. This policy helps provide funding and support for informal businesses, leading to sustainable economic development, industrialization, poverty alleviation and employment creation (Central Bank of Nigeria, 2023).

- **Agricultural Development Program**

Nigeria has several agricultural development programs that aim to promote employment creation in the informal sector. For instance, the Agricultural Transformation Agenda (ATA) is one of them and it was launched in October 30, 2013. It focuses on improving agricultural productivity, agribusiness development and value chain enhancement. These initiatives facilitate job creation in the agricultural sector, which has a significant informal component targeting small holder farmers (AFDB, 2013).

### **The impact of the informal economy on Nigeria's general economic outlook**

- **Adaptability**

According to Anyanwu&Erhijakpor (2014), the informal economy allows for easy adaptation to changing economic conditions thus, providing a safety net for individuals during economic downturns.

- **Absorption of surplus labor**

Due to the large number of people willing to work and the shortage of formal employment, informal economy absorbs a large portion of this surplus labor force in Nigeria thus, reducing the unemployment and underemployment rates in the economy.

- **Employment creation**

The informal economy in Nigeria plays a very important role in providing employment opportunities particularly for people who are unable to secure formal employment as they find something worthwhile in it to keep themselves busy. As they say that an idle hand is the devils workshop.

- **Entrepreneurship and innovation**

The informal economy in Nigeria has given boost to entrepreneurship endeavours and consequently innovative ideas, as people often start their own businesses to bridge the supply gap in various industries( Adedokun&Odusanya, 2019),

- **Income generation**

Many individuals in the informal economy rely on their businesses or informal jobs as a source of income, contributing to poverty reduction and enhancing their livelihood (Akanbi and Oyejide, 2017).

### **Challenges faced in the informal economy in contemporary Nigeria.**

The challenges being experienced in the informal economy includes;

- **High levels of poverty**

The informal economy in Nigeria is characterized by a large number of individuals engaged in jobs that the pay is low and are often not secured because formal employment opportunities are limited(Wiego, 2023).

- **Limited access to credit**

Businesses in the informal economy in Nigeria are often faced with difficulties in accessing funds to run their entrepreneurial endeavours from financial institutions like loans and credit facilities, which stunt their progress (CBN, 2023).

- **Limited legal protection and social security**

Workers in the informal economy often lack legal protection and social security benefits, such as health insurance and pension schemes, leaving them vulnerable to economic shocks and social risks (Wiego, 2023).

- **Large size of individuals in the informal economy in Nigeria**

In Nigeria, the informal economy is very large when compared to the formal one; this invariably leads to a daunting challenge in regulation and control by the government (BOI, 2022).

- **Limited levels of education and skills**

In Nigeria, most people working under the informal economy have limited levels of education and skills. As a result, the chance for them to improve themselves in what they are doing is very low and this hampers the impact they would have created on the general economy of the country (NDE, 2022)

- **Low access to large markets and limited technology usage**

Informal businesses in Nigeria often face difficulties in accessing large markets and adopting current technologies thereby limiting their ability to compete in this ever changing world.

### **The Informal economy and employment creation in contemporary Nigeria**

Due to the utmost benefits being derived from the informal economy in any country, many authors have linked it to being a great driver to employment creation/generation in contemporary Nigeria. These include;

The informal economy in Nigeria is a source of resilience against economic shocks. The sector provides a buffer against the volatility of the oil sector by offering alternative employment opportunities and income sources thereby reducing the vulnerability of the Nigerian economy (Anyanwu & Erhijakpor, 2014). Onyeonoru & Egbunike (2015), sees the informal economy as a sector of the economy that encompasses economic activities that are not regulated,

taxed or monitored by the government therefore plays a crucial role in Nigeria by providing employment opportunities, contributing to the country's GDP growth and serving as a safety net for vulnerable individuals.

The importance of the informal economy in Nigeria as poverty reduction entity cannot be overemphasized because it provides income-generating opportunities for the poor and enhances their livelihoods(Akanbi&Oyejide(2017). It is obvious from Adedokun&Odusanya(2019) point of view that the informal economy is a sector of the economy that operates outside the formal regulatory framework and is characterized by low barriers to entry and limited access to formal credit and social security. It is significant to Nigeria's economic growth through job creation, income generation, and entrepreneurship.Okafor&Onyeonoru(2019), emphasize that the informal economy plays a crucial role in poverty reduction in Nigeria. They argue that the sector provides income-generating opportunities for the poor, contributes to household livelihoods and helps alleviate poverty by creating employment and self-employment options. It has also been observed that the informal economy in Nigeria has been a sort of refuge for women as they are mostly the beneficiaries since it provides employment opportunities for marginalized women and those who may face barriers to formal employment thereby, contributing to their economic empowerment, poverty reduction and emancipation.

## **Conclusion**

It is obvious from the precedence that the government recognizes the presence and benefits of the informal economy in Nigeria and the roles they play in building the GDP, and the national economy. Various programmes or strategies have been implemented to encourage the participants in the informal economy like the National Directorate of Employment (NDE) programme, the National Social Investment Programme (NSIP), the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and so on.

## **Recommendation**

Although some effort have been made by various governments in Nigeria to encourage the informal sector, there is still much to do. The legal frame work for doing business need to be

relaxed more for ease of doing business. The digital economy should be developed to create a good atmosphere to leverage on technology to expand the sector.

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