



## Research Article

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# Informal Economy Sector as a Catalyst for Nigerian Economy Development and Sustainability: A Review

Michael Adelakun Balogun

Department of Sociology,  
Faculty of Social Sciences,  
Federal University Dutsin-Ma,  
Katsina State, Nigeria

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## Abstract

*Informal economy sector is a major part of the global economy that provides the needed or alternative economy development approach for sustainability. This paper assessed the impacts of informal sector on the economy development of Nigerian and its challenges for sustainability. The Max Weber and Dudley Seers social developmental theory were used to explained the study, while some importance and challenges of the sector were explored. The paper therefore concluded that since informal economy sector can improve/encourage economic standard of individuals and reduce the focus from globalized to the local alternative path of development and sustainable future, it then recommends amongst other that processes should put in place to capture the dynamics of the sector and the best way to tap into its potential since it has the capacity to increase Nigerian economy predicament and beyond. Also, policy to support and to address the identified challenges towards improving the sustainability and productivity of the sector should made possible in Nigeria and other related international state.*

**Keywords:** Informal economy, catalyst, Nigerian economy, development and sustainability

## 1. Introduction

Globally, informal economy activities are significant and remain integral part of both developed and developing nations. This incorporates activities that are structured within informal institutional boundaries or unregulated economy that produces goods and services. It includes economic activities such as street trade, agriculture (subsistence farmers), small scale manufacturers, hairdressers, private taxi drivers, carpenters and others related businesses.

Informal economies do not have a single common definition but the widest range includes economic activity or channels of income that deviate from or do not subject to government regulation or observation (Burger & Fourie, 2018; Glinskaya, 2018). It therefore comprises of many activities, such as subsistence farming, small-scale enterprises and many others that do not reflect in national accounts. These usually serve as a key provider of opportunities and the important form of production and income to the populace.

The number of participants in this economy sector is over eighty-five per cent (85%) of the nationwide employment (Chambwera, MacGregor and Baker, 2011). In 1988 for instance, the 15

countries that formed part of the EU increased in their informal sector from 25 to 33 percent in 1995 and also in US was increased significantly as at early 1980s. In 1990s, Swaziland's urban informal economy sector contributed 22% to national employment. Nevertheless, developing country shows high growth and increase in the informal sectors. Thus, 227 million labour force in sub-Saharan African was engaging in the informal economy sectors as at 1990 and in nineteen ninety-eight (1998), forty to sixty percent (40-60%) of urban employment was established in the sectors (Chambwera et al, 2011; ILO, 2018; Vanek, Chen, Carre, Heinz & Hussmanns, 2018).

In Kenya for example, it grew at the rate of 9 percent in 1990 to 16.1 percent in 1994 and in Swaziland, urban informal sector accounted for 10 percent of national employment in year 1990. Thus, it grew at an average annual rate of 15 percent and with the decline in the formal employment annually. Hence, informal sectors contributed to the global economy and sustainable development. The sector accounted for over half of global employment especially in some of the poorer developing countries at the estimate of 1.8 billion when compared with 1.2 billion of the formal sectors (Chambwera et al, 2011; Glinskaya, 2018). Therefore, the paper assessed the contribution or importance of informal economy sector to the Nigerian economic development and sustainability and its challenges.

## **2. Overview of the Informal Economics Sector**

Informal economy becomes a viable option due to the increased in unemployment, underemployment, low inflow of capital, and lack of social benefits (Balogun & Iduemre, 2019; Skinner, 2018). The sector serves as a medium where unemployed become economically active to earn a living, though its policies especially in sub-Sahara Africa are inappropriate as it experiences neglect and underdevelopment (Cichello & Rogan, 2017). In some part of the world where a lot of factors responsible for the inability of majority and/or the authorities to provide or cater for individuals especially in Nigeria, the sector increase their economic status and chances of survival (Galdinoa, Kiggundu, Jones & Ro, 2018; Fasanya & Onakoya, 2012).

Since informal economy sector comprises of economic activity that do not maintain a complete set of accounts with government, there are common misconception that the sector comprises of illegal activities. The informal economy sector can be better described as economic activity engaged by citizen/masses as medium to cope with economy crisis (Ozili, 2018; IMF, 2017). Hence, any countries that aimed to achieve economic prosperity or stability, high percentage of employment, reduction in inflation, hunger, unrest and quality of living must pursue country's goals and objectives in the informal sector.

Though Nigeria have experienced a bit economic growth over the years but do not reflect on the quality of living of people; for instance, its economic growth/increased from -1.6% in 2016 to 0.8% in 2017, and 1.9% in 2018 to 2.29% in 2019 which indicates the most increased growth since 2015 (Impalure & Dore, 2020); but in all, the citizens experience low quality of living as a result of poverty, unemployment and inequality. The implication according to Impalure and Dore is that, Nigeria is now at the front line even from India and other developing countries that recorded high number of people living in poverty once in history

To them, Nigeria has over 86.9 million of people (46.4%) living in poverty from the total estimated population of 195.6 million. Thus, in 2019, it was increase to 93.7 million and in the first quarter of 2020, it further increased to 95.9 million people living in absolute poverty. Hence, Nigeria informal sector constitutes a significant segment in the Nigerian economy but was not properly harness, it has the capacity to reduce poverty, unemployment and inequality; yet Seers 1969 claimed that no country says to experience development without overcome these three factors otherwise cannot not refer to as development (Impalure & Dore, 2020).

According to Nnabuiife et al (2020), in their study, sub-Saharan Africa recorded the highest percent of urban labour force with more than 50% of employment in the two third of the surveyed countries. Thus, it shows the significant of the sector and its activities in Africa especially in Nigeria.

That is, more than 61% of the world's population engages in informal economy sector, with 85.8% of employment in Africa, and more than 65% of the Nigerian population active in the sector.

Therefore, Nigeria informal economy sector has the potential to increase Nigerian economy wellbeing and narration if needed approaches put in place (Balogun & Iduemre, 2019; Rivera-Santos, Holt, Littlewood & Koik, 2015).

### **3. Importance of Informal Sector in Nigerian Economy Development**

According to Etim and Daramola (2020), the informal sector especially within sub-Saharan Africa contributed about 20% in South Africa, Lesotho, Namibia to 60% in Nigeria, Tanzania, Benin to the national gross domestic products. Thus, Nigerian Informal Sector plays a huge role in Nigerian economy, accounting for a significant portion of employment and national GDP (Fasanya & Onakoya, 2012). In IMF (2017), the Nigerian informal sector accounted for 65% of Nigeria's Gross Domestic Product (GDP).

Hence, it provides employment and wages for survival. The fast-growing view is that informal economy offers significant job creation and income generation potential, as well as the capacity to meet the needs of poor consumers by providing cheaper and more accessible goods and services in Nigeria (BOI, 2018; Ogunde, 2019), especially for workers and the informal micro-entrepreneurs operators at the survival level (Ikeiji, Akomolafe & Onuba, 2016). Therefore, with the significant contribution of informal sector to the Nigerian economy, the notion of economic development in the country is hugely depends on the sector because the sustainable economic development and job creation may not be achieved unless the potential and needs of the sector be carefully considered.

In view of these, its employment continues the most viable option to workers amongst others things because it had contributed greatly to the economy and sustainable development with the use of local technology, capital management and efficiency (Balogun, 2020; IMF, 2020; Klapper & Singer, 2015), then vital achieve empowerment in Nigeria.

Therefore, whatsoever produces in the sectors have a dramatic impact on the sustainability of the nations and in many ways perform more and better in the formal sector (Ruzek, 2015; Sallah, 2016). One of the advantages of the sector in this hard time of Covid-19 experience in Nigeria is that the local farmers' marketers encouraged millions of people in the cheapest way to reduce the pressure of living (Nnabuiwe, Okoli & Anugwu, 2020). Therefore, informal economic are of economic necessity especially in developing state and should be directed focus to flourished.

Therefore, the important of the sector are far enormous and entails more aspects than what mentioned to keep adjust to changing demands of market/goods and needed social capital, social interaction and increase to the populace.

### **4. Informal Economy Sector and It's Challenges in Nigeria**

Despite the huge importance of the economy activities in the sector, the developmental and environmental problems are alarming. It ranges from financial, managerial, marketing, incentives, technological, training, lack of basic physical infrastructure, raw materials and many more (Balogun & Osagie, 2020; Balogun & Orukotan, 2019; Farinmade & Anyankora, 2012).

The nature and type of environment is the determine factor and it crucial to ensure sustainability of the informal economy. In creating supportive measure, environmental actors can help improve the efficiency and values of the sector because most of their activities in developing countries especially in Nigeria are experience underdevelopment of one challenge and the other (Farinmade & Anyankora, 2012; Ikeiji et al, 2016).

For instance, many of rural supplies mainly such as forests and other environmental services that have linkages with its use by individuals, despite its contribution to the economic development from trade and forest products such as timber, medicine, fruit, wildlife, honey and many more, the sector still lack and mostly challenged or vulnerable to environmental degradation, climate change

that affect its activities and many indecent challenges in Nigeria (Tamunomiebi & Ukachukwu, 2018; Farinmade & Anyankora, 2012). Unlike most country that pays attention to their informal economy sector; Namibia, for instance, made direct contribution of 1 billion dollar to their GNP from forestry (Chambwera et al, 2011), such as thatch, timber, wildlife, medicine, fruit, honey and many other forest products.

In Nigeria, however, informal economy has a weak voice in developmental policy. In Ghana for example, their informal economy known to be crawling in productivity and incomes with high significant shortage of underemployment; with this, in 2010, Ghana therefore put together mechanism to institute a working platform (National Secretariat of the Informal Economy Project) with the objectives to refunded the sector, encourage the dreams of the labourer, enhances flexibility and dialogue to build capacity and to educate participants in growing the sector (Mahadea & Zogli, 2018).

Ironically, in Nigeria, the poor management with lack of access to public benefits and many others challenges label the sector to be highly vulnerable, less productive and abuse. Though, some time, there have been interest to build or increase on the sector but most time recorded little or no success because those at formal sector and corrupt individuals ended-up taking the advantage of the benefits (BOI, 2018; Ikeji, et al, 2016).

Hence, social challenges have been barriers to the efficiencies of informal economy practitioners in Nigeria as more than 60 percent of world employed population are in the informal economy (ILO, 2018). Thus, many informal enterprises activities had deprived of ways or incentives and access to growing opportunities, market orientations and legal strength. Instead of reducing this abnormality, it was at increased and lack of access to social protection was at its peak, the illegal businesses and crime suddenly took over against the original planed of the sector (Balogun & Iduemre, 2019; Farinmade & Anyankora, 2012).

Therefore, Nigeria likes Ethiopia that the sector practitioners have limited opportunity to scheme rather on personal efforts due to poor support (Ethiopia livestock traders for instance), majority of the traders experienced series of lost and contract violations. With this, Nigeria always experiences economic crisis due to the fact that much focus was on other sectors such as oil industries, health and more at the detriment of the informal economy sector that have the capacity or landmark in the economy development of the country if well defined (Ogunde, 2019). For instance, the 2016 financial crisis in Nigeria and the sudden and prolonged drop in oil prices almost believe to have been the most important cause of the recession in Nigeria, until 2020 when no one knew that public health crisis could trigger a new economic crisis in the country (Nnabuife at el, 2020). This is because the economies actors in the informal sector who should have helped revive the economy experience of individuals and the country were not encouraged in their economic activities. To this, informal sector will continue to leave behind a gap in Nigeria until its place is recognized.

## 5. Theoretical Orientation

Two things came to mind when talks of economy development and sustainability of any country, that is, growth and development. Growth is simply an increase in size of phenomenon; it is usually quantitative and also unidirectional. That is, growth is towards one side. Thus, development is not just quantitative but also qualitative and multidirectional. It means increases in those variables that makes life better and makes the individual to be happier. This is not far from the primary aims of the informal economy and its role.

It is crucial to know that no country experienced development with its focus and the investment only in one direction which is formal economy sector and neglects or underplay the informal sector; otherwise, it would experience growth not development because there is different between them (Ruzek, 2015; Ogunde, 2019).

To sociologist, development does not only relate to qualitative increase but development stressed much on increase in the quality of life of people within a given geographical area over a

period of time. That is why scholars like Max Weber, views development as a shift from one form of socio-organization to another or socio-differentiation which manifested in the form of increase in society's institutions and the various mechanisms for coping with the problem. Thus, informal economy activities is a medium in which many Nigerian are coping with their problems including the poor but there is no laudable encouragement to harness the sector

In same vein, Dudley seer social development theory has some satisfactory orientation about a country being developed and was therefore adopted in the study. He argued that the question to ask about the development of a nation must be, 1. what is happening to poverty? 2 what is happening to unemployment? 3 what is happening to inequality and? 4. What is happening to self-reliance? (Seer, 1969). His questions therefore can melt with the demands of informal economy sector in Nigeria

To him, if 1, 2 & 3 declines appreciably and 4 increases, then one could conclude that development has taken place but if 1, 2, 3 increases, but 4 did not; it is then difficult to say that there is development in a country. To seer, development is about eliminate or reduction of the level of poverty, unemployment and inequality in a nation. Development only occurred if these three variables have declined over a period of time in a nation, hence it will be strange to say there is development if one or two of these variables have been growing worse, especially if the three added; because development is something that should be seen in the lives of the people (Impalure & Dore, 2020).

Therefore, increased in the Gross Domestic Product (GDP) does not have any direct effect on quality of life of the people and the general levels of living of the masses. That is, the widespread of poverty, increasing inequality in income distribution and rising unemployment among Nigerian can be reduce or dealt with help of informal economy sector

That is, in every nation, there are always an aspect that much more important to the development. In Nigeria for instance, informal sectors play a huge and vital role in the advancement of the economy and sustainability of the citizen even more than the formal sector. Hence, there is need for proactive strategies to harness the increase contributions of the sector in the economies development and the sustainability of Nigerian.

## 6. Conclusion and Recommendations

In conclusion, informal economy sector helps to reduce the focus from globalized to the local alternative path of development and sustainable future. Thus, the limited emphases have been made on the important and challenges of Nigeria informal economy sector for the development and sustainability of the individuals and country economy. The sector frontier with several challenges ranging from inadequacy of technology, education, markets, land and physical infrastructure, limited access to finance, and limited skills development to mention but few.

It is therefore recommended that efforts should made to understand the dynamics of the sector and how best to tap the potential that lies therein. In this, stakeholders and government need to map out intervention strategies on how to give best to the economy activities in the sector and to effectively integrate them, since it has the potential for Nigerian economy development.

Secondly, policy to support the sector and to address the identified challenges towards improving, sustainability and productivity of the sector should make possible. In line with this, training and financial support for the sector and its practitioners irrespective of their status must be taking care of through collaboration with government and other (in social security, economic empowerment; also with Bank of Industries for capacity building and enable environment for their economic activities) with the help of agencies, individuals and other supportive bodies.

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