OPEN ACCESS
Global Journal of Research in Business Management
Volume 02| Issue 03 | May-June | 2022
Journal homepage: https://gjrpublication.com/gjrbm/
Original Research Article

Informal Sector and Economic Growth in Nigeria

[1]Iwo Richard Sotonye, [2]Ihenetu Hyginus I. PhD*

[1]Department of Accountancy Captain Elechi Amadi Polytechnic Rumuola Port Harcourt
[2]Department of Banking and Finance Captain Elechi Amadi Polytechnic Rumuola Port Harcourt

DOI: 10.5281/zenodo.6526229 Submission Date: 21st March 2022 | Published Date: 5th May 2022

***Corresponding author:** Ihenetu Hyginus I. PhD
Department of Banking and Finance Captain Elechi Amadi Polytechnic Rumuola Port Harcourt

Abstract

The paper evaluated the relationship between informal sector and economic growth in Nigeria. Data were collected from primary sources and the method of data collection was focus group discussion (FGD). Survey design was employed for the study. The researchers adopted purposive sampling method to select 100 successful informal sector's business men from River State, south-south region of Nigeria so as to make an informed decision. The findings showed that informal sectors have contributed greatly to the growth of Nigeria's economy. Based on the findings, the researchers recommend that Nigeria's government should encourage the activities of informal businesses to stimulate economic growth in Nigeria, government should create enabling environment for informal businesses so as to stimulate economic growth etc.

Keywords: Informal sectors, Economic growth, Informal sectors in Nigeria, Gross Domestic Product.

INTRODUCTION

The term informal sector is not synonymous with illegality such as prostitution, armed robbery, hostage taking, fraudulent business etc. It is just a legal business without government regulation (Etim & Daramola 2020). International Labour Organisation (2003) defined informal sector as both self-employment and wages that were often not recognized, regulated or protected by legal or regulatory framework. Arndt (2018) sees informal sector as the sector made up of any economic activity or source of income that is not totally regulated by the government and other public authorities which include enterprises that have not registered officially and do not maintain a complete accounts; and workers who hold jobs lacking basic social or legal protection and employment benefits. Examples of informal employment workers are self-employment, wage workers, unregistered workers and employers such as street traders, subsistence farmers, small scale manufacturers, service providers (e.g. hairdressers, private taxi drivers, and carpenters), etc (OECD 2009; Arndt 2018; Nnabuife, Okoli & Anugwu 2020).

Informal sector produces goods and services in the economy, employ almost 90% people in the poorest developing countries and account for 65% of Nigeria's GDP (Omisakin 1999; IMF 2020). According to Oberay etal (2001) and ILO (2002), informal sector are classified into three categories:

a) Enterprises that has the potential of contributing essentially to national economy through wealth generation.
b) Individuals or households that engage in informal activities for the purpose of survival and
c) Individuals that engage in part time work as well as other works elsewhere because of low and irregular salaries (Onwe 2013)

Informal sector employs about 85.5% of the labour force (Ogunde 2019). In Nigeria, informal sector has contributed greatly to economic development through job creation, capital saving and mobilization, efficiently providing link with other sector, use of local technology, training of young entrepreneurs etc (Fasanya & Onakoya 2012). The sector currently accounts for over half of global employment and as much as 90% of employment in some of the poorer developing countries (Arndit 2018).

Informal sector has significant contribution to the growth of Nigerian economy. An undeniable truth is that economic growth in the country depends hugely on the activities and operation of the informal sector. Sustainable and inclusive economic growth and job creation cannot be greatly achieved without the existence of the informal sector in the country.

Economic growth is the increase in the value of goods and services produced in the economy over a given period i.e. one year period (Ihenetu, 2021; IMF 2009; CBN 2010). It is the percentage increase in real gross domestic product. Economic growth is driven by the quality of the labour force, natural resources, capital formation, technological advancement, political and social factors which is mostly championed by the informal sector (Dwivadi, 2008). In like manner, Riley (2012) posited that economic growth is driven by physical capital stock, size of the active labour force available for production, human capital development, technological progress, innovation, institutions including stable democracy, maintenance of rule of law and microeconomic stability, rising demand for goods and services led by domestic demand or from external trade.

Economic growth is evidenced by the increase in gross domestic products (GDP). Percentage increase in GDP is the indication that the economy is growing where as percentage decrease in GDP indicates that the economy is sliding. Gross Domestic Product itself is the value of goods and services produce by the citizens and foreigners operating business in the country at a particular period of time.

Studies conducted by both international and national researchers showed that informal sector has contributed immensely to the growth of the economy. The study therefore tends to confirms or refutes their findings using focus group discussion (FGD). This is the major focal point of the study.

The main objective of the study is to determine the effect of informal sector on economic growth in Nigeria. The rest of the work shall be segmented into literature review, methodology and conclusion and recommendations.

Literature Review

We shall consider conceptual framework, theoretical framework and empirical reviews.

a) Conceptual Framework

i) Informal Sector

The informal sector is described as the total of economic activity that takes place without state regulation, which is not taxed in the country. Others describe it as economic activities that lack formal accounting processes and procedures, and characterized by high rates of non-reporting and underreporting and excluded from social measurement tools such as the country’s Gross Domestic Product (GDP). The sector generally operates without official rules, laws and regulations; although, it has a way of regulating itself internally. Component of the sector operates under official regulations but they are not under compulsive obligation to render official returns of their operations or production process to the relevant government agencies. The weight of informal sector in Nigeria is approximately 65% and their range cover agricultural production to mining and quarrying, small-scale building and construction and machine-shop manufacturing. Traditionally, Nigerian businesses in clothing and furniture, vehicle and mechanical repair, utility services etc operates mostly on unwritten laws and provides credit services etc. An research carried out in recent years showed that the informal sector in Nigeria created about 90% of new jobs in the country, roughly 80% of all non-agricultural employment and roughly 60% of urban jobs created etc.(Arndt, 2018)

ii) Informal Sector in Nigeria

The informal sector in Nigerian very large and varied and is said to account for about 60-65% of the economy. The scope of its activities cut across trading, spare parts, transportation, credit facilities, refrigeration, mechanical and electrical work, dressmaking, construction, agriculture, livestock, food preparation, information technology and communication, footwear, traditional healing, distilleries, gold and silver smiting etc. The shapes of the businesses in this sphere are typically low income one-man businesses with self-employed proprietors operating beneath the regulatory sensor, which do not pay taxes. The frequency of Nigeria's huge informal sector has been credited to the entry barricades into our formal sector. The price of doing business, comprising company registration, has been a impediment to many. Considerably, because of its absolute size, it is tremendously hard to have a dependable data on their membership and actions. While the public services are funded by taxes received from the formal sector, informal sector producers evade and avoid taxes and, because of their informal status, utilize only a narrow quantity of public services. This can of businesses, remains unable to acquire funds or insurance from conventional financial markets and hence stunted growth. Though, many informal trades are exposed to unlawful coercion of monies by corrupt peoples within the society and may not repel paying formal taxes once these are modest, definite and reasonable. However, as a result of the lack of information and certification on informal sector business activities, tax authorities find it extremely difficult to assess these businesses (Anon n.d).

iii) Economic Growth

Economic growth is the increase in the value of goods and services produced in the economy over a given period i.e. one year period (Ihenetu, 2021; IMF 2009; CBN 2010). It is the percentage increase in real gross domestic product. Economic growth is driven by the quality of the labour force, natural resources, capital formation, technological advancement, political and social factors which is mostly championed by the informal sector (Dwivadi, 2008). In like manner, Riley (2012) posited that economic growth is driven by physical capital stock, size of the active labour force

available for production, human capital development, technological progress, innovation, institutions including stable democracy, maintenance of rule of law and microeconomic stability, rising demand for goods and services led by domestic demand or from external trade.

Economic growth is evidenced by the increase in gross domestic products (GDP). Percentage increase in GDP is the indication that the economy is growing where as percentage decrease in GDP indicates that the economy is sliding. Gross Domestic Product itself is the value of goods and services produce by the citizens and foreigners operating business in the country at a particular period of time.

b) Theoretical framework

Resource Base Theory of Entrepreneurial Finance

The work is anchored on resource base theory of entrepreneurial finance. The resource based theory of entrepreneurial finance was developed by Barney (1991) and was reformulated by Subramanian (2010). The main focus of the theory is that resources available for entrepreneurs are very scarce and hence the need to develop a strategy to gain a competitive advantage and enhance organizational performance. The theory assumes that firms' competitive advantage and subsequent performance originates in the resources and capabilities the firm controls. One of the scarce resources that hamper the growth of entrepreneur is funds. The entrepreneurs are hungry for financial resources to stimulate their growth. Scarcity of funds stifled the growth of entrepreneurs. Informal sector are entrepreneurs that harnessed every opportunity available to source for funds and grow their business. Informal sectors cut across agricultural production to mining and quarrying, small-scale building and construction and machine-shop manufacturing, clothing and furniture, vehicle and mechanical repair, utility services etc.

c) Empirical Review

Salisu (2001) explored the MIMIC approach to evaluate the size of the hidden economy in Nigeria. The study discovered that the informal sector was about 9.64 – 65.43% of GDP between 1960 to 1997 and also that the size of the informal sector in 1997 was approximately 58.76% of GDP.

Jonathan and Victor (2013) evaluated the magnitude of economic loss ascribed to informal sector in Nigeria between 1970 – 2010, and discovered that the size of the informal economy ranges between 53.6 – 77.2% of GDP, and also that the average size of the informal sector was approximately 64.6% of GDP.

Adam and Yelwa (2015) conducted a study on the impact of informality and economic growth in Nigeria between 1980 – 2014 and discovered that informal sector has significant and positive impact on official economy's nominal GDP.

Tshuma and Jari (2013) studied the impact of informality and economic growth in South Africa and discovered that informal sector in the developing countries has made a significant impact on GDP and has serve as major source of entrepreneurship income for the uneducated and unskilled.

Stephen (2005) investigated the informal economy in South Africa between 1966 – 2002 and discovered that informal sector positively affects formal economy. This showed that informal economy increases the growth of the economy.

Mohammed Yelwa, Obansa, Awe and Omonoyi (2015) examined the impact of informal sector on economic growth in Nigeria and discovered a positive significant impact on growth in Nigeria.

Ismail and Adegbemi (2012) investigated the impact of informal sector on employment generation in Nigeria. The study found positive significant impact on large pool of labour force in Nigeria.

Njaya (2015) studied the impact of informal sector on economic growth in Zimbabwe. The study found that informal sector provides employment. The study further revealed that it reduces poverty but not unemployment.

Methodology

The researchers employed survey design for the study. Here the researchers went to field in order to know the effect of informal sector and economic growth in Nigeria. The researcher adopted primary sources of data and method used for data collection was focus group discussion (FGD) with some successful informal sector's operators in Rivers State, Nigeria. Purposive sampling method was used to select these groups of people based on their proven track record over the years so as to make an informed decision. They are 100 in number. These successful business men were able to provide useful information that the activities of the informal business help in developing the real sector and by extension grow the economy. Several researches conducted as seen in our review showed that informal activities stimulate the growth of the economy.

Findings and Recommendation

The researchers find out that informal business has help to grow the economy of Nigeria. Therefore, the researchers recommend that:

1. Nigeria's government should encourage the activities of informal businesses to stimulate economic growth in Nigeria.
2. Government should create enabling environment for informal businesses so as to stimulate economic growth
3. Government should give trainings, workshops, symposiums etc. to the informal operators so that the best in them will come out for the development of the economy.

References

1. Adam, A.J and Yelwa, M (2015). Informality and economic growth in Nigeria. Department Of Economics University of Abuja, Abuja- FCT
2. Anon (n.d). Expanding the tax base in the informal sector in Nigeria. Civil society legislative advocacy centre. https://www.maketaxfair.net/assets/policy-brief-on-informal-sector.pdf
3. Arndt, J. (2018). Economic development through the Nigerian informal sector: A BOI perspective. A Working Paper Series by Bank of Industry 2(1), 1-2
4. Barney, J. (1991). Firm resources and sustained competitive advantage. Journal of Management, 17 (1), 99–120
5. Central Bank of Nigeria (2010). CBN Annual report and financial statements.
6. Dwivedi, D. N. (2008). Managerial economics (7th ed.). Jangpura New Delhi: Vikas Publishing House PVT ltd.
7. Etim, E and Daramola, O (2020). The informal sector and economic growth of South Africa and Nigeria: A Comparative Systematic Review. Journal of Open Innovation:Technology, Market and Complexity 1-26
8. Fasanya, I. O. & Onakoya, A. B. O. (2012). Informal sector and employment generation in Nigeria: An Error Correction Model. Research on Humanities and Social Sciences. 2(7):48-55.
9. Nnabuife, E. K, Okoli, I.E and Anugwu, C.C (2020). Informal sector and Nigerian economic prospects: The Covid–19 Experience. European Journal of Business and Management Research 5(4), 1-5
10. Ihenetu, H.I (2021). Money and banking, Port Harcourt. Acahrdec research and publications
11. International Labour Organization (ILO). (2002). Decent Work and the Informal Economy' at the 90th Session of the International Labour Conference, Report VI, Geneva.
12. International Labour Organisation (ILO) (2003). Scope of the employment relationship: Report IV, International Labour Conference, 91st Session, International Labour Office, Geneva.
13. International Monetary Fund. (2009). Deflation, economic growth, BOP. Celebrating the spirit of small enterprise.
14. Ismail O. and Fasanya (2012) Informal Sector and Employment Generation in Nigeria: Research on Humanities and Social Sciences, 2(7).
15. Jonathan E. O. and Victor A. M. (2013). Size and causes of the informal sector of the Nigerian Economy: evidence from error correction mimic model. Journal of Economics and Sustainable Development 4(1)
16. Mohammed, Yelwa, Obansa, & Awe, E. Omonoyi (2015). Informality, inclusiveness and economic growth in Nigeria. Department of economics, university of Abuja, FCT –Nigeria, PMB 117, Gwagwalada, FCT
17. Njaya T, (2015). Informal sector, panacea to the high unemployment in Zimbabwe? Case of informal sector enterprises of harare metropolitan. International Journal of Research in Humanities and Social Studies 2(2) 97-106.
18. Oberay, A. and Chadaw, G. (2001), "Urban informal sector in India,issues and policy opinions"
19. OECD (2009). Is Informal Normal? : Towards more and better jobs in developing countries, OECD development centre perspective, OECD, Paris.
20. Ogunde, O. (2019). Nigeria's informal economy: A catalyst for economic growth. https://businessafricaonline.com/nigeria-3/ accessed on 24/04/2020.
21. Onwe, O. J. (2013). Role of the informal sector in development of the Nigerian economy: output and employment approach. Journal of Economics and Development Studies. 1(1):60-74.
22. Salisu, M. (2008). Incentive structure, civil service efficiency and the hidden economy in Nigeria. World Bank institute for development economic research (WIDER)
23. Stephen G. S. (2005). Estimates of the informal economy in South Africa. University of Johannesburg; Faculty of Economic and Financial Sciences.
24. Subramanian, K. (2010). A resource-based theory of entrepreneurial finance. Available at SSRN 1562554.
25. Yadav, N. (2009). Informal sector: definitions and its implications for growth. Cuts centre for International Trade, Economics and Environment, Briefing paper.

CITE AS

Iwo Richard Sotonye, & Ihenetu Hyginus I. PhD. (2022). Informal Sector and Economic Growth in Nigeria. Global Journal of Research in Business Management, 2(3), 92–95. https://doi.org/10.5281/zenodo.6526229