CARD International Journal of Environmental Studies and Safety Research (IJESSR)
ISSN: 2536-7277 (Print) : 2536-7285 (Online)
Volume 2, Number 1, March 2017
http://www.casirmediapublishing.com

Towards Economic Sustainability of Nigerian Cities: The Informal Sector Question

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ABSTRACT

This paper examined the contributions of informal sector to socio-economic development of Nigerian urban centres with a view to craving the indulgence of policy makers for appropriate policy framework to facilitate sustainable development of the sector and Nigerian cities. Among the significance of the sector identified in the paper are: employment and income generation; income redistribution; prompt financing of informal enterprises; as well as contribution to the country's Gross Domestic Product (GDP). The paper also identifies some of the challenges of informal sector development, among which are: lack of appropriate financing mechanisms; poor infrastructure development; harassment by overzealous government agents; cumbersome registration procedures; and stiff competition from formal (especially foreign) firms. The paper therefore suggests the formulation of a clear-cut policy to facilitate: a less-cumbersome formalization of informal enterprises; increased access to finance; and training and re-training of the operators in the sector.

Keywords: Informal sector; Development; Employment; Income; Gross National Product

INTRODUCTION

One of the major development concerns in recent years in Nigeria is the rapid and unrelenting growth in urban population in excess of 4% per annum as against 2.8% for the total population. Current estimate put Nigeria population at 167.3 million with about 50% living in urban centres. Projections indicate that the country's population will be 193.1 million by the year 2020 with 57% of these being urban dwellers (NPC, 2007; UN-Habitat, 2009). The natural outcome of increased urbanization is a rapid change in the socio-economic environment of cities with regard to new forms of employment and other economic activities as well as lifestyles. However, available data point to a weak correlation between the level of urbanization and socio-economic development in most Nigerian cities, which have not only progressively complicated and exacerbated interrelated problems of the cities, but have also greatly accelerated urban poverty (Ola, 2011). Thus, a defining feature of Nigeria socio-demographic environment is that increasing poverty levels and other socio-economic challenges have continued to bedevil its urbanization whose transition cannot be halted or indeed reversed. But in the face of the emerging socio-economic challenges of the Country's urbanization, one sector continues to stand tall- The Informal Sector.

Informal sector comprises small and medium scale enterprises which produce and distribute basic goods and services in unregulated competitive markets that lie outside the regulatory framework of either national or municipal governments. This sector is as old as Nigeria as a nation and has become a permanent fixture of the country's development. The importance of the informal sector can be situated within the context of the remark of the former head of state of Nigeria, General Ibrahim Babangida in 1991 at the height of the Structural Adjustment Programme (SAP) crises. He posited thus "… the Nigerian economy has defied all known economic prescriptions, yet it has not collapsed. The reason for the non-collapse of the economy is not far-fetched. It is the sustaining power and ability of the neglected informal sector. Nigeria has the largest informal sector in Africa, a predominance that stems from its massive population of over 170 million and decades of unimpressive economic performance characterized by a high unemployment rate of 11.8% and soaring poverty incidence of up to 72% (Schneider, 2002; Dada, 2005; UN-Habitat, 2009). The goal of this paper is to examine the role being played by this sector in job creation, poverty alleviation and economic growth in Nigeria with a view to drawing the attention of policy makers for effective policy framework for its development. This is necessary at this period, when the focus of the government is massive job creation and diversification of Nigerian economy.

Informal Sector: Origin and Meaning

The informal sector as a concept was first introduced by Keith Hart in a study on Ghana in 1973, but some scholars claim that the concept really builds upon the earlier concept of the "unorganized sector", which encompasses production units of small size, including handcrafts, which have a "domestic or unorganized character" and may also be part of the "non-monetary" sector of the economy (Kabra, 1995; Bekkers and Stoffers, 1995; Blunch et al, 2001). As claimed by Bromley (1979), it may equally be seen as a spin-off of the dual economy literature, originating with Lewis (1954) and Hirschman (1957), which conceptualized economic development as the emergence and growth of manufacturing sector (the "modern" sector) through the absorption of labour being freed from agriculture (the "traditional" sector), due to the more efficient means of production in the former.

However, the concept since its invention in the 1970s has attracted much interest, discussions and disagreements. The greatest challenges of these disagreements arise from the lack of a clear definition of the sector. But as a result of recent studies and publications, (such as Unni, 2008; Marjit and Maiti, 2005; Kapoor, 2005), there seems to exist some level of consensus regarding some terms. Following Unni (2008) the illegal economy consists of the income produced by those economic activities pursued in violation of legal statutes defining the scope of legitimate forms of commerce. The unreported economy consists of those legal and illegal economic activities that evade fiscal rules as codified in tax laws (Kapoor, 2005). The informal economy comprises those economic activities that circumvent the costs and are excluded from the benefits and rights incorporated in the laws and administrative rules covering property relationships, commercial licensing, labour contracts, torts, financial credit and social systems (Marjit and Maiti, 2005). Similarly, UNECA (1992) considers informal sector to mean small scale income-generating activities that are not registered under law, do not comply with legislated standards of quantity, minimum pay and safety and more often than not, do not pay taxes. Forestieri (2002) conceptualize informal sector as all economic activities which are not officially regulated and which operate outside the incentive system offered by the state and its institutions.

The definition given by ILO (2002) is the one which sees informal sector as all unregistered or unincorporated enterprises below a certain size, including: micro enterprises owned by informal employers who hire one or more employees on a continuous basis; and own-account operations owned by individuals who may employ contributing family workers and employees on an occasional basis. It should be noted that countries have been given some flexibility in the application of this definition, particularly with respect to the upper limit on the size of employment. Moreover, the inclusion or exclusion of agriculture as part of the informal sector is left up to individual country. In Nigeria, agriculture is regarded as part of informal sector. Arimah (2001) seems to have summarized the whole definitions of the sector when he argued that it does not appear to have a meaning independent of the formal sector, as it only derives its meaning when contrasted with the formal sector.

Features of Informal Sector

Debates regarding the causes and characteristics of informal sector crystallized into four dominant schools of thought as follows: the dualist school, the structuralist school, the legalist school and the il-legalist school.

The dualist school – popularized by the ILO in the 1970s subscribes to the notion that the informal sector is comprised of marginal activities (distinct from and not related to the formal sector) that provide income for the poor and a safety net in times of crisis (ILO, 1972; Sethuraman, 1976; Tokman, 1979). According to this school, the persistence of informal activities is due largely to the fact that not enough modern job opportunities have been created to absorb surplus labour, due to a slow rate of economic growth and/or a faster rate of population growth.

The Structuralist School – popularized by Caroline Moser and Alexander Portes (among others) in the late 1970s and 1980s, subscribes to the notion that the informal sector should be seen as subordinated economic units (micro firms) and workers that serve to reduce input and labour costs and thereby, increase the competitiveness of large capitalist firms. In the structuralist mode, in marked contrast to the dualist model, different modes and forms of production are seen not only to co-exist but also to be inextricably connected and interdependent (Moser, 1978; Portes et al. 1989). According to this school, the nature of capitalist development (rather than a lack of growth) accounts for the persistence and growth of informal production relationships.

The legalist school – popularized by Hernando de Soto in the 1980s and 1990s, subscribes to the notion that the informal sector is comprised of 'plucky' micro-entrepreneurs who choose to operate informally in order to avoid the cost, time and effort of formal registration (de Soto, 1989). According to the school, micro-entrepreneurs will continue to produce informally so long as government procedures are cumbersome and costly. In this view, unreasonable government rules and regulations are stifling private enterprise.

The ill-legalist school – popularized by neo-classical and neo-liberal economists such as Frank Stillwell (1985) and Thomas Schultz (1988), subscribes to the notion that informal entrepreneurs deliberately seek to avoid regulations and taxation and in some cases, to deal in illegal goods and services. This perspective is associated with the notion that the informal economy is an underground or black economy. According to this school of thought, informal entrepreneurs choose to operate illegally (or even criminally) in order to avoid taxation, commercial regulations, electricity and rental fees, and other costs of operating formally (Maloney, 2001).

Various discussions on informal sector characteristics appear to amplify one or more of the schools of thought described above. For instance, ILO (1991) contends that the informal sector activities are characterized by small-scale, self-employed activities, with or without hired workers, typically at a low level of organization and technology, with the primary objective of generating employment and incomes. In contrast to the formal sector, the informal sector is generally characterized by low entry barriers and case of entry, reliance on indigenous/local resources, family ownership of the enterprises, simple organizational and production structures, small scale of the operations, labour intensive and adapted low technology, low level of education and skills, skills outside the formal system of education and training, little capital investment, irregular working hours, and personal sources of funds for investment (UNECA/AAPAM, 1992). Other common features of the sector according to Tomei (1997) are: low quality of the goods and services produced limited capital and limited capacity for capital accumulation due to restricted access to assets, credits and other services as well as low level of formal education of the operators.

Also, informal sector is made up of non-standard wage workers as well as entrepreneurs and self-employed persons producing legal goods and services through irregular or unregulated means. Moreover, it includes not only survival activities but also stable enterprises and dynamic growing businesses which encompass not only self-employment but also wage employment (WIEGO, 2004). In addition, individual households as opposed to large firms and government agencies usually constitute the main market for the goods and services produced in the informal sector. This is because the bulk of primary and intermediate inputs used in the formal sector which are less traditional in structure and output are either produced or imported by the formal sector enterprises (Goldberg and Pavenik 2001). In the opinion of Rukmana (2007), because informal sector operations are mostly owned and managed by a single person, major decisions are made directly and promptly. They normally have a more intimate feel for the changing needs of their customers in serving local markets.

However, there seems to be strong evidence that suggests a direct link between the size of the informal economy and tax evasion. For instance, countries like Bolivia which had an informal economy share of approximately 65% of GDP, experienced Value Added Tax (VAT) evasion of about 45% of GDP in 2006, while countries like New Zealand, which had a low share of informal economic activities (about 12% of

GDP) had a much lower level of tax evasion, about 5% of GDP (Silvani and Bradolo, 2008). The characteristics of informal settlements according to UN-Habitat (2009) are unauthorized use of vacant public or private land; illegal subdivision and / or rental of land; unauthorized construction of structures and buildings, reliance on low cost and locally available scrap construction materials; absence of restrictive standards and regulations, reliance on family labour and artisanal techniques for construction, and non-availability of mortgage or any other subsidized finance.

Factors Facilitating Informal Sector Development in Nigeria

A number of factors have engineered the growth of urban informal sector in Nigeria as documented in the literature. For instance, the administrative decentralization, which led to the splitting of the former four regions to 12 states in 1967, 19 in 1976, 21 in 1987, 30 in 1991 and 36 in 1996 and the creation of several local governments (now 774), fostered the growth of many large and secondary towns that served as state capitals and local government headquarters. The urban informal sector expanded correspondingly to meet the increased demand of low income wage earners for moderately priced consumer goods and services in all this 'new' towns (Nwaka, 2004).

The Structural Adjustment Programme (SAP) introduced in 1986 also influenced the growth of informal sector. For instance, part of the policy of government under SAP was to place embargo on employment and down-size the civil service. This led to unemployment rate reaching the all-time high of 7.1% in 1987 from 6.0% in 1980 (Akintoye, 2008). It is noteworthy that in 2003, Nigeria's unemployment rate declined substantially to 2.3% and currently hovers around 3.1% (NBS, 2009). This decline was attributed to the various government efforts aimed at addressing the problem through the Poverty Alleviation Programme (PAP) and an increase in the number of people who got engaged in the informal sector activities. Also SAP sought to rationalize public spending and reduce subsidies and subventions to public enterprises. There was also a zero rate of increase in public sector workers' emoluments from the commencement of SAP to the end of 1990 in spite of the substantial and persistent increases in the price level. All this led to dramatic declines in real public sector pay (Aminu, 2008). In the area of informal settlement, Abumere et.al (1998) argued that official restrictions on the availability of land and the bureaucratic procedures of government department in allocating land to intending developers encourage the growth of more and more irregular settlements on the fringes of the cities and on empty public land.

It has been argued that trade liberal liberalization policies being pursued under the World Trade Organization have contributed to the enlargement of the informal sector. Trade liberalization increases competition for formal firms, and to remain competitive, these formal firms try to reduce costs by cutting workers benefits, replacing permanent workers with part-time labour or sub-contracting to the informal sector, including home-based workers (Goldberg and Pavenik, 2003). People's job preference has equally been identified as a contributor to the growth of the sector. Workers may prefer to be in peasant agriculture or informal enterprises rather than in wage employment in the formal sector (Alonzo, 2006). Labour legislation and union pressure sometimes boost the size of the sector. This is because labour legislation specifying a minimum wage for employment in the organized sector and even if the number of people seeking such jobs far exceeds the number of jobs available, the wage rate will still not decline. The same result is sometimes achieved by unionized labour through wage bargaining. This results in drop in demand for labour, and consequently high unemployment, which push people into informal sector.

Government Programmes Relevant to Informal Sector Development in Nigeria

What could be termed support policies for the informal sector in Nigeria were actually designed to cater for small scale enterprises (SSEs), although, they are largely made up of informal enterprises. Evidences abound that the role of SSE, had long been recognized. For example, one of the earliest steps taken to foster the development of SSE was the establishment of the Nigeria Development Loan Board (NDLB). The Board was charged with the responsibility of making medium term loans available to Nigerian entrepreneurs and public bodies. The Board was eventually decentralized in 1949 along regional lines as Regional Development Banks (Okigbo, 1989). Since then, other policies have been formulated and institutions set up to offer services for the promotion of SSEs. The following are the major institutions that have one thing or the other to do with the informal sector: The Industrial Development Corporations; Aspects of the National Development Plans, The Small Scale Industrial Credit Scheme (SSICS); The Nigerian Bank for Commerce and Industry; The Central Bank of Nigeria; Entrepreneurship Development Programme; National Directorate of Employment; National Economic Reconstruction Fund; The Small and

Medium Loan Scheme; and the National Poverty Eradication Program.

- **The Industrial Development Corporation:** The Corporation was established in 1962 by the Federal Government to encourage the promotion of small scale enterprises in Nigeria. Its main functions are as follows: technical appraisal, loan application and preparation of feasibility report studies; provision of industrial extension services; training of entrepreneurs and staff management training; applied research into industrial product involving design of product for small scale industries; provision of facilities for managerial training as well as consultative and extension services to proprietors and managers of small scale enterprises; assisting small scale entrepreneurs in bulk purchase of raw materials; assist in plant installation and servicing; assist the regional governments in the supervision of the small scale industrial credit loan scheme. Other functions are to identify viable small scale projects for prospective investors, as well as selecting proper manufacturing process along with machinery and equipment for the production szline. The corporations did not record much success because the political crisis of the 1960s greatly hampered its successful operation (Okigbo 1989).
- **National Development Plans:** The second National Development Plan (1970 – 1974) sought to encourage the expansion of intermediate and capital goods industries and to increase value added by manufacturing. To this end, a sum of N54million was ear-marked for small and medium scale enterprises (SMEs) at the Federal and State levels. The amount was later increased to N148.58 million in the Third National Development Plan (1975 – 1980) (FGN, 1970; 1975). There was a significant increase in the output of small and medium scale enterprises during the period, as the percentage contribution of manufacturing and crafts to GDP increase from 3.1 in 1971 to 6.7 in 1980. This is however lower than the target output of 8.0 (FOS, 1981).
- **The Small Scale Industrial Credit Scheme (SSICS):** The scheme was established by the Federal Government in 1974 in each state purposely to boost the development of indigenous manpower, combat rural-urban

migration through creation of job opportunities and mobilize local resources for greater value-added to domestic output. Under the scheme, the beneficiary capital investment outlay was not to exceed N150, 000. The limit for individual borrowers was fixed at N80, 000. As a result of a number of problems, the prominent one being the inability of the target beneficiaries to access the fund due to their inability to write a coherent proposal as well as false disclosure of their capital base, and lack of proper monitoring of the beneficiaries of the fund, the scheme was discontinued in 1980 and replaced by a credit scheme administered through the Ministry of Commerce and industry at the state level and the Nigerian Bank for Commerce and Industry at the Federal level (Onokerhoraye, 1995).

- **The Nigerian Bank for Commerce and Industry:** The Bank was established under Decree No 22 of 1973 to provide equity and loan funds to indigenous entrepreneurs, institutions or organizations for medium and long-term investments in industry and commerce. In addition, the bank also acted as the premier institutional body for the financing of small scale enterprises. Between 1974 and 1987, the bank received a total sum of N554.1 million from the Federal Government as capital grant and N31 million ($41million) from the World Bank as loan to fund the SSEs. During the period under review, a total of 589 small scale entrepreneurs benefited from the fund. The bank also undertook the supervision of the special loan scheme of the Federal Ministry of Commerce and Industry for small scale enterprises between 1980 and 1986. A total of N48.52 million was given out as loan under the scheme to 175 entrepreneurs. The bank's failure to solve the problem of finance for the small scale enterprises was due largely to the introduction of Structural Adjustment Programme and its attendant massive devaluation of the country's currency which led to the inability of most loanees to repay back their loans (Onokerhoraye, 1995).
- **Entrepreneurship Development Programme (EDP):** Another scheme to further promote the development of small scale enterprises is the Entrepreneurship Development Programme (EDP) which was

established in 1983. The programme was aimed at identifying prospective industrialists particularly the young graduates, developing their entrepreneurial traits and skills and providing them the required support for realizing their goals. The programme under the auspices of the Nigerian Bank for Commerce and Industry (NBCI) sought the partnership of other financial institutions to provide adequate funds to the small scale enterprises that emerge through the programme. However, the programme did not record much success simply because the partnered financial institutions refused to co-operate fully with the NBCI in granting loans to the enterprises. This was as a result of high risk in form of default rate faced by the financial institutions particularly in the programme (Onokerhoraye, 1995).

- **National Directorate of Employment (NDE):** The Directorate was created by the Federal Government in 1986 to reduce drastically unemployment in the country through the encouragement of self-employment. The four ways through which the Directorate generates employment are by the creation of: Small-scale Industries and Graduate Employment Programme; National Youth Employment and Vocational Skill; Special Public Works Programme; and Agricultural Programme

The Directorate at inception trained youths with at least school certificate to first degree holders in entrepreneurship skills. This has been extended to the primary school certificate and Junior School Certificate holders. The Directorate also provides loans to the successful trainees through the participating banks. The maximum loan given as at 2010 is N250, 000 with interest rate at 9% NDE (2010). The loan does not require any collateral but the candidate's original certificate must be deposited with the Directorate. It is on record that hundreds of thousands of youth have benefited from the NDE Scheme through its four-pronged approach that include Vocational Acquisition Training (798,378), Entrepreneurial (Business) Training (499,867), Training for Rural Employment (110,667) and Training for Labour-Based Works Programme (223,279) NDE (2010). In 2009 alone, NDE trained 63,104 youths in vocational skills in 36 states of the federation and Abuja while 22,427 graduated in different trades NDE (2010).

There is also an agricultural programme administered by the Directorate. Under this programme, each of the state governments provides some hectares of land to NDE, which in turn was allocated in small hectares to each of the participants. In addition, each participant is granted a loan to enable him purchase the necessary farm input, provide working capital and monthly allowance. By the end of 2009, a total of 606,325 participants were engaged in farm lands under the agricultural programme NDE (2010).

Other programme of the Directorate is the Women Employment Scheme where as at 2009, a total of 68,226 women have been trained in creative dress making, event management, cake production and interior decoration NDE (2010). Many Nigerians have benefited and still benefiting through this agency and it is hoped that many more should benefit in the years ahead. However, the drawback on NDE's schemes is that there is no follow-up programme for beneficiaries. Many of them who did not utilize the skills they acquired and others, who did not properly invest the loans they received, have found themselves in a worse state. While the directorate asserts that it disbursed N526,901,313.11 since inception, for its various programmes, only 24.4% of this total (N129,048,757.63) was recovered from beneficiaries up till 2005 (Obadan, 2006). Similarly, between 2008 and 2009, a total of #93,439,600 was disbursed while repayment as at the end of 2009 stood at #5,748,195, (i.e. 6% of the total amount disbursed) (NDE, 2010).

- **National Economic Reconstruction Fund (NERFUND):** The fund was created in 1989 by the Federal Government for the development of medium and small scale enterprises, by providing them with easy access to loan. Among the objectives of the fund are to: provide medium and long term loans to small and medium scale enterprises through the participating commercial and merchant banks; facilitate the provision of loan to the said sub-sector with five to ten years maturity and a grace period of one to three years; and provide such loans either in local or foreign currency depending on the nature and requirement of the particular enterprise. The fund is provided by the Federal Government, the Central Bank of Nigeria and other government agencies involved in industrial development. Preference is given to 100% Nigerian owned enterprises especially in the areas of manufacturing and nonpetroleum mining. An important condition for securing loan is that at least 40% of the raw material input by the benefiting enterprises must be sourced locally. A few SMEs benefited from the fund (Dada, 2005).

- **The Small and Medium Loan Scheme:** The scheme was established in 1989 by the Federal Government. Prominent among its objectives are to: support programme of assistance to small and medium scale enterprises; help small and medium scale entrepreneurs become more competitive by engaging in the rehabilitation and expansion of existing enterprises and also encouraging the establishment of new ones; revive production and improve performance of viable enterprises which are being weighed down by financial constraints; promote long-term financing through equipment leasing. The World Bank provides the lion share of the funds for the scheme while the loans are administered by the Small and Medium Enterprise Apex Unit of the Central Bank.
- **The National Poverty Eradication Programme (NAPEP):** Introduced early in 2001, NAPEP focuses on developing strategies for the eradication of absolute poverty in Nigeria (FRN, 2001). This strategies have been classified into four; namely

(i) **Youth Empowerment Scheme (YES)** – which deals with capacity acquisition, mandatory attachment, productivity improvement, credit delivery, technology development and enterprise promotion;

(ii) **Rural Infrastructure Development Scheme (RIDS)** - which deals with the provision of potable and irrigation water, transport (rural and urban), rural energy and power support;

(iii) **Social Welfare Service Scheme (SOWESS)** - which deals with special education, primary healthcare services, establishment and maintenance of recreational centres, public awareness facilities, youth and student hostel development, environmental protection facilities, food security provisions, micro and macro credits delivery, rural telecommunications facilities, provision of mass transit, and maintenance culture; and

(iv) **Natural Resource Development and Conservation Scheme (NRDCS)** - which deals with the harnessing of the agricultural, water, solid mineral resources, conservation of land and space (beaches, reclaimed, land etc) particularly for the convenient and effective utilization by small-scale operators and the immediate community.

With a take-off grant of N6billion approved for it in 2001, NAPEP has established structures at all levels nationwide. Under its Capacity Acquisition Programme (CAP) it trained 173,261 unemployed youths with 121,536 resettled as at 2010 NAPEP (2011). Also, as at the end of 2010, total of 102,734 unemployed graduates have also benefited from NAPEP's Mandatory Attachment Program which is also an aspect of CAP (NAPEP, 2011).

The Significance of Urban Informal Sector in Nigeria

The informal sector provides employment and generates income. The proportion of informal sector employment to the total urban employment in Nigeria is one of the highest in Africa (76%, up from about 25% in the mid-1960s), compared to 22% for South Africa, 71% for Kenya and 72.5% for Guinea (IMF, 2007). The informal sector also absorbs a large proportion of the migrant population from the rural areas. Estimates suggest that 87% of the migrants in Nigeria worked in the sector (Khan, 2010). Furthermore, the contribution of the informal sector to total household income is significant in many countries, particularly, Africa. For instance, Tate (2010) reported that informal sector income in Nigeria accounts for about 30% of total income and over 40% of total urban income.

Also, studies on industrial development of Nigeria have shown that the informal sector constitutes an integral part of the overall industrial sector and play an active role in the growth and development of the country. In Nnewi, Aba and Awka (South-Eastern Nigeria), motor spare parts such as plugs, contract-sets, bolts and nuts etc. as well as shoes and some electrical appliances are made in the informal sector (Dike, 1997). The sector has also been very supportive of the formal sector, hence Nwaka (2004) emphasized that not only do many farmers in the traditional sector produce for the modern sector and even for export, but that links between the formal and informal sectors are even more striking.

The sector also serves as a type of social safety net. This is because in times of economic distress, the sector works as a buffer and provides a livelihood for the impoverished masses, even if the level might be somewhat inadequate. For instance, during the Structural Adjustment Programme (SAP) years, incomes earned by both public and private sector workers were so low that many of the workers, while keeping their jobs in the formal sector turned to the informal sector for survival as petty farmers, traders, tailors, cab drivers, hair dressers, petty consultants etc. Indeed, many earn more in the informal sector than they do in the formal sector (Onokerhoraye, 1995). Similarly, informal sector is more resilient in the face of socio-economic policies failure in Nigeria and many developing countries. In the SAP years for example, the informal sector took up the challenges posed by the hardships of the period admirably. With the massive devaluation of the Nigerian currency during the period, many Nigerians found it difficult, if not impossible to buy new vehicles. The task of keeping the aged vehicles on the road fell heavily on the local mechanics that seem to be coping admirably. Similarly, tailors and local fashion designers performed excellently with respect to the market for clothing and garments of various types (Dada, 2005).

Because informal sector concentrate in relatively labour intensive businesses which create more employment opportunities, it consequently effect a more equitable income distribution, while also supporting increases in productivity (Marjit and Kar, 2007). The sector also helps the entrepreneurial base flourish among diverse ethnic groups and regions and among relatively low income people in rural areas, because they are typically found throughout the country. Moreover, Nigeria has the largest informal sector in terms of income in Africa. An estimate by Schneider (2002) put the size of Nigeria's informal sector at 57.9% of its Gross National Product (GNP) or an equivalent of US$212.6 billion. By proportion, Nigeria is only exceeded by Zimbabwe (59.4% or US$42.4 billion) and Tanzania (58.3% or US$52.4 billion), but factoring in both the market size and population inexorably leaves Nigeria with the largest informal sector. The sector also contributes about 70% to the Gross Domestic Product (GDP) of the country, because, productivity in the sector is much higher than the average per capita Gross National Product (GNP) in the country (Khan, 2010).

In the area of housing and urban development, informal sector has been the major provider of land and housing in Nigeria. Abumere et al (1998) reported that between 60% and 80% of the physical developments in the cities are carried out without formal government approval. Thus, UN-Habitat (2009) has predicted that much of future urban growth in developing country cities will take place in peri-urban areas and expanded metropolitan regions where informal development is widespread.

In financing informal economic and land development, the informal credit operators provide short-term finance of small loans which is ideally suited to low-income groups who cannot digest larger loans and do not prefer long-term commitments. They provide loans to borrowers expeditiously and in a flexible manner, thus making finance available immediately, when it is needed and with a minimum amount of paper-work and official requirements (Martha, et al. 2002).

Challenges of Informal Sector Development in Nigeria

As studies (WAMDEVIN, 2002; ILO, 2008; Anderson, 2008; Blunch et al. 2001) have shown, the informal sector is faced with many problems, ranging from poor infrastructural facilities, low patronage, low capital base, high interest rate and lack of training. These problems are mostly responsible for retarding the growth and development of the sector. A survey conducted by WAMDEVIN (2002) in Nigeria revealed that the most important problem faced by the informal sector is low patronage with about 25% of the sampled informal sector operators indicating this as the most important problem confronting them. The second important problem is the erratic or irregular power supply which affects production. This was confirmed by 19% of the respondents. Another major problem that was ranked third in order of importance is high transport cost while inadequate equipment, bad business location, credit sales, lack of good working environment, difficult customers, local government harassment and poor economy are other problems militating against the informal sector operators in descending order of importance. Other constraining factors to informal sector development identified by ILO (2008) include: non-availability of policy and institutional support; inadequate exposure to capacity building; none or limited access to micro credit, reliance on self-help type organization; poor management and operational capacity.

With regard to access to micro-credit, the following are the constraints to informal sector: borrowing riskiness of lending because of poor management and high rate of business failure; high administrative cost; low productivity; under capitalization; shortage of skills; poor attitudes of the loaners such as aversion to disclosure of information; lending requirements which often include collateral, registration as a limited liability company as well as submission of feasibility studies (Blunch et al. 2001). As a result of limited access to capital, informal sector operators are, therefore, forced to use hand-driven tools and outdated machinery which keeps their productivity low. This problem equally hindered them from purchasing raw materials in bulk at lower prices and takes their goods to market where they can attract better prices (Anderson, 2008). Also, informal sector are painfully excluded from the share of government spending in Nigeria, as the Federal and State governments as well as their parastatals do not patronize goods produced by informal sector establishments. Instead, they either buy from large companies or they import from overseas (UNECA/AAPAM, 1992).

As observed by Meagher and Yunusa (1996), the economic recession of the 1980s and the austerity measures that accompanied structural adjustment affected the informal sector adversely on both the demand and supply sides, as markets contracted and input costs rose. Also, the repression of the informal sector, through the overzealous prosecution of the so-called War Against Environmental Indiscipline, and forced evictions on a large scale by Buhari/Idiagbon military administration, adversely impacted on the growth and development of the sector (Braimah, 1986).

Prior to the 1970s, the informal sector was not considered as a separate sector, therefore, activities in the sector were classified variously as traditional crafts and petty trade, trade in the subsistence sector or as small scale industries within the formal sector, and treated as such. Some efforts were made to upgrade what was considered the low-level of productivity and low standard of workmanship through the establishment of small Industrial Development Centres (IDC) and later the Small-scale Industry Credit Scheme (SSICS), to provide technical advice and training, and to offer small loans. No effort was however made to protect informal sector products from competing with imported mass-produced goods, hence many informal sector operators, tended to gravitate towards trading, services, transportation etc. (Meagher and Yunusa, 1996).

CONCLUSION

By whatever perspective we view it, the fact still remains that the informal sector in Nigeria not only plays a significant role in the urban economy, but has also become part of the culture of urban residents, particularly, the low-income people who constitute the majority. Although, in the last few decades, the sector has continued to be treated with caution by many policy makers, labour advocates and researchers because of the reality it seeks to capture (The large share of the nation's workforce that remains outside the world of full-time, stable and protected jobs). With the significance of these sector fully appreciated, there is the need to formulate a clear-cut policy on the less-cumbersome formalization of the small scale enterprises. Also, the absence of a well articulated framework for ensuring effective financing of informal sector in the country should be addressed. The past and current efforts at financing the small scale-enterprises through government agencies and specialized banks have proved ineffective, as only few of the target beneficiaries eventually have access to the funds. Finally, Government's effort at training the youths for self-employment, have been largely restricted only to those with formal educational qualifications while those without formal education are mostly excluded from the programmes. For the country to effectively address the problem of urban unemployment, every citizen irrespective of their educational status should be given equal opportunity in the government-organized skill acquisition programmes.

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