

INFORMAL SECTOR AND EMPLOYMENT GENERATION IN NIGERIA. AN EXPERIENCE FROM THE ILORIN METROPOLIS

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Abstract

Worldwide, the concept of the informal sector has been applied to analyze the employment situation and policy options in most developing countries. A large of the economically active population of these countries finds an income-generating source in economic activities outside the formal or modern sector of the economy. So, the study assessed the impact of the informal sector on the employment generation in Nigeria with an emphasis on the Ilorin metropolis. Then, the sample size of the study was 250, while a properly structured questionnaire was used for the collection of data. Percentages and tables were employed as descriptive statistics, and regression analysis was utilized to test the hypotheses of the research. Results of the study indicated a positive significant impact of the informal sector on: (i) job creation in the selected small-scale ventures; and (ii) employment origination in the selected medium-scale enterprises in the Ilorin metropolis. It was concluded that there was a positive significant impact of the informal sector on the employment generation in Nigeria. The study then recommended government should develop policy frameworks for small and medium-sized enterprises that focus on legal and regulatory circumstances, as well as capacity building. This is to be able to improve the business environment and increase its competitiveness while also promoting the private sector.

Keywords: Economic Growth; Income Generation; Informal Sector, Job Creation, Unemployment.

Introduction

It is highly praiseworthy and widely accepted that the activities of the informal sector help a lot in sustaining livelihoods, supporting consumption and production, and promoting economic growth in Nigeria, especially around job creation (Enyoghasim et al.,2023). However, due to its implications for national growth and development, employment generation has garnered a lot of attention (Ibitomi et al.2022). This is to the degree that it transforms into one of the main pillars of the Millennium Development Goals (MDGs), which aim to eradicate poverty worldwide. It is also in parallel with Nigeria's present economic and development strategy known as the National Economic Empowerment and Development Strategy (NEEDS) which focuses on employment generation (Essien, 2010). Thus, the informal sector is an intrinsic aspect of several Sub-Saharan African (SSA) countries, including Nigeria, and plays an important role in their economic growth (Etim & Daramola, 2020).

In recent years, the issue of employment has grown to be a major worldwide concern (Abada et al., 2021). This encourages complete cooperation between the government and development partners to find a long-term solution to the issues. Development planning efforts were previously focused on the expansion of the contemporary industrial sector (Onwo & Ohazulike, 2021). The informal sector is

currently seeing a global resurgence in attention. This is because a significant portion of the world's labour and economy is informal, and the informal sector is expanding in a variety of settings and taking on new forms. In times of economic depression, the sector acts as a buffer against unemployment, allowing a growing share of the people to earn a living from it rather than remaining unemployed and without an income. According to Onwo and Ohazuilike (2021), the sector has also played an important role in mitigating the negative effects of economic crises. Nonetheless, many reasons, including the breakdown of the formal and informal sectors, contribute to Nigeria's high unemployment rate. There is insufficient interest in the informal sector, whereas the unemployed primarily concentrate on the formal sector when looking for work (Akinwale, 2012). However, most people rely on this industry for their lives. The contemporary industrial sector couldn't take in the migrants. One of the glaring shortcomings of Nigeria's development process over the past fifty years is the incapacity of contemporary urban industries to create a sizable number of job possibilities. The public sector has not improved the situation in terms of job creation due to declining public sector revenue and numerous reform efforts that have resulted in downsizing through retrenchment (Akande & Akerele, 2008). This makes the informal sector a superior option for creating jobs in the economy, as recognized by scholars, policymakers, and, more recently, governments in developing nations.

As a result, in the majority of developing nations, the informal sector plays a significant role in both the labour market and the economy. It has a significant impact on income generation, output, and job creation. It is generally accepted that creating jobs in the unorganized sector is essential for both absorbing the increasing number of unemployed workers and surviving in nations without social safety nets. The sector's size, durability, and vibrancy have all been validated by empirical investigations (Akande & Akerele, 2008).

Aware of this, the Nigerian government has implemented several initiatives, including the National Directorate of Employment (NDE) and other jobs-creating projects. The creation of jobs is at the centre of the nation's current administration's seven-point program. The World Bank, a development partner, conducted a study on "Employment and Growth in Nigeria" because of the government of Nigeria's efforts to address employment issues. To create policies that are likely to increase employment's growth elasticity and raise the calibre of jobs, the study attempts to evaluate how the recent good economic performance has affected employment (Akande & Akerele, 2008). The study predicates the idea that improving the quality of jobs and the growth elasticity of employment will necessitate a concerted approach that increases labour demand and fortifies the labour supply's responsiveness to labour demand. Adopting a strategy that encourages growth in all sectors is necessary to increase labour demand in the economy. A skills development policy framework is also required to enable the labour supply to adequately respond to labour demand. Unquestionably, one of the most important tools for encouraging decent labour in the informal sector is the development of skills and knowledge.

However, current statistics suggest that formal sector employment prospects in Nigeria are no longer keeping up with the number of new entrants to the labour market. The informal sector of the economy has stepped in to help by giving work and income to young people and those laid off from formal sector jobs (Akerele, 1997). According to research, at least 75% of the labour force works in the informal sector (Akande & Akerele, 2008). The standstill in formal sector employment has increased the likelihood that persons entering the labour market for the first time will be employed in the informal sector. According to Akande and Akerele (2008), employment in the informal sector will expand at a rate of approximately 11% over the next five years.

This suggests that young people may be more likely to work in the unorganized sector in the future. Unfortunately, low productivity, subpar products, a lack of production equipment, and a lack of technical skills are characteristics of the activities of the informal sector. If the issue of low productivity and low-quality products is to be addressed, technical skills should be the primary focus. The informal sector's productivity may benefit from a rise in technical school graduates, but the sector's overall low skill level continues to hinder its expansion and have a detrimental effect on earnings. The provision of necessary skills training programs to employees in the informal sector can go a long way in helping to bring poverty and unemployment down while boosting economic growth

(Akande & Akerele, 2008). Also, one important tool for enhancing productivity, improving working conditions, and encouraging decent labour in the unorganized sector is the development of pertinent skills and knowledge. Better, less labour-intensive, and safer technology can improve products, decrease workplace hazards to health and safety, and increase productivity and income. Gaining new information and abilities can lead to more lucrative and fulfilling careers (Marjo-Riitta, 2003).

Despite several researches on the informal sector in less developed countries, Temkin (2009) concluded that "so little is known about the informal workers' perceptions, values, attitudes, and opinions." Walsh (2010) attributed the lack of understanding about the sector to the fact that it is concealed from official scrutiny. The Federal Government of Nigeria offers programmes such as the Youth Empowerment Scheme (YES), the National Economic Reconstruction Fund (NERFUND), the Nigeria Bank for Commerce and Industry (NBCI), the National Directorate of Employment (NDE), the Small and Medium Industries Equity Investment Scheme (SMIEIS), the Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN), Youth Enterprise with Innovation in Nigeria (YOUWin), and others, the Kwara State government also claims to have succeeded in creating jobs through its various initiatives, including the LEAH Charity Foundation (LCF), the SME fund, QuickWin, the State Economic Empowerment and Development Strategy (KWSEEDS), and others (Akinbode & Imhonopi, 2015).

However, with all these claims, the informal sector in Kwara State, especially in the city of Ilorin, continued to face many difficulties, which led to the government continuing to be the biggest employer of labour, in contrast to many industrialized countries. Within the first five years of their founding, most SMEs in the city die extinct, while a smaller portion vanishes a few years later. When compared to what is occurring in other cities and states across the nation and what they have accomplished with their SMEs, the situation is even more unsettling and concerning. Unfortunately, every stakeholder SME owner, government, organized private sector, etc.) is insensitive to this challenge, and most SMEs in the metropolis are still crawling after some years of floating (Akinbode & Imhonopi, 2015).

Against this backdrop, this study attempted to evaluate the performance of the informal sector in Ilorin, Kwara State, in terms of employment generation, as Chukuezi (2010) recently called for additional research on the informal sector, recognizing the need for continued support. According to previous research by Arimah (2001), "any study that tries to analyze the informal sector must rely on primary sources of data, given the fact that activities in this sector are hardly entered into official records." According to Ubong and Ubong (2024), employment generation is the process of producing new job opportunities inside a certain economy or society. It entails creating job possibilities for individuals, resulting in increasing employment rates and lower unemployment. Employment creation, according to Imran (2000), is the act of creating new jobs, particularly for the unemployed. German anthropologist Keith Hart first proposed the idea of the "informal sector" in 1973. The informal sector refers to economic activities that occur outside of the official standards of commercial transaction imposed by the state and formal corporate processes, yet they may not be illegal. According to Friday, Mbuotidem, and Ekpe (2020), the informal economy is defined as all economic activity that occurs outside of governmental regulation and is neither taxed nor included in a country's GDP. The word refers to a micro or small business that began as an individual or family self-employment firm. It includes both manufacturing and processing, as well as cross-country trading. Some of these activities include the lack of authorized business authorization, tax evasion, noncompliance with labour legislation, governing contracts and work conditions, and the absence of legal guarantees between suppliers and clients (Fasanya & Onakoya, 2012).

Also, under Enyoghasim et al. (2023), the term "informal sector" describes a section of the economy that is defined by enterprises, economic activity, and revenue streams that function outside of the official regulatory framework of the government. These operations are frequently not recognized by the law, might not follow official labour and tax laws, and are not as closely monitored and protected as legitimate firms. This includes workers who labour in positions that lack the most basic social or legal protections and employment benefits, as well as companies that are not formally registered and do not maintain a full set of accounts. Street vendors, subsistence farmers, small-scale manufacturers,

service providers (such as hairdressers, private taxi drivers, and carpenters), etc. are examples of people who operate in informal employment.

The informal sector is characterized into three broad groups (Enyoghasim et al. 2023), and these are:

The informal productive sub-sector: This includes the creation of material commodities as well as every other economic activity. These include small-scale manufacturing, building and construction, mining and quarrying (apart from petroleum), and agriculture output. Specifically, they manifest in food production, woodworking, ironing, welding, furniture manufacturing, clothing making, etc. (Enyoghasim et al., 2023). **Informal service sub-sector:** In addition to labour or menial tasks, this subsector offers health, counselling, informal education, repairs, and maintenance services. Tailoring, woodworking, tinkering, and the maintenance and repair of various home and business instruments are examples of repair and maintenance services. Traditional birth attendants, herbalists, and other traditional medical professionals are examples of informal health care, particularly in rural areas. Traditional spiritualists who provide counselling services are also available. The people who provide these services are compensated with fees (Enyoghasim et al., 2023). **Informal financial sub-sector:** This sub-sector primarily engages in parallel, dark, informal, irregular, and unauthorized operations. In Nigeria, ESUSU is the most common form of informal money. It is referred to be either Ajo or ESUSU among the Yoruba. It is referred to as Isusu or Utus among the Igbo. According to Enyoghasim et al. (2023), some organizations function under documented rules, while others function under unwritten laws but rely on confidence and oaths of allegiance.

In general, it is impossible to overstate the contributions of the informal sector to Nigeria's economic development in terms of creating jobs, saving and mobilizing capital, efficiency, solid connections with other industries, utilizing local technology training facilities for entrepreneurs, and self-reliance (Enyoghasim et al., 2023). SMEs have different meanings in different countries (Gunasekaran, Forker & Kobu, 2000). Nonetheless, the number of people employed appears to be a consistent trend (Adams & Hall, 1993). According to Oyebanji et al. (2021), small and medium-sized businesses (SMEs) are those that operate on a modest scale and have less than 250 employees. Despite their differences in size, structure, and complexity, enterprises are typically defined using resources to achieve predefined goals. In general, businesses are divided into four groups: micro, small, medium, and giant. Street sellers and petty/artisanal businesses are examples of micro businesses. Microbusinesses usually function in the unorganized segment of the economy, particularly in developing nations, and are not expected to meet strict regulatory criteria (Effiom & Edet, 2018).

To Eniola, 2014; Musa, Fadeyi & Taiwo, (2021), small and medium-sized firms (SMEs), on the other hand, are larger, require a more formal structure, are significantly impacted by business environmental factors, and make up a sizable portion of all businesses in an economy's "formal sector" (Effiom & Edet, 2018). A small-scale business in Nigeria is defined as one that employs 11–100 people or has a capital of little more than N50 million, including working capital but excluding land costs. A medium-scale enterprise, on the other hand, employs 101–300 people or has a capital of at least N50 million but not more than N200 million, including working capital but not counting land costs. The number of employees at the aforementioned level is approved by the Central Bank of Nigeria (2010) in its definition of SMEs, however, asset values vary. SMEs are therefore defined as businesses with assets between N5 million and N500 million. According to Hall (2016), small and medium-sized businesses (SMEs) are the answer to a country's economic development. They are thought to be responsible for over 70% of industrial employment and 40% of Nigeria's GDP.

According to Duke (2006), small firms make up around 87% of all businesses in Nigeria and account for 61% of the country's GDP. They are responsible for 58% of all jobs in the country. Similarly, it is estimated that SME accounts for up to 40% of Ghana's GDP and comprises roughly 70% of all business enterprises. The experience of Kenya also shows that there are over 1.3 million micro and small businesses that employ roughly 2.3 million people, generating wealth, jobs, and export growth (Dimoji & Onwumere, 2016; Mbogua, 2003). About 98% of enterprises in several recently industrialized countries, such as China, India, South Korea, etc., are classified as SME sector, and they employ a significant portion of the workforce (Sanusi, 2003).

The resource-based theory of entrepreneurial finance serves as the foundation for this study. Barney (1991) proposed the resource-based theory of entrepreneurial finance, which Subramanian (2010) revised. The theory's central claim is that entrepreneurs have very limited resources, necessitating the development of a strategy to obtain a competitive edge and improve organizational performance. According to the notion, the resources and competencies that a corporation controls are the source of its competitive advantage and subsequent performance. Funds are one of the few resources that impede an entrepreneur's ability to grow. The entrepreneurs are in dire need of funding to support their expansion. Lack of capital hindered the expansion of business owners. Entrepreneurs in the informal sector have taken advantage of every chance to raise capital and expand their companies. Agricultural production, mining and quarrying, small-scale construction and building, machine shop manufacture, apparel and furniture manufacturing, car and mechanical repair, utility services, and more are all included in the informal sectors.

Empirical Review and Hypotheses Formulation

Awojobi et al. (2014) used data from the National Bureau of Statistics (NBS) study of the informal sector to assess the contribution of the informal sector to Nigeria's economic development using the output and employment approach. According to the report, Nigeria's informal economy is growing significantly and has made a significant contribution to the nation's economic expansion, as shown by the rebased GDP. Additionally, 48 million Nigerians worked in the unorganized sector, which reduced unemployment and provided prospects for income. Additionally, Yusuf (2014) investigated how Nigeria's informal sector contributes to the country's economy and creates jobs. Pure descriptive statistics were used for analysis in this quantitative study. It was discovered that the unorganized sector contributes significantly to economic growth in addition to providing many job possibilities. Consequently, the first hypothesis was stated as follows:

H0₁: The informal sector does not have any impact on the job creation in the selected small-scale ventures in the Ilorin metropolis.

To examine how the informal sector affects the growth of the Nigerian economy, Onwe (2013) used an output and employment approach. A review of the body of research on the development, traits, and economic importance of the unorganized sector was part of the methodology. The results showed that the informal sector, which provides the poor with a crucial source of work and money, is constantly growing in emerging nations. Additionally, it was observed that formerly marginalized informal sector activities now include lucrative businesses, especially in manufacturing, which are distinguished by low entry barriers, small-scale operations, skills learned outside of formal education, and labour-intensive production techniques. Thus, the second hypothesis was stated as follows:

H0₂: The informal sector does not have any impact on employment origination in the selected medium-scale enterprises in the Ilorin metropolis.

Methodology

This study employed a survey research design approach as a self-designed questionnaire was utilized. Before being given to the respondents, this was verified by a few human resource management specialists. The population of the study involved all the SMEs across different sections/wards in Ilorin, Kwara State. However, since the actual number of SMEs could not be determined or known and for effective coverage over the study period, it was essential to collaborate with a small number of them consequent to the population size. This was done purposively as the hypothetical sample technique was used. This was in harmony with the position of Attewell and Rule (1991), together with Bradford and Cullen (2012) that a hypothetical sample could be made use of for the unknown population. Then, 250 was taken as the population. This complied with the viewpoint of Hill, Brierley and McDougall (2003) that a sample size of 100 or more is enough to produce acceptable research outcomes. The population size was then set to 250. Consequently, 218 of the 250 sets of questionnaires that were given to the respondents were usefully retrieved, representing an 87% response rate. The questionnaires were completed by owners, managers, and those in charge of administration and human resources. The respondents were specifically selected by the data needed for the study. Descriptive analysis was used to compile and analyze the survey data, which was then presented in tables with frequency and percentage. The Statistical Package for Social Sciences (SPSS)

was used to evaluate the hypotheses using a regression analysis.

RESULTS AND ANALYSIS

Results

Table 1: Socio-Demographic Characteristics of the Participants

Participant Characteristics	n	%
Age Range		
21-30	85	39.0
31-40	44	20.0
41-50	67	30.9
51& above	22	10.1
Total	218	100
Marital Status		
Single	4	1.9
Married	183	83.9
Divorced	11	5.0
Widow/Widowers	20	9.2
Total	218	100.0
Gender		
Male	132	60.7
Female	86	39.3
Total	218	100
Educational Level		
Basic Education	16	7.5
Senior Secondary	91	41.8
Tertiary	80	36.8
None	30	13.9
Total	218	100.0

Source: Fieldwork, 2024

Results in Table 1 showed that 39.0% of the respondents that participated in the study were of age 20-30 years, 20.0% were of age 31-40 years, 30.9% were of age 41-50 years, and 10.1% were of age 51 years and above. Marital status distribution showed that 1.9% were singles, 83.9% were married, 5.0% were divorced, and 9.2% were Widows/widowers. Also, gender distribution reflected that 60.7% of the participants were males, while 39.3% were females, implying that the majority were men. As regards the educational level, 7.5% of the participants had basic education, 41.8% had a Secondary School Certificate (SSCE), 36.8% had tertiary education, and 13.9% had formal education. The interpretation was that most of the owners of the small and medium-scale enterprises were secondary school certificate holders, while degree holders too were not left out.

Testing of the Study's Hypotheses

H01: The informal sector does not have any impact on the job creation in the selected small-scale ventures in the Ilorin metropolis.

Table 2: Summary of Regression Analyses of the Impact of Informal Sector on Job Creation. (N=218)

Variable	B	SE	β	t	p
(Constant)	.986	.187		5.267	.000
Micro investment	.116	.023	.196	5.125	.000
Minute income	.673	.039	.659	17.199	.000
R	.734				
R ²	.539				
Adj. R ²	.536				
F	196.261*				

* $p < .05$. Dependent Variable: Job creation

Predictors: (Constant), Micro investments, minute income

Source: Author’s Computation, (2024)

Table 2 shows the impact of the informal sector on job creation in the selected small-scale ventures in the Ilorin metropolis. It was shown that the impact of informal sector variables on job creation yielded a coefficient of multiple correlations (R) and square (R^2) of .734 and .539 respectively. These values were statistically significant at a 0.05 probability level as an indication was shown from this result that informal sector variables could account for 53.9% of the observed variance in the job creation in the selected small-scale ventures in Ilorin. Considering the individual impact of the two variables, minute income had the highest impact ($\beta = .66$), while micro investment ($\beta = .20$) had the least impact. The stated null hypothesis was therefore rejected. This implied that the informal sector had a significant impact on the job creation in the selected small-scale ventures in the Ilorin metropolis. This result was in tandem with the outcome of the studies carried out by Awojobi et al. (2014) and Yusuf (2014). Awojobi et al. (2014) realized that the informal economy in Nigeria is notably expanding and substantially contributed to the country's economic growth, while Yusuf (2014) affirmed that the informal sector plays a significant role in creating employment opportunities and contributing greatly to national economic growth in the country.

H0₂: The informal sector does not have any impact on employment origination in the selected medium-scale enterprises in the Ilorin metropolis.

Table 3: Summary of Regression Analyses of the Impact of Informal Sector on Employment Origination (N=218)

Variable	B	SE	β	t	p
(Constant)	.241	.024		2.741	.03
Mid-scale innovation	.210	.044	.211	2.221	.025
Medium networking	.920	.027	.945	33.886	.000
R	.974				
R^2	.949				
Adj. R^2	.948				
F	1572.640*				

* $p < .05$. Dependent Variable: employment origination

Predictors: (Constant), mid-scale innovation, medium networking

Source: Author’s Computation, 2024

Table 3 indicates the impact of the informal sector on employment origination in the selected medium-scale enterprises in the Ilorin metropolis. It was revealed that the impact of informal sector variables on employment origination produced a coefficient of multiple correlations (R) and square (R^2) of .974 and .949 respectively. These values were statistically significant at a 0.05 probability level. The indication was shown from this result that informal sector variables could account for 94.9% of the observed variance in employment origination in the selected medium-scale enterprises in the Ilorin metropolis. Considering the individual impact of the two variables, medium networking had the highest impact ($\beta = .95$) while mid-scale innovation ($\beta = .21$) had the least impact. The stated null hypothesis was therefore rejected. This suggested that the informal sector had a significant impact on employment origination in the selected medium-scale enterprises in the Ilorin metropolis. This complied with the observation of the research undertaken by Onwe (2013) in which it was ascertained that the informal sector serves as an important source of engagement and income for the deprived.

Summary of Findings

The study considered how Nigerian small and medium-sized businesses create jobs. The study's findings showed that most of the various businesses had employees and were primarily small-scale operations. They were run by owner-managers and support personnel, received their first funding from personal savings, and offered many people opportunities. However, they largely hired their workforce based on intuition, and they typically had between 5 and 10 employees compared to the available



labour force. According to the findings, most business owners faced obstacles that made it difficult to run their companies, including taxes and other rules, issues obtaining registration permits, and product duplication brought on by inflation and competition. Despite the obstacles that small businesses must overcome, like taxes and other restrictions, competition from similar enterprises, and transportation expenses. Since efforts have been made to improve the function of such enterprises in employment generation, they also play a significant role in eliminating poverty because of the huge number of work possibilities they provide.

Conclusion

The necessity of allowing the informal sector to flourish has been underlined in this article thus far. This is primarily due to Nigeria's startlingly high unemployment rate and the dissatisfaction of many young people. It's interesting to note that every option for addressing the evil of unemployment needs to be expanded. Promoting the expansion, survival, and prosperity of small and medium-sized businesses whose raw materials are typically commonplace objects found in the environment is one approach to this. Thus, it can be concluded that the informal sector influences the creation of jobs in the city of Ilorin.

Recommendations

Following the results of the study's analysis, the following suggestions were given:

- i. Professional management of informal enterprises need to improves their performances. This will help tighten internal controls over financial resources, reducing instances of mismanagement and misappropriation. With savings from careful financial management, they will easily access financial institutions for loans to improve their business operations and provide jobs.
- ii. Small and medium-scale enterprise operators should widen their markets to reduce competition. This should be done by integrating market information into the planning process because marketing is the life blood of a competitive marketplace as it is driven towards the needs and desires of customers in the production decisions.
- iii. To lessen competition, small and medium-sized business owners should expand their markets. Since marketing is the lifeblood of a competitive marketplace and influences production decisions based on customer requirements and wishes, this should be accomplished by incorporating market intelligence into the planning process.
- iv. Government should develop policy frameworks for small and medium-sized enterprises that focus on legal and regulatory circumstances, as well as capacity building, in order to improve the business environment and increase competitiveness while also promoting the private sector.

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