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## BEYOND ADJUSTMENT IN NIGERIA: THE ROLE OF THE INFORMAL SECTOR IN EMPLOYMENT GENERATION

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### ABSTRACT

Some years after the introduction of the Structural Adjustment Programme reforms in Nigeria in 1986, many sectors of the country's economy started experiencing serious negative economic fortunes. This reality which caused shrinks and depression in these sectors consequently manifested in the negative growth of the entire economy. The country witnessed far increasing capacity under-utilization and negative terms of trade. On the domestic front, one sector was high-up to the rescue of inhabitants of the dying economy. This sector grew daily and exhibited a largely elastic employment capacity, even unnoticed. The identification and subsequent call for the harnessing of the important potentials of such an unnoticed sector is what this paper is all about.

### 1. INTRODUCTION

What constitutes the informal sector is essentially governed by the interest of the perceiver (Herole, 1982). In the manner of Herole, this paper perceives the informal sector as all those in the urban and rural workforce who are not employed in the public administration or in modern industrial and commercial undertakings (with regular wage payments and employment contracts). Due to the free and unrestricted entry into the sector, the capacity of the informal sector to absorb new and unskilled migrants is almost limitless. Herole calls it the 'economy of the poor'. Furthermore, informal sector business includes mainly those that do not employ more than ten people. Ukpong (1986) lists the components of informal sector businesses in Nigeria to include: metal works, weaving, retail trade, dress-making, patent medicine sales, shoe-making and repairs, certain manufacturing, transport, construction and catering. Others he regards as illegal include: prostitution, smuggling, robbery, currency trafficking and other black market operations.



Informal sector business activities, employing between one and ten people, were far from receiving any important attention before the introduction of the Structural Adjustment Programme (SAP) in Nigeria. The irrelevance and neglect of the informal sector in Nigeria before SAP could be attributed to the enormous earnings accruing to Nigeria from the oil sector in the late 1970s and early 1980s. With the enormous oil-led wealth, the country opted for highly mechanized import-substitution industries - with high technical and capital intensive production methods. The highly technical and capital-intensive production techniques were preferred, disregarding the labour-surplus and capital-deficient economic structure of Nigeria (Ekong, 1994).

Faced with a continuously declining economic fortune in the late 1970s, the then government of Nigeria introduced the austerity measures in 1980 to check such declining trend. Inclusive in the austerity measures in 1980 to check the declining trend were several monetary and fiscal policies. This period witnessed rapidly growing inflation rates, and the Naira was said to be heavily overvalued. A way out of the economic debacle aroused pockets of ideas and arguments. Economists both within and outside pondered widely on how best to reverse the declining economic trend. Resulting from these arguments, government in 1986 introduced, aside the austerity measures, IMF typed Structural Adjustment Programme (SAP).

The key elements of SAP included exchange rate, interest rate and trade liberalization. With the implementation of SAP, the value of naira depreciated vastly. This immediately led to increases in the prices of imports for the domestic economy. The incidence of the short-run negative impact of this increased input price reality was mostly borne by the import substituting industrial sub-sector which because of the depreciated naira-value had to pay more for imports. The effect of this increased import-bill and of course, production cost, advised profit maximizing firms to device means of staying afloat. Coping strategies by these firms in the early SAP era led to vast capacity under-utilization and retrenchment in most industries (Faruqee, 1994). The decline was mostly noted from 1986. With persisting and increasing unemployment of labour in the formal sector, coupled with decreased output and low wages, the overall structure of employment changed in the economy. With the contraction of formal sector employment, the informal sector started showing serious prominence (Faruqee, 1994). With its infinite absorbing capacity, the informal sector became the reservoir for labour that were retrenched or under-utilized by the formal sector.

Government, observing the country's economic trend carefully, became more interested in the informal sector. The absorptive capacity for

labour by the informal sector and the quest to accommodate retrenched and under-utilized labour from the formal sector of the economy forced the official recognition of the informal sector in Nigeria. The interest and official recognition manifested when government commenced a vigorous and aggressive small business intensification and industrialization schemes. Monetary and fiscal policy measures were targeted by government towards the achievement of such realities. Although these policies could be argued as not being set for informal sector businesses, rather, small-scale enterprises, one can also rightly counter that argument by the fact that the People's Bank established at this period by government to service small businesses actually targeted those in informal sector. To buttress its interest further, government established agencies like the National Directorate for Employment (NDE), Community Bank among others to boost the activities of the informal business sector.

It interests this paper to investigate the correctness of the earlier assertion of an assertive employment capacity of the informal sector during SAP, and to explore its role in the post-SAP economy. In its determination to proactively discuss, it is divided into five sections. Section 1 introduces the work. Section 2 outlines the methodology. Section 3 presents the theoretical framework. In section 4, research findings are discussed. Section 5 draws conclusion and recommends.

## METHODOLOGY

In prosecuting this study, a careful and imminent decision on how to justify the employment capacity of the informal sector was obvious. Using secondary sources to justify an issue of this nature was to the consideration of this paper inadequate. Thus, a field survey was inevitable.

As a matter of fact, gathering data for generalization on an issue as controversial as the topic of this paper required enormous and diversified data base. However, this study considered a 'conservative' survey sample of six hundred informal sector businesses, spread over the geo-political regions of Nigeria (North East, North West, Middle Belt, South West, South East, and South South). Notwithstanding the conservation, in terms of the small number of survey sample, the regional representation was used to justify our actions.

A simple structured questionnaire was used to gather information from the respondents, who in this case were entrepreneurs of the sampled informal sector businesses. To complement the questionnaire, focus group discussions and semi-structured interviews were also conducted to gather additional information that were missing from the questionnaire.



Questionnaire information was mainly to identify the labour content of the businesses. Other methods were used to collect qualitative information, such as the sectors' players operational perception of constraints to their activities and possible remedies. All qualitative data gathered were subjected to various levels of triangulation for objectivity. For quantitative data, tabular presentations and average were adopted for analyses.

### 3.1 THEORETICAL FRAMEWORK

With a well applied search for characterization, Boswell (1973) argues that three basic stereotypes could be identified about small businesses. They include, the classical, romantic and modern stereotypes. The classical model comes with the simple themes of the entrepreneur; competition and profit maximization. The model sees the businessman as mixing ownership and control. However, most contemporary economic analyses have challenged the efficacy of this model, as current trends concentrate on corporation rather than entrepreneurial management.

The romantic stereotype, Boswell (ibid) argues, owes much to the classical tradition, by applying value judgement more vigorously. It concentrates on the small business as a source of economic utility. The model pigments many stories of successful businessmen and company histories, and it infuses much of the polemical literature in defence of small businesses.

The modernistic model views small businesses as being inefficient, traditionalistic and family determined; that small businesses are generally inimical to progress and professionalism. However, the conclusions of this model is seen by Clarke (1973) to be based on half-truths, misunderstanding and unnecessary generalization of small business activities. The model has a strong preference for large firms which, he argues, are more amenable to government control and intellectual fascination.

The idea of the model corroborates Boswell (1973) who, in adopting historical reasoning, concludes that modern trends makes for inexorable pressure towards business expansion which eventually pushes small businesses aside or perhaps squeezes the pit completely. It has become a consensus in literature (Herole, 1982; Mansilla, 1992; Steel and Webster, 1992), that due to its abounding inefficiencies the informal sector does not contribute meaningfully to development. They consider the legal and more organised Small Scale Enterprises (SSEs) more relevant in the process of development. As such, many studies on small businesses are based on information and data from SSEs as in Levy (1993), Steel and Webster (1993), Liedholm and Mead (1987), and Anderson (1982).

It is argued that modern technological improvements and increase in efficiency seen in the formal sphere are out of the reach of the informals; that

even when the informals demonstrate remarkable expertise in the use of scarce resources and prove to be relatively inventive, they nevertheless come out at very low level. Hernando Soto and others in a study of Peru established that the average productivity of an informal worker was only 1/3 of that of a "formal" (Mansilla, 1992). Soto, quoted in Mansilla (1993:38) concludes that the informal sector is a continuation of the traditional life strategy; that such strategy leads to "a massive waste of resources, involves immense sufferings and leads unavoidably to hopelessness".

However, a challenge to some developing countries currently as peripheral capitalist societies have induced neo-liberal positive view of the informal sector. The liberals as noted by Mansilla (1992) see the informal economy as a "child of necessity". They see the growth of the informal sector in these peripheral capitalist states as a dynamic economy based on private initiative, by an over-abundance of bureaucratic regulations. They contend that it is the lack of a true existence of the capitalist system in these states which brews the dominant characteristics of a stagnating model. The liberals further argue that it is in the informal economy that the reasonable contemporary aspiration for private property and free enterprise finds expression.

Pockets of arguments against the perception of some authors on the informal sector as that which is not meaningful for development have also been echoed in the literature. Meier (1982), for example, sees the sector as being very reliable in providing employment. Using Kenyan Data, he shows the increasing unemployment rate which could only be reduced by harnessing the potentials of the sprawling informal sector. Obi (1989), using West Germany and Japan data, shows how the small business sector (analogous to this paper's informal sector) has immensely contributed to the development of these nations.

Steel and Webster (1992) confirm that there was increasing employment capacity in the informal sector of Ghana during the Economic Reconstruction Programme (ERP) while formal sector employment was declining. However, they confirm that output was lower in the informal sector than in the more organized formal sector.

It is based on the arguments above that this paper decides to study the situation in Nigeria exclusively.

### 3.2 THE ANALYTICAL FRAMEWORK

On a *priori*, the paper believes that Nigeria's informal sector has a capacity to generate employment. This capacity to absorb unemployed labour is demonstrated in the model below (Fig. 1).



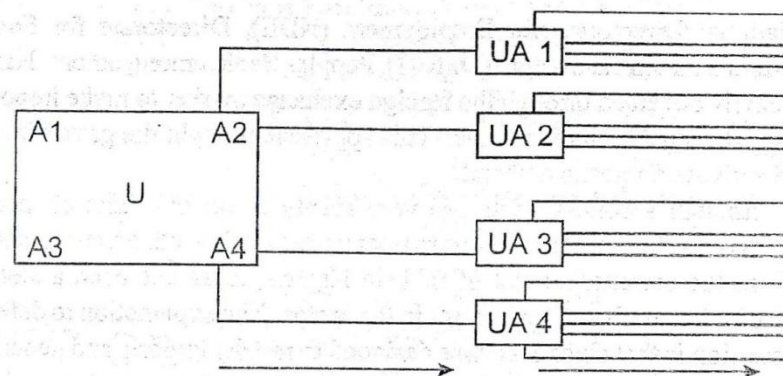


Fig. 1: Informal Sector Growth Model

Fig. 1, depicts the growth scenario of the informal sector. The model is analogous to the nuclear reaction model discussed in Eisberg and Resnick (1974), Harvey (1969), Littlefield and Thorley (1968) and Holden (1971), which shows the emission of particles, subsequent recollection and further emission depending on the speed of the reaction. The argument is that when the first entrepreneur establishes a business in the sector, represented by U (in the first box), apprentices and workers (represented by A1, A2, A3 and A4) will be employed (in some cases the apprentices are placed on stipends). After training and practical experience, the apprentices and workers also move out to establish their businesses (represented by boxes UA1, UA2, UA3, and UA4). They too employ other apprentices and workers. The situation continues in that chain formation as depicted in the model, creating self employment, increased aggregate demand, increased aggregate supply and less strain on the formal sector. The unending condition is caused by the non-restriction of new entrants into the sector's activities.

#### 4.1 INFORMAL SECTOR IN NIGERIA UNDER SAP

A massive retrenchment in the formal sector through rationalization bloated the ranks of unemployed labour in Nigeria in the early years of SAP implementation. Before the rationalization, it was thought that government might have implicitly envisaged return of rationalized labour to the informal sector, but nothing concrete was done to prepare the sector for such absorption. Aware of such inadequacies, government introduced some vigorous although brazen fiscal and monetary policies to aid the growth of the absorptive capacity of the sector. Such policies included the establishment of

the National Directorate for Employment (NDE), Directorate for Food, Roads and Rural Infrastructure (DFRRI), Peoples Bank, among others. Naira was heavily devalued through the foreign exchange market to make imports more costly and exports attractive. This approach, thought the government, would activate domestic demand.

Although secondary data are very scanty or do not exist on many activities of the informal sector due to poor co-ordination, observations show that from the commencement of SAP in Nigeria, there has been a steady increase in the number of businesses in the sector. The explanation to defend this assertion is that since SAP was designed to restrict imports and generate local initiative, consumers had to look inward for their demand; and their demand met the specifications of the informal sector (Ekong, 1988). Under SAP, the country's informal sector had grown considerably larger.

Although such bloating in size could not be argued logically as to having significantly impacted National Revenue (due to lack of accurate data), it has helped in alleviating the sufferings of the people from remaining unemployed and underdeveloped with low living standards.

Faruqee (1994) writes that the Nigerian labour market responded to the surge of the informal sector with a decline in urban unemployment from 10 percent in the pre-SAP period to 8 percent in March, 1988. He cites further that the decline reflected the growth of the informal sector and a migration of workers to the rural agricultural area - consistent with the emerging incentives and rural opportunities. Employment in the rural sector also improved slightly.

As in the growth model of fig. 1, employment capacity of the informal sector, even under SAP, in Nigeria was inexhaustive, with virtually no restrictions on entry and exit. To show such capacity on a very conservative level, the paper undertook a conservative study of six hundred informal sector businesses in Nigeria. The survey limited its scope to highly populated town settlements, with diversified and intensified informal sector activities. In the businesses surveyed, particular attention was focused on:

- (i) size of business;
- (ii) employment capacity;
- (iii) actual number employed; and
- (iv) the reserve capacity.

The table below shows the employment capacity of the survey sample.



Table 1: Employment Capacity of Some Selected Informal Sector Businesses

Zone	Towns	No. of Sampled Sector Business	Average monthly savings	Average No. of Workers Employed	Average labour Business could employ optimally	Average reserve capacity for workers employment
North East	Maiduguri Yola, Kaduna, Zaria, Kano	100	70,000	4	6	+2
North West	Sokoto, Kebbi, Guasa	100	45,000	2	5	+3
Middle Belt	Markurdi, Minna, Lokoja, Ilorin	100	50,000	4	7	+3
South West	Lagos, Ibadan, Ijebu-ode, Osogbo, Akure.	100	100,000	6	9	+3
South East	Onitsha, Aba, Enugu, Owerri, Umuahia	100	85,000	5	10	+5
South South	Benin, Warri, Port-Harcourt Uyo, Calabar	100	50,000	4	6	+2
Total		600		25	43	+18

Source: Field Survey

Table 1 above shows a positive reserve capacity for workers employment in the informal sector businesses that were surveyed. Therefore, in a conservative generalization, the paper opines that there are still some employment capacities underutilized in the informal sector, and that businesses in the sector possess the capacity to employ more than they do presently.

An interesting general response from the study-sampled entrepreneurs was that there is no time of the year that they do not employ either full time workers or apprentices. They argued that the capacity to employ more labour will only cease in the sector when there is no market for their businesses.

The African Development Report (1993) corroborates our research assertion that the informal sector has a vast employment capacity during adjustment. The report asserts that in virtually all African countries, there has been a decline in wage employment especially in the public sector; that

consequently, some of the unemployed urban youths ventured into the informal sector.

This increasing employment capacity of the informal sector and its intensification in post-SAP era in Nigeria is also witnessed in the declining unemployment rates. Even when formal sector employment was contracting (many firms retrenched their workers and produced only below installed capacities, banks and other industries collapsed) unemployment record showed a decreasing rate, until it came to 2% by 1995. Of course, the 2% unemployment figure is not generally accepted; those who contend against it, perhaps, have not taken into consideration the activities of the informal sector or the underground economy that constantly absorb or employ labour retrenched from the formal sector.

#### 4.2 CONSTRAINTS OF THE INFORMAL SECTOR

Although the paper argues that there is a noticeable positive growth in the informal sector business activities in Nigeria, certain factors have been identified as setbacks or hindrances to the continuous growth and expansion of the sector's activities. These constraints were discovered in the course of this study. While some were obtained from questionnaires administered, others were from direct interviews and focus group discussions (FGD).

Such constraints include:

- (i) Low demand arising from high rate of inflation, which increases prices tremendously, leaving consumers with less real income. This, the respondents say, make consumers reduce their consumption by buying less.
- (ii) The multiplicity of business in the sector - Formal sector business entrepreneurs argue that such multiplicity although encourages competition and improvement in quality, reduces individual accumulation thus slowing down the rate of growth of members of the sector.
- (iii) Inability to secure credits - Businesses in the formal sector are not taken seriously by credit organizations, especially orthodox banks. Informal sector businesses are always 'crowded-out' from securing credits from the financial institutions and government credit organisations by formal sector businesses. Peoples Bank and National Directorate for Employment's credits which are directed towards this sector have been hijacked by the 'so-called' small-scale enterprises which are actually not enterprising. However most businesses in the sector are afraid of collecting credits from these credit institutes; their fears being that they may be unable to repay such loans with interest at the specified time,



given the country's economic conditions. They prefer, instead, to create such investment funds on their own, or borrow from close relatives.

- (iv) Government tax policies - A situation in which the informal sector businesses are exposed to enormous taxation, leaves them very inefficient in creating more investment fund. In many cases, businesses in the sector complained bitterly that they are taxed by Local, States and even Federal authorities. Local government collects operational rate and levies on business houses, State government collects business premises and Federal Government collects Value Added Tax (VAT). This leaves their financial bases thin, weak and discouraging.
- (v) Other minor factors identified as impeding the growth potentials of the informal sector from the field survey include inadequate preparation before launching into the sector, lack of or inadequate business experience and poor management ability.

## 5.0 RECOMMENDATIONS AND CONCLUSION

### 5.1 Harnessing the Potentials of the Informal Sector for Post Adjustment Era

In harnessing the employment potentials of the informal sector one must be able to scale through the constraints which act as impediments to the growth of the sector.

#### (i) Training programme:

The paper suggests that there should be constant training programmes designed by government and non-governmental organizations (NGOs) for members of this sector as well as for those intending to join to sharpen their skills. The National Directorate for Employment (NDE) could contend that they have trained "enough manpower" for the sector in the country, but the question which remains to be answered is how relevant the training has been to the skills demanded in the sector." The paper, therefore, argues in the manner of the World Bank (1993) that any training programme for the informal sector should first address such basic questions as:

- (a) What skills are likely to be needed for 3-5 years?
- (b) What kinds of jobs are likely to be available if rapid structural changes lead to widespread dislocation of workers?
- (c) How do social and economic policies affect incentives for both individuals and employers to invest in skill training? If these questions are correctly addressed, training programmes will be result-oriented.

#### **Credit financing programme:**

The efforts of NDE on credits to the informal sector businesses should be complemented by the financial institutions, wealthy individuals, states and local governments. Credit to the sector should be mainly medium term facilities to give them time to pay up. Where there are business potentials, a stage-by-stage credit should be granted by the financiers. Also the activities of the business should be closely monitored, instead of total refusal to grant credit.

In the alternative, government should, as a matter of urgency, undertake a census of all businesses in the sector, local government by local government and trade by trade. In each local government, like activities should be pooled together into co-operatives with some form of leadership. Government or any credit organization can now grant credit to such co-operatives to be revolved round every participant in the sector, just like a revolving loan of a specified time frame, with strict government monitoring of the activities of the leadership of such associations. In this way credits will and promptly repaid.

#### i) **Adapting and improving foreign and local technology:**

Most of the country's local technologists are found in the activities of this sector. Others are foreign technology imitated by businesses in the sector. Government should, as a matter of priority, explore ways and means of encouraging the sector in adapting and improving foreign technology at their disposal (the popular 'Aba made' and 'Nnewi ingenuity'). Also, where local technology is discovered (like pot-moulding using ceramics and mud), it should be encouraged and improved upon. For example, if the activities of traditional medical herbalists were taken seriously by authorities concerned, they should have now improved their herbal cures and even secure patent rights.

#### v) **Government tax policies:**

Government should come out with a well-defined policy on who collects taxes, tolls, rates, licenses etc. from the informal sector businesses. Where businesses in the sector are daily harassed by different agencies for taxes, it discourages the zeal to grow in the sector. The state and local government agencies should work out a special tax relief programme to lessen the rates imposed on the sector. Taxes should be modest enough to avoid excessive evasion and business liquidation.



### 5.1 CONCLUSION

The SAP reform was a well intentioned policy; the envisaged alternative of an IMF - loan facility. The reform was implemented to aid the Nigerian economy on the path of recovery. But experience over the period shows that things were deteriorating, economic sectors were crumbling, unemployment was growing, crime rate was high, inflation was soaring, among many other socio-macroeconomic problems.

In the course of analysis of the impact of the reform on the country, it was discovered that one sector, even though traditional and non-modern, was resilient in the fall that engulfed the modern sector (e.g. banking, education, public manufacturing, etc). The informal sector was able to employ and generate increases in aggregate demand. Such attributes informed this paper to capture those factors that made it so resilient in a 'killing' SAP reform. Several facts have been exposed and discussed in the study, with the 'bottom-line' being that this sector has created, under the SAP reform, enormous capacity for employment and savings mobilization.

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