THE ROLE OF INFORMAL SECTOR IN ECONOMIC GROWTH AND DEVELOPMENT OF THE NIGERIAN ECONOMY THE CASE OF MANUFACTURING ENTERPRISES

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Abstract— The important role played by informal sector in the provision of employment opportunities and income generation cannot be over emphasized. The contribution of the sector in absorbing the abundant unemployed labour force formally, serve as a bridging gap between wage employment and being unemployed. The sector is constrained by the size of capital, poor infrastructural facilities and shortage of raw materials or where the raw materials are available the technology is not there. Simple descriptive method of analysis is employed in this paper. One of the findings is that the sector serves as a means of diversifying the productive base of the economy and utilizing the indigenous resources. It is recommended therefore that despite efforts made by the government in assisting micro enterprises a lot need to be done in the provision of credit facilities, training and that production of certain goods in the economy. Marketing for these goods should be created by the government as seen in many developing economies like china, Korea and India.

I. INTRODUCTION
The closure of United Nigeria textile limited (UNTL) Kaduna in 2007 and the recent privatization of Power Holding Company of Nigeria (PHCN) has to a large extent influenced the decision for choosing this topic. It became necessary to analyze the implication of this shut down to the Nigerian economy and to the informal sector in particular. This company has more than four thousand (4000) workers under its employment. The major question to ask where do these workers go? What will they do? And how will they do it? The major assumption here is that only about 20% or less of these workers are expected to be absorbed in the formal sector considering the nature of formal employment. The majority are expected to go for self employment temporarily as a means of their livelihood. Therefore, informal sector performs an important function in most underdeveloped economies. The sector provides employment opportunities, income, and production of goods and services for local consumption with in the country. The effect of such shut down is not only to the economy but affects both social and political spheres of human endeavors. Nigeria is a country with more than 150 million people (2006 census), where more than 70% of people are living in the rural areas depending largely on agriculture and other small scale activities for their survival. These occupations are outside the organized formal sector of the economy termed as “informal”. Employment opportunities are usually scarce in the urban areas due to population growth and rural-urban migration. The active labour force was growing at a faster rate than the availability of jobs in the organized sector. Hence the focus of development planners gradually shifted from attaining higher growth rate to eradication of poverty, and unemployment. The contribution of this sector to the economy and its expansion is so enormous. It plays an intermediate role linking sub sector to consumers. The informal sector provides the low and middle income earners with products and services not offered by formal sector of the economy. In 1998 the sector accounted for 70% of urban employment in sub-Saharan Africa. Also the sector supplied 60% of urban jobs in Latin America while in Asia it accounted for 58% (Becker, 2004, in Danja (2007). Although as established by Levisky(1989) informal sector and micro enterprises are the same only the former having broader targets. In Nigeria it was discovered that women constitute half of the businesses in the informal sector especially food processing and packaging, tailoring and petty business production. What generally affects their business is lack of enough working capital meaning that the well being of their family determines the success of the business. Informal sector is generally attributed to be very big and presumed to be very important in absorbing the abundant labour force. It offers more jobs than wage employment, therefore plays a significant role in employment generation, production, income and upliftment in living standards. It is a sector that is unrecognized, unrecorded and unregulated small-scale activities. It includes small enterprises with hired workers, household enterprises using family labour and self employed. Production processes characteristically rely on high levels of working capital as against fixed capital. The sector cut across small scale activities such as furniture making, meat grilling, shoe makers, handicrafts, tailoring, welder, mechanics, barbers, textile, leather workers, food processors, others are trading, shoe shining, car hire or driving, blacksmithing, „suya” men and women to mention but just few. These activities are regarded as agents for economic growth and development. Since growth is seen as increase in the quantity of output produced, development entails increase in quality of goods and services produced. It is a multidimensional process that touches every aspect of life. Therefore the drive of informal sector into organized sector is a drive to industrializing the Nigerian economy. The major objective of this paper is to examine the role played by informal sector in the provision of employment
and income to the people of Kano state. At the same time this work will assess the performance of this sector and the role it played in the Nigerian economy as a whole. Lastly to offer recommendations based on the findings of the study. This research contains the introduction as already discussed, methodology, literature review and theoretical framework. The role of informal sector in economic development will be followed by findings of the paper, summary, conclusions and recommendations.

II. LITERATURE REVIEW

Literatures available show that the definition of informal sector can be based on:
(a) characteristics  
(b) size of capital  
(c) Employment ratio. All these depend on different levels of development.

A. Definition of Concept

Informal sector refers to large number of people who are pending for themselves in order to earn a livelihood. The most commonly used definition was based on international Labour Organization (ILO) set a list on characteristics of the informal sector as:
- Easy of entry,  
- Reliance on indigenous resources,  
- Family ownership of enterprises,  
- Small scale of operation,  
- Labour intensive and adopted technology,  
- Skills are acquired outside the formal school system,  
- Unregulated and competitive market.

At the same time the ILO study serve as a turning point in studying various economies of the world. The term informal sector has been extended to all the sectors of the economy. In their view it covered small scale non-farming activities in towns of all sizes and in rural marketing centers. Joshi (1976) define informal sector based on its estimated size and regard it as heterogeneous that compose a wide range of modes of production, own account workers, unpaid family workers, household industries, home workers, domestic servants, employees of small unregulated establishment, etc. Another definition by Mazumdar (1975), differentiate formal sector with informal based on wages and working conditions. He argued that workers of the formal sector are protected by Laws and policy where the informal lacks remuneration packages, pensions and other unemployment benefits and welfare. Informal sector is expected to act as a buffer between employment and unemployment. Informal sector consist of small sector units engaged in the production and distribution of goods and services with primary objective of generating employment and income to their participants notwithstanding the constraints on capital, human, physical and technical know how. The study further classify informal sector with three criteria as mode of production, the mode of organization and the scale of operation. Similarly all enterprises with 10 persons or less and engage in manufacturing, construction, transport trade and service sector are regarded as small scale enterprises. (Setheremen 1981) In Korea small scale enterprises is a group of persons engaged in the business of manufacturing, mining, or transportation, either with five or more but not less than three hundred regular employees or with total assets of 500 million ($1000 000) (adejola,1996).

Central bank of Nigeria (CBN)1988 define small scale enterprise excluding commerce as enterprises with total investment not exceeding N500 000 and or annual turn over not exceeding N5 million. From the proceeding definitions it can be observed that there are no standard criteria for classifying a business small, medium or large but rather a quantitative and subjective judgment.

B. THE ROLE OF INFORMAL SECTOR IN ECONOMIC GROWTH AND DEVELOPMENT

Hopper (1989) emphasize on the important role played by informal sector, in economic growth by arguing that one-third of the population in developing countries derive their income from micro enterprises. The sector embodies impressive arrays of initiatives, skills, and talents which if effective form of assistance can be developed, have the potential to make an enormous contribution to economic growth. Human Development Report (1997) asserted that promoting micro enterprises and the informal sector in the third world countries have proved that people all over the world have shown their creativity and energy in exploiting market opportunities in the sector. There is easy entrance and are not protected by any laws regarding contract, minimum wage and social security. The life of micro enterprise is very competitive and income per person in the sector is very low compared to a modern large scale activities. It was concluded that micro enterprises are regarded as the seed bed for industrialization but had little possibility for expansion due to one problem or the other. Yunus (1989) saw informal sector not only as a source of employment rather as a means of alleviating poverty there by creating self employment and providing opportunities for other sources of income. He concluded that the manufacture of certain productions in an economy should be reserved to small and micro enterprises as in India. About 75 percent of Africa’s labour force can be characterized as small or micro entrepreneurs (peasants craftsman and traders). Seibel (1996), the new approach in development policy (small in beautiful reflect the negative experiences of many Third world countries with western models of modernization, capital intensive industrialization and the failure of trickle down effects and technological development. In view of rapid urbanization, increasing rural and urban poverty, high unemployment rates and expansion of spontaneous settlement (Gilber 1982), it become obvious that something was wrong with the underlying hypothesis of westernization and accelerated growth theories, according to when the expansion of the modern industrial sector would absorb many of the urban and rural surplus. The ILO (1972) out lined its first formal, informal sector definition in its Kenya report. It used the characteristics of the eEnterprise to derive its two sector dichotomy (formal and informal). The ILO (1972) tried to identify the informal sector against the formal sector according to economic criteria such as productivity, size, degree of organizational development, levels of incomes and profits, technology etc. according to the findings of the ILO, informal sector activities were characterized by ease of entry, reliance on indigenous resources, family ownership of enterprises, small scale operations, labour intensive and adopted technology, skills acquired outside the formal school system and unregulated and competitive markets. The ILO report stressed that informal sector activities are largely ignored, rarely supported, often regulated and sometimes
actively discouraged by the government. The characteristics of formal sector activities in contrast were characterized by difficult in entry, frequent reliance on overseas resources, corporate ownership, large scale of operations, capital intensive and often imported technology, formally acquired styles, often expatriate, and protected markets (through quotas and trade licenses). The following informal production units were distinguished by ILO (1978): -Production units consisting of a single individual without a fixed place of work and predominantly in petty trade and personal services; -Family production units, small units which are primarily family enterprises including canteens, shops, etc; -Small and medium size production units hiring several wage workers, including garage workshops, small bakeries, barbershops, carpentry shops etc. Small and micro enterprises with up to ten employees are usually regarded as informal sector enterprises. -The persistence of the informal sector is due to the inability of the other sectors of the economy (agriculture and other rural activities) on the one hand, and modern industry and services on the other to provide adequate incomes or employment to a rapidly growing labour force (ILO, Dilemma 1991). - This immediate implication of the foregoing are that the urban informal sector is a residual sector, and employer of last resort which is relatively inefficient and afflicted with various inadequacies and deficiencies. The question that arises in this respect relates to the issues of promoting the sector as a whole on economic efficiency, since it is trapped between a stagnant or slowly growing modern sector and a deteriorating traditionally rural economy. The rationale for the need to promote the informal sector has been based on any of the following beliefs: a development list belief that the informal sector could play a transformational role similar to that which petty capitalism played in the industrialization of the western developed countries; a romanticist belief in „small is beautiful” based on an appreciation of the ingenuity and adaptability of informal sector participants in being able to produce goods and services under adverse conditions relying on lab our intensive methods and indigenous resources; and a welfare belief in the informal sector’s role in acting as a safety net for the destitute by providing alternative employment opportunities for surplus labor from the formal and communal agriculture sector in the face of economic stagnation, crises or slow economic growth. -The informal sector provides employment to the poor, absorbing some of the labor that cannot find employment in the informal sector. The sector plays a supplementary role in employment and income generation. It also plays a complementary role in the provision of good and services.

According to Fidler and Webster (1996:5) the urban informal sector is a major provider of employment and income to three categories of socio-economic groups in urban areas; survivalists (very poor people who work part time in income generating activities), the self-employed (who produce goods for sale, purchase goods for resale or offer services), and very small businesses (micro- enterprises that usually operate from a fixed location with more or less regular hours). The bulk capital available for financing informal sector activities consists of personal one family savings. Moreover, reporting the findings of the study by Deble (1981), Huggon (1990) opines that using the production function of the small enterprise as the basis, the result indicates that there is no significant increase in labour productivity vis-à-vis investment to offset the reduction in capital productivity. The informal sector activity was characterized by decreasing economics of scale, mismanagement on, inefficient combination of skills and techniques. The study posits that the returns on capital, are higher in labour-intensive production units.

In Nigeria, since the introduction of SAP, the sector has gained momentum positively. The sector is important in employment generation, utilization of local resources, output expansion, transformation of indigenous technology, production of intermediate goods, promotion of even development, reduction of income disparities and its contribution as a source of income to the government. Schumacher (1974) argued that micro enterprises are very important in developing economies considering its contribution in production of output which should be counted as part of Gross National Product (GNP). It was asserted that micro enterprises if effectively exploited will lead to forward as well as backward linkages within urban and rural sectors of the economy that is between agriculture and industrial sector. Growth in small scale agricultural production is a strong factor in alleviating poverty there by raising their productivity. Countries like China, Japan and the republic of Korea used increase in agricultural production to alleviate poverty. High economic growth was achieved in East Asia by improving productivity of small scale agriculture and creating employment on both farm and off farm, there by reducing prices of food. Few studies on the informal sector in Nigeria tend to show that the characteristics are largely the same as elsewhere. For instance, a study by Resman Associates Limited (1989) concludes, using the sample survey of 3090 informal sector enterprises located in 28 towns in 14 states of the Federation among the 13 activity groups covered by the study, that informal sector manufacturing appears to have the most promising potential for contribution to the economy’s total output of per enterprise. In addition, based on profitability, the most attractive informal sector activity group appeared to be food, drinks and entertainment. In terms of the potential for employment, based on the number of person engaged per enterprise, building, construction and maintenance, as well as education and training, are the, most promising activities in the informal sector. Moreover, regional disparities revealed by the survey indicate that the informal sector is most vibrant in the western and North-Eastern/Central States of the country. Further, distributive trades contribute more to the economy per eEnterprise in terms of employment, sales revenue, profit and value added.

C. INFORMAL SECTOR AND JOB CREATION IN NIGERIA

The philosophy of micro enterprise recognizes the fundamental ability of people to apply their individual talents, creativity and hard work to better their lives. Micro enterprise programs build on the unique ideas and skills of entrepreneur by providing business assistance and small amount of credit to support the development or stand up of a small business. Micro enterprise is a proven way to earn extra income to supplement household income. Micro enterprise helps women
have the flexibility need to balance their home and work responsibilities. It helps immigrant and refugees have sustainable income in case where they lack necessary certifications, licenses, language skills or network to find professional jobs for which they in their own countries may be qualified. For many people with low income, micro enterprise provides the opportunity for individuals to develop their talents and skills and use them to improve their financial well being. Micro enterprises have been successful in helping people overcome the common barriers of race gender, ethnicity income and job market fluctuations,(http://wwwUmif.com/what is/microenterprise2003). Sethuraman(1987) argued that the total number of jobs created by the informal sector lies between one quarter to two-thirds of labour force. In the same vein, mcneil(1993) found that employment levels in the formal sector were 75% in Morocco, 51% in Philippines, 50% in Thailand, and 70% in Bangladesh. In Nigeria, Mabogunje and filani(1977) established that 63% of labour force was employed in the informal sector

In Nigeria informal sector provide employment opportunities to both rural and urban sectors of the economy. The number of informal manufacturing enterprises was estimated at 2,111,162 which represent about 29.8% of total informal sector enterprises operating in the country (CBN, 2001). About 89percent of these enterprises are distributed among three major subsectors which are food, beverages and tobacco (69.1%), textile wearing apparel and leather 11.2% and wood and wood products 8.8% subsectors.

<table>
<thead>
<tr>
<th>Activity sector</th>
<th>No. Of enterprises</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Food beverage and tobacco</td>
<td>1,458,048</td>
<td>69.1%</td>
</tr>
<tr>
<td>Textile &amp; wearing apparel</td>
<td>236,736</td>
<td>11.2%</td>
</tr>
<tr>
<td>Wood and wood products</td>
<td>186,535</td>
<td>8.8%</td>
</tr>
<tr>
<td>Paper and paper products</td>
<td>12,404</td>
<td>0.6%</td>
</tr>
<tr>
<td>Chemicals, petroleum etc</td>
<td>11,469</td>
<td>0.5%</td>
</tr>
<tr>
<td>Nonmetallic mineral products</td>
<td>16,533</td>
<td>0.8%</td>
</tr>
<tr>
<td>Basic metal industries</td>
<td>34,127</td>
<td>1.6%</td>
</tr>
<tr>
<td>Fabricated metal products</td>
<td>45,428</td>
<td>2.2%</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>109,882</td>
<td>5.2%</td>
</tr>
<tr>
<td>Total</td>
<td>2,111,162</td>
<td>100%</td>
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Most of these informal activities in Nigeria are sole proprietorships. Partnerships accounted for only 11.4% . similarly, the study shows that the contribution to manufacturing GDP is 4.2%, inaddition the share of manufacturing sector as a whole to GDP is 7.0%. on the other hand the contribution of the total informal sector activities to the economy , exclusive of the agricsector is 3%. The inclusion of the agricultural sector which is the dominant informal sector activity yields a percentage contribution of 38%.

D. THEORETICAL FRAME WORK

This study can be explained both from micro and macro economic theories.According to the theory of firm, the production function of a given commodity depends on other factors which have direct influence within or outside the firm. These factors affect the efficiency and performance of different inputs combined in a production process. This includes technology, management of the firm, layout of the physical plant, economies of scale and efficiency in management of product portfolio. The external factors include environment namely availability of infrastructure (road, communication network, power and water supply), government policies, demand condition, price, and degree of competition.

The production function explains that output (Q) is a function of land, labour, capital and technology. That is

\[ Q = f (R, K, L, T) \]

Where:

- Q= output
- R= land
- K= capital
- L= labour
- T= technology

For this to be linked to informal sector activities, they are constrained by several factors such as land which is small in size or lack modern technological know-how of production. Others are lack of statistical data to fit the production function. At the macro level a theory developed by Nourse (1958) on vicious circle of poverty can be used to explain the situation. It was argued that under developed economies are characterized by low savings, low investment and low income.

Low productivity - Low income

Low investment - Low savings

This theory can be explained from both side of demand and supply. From the demand side, low demand leads to low demand in turn leads to low rate of and hence deficiency of capital. Investment in underdeveloped economies is limited by the size of the markets which upon depends on productivity. Since the ability to consume usually depends on capacity to produce. Thus vicious circle of poverty is complete. The supply side on the other hand, entails the ability to save is low, due to low income and low productivity which lead to deficiency of capital. For this vicious circle to be broken a huge investment is required to raise per capita income above critical levels. The theory further argued that, investment in the leading sectors of the economy will lead to
capital accumulation and economic development. The main purpose of development is to build capital equipment on a sufficient scale to increase productivity in agriculture, mining and industry. Capital is also required to construct schools, hospitals, roads railways etc. in short the essence of economic development is the creation of economic and social overhead capital.

III. METHODOLOGY
The method of study employed in this paper is the use of the primary and secondary sources of data. This is because the necessary information required for the study can be obtained in both field survey and documented form. Other sources include journals, magazines, and proceedings of conferences, academic research works, text books and findings from other scholars. The method of data analysis is simple descriptive method. The sample was drawn from those businesses of selling food, beverages and tobacco, using simple random sampling where everybody has a chance of being selected. Out of which a sample of seventy people was taken and fifty were returned.

IV. PRESENTATION OF RESULT
Based on the data gathered 40% (20) respondents are under the age of 18 years while 30% each between the age 18 - 30 years and 31-42 years. This shows most of the children were used for either hawking soft drinks and pure water or selling or distributing food on behalf of the sellers. With regards to gender 46% of the respondents are male and the remaining 44% are females. The income level was asked 40% (20) of the respondents are those between N 1000 – N5000, followed by 30% (15) respondents with income between N11 000 – 15 000. This shows that selling food, drinks and beverage does not require huge capital at the beginning until the business and the market expands. Similarly, 60% of the respondents start their businesses with their personal savings, while 20% (10) respondents start with loans from friends and relatives. 10% start on credit that after selling the goods they will settle the owner and collect the one they will sell the next day. The remaining 10% obtain loan from micro finance institutions. When asked on the type of business 60% are sole proprietors while 26% are salesmen. The remaining 10% and 4% are partnership and joint businesses. This shows that most of the informal businesses are sole proprietors. For those that are selling food, they regard it as regular business especially if there are ongoing projects in their areas they record a lot of sales and profits. So also soft drinks and pure water are regarded as seasonal business. More drinks are sold during hot seasons than cold seasons. 70% and 30% considered it as regular and seasonal business. There were a lot of problems revealed by the respondents like lack of market, space capital and low technology.

A. SUMMARY OF FINDINGS
The study found that informal sector played an important role in the provision of employment opportunities, income and providing the basic needs of human existence example food, clothing and shelter. Apart from these manufacturing informal sector serve as:
1. A means of diversifying the productive base of the economy. The Nigerian economy has been characterized as being mono-cultural, that is, depending on oil as a major source of revenue. The informal manufacturing provides avenue for other sources of income to the government. Through collection of taxes and at the same time increase in the production of agricultural and semi manufactured goods and services.
2. Utilization of labour: Usually skilled and unskilled workers are employed in the sector without much difference. The labour force is used both at labour intensive work and other works that require manual labour.
3. Use of local technology in the production process. Mostly domestic and in combination with foreign machineries if the need arises were used in the process of production especially manufacturing and hand crafts production.

Apart from these advantages, the sector suffers a lot of problems and set back that serve as constraint to them for achieving economic growth and development or to compete with Asian tigers and Chinese economies that dominate the world production of especially manufacturing industries.

Some of the problems include:
1. Shortage of raw materials.
2. Government regulation.
3. Fall in demand for their products and efficiency.
4. Lack of government patronage.
5. Inadequate infrastructural facilities (roads, electricity, water, telecommunication).
6. Shortage of space for expansion.
7. Low capital with little assets.
8. High cost of borrowing from banks.
9. Lack access to modern lending facilities.
10. Obsolete machineries.
11. Lack of market.

CONCLUSION
Informal sector plays a very crucial role in ensuring the resilience of Nigerian economy. However, the extent of of its impact as well as its contribution to GDP is largely unknown. The informal manufacturing is expected to play a very significant role in the economy interms of income, and employment generation, yet its size and structure remain largely uninvestigated. In nigeria, it was revealed that the sector continued to provide support and profitable returns and act as a means of livelihood to a large population among other attractions. while, there are relatively weak linkages that exist between these enterprises and the rest of the economy. This is because the small enterprises by nature of their products compete with large enterprises rather than compliment them. Now, it is the responsibility of the government to create linkages among these enterprises in order to achieve long term and sustained growth in manufacturing sector so that total, factor and labour productivity will increase. With the hope that nigeria will catch its peers like indonesia, malaysia and other industrialised countries of the world.

RECOMMENDATIONS
1. The government should device policies to protect infant industries from collapsing. These policies may include banning importation of cheap drinks, food items, textile materials and other products that
can be manufactured in Nigeria instead of those from China and other economies.

2. Government should assist the sector in encouraging the production of agricultural products, both the food crops and cash crops which serve as a source of raw materials to the manufacturing sector.

3. Government should invest in the sector to encourage participation and increase production. This will provide employment opportunities to the youth both with formal and informal education.

4. Government assistance is needed in the provision of credit and training institute for the sector to increase viability and quality of output produced. Such supervision will be undertaken by the government to supervise how the loans will be given out.

5. Let government improve power supply in the country so that the cost of production will be minimized.

6. Government should encourage the production of local food and drinks within the economy, so that government will create market for these products locally and internationally as practiced in the Chinese and other developing economies of the world.

REFERENCES


