

## Creating Sustainable Employment in Nigeria: Leveraging on the Capacity of the Informal Sector

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**Abstract:** This paper throws up the challenging effect of unemployment on the sustainable existence of the Nigerian state. It reviews the contemporary measures adopted by the Nigeria government to solve the menace of unemployment, which has continually remained unabated. Many of the programs instituted by government to reduce unemployment in Nigeria had been anchored on the traditional (agricultural) and modern (industrial) sectors. The paper goes on to show that many of the unemployed labour force in the country are located and engaged in the informal sector – an emerging sector that sits in the middle of the dual economic conception of modern (industrial) and traditional (agricultural) sectors. A review of the informal sector indicates that it has a very large capacity to create and destroy jobs. Since entry into the sector and exit is free and unrestricted, coupled with its labour intensive production techniques, its capacity to absorb more labour is large. However, the unsustainability of jobs in the sector, which is informed by the character of the informal sector leads to easy job destruction and makes employees in the sector not to see their engagement as employment – thus burgeoning the mass of unemployed in the country. Arising hence, the paper proffers suggestions that could create sustainable employment in the sector, while repositioning it as an advantage to solve the unemployment problems encountered in Nigeria.

**Keywords:** Informal Sector, Gross Domestic Product (GDP), Informal Sector Recreative Model, Unemployment, Job creation, Job Destruction.

### INTRODUCTION

Received economic theory suggests that when a country experiences growth, there will be a tendency for her economy to experience increased capacity to put more productive factors to work in order to generate the inputs that will sustain the growing economy. By this, it is deduced that there will be an increased level of factor employment. However, such factor employment will be directly consequential on the method of production: the skewness here to any production method will define which factor is employed. It is interesting to note that Nigerian has of late been reputed with positive and steady growth rate, which authorities argue results from improvements in the performance of the non-oil sector, mainly, the agricultural sector. The agricultural sector in Nigeria is predominantly labour-intensive, with a huge percentage of subsistence and peasantry activities, which promotes a greater use of labour intensive techniques to produce. It is expected, therefore, that such would have generated improved levels of labour employment in the country; however, the contrary is the case. Notice also that the sector said to be engendering the growth effect of the country is that whose production technique skews much near to labour-intensive techniques. The question now remains, why is unemployment still persisting when there is growth arising from the activities of a particular sector that

ordinarily employs labour-intensive techniques for its production?

Table 1 shows data for GDP growth and unemployment in Nigeria from 1970 to 2013, and 1980 to 2010 respectively. This spans through the torrid era of Nigeria's development. The early 1970s saw an economy just birthing from a civil war, which had to rebuild its entire economy to stand. Interestingly too, the rebuilding goal drew strength and inspiration from the emerging 'big boom' in the economy which resulted from the petroleum oil sector. This is indicated by the leap in GDP (in dollar value) from the pre-oil boom period (before 1970) record to new highs in the oil boom era (1970 -1978). Crude oil had commenced dictating the pace of World's development, and as such ownership of this resource was enough to create wealth and regenerate the economies of countries that were endowed with resource.

From Table 1, increase in the value of GDP is seen until 1980 when it dipped from \$93b to \$84b. Correspondingly, Nigeria's share in world GDP fell from 7.72% in 1980 to 6.82% in 1981. In 1982, GDP fell to \$80b and steadied till 1983 at same level. It rose thereafter to \$84b in 1984 and fell back to \$82b in 1985. In 1986, GDP fell by a large magnitude to \$43b, with Nigeria contributing only 2.8% to the World's

GDP. This fall continued to 1989, where GDP value fell to \$31b and a contribution of 1.52% to the World GDP. The period (1986 – 1990) witnessed the initial conscious effort of the government to introduce reforms in the economy. Thus the IMF endorsed Structural Adjustment Program (SAP) was implemented. The Structural Adjustment Program (SAP), coupled with decreasing petroleum oil earnings, the economy continued its dismal performance with GDP's continuous fall from \$35b in 1990 to \$30b in 1995. It is interesting also to note that at the time GDP was falling,

unemployment rate was low and in the region of the natural rate of unemployment (of 4% as in the UN specification). Aside high levels of unemployment in the 1980s (6.4, 7.2, 8.7, 10.2, 7.9, 6.1, 5.3, 7.0, 5.1, and 4.5, from 1980 to 1989 respectively), unemployment fell below the natural rate from 1992 to 1998. This might have been occasioned by the absorption of the emigrating labour from the formal sector that experienced a contracting scenario with the decrease in GDP, into the informal sector: thus reducing the unemployment pressure in the formal sector.

**Table-1: Gross Domestic Product (GDP) of Nigeria, 1970 – 2012; Unemployment Rate, 1980 - 2010**

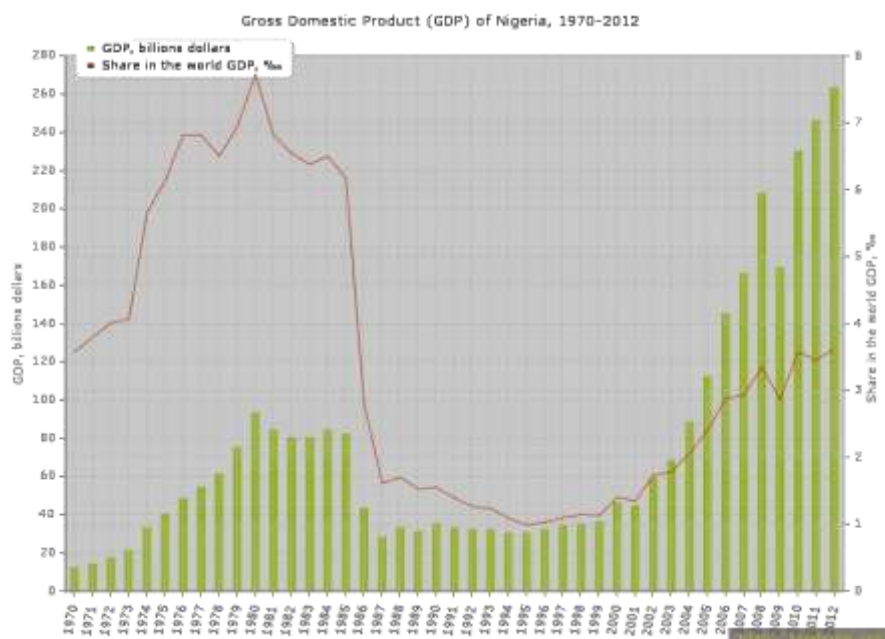
Gross Domestic Product (GDP) of Nigeria, 1970-2012						
Year	GDP, billions dollars	GDP per capita, dollars	Share in the world GDP, %	Unemployment Rate	Growth Rate, %	
1970	12	214	3.58			
1971	14	244	3.79			
1972	17	289	4			
1973	21	348	4.07			
1974	33	533	5.65			
1975	40	629	6.13			
1976	48	734	6.82			
1977	54	801	6.82			
1978	61	878	6.5			
1979	75	1047	6.95			
1980	93	1262	7.72	6.4		
1981	84	1109	6.82	7.2		
1982	80	1029	6.55	8.7		
1983	80	1003	6.38	10.2		
1984	84	1027	6.5	7.9		
1985	82	977	6.17	6.1		
1986	43	499	2.8	5.3		
1987	28	317	1.61	7.0		
1988	33	364	1.7	5.1		
1989	31	333	1.52	4.5		
1990	35	366	1.55	3.5		
1991	33	336	1.39	3.1		
1992	32	318	1.26	3.5		
1993	32	310	1.24	3.4		
1994	30	284	1.09	3.2		
1995	30	277	0.99	1.9		
1996	32	288	1.03	2.8		
1997	34	298	1.1	3.4		
1998	35	299	1.14	3.5		
1999	36	300	1.13	17.5		
2000	46	374	1.4	13.1		
2001	44	349	1.35	13.7		
2002	59	457	1.74	12.2		
2003	68	513	1.78	14.8		
2004	88	647	2.05	13.4		
2005	112	802	2.41	11.9		
2006	145	1012	2.88	12.3		
2007	166	1128	2.93	12.7	6.45	
2008	208	1376	3.35	14.9	5.98	
2009	169	1088	2.87	19.7	6.90	
2010	230	1440	3.57	21.1	7.98	
2011	246	1498	3.45		7.36	
2012	263	1558	3.62		6.5	

Source: NBS, CIA Fact book,

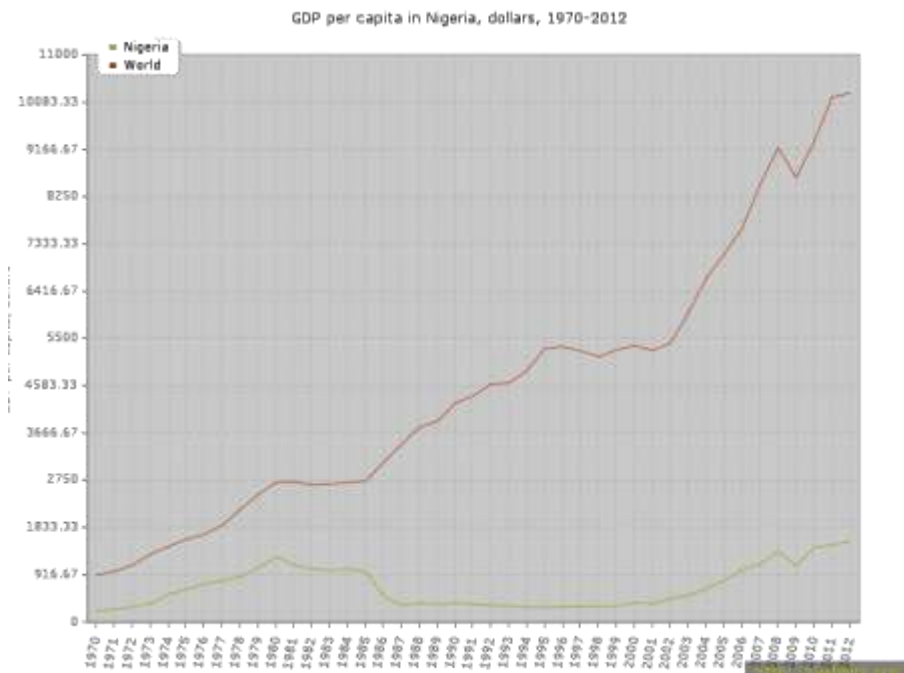
The economy picked up again in 1999 with increase in GDP to \$36b. From 1999, the GDP rose steadily to \$263b in 2012, leading to an increase in the percentage contribution to World GDP from 1.13% in 1999 to 3.62% in 2012. The contrasting concern noticed here is that as GDP increases, unemployment was also increasing. From a 3.5% unemployment rate in 1998, it leapt to 17.5% in 1999. Although it reduced to 13.1% in 2000, unemployment averaged at 13% until 2008. It further expanded to 19.7% in 2009 and 21.1% in 2010. This may be explained by the fact that as the formal sector of the economy started picking up (expanding), more labour who had earlier migrated out from the sector to the informal sector because of its shrinking had started migrating back to seek employment in the re-birthing formal sector. The inability of the formal sector to accommodate the surging migrating labour, leads to the increasing unemployment rates.

The paradox, which ensued in Nigeria, where expanding economy, occasioned by growth in the value of the GDP, was relating positively with unemployment rates bred reason for concern. A further paradox is where we noticed from the analysis of Table 1 that there was an emerging and 'hidden' sector in the Country's

economy that had an inert capacity to reduce unemployment in the growing economy if well harnessed, but there was lethargy on the part of responsible stakeholders to appropriately identify and analyse the implicit capacity of the emerging employment potent sector and adapt same to stem the tide of the raging unemployment scenario which is taunted by many as ravaging and threatening the very existence of the country. Although literature is replete with works on informal sector's positive impact on employment generation in Nigeria, this paper adds value to existing literature by identifying the implicit nature and character of the informal sector that sustains the capacity that affords the sector that ability to continually create jobs. It further adds to literature by suggesting some innovative and novel ideas to sustain the chain-like job creation capacity of the sector, which can, even in the short run, reduce the pressure of unemployment on government. Again, this paper drawing from theoretical conventions and arguments, describes the theoretical emergence of a third economy (the informal economy), outside the structural dual economic stratification of traditional (agricultural) and modern (industrial) economies.



**Fig-1 : Gross Domestic Product (GDP) of Nigeria, 1970-2012**



**Fig-2: GDP per capita in Nigeria, dollars, 1970-2012**

## **HISTORICAL EVOLUTION OF THE INFORMAL SECTOR**

Contemporary economic development and growth theorizing had been limited in its stratification of the structure of the global economic system. The Structuralists who had shown more prominence in the stratification procedure dwells more on dualism as their major basis for stratification. They had all the longstratified economies into two broad sectors: the traditional (agricultural) sector, and the modern (industrial) sector[1-2].

With increase in the activities of the modern (industrial) sector, as in Lewis [3], surplus labour from the agricultural sector had started migrating to the modern sector (the Structural growth theory). With the employment glut in the modern (industrial) sector and capacity issues, firms in the formal sector were now unable to employ the increasing number of labour that emigrated from the traditional (agricultural) sector. This might have been occasioned by wage inflexibility and other market inhibiting factors. Also, given the fact that manpower requirement in the industrial sector must be highly skilled, the non, low, and semi-skilled labour that emigrated to the industrial sector from the traditional sector remained unemployable as either their skills did not match existing employment opportunities or that their marginal product was either zero or less than zero. This situation raised a continuum of unemployable labour force in the modern sector who were reluctant to return to the agricultural sector, even though employment opportunities existed for them in

the sector. This population started raising the army of labour that sought after any employable source to make ends meet. Activities in the informal sector then became their sanctuary.

The dual of the above scenario was also observed in the traditional (agricultural) sector. Active labour force in the sector that theory refers to as being employed in the traditional sector had started opting for formal sector jobs. Even those who could not possibly earn those jobs because of their incapacity and inadequate factor endowment, due largely to peer pressure and eventual oil-based increasing revenue earnings of Nigeria, which made importation of food to complement the dwindling fortunes of agricultural production in the country to cover up imminent drop in production, decided to stay away from engagement in the traditional (agricultural) sector. In many cases, such labour force opted to remain unemployed, except in the modern sector. With increasing pressure for survival, this group had to resort to informal sector engagements, even in the traditional (agricultural) sector. This activity kept growing the ranks of the informal sector. A conundrum, the informal sector, started emerging from the dual ends of the theoretical divide of global economies.

The reality of the growing and burgeoning informal sector that arose from the dual economy theoretical setting was first officially discovered by the ILO mission to Kenya in 1972 by Hans Singer and Richard. The mission discovered that the traditional

sector in Kenya, which they called the informal, included profitable and efficient business enterprises that served as employment reservoir for the mass of those who were unable to secure employment in the formal sector[4]. Following from this discovery experts started investigating to understand and bring up more bodies of knowledge concerning the new experience. Hart [5] quoted in Chen [4] coined the term 'informal sector' in his 1971 study of low income activities among unskilled migrants from Northern Ghana to the capital city, Accra, who could not find wage employment. This corroborates our earlier claim of the emergence of the informal sector in Nigeria from the two theoretical sectorial dual of modern (industrial) and traditional (agricultural) sectors.

Lessons from many economies of the world have been indicated to show that informal sector expands during periods of economic adjustments and economic crises [6-9]. The argument by these studies indicates that when economic downturn ensues, firms will retrench and reduce capacity. The workers laid off who cannot find employment in the formal sector will find alternative in the informal sector. Also, the importance and overwhelming expansive nature or character of the informal sector confirms the assertion that, informal employment is more than half of non-agricultural employment in most developed regions and as high as 82% of non-agricultural employment in South Asiaas indicated in the work of Vanek, et al [10].

Furthermore, Hernando De Soto [11], Norman Loayza[12] points out that in many countries, especially poor countries, a heavy burden of taxes, bribes, bureaucratic hassles, as well as labour market restrictions and inefficient government institutions drives many producers into the informal sector. This is indicative of the fact that informal sector activities are either not or very loosely supervised by government. There is therefore no barrier to entry and exit. Using data from 69 countries, Eric Friedman et al [13] adds that costs of bureaucracy and corruption is strongly and positively related to the size of the informal sector.

This paper agrees in full with the definition and classification of the nature of informal sector by Ekpo and Umoh [14]. They see the informal sector as such which refers to economic activities operated outside official norms of governmental regulations and that it include a wide range of small scale, largely self-employed activities. They further classify the nature of the informal sector into:

(i) **The Informal Productive Sub-sector:** Comprising all economic activities involving the production of tangible goods. They include agricultural production, mining and quarrying (excluding petroleum), small-

scale manufacturing, building and construction. Specifically, they manifest in food production, woodwork, furniture making, garment making, welding and iron works, among others.

(ii) **Informal Service Sub-sector:** Including repairs and maintenance, informal education services, health services, counselling services as well as labour for menial work. Repairs and maintenance services include tailoring, vehicle repairs and maintenance, tinkering, carpentry and servicing of various household and commercial tools. Informal health services, especially in the rural areas, include traditional birth attendants, herbalists and other traditional medical practitioners. There are also traditional spiritualists who offer counselling services. These services are rendered for fees paid to those who render them.

(iii) **Informal Financial Sub-sector:** Including mostly underground, unofficial, irregular, informal, shadowy, and parallel. The most predominant type of informal finance in Nigeria is the Esusu. Among the Yoruba, it is called either Esusu or Ajo. Among the Igbo, it is called Isusu or Utu while the Edo call it Osusu. The Hausa call it Adashi', the Nupe Dashi, the Ibibio Etibe, while the Kalahari call it Oku (Okorie and Miller, 1976). Some Esusu groups operate with written laws while others operate with unwritten laws but on oath of allegiance and mutual trust. The general practice is that esusu associations contribute a fixed amount periodically and give all or part of the accumulated funds to one or more member(s) in rotation until all members have benefited from the pool.

It should, however, be noted here that this paper defines the informal to be distinct from the Small Scale Enterprises (SSEs), by the fact that they remain unregistered by government, have no legal status, and does not transact any official business with government.

Other specific activities in the informal sector include: Truck pushing, Vendor, Drivers, Garbage collection, roadside mechanics, barbing, hair dressing saloons, small shops, bicycle and motorcycle repairer, cobblers, shoe shinning, weaving, dye and printing of cloth, casual worker with restaurants and hotels, security guards, day labourers in construction, agriculture, money lending, etc.

## **THEORETICAL FOUNDATION**

### ***Unemployment***

Schumpeter [15] used the theory of innovation to explain the dynamics of unemployment. He saw the entrepreneur as an innovator who will always create new values into the economic system. A further work on Schumpeter's innovation theory by Vecchi[16] and Mouhammed [17] shows that innovation which creates



job relative to that which destroys job is the basic force behind the increases in employment and decreases in unemployment. That when an entrepreneur for instance innovates by creating a new product, or finding a new market, or finding a new method of production, or introducing a new technology in an organisation, domestic investment expenditures will increase demand on economic resources and will increase their prices. This will create some boom in the economy that will boost the capacity for employment creation. This condition would be more strengthened and enduring if as in Manuelli[18], job creation opportunities out of the innovation outweighs job destruction.

Keynes [19] considers unemployment as an involuntary occurrence and cyclical. In his Business Cycle hypothesis, Keynes shows that at boom periods, there will be increase in employment and consequent decrease in unemployment, and the reverse being the case in depression.

Also, if expectations about the economy are not favourable, capitalists invests less and employ less number of workers. Hence, the equilibrium is reached or achieved where cyclical unemployment exists. This unemployment is said to be due to the deficiency of the aggregate demand, particularly investment expenditures[20].

Davidson [21] argues that involuntary unemployment is explained by inadequacy of effective demand, instability of exchange rates, and international mobility of finances which create uncertainty that weakens entrepreneurial confidence to make investments to reduce unemployment. However, other economists argue that involuntary unemployment is due to contractionary nature of policies (monetary or fiscal) which creates deficiency in aggregate demand. Also some Keynesians think that the unexpected increase in price level, or a higher rate of inflation, will reduce the real wage and increase demand for labour [17].

In another theory showing unemployment in the real business cycle, Chatterjee [22-23] argued that the growth of productivity of input which revolutionises technology is the main source of employment and unemployment. That is, if the growth of outputs increases more than the growth of inputs, then total factor productivity has increased. On the contrary, if total factor productivity is not growing, then the firm and the economy become inefficient. It follows, therefore, that reallocation of labour and capital cannot be achieved and labour and capital will be used in less profitable opportunities. If shocks to productivity brought about by technological shocks do not exist, Mouhammed [17] concludes that unemployment will rise.

Mouhammed [17] furthers the productivity argument by considering a standard microeconomic theory. In this theory, the marginal revenue product (MRP) is given as,

$$MRP_L = (MR) (MP_L),$$

And the profit maximizing firm will hire workers until  $MRP_L = W$ , where  $W$  = wage rate

It is assumed that the production function is of the form where output ( $Q$ ) depends on two resources Labour ( $L$ ) and all other resources combined as  $O$ , and is subject to constant returns to scale, where the sum of the exponents of  $L$  and  $O$  is equal to one. It is also assumed that the production function is affected by the technological level  $A$  such that,

$$Q = AL^a O^b \dots\dots\dots (1)$$

Differentiating the production function partially with respect to labour yields, we have,

$$dQ/dL = aAL^{a-1} O^b \dots\dots\dots (2)$$

Using the marginal product of labour in the  $MRP_L$  equation to obtain

$$MRP_L = MR \times MP = MR \times (aAL^{a-1} O^b) \dots\dots(3)$$

Because,

$$MP_L = (aA^{a-1} O^b)$$

The  $MRP_L$  should be equal to the real wage rate  $W/P$ , where  $P$  is the price of the product. The  $MRP_L$  is equal to the value of the marginal product of labour if  $MR = P$  under perfect competition. Under imperfect competition, the  $MRP_L$  is smaller than the value of the marginal product, indicating the existence of labour exploitation. In any event, solving for  $L$ , we obtain the employment level

$$L = aPQ/W \dots\dots\dots (4)$$

Where,  $PQ$  represents the GDP. If the numerator and the denominator of the above equation are divided by  $L$ , one can obtain

$$L = aPQ/L/W/L = a \text{ (average product of labour/average wage)}$$

$$L = a (PQ/L)/(L/W) \dots\dots (5)$$

This equation states that if labour productivity (or the average product of labour) increases, assuming  $W$  is constant, the demand for labour,  $L$ , will rise, and the unemployment rate will decline. And this shift (or increase) in the demand for labour can occur, for example, if investment or capital formation increases. This is because if labour productivity increases relative to wages, the employer or the producer will increase the firm's rate of profit by hiring more workers ( $L$ ).

Arising from the above we can see clearly that under perfect market condition (the kind presented by the informal economy), the demand for labour reflects labour productivity. Employers will hire workers up to the point where the value of marginal product ( $VMP_L = MP_L \times P$ ) is equal to the wage rate. Contrastingly, under imperfect market condition, where the demand for labour reflects the marginal revenue product ( $MRP_L = MP_L \times MR_x$ ), where  $MR_x$  is the marginal revenue, and  $MR_x$  is lower than the market price  $P$ , it follows that the  $MRP_L$  is lower than the  $VMP_L$ . That is, there is exploitation of the labour force by employers. The second outcome under the imperfect market condition is that the marginal labour cost will be above the labour supply. When the  $MRP_L$  intersects the marginal factor cost, the employment of labour is determined. But this employment level is lower than the level of employment determined under perfect market condition.

It follows therefore that an economy dominated by large corporations will generate lower level of employment.

### **Informal Sector**

The informal sector as an economic reality has been receiving a mixed review in development circles. Many observers consider the informal sector to be marginal or peripheral and not linked to the formal sector or to modern capitalist development. Some of these observers believe that the informal sector in Ghana, Kenya, and other developing countries would disappear once these countries achieved sufficient levels of economic growth or modern industrial development. Others argue that industrial development might take a different pattern in developing countries – including the expansion of informal economic activities – than it had in developed countries [24]. This conclusion is however not generally and convincingly true. What we have noticed in Nigeria is a continuous expansion of the informal sector as the economy grows. The recent contribution of the sector in the rebased GDP of Nigeria is a case that speaks volume.

Chen [4] summarizes the thinking of economists regarding informal sector into four dominant schools of thought regarding the nature and composition of the informal sector. He classifies them thus:

(i) The Dualist School – In his characterisation, Chen [4] drawing from the key proponents of this school of thought [5,6, 15] shows that the Dualist School see the informal sector as comprising 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. That this arises as a result of the informal sector

operations being excluded from the modern economic opportunities due to imbalances between the growth rates of the population and of modern industrial employment, as well as a mismatch between people's skills and the structure of modern economic opportunities.

The Dualists, Chen [4] continues, hold strongly to the notion that informal sector activities have few linkages to the formal sector, but, rather operate as a distinct separate sector of the economy and that the informal workforce – assumed to be largely self-employed – comprise the less advantaged sector of a dualistic or segmented labour market. They pay less attention to links between informal enterprises and government regulations. But, however, recommend that governments should create more jobs and provide credit and business development services to the informal operators, as well as basic infrastructure and social services to families.

(ii) The Structuralists School – Summarising from the works of [4, 25-26] posits the Structuralists school as microenterprises and workers that serve to reduce input and labour cost, and thereby increase the competitiveness of large capitalist firms. That the nature of capitalism growth drives informality – that is, attempts by formal firms to reduce labour costs and increase competitiveness and the reaction of formal firms to the power of organised labour, State regulation of the economy; to global competition; and to the process of industrialization.

The Structuralists, Chen [4] further, see the informal and formal economies as intrinsically linked. That they see both informal enterprises and informal wage workers as subordinated to the interests of capitalist development, providing cheap goods and services. The structuralists, Chen [4] further submits, argue that governments should address the unequal relationship between “big business” and subordinated producers and workers by regulating both commercial and employment relationships.

(iii) The Legalists School – The Legalists as explained by Chen [4] argue that a hostile legal system leads the self-employed to operate informally with their own informal extra-legal norms. The legal system is said to be so elitist and focused only in serving the formal sector. In many countries, for example Nigeria, bureaucratic processes required for the registration of enterprises are so elitist that many informal sector businesses see such as unattainable.

(iv) The Voluntarists – The Voluntarists are of the opinion that informal sector operators choose to operate

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informally, after weighing the cost-benefits of informality relative to formality.

Voluntarists pay relatively little attention to the economic linkages between formal and informal firms but subscribe to the notion that informal enterprises create unfair competition for formal enterprises because they avoid formal regulations, taxes, and other costs of production.

Notwithstanding the novel classification of the informal sector by Chen[4], Boswell [27] had long argued and classified the sector into three basic stereotypes. However, Boswell's [27] had been argued to have been more skewed to Small Business that were themselves semi-formal. The three classifications included: 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 [27] 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 colours 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 are seen by Clarke [28] to be half-truths, misunderstanding and unnecessary generalization of small business activities. The model has a strong preference for large formal firms, which Boswell[27] argues, are more amenable to government control and intellectual fascination[29].

The idea of the model corroborates Boswell [27] who, in adopting historical reasoning, concludes that modern trends makes for unavoidable pressure towards business expansion which eventually pushes small businesses aside or perhaps squeezes the bottom completely. It almost became a consensus in literature[30-32], that due to its abounding inefficiencies the informal sector does not contribute meaningfully to development. They had considered the formal and more organised Small Scale Enterprises (SSEs) more relevant in the process of development. As

such Ekong [29] concluded that many studies on small businesses were based on information and data from SSEs [32].

As in Ekong[29], it is argued that modern technological improvements and increase in efficiency seen in the formal sector are out of reach of the informal; that even when the informal sector enterprises 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 (et al) in a study of Peru established that the average productivity of an informal worker was only 1/3 of that of a "formal" [31]. Soto, quoted in Mansilla [31] 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 [31] see the informal sector 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. The liberals 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 echoed in literature. Meier [33], 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 [34], using West Germany and Japan data, shows how the small business sector (informal sector) has immensely contributed to the development of these nations. Steel and Webster [32] 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.

The, United Nations resident coordinator/representative of the United Nations Development Programme (UNDP) in Nigeria, Daouda Toure, recently disclosed that Nigeria's informal sector accounts for as much as an estimated 57.9 percent of the nation's rebased Gross Domestic Product (GDP) in



2014. This, he furthered, perhaps, makes the country the largest destination for informal activities in Africa.

At the validation workshop on the report of a pilot study on 'Informal Sector and Economic Development in Nigeria', conducted by the National Planning Commission, working with the Nigerian Institute of Social and Economic Research, National Bureau of Statistics and also in collaboration with the UNDP in six pilot states of Abia, Rivers, Bauchi, Kano, Niger and Lagos, Toure disclosed that there were about 6 million informal sector operators, employing up to 14.37 million people in the six States.

Due to the high potential of job creation and destruction in the sector as shown in the literature reviewed, employees in the sector do not consider their employment as sustainable. Notwithstanding the comparatively higher income they earn from their employment sources in the informal sector, as would have been in the formal sector, they regard such as temporary. The recent stampede at the Immigration Service recruitment exercise in Nigeria in 2014, and the bulging population in many other recruitment exercises in Nigeria had been attributed in recent public commentaries in Nigeria to the flurry of applicants who are gainfully employed in the informal sector, but who are not satisfied or contented with such engagements.

### CONCEPTUAL DESCRIPTION OF THE CAPACITY OF THE INFORMAL SECTOR TO CREATE JOBS

One very significant characteristic of the informal sector is that it can generate employment even at the level of income that may not be close to or beyond the economy's equilibrium or optimal income level. In this case employment is mostly for subsistence and for engaging selves out of idleness while waiting for a formal or more rewarding and sustainable employment to move on to.

The ability of the informal sector to create jobs is as demonstrated in the Informal Sector re-creative model developed by Ekong in 1999[29]. The model which Ekong [29] say is analogous to the atomic energy reaction model discussed in Eisberg and Resnick[35], Harvey [36], Littlefield and Thorley [37], and Holden[38], which shows the emission of particles, subsequent recollection and further emission depending on the speed of the reaction, is represented below.

The argument is that when the first entrepreneur in the informal sector establishes a business in the sector, represented by U (in 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 accumulation, 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 cycle continues in that chainlike reaction form as depicted in the model, creating self-employment, increased aggregate demand, increased aggregate supply and less pressure on the formal sector foremployment. The unending chainlike reaction is caused by the assumption of non-restriction of new entrants into the sector's activities and the increasing capacity to accommodate more willing entrants.

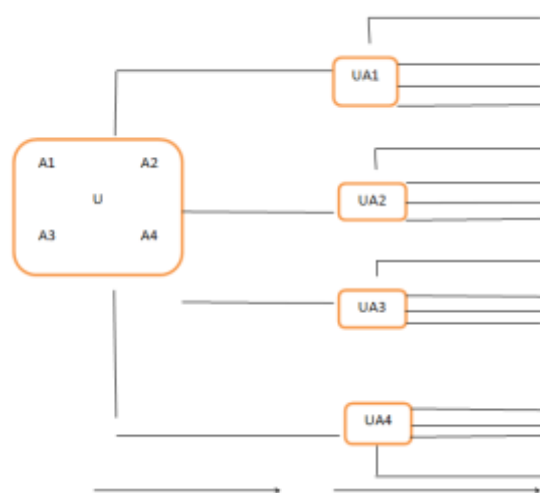


Fig-1: The Informal Sector Re-creative Model

### WHY INFORMAL SECTOR JOBS ARE NOT SEEN AS EMPLOYMENT IN NIGERIA

It is interesting to note that in many developing countries, jobs in the informal sector, and even small scale enterprises sectors are not regarded as employment. It is often noticed where employees in the informal sector pass selves as unemployed and will seek any opportunity to cash in on a formal sector job. Cases abound around this. The recent employment death crisis that involved The Nigerian Immigration Service in 2013 was a clear testimony of this. Many of the candidates that applied for the job were better employed and earning more in the informal occupations they were doing. A case in point is a taxi driver who has a net earning of N60,000 a week, meaning that he will earn N240,000 a month from the driving trade, struggling to have a formal job that will only pay N80,000 a month.

The bulk of the registered unemployed in Nigeria are actually officially employed in the informal sector. It is this intriguing situation that attracted this paper to ask why the informal sector jobs are not regarded as employment.

The answer to the poser above is derived from literature and the author's participatory observation while

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working with several development agencies across Nigeria. The identified reasons why employers in the informal sector do not consider their jobs as employment include the underlisted.

### **Unsustainability and Uncertainty**

Jobs are easily created and so easily destroyed. Unsustainability of employment creates an atmosphere of uncertainty that exposes the informal sector worker the hazard and uncertainty of securing the current job and therefore creating a situation of inability to plan for the future. For instance a mason may not always find job after completing the one he had on hand.

### **No protection from Government**

Since their activities are assumed to be illegal, government have no plan or policies to protect activities in the sector. Rather government policies are in the main to destroy them. This forces operators of the sector to go more underground. The cost of such wane their activities and in many causes them to easily loose investment, thus destroying jobs. For example, the illegal oil refineries in the Niger Delta of Nigeria that was said to have created enormous jobs for youths in the area, thus insulating reactions from the post-restiveness era, once destroyed by government recently had raised fresh issues including job destruction, uncertainty, and unsustainability of employment in the sector.

### **No access to Formal Credit Sources**

Inability of informal sector actors to access formal credit sources condemns them to the vicious cycle of smallness and easy extinction. Also, when they seek to source credit from the informal sources, they end up paying exorbitant interests that easily kills their businesses.

### **No Official Registration**

Since they are not officially recognised by the government, they stand a great risk of losing their investment to regulatory agencies at any point in time. This will immediately send them out of employment.

### **Erratic Tax Policies**

The tax policies of the government in Nigeria and infact many developing countries have recently been focusing on activities in the informal sector. This, therefore, raise an issue of multiple taxation, that will easily decimate the investment funds of the informal sectors operators; driving them out of the employment so easily.

### **Erratic Wage Structure and Earnings**

The wage structure and earnings in the informal sector is so chaotic and uncoordinated. There are no uniformity in earnings and no guarantee that

what you earn today will be the same the next day. This, however, posits a closer and real picture of market mechanism. Erratic wages and earnings ensues uncertainty and inability to plan. As such workers in the sector are not comfortable and guaranteed of a future; making them see current employment source as quite temporary.

### **Chaotic Work Environment Organisation**

The work environment and organisation in the informal sector setting is such that breeds an environment of confusion and chaos. No one cares to keep a good environment and work culture because activities are seen to be temporary. That since they are not recognised by

### **No Responsible Response to Need for Knowledge and Changing Technology**

Also noticed in Nigeria's informal sector is that many operators do not worry about responding to changing technology. Many see technology and changes as waste of time which is introducing new inferior bundles that will not stay in the market. They give this excuse in order to continue in their old ways of doing things. Auto mechanics, for instance see the use of diagnosing equipment as not as good as the rule of thumb or trial by error to identify faults in cars. Once these practitioners refuse to upscale their technical knowledge, they get locked out of the market.

### **HOW TO LEVERAGE ON THE EMPLOYMENT GENERATION CAPACITY OF THE INFORMAL SECTOR**

In order to take advantage of the inherent capacity of the informal sector to generate employment, certain specific activities must be undertaken. In this section, the paper will discuss strategies to harness and enhance the capacity of the informal sector to raise sustainable employment, deriving from the problems identified and highlighted earlier in the paper. These strategies are thus presented.

### **Pension contributions should be encouraged in the informal sector**

This work has brought to the fore the clear observation of uncertainty and unsustainability in the informal sector employment market. The uncertainty and unsustainability has been identified to be caused by the high frequency at which employment is created and destroyed in the sector. Meaning, for example, that in a year an employee in the sector may stay unemployed for less than half of the period. If this happens, such employees will never see jobs in the sector as employment which they can build a career on. They would rather be hanging on jobs in the sector waiting for an opportunity where they can access jobs in the formal sector, where some level of sustainability and

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certainty is guaranteed. To reverse this trend, this paper suggests that government should take interest in this sector by establishing a non-cumbersome Pension Scheme for the sector. The scheme should be organised such that practitioners and employees in the sector contribute to the fund while they are employed. When they lose their jobs or lose out of business in the sector, the Pension should sustain with periodical sustainable allowances till they are able to get new jobs.

If this suggestion is established and sustained, practitioners and employees in the informal sector will see their jobs as employment and will input their best to develop the capacity of their investments and knowledge, which will go a long way in up scaling the sector and strengthening further its contribution to the entire economy.

### **Government should set up clusters in all the Local Government Areas (LGAs) of the Country**

To better organise businesses and activities in the informal sector in Nigeria, the paper suggests that government should show more than a cursory interest in its organisation to position it well to benefit the entire economy. The interesting scenario about the sector is that once government shows direction, the system will run itself, because of the *laissez faire* nature of the informal sector.

The paper suggests that government should set up clusters of different kinds of trade in the informal sector across the 774 Local Government Areas of the country. For instance, if government wants to take up auto mechanic, it can establish auto mechanic villages or clusters in each of the 774 LGAs. Such cluster should have a diagnostic centre, mechanical, electrical, panel works, a training academy, spare parts, fabrication unit, etc. A similar conception could be activated for other trades in the sector. This will encourage inclusiveness, specialization, and complementarity, which are key growth drivers.

### **Government should build technical training academies**

Technical training academies which are not targeted at too rigorous academics but more at technical knowledge should be established. Such academies should not be taken away from where the trade is practiced. For example, academies to train auto mechanics should be hosted in the mechanic villages or clusters; that of tailors should be hosted in tailoring clusters, etc.

### **Eradication of Multiple Taxation in the Sector**

Even from the theoretical reasoning that we have brought up in this paper, some experts in the area have insisted that the main causative factor that has led

to the perpetuation of the informal economy is taxes. Those businesses will always tend to evade high taxes to operate in the informal or underground economy where they hide from government tax. It is however, discovered recently in developing countries that the informal sector no longer totally hide from taxation. In Nigeria, for example, the Local Governments who are so close to the activities of the informal sector had taken that advantage of taxing businesses in the sector out of business. In many cases, taxes had been multiple: involving community, Local Governments, State Governments, and Federal Government. If such taxes are harmonised and reduced, businesses in the sector will make more profit and investment for expansion and acquisition of more experience to leap into formality.

### **SUMMARY AND CONCLUSION**

The overarching goal of this paper was to investigate how sustainable employment could be achieved in the informal sector of the Nigerian economy. In its background, the paper surveyed the yawning debacle of labour unemployment in Nigeria. The paper, in this exploit witnessed a serious contrasting outcome, where, as the value of GDP was increasing, the rate of unemployment was also increasing. The paper shows that the increasing rates of unemployment exerted pressure on the economy which caused the unemployed labour to move away from the formal sector to the informal sector of the economy to seek employment.

The paper explains the informal sector, indicating how the concept was first developed by an ILO study team that was sent to Kenya in 1972. The paper also shows how easy the sector creates employment and that most employment in developing countries is in the sector.

The paper outlines its theoretical foundation by showing the theoretical causes of unemployment. It concludes that an economy dominated by large corporations will generate lower employment levels. It also brings to bear the theoretical thinking on the informal sector. The overwhelming conclusion in literature, the paper shows, remains that the informal sector has a great capacity to create jobs. However, it concludes that such jobs created are unsustainable because of the nature of activities in the sector – which are mainly small scale, illegal, deviant, and always trying to hide away from governmental regulations.

To access and understand the inert capacity of the informal sector, the paper draws from the work of Ekong [29] who described such capacity with his Informal Sector Recreative model. The model which is said to be analogous to the atomic reaction model of

nuclear physics shows how businesses in the informal sector create jobs in chain-like reaction format.

Even with the inert capacity to create jobs, the paper noted that such jobs were, however, not sustainable. That the unsustainability of the informal sector jobs drove labour to seek formal sector employment at any opportunity, even when such will be less rewarding in terms of wage earnings.

Drawing from the anxiety of job uncertainty and unsustainability in the informal sector in literature reviewed in this paper and deductive reasoning, the paper proffers some suggestions which if implemented will remarkably lead to the sustainability of jobs created in the informal sector, thus opening to the government an ample opportunity to employ the mass of the unemployed youths in the country.

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