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- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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POVERTY ALLEVIATION IN THE INFORMAL SECTOR AS A CATALYST FOR NIGERIA'S ECONOMIC GROWTH

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ABSTRACT

The paper was aimed at demonstrating the need to develop the informal sector of the economy as a catalyst for economic growth. Secondary sources of data were utilized, while employing the method of critical analysis. It is the position of the author that the matrix of problems endemic in the unrecorded economy is perpetuated by official laxity mixed with indifference, while noting the imperatives of the informal sector as the real bedrock of the economy, in that majority of Nigerians are eke out their living outside official benefits. Because predominantly people engage in informal activities, and due to the astronomical poverty levels, strengthening the informal sector is a ready mechanism of exiting the pigeon-hole of underdevelopment and mass misery. It is recommended that for stable long term growth, economic structures, which deliberately ventilate the activities of the informal sector, be strengthened and while non-existent, instituted.

KEYWORDS

Growth, Informal sector, Poverty, Nigeria.

INTRODUCTION

A plethora of terms have been used to refer to the term "informal" in literature. These include shadow, subterranean, black, unreported, second, bazaar and invisible. Others are backyard, underground, unorganized, hidden, irregular, clandestine, illegal, unobserved, unreported, murky, unrecorded and residual. ILO (1972) was the first to employ the term "informal sector" in its report on Kenya.

Poverty in Nigeria particularly affects the informal sector. This is because apart from having a high correlation with the poverty level, it engages more than half of the country's population in one form of economic activity or the other. The informal sector is a group of household enterprises or unincorporated enterprises, which may employ contributing family workers and employees on an occasional basis; and enterprises which employ one or more workers on a continuous basis. This sector has particularly been paid lukewarm attitude to in Nigeria and bedeviled by such problems as inaccessibility to finance and inappropriate technology.

It is not in contention that various governments have embarked on one form of poverty alleviation strategy or the other. What is however contentious is the degree to which the various initiatives have impacted on the target population, especially those in the informal sector of the economy. There is increasing disenchantment among people in the informal sector about government's initiatives at addressing their plight, as their perception is that of total and unmitigated failure about agencies charged with the responsibility of reducing poverty. In a nutshell, there is astronomical increase in people living under poverty than those who escape it.

Very little has been done to elevate the downtrodden and poverty-stricken masses of the Nigerian society, in terms of the appalling state of want and misery through a rather unbecoming and unnecessary concentration on those sectors of the economy, whose linkage effects on the aggregate welfare of the people, have had very little, if any beneficial results. Little attention is paid to the informal sector which comprises individuals and entities that operate outside the ambits of the benefit system of government.

Various institutional bottlenecks have tended to engender a feeling of indifference to the informal sector as an important catalyst of growth. With inaccessibility to the formal acquisition of skills through public institutions and blockage to finance, coupled with occasional cosmetic government gestures, those who practice within the informal sector have had to eke out their living in the midst of social discontent.

The paper explores the evolution of the informal sector in Nigeria, the role it plays, the extent to which it has been empowered by government policy initiatives as well as how the endemic poverty levels can be addressed. The mechanism by which the informal sector can be incorporated into the mainstream economic hub is x-rayed, with a view to harnessing its potential of employment creation, poverty reduction and income generation, to meet the country's developmental needs.

LITERATURE REVIEW

MEANING AND NATURE OF THE INFORMAL SECTOR

Academic fuzziness appears to be endemic in terms of having a consensus definition of the informal sector. However, there are common grounds of agreement in relation to informal sector activities which encompass operations that are usually small in scale, ownership predominantly private and vested in family members with few paid employees and production method largely labour-intensive.

Two approaches currently exist in the definition of the informal sector. These are the definitional and the behavioural (legalistic). While the definitional approach looks at the informal sector activities as those not captured in the Gross domestic product (GDP) or national income estimates, the behavioural approach considers the extent to which activities are in compliance with established regulatory, judicial as well as institutional framework (Feige, 1990).

According to the International Labour Organization (2002), the informal sector is "a group of household enterprises or unincorporated enterprises owned by household that include informal own-account enterprises, which may employ contributing family workers and employees on an occasional basis; and enterprises of informal employers, which employ one or more employees on a continuous basis." This definition provides criteria for specific circumstances and thus gives each country some flexibility in terms of the upper limit on employment size, the non registration of either the employees or the enterprise, the inclusion or exclusion of domestic or professional personnel as well as the inclusion or exclusion of an occupation such as agriculture, which is predominant in many parts of the world. The informal sector is characterized by family ownership of enterprise. This is particularly true of Nigeria where it is pervasive to find sons and daughters actively participating in it, making succession and business inheritance prevalent. Only a negligibly few practitioners can be found where family ownership and control of business are not rife. This sector operates outside the system of benefits and regulation of government which essentially characterize the formal sector.

To Ademu (2006), the informal sector consists of those activities which generate employment for some urban residents and engaged in for the purpose of survival in the absence of formal employment. Ekpo and Umoh (2011) define the informal sector as economic activities in all sectors of the economy operated outside the purview of government regulation.

Perhaps, informality may be better appreciated when contrasted with the view of scholars on the formal sector and its practitioners or activities. Weeks (1975) defines formal firms as those recognized, nurtured and regulated by the state, while Mazumdar (1975) distinguishes between formal and informal sectors in terms of state protection. Hart (1973) defines the formal sector as wage earners compared to the self-employment scenario of the informal sector. These views are reflective of the dualistic nature of the labour market, especially in developing or transition economies and the definitions offered have their root in the seminal work of Lewis (1954), who stressed that there is an abundance of labour supply in the informal or rural economy.

There are reservations about the definitions offered above. Sethuraman (1981) asserts that many of the definitions are ambiguous, while Bromley (1978) attacks some of the definitions as too simplistic. This has led to the context-specific view of the informal sector given by Cartels et al (1989) who maintain that informal sector activities connote a process of income generation unregulated by the institutions of society in a legal and social environment in which similar activities are regulated. This can be applied to Nigeria in which the activities of the informal sector tend to go relatively unnoticed by the institutions of state. Very many activities go unregulated. For example, it is rather unheard of to see activities such as hair-dressing, bicycle and motor cycle repairs, brick-making, vulcanizing works, dress-making and the like directly regulated by government, whereas in activities like civil and mechanical engineering, formal standards are applied and recognized by state institutions.

What can be said is that the informal sector covers a wide range of activities that combine survival behavior of people in an environment of scarce opportunities as well as being the product of rational behavior of entrepreneurs who wish to evade the regulation of the state. The two types of activities are briefly described:

Survival activities: These activities are engaged in as a way of coping with limited opportunities. They include casual jobs, holding many (multiple) jobs, doing temporary jobs, engaging in subsistence agriculture and the like.

Unofficial strategies to earn money: These include illegality in business such as tax evasion, non-registration of business, avoidance of labour, government or institutional regulations, in addition to underground activities such as crime and corrupt tendencies.

It should be noted that the informal sector is usually outside the tax structure and not captured in tax revenues of government; and consequently, not included in gross national product (GNP).

From the literature, the nature or characteristics of the informal sector can be viewed from the following:

1) Business is usually family owned;
2) Dependence on indigenous resources;
3) Labour intensive method of production;
4) Skills are acquired outside of the formal sector;
5) Ease of entry;
6) Operations are usually small-scale;
7) Markets are unregulated and competitive.
8) Technology used is adaptive;
9) Little unionization;
10) No legal minimum wage;
11) Weak safety standard at work;
12) Temporary activities;
13) Sometimes clandestine employment

SCHOOLS OF THOUGHT

Four schools of thought exist as far as the informal sector of a nation's economy is concerned. One of them is the Dualistic School. According to Sethurama (1976)**,** the school subscribes to the idea that the informal sector comprises activities of marginal dimension which provide incomes and a safety net in time of crisis for the poor of the society. The presence of the informal sector can be traced largely to the unavailability of modern jobs to absorb surplus labour, a result of slow rate of economic growth or faster growth rate of the population. This is not completely true of Nigeria. The marginality of the informal sector is not a result of slow economic growth or faster growth rate of the population. To attribute the poverty level of majority of Nigerians to simply a lack of growth is to miss the point. What the theory fails to observe is that a higher growth rate does not necessarily imply poverty reduction. What has happened in Nigeria over the years is simply growth without development, surplus (windfall) without redistribution, a position supported by studies by Yesufu (1996), Ogwumike (1997) and Bulama (2003).

The second school of thought is the Structuralist School. According to this school, it is the nature of capitalist development rather than a lack of growth that is responsible for the pervasiveness of the informal sector (Cartels et al, 1989). This is a perfect description of Nigeria's economic and political woes, reflected in her poverty levels. The local economic environment suffers from many bottlenecks resulting from wholesale adoption of western concocted economic paradigms which ignore the social and cultural conditions of the country. The economy has been bastardized by colonialism, and the subsequent neo-colonial exploitation. This is coupled with undue emphasis on competition, free markets, liberalization and globalization as dictated by international financial institutions, all of which have tended to weaken the productive capacity of the vast majority of people. This has led to heavy capital accumulation in the hands of a few, to the detriment of the millions of able-bodied Nigerians in the informal sector who are left in abject poverty.

There is the Legalist School. According to de Soto (1989), the informal sector is made up of micro-entrepreneurs who choose to carry out their activities informally so as to avoid the time, cost and effort needed for formal registration. Lastly, there is the Il-legalist School. To thinkers in this school, the informal sector can be seen as an underground or black enclave and its operators may choose to operate illegally and thus avoid taxation, rental fees, operational costs as well as commercial regulations which exist in the formal sector (Maloney, 1999).

Both the legalist and Il-Legalist schools do not seem to be supported by evidence in the Nigerian economy. For one thing, if entrepreneurs in Nigeria choose to avoid the time, cost and effort of formal registration, this could be explained by the apparent apathy in government's programmes, which while laudable in outlook and theory, do not encourage genuine people's participation. A classic example is the parlous state of power supply, where discrimination in tariff is pervasive. Nigerians have shown capacity to pay for services delivered as evidenced by the successes of telecommunications operators. Disinterest in paying for power is symptomatic of official gross irresponsibility, corruption and ineptitude and has very little to do with an inherent desire to avoid payment for useful social services.

The fact that most of the practitioners in the sector are secluded from the formal education system further reinforces their low capacity and general complacent attitude towards latest methods and innovation. A vast majority of the practitioners in the sector is not accessible to modern techniques and processes. Consequently, most of the skill acquisition results from apprenticeship where the "student" undergoes a few years of training under a "master" and in some cases only a couple of months as in the case of hair-barbing and vulcanization. This is further worsened by the fact that foreign technology is a far cry and outside the reach of the practitioners, thus deepening conservative methods and outlook which has been disastrous to local productivity.

INFORMAL SECTOR POVERTY AND EXTERNAL DYNAMICS

A link can be established between poverty and the informal sector, both of which are significantly influenced by external dynamics. Internal and external factors are responsible for the size and plight of the informal sector. Internally, corruption, lack of transparency and accountability at all levels of governance, gender inequality among others contribute to rising poverty levels. Economic growth of nations occurs in different ways that can reduce poverty, promote gender equality and enhance viable development. This creates a link between economic growth and poverty reduction. In Nigeria, the reverse has been the case. While revenue profile of Nigeria rose from N4 billion in 1975 to N26 billion in 1980, and GNP per capita rose from $360 to more than $1000 in the same period, the percentage of the population that was poor grew from 15% in 1960 to about 70% in 2007 (Oyemomi, 2003; Bulama, 2003; Elaigwu, 2007).

Although it can be said that there has been rising gross domestic product in Nigeria, what is however important is the nature of income distribution to various sectors of the economy, as this has much to do with how the poverty of the informal sector is addressed. Economic growth adequately reflected in the Gross National Product (GNP) of a country, has been perceived to be an index of national welfare, so that any strategy to grow it can be adduced as poverty alleviating. However, it is known that a rising level of absolute GNP which theoretically tends to indicate that the poor of society would be better off, is not reflective of what obtains in the real world. While the improvement in a society's productivity may be seen as desirable, it does not necessarily imply poverty alleviation, since mere growth in output is of little consequence if the incomes from expansion go to a negligible segment of the population, as has been the case in Nigeria (Ogwumike, 2003).

Garba, (2006) and Obadan (2001) are of the view that policies that merely increase the growth of an economy without spreading the gains of growth to groups which suffer the most certainly improve the incomes of the rich. This is the case in Nigeria, where rising per capita incomes merely camouflage the sorry state of poverty in which the majority of Nigerian wallow. Because majority of Nigerians are in the informal sector, it follows that the structure of the economy is largely responsible for the high level of poverty. Thus, poverty has been an outcome of economic, social and political processes that interact with and reinforce each other in ways that worsen the deprivation of those in the informal sector of the Nigerian economy.

Externally, the forces of globalization reflected in international institutions' policies reinforce internal forces and tend to weaken the capacity of Nigeria's informal sector to develop. The deliberate policy measures and prescriptions by the Federal Government over the years have yielded only what can be properly referred to as marginal results, as various domestic and foreign distortions have tended to make such policies superfluous without adequately solving the multi-faceted developmental needs of the country. Though it is passionately argued in the international economic arena that governments can seek to dramatically put their countries on the path of sustainable growth through the delivery or provision of infrastructure, poverty reduction, and provision of essential services that adequately respond to effective and efficient demand (World Bank 1994), the case of Nigeria cannot be said to have safeguarded the interests of the millions of poverty-stricken masses, nor have environmental and cross-sectional conditions improved. For example, inflationary trends that were the logical consequence of expanded government expenditure in the 1970's became horrendous and catastrophic in the 1980's especially following the introduction of the Structural Adjustment Programme (SAP), with the low-income earners and the informal sector hit the most.

A strong link exists between the international economic system and the poverty levels in the informal sector of the Nigerian economy. This has its origin in imperialism with its attendant colonialism and neo-colonial tendencies. There has been failure to change inherited colonial economic and political structures, situations that have seriously affected the nature of domestic production. With modern technology in the advanced countries in the production of synthetic substitutes of raw materials, the collapse of international commodity agreements as well as the various policies of protectionism of the developed countries for their own product, the productive capacity of Nigeria's informal sector has been severely weakened. Rising poverty has been the aftermath.

Programmes concocted and crafted by technocrats from international financial institutions have exacerbated, rather than ameliorated the countless ills of the country, as they tend to strangulate industries and sectors where the majority of Nigerians eke out their living. Liberalization in the banking sector for instance has done little to address the poverty in the informal sector, as there appears to be very weak link between banking and the informal sector. The lukewarm attitude of banks to the informal sector stifles hopes of improvement and expansion in such areas as tailoring, welding, barbing, block-making and vulcanization works, among others. One reason for the inaccessibility of informal sector operators to the banking sector for finance is their inability to meet harsh conditions (e.g. collateral security), as well as bank distrust of their performance and poor record-keeping. This is in addition to poor credit transactions in the country, as in the case of hire purchase arrangements, necessary for the advancement of equipment. Thus, poverty reduction in the informal sectors is not supported by the liberalization of key economic areas as advanced by international financial institutions (Abeng, 1997).

THEORETICAL FRAMEWORK

The incidence of poverty in Nigeria's informal sector can be aptly situated within the context of the International Structuralist Model or approach, which lends credence to the existence of institutional and structural rigidities in poor countries occasioned by a dependence and dominance relationship to the advanced countries. The poverty level of the informal sector in Nigeria can be explained using the two prongs of the model i.e. the Neo-Colonial Dependency Model and the False Paradigm Model.

Baran (1962), Dos Santos (1973), Onimode (1980) and Ake (1981) are of the view that the bottlenecks and utter unresponsiveness of local economic environment are due substantially to the wholesale adoption of western concocted economic paradigms which ignore the social and cultural conditions of developing countries of Africa, Latin America and South-East Asia, which had in the past been brutally and ignominiously bastardized by colonialism, and the subsequent neo-colonial exploitation, with undue emphasis on competition, free markets, liberalization and globalization. In Nigeria, these conditions have tended to engineer a regime of heavy capital accumulation in the hands of a few to the detriment of the millions of Nigerians.

The second strand of the International Structuralist Model is the False Paradigm Model which stresses that inappropriate and faulty advice offered by international experts from international institutions such as the World Bank, IMF, UNDP and ILO do little or nothing to help the poor countries. The advice, no matter how well intentioned fail to take into account various institutional and structural constraints of poor countries and consequently promote the vested interests of rich countries and their local surrogates rather than the majority of the people. More disgusting is the overdose of elegant concepts, models and paradigms with which the scholars, government functionaries and policy makers are fed by the institutions, with little if any attention paid to prevailing underlying causal factors of poverty such as inequality in land ownership and unequal access to domestic and foreign financial assets.

A classic example of the false paradigm model in Nigeria is the Structural Adjustment Programme (SAP) of 1986, which was thought to work through market forces to remove distortions in the economy, with little or no government intervention (Odejide, 1996). The utter irrelevance of SAP has been demonstrated by Garba (1996) in his study that shows that there was a resumption of positive growth in aggregate and sectoral GDP before SAP was introduced. The Structural Adjustment Programme merely camouflaged the many problems besetting Nigeria and the economy buckled under the policy and under the same set of conditions which had made previous development plans fail (Yesufu, 1996). Even the recent efforts at developing the country through the National Economic Empowerment Development Strategy (NEEDS) follow a similar false paradigm model as the strategies are merely couched in World Bank framework, without taking due cognizance of Nigeria's economic and structural bottlenecks.

The International Structuralist Model gives rise automatically to the concept of dualism, with its domestic and international dimensions. Dualism represents the existence and persistence of increasing divergence between rich and poor countries as well as between people on various levels. Singer (1970) outlines four principal elements of dualism. First is the existence and persistence of different sets of conditions in which some are regarded as "superior" and others "inferior." This is particularly instructive in the case of Nigeria where there is the co-existence of the wealthy with the poor, the highly educated with the illiterate and at the international level, Nigeria with the advanced and developed countries.

Second, the co-existence of the sets of conditions is not merely transitional but chronic. Nigeria's poverty conditions have not only been sustained overtime but have also become rather exacerbated and reinforced by a conglomeration of internal and external forces. Consequently, orthodox growth theories and paradigms for poverty alleviation which assume that the pandemic will be eliminated with time (as it is considered a mere historical phenomenon) have been refuted by the historical facts of increasing global inequalities.

Third, rather than showing any signs of diminishing, the degrees of the dual sets of conditions tend to increase. Nigeria is a glaring case of worsening poverty levels with the pandemic skyrocketing from 15 percent in 1960 to 66 percent in 1996 and 70 percent in 2007. While the average Per Capital Income of the world in 2004 was $7170, that of Nigeria was a dismal $290 (FOS, 1996; Garba, 2006; Elaigwu, 2007).

Lastly, the existence of "superior elements" in the international economic order has tended to do little or nothing to pull up the "inferior elements." Nigeria has been a particular victim, as various policies and programmes doled out to her from the advanced countries, couched in elegant concepts and flowering semantics have rather undermined her growth and development rather than be succour for the great majority of her population who live in abject poverty.

CATEGORY OF THE INFORMAL SECTOR

There are three categories of the informal sector, according to the International Labour Organization (ILO, 2002):

1) Owner-employers of micro enterprises
2) Own-account workers, who own and operate one-person business,
3) Dependent workers, paid or unpaid. These include wage workers in micro enterprises, apprentices, contract labour, home-workers, unpaid family workers and paid domestic workers

Based on the wide range of activities encapsulated by the informal sector in Nigeria, it can be categorized into the following sub-sectors:

(a) **Primary Informal Sector**: This sector involves the production of goods which require further processing, in other words exploitation of materials in their natural setting. Food and cash crop farming, fishing, quarrying (petroleum excluded), lumbering and hunting are some of the activities predominant in this sector in both the urban and rural areas of the economy.

(b) **Secondary Informal Sector**: Activities here involve the transformation of raw materials through value addition into other forms. Such transformation could lead to the production of either finished or semi-finished goods. Essentially, secondary informal sector encompasses activities ranging from manufacturing to construction. Activities under this sub-sector include iron works, furniture production, small-scale manufacturing and construction, brick-making, saw-milling, cloth making and the like.

(c) **Tertiary Informal Sector**: This is the services sub-sector. Activities include tailoring, transportation, retail-trading, medical practice (such as birth attendants, native orthopedic or bone-setting, traditional spiritualists, etc). Financial services are also a part of the tertiary informal sector. It includes savings schemes such as Esusu among the Yoruba, Adashi among the Hausa and Isusu/Utu among the Ibo. The practice generally is one in which part or whole of the accumulated fund is given periodically and rotationally to members/contributors until every member has benefited. It is prominent in rural areas where funds are usually channeled to such activities such as building, small-scale trading, marriage ceremonies, purchase of land, procurement of trade tools and the like. Even among the educated in towns and cities, this practice is prevalent. Teachers in primary, secondary and tertiary institutions for instance engage in informal saving schemes ("contributions") at month-ends or such times when salaries are paid and the fund rotated among the members of the fund. Money lending is also noteworthy among the financial services providers in the informal tertiary sub-sector. Under this, credit facilities are offered by the lenders for interest ranging between 10% and 30% monthly, a condition suggestive of exploitation and rent-seeking.

THE EVOLUTION AND SIZE OF THE INFORMAL SECTOR IN NIGERIA

The informal sector in Nigeria is not a recent phenomenon. It is rooted in the distant past, although dynamics of economic, political and social life overtime have had their impact on its evolution. Traditional arts and crafts, predating colonialism can be said to have brought the informal sector into existence, even though in the distant past, the size was relatively small. Artisans, gold and black smiths, repairers, petty traders and a host of others existed long before the advent of either the west or east to Nigeria. Changes in economic life engendered by both internal and external forces have largely changed the nature of activities of the informal sector such as hawking, fashion design and carpentry, so that it can be said that such changes have only added impetus and variety to activities of the informal sector, whereas the basic characteristics (such as small-scale production and family ownership of the business) have remained largely unchanged.

About 83.4% of informal sector enterprises in Nigeria are individually owned, a situation that varies across cities. A study conducted showed that while Nnewi had ownership rate of 98.5%, Aba had a rate of 57.3%. About 50% of the enterprises in the sector are registered in one form or another with government. The sector is characterised by low capitalization. Investment generally lies between N10,000 and N100,000, with only 6.9% having gross annual income in excess of N500,00. Specifically 1.3%, 3.0%, 1.7% and 5% of the study group in Lagos, Ibadan, Kano and Nnewi respectively had gross annual income in excess of N500,00 (Abumere et al, 1988). The situation has not far changed and might have become worse due to the devastation of many informal small scale businesses occasioned by infrastructural decay.

THE ROLE OF THE INFORMAL SECTOR

The role of the informal sector as an engine of growth is widely known. Its employment generating capacity is global. Studies conducted in the mid-1970s on leading urban centres in selected African countries showed that the contribution of the informal sector to employment generation was 50% for Lagos (Nigeria), 95% in the Republic of Benin and 65% in Kumasi (Ghana) (ILO, 1985). According to Rukmana (2007), the proportion to the total urban employment of informal sector is highest in Africa, followed by Asia, Latin America and the Caribbean, with estimates ranging from between 50 to 60 percent in some South East Asian and South Asian cities. For the countries surveyed in 1999 by the International Labour Organization (ILO), the proportion of the urban work force engaged in the informal sector is highest in sub-Saharan Africa, accounting for more than 50% of urban employment in two-thirds of the countries surveyed (Nwaka, 2005).

According to Abumere et al (1988), only a few informal enterprises existed in Nigeria before 1981 with just 4.5% of them in existence before 1970 and about 16.4% up to 1980. The excesses of the Structural Adjustment Programme of the 1980s led to an astronomical rise in the number of informal enterprises due to the presence of a huge army of unemployed labour which had to be absorbed by the informal sector. Consequently, in the midst of monumental failure of government policy drives, the informal sector has amply demonstrated a capacity as a safety net, an economic shock-absorber and a remedy when there is a collapse of official economic management. That Nigeria's economy has defied all known economic theories as said by Ibrahim Badamasi Babangida, a former military leader, can be traced to the solidity of that massive and potential pool of resourceful individuals and groups that constitute the informal sector, and not to official state apparatuses, many of which were and still being swept away by both centrifugal and centripetal political, economic and social forces.

The informal sector has catapulted from a relatively unknown horizon to one whose activities have become indispensable as a bulwark of the economy. It is imbued with dexterity and flexibility which has enabled it to weather the storms of policy summersaults of the 1980s to the recklessness of the 1990s and the misdirection of the 2000s.

In the Nigerian economy, the size of employment of the informal sector has been significant. Within the urban labour force, the informal sector accounts for between 45% and 60%, contrasted with the mid-1960s, when the figure was 25% (Nwaka, 2005). According to FGN (1993), out of total gainful employment in Nigeria, the share of informal economic sector rose from 27.3% in 1970 to 38.2% in 1989. Amidst worsening urban poverty and misery, the urban informal sector is a major provider of employment and income to three categories of socio-economic groups, viz the survivalists, the self-employed and very small businesses. The survivalists are very poor people who work on part-time basis in income-generating activities (Fidler & Webster, 1996).

Against the backdrop of skyrocketing inflation, huge public debt, monumental poverty rate and monstrous fall in living standards, in addition to high and increasing unemployment rate, the informal sector has remained resilient and responsive to the gale. What can be concluded here is that the economy of Nigeria has had to depend not on formal activities in the midst of tempestuous economic times, but on the activities of the petty trader, the small-scale farmer, the small scale producer, the artisan, the bean-cake seller and the like to still wear the toga of the word "economy." The informal sector accounts for more than 90% of Nigeria's food supply (Nkom, 2000). The implication of this is that the survival of millions of Nigerians is inevitably dependent on the informal sector.

Akintoye (2008) maintained that the informal sector accounts for about 70% of total industrial output in Nigeria. Its contribution to the economies of the developed world is not in question. In the United States, about 6.2% of total employment comes from the informal sector, while in emerging economic powerhouses like India, it provides about 80% of aggregate employment.

Because self-employment is high, the informal sector is a mechanism for the nurture, development and sustenance of entrepreneurship in Nigeria. Self employment most times implies a capacity and or willingness to exercise discretion in the control and management of an entity on a continuous basis, impelled by the desire to succeed and escape the straight-jacket of dependence and penury. Owing substantially to the pride of ownership which self employment affords, coupled with the exacerbation of unemployment which government initiatives have done very marginally to alter, it can be said that placing emphasis on the growth of the informal sector will go a long way in dealing frontally with the plethora of problems ranging from youth restiveness to retarded economic growth.

ALLEVIATING POVERTY IN THE INFORMAL SECTOR: CONSTRAINTS AND POLICY RESPONSES

The growth of the informal sector activities, effectively supported by the state is one of the requirements for solving the myriad of economic problems bedeviling the Nigerian state. Table 1 shows the poverty levels in rural and urban centres of Nigeria from 1980 to 2004.

TABLE 1: SPREAD AND TREND IN POVERTY LEVELS

Levels	1980	1985	1992	1996	2004
NATIONAL	27.2	46.3	42.7	65.6	54.4
Urban	17.2	37.8	37.5	58.2	43.2
Rural	28.3	51.4	46	69.3	63.3
ZONE					
South- South	13.2	45.7	40.8	58.2	35.1
South East	12.9	30.4	41	53.5	26.7
South West	13.4	38.6	43.1	60.9	43
North Central	32.2	50.8	46	64.7	67
North East	35.6	54.9	54	70.1	72.2
North West	37.7	52.1	36.5	77.2	71.2
SIZE OF HOUSEHOLD					
0-1	0.2	9.7	2.9	13.1	12.6
2 - 4	8.8	19.3	19.5	51.5	39.3
5 - 9	30	50.5	45.4	74.8	57.9
10 - 20	51	71.3	66.1	88.5	73.3
20+	80.9	74.9	93.3	93.6	90.7
EDUCATIONAL LEVEL					
HOUSEHOLD HEAD					
No Education	30.2	51.3	46.4	72.6	68.7
Primary	21.3	40.6	43.3	54.4	48.7
Secondary	7.6	27.2	30.3	52	44.3
Higher than Secondary	24.3	24.2	25.8	49.2	26.3

Source: National Bureau of Statistics

Poverty has been on the upward trend. From a modest 27.2% in 1980, it rose to 54.4 in 2004. The rural area (where majority of Nigerians live and where there is predominance of the informal sector) was hit the more, considering that between 1980 and 2004, poverty rose from 28.3% to 63.3%. Also worthy of note is the size of the level of poverty in the regions. The north generally has shown higher poverty levels than the south, although there was an increase in poverty levels in all the regions.

Studies in the informal sector of the Nigerian economy have inevitably been undertaken within the context and purview of small scale enterprises, both small and medium enterprises as well as micro-enterprises. The literature is replete with attempts to substitute SMEs with the informal sector. This approach is borne out of the considerable difficulty inherent in the attempt to isolate those enterprises within the ambit of SMEs that are informal. It should be understood that if the informal sector definition is contextually situated to refer to enterprises with no link to the formal or modern institutions of state, it is often discovered that some if not many SMEs do have some form of link to such institutions as the bank and public agencies. It can be said that government's recognition of SMEs and the resultant attempt to develop them can be seen also as an attempt to respond to the ever-growing needs of the informal sector, since by definition the informal sector is predominantly small scale in operation. In other words, the development of the SMEs and micro-enterprises as an engine of growth can be said to be somewhat synonymous with informal sector development. Government policy response to the promotion of the informal sector activities is thus seen in the light of policy initiatives aimed at promoting SMEs in Nigeria.

Poverty alleviation in the informal sector is informed by the many constraints. These are discussed as follows:

INACCESSIBILITY TO FINANCE: In Nigeria, one major problem besetting the informal sector and which is responsible for the dismal level of poverty is the inaccessibility to formal credit institutions. Banks are particularly reluctant to grant credit facilities to the informal sector for reasons that range from doubt about their production performance (Vincent, 1997) or poor management and improper documentation (Abeng, 1997). This response from banks has further entrenched low productivity of the sector, with the inevitable consequence of low income and low savings. This partly accounts for the rather continuous small operations of the enterprises, with little growth recorded overtime.

Inadequacy of finance and access to credit facilities inhibit economic growth. Inadequacy can be explained in terms of the number of specialized banks that cater for the financial needs of small producers and the volume of loans and advances given. Government established community and microfinance banks as an initiative to address this constraint. Table 2 shows the number of community/microfinance banks in Nigeria and the amount of loans and advances granted for the period 2006 to 2010.

TABLE 2: NUMBER OF COMMUNITY/MICROFINANCE BANKS

Year	Number of Banks	Loans and Advances (N' Million)	% Change in loans and advances
2006	757	16,498.60	13.41
2007	709	16,450.80	-0.29
2008	745	42,024.40	155.46
2009	828	55,818.90	32.82
2010	800	54,348.60	-2.63

Source: Central Bank of Nigeria

From table 2, it can be seen that the number of banks is abysmally low to serve the interest of a vast country like Nigeria. As at 2010, the average number of Community/Microfinance Banks in Nigeria is 1 per local government area. A look at the percentage change in loans and advances granted between 2006 and 2010 show that within the 5-year period, only 2008 showed an appreciable increase in the amount of credits granted. As at 2010, there was a fall in the amount of loans and advances granted.

For commercial banks in the country, there has been a downward trend in the amount of support offered to small scale enterprises. Table 3 shows the ratio of commercial banks' loans to small-scale enterprises for the period 2001 to 2010.

TABLE 3: RATIO OF COMMERCIAL BANKS' LOANS TO SMALL-SCALE ENTERPRISES

Period	Commercial Banks Loans To Small Scale Enterprises (N' Million)	Commercial Banks Total Credit (N' Million)	Commercial Banks Loans To Small Scale Enterprises as Percentage of Total Credit
2001	52,428.4	844,486.2	6.21
2002	82,368.4	948,464.1	8.68
2003	90,176.5	1,203,199.0	7.49
2004	54,981.2	1,519,242.7	3.62
2005	50,672.6	1,991,146.4	2.54
2006	25,713.7	2,609,289.4	0.99
2007	41,100.4	4,820,695.7	0.85
2008	13,512.2	7,799,400.1	0.17
2009	16,366.5	9,667,876.7	0.17
2010	12,550.3	9,198,173.1	0.14

Source: Central Bank of Nigeria

From Table 3, only a negligible fraction of commercial banks' total credit is given to small scale enterprises. For the 10-year period, 2003 had the highest record. From 2006 onwards, there was a sharp fall in the amount of credits to small-scale enterprises with the lowest recorded in 2010 of less than 1 percent.

The problem of inadequate finance is compounded by lending requirements of banks which often include registration as a limited liability company, collateral and submission of feasibility studies, all of which are difficult if not impossible to satisfy by practitioners in the informal sector, many of whom do not have bank accounts and have very little idea of how banks function and the benefits they can derive from them.

In recent times, there has been attempt to increase the quantum of liquidity to small and medium enterprises. In 2010, the Central Bank of Nigeria initiated the 200 billion naira long tenor fund to boost the growth of small and medium enterprises (Akanji, 2010).

HIGH OPERATIONAL COSTS: High costs of operations, reinforced by a mix of factors, are rife in the informal sector**.** A study of Lima, Peru estimates that 80 percent of finances employed by the informal sector are self-generated. Of particular interest is the finance needed for formal entry. Such costs are related to approvals by bureaucratic institutions, bribes and licenses. While it requires about ten months to establish a legitimate business in Lima Peru (de Soto, 1989), only 3.5 hours and 4 hours are needed to do so in Florida and New York (Chickering & Salahdine, 1991). The same cannot be said about Nigeria, where corruption and ineptitude are rife. Bribery appears to be part of the costs of production in the country.

Another area of high operational costs is in terms of inadequate power supply. The inadequacy in power supply in Nigeria has had untold negative impact on small businesses and consequently on the informal sector. Table 4 displays electricity production in Nigeria for the period 2000 – 2007.

TABLE 4: ELECTRICITY GENERATION

Year	Electricity generation (Megawatts)
2000	1,738.3
2001	1,689.9
2002	2,237.3
2003	6,180.0
2004	2,763.6
2005	2,779.3
2006	3600
2007	4914

Source: National Bureau of Statistics

The table shows that as at 2007, only a paltry 4914 megawatts of electricity was produced for a population of 140 million, despite the huge resources officially claimed to have been allocated to the sector.

Energy costs take as much as 40 percent of the total costs of production in Nigeria. The state of Nigeria's electricity sector was succinctly captured by the Manufacturing Association of Nigeria, which carried out a survey in 2005 and in the first quarter of 2006. It showed that only 10 per cent of manufacturing entities could operate at 48.8 per cent of installed capacity. About 60 per cent of the companies operating were barely able to cover their average variable costs, while 30 per cent had completely closed down. Consequently, most of the industrial areas were comatose with an average of 14.5 hours of power outage per day as against 9.5 hours of supply. The cost of generating power supply by firms for production constitutes about 36 per cent of total cost of production (Okafor, 2008). It is for this reason that Nigeria has aptly been referred to as a generator economy (Ekpo, 2009).

POOR MACROECONOMIC ENVIRONMENT: Nigeria's macroeconomic environment has since the 1980s generally been one of underperformance and bottlenecks. This was partly due to the incursion of the military, successive policy summersaults and corruption. Table 5 shows two macroeconomic indicators between 2000 and 2010.

TABLE 5: SELECTED MACROECONOMIC INDICATORS

Year	Inflation Rate	Average official exchange rate (Naira/US$)
2000	6.9	102.1052
2001	18.9	111.9433
2002	12.9	120.9702
2003	14.0	129.3565
2004	15.0	133.5004
2005	17.8	132.1470
2006	8.2	128.6516
2007	5.4	125.8331
2008	11.6	118.5669
2009	12.4	148.9017
2010	13.7	150.2980

Sources: Central Bank of Nigeria; National Bureau of Statistics

Inflation has maintained double digits since the dawn of year 2000. Worse still is the state of exchange rate which has been worsening from year to year, with its negative impact on the domestic economy, in the midst of low capacity utilization. The informal sector has been severely hit in the process.

INTENSE GLOBAL COMPETITION: The informal sector in Nigeria increasingly faces the stiff competition induced by economic liberalization and globalization. Although the benefits of liberalization have been felt in such areas as telecommunication, what cannot be dismissed is the burden placed on small producers to compete with the advanced capitalist West and emerging economic giants like China, Malaysia and India whose goods flood the domestic market. Such items as foreign clothes, shoes, woodwork and various food items have been allowed to erode local capacity, with the result that the consumptive rather than the productive capacity of the economy has been fuelled. It has degenerated to a situation where toothpick is imported.

Some of the government policy responses to the problems bedeviling the informal sector in Nigeria are briefly discussed as follows:

FAMILY ECONOMIC ADVANCEMENT PROGRAMME: This programme was initiated in 1997, with a view to harnessing the vast potential inherent in the informal sector of the Nigerian economy, in addition to empowering both the rural as well as the urban poor.

The People's Bank and same commercial banks were encouraged to participate in the scheme through granting of fiscal incentives by government.

DEVELOPMENT OF ENTREPRENEURSHIP: In the 1980s, both the federal and state governments through the National Directorate of Employment (NDE) initiated the enterprise development programme as a measure to combat graduate employment which had assumed monstrous proportions, a situation has become exacerbated.

Provision of extension services, product design and the rendering of free technical and managerial services by the Ministry of Industry through the establishment of Industrial Development Centres across Nigeria were efforts exercised by government to respond to the need for the development of the informal sector.

State governments have also had their own initiatives, such as the collaboration with the federal ministry of industry to establish industrial estates for small and medium enterprises (SMEs)

CREDIT POLICIES: To confront the problems of inadequate funding endemic in the informal sector, the government established the People's Bank and Community banks to encourage savings and availability of credit facilities.

The emergence of Microfinance banks is a direct response to stimulate the informal sector and to link it with the formal sector of the economy.

NATIONAL DIRECTORATE OF EMPLOYMENT (NDE): Established on November 22, 1986, the National Directorate of Employment was geared towards confronting the pervasive unemployment in the country through the design and implementation of programmes for training and giving support to graduate farmers and small scale entrepreneurs, the development of vocational skills among others, all of which were to help generate income and reduce the level of poverty.

RECOMMENDATIONS

Based on the several constraints faced by the informal sector in Nigeria, the following recommendations are made:

(1) Power supply must be given priority. Efforts should be exerted to complete ongoing power projects across the country, while deliberate efforts should be made to encourage private sector investment, as a means of boosting power to engineer informal sector growth.
(2) The informal sector should be streamlined to incorporate it into the formal sector in order to capture its activities in national statistics. Free business registration can be used to encourage registration while tax holiday can be offered to encourage growth during the formative years of new businesses.
(3) Capacity building should be pursued through partnership with donor agencies, in order to provide the requisite skills for setting up of businesses, management, control and exposure to opportunities and constraints.
(4) Monetary policy should be geared towards encouraging financial institutions to grant the informal sector access to loanable funds on terms that are favourable. Rural financing is fundamental if the poorest of the poor must be reached in a bid to increase their productive capacity. The 2% fee on companies for the development of SMES should be vigourously pursued and implemented. Policies that promote the establishment of more microfinance banks need to be developed, in order to shore up the number of financial institutions especially in the rural areas, where majority of poor and small producers live.
(5) Implementing policies for a sector with a variety of activities entails a database. Consequently, efforts should be made to study the informal sector on a wide scale with a view to providing sufficient data to facilitate planning, policy making and implementation.
(6) Women are particularly vulnerable in the informal sector while making up a bulk of the participants. Deliberate efforts to build their capacity are necessary if increased productivity in the sector is to be crystallized.
(7) Proper macroeconomic environment is germane. Habitual policy reversals should be discouraged.

CONCLUSION

The Nigerian economic landscape and the informal sector are littered with the mosaic of poverty. Engendered by factors ranging from habitual policy reversals to corruption that has assumed the status of officialdom, poverty has among other debilitating effects eroded the productive capacity of the economy. The informal sector is an engine of growth. Majority of Nigerians are engaged in it. The corollary of this is that there is an abysmal level of poverty in the informal sector. Reducing the level of poverty in the informal sector is imperative as a catalyst of growth and consequently on economic and social regeneration.

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