

# THE IMPACT OF INFORMAL SECTOR DEVELOPMENT ON GROWTH OF THE MANUFACTURING SUB SECTOR IN ANAMBRA STATE, NIGERIA

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## Abstract

The objective of the research is to investigate the impact of the informal sector transition on growth of the manufacturing sub-sector in Anambra State in Nigeria. To achieve this objective, the research work was undertaken using descriptive, correlational and explanatory research design. Data was collected using cross-sectional approach. This research study used quantitative method for its data collection. This method is more objective and reliable yet not influenced by the personal opinion of the researchers in representing the phenomena. The results showed that up to 70 per cent of surveyed firms' owners are unwilling to transit from informal sector to formal mainly because they don't want to pay more taxes, they are not ready yet and the process is too costly.

**Keywords:** *Anambra State, Formal Sector, Informal Sector, Manufacturing Sub Sector, Transition*

**JEL Code:** F61, F62, F63

## Introduction

Two billion people work in the informal economy, which comes with its own set of hazards and vulnerabilities (International Labour Organization -ILO, 2018). This amounts to 60 per cent of the global workforce and 90 per cent of all small and medium-sized businesses (ILO, 2018). This raises policy issues for governments, particularly in the Global South, where documentation suggests that most people rely on the informal sector for sustenance, indirectly or directly (Organisation of Economic Cooperative Development, OECD/ILO, 2019). Globalisation and changes in economic incentives and regulations have altered formal employment as we know it in both developed and developing countries. Larger segments of manufacturing and service industries are being outsourced to non-centralized, flexible production units. Unregulated and non-unionised contractual informal employments are put in place between non-formal workers and most corporations as a means of reducing operational costs and increasing profitability of these companies (Moreno, *et al* 2014).

Part-time/part-year employment, flexible/fixed-term employment contracts, employment arrangements achieved through temporary agencies or contract firms, casual employment, contract labour, and services outsourced to home workers with flexible working schedules are all new trends in employment, according to (ILO, 2012). Unfortunately, all of these types of work contribute to the economy's informal growth dynamics, either directly or indirectly. This inherently makes the informal sector more complex, resulting in a significant increase in the informal sector's job generation process. All of these professions, however, are survival jobs that are occasionally risky or meant to give an outlet for temporary employment while job prospects in the official sector improve (Chen, 2012). In general, the informal sector (which includes unpaid workers in family businesses, casual wage employment, home-based workers or service providers, and street vending) is a means of survival for poor people living in slums (Mahadea & Zogli, 2018), as well as people who have been exposed to natural disasters or have moved to urban areas from rural areas. This is also true when the economy is experiencing slower growth and cycles of downturn, resulting in a drop in national GDP. As a result of the

widening output gap, income inequality is increasing (Pettinger, 2017). People become economically engaged in the informal sector out of necessity and for survival due to the inability of national/local governments and the formal sector to cope with the rapid rise in migration. Informal employment becomes a viable choice in situations of high underemployment, unemployment, poor capital inflows, absence of social protection/or social benefits, and low human capital development. Employers in informal manufacturing may hire skilled individuals to run smaller, more lucrative informal enterprises (Chen, 2005), but for the most part, informal employment remains the sole feasible choice for these workers.

Several authors (ILO, 2018, Skinner and Haysom 2016, Fourie, 2018) have recognized the relevance of the informal sector (i.e., grey/shadow economy) functioning as "conduits of employment" for the provision of products/goods and services. According to the International Monetary Fund (2017), informal employment and the informal sector contribute between 20 per cent and 60 per cent of national GDP in Sub-Saharan Africa (SSA) (South Africa, Lesotho, Namibia, Nigeria, Tanzania, and Benin). Despite the size difference, the informal sectors in Nigeria are places where unemployed people (mainly women and youths) in both countries strive to make ends meet, albeit on a subsistence level (Statistics South Africa, 2016). According to the Association of Chartered Certified Accountants (ACCA) (2017), economics, business processes, socio-demographic and socio-environmental, governance, science, and technology all drive the informal economy. According to Neuwirth (2011), the informal economy is worth USD 10 trillion and employs around 1.8 billion people worldwide. According to the World Bank (2016), governments and economists' programs for the informal sector are frequently ineffective. It is perpetuated by underdevelopment caused by a lack of physical and human resources (World Bank, 2016), yet it is a complicated and difficult-to-measure sector (Packard, *et al* 2012). Because of this intricacy, it is impossible to assess and evaluate the contributions, and the figures obtained cannot be trusted to convey the full picture.

After experiencing its first recession in 25 years, Nigeria saw its first full year of growth in 2017 (Oluoch, 2019). While this recovery has boosted corporate confidence, concerns remain since GDP growth has lagged behind national population growth. Even though the IMF (2018) forecasted 2.1 percent growth, which is lower than the population growth prediction of 2.6 percent, this issue lingers. A rise in the number of job searchers will arise from population expansion combined with high underemployment and unemployment rates. It also means a rise in the number of people who rely on the informal economy to make ends meet. The informal sector in Nigeria is a significant contributor to the country's economy, accounting for a considerable share of employment and GDP. According to the IMF, Nigeria's informal sector accounted for 65 per cent of the country's GDP in 2017. The informal sector includes any economic activity or source of income that is not fully regulated by the government or other public authorities, such as businesses that are not officially registered and do not keep detailed financial records, and workers who work without basic social or legal protection or benefits (BOI, 2018). Street traders, subsistence farmers, small-scale manufacturers, service providers (e.g. hairdressers, private taxi drivers, and carpenters), and others are examples of informal employment workers. The sector now employs over half of the worldwide workforce, and up to 90 per cent of the workforce in some of the poorer emerging countries.

Because of its adaptability, the informal sector is better equipped to respond to challenges such as the present global recession, providing some assistance to people in need. Despite its importance, the informal sector is sometimes neglected and misunderstood, with some perceiving it as a transitory phenomenon that will be incorporated into the formal economy soon. There is currently no unifying viewpoint on the informal economy. Some argue that the informal sector fosters fraudulent operations, resulting in a loss of tax income, weakening unions, creating unfair competition, reducing regulatory oversight, and lowering adherence to health and safety norms, among other things. However, a fast growing view is that informal economy offers significant job creation and income generation potential, as well as the capacity to meet the needs of poor consumers by providing cheaper and more accessible goods and services.

The objective of the research work is to investigate the impact of informal sector transition on growth of the manufacturing sub-sector in Anambra state of Nigeria. Sequel to the above broad objective, the research work was undertaken specifically:

- To investigate the impact of informal sector development on the growth of manufacturing sub sector in Anambra State.
- To analyse the nature of the relationship between informal sector development and manufacturing sub-sector growth in Anambra state.
- To suggest policies that can be used to improve the variable of interest.

For the sake of clarity, this study was structured into different sub sectors such as introduction, literature review, methodology, results/analysis, findings, policy, recommendations and conclusion.

## Literature Review

### Stylised Facts on Informal Sector Development and the Manufacturing Subsector

The informal sector (also known as the shadow economy or grey economy) refers to economic operations carried out by individual operators and economic units with no formal contractual agreements (in law or practice). According to the 17th International Conference on Labour Statistics, the informal sector does not include illicit/illegal commercial operations (ICLS). These economic operations operate outside of society's recognized norms since they are neither regulated nor registered with the government and hence are not taxable. Furthermore, it is assumed that employees in the informal sector work at the lowest levels of management and on a small/micro scale. When labor relations do exist, they are based on personal and social interactions rather than legally protected contractual agreements. Table1 explains the disparity between the informal and formal sector.

**Table 1: Differences between the informal and formal economies**

Informal Sector	Formal Sector
Entry requirements are minuscule/easy	Difficult entry requirements
Dependent on local/indigenous resources	Frequently relies on overseas resources
Ownership—family enterprises	Ownership is through a corporation
Business operation is a small scale	Enterprise operation is a large scale
Operation is labour intensive, using locally adapted technologies	Operation is capital intensive depending on imported technologies
Un-skilled employees acquired outside the formal school system	Formally acquired skills, often through the use of expatriate services
Generally competitive and unregulated markets	Markets are protected by the use of high tariffs, or trading licences.

**Source:** Global Development Research Centre (GDRC)

It should be emphasized that not all forms of entrepreneurship and small business formation are favorable to economic growth and development when analyzing their function in economic development. According to Baumol (1990), there are three types of entrepreneurs: productive, unproductive, and even harmful (e.g. illegal activities). Profitable opportunities with intrinsic growth prospects are the focus of productive entrepreneurship. Unproductive entrepreneurship, which is particularly prominent in the informal sector, is simply firm development targeted at surviving in a state of unemployment and poverty. This distinction between productive and unproductive entrepreneurs closely resembles the Global Entrepreneurship Monitor (GEM) (Herrington, 2010) categories of entrepreneurs who pursue business opportunities (opportunity entrepreneurs) and those who are involved in entrepreneurial endeavors because they have no other option for work (non-opportunity entrepreneurs) (necessity entrepreneurs). Necessity entrepreneurs are closely linked to the informal sector, which accounts for a significant portion of economic activity in developing cultures and countries (Schneider & Klinglmaier 2004).

The literature on the potential contribution of informal/unproductive/necessity entrepreneurs to economic growth and development is substantial. Berner, Gomez, and Knorringa (2008) adequately summarized the consensus. They emphasize that unproductive entrepreneurship is motivated by survival rather than progress, and that it essentially serves as a buffer against further poverty - its contribution to economic growth and development is minimal. According to Schramm (2004), initiatives aimed at encouraging unproductive entrepreneurship are frequently ineffective. According to Banerjee and Duflo (2011), most informal enterprises are started to survive. They claim that most of these entrepreneurs are "without the [much needed] talent, skills, or risk appetite required to transform informal businesses into truly profitable enterprises." They do, however, claim that "informal companies continue to play a vital part in the lives of the poor," because "these small businesses will remain, potentially for the foreseeable future, the only way many of the poor can manage to subsist."

### **Empirical Review**

In addition, Yelwa & Adam (2017) examined the impact of the informal sector on Nigeria's economic growth from 1980 to 2014. The impact of the informal sector on Nigeria's economic growth was determined using an endogenous growth model that included variables such as social economy nominal GDP, informal economy nominal GDP, currency in circulation, demand deposit, the ratio of currency in circulation to demand deposit, narrow money, and the informal economy as a percentage of the social economy. Despite the positive impact of the informal sector on economic growth, it was determined that the link is not linear. The authors proposed that the government merge informal sector enterprises into the formal sector and regulate the sector because it has the potential to enhance tax revenue.

Ismail and Adegbelemi (2012) examines the impact of informal sector on employment generation in Nigeria during the period 1970 to 2010 making use of annual time series data. The empirical analysis rests on the augmented Solow growth analytical framework. Our findings show that informal sector activities have significant impact on absorbing the large pool of labour force in Nigeria. The study contends that human capital formation is positively related to unemployment rate which reflects the dearth of government expenditure on education in the country. Therefore, there is an urgent need for the government to re-examine its policies on informal sector.

Sulaimon (2014) examines the Informal Sector and Employment Generation in Nigeria. The study takes a quantitative dimension and employed pure descriptive statistics for its analysis. The study developed the appropriate theoretical framework for the discourse. There is finding that the informal sector plays significant role not only in employment generation but as well as contributing immensely to economic growth. The low skills and low level of education that characterize the informal sector due to their inability to benefit from modern education and skill development is a matter of concerns. This also denied them the ability to cope with modern technology that can improve their productivity, hence, increase their ability to engage more hands. The study further recommends that; Government should through reliable policies protect this feeble sector from the parasitic influence of dumping the product of advanced nations with very low cost of production. Promotion of inter linkage effects between agriculture and other sectors of the economy. This will have the ultimate effect of the formal sectors or industrialized sectors to rely on the small scale enterprises for sourcing their input. This will generally create expansion of output and promote employment generation.

Sakanko & Ewugi (2017) investigated the effect of informal sector development on the development of Nigerian economy. To reach this result, the scientists employed the Error Correction Model (ECM) to analyze data from 1985 to 2014. The findings suggest that the informal sector has had a lengthy and favorable link with economic growth, but that this relationship is statistically insignificant. To promote economic growth and development, the author urged that better fiscal and employment policies be implemented.

Umar,Ogbu and Ereke (2019), assessed the Challenges of Infrastructural Development in Nigeria: An Assessment of The Pains And The Gains. The paper is an effort geared towards the examination of the pains and gains of infrastructural development in Nigeria. Relying heavily on secondary sources of data, the paper utilizes

the descriptive method and concludes that state of infrastructure in Nigeria is a function of perpetual neglect by state actors. It thus recommends that Government needs to steer economic diversification & structural changes as an alternative means of creating revenue to defray the cost of building infrastructures. The state can also dare a synergy between Public and Private sector in other to ease the speedy availability of infrastructures in the country.

From the above literature review, the issue of the impact of informal sector transition on growth of manufacturing sub-sector in Anambra state is not brought out clearly as far as the variables under investigation are concerned. The research intends to bridge the available gap by identifying the actual effect that transiting from informal sector to formal sector has on the growth of manufacturing sector specifically in Anambra state. The study will be limited to only 15 firms with a relatively small population hence may not entirely represent the different cultures and different industries.

## **Methodology**

### **Research Design**

This research adopted descriptive, correlational and explanatory research design. Data were collected using cross-sectional approach as well as quantitative method. This method is more objective and reliable yet not influenced by the personal opinion of the researcher in representing the phenomena. It also allowed for the determination of the impact of informal sector development on growth of manufacturing sub-sector in Anambra state.

### **Population of the Study**

The research deals with owners of firms fifteen firms in Anambra state. Such firms are Alo Aluminium Nigeria Limited which is a producer of aluminium long span roofing sheets and other aluminium building products, Brandy Almondia which is the manufacturer of quality wines and spirits such as brandy almondia breeze, brandy almondia sour and others, Ibeto Cement Company Ltd., Cometstar Manufacturing Company Ltd which are manufacturers of various sizes of PVC coated house wiring cables, XLPE insulated cables, flexible copper cables and cords and various types of aluminium stranded conductors for overhead power transmission lines, Ibeto Petrochemical Industry Ltd., Eastern Distilleries And Food Industries which is a Nigerian company based in Onitsha manufacturing affordable food and beverages, Geoelis Cables Limited which is a reputable company in Onitsha manufacturing electrical wires and cables of various sizes for domestic, industrial, automobile, telecommunication and national grid overhead lines, Sylflora Industries Nigeria Ltd which is a company based in Nigeria that is into production of facial wipe, table tissue, toilet tissues, serviette, tissue handkerchief, and disposable baby diapers, Tiger Food Limited, Vinval Industry which is a manufacturing company known for the production of chipboard, brown paper, tissue paper, strawboard, whitetoplin testliner, and other paper kinds using raw materials from waste paper and chemicals, Hyma Foam Limited or Hyma Max Foam Plant which is a foam industry in Nigeria operating under Pesaco Chemical Industry and is into production of long-lasting soft cushion, machine sewn, foams made with superior quality sheets and bio-snytho chemicals, Premier Breweries PLC which is a beer brewing and bottling company that is primarily engaged in the business of beer brewing, bottling and distribution across the country as well as Innoson Group of Company Ltd.

Out of the target population fifteen respondents were chosen among all the firm owners to constitute the sample for the research work. The simple random sampling techniques were used by the researcher in selecting the sample from the target population. This method of sampling were used because it provided all the firm owners, as defined population element, an equal chance of being selected as study subjects

### Data Collection Instruments

The study relied on primary data, which were gathered using self-administered questionnaires distributed to 15 respondents, which are all owners of firms. All questionnaires were returned. There were three part of the questionnaire. The first part is used to collect information about the characteristics of the firms' owners. The second part is used to collect information about the characteristics of the firms, while the third part is used to collect information on firm's tax compliance, sources of capital and readiness to formalise. The statistical package for Social Sciences (SPSS IBM 22) was used to analyze the compiled data. The study was descriptive in nature and used tabulation and percentages to analyse the degree of relationships between the dependent and independent variables.

## Result Interpretation and Analysis

### Demographic Responses

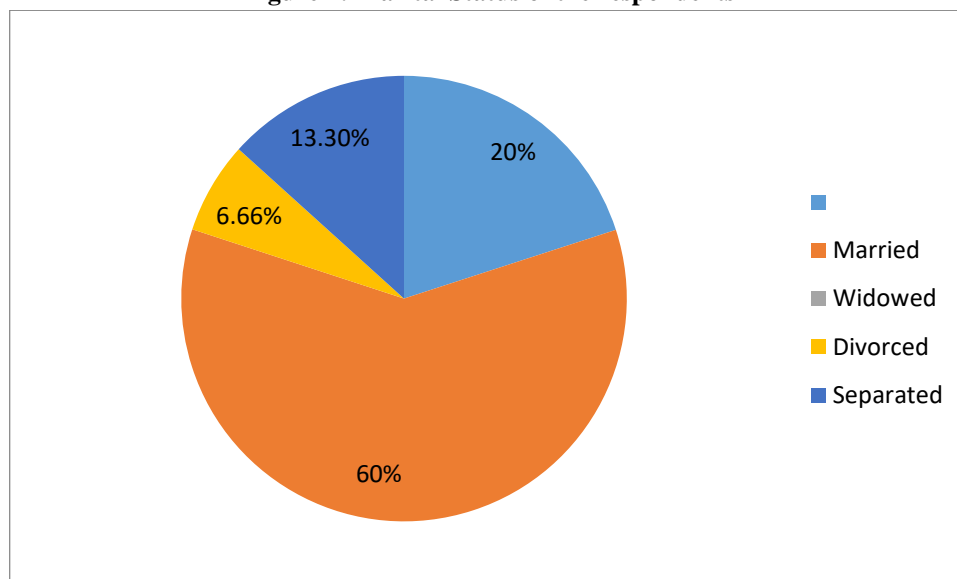
**Table 2: Gender of Firms' Owners**

Male	Female
12 (80%)	3 (20%)

Source: Author Compilation, 2022

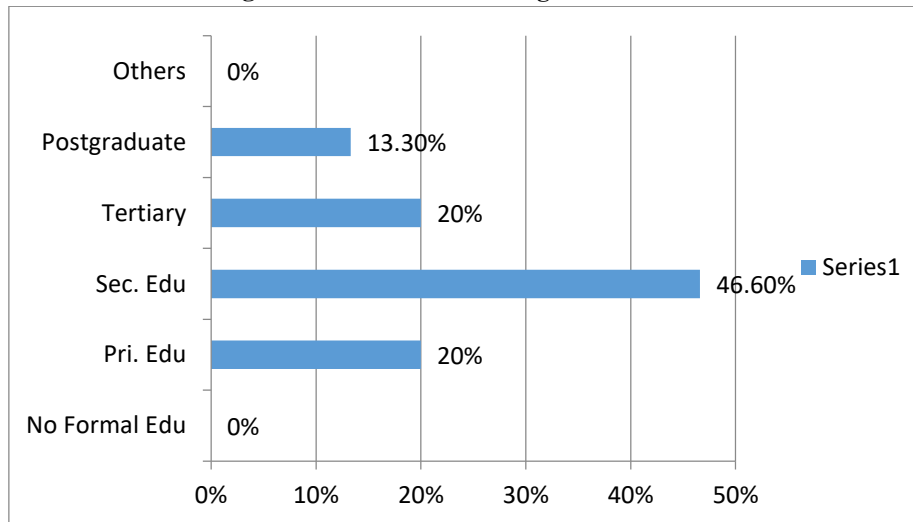
Table 2 shows that male respondent which are the owner of the firms were twelve (12) out of 15 firms owners selected for the study. This accounted about 80 per cent while the female respondents as firm owner were three (3). This was positioned to be 20 per cent of the total respondents. This implies that the respondents which are owners of firms were dominated with male counterpart.

**Figure 1: Marital Status of the respondents**



Single	Married	Widowed	Divorced	Separated
3 (20%)	9 (60%)	0 (0%)	1 (6.66%)	2 (13.3%)

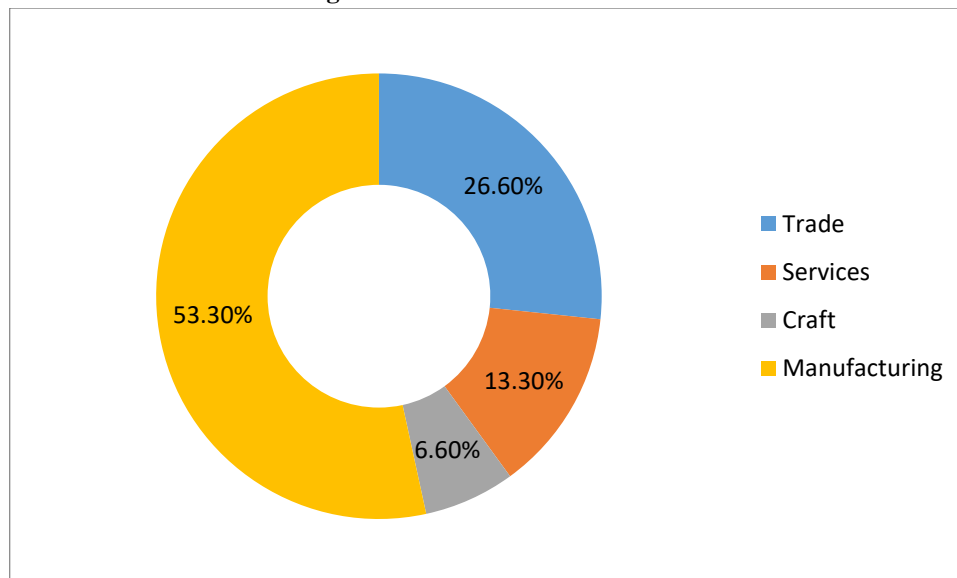
Source: Authors Compilation, 2022

**Figure 2: Firms' Owners Highest Education**

No Formal Edu	Pri. Edu	Sec. Edu	Tertiary	Postgraduate	Others
0%	3 (20%)	7 (46.6%)	3 (20%)	2 (13.3%)	0%

Source: Authors Compilation, 2022

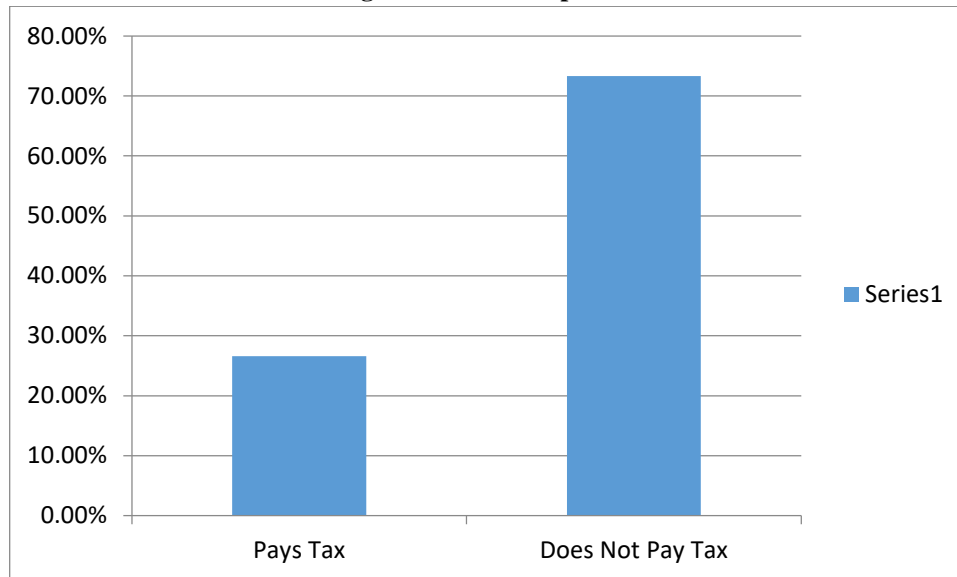
The information above shows that responses with Secondary school education qualification dominated on the sample taken over the study. This implies that majority of the firm owners possesses secondary school education qualification.

**Figure 3: Firms' Characteristics**

Trade	Services	Craft	Manufacturing
4 (26.6%)	2 (13.3%)	1 (6.6%)	8 (53.3%)

Source: Authors Compilation, 2022

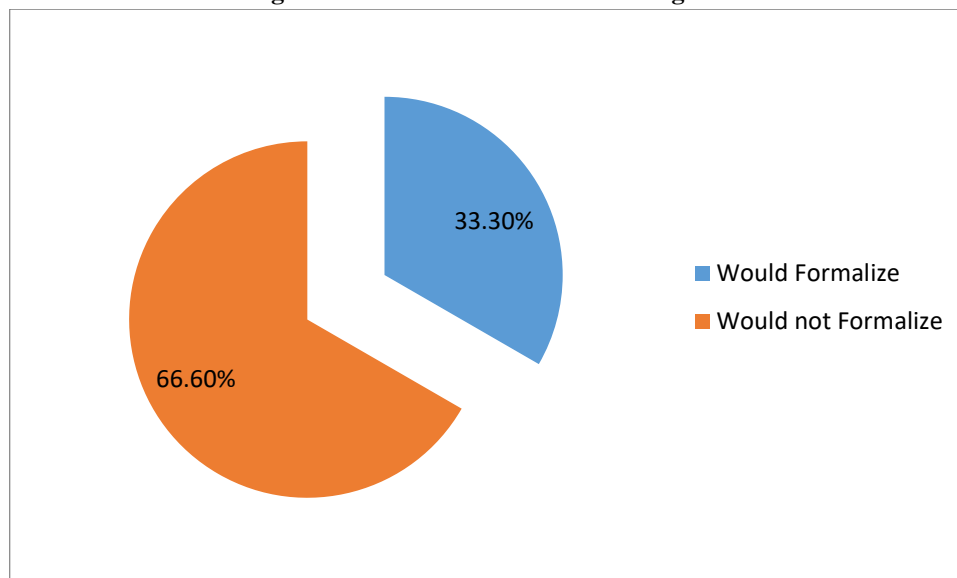
The Table above shows that majority of the firms under study were categorised as manufacturing firms in Anambra State while some of them are business owners.

**Figure 4: Tax Compliance**

Pays Tax	Does Not Pay Tax
4 (26.6%)	11 (73.3%)

Source: Authors Compilation, 2022

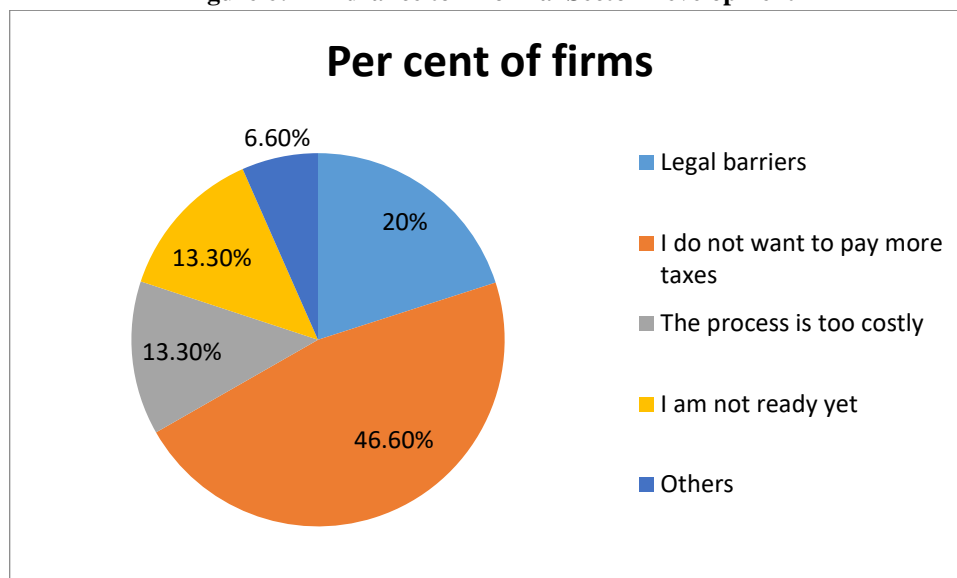
Table above shows that about 75 per cent of these business owners in Anambra do not pay tax regarding their production. This may be due to tax burden to be developed as recognized as formal sector in Anambra State.

**Figure 5: Informal Transition Willingness**

Would Formalize	Would not Formalize
5 (33.3%)	10 (66.6%)

Source: Authors Compilation, 2022



**Figure 6: Hindrance to Informal Sector Development**

Categories	% of firms
Legal barriers	3 (20%)
I do not want to pay more taxes	7 (46.6%)
The process is too costly	2 (13.3%)
I am not ready yet	2 (13.3%)
Others	1 (6.6%)

Source: Authors Compilation, 2022

Up to 66.7 per cent of the surveyed firms' owners are unwilling to transit from informal sector to formal mainly because they do not want to pay more taxes, they are not ready yet and the process is too costly.

### Conclusion and Recommendations

With the significant contribution of informal sector to the Nigerian economy and specifically in Anambra state, an undeniable truth is that any notion of economic development in the country is one that hugely depends on the state of affairs of the informal sector. Sustainable and inclusive economic development and job creation are unlikely to be achieved unless the potential and needs of the informal sector are adequately considered. Consequently, efforts must be made to understand the dynamics of the sector and how best to tap the latent potential that lies within. Historically, stakeholder interventions in the informal sector have been focused on how to regulate businesses, and effectively integrate them into the formal economy. Limited emphasis has been given to identifying the drivers of growth in the various sub-sectors within, and the challenges experienced by participants. The Nigerian informal sector players face a myriad of challenges including inadequacy of technology, education, markets, land and physical infrastructure, limited access to finance, and limited skills development.

Policy interventions to support the sector must therefore be two-fold:

- Firstly, efforts should be made to create more formal jobs to draw workers out of the informal sector.
- Secondly, policies should be introduced to address identified challenges in the informal sector towards improving productivity and incomes of informal sector players.

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