

Promoting and Supporting Informal SECTOR ACTIVITIES in NIGERIA DURING the PERIOD OF **ECONOMIC CRISIS**

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Preface

This policy brief is part of the on-going research and policy linkage of the *Centre for Population and Environmental Development (CPED)* on the research theme titled “Health including HIV/AIDS and Development in Nigeria” in the current Strategic Plan (2010-2014) of the Centre. This policy brief which is based on one of CPED’s research project findings relating to the challenges facing the informal sector during this period of world wide economic crisis. The policy brief is designed to inform policy makers and other stakeholders involved in activities to enhance the capacities of informal sector enterprises in Nigeria.

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Description of the Policy Challenges relating to informal sector enterprises in Nigeria

Nigeria has the largest, and arguably the most dynamic, informal sector in sub-Saharan Africa. Informal activities are estimated to have increased from approximately 50 per cent of the urban workforce in the late 1970s to 65 per cent by the late 1980s. Even during the oil boom period of the 1970s, the informal sector continued to grow, as rising urban wages encouraged rural migration to the cities. However, expansion was linked to increasing differentiation and a trend towards income stagnation at the lower end of the informal economy. The economic crisis of the 1980s, and policies of wage restraint, devaluation and retrenchment, significantly raised the rates of open and disguised unemployment.

In the context of the globalisation phenomenon, the informal sector in Nigeria has been noted for its ability to generate employment, income and skills outside of the regulatory framework of the state. Much of this optimism was based on the rapid expansion of the informal economy as the state and formal enterprises fail to adjust rapidly to the structural adjustment policies of the 1980s. Thus, rather than the informal sector playing its previous supplementary role in the provision of employment and welfare, it was expected to be the primary medium for sustaining the livelihoods of millions of people who have been retrenched from their jobs, or whose incomes are no longer sufficient to support basic needs.

The implications of the outcomes of globalisation for the national socio-economic system are expected to have direct effects on informal sector activities in a number of ways, some of which are highlighted below:

- The Structural Adjustment Programme and globalisation notably through the policies of reduction of public expenditure, streamlining of the civil service as well as the state-owned enterprises, encouraged the entry of more individuals into the informal sector either as entrepreneurs or as employees. Consequently, the volume of employment increased in this sector. However, this exodus may have contributed to sub-optimal utilisation of human resources.
- The policies of devaluation, introduction of "user fees" for education and health services and retrenchment resulted in a net decrease in household real incomes and an increase in the number of poor households which by virtue of their low purchasing capacity decreased the demand for urban informal sector products.
- Deregulation of prices of inputs/raw materials and foreign exchange and trade liberalisation as well as provision of production and export incentives placed the large small-scale units in a comparatively advantageous position to provide an unequal, stiff domestic competition for the informal sector units. This contributed to a reduction in revenue at the enterprise level.

- Deregulation of price control and devaluation of the national currency contributed to higher inputs costs in the urban informal sector.
- The restrictive credit ceilings and liberalisation of bank lending rates aggravated the credit constraint experienced by the informal sector entrepreneurs. As a result both the accessibility to credit became difficult and cost of credit escalated, which affected adversely production costs thereby reducing profits, scaling down investment and slowing down technology upgrading.
- Trade liberalisation policies along with devaluation increased the cost of imported inputs, which led to the substitution of cheaper local inputs. This however, resulted in change of product-mix, fall in the quality of production and also shifts in marketing strategies, which in turn affected output, income and employment in the informal sector activities.
- Trade liberalisation also increased the competition from imports, which led to a reduction in the revenues of informal sector activities at the enterprise level and at times led to closure of businesses.
- Measures to mitigate the negative effect of Structural Adjustment Programmes did not generally benefit the urban informal sector.

- Wage increases under SAPs wage policies were not matched by increases in output growth, which resulted in lower profitability in the formal sector. This in turn discouraged employment and growth in the modern sector and encouraged expansion of the informal sector.
- Incentives for production, simplification of rules and regulations and decentralization of power initiated under SAPs for the small and medium scale industries did not apply to the urban informal sector.
- The Structural Adjustment Programme encouraged exports of non-traditional items and promoted sub-contracting and this had the impact of increasing sales of informal sector entrepreneurs engaged in the manufacture of such items thereby enhancing the branch-specific response characteristic of the urban informal sector to the structural adjustment programme and globalisation.

However, the optimism associated with the informal sector activities as major contributors to economic growth and employment generation as a result of globalisation has been negatively affected by the current world wide economic crisis. However, at the present time, informal sector enterprises in Nigeria have been especially hard hit by the global crisis. These enterprises are more vulnerable now for many reasons: not only has the traditional challenge of accessing finance continued to apply, but new, particularly supply-side, difficulties are currently apparent. Informal

sector enterprises are generally more vulnerable in times of crisis for many reasons, including the following:

- It is more difficult for informal sector activities to downsize as they are already small;
- Informal sector enterprises are individually less diversified in their economic activities;
- Informal sector enterprises have a weaker financial structure (i.e. lower capitalization);
- Informal sector enterprises have fewer financing options;
- Informal sector activities in global value chains are even more vulnerable as they often bear the brunt of the difficulties of the large firms.

In Nigeria informal sector enterprises are currently negatively affected by the financial and economic crisis. The informal sector enterprises are being faced with a clear downturn in demand for goods and services. The situation is getting worse as advanced countries continue to experience increased economic challenges. It is this context that some key policy options should be put in place by the various governments at the federal, state and local levels to enhance the performance and sustainability of informal sector activities.

Policy Options and issues

Accessibility to credit is one of the major problems of the informal sector entrepreneur as pointed out in the Lagos survey. This is an obstacle preventing the use of improved

tools and technology, which in turn affects the capacity and quality of production as well as the potential for employment. Though a large number of schemes for providing financial assistance have been initiated their impact has not filtered down remarkably to the informal sector enterprises as noted in the Lagos study. Judging from the recurring features of these different loan schemes, it was observed that informal sector entrepreneurs fail to access such credits primarily due to the collateral/security requirements insisted upon by the programmes and inability to comply with the cumbersome and time-consuming procedures involved.

It can be suggested that these institutions targeting the informal entrepreneurs should design methodologies appropriate to the circumstances and needs of their client group. Similar instances in other parts of the world have proved that such an initiative is more likely to be successfully managed by non-governmental organisations. However, the government may have a key-role to play by providing the start up capital and support to such organisations. The mechanisms can be best determined by local conditions and requirements.

A major handicap experienced in advancing credit to informal sector operators is inadequate loan monitoring and loan recovery mechanisms. When setting up such an institution or while designing such schemes of credit guarantee, strong measures must be recommended for these two activities. Timely provision of credit, as most of these operators require working capital along with a close

monitoring mechanism, could remove much of the financial resource crunch presently being experienced by this sector.

Though the apprenticeship system remains central to the process of skills acquisition in the informal sector, the best package of training would be that of a theoretical nature in which the apprenticeship training is currently weak and this could be grafted on to the present system - and provided at the work-places in order to make it more practical.

Basic bookkeeping and management techniques as well as a basic knowledge of equipment maintenance could be added as these are the skills in which these entrepreneurs are lacking. What is more important is to keep the educational background and immediate requirements of the entrepreneurs in mind while preparing the training package in order to make it receptive to the target group concerned.

The heterogeneity of the informal sector must be taken into consideration while preparing any training package for the informal sector entrepreneurs and considerable focus should be placed on in-plant training. In order to maintain the vitality of the informal sector, the quality of skills and technology in this sector must be continuously upgraded through a variety of means - in-field training, close coordination with institutes like Technology Consultancy Centre for application of appropriate technology and training, etc. Special emphasis should be made on the need to: promote relevant vocational and technical training and re-training for workers; provide job counselling and

provide information on employment patterns and assistance to workers to secure satisfying jobs.

The availability of good-quality, reasonably priced raw materials is a perennial problem for the informal sector entrepreneurs. To ease the situation it is possible for an organisation partly supported by government to draw up a list of common raw materials required by the operators in the urban informal sector in the country and then arrange for their distribution at regular intervals and at a reasonable price. Simultaneously, associations of informal sector enterprises may also engage themselves in sourcing of raw materials for their members. This can reduce a considerable burden of the informal sector's entrepreneurs for they can be assured of a continuous and regular supply of raw materials and of adequate quality.

It is evident that entrepreneurs in the informal sector frequently face the problem of acquiring suitable premises and sites for their commercial activities. In addition, restrictive policies of local municipal authorities regarding location amounts to harassment and on other occasions leads to fire hazards, public health hazard and traffic congestion due to their obstruction of civic amenities. In many situations urban informal sector establishments experience the lack of basic services such as roads, drainage, water, etc. In this connection, the manufacturing and servicing sub-sectors, workshop clusters and light industrial estates located at strategic points in the different cities in the country can be developed. The advantage of this approach is that firms could be provided with adequate

infrastructural facilities, paid for by the artisans in easy instalments, and this would also reduce the threat of eviction that most informal sector operators experience and which has an adverse impact on their production and quality.

With respect to the demand for the goods and services of the informal sector enterprises, Government can play a major role in further sustaining the market for informal sector goods by creating a continuous source of demand. For example, Government could consider splitting public orders into smaller batches so that several informal sector establishments could supply such orders. Also, Government can go a step further, as it had been done in some other countries in the Third World, by making it mandatory for all Government departments to make 40 per cent of their purchases from informal sector enterprises.

Another way of maintaining a reasonably buoyant demand market is by promoting linkages with the formal sector as well with the other sectors of the economy, particularly agricultural production activities. This, along with a supportive policy for the agricultural sector, would increase the demand by the rural sector for informal sector goods and services and perhaps reduce migration from rural to urban areas. By increasing the availability of inputs and finance, it is expected that both quality and scale of production would improve and this would facilitate a forward linkage with the formal sector thereby again increasing the demand market for informal sector goods. This holds true for linkages with other sectors/sub-sectors

in the economy as this would diversify and revive the demand market.

Finally, Governments in the country need to articulate policies that would contribute to the mergence of informal sector activities as key players in the economy of Nigeria.

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