

INFORMAL SECTOR ECONOMIC ORGANISATIONS AND GOOD GOVERNANCE IN NIGERIA

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ABSTRACT

The importance of micro, small and medium sized enterprises as well as the upgrading of the informal sector is in particular being advocated as a strategy for enhancing economic growth and development in most economies, Nigeria inclusive. The logic for nurturing and supporting micro, small and medium sized informal economic organisations becomes desideratum when one considers their potential for development as manifested in their labour-intensive nature, avenue for employment generation and potential use of local resources. As the informal sector economic organisations cannot operate in isolation of its environment, this study examines the extent to which the government has actually impacted on the organisations and in what ways have the organisations equally impacted on the government policy decision making.

Using personal interview method of research, this study has found a symbiotic relationship between the informal sector economic organizations and the government. Cases abound where these organizations via their unions/associations influence government decisions and vice versa. This has been demonstrated in the following economic activities, such as: the furniture making, bakery, welding and iron works and printing press. Others include barbing /hairdressing salon, Okada riders, informal educational services, automotive workshops and the market women. This study has equally revealed the problem of infrastructural decay in the country, particularly the erratic power supply besetting the operators of this sector. This has led to the high cost of production as most operators are forced to employ alternative source of generating electricity through in-house plants.

As a way forward, there is the urgent need for government to put in place conducive environment for the operators of this sector in order to fully realize their potentials.

Keywords: Informal sector, Economic organizations, Good governance, Nigeria.

Introduction

The presence of large informal sectors is one of the most important characteristics of developing countries. The study of the informal economy is important in as much as it sheds light on how the state's regulatory and enforcement systems affect economic performance. At present, there is renewed interest in informal work arrangements or informal labour markets. This current interest stems from the fact that informal work arrangements have not only persisted and expanded but have also emerged in new guises and unexpected places.

Basically, the informal sector economic activities are made up of jobs that people have found for themselves. These, include small competitive individual or family firms, petty retail trade services, shoes shiners, motor bicycle riders, and businesses that are set up to

serve captive areas. Such jobs are characterised by a number of features, which include, little capital outlay requirement to set up; require few skills; labour-intensive methods of doing things; low level of living; and poor working conditions. In most economies such activities are usually categorised under the umbrella of micro, small and medium business organisations.

The importance of micro, small and medium sized enterprises as well as the upgrading of the informal sector is in particular being advocated as a strategy for enhancing economic growth and development in most economies, Nigeria inclusive. The case for nurturing and supporting SMEs becomes obvious when one considers their potential for development as manifested in their labour-intensive nature, income generating possibilities, capital –saving capacity, potential use of local resources and strong linkages with the other sectors of the economy. The significant role small enterprises play in development is acknowledged universally. In Asia for instance, small enterprises make up more than 90 per cent of the industries in Indonesia, Philippines, Hong Kong, Japan, India and Sri Lanka. They account for 98 per cent of the employment in Indonesia, 78 per cent in Thailand, 85 per cent in Japan and 87 per cent in Bangladesh (Fadahunsi and Daodu 1997). There are up to 22.9 million small businesses in United States of America that spend \$4.2 trillion per annum and account for 75% of new jobs created annually (Bank of Industry, (2008))

To realise the potential of this sector for economic development, programmes of assistance in the areas of finance, extension and advisory services, training and provision of infrastructure were designed by the government for the development of SMEs. The relevant questions are: to what extent has the government actually impacted on the organisations particularly at the grass root level? In what ways have the organisations been equally impacted on the government decision making? It is against this backdrop, that the paper intends to examine the Informal Sector Economic Organisations and Good Governance in Nigeria. The rest of the paper is structured as follows: In section 2, attempt shall be made to explain the theoretical and empirical considerations of informal sector economic organisation and good government. The evolution and growth of the informal sector and policy response in Nigeria shall be the focus of exposition in section 3. The methodology of the research together with the results shall be discussed in section 4 and the conclusions and suggestions shall be elucidated in section 5.

Some theoretical and empirical considerations

Although the concept of the informal sector has been debated since its discovery in Africa in the early 1970s, it has continued to be used by many policy makers, labour advocates, and researchers because the reality it seeks to capture – the large share of the global workforce that remains outside the world of full-time, stable, and protected jobs – continues to be important and has likely been increasing over time. In economics, the term informal sector refers to all economic activities that fall outside the formal economy regulated by the government. From the sociological perspective, it refers to the general income category (or sector) wherein certain types of income and the means of their generation are unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated (Portes and Hather, 2005) Arising from this, informal economic activity is a dynamic process which includes many aspects of economic and social theory including exchange, regulation, and enforcement. By its nature, therefore, it is an elusive concept difficult to observe, study, define, and measure

However, there are different theoretical explanations on the early debates surrounding the causes and characteristics of the informal sector, which have been crystallized into various schools of thought some of which are discussed in the subsequent paragraphs. First, is the dualistic school, which subscribes to the view that the informal sector is comprised of marginal activities – distinct from and not related to the formal sector – that provide income for the poor and a safety net in times of crisis (ILO, (1972); Sethuraman, (1976); Tokman, (1978)). According to this school, the persistence of informal activities is due largely to the fact that not enough modern job opportunities have been created to absorb surplus labour, due to a slow rate of economic growth and/or a faster rate of population growth.

On the other hand, the structuralist school maintains that the informal sector should be seen as subordinated economic units (micro-firms) and workers that serve to reduce input and labour costs and, thereby, increase the competitiveness of large capitalist firms. In this model, in marked contrast to the dualist model, different modes and forms of production are seen not only to co-exist but also to be inextricably connected and interdependent (Moser, (1978); Castells and Portes, (1989)).

Furthermore, the legalist school admits that the informal sector is comprised of courageous micro-entrepreneurs who choose to operate informally in order to avoid the costs, time and effort of formal registration (De Soto, (1989)). According to De Soto micro-entrepreneurs will continue to produce informally so long as government procedures are cumbersome and costly. In this view, unreasonable government rules and regulations are stifling private enterprise. More recently, De Soto has championed property rights as a means of converting the informally-held property of informal entrepreneurs into real capital (De Soto 2000).

Lastly, the il-legalist school, propounded by neo-classical and neo-liberal economists across the decades, subscribes to the notion that informal entrepreneurs freely seek to avoid regulations and taxation and, in some cases, to deal in illegal goods and services. This thinking is associated with the notion that the informal economy is a black economy or underground market. According to this model, informal entrepreneurs choose to operate illegally – or even criminally - in order to avoid taxation, commercial regulations, electricity and rental fees, and other costs of operating formally (Maloney 2004).

However, current thinking of the informal economy suggests the need for an integrated approach that looks at which elements of dualist, structuralist, legalist, and il-legalist theories are most appropriate to which segments of informal employment in which contexts. Clearly, some poor households and individuals engage in survival activities that have – or seem to have – very few links to the formal economy and the formal regulatory environment (dualist school); some micro-entrepreneurs choose to avoid taxes (il-legalist school) and regulations (legalist school); while other informal units and workers are subordinated to larger formal firms (structuralist school)

There other schools of thought which have been identified in literature such as the Marxists with its various neo-Marxist subdivisions and the developmental school. These have been extensively discussed elsewhere (see Olurode, (2004)).

Following the line of thinking of the structuralist, Penrose (1964) examined the position of large and small firms in a growing economy. It is a point of fact that large firms in any economy or industry do tend to have many competitive advantages over smaller or newer firms, no matter how able the management of the latter may be. She highlighted some of the factors responsible for this to include; market connection, ability to raise capital, large

internal funds, accumulation of valuable experience by the virtue of size, and ability to take advantage of many technological and organizational economies. In spite of their disadvantages, Penrose advanced reasons for the continued existence of small firms. For instance, small firms are in existence at a time in point simply because they are young and over time they would mature and grow to medium or large firms; some kind of activities are suitable to small firms only; entry to some industries may be very cheap; some firms get a start because the bigger firms have not got the urge to enter, but over time, they will move in to drive the small firms out. Penrose argued that the opportunities for growth will always exist in a growing economy. This is owing to the fact that as the economy grows the rate of growth of large firm increases and as the larger firms can not take up all opportunities, the left – overs will be captured by the smaller firms. This is what Penrose called ‘interstices’. As basis for specialization between the large and small firms, Penrose suggested the application of the principle of comparative advantage. In other words, so long as small firms are not equally less productive in all lines of production, it pays the large firm to specialize in the activities in which they are least worst off.

Like Penrose, Devine et al, (1979) looked at the position of large and small firms in a growing economy and argued that through ‘transfer mechanism’ the more efficient firms in the industry will always encroach on the market share of the small and less efficient firms up to the point of extinction. The authors argued that the transfer mechanism itself brings into play a counter force called the ‘innovation mechanism’ which can change the position of less efficient and small firms to large and more efficient.

As the economic organizations, be it in the formal or informal sectors can not operate in vacuum of the society; the need for good government becomes very important.

Good Governance.

The concept of governance has various connotations. By a way of definition, governance implies the manner in which power is exercised in the management of the affairs of a nation, be it in the economic, political or wider social spheres of life. According to African Development Bank (2001), there are three important dimensions of governance – political, economic, and corporate dimensions. Political governance is concerned with the process of decision-making relating to public policy. It supplies the institutional infrastructure for the polity as well as the orientation of the economy. Economic governance provides the framework for decision-making processes that affect an entity’s economic activities and its relationship with other entities, organisations and nations. It provides the regulatory framework for the conduct of corporate affairs in the market economy, and also sets the macroeconomic framework. Corporate governance, on the other hand sets the rules on the basis of which the corporation is to be managed and controlled in balanced between the profit motive and the fundamental objective of societal welfare. Orubu (2001) has argued that irrespective of the dimension from which we are examining the concept of governance, its key elements must include probity, integrity, transparency and accountability. Other key elements of good governance include the rule of law and democratic participation. A combination of these key features necessarily imply that good governance must lead to better economic performance and economic growth and competitiveness, enhance social cohesion, and lead ultimately to sustainable human development. The assessment of good governance on the informal sector economic organizations becomes imperative at this time in point if only to

evaluate the gains or otherwise of democracy in Nigeria. The subsequent section presents the growth and development of the informal sector in Nigeria.

The Evolution and Growth of the Informal Sector and Policy Response in Nigeria

Information on the size and employment structure in the informal sector is hard to obtain, but estimates suggest that the sector accounts for between 45% and 60% of the urban labor force presently, from about 25% in the mid-1960s. Relying on the data from Federal Office of Statistics (FOS) now National Bureau of Statistics (NBS) of various issues, Olurode (2004) asserted that organisation employing 10-49 people in Nigeria ranged from 84.1% in 1991, 83.3% in 1992; 67.6% in 1993; 67.7% in 1996. Those employing 10-19 people constituted 45% and 45.9% in 1995 and 1996 respectively. It should be noted that the National Bureau of Statistics does not normally collect data on those business organizations employing less than 10 employees because they are assumed to belong to the informal sector.

Prior to the 1970s, the informal sector was not considered as a separate sector. Their activities were classified variously as traditional crafts and petty trade in the subsistence sector, or as small-scale industries within the formal sector, and treated as such. Some efforts were made to upgrade what was considered their low level of productivity and low standard of workmanship through the establishment of small Industrial Development Centers (IDC), and later the Small-Scale Industry Credit Scheme (SSICS), to provide technical advice and training, and to offer small loans. No effort was made to protect informal sector products from competition with imported and mass produced goods, hence many informal sector operators tended to gravitate towards trading, services, and transportation. A number of factors have contributed to the growth of the informal sector in the Nigeria.

With the growth of the oil sector in the 1970s, after the disruptions of the civil war, the urban population expanded rapidly because of the increase in urban-based opportunities in administration, construction, commerce, and services, along with the gradual relegation of rural agriculture. The optimism of the oil boom and the prevailing international policy posture, as reflected in the 1976 United Nations-Habitat conference (Habitat I), encouraged the Nigerian government to undertake extensive programs of planning and public service delivery, including ambitious programs of public housing and the centralization of land-use control under the military dictatorship. The administrative decentralization brought about by the creation of new states (12 in 1967, and now 36) from the four former regions, and the creation of several local governments (now 779) fostered the growth of many large and secondary cities and towns that served as state capitals and local government headquarters. The urban informal sector expanded correspondingly to meet the increased demand of low-income wage earners for moderately priced consumer goods and services. But the formal sector still monopolized much of the support that government provided, and little effort was made to foster formal/informal sector linkages between the formal and informal sectors.

The economic recession of the 1980s and the austerity measures that accompanied IMF-imposed Structural Adjustment policies affected the informal sector adversely on both the demand and supply sides, as markets contracted and input costs rose. Reductions in public spending, declining real wages, and overall public sector retrenchments swelled the ranks of the informal sector beyond its absorptive capacity. In most cases the retrenched workers from the formal sector were compelled to engage in some informal

activities like farming and trading for survival. Many formal sector enterprises forged new links, sometimes exploitative links, with the informal sector to cope with the difficulties of the economic crisis. The implementation of the SAP forced many companies to look inwards, for instance Guinness and Nigerian Breweries were forced to engage in farming activities like planting of maize and wheat. The borders between the formal and the informal sectors became blurred.

Informal sector policies in Nigeria in the 1980s were very suppressive as little efforts were made to uplift the sector. On the contrary the response to the sector in the 1990s was much more realistic and promotional. The military administration of General Buhari that overthrew the Second Republic was so dissatisfied with the conditions of the urban environment that it discontinued the idea of central planning. Instead it initiated an aggressive campaign for environmental awareness and sanitation as the focus of the fifth phase of the so-called 'War Against Environmental Indiscipline' (WAI). The implementation of the programme was however, stained by overzealous officials and the military drive (usually characterized by have-heartedly and hap-hazardly effort) to achieve quick results. The programme soon became associated with misguided efforts to contain urban growth, and to restrain the informal sector. Cases abound where informal sector enterprises such as hawking and other forms of street business were incessantly harassed and compelled to relocate to remote and inaccessible outskirts of the cities and towns. Kiosks, illegal structures, and shanty towns in big cities and other state capitals were raided and demolished.

The government of General Babangida that overthrew General Buhari initiated a number of rural and urban social programs to address the poverty and austerity that came in the wake of Structural Adjustment policies, notably the well-funded Directorate for Food, Roads and Rural Infrastructure, and the Directorates for Employment, Mass Mobilization, and more. For the urban informal sector the most relevant initiatives were the establishment of the People's Bank, the Community Banks, and the National Directorate for Employment. Access to financial credit is important for small businesses aspiring to grow and become more profitable. Between 1990 and 1992 the Nigerian government established as many as 400 Community and Peoples Banks, modeled on the Asian experience with micro-lending, and on the principles of a traditional rotational credit system. These banks were to provide small loans and other forms of financial and business services for the poor and informal sector enterprises, with the whole community acting as guarantor for loan repayment. Within two years these banks together had built up assets of over 981 million naira, mobilized over 640 million in savings and deposits, and disbursed 150 million naira as loans and advances. Lamentably, recent studies advocate that only about 10% of informal sector workers interviewed were aware of how to take advantage of the new facilities offered by the banks. Civil servants, military officers' wives, and other well-connected persons appear to have cornered and carpeted the scheme, often getting loans far in excess of the approved official maximum.

The National Directorate for Employment (NDE), established in 1987, was meant to promote self-employment through training and loans to unemployed youth, but the main orientation of the program was to reverse rural-urban migration by encouraging investment in rural agriculture. The informal sector was thought to be already saturated, although the government also launched the National Open Apprenticeship Scheme (part of the NDE) to support the placement of apprentices in informal sector workshops, and to supplement their practical training with other forms of formal training for skills they

would need in the future for their enterprises. Again, only a small percentage of unemployed youth and apprentices benefited from this initiative, which was harmed by under funding and various forms of corruption and abuse.

Recently, the Bank of Industry (BOI) Limited was established in October, 2001 following the reconstruction of the Nigerian Industrial Development Bank Limited (NIDB) to incorporate the mandate of the Nigerian Bank for Commerce and Industry (NBCI) and the National Economic Reconstruction Fund (NERFUNF). Following the successful institutional, operational and financial restructuring programme embarked on since 2002, the bank has been well positioned to carry out effectively its primary mandate of providing long-term financing to the industrial sector of the Nigerian economy. To demonstrate its emphasis on and commitment to the SMS sector, the Bank has set up Small and Medium Enterprises Group whose staff bestride BIO's seven district offices in the country. The Bank of Industry in conjunction with United Nations Industrial Development Organisation (UNIDO) have signed a Memorandum of Understanding that is designed to explore partnership opportunities between the two institutions. This provides for the establishment of appropriate working arrangement in capacity building for BOI staff and its customer, particularly, Small and Medium Enterprises in project appraisal and management (BOI, (2008))

METHODOLOGY AND RESULTLS

Personal interview method of data collection was employed to elicit information on selected informal sector economic organizations in Lagos State. The need for this methodology becomes inevitable as useful time series data for smaller enterprises from official sources are largely absent (Fashola and Akano, (2005)). These organizations were categorized into two sub-sectors, namely: productive and service sub-sectors. For the productive, which encompasses all economic activities involving production of tangible goods, the organizations sampled include: furniture making, bakery, welding and iron works and the printing press. For service sub-sector, organizations sampled were: barbing/hairdressing salon, motorcycle (okada) riders, informal educational service providers, automotive workshops and the market women. The interview sought for the following information, namely: bio-data of the organization and series of questions which comprised of: factors affecting the business, major problems often encountered and how they were solved, how government regulate the business, the relationship between the association and government, the role the associations play in political organization, etc. The key executive members of the various associations were equally interviewed and the results are carefully summarized in the subsequent paragraphs.

The information gathered revealed that government policies and directives have been able to influence informal sector organizations, so also the activities of these organizations most especially through their associations have impacted on government policy decisions. For example, in the informal service sub-sector, the motorcycle (okada) riders that were interviewed made it known that in the year 2006 when government gave directives that their operations should always stop at 7pm which was unfavourable to majority of them. However through series of meetings with the government by their association (popularly called MOAS), the time was changed to 10pm daily. In addition to this, some government officials, especially the politicians when campaigning for election, usually mobilize okada riders through their association.

For the informal educational services, series of interview were conducted on proprietors of computer training schools. According to them, last year December was the last time government invited their association (i.e. Association of Computer Proprietors) in connection with provision of loan through National Poverty Eradication Programme (NAPEP). Some have benefited from this while some denied the existence of such facility. The government also gave directives that they should all register with Federal Ministry of Science and Technology. For the automotive workshops, information gathered revealed that, over time their major problem is frequent displacement from their site, but with the help of the association (The United Technical Association), they usually retain back their permanent site. More so, the current government directives, according to them, include: making sure they are always on uniform, demarcation of the workshop with fence and gate properly locked. Majority of these workshop owners confessed that these directives have made it possible for them to organize training sections for their members.

In the barbing/hairdressing salon, all that were interviewed made it known that the only way in which government impacted on them recently was by giving them sterilizing machines and made a directive that their equipments must always be sterilized before use. The operators in this sector lamented the high cost of operation as they have to operate most time on generators due to erratic power supply from the national grids.

Majority of the market women that were interviewed revealed that government often demolish and reconstruct their stalls which usually result in high rentals. However, with the help of their association, the rentals are usually reviewed through series of meetings with the government officials by the executive members, most especially the IYALOJAs. It was also made known that despite the government directives- that nobody should trade along the road, none of these market women obeyed, government in turn introduced various tickets that are usually issued on daily basis. In addition, most of these market women usually participate in government ceremonial activities, as they are often ask to contribute certain amount of money towards such ceremony. During election, these women are not left behind, the Iyaloja of the market usually mobilize their members to campaign for a particular party. It can be noted that government directives usually constitute a burden on those trading along the road as they are often displaced, unlike those trading in government stalls.

For the welding and iron works, the major factor affecting their business is electricity which rendered them idle for most of the time. Many of them made us know that government only regulate them by mandating them to always put a red flag or object behind the irons when conveying them from one place to another, cleaning their workshops regularly, and so on. We were meant to know that their association has not been functioning, since majority of them have not been attending meetings.

Conclusion

This study examined the extent to which the government has actually impacted on the informal sector economic organisations and in what ways have the organisations equally impacted on the government policy decision making. Using personal interview method of research, this study found a symbiotic relationship between the informal sector economic organizations and the government. Cases abound where these organizations via their unions/associations influence government decisions and vice versa. This has been demonstrated in the following economic activities, such as: the barbing /hairdressing

salon, Okada riders, informal educational services, automotive workshops and the market women. This study has equally revealed the problem of infrastructural decay in the country, particularly the erratic power supply besetting the operators of this sector. This has led to the high cost of production as most operators are forced to employ alternative source of generating electricity through in-house plants. As a way forward, there is the urgent need for government to put in place conducive environment for the operators of this sector in order to fully realize their potentials.

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