



BANK OF INDUSTRY

...“Informal Conversation is probably the oldest mechanism by which opinions on products are developed, expressed and spread” – Johann Arndt

Economic Development through the Nigerian Informal Sector: A BOI perspective

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2017 saw Nigeria record its first full year of growth after experiencing its first recession in 25 years. While this recovery brought about an increase in business confidence, concerns remain as the GDP growth achieved was less than national population growth. This concern persists even as the IMF projected 2.1% growth for 2018, which falls below the population growth forecast of 2.6%. Population growth, coupled with high underemployment and unemployment rates (combined 40%), will result in an increase in the number of job seekers in 2018. It also translates to an increase in the number of people who look to the informal sector for economic survival.

The **Nigerian Informal Sector (IS)** is a major contributor to the Nigerian economy, accounting for a significant portion of employment and national GDP. According to the IMF, the Nigerian informal sector accounted for ~65% of Nigeria's 2017 GDP.

So what is the informal sector?

The Informal Sector comprises any economic activity or source of income that is not fully regulated by the government and other public authorities; this includes enterprises that are not officially registered and do not maintain a complete set of accounts; and workers who hold jobs lacking basic social or legal protection and employment benefits. Examples of informal employment workers include: street traders, subsistence farmers, small scale manufacturers, service providers (e.g. hairdressers, private taxi drivers, and carpenters), etc. The sector currently accounts for over half of global employment and as much as 90% of employment in some of the poorer developing countries.

Due to its flexible nature, the informal sector in some ways is better able to adapt to difficulties such as the current global recession, providing some measure of support to those most in need.

Despite its importance, the informal sector is often overlooked and misunderstood, with some viewing it as transient, and expected to eventually be absorbed into the formal economy.



Today there is no unanimous perspective with regard to the informal economy. Some take the view that the informal sector encourages fraudulent activities that results in the loss of revenue from taxes, weakens unions, creates unfair competition, leads to a loss of regulatory control, reduces observance of health and safety standards, amongst others.

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.

With the significant contribution of informal sector to the Nigerian economy, 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.

If previous attempts at intervention were unsuccessful, what then can be done to maximise the potential of the informal sector in Nigeria?

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.

What role does the Bank of Industry play in supporting the Informal Sector for national development?

Current BOI interventions in the informal sector include both training and financial support for market women, artisans, traders (through the FG's "Government Economic Empowerment Programme "GEEP product") and artisanal miners (through the Artisanal and Small-Scale Miners – "ASM Fund"). A critical look at these interventions show BOI adopting a hybrid model that prioritises the attainment of both economic growth (GEEP) and development (ASM Fund).

In the formal sector, BOI continues to provide funding and capacity building to enterprises, towards business expansion, inevitably leading to job creation.

Graphics source: "Market" by Zoya Cherkassky-Nnad.