

NATIONAL OPEN UNIVERSITY OF NIGERIA

DES 413

INFORMAL ECONOMY AND DEVELOPMENT

FACULTY OF SOCIAL SCIENCES

COURSE GUIDE

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Introduction

DES 413: Informal Economy and Development is a two-credit and one-semester course. The course is made up of thirteen units spread across four modules. This course guide provides you with information on informal economy and its nexus to development; the structure of the course material and how to work through it to achieve each unit's objectives and the overall aims of the course. The tutor marked assignments (TMAs) provide you with evaluative exercises to enable you monitor your grasp of the content of the material.

Course Content

The course focuses on the functions of the informal economy to socio-economic development. Its overall purpose is to equip you with an introductory knowledge on the complexities in the definition of an informal economy and its composition to enable you delineate how it contributes to national development through productive activities; employment, revenue and income generation; its relationships with formal economy at national and global contexts; and its problems and prospects in Nigeria among others.

Course Aims

At the end of the course period, you are expected to be able to:

- To demonstrate an in-depth understanding of the nature, structure and functions of an informal economy and how it contributes to national development beyond the narrow confines of conventional economic sphere.
- Explain the articulation of informal and formal sectors of an economy in the development process beyond the dualists' propositions.
- Come up with effective ideas that could enhance better understanding of the sector so as to improve policies on how to make it more productive and formal particularly in Nigeria

Course Objectives

To achieve the broad aims of the course, there are specific objectives spelt out at the beginning of each unit. You are to refer to them in the course of your study of each unit to check on your comprehension. You should always look at the unit objectives after completing a unit to assess your learning outcomes.

Working through the Course

To successfully complete this course, you are required to read the study units, referenced books and other materials spelt out.

Each unit contains self-assessment exercises called Student Assessment Exercises (SAE). At some point in the course, you will be required to submit assignments for assessment purposes. At the end of the course there is a final examination. This course should take about 15 weeks to complete and some components of the course are outlined under the course material subsection.

Course Material

The major components of the course, What you have to do and how you should allocate your time to each unit in order to complete the course successfully on time are listed follows:

1. Course guide
2. Study units
3. Textbooks
4. Assignments
5. Presentation schedule

Study Units

There are 13 units in the course which should be studied cautiously and meticulously.

MODULE 1: THE NATURE AND SCOPE OF INFORMAL ECONOMY

Unit 1: Historical development of the Concept of Informal Economy.

Unit 2: Definitions and Scope of Informal Economy.

Unit 3: Theories of Informal Economy.

Unit 4: Characteristics of Informal Economy.

MODULE TWO: INFORMAL ECONOMY AND THE NATIONAL ECONOMY.

Unit 1: Contributions of Informal Economy to National Economy.

Unit 2: .The State and Informal Economy.

Unit 3: Revenue Generating Capacity in Informal Economy.

MODULE THREE: INFORMAL ECONOMY AND DEVELOPMENT

Unit 1: Dynamics of the Informal Economy.

Unit 2: Globalization and the Informal Economy.

Unit 3: Advantages and Disadvantages of the Informal Economy.

MODULE FOUR: THE INFORMAL ECONOMY IN NIGERIA

Unit 1: The Determinants and Structure of Informal Economy in Nigeria.

Unit 2: Informal Economy in Nigeria's Development process..

Unit 3: Problems and Prospects of the Informal Economy in Nigeria.

Each study unit will take at least two hours, and it include the introduction, objective, main content, self-assessment exercise, conclusion, summary and reference. Other areas border on the Tutor-Marked Assessment (TMA) questions. Some of the self-assessment exercise will necessitate discussion, brainstorming and argument with some of your colleagues.

There are also textbooks under the reference and other (on-line and off-line) resources for further reading. They are meant to give you additional information. You are required to study the materials; practice the self-assessment exercise and tutor-marked assignment (TMA) questions for greater and in-depth understanding of the course. By so doing, the stated learning objectives of the course would have been achieved.

References for Further Reading

For further reading and more detailed information about the course, the following materials and sites are recommended:

Charmes J. (2019) A Brief History of 50 Years of Conceptualisation and Measurement of the Informal Economy. In: Dimensions of Resilience in Developing Countries. Demographic Transformation and Socio-Economic Development, vol 10. Springer, Cham. https://doi.org/10.1007/978-3-030-04076-5_2

The [ILO portal on the informal economy](#) provides access to numerous publications, reports and statistics on the informal economy.

The [ILO Library guide](#) includes a page on the informal economy which facilitates access to a broad range of material, grouped into different themes, sectors and regions.

[wiego.org](#) focuses on the [concrete reality of the working poor](#), especially women, in the informal economy. Our research and policy agenda reflects their needs and demands

particularly [sectors that employ large numbers of poorer working women](#) (domestic work, home-based production, street vending, and waste picking). There are interesting videos for you to view and download.

Assessment

There are two types of assessments in the course. First is the tutor-marked assignments; and the second is a written examination. In attempting the assignments, you are expected to apply the information, knowledge and techniques gathered during the course. The assignments must be submitted to your course tutor for formal Assessment in accordance with stated deadlines.

Tutor-Marked Assignments (TMAs)

There are three tutor-marked assignments to be submitted in this course. The TMAs constitute 30% of the total score. You are encouraged to work all the questions thoroughly.

Assignment questions for the units in this course are contained in the Assignment File. You will be able to complete your assignments from the information and materials contained in your set books, reading and study units. However, it is desirable that you demonstrate that you have read and researched more widely than the required minimum. You should use other references to have a broad viewpoint of the subject and also to give you a deeper understanding of the subject.

When you have completed each assignment, send it, together with a TMA form, to your tutor. Make sure that each assignment reaches your tutor on or before the deadline given in the Presentation File. If for any reason, you cannot complete your work on time, contact your tutor before the assignment is due to discuss the possibility of an extension. Extensions will not be granted after the due date unless there are exceptional circumstance

Final Examination and Grading

The final examination will be of two and a half hours duration and have a value of 70% of the total course grade. The examination will consist of questions which reflect the types of self-assessment practice exercises and tutor-marked problems you have previously encountered. All areas of the course will be assessed

Revise the entire course material using the time between finishing the last unit in the module and that of sitting for the final examination. You might find it useful to review your self-assessment.

Course Marking Scheme

The Table presented below indicates the total marks (100%) allocation.

Assignment	Marks
Assignments (Best two out of three marked assignments)	30%
Final Examination	70%
Total	100%

How To Get The Most From This Course

In distance learning, the study units replace the University lecturer. This is one of the great advantages of distance learning; you can read and work through specially designed study materials at your own pace and at a time and place that suit you best.

Think of it as reading the lecture instead of listening to a lecturer. In the same way that a lecturer might set you some reading to do, the study units tell you when to read your books or other material, and when to embark on discussion with your colleagues. Just as a lecturer might give you an in-class exercise, your study units provides exercises for you to do at appropriate points.

Each of the study units follows a common format. The first item is an introduction to the subject matter of the unit and how a particular unit is integrated with the other units and the course as a whole. Next is a set of learning objectives. These objectives let you know what you should be able to do by the time you have completed the unit.

You should use these objectives to guide your study. When you have finished the unit you must re-check whether you have achieved the objectives. If you make a habit of doing this you will significantly improve your chances of passing the course and getting the best grade.

The main body of the unit guides you through the required reading from other sources. This will usually be either from your set books or from a readings section.

Self-assessments are interspersed throughout the units. Working through these tests will help you achieve the objectives of the unit and prepare you for the assignments and the examination. You should do each self-assessment exercises as you come to it in the study unit. Also, ensure to master some major historical dates and events during the course of studying the material.

The following is a practical strategy for working through the course. If you run into any trouble, consult your tutor. Remember that your tutor's job is to help you. When you need help, don't hesitate to call and ask your tutor to provide it.

1. Read this Course Guide thoroughly.
2. Organize a study schedule. Refer to the 'Course overview' for more details. Note the time you are expected to spend on each unit and how the assignments relate to the units. Important information, e.g. details of your tutorials, and the date of the first day of the semester is available from study centre. You need to gather together all this information in one place, such as your diary or a wall calendar. Whatever method you choose to use, you should decide on and write in your own dates for working breach unit.

3. Once you have created your own study schedule, do everything you can to stick to it. The major reason that students fail is that they get behind with their course work. If you get into difficulties with your schedule, let your tutor know before it is too late for help.
4. Turn to Unit 1 and read the introduction and the objectives for the unit.
5. Assemble the study materials. Information about what you need for a unit is given in the 'Overview' at the beginning of each unit. You will also need both the study unit you are working on and one of your set books on your desk at the same time.
6. Work through the unit. The content of the unit itself has been arranged to provide a sequence for you to follow. As you work through the unit you will be instructed to read sections from your set books or other articles. Use the unit to guide your reading.
7. Up-to-date course information will be continuously delivered to you at the study centre.
8. Work before the relevant due date (about 4 weeks before due dates), get the Assignment File for the next required assignment. Keep in mind that you will learn a lot by doing the assignments carefully. They have been designed to help you meet the objectives of the course and, therefore, will help you pass the exam. Submit all assignments no later than the due date.
9. Review the objectives for each study unit to confirm that you have achieved them. If you feel unsure about any of the objectives, review the study material or consult your tutor.
10. When you are confident that you have achieved a unit's objectives, you can then start on the next unit. Proceed unit by unit through the course and try to space your study so that you keep yourself on schedule.

11. When you have submitted an assignment to your tutor for marking do not wait for its return before starting on the next units. Keep to your schedule. When the assignment is returned, pay particular attention to your tutor's comments, both on the tutor-marked assignment form and also written on the assignment. Consult your tutor as soon as possible if you have any questions or problems.

12. After completing the last unit, review the course and prepare yourself for the final examination. Check that you have achieved the unit objectives (listed at the beginning of each unit) and the course objectives (listed in this Course Guide).

Tutors and Facilitation

There are some hours of online facilitation provided in support of this course. You will be notified of the dates, times and website address and particulars of your tutor as soon as you are registered for the course.

Do not hesitate to contact your tutor by telephone, e-mail, or discussion board if you need help. The following might be circumstances in which you would find help necessary. Contact your tutor if.

- You do not understand any part of the study units or the assigned readings
- You have difficulty with the self-assessment exercises
- You have a question or problems with an assignment, concepts, tables or diagrams etc

You should try your best to attend the online facilitation because it is the only medium you have to interact with your tutor and to ask questions which are answered instantly. You can raise any problem encountered in the course of your study. To gain the maximum benefit from

course tutorials, prepare a question list before attending them. You will learn a lot from participating in online discussions.

MODULE 1: THE NATURE AND SCOPE OF INFORMAL ECONOMY

Unit 1: Historical development of the Concept of Informal Economy

Unit 2: Definition and Scope of Informal Economy.

Unit 3: Theories of Informal Economy

Unit 4: Characteristics of Informal Economy

Unit 1: Historical Development of Informal Economy

CONTENT

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1.1 The Informal Economy in the developing world

3.1.2 Informal Economy in the developed world.

4.0 Conclusion

5.0 Summary

6.0 Tutor-Marked Assignment

7.0 References/ Further Readings

1.0 INTRODUCTION

The traditional economy bogusly characterised as “informal economy” has since the dawn of human civilization been a vehicle in the economic growth and development of societies, and as a marker of societal development. Until the 19 century expansion of Western civilization to other parts of the world, the idea of an “informal sector” in a national economy was unknown. The Eurocentric dualisation of societies in the aftermath of European expansion and colonial civilization mission led to the demarcation of societies in to two distinctive enclaves of traditional or informal (non-Western) in contrast to modern or formal (Western) which was applied to economic activities as well. Ever since the distinction, the informal/ traditional economy is viewed in neo-liberal thinking as an obstacle to the growth and overall development of nations in the global South. Hence, both the colonial and neo-colonial nea-liberal development agendas in the global South aimed at formalising their economies along Western lines. Unfortunately, the precise boundaries and features of an informal economy are yet to be mapped out to facilitate the envisaged gradual transformation of the “sector” to a formal one. Instead it has stubbornly persisted as to become the most dominant in the economies of the developing world, while maintaining niches in the economies of the formal developed world. The persistence of informal economies across the globe, according to neo-Marxist literature, derives from the sway of capitalist system with its inherent profit maximization which the informality renders.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- Briefly explain the historical development of the idea of an informal economy and its applicability to both the developing and developed countries.
- .Explain how the Europeans’ acquisition of colonies and spheres of influence in the non-European territories since the 19 century perpetuated the informal economy.

3.0 MAIN CONTENT

3.1.1: The Informal Economy in the Developing World

The evolution of informal economy as a concept to describe national economic activities cuts across the conventional division of societies into developed and developing countries because the informal economy is found not only in 21st century across the globe, but also in the past societies. For instance, Hart, the British anthropologist who coined the concept of “informal sector” in his 1971 lecture at the Institute for Development Studies (IDS) in Sussex to designate the unskilled Ghanaian rural migrant community in Accra, admitted that “the social phenomenon (ie informal sector) is real enough and of some antiquity”(Hart,1985). This is because the reality of informal sector derives from its pivotal role in the development of pre-industrial capitalist societies globally before its current insignificance. As Hopkins (1973, 244) notes with regard to West Africa, that the domestic economy was ignored by the colonial administration because it was an insignificant source of state revenue, while to the foreign firms it was outside the export-import trade. To date, most neo-liberal attacks on informal economy hinges on tax evasion being a defining feature of informality. For example, Ulyseas (2020) argued that in both developed and developing countries many formally registered firms evade taxes by underreporting revenues and many formal firms hire some fraction of their labor force informally to evade the costs implied by the labor regulation.

We shall explain the genesis in the development of informal economy concept first in the developing world before locating its empirical evidence in the developed world. Thus, to better understand the concept of contemporary informal economy in the developing world, it is necessary to situate it in the context of 19 century European expansion (Imperialism) into what they considered as underdeveloped world, which is now generally referred to as developing world or less developed countries (LDCs). The expansion has two implications on the reorientation and reconsolidation of the indigenous economies of the underdeveloped world.

Firstly, the expansion was largely economically motivated by the needs to acquire raw materials, markets for surplus manufactured goods and profitable investment opportunities for surplus capital (Wolff,1974, 313). Consequently, the indigenous economies of those regions that had hitherto sustained economic growth and development propelled by native agriculture, industries and long distance trade were systematically confined to supplying raw materials, labour, and consumers on informal terms. In the process many native industries were obliterated such as the textile industries in India and elsewhere. It was in this context that Rodney wrote his *How Europe Underdeveloped Africa* to explain the destruction of indigenous industries and skills as the main cause of the continent's underdevelopment.

And secondly, as the expansion contained a cultural content expressed in "civilisation mission", the colonial state undertook policies to civilise/modernise the non-Western cultures. Accordingly the interaction between the colonies/ spheres of influence and the European colonists was explained from a dualised lens of informal/traditional enclaves in contrast to the formal/modern enclaves of Europeans. Elaborating on this Eurocentric duality, Hart.(1985) observed that although informal economy does not exist in any empirical sense other than as a way of contrasting some phenomena with that of the West, yet from the standpoint of Western civilization, whatever it cannot control or comprehend is "informal".. In colonial Uganda for instance, the British colonial urban policy of racial segregation produced a spacial duality which separated Kampala city exclusively for European and Indian settlers with their trading areas around the city, and the proximate Mengo African community which was excluded from the city in both administration and economy because its informal vending was considered chaotic and violated the city's aesthetic and sanitary standards (Young,2019).

The idea of informal sector as a separate enclave received further boost from the burgeoning development economics literature of the day. For example, in 1954 Sir Arthur Lewis's published paper on 'Economic Development with unlimited supplies of labour' in which he explained a dual economy thesis: that in the early stages of development, a small, urban, industrialised sector which provides wage employment interacts with its surrounding large,

rural traditional sector that supplied labour. Similarly, the modernisation theory despite its many versions converge on the following propositions that: (1) contemporary developing societies are at a pre-modern stage of evolutionary development, and for them to achieve economic growth they need to adopt social, political, and economic institutions of the West; (2) the industrialized West is the epitome of modern people, values, institutions, and societies and a template for the rest of the world (3); tradition is opposite to and incompatible with modernity; (4) the causes of delayed economic and social development (i.e., underdevelopment) are to be found within the traditional society (5) modernization is the result of the importation of complex Western technology which will clear away traditional structural and cultural institutions that are incompatible with such development(Encyclopedia of Sociology, n.d).

The ideas of Lewis, modernisation theorists, and other development economists played important roles in influencing the concern of international community and political leaders in developing countries on the need to pursue national development policies and plans that reduce informality and promote economic growth and development. Thus, in his speech at the United Nations General Assembly on 25 September 1961, the United States President John F. Kennedy not only appreciated the efforts of the UN in encouraging economic growth, but expressed his concern about development prospects in poor countries, and then pledged his country's willingness to share its capital and technology to help other nations help themselves. He also proposed that the 1960s be called United Nations Development Decade which was accordingly endorsed (Chauvin, n.d.).

The idea that "complex Western technology" should be the pivot around which the economic process in the developing world should revolve found expression not only in President Kennedy's 1961 speech, but also in the sway of import-substitution industrialisation projects that pervaded the implementation of the UN Development Decade program in line with what Kuhn (n.d..) called "growth-by-industrialization." Although by the end of the decade the 5% growth target had been achieved, the strategy of "growth-by-industrialization failed for a number of reasons: the industrialised countries granted less development aid than expected; they

declined to make trade concessions to the poor countries; they paid low prices to developing countries' produce; and the mismatch between the high population growth that occurred in the period and the feeble industrial development which failed absorb surplus labour (Kuhnen, n.d). The persistent widespread unemployment in developing world led the development economist Hans Singer in 1970 to attribute the trend to an imbalance between the extensive use of capital-intensive technology and limited creation of jobs caused by high population growth in response to progress in health and disease control (Chen,2012). The inability of modern economic growth to generate adequate employment opportunities in the wake of high population growth in the developing world became the preoccupation of International Labour Organisation (ILO) to help solve unemployment and underemployment problems particularly in the developing world. Accordingly, the ILO multi-disciplinary "employment missions" were sent to various developing countries such as Hans Singer and Richard Jolly 1972 Kenya Mission in which they adopted the concept of informal sector in their influential ILO report. The concept not only strengthened the formal/informal dualism, but also provided a good framework for researchers in the Institute for Development Studies and the ILO economists who enthusiastically adopted it although its meaning, boundary and implications remained ambiguous and widely contested (Benanav, 2019; Chen, 2012; Chaudhuri, and Mukhopadhyay, 2010.; Hart,1985; WIEGO, n.d).

3.1.2 Informal Economy in the Developed World

Contrary to the propositions of Lewis and modernization theory that the informal economy will gradually and eventually wither away under the weight of modernity, pockets of informal economic activities still thrive in the West where modernization was born. For instance, Miller (2006) citing .Alexander, (2003) notes that despite human rights principle and rule of law heritage in the US, so many people are being trafficked in to the country annually some of whom worked in sweatshops in Los Angeles's garment industry characterized by low minimum wage, job insecurity, and poor working conditions including sexual favors and harassment by supervisors. Swaminathan (1991) also notes considerable growth in small-scale informal enterprises in European countries particularly in Italy and Spain, while Williams (2014) reports

that in 2012 the size of the informal economy in percentage of GDP in the United Kingdom was 10.1 (equivalent to £150 billion per annum); 10.8% in France; 13.3% in Germany and 21.6% in Italy. The survival of informal economy in the developed countries is linked to two factors, the first being the contention of neo-Marxists as captured in Bromley (1978) cited in Swaminathan (1991) who argued that the informal economy have important links with the formal one in a dependent and subordinate relationship to the capitalist sector to which it provides cheap labour and wage goods. And the second based on neo-liberal argument of flexible specialization which refers to the development of a specialised and small scale system of production that exhibits flexibility in production in contrast to the relatively rigid and large scale, mass production factory system.

But whereas the informal economy is shrinking in the developed countries, it is inversely expanding in developing countries except in some countries such as China and India which are experiencing rapid industrial growth. For instance, the share of informal economy in percentage contribution to GDP in Italy has progressively declined from 26.1% in 2003 to 24.4% in 2005 and 22.3% in 2007 (see Table 9) before settling at 21.6% in 2012. The divergent outcome between the developed and developing countries could be attributed to the prediction of modernisation theory which correlated modernisation with decline in informality in the developed economies, although it was flawed in the developing world where poverty has persisted, and as Williams (2014) predicts, the greater is the percentage of the population at risk of poverty in a country, the larger is the informal economy.

4.0 CONCLUSION

In this unit you have learnt that the informal economy prevails not only in the developing countries but also in the developed ones as well for variety of reasons. In the developing world it grew in response to colonial rule, inappropriate industrialization strategy based on capital intensive variety, and high population growth in the face of low formal employment

opportunities. In the developed world it declines in response to modernization of economic activities and institutions.

5.0 SUMMARY

Although the idea of informal economy has its genesis in the 19 century European expansion across the globe, the system of production that the Europeans designated as “informal” grew out of pre-industrial urbanization, crafts production and long distance several centuries ago. Its wide spread prevalence in the developing world stems from the failure of modernisation programmes, the profit maximisation principle of capitalist system and high population growth which in combination caused unemployment and underemployment to grow. Consequently, the unemployed have no alternative other than to embrace informal economy either for survival or as a stepping stone to formal employment. Its survival in the developed countries in contradiction to modernisation thesis has been linked to profit maximization and the cost saving flexible production strategy based on smaller units.

6.0 TUTOR-MARKED ASSIGNMENTS

1. How did European global expansion in the 19 century give rise to the idea of informal economy?
2. Explain the persistence of informal economy in the developed countries despite modernisation.

7.0 REFERENCES/FURTHER READING

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Unit 2: Definition and Scope of Informal Economy

CONTENT

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1.1 Definition of Informal Economy.

3.1.2 The Scope of Informal Economy.

4.0 Conclusion

5.0 Summary

6.0 Tutor-Marked Assignment

7.0 References/ Further Readings

1.0 INTRODUCTION

Like all other concepts, informal economy lacks a universal definition for a number of reasons: the diversity in the range of activities, differing sizes in its workforce; the formal and informal relationships; legal and illegal activities; and its continuity across developed, transition and developing countries among others. But despite its diversity and complexities operational definition are necessary to guide study, research and policy formulation not only to understand it, but also to improve its contribution to national development.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- Develop a robust understanding of an informal economy.
- Delineate the major activities in the informal economy.

3.0 MAIN CONTENT

3.1.1 Definitions of Informal Economy.

Although Hart has been associated with the construction of the term “informal sector,” (1971), based on his fieldwork in Nima (Accra low income neighbourhood) for a PhD in Anthropology at Cambridge University, he did not define it conceptually other than as “economic activities which take place outside the framework of official institutions” and to delineate its contrasting features with the formal sector as cited in Charmes (n.d) as follows:

1. A- Informal income opportunities (legitimate)

- i. Primary and secondary activities – farming, market-gardening, building contractors and associated activities, self-employed artisans, shoe-makers, tailors, etc., manufacturers of beers and spirits,

- ii. Tertiary enterprises with relatively large capital inputs – housing, transport, utilities, commodity speculation, rentier activities, etc.,
- iii. Small scale distribution – market operatives, petty trade, street hawkers, caterers in food and drink, bars, carriers (kayakaya), commission agents and dealers,
- iv. Other services – musicians, launderers, shoeshiners, barbers, night soil removers photographers, etc.; brokerage and middlemanship (the maigada system in markets, law courts, etc.); ritual services, magic and medicine,
- v. Private transfers payments – gifts and similar flows of money and goods between persons; borrowing, begging.

1. B- Informal income opportunities (illegitimate)

- i. Services – ‘spivvery’ in general; receiving stolen goods, usury and pawn-broking (at illegal interest rates), drug-pushing, prostitution, poncing (‘pilot boy’), smuggling, bribery, political corruption Tammany Hallstyle, protection rackets,
- ii. Transfers – petty theft (pickpockets, etc.), larceny (burglary and armed robbery), peculation and embezzlement, confidence tricksters (money doubling, etc.), gambling.

2. Formal income opportunities

- i. Public sector wages
- ii. Private sector wages

iii. Transfer payments – pensions, unemployment benefits (if any), etc.

.Similarly, the 1972 Kenya mission headed by Hans Singer, with Richard Jolly, Dharam Gai and John Weeks (from IDS), Ajit Bhalla and Louis Emmerij (from ILO), adopted a dual frame work to define the informal sector by contrasting it with the formal one as epitomized in Weeks (1975) quoted in Barnett, (1988, p.71): that the basis of the formal/informal dichotomy derives from the differences between them in which the former which corresponds to the “modern” is large scale; uses capital intensive and imported techniques; and it is organised on the basis of the wage labour system in contrast to the latter which is small scale and organized on the basis of family labour, clientage or apprenticeship; and uses labour intensive and local or locally adapted techniques. Furthermore, although S. V. Sethuraman of the ILO has elaborated that the informal/formal distinction upheld by the ILO is different from the preceding traditional-modern distinction that was based primarily on technology (Swaminathan,1991). Despite the elaboration the general perception of informal sector as being essentially traditional and in need of modernisation is yet to be abandoned since there exists cultural norms in land ownership and other matters which are considered obnoxious to modernity. At any rate however, the Kenya mission report went on to delineate the informal sector characteristics as quoted in Charmes (n.d) as follows:

(A) Informal Sector.

- (1) small scale of operation;
- (2) family ownership;
- (3) reliance on indigenous resources;
- (4) labour intensive activity, technology adapted to local conditions;
- (5) skills acquired outside the formal school system;
- (6) ease of entry into the activity; and
- (7) operation in unregulated, competitive markets.

(B) Formal Sector

- 1) difficult entry,
- 2) frequent reliance on overseas resources,
- 3) corporate ownership,
- 4) large scale of operation,
- 5) capital-intensive and often imported technology,
- 6) formally acquired skills, often expatriate, and
- 7) protected markets (through tariffs quotas and trade licenses).”

. Although the above ILO specified characteristics of informal enterprises are necessary for government action aimed at promoting employment-oriented development (Swaminathan,1991), the informal labour has not been captured to ensure that it benefits from decent work conditions and wages. Also, critics have noted other flaws such as emphasis on the organisational structure of a unit of production rather than its technology and case studies of informal activities showing important exceptions to each of the seven features, that entry into informal activities can be quite selective and competitive rather than easy; family-owned enterprises often employ non-family labour; which index to use in a definition of a small-scale enterprise: number of workers, capital stock, turnover or energy consumption etc.(Swaminathan,1991). The difficulty in an accurate and robust definition of informal economy has resulted into numerous and varied operational definitions based on whatever criteria fits the imagination of the author or the environment and context of the study area. Swaminathan,(1991) has noted the following varieties among many:

1. "enterprises operating out of a temporary physical structure" (House, 1984),
2. unskilled workers, skilled manual workers and handicraftsmen(Dasgupta, 1973)
3. "small-scale wholly African owned enterprises employing not more than 10 persons" (Aryee, 1976)
4. "self-employed [persons] with less than 13 years of schooling" (Trrell, 1976)

5. "small-scale enterprises whose labour input is predominantly provided by relatives of the owner" (ILO, 1976)
6. "community of traditional artisans and traders, small in scale and bound to a long established range of goods and services" (Hofmann, 1986)

In another vein, the Nigeria's Bank of Industry defines the informal sector as "any economic activity or source of income that is not fully regulated by the government and other public authorities...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" (BOI, 2018).

Also the Organisation for Economic Cooperation and Development (OECD) defined the informal sector as "...comprising those house hold unincorporated enterprises with market production that are:

- Informal own account enterprises (optionally, all, or those that are not registered under specific forms of national legislation);
- Enterprises of informal employers (optionally, all those with less than a specified level of employment and/or not registered and/or employees not registered (OECD, 2003).

Perhaps, the most robust definition of the informal economy concept remains the ILO because of its ability to draw other organisations and institutions to the task of formulating a universally agreed operational definition: the World Bank, IMF, international Expert Group on Informal Sector Statistics (called the Delhi Group), OECD, the global network Women in Informal Employment: Globalizing and Organizing (WIEGO)) etc. Most importantly also, the ILO hosts conferences of the International Conference of Labour Statisticians (ICLS) every five years and coordinates the outcomes to develop new conceptual frameworks for measuring informality. In this regard, the most significant of such conferences on the definition of informal economy is that of 2003 which accepted the 2002 International Labour Conference resolution that the term "informal economy" should be substituted for "informal sector" to better describe the sheer

scope and diversity of the phenomenon around the world. Consequently, the 17th International Conference of Labour Statisticians of 2003 adopted the resolution, and accordingly, the informal economy which replaced the earlier concept of informal sector was defined as “all activities that are, in law or practice, not covered or insufficiently covered by formal arrangements” (ILO, n.d.)^c Moreover the definition of informal workers was expanded to tally with the adopted concept of informal economy. Thus, the 2003 ICLS defined informal employment as “employment without legal and social protection—both inside and outside the informal sector” which it spelled out to include the following categories of work:

(1) Informal self-employment including:

- employers in informal enterprises
- own account workers in informal enterprises
- contributing family workers (in informal and formal enterprises)
- members of informal producers’ cooperatives (where these exist)³

(2) Informal wage employment: employees hired without **social protection contributions** by formal or informal enterprises or as paid domestic workers by households:

- employees of informal enterprises
- casual or day labourers
- temporary or part-time workers
- paid domestic workers
- contract workers
- unregistered or undeclared workers
- industrial outworkers (also called homeworkers (ILO.(n.d.)^c; Chen, 2012).

The substitution of informal sector with informal economy marked the abandonment of the earlier dualist framework by ILO in tune with the positions of Portes and other critics of dualism (Benanav, 2019). Even the Kenya mission report of 1972 is said to have distanced itself from the “informal sector” concept which it claimed originated not from its high-level foreign

development experts, but from the work and the staff of the Institute of Development Studies of the University of Nairobi (ILO., n.d.)^a. Another milestone in the adoption of informal economy frame work is the integration of informal workers with informal enterprises for a better measurement of informal economy across nations to identify the causes and consequences of informality; the characteristics of informality; and the linkages between the informal economy and formal regulated economy (ILO. ,n. d.)^c. With this development, the informal economy is now recognized and accepted as an empirical reality in national development process with its intrinsic laws of motion, but which for the sake of national development ought to be formalized in tune with global reality. Formalisation would optimize its contributions to fiscal growth through tax system to enable the state promote meaningful development, while compliance with labour regulation would protect workers' rights and welfare as a necessary condition for productivity and overall national growth and development. But the conventional Western centric formalist format as espoused in modernization theory which requires whole sale adaptation to Western form of formality has largely failed over the years and calls for new understanding of varied trajectories to formalization as explained in Module two; Unit three. Also, despite this landmark Benanav (2019) observed that even 2003 definition of informality failed to capture the growth of atypical informal employment relationships within the formal enterprises in many countries including clandestine employment, involuntary part-time work, work on short-term contract, casual work and 'labour on call. The ILO had already realised the shortcomings of the 2003 statistical standards for measuring the informal economy which it hoped to address in the 21st ICLS in 2023 (I LO, n.d.)^b Moreover the definition of informal workers was expanded as a result of the new concept of informal economy. Being an integral part of informal economy, the 2003 ICLS defined informal employment as "employment without legal and social protection— both inside and outside the informal sector" which it spelled out to includes the following categories of work:

Informal self-employment including:

- employers in informal enterprises
- own account workers in informal enterprises
- contributing family workers (in informal and formal enterprises)

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The substitution of informal sector with informal economy marked the abandonment of the earlier dualist frame work by ILO in tune with the positions of Portes and the underground school critics of dualism (Benanav, 2019). In fact the Kenya mission report of 1972 distanced itself from the “informal sector idea” which it claimed originated not from its high-level foreign development experts, but from the work and the staff of the Institute of Development Studies of the University of Nairobi (ILO., n.d.)^a. Another milestone in the adoption of informal economy frame work is the integration of informal workers with informal enterprises for a better measurement of informal economy across nations on the causes and consequences of informality; the characteristics of informality; and the linkages between the informal economy and formal regulated economy (ILO. ,n. d.)^c. With this development, the informal economy is now recognized and accepted as an empirical reality in national development process with its intrinsic laws of motion, but which for the sake of national development ought to be formalized in tune with global reality. Formalisation would optimize its contributions to fiscal growth through tax system to enable the state promote meaningful development, while compliance with labour regulation would protect workers' rights and welfare as a necessary condition for productivity and overall national growth and development. But the conventional Western centric formalistion format as espoused in modernization theory which requires whole sale adaptation to

Western form of formality has largely failed over the years and calls for new understanding of varied trajectories to formalization as explained in Module two; Unit three.

But as Benanav (2019) observed, even in 2003, the definition of informality that the ILO had standardized had failed to capture the growth of atypical informal employment relationships within the formal enterprises in many countries including clandestine employment, involuntary part-time work, work on short-term contract, casual work and 'labour on call. However, the ILO had already realized the weaknesses of 2003 statistical standards for measuring the informal economy and had taken measures to address them in the 21st ICLS in 2023 (ILO, n.d.)^b

3.1.2 The Scope of Informal Economy.

The scope of informal employment is very considerable because of its three fundamental features. First, its global spread cuts across all nations in the developed, transition and developing economies. For instance, in the developing world where it predominates more than one-half of non-agricultural employment are said to be informal: 82 per cent in South Asia; 66 per cent in Sub-Saharan Africa; 65 per cent in East and Southeast Asia; 51 per cent in Latin America; 45 in the Middle East and North Africa; 33 per cent in China's six cities; and 10 per cent in Eastern Europe and Central Asia (Vanek et.al, 2014). Second, the heterogeneity of its products and services; differing sizes in capital requirements and labour input; and the incidence of illegal goods and services is another source of diversity. Thirdly the articulation of the informal economy with the formal one through contractual relationships and informal employment in formal firms poses a demarcation problem between the two segments. These challenges notwithstanding table one below provides a glimpse of some of the predominant and conspicuous goods and services in the informal economy.

TABLE ONE
Scope of Informal Activities

CATEGORY	ACTIVITIES
DOMESTIC WORKERS	Sweeping ;cleaning; washing clothes and dishes; shopping and cooking; care to children, elderly, and disabled; gardening, driving, and security services etc.
HOME-BASED WORKERS	Production of goods or services in or near their homes for local, domestic or global markets ; assembling of electronic parts; furniture and fixtures; IT services; garment workers and embroiderers; incense-stick and cigarette rollers; football or kite makers; shoe making; hair plaiting; Quranic/Almajiri school system; local crafts; metal works; auto-mechanic workshops; etc.
STREET VENDORS	Provide easy access to a wide range of goods and services in public spaces: fresh vegetables; prepared foods; building materials; garments; crafts, consumer electronics; auto repairs; haircuts and saloons; books; mobile phones; second hand clothing and electronics; taxi drivers, cart pullers, bicycle peddlers, rickshaw pullers, and camel, bullock, or horse cart drivers etc.
WASTE PICKERS	Collection of household or commercial/industrial waste from private waste bins, dumpsters, along streets and waterways, dumps and landfills; collection and selling of recyclables to middlemen or businesses; working in recycling warehouses and recycling plants owned by their cooperatives or associations etc.
AGRICULTURAL WORKERS	Production and processing of agricultural crops for consumption by humans, animals and industries; livestock breeding, poultry, fishing hunting etc.

Source: compiled from Alfery and Pryor,(n.d.). Occupational Groups in the Informal Economy. wiego.org , and expanded by the author for agricultural workers category and others in the rest of the categories

Although other features in the scope of informal economy have not been included in the table other than to capture the magnitude of differing activities, yet it is pertinent to draw attention to other un-captured statistics which shows that predominance of females in the informal economy over males in the developing countries, except in East and Southeast Asia, although the male predominance is not much as shown in table two. Also Vanek et.al.(2014) have reported that in most OECD countries, women predominate in temporary and part-time employment more than men. Also, Houseman and Osawa (2003) have observed that part-time and temporary help employment have experienced some growth especially in France, Germany, the Netherlands, Spain and Japan..

TABLE TWO

Percentage of Women and Men in the Informal Economy in Developing World

REGION/ COUNTRY	FEMALE	MALE
South Asia	83	82
Sub-Saharan Africa	74	61
Latin America/Caribbean	54	48
Urban China	36	30
East and Southeast Asia(excluding China)	64	65
Middle East and North Africa	47	35

Compiled from Vanek et.al.(2014). **Statistics on the Informal Economy: Definitions, Regional Estimates and Challenges.** wiego.org

TABLE THREE

**Distribution of Informal Economy Industries
(As Percentage of Non-Agricultural Employment)**

REGION	INDUSTRIES	
	Manufacturing/Construction	Trade
MENA*	41	32.6
Latin America	41	34.6
Sub-Saharan Africa	24.1	34.0
Asia	26.8	26.4
Transition Countries	18	22.6

Source: constructed from figures extracted in Charmes, J.(2012). The Informal Economy Worldwide: Trends and Characteristics. <https://journals.sagepub.com>

MENA* refers to Middle East North Africa region.

4.0 CONCLUSION

In this unit you have been introduced to a variety of definitions of informal economy from some scholars and organisations to acquaint you with the difficulties involved in defining such a vast and heterogeneous sector which also shaped its scope in incorporating diverse activities. You have also been exposed to the inappropriateness of the concept of informal sector which is now replaced by informal economy which is more robust in dealing with its heterogeneity. An operational definition of the concept is still an unconquered terrain because of its melting pot nature where the formal and informal, the rich and the poor, the skilled and unskilled converge in pursuit of set motivations. As regards the scope of informal economy the diversity and heterogeneity issues as well as the adequacy and reliability of national statistics have combined to stifle accurate measurement. Nevertheless, the predominance of women in the informal economy is very glaring, whilst in industry agric, construction are more imposing

5.0 SUMMARY

Despite the varied definitions of informal economy there are shared similarities. Generally, all informal activities evade state taxation and regulations; that it a source of cheap labor for maximum profits by formal firms; that the conditions of work and wages are poor. There are also nuances in its scope which shows that the informal economy is more wide spread in developing countries relative to developed ones; and that females are more likely to work in informal economy than males.

6.0 TUTOR-MARKED ASSIGNMENT

1. Critically evaluate the 2003 ILO definition of informal economy?
2. Using your community as a case study compile a list of informal economic activities by industries and by gender..

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Unit 3: Theories of Informal Economy

CONTENT

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 The Modernisation Theory

3.2 The Neo-Marxist Theory

3.3 The Neo-Liberal Theory

3.4 The Informalisation Theory.

4.0 Conclusion

5.0 Summary

6.0 Tutor-Marked Assignment

7.0 References/ Further Readings

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- Explain the main theories of informal economy.
- Evaluate their major strengths and weaknesses.

1.0 INTRODUCTION

The theories of informal economy arose to fill in gaps in our understanding of why and how the segment persisted in both developing and developed economies. Initially it was explained as a negative mirror of formal and modern Western civilization in non-European societies especially in modernisation theory. The post war collapse of the Keynesian model of economic

development in 1970s gave impetus to the rise of alternative and often critical theories of informal economy: neo-Marxist; neo-liberal; and informalisation theories.

3.0 MAIN CONTENT

3.1 The Modernisation Theory.

The theory is the first to be developed in the second half of the 20th century and is said to be rooted in Arthur Lewis 1950s works, and those of Harris and Todaro. It asserted that an economic system is divided into two distinct sectors: the formal which symbolizes development, advancement, and modernity, and the informal which is traditional, underdeveloped, backward, and pre-modern. The theory predicts that informal economies will shrink as nations entered advanced stage of economic development. This view of two different economic enclaves in national economies which developed as a consequence of European imperialism is also referred to as dualism theory, and or formalization theory because all non-Western countries are collectively labeled as “developing” or Third World in contrast to the “developed” or First World (Williams and Windebank,1998). Recently La Porta and Shleifer (2018) have used the theory to analyse the workings of informal economy, and have confirmed its explanatory validity in their research findings which discovered that: informal firms are inefficient because they use low quality inputs and are run by low educated workers; that firms are small and wages are low which lead to tax evasion and disregard for regulations; there is no evidence of informal firms becoming formal as the vast majority of them began and ended their lives as unproductive firms; and that high productivity comes from formal firms and it rises rapidly with the size. They therefore concluded that to stimulate economic development the state should support the creation of formal firms, modern practices and educated managers.

Similarly, Williams and Kedir (2018) also found that institutions are the main drivers of both formal and informal economies because all societies have dual institutions which predispose people to choose between formal or informal options: formal institutions prescribe legally

binding laws and regulations which economic institutions ought to obey, but informal entrepreneurs choose to operate outside the formal rules of the game but within the norms, values and beliefs of informal institutions that govern their behavior, whilst criminal entrepreneurs operate outside both formal and informal rules of economic behavior. The argument has offered further support to the modernisation theory because as noted above La Porta and Shleifer have called for modern practices in informal economy to stimulate economic development.

Until the attacks of critical and Marxist scholars modernisation thesis was an admired development theory of development economists including the ILO (before the 2003 revision of informal economy concept) which adopted the modernisation framework in its development strategy for developing countries during the 1970s Development Decade programme. But as critics rightly pointed out, the informal economy has been thriving across the globe in both developing and developed countries and that economic growth does not necessarily bring about a reduction of informal activities as envisaged in modernisation theory because in some countries informal economies are found to grow alongside the development of modern economies (Chen 2012; Nackerdien and Yu, 2017; Huang and Wang, 2020).

3.2 The Neo-Marxist Theory

Influenced by Keynesianism in which a greater degree of government regulation of economy is advocated, the neo-Marxist theory upheld the state's central role in the economy but gave more radical twist in the interpretation of Keynes (Gerry, 1987), to accord with Marxism. Popularised in the 1970s partly because of the failure of modernisation theory, the neo-Marxist theory, often called dependency theory or political economy posit that the capitalist state (either colonial or post-colonial) intervenes in the economies of the underdeveloped or developing countries to promote subordinate exchange relations with the industrialised economies which inhibits the developmental potentials of informal economy by reducing it to petty commodity production and distribution of formal manufactured goods and services. This unequal relationship promoted capital accumulation in industrialised economies, and poverty in the developing countries.

Unlike the modernization theory of dual relationship between developed and developing countries along modern and traditional dichotomy, neo-Marxist theory posit an integrated triad relationship of the core industrialised countries, the developing semi-peripheral and the underdeveloped peripheral countries. The prevalence of informal employment outside the core region is said to be due to a lack of state intervention to protect workers peasants from exploitation and poverty because the large formal capitalist firms have reduce the informal economy to an enclave for raw materials, cheap labour, off-shoring industries, subcontracting, and consumption of manufactured goods (Gerry, 1987;Williams,2015; Chen 2012; Williams and Kedir, 2018).

Elaborating on the structure of informal economy (Kay 2011) quoted in Nackerdien and Yu,(2017) divides the informal economy in to two components of dynamic and static sectors with the former composed of small firms which try to develop without costly regulation, and the latter consisting of workers who are unable to find work in the formal sector. Thus, whereas the former facilitates off-shoring industries, subcontracting chains, and flexible specialization, the latter constitutes what Marx in the 19 century called “reserve army of labour”, and the main source of cheap labour through maintaining low wages, poor working conditions and a compliant workforce by employers.

3.3 The Neo-liberal Theory

Unlike the neo-Marxist theory which incorporated Keynesianism in its theoretical formulation, the neoliberal theory arose in opposition to the proposition of Keynesian economists’ call for state intervention in the economy in the early 1970s before the policies fell apart in the wake of economic crises that struck on the world economy. As the protagonists of neo-liberalism such as Becker, de Soto, London and Hart, Nwabuzor, Sauvy, etc. asserted, informal employment is the result of high tax rates, corrupt state system and cumbersome bureaucracy coupled with too much state interference in the smooth operation of free market which force workers to rationally

embrace the informal economy to escape the overbearing state (Williams, 2015; Monbiot, 2016; Huang and Wang, 2020).

In spite of its onslaught against the claims of modernisation and neo-Marxist theories, the neo-liberal propositions that burdensome taxation and too much state interference cause informality have been proven invalid in an evaluative study in 41 developing and transition economies. By Williams (2015) who discovered that there is little evidence in support of the claims that higher levels of informal employment are prevalent in countries with higher taxes, corruption and state interference nor do tax reductions, tackling corruption and pursuing minimal state intervention eliminate informal employment. Nevertheless, he found evidence in support of the political economy perspective that higher levels of informal employment are found in economies with less state intervention to protect workers from falling into poverty. However, contrary to Williams (2015) Huang and Wang, (2020) have reported that empirical research has supported the neoliberal perspective which shows positive correlation between higher tax burden or imposed heavier regulations (e.g., time-consuming business registration, high-cost labor regulation) and a higher share of the informal economy, although they warned that deregulation might lead to the deterioration of job quality and growth of indecent work in support of the neo-Marxist perspective as evidence exists that capitalist firms being essentially profit-driven lack motivations for improving the social benefits of their workers.

3.4 The Informalisation Theory

According to Gerry (1987) the informalisation originated from American sociologists who noticed the growth of a parallel system of labor organisation alongside the formal labor-employer structures in industrialised economies similar to the type found in developing countries which emulated the West's development process. Being an increasingly popular view held by both rightwing and leftwing commentators (Williams and Windebank, 1998) the theory posits that informal employment is either a new form of advanced capitalist exploitation (leftists: Amin and Frank) or a response to overregulated market (rightists: Castells and Fortes, de Soto

and Ybarra). It asserts that the renewed expansion in informal economy in the advanced economies resulted from the following: cyclical economic crises; globalised market competitions; and the sway of neoliberal free market and deregulation policies (also called Washington Consensus). Thus in order to surmount the challenges formal firms had to lean on informal economy to survive, to compete, and make profit.

Finally, and in the light of these conflicting assertions and counter assertions in theoretical and empirical positions, Chen (2012); and Huang and Wang (2020) have propose the blending of the the schools of thought to fashion out a multi-disciplinary perspective relevant to the heterogeneity of the informal economy.

4.0 CONCLUSION

For a robust understanding of informal economy, none of the three theories is universally valid, but each of them provides a methodological tool to analyse context specific situations in both developed and developing countries

5.0 SUMMARY

The four theories discussed have collectively provided a robust understanding of informal economy across the globe but individually fall short in robust explanation. However they provide frame works for explaining contemporary incidence of informal economy since the 19 century colonialism, but failed to adequately account for its resilience. The modernization theory failed to explain the incidence of informal economy in the developed countries, and the articulation of formal and informal economies to cut costs. The neo-Marxist theory viewed the post-colonial state as the mediator between capital and labour resulting in structural dependence of developing countries in exploitative relations that reproduces informal economy. This argument also fails to explain the informality in the developed economies where the state discourages informality for its inefficiency and tax evasion. The neo-liberal theory viewed the

state negatively as the main contributor to the development of informal economy globally in countries where taxes are high and regulations burdensome. Finally, the informalisation theory emerged as paradigm to forge a common ground which is highly unlikely.

6.0 TUTOR-MARKED ASSIGNMENT

1. Discuss the strengths and weaknesses of neo-Marxism in relation to the survival of informal economy
- 2.. Explain the similarities of neo-liberal and modernization theories
3. Does the infomalisation theory provide a robust analytical frame work for explaining informality?

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Unit 4: Characteristics of Informal Economy

CONTENT

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1. Earliest. Characterisation
 - 3.2 Latest Characterisation
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/ Further Readings

1.0 INTRODUCTION

Until recently, pioneer works in the 1970s on the characteristics of informal economy adopted a comparative method of delineation relative to the formal economy. Thus, Hart's anthropological characterization was rooted in the frame work of primitive societies being contrasted with the civilized Western societies as already noted, while subsequent characterizations are merely additions to his template to reflect new understanding of the sector.

2.0 OBJECTIVE

At the end of the unit, you expected to be able to:

- Itemize the main characteristics of informal economy as an independent segment in a national economy.

3.0 MAIN CONTENT

3.1.1 Earliest Characterization

Undoubtedly, Hart's 1972 characterization already noted is the earliest and forms the template for subsequent delineation of the features of informal economy particular by contrasting it with the Western conception of formality rather than as segment of a nation economy with its roots in the past. For instance, Castells and Portes (1989, pp12-13) have argued that it was because of the existence of a formal economy that the idea of "informal" was born as an integral component of total national economies in both developed and developing economies, rather than a marginal outpost.

Drawing from Hart's 1972 characterisation by contrast with formal, Milton Santos' 1979 characterisation of informal sector cited in Gerry (1987) adopted the contrast method, but with a more elaborate details. But whereas Hart and GDRC did recognise technology adaptation in informal economy to increases output and hence income, Santos disregarded the innovation saw it as purely labour intensive. Also, whereas Santos saw the functional role of the state in aiding the formal sector Hart did not.

TABLE FOUR

Milton Santos' Characterization of Formal and Informal Economies

S/No	CATEGORY	FORMAL	INFORMAL
1	Technology	Capital intensive	Labor intensive
2	Organization	Bureaucratic	Family based
3	Capital	Abundant	Scarce
4	Work hours	Regular	Irregular
5	Wages	Normal; regular	Rare; irregular
6	Inventories	Large; quality	Small; low-grade
7	Prices	Often fixed	Often negotiable
8	Credit	Banks & similar institutions	Personal; non-bank
9	Profits	Large on high turnover	Low on small turnover
10	Client relations	Impersonal	Personal
11	Fixed costs	Large	Negligible
12	Publicity	Necessary	Little or none
13	Re-use of goods	None; wasteful	Frequent recycling
14	Overhead capital	Indispensible	Dispensible
15	State aid	Large	Almost none
16	Foreign dependence	Great; often export oriented	Small or none

Source: Adapted from Gerry, C. (Sep., 1987). Developing Economies and the Informal Sector in Historical Perspective. <https://www.jstor.org/stable/1046197>

3.1.2 Latest Characterization

Unlike the earlier characterization, the GDRC's Characterization (table five) not only differs from those in table four in the size of the features of the informal economy activities but also in seeing the sector independent of formal which gave recognition to habitat which Hart and Santos ignored perhaps due their assumptions that the economy was family based.

TABLE FIVE
GDRC's Characterization of Informal Economy

<p>Employment Characteristics</p> <ul style="list-style-type: none"> • Absence of official protection and recognition • Non coverage by minimum wage legislation & social security system • Predominance of own-account and self-employment work • Absence of trade union organization • Low income and wages • Little job security • No fringe benefits from institutional sources 	<p>Enterprise Characteristics</p> <ul style="list-style-type: none"> • Unregulated and competitive markets • Small scale operation with individual or family ownership • Ease of entry • Reliance on locally available resources • Family ownership of enterprises • Labour intensive and adapted technology • Absence of access to institutional credit or other supports and protections
<p>Habitat Characteristics</p> <ul style="list-style-type: none"> • Unauthorized use of vacant public or private land • Illegal subdivision and/or rental of 	<p>Credit Characteristics</p> <ul style="list-style-type: none"> • Unregulated and non-subsidized • Easy accessibility

<p>land</p> <ul style="list-style-type: none"> • Unauthorized construction of structures and buildings • Reliance on low cost and locally available scrap construction materials • Absence of restrictive standards and regulations • Reliance on family labour and artisanal techniques for construction • Non-availability of mortgage or any other subsidized finance 	<ul style="list-style-type: none"> • Availability in very small size and for short terms • Low administrative and procedural costs • Little or no collateral requirements • Flexible interest rates (from very high to no interest at all) • Highly flexible transactions and repayments tailored to individual needs
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Source: Adapted from GDRC.(n.d.). Distinguishing Characteristics of the Informal Sector. Retrieved on September 11,2021 at https://www.gdrc.org/informal/1-is_characteristics.html

4.0 CONCLUSION

Despite the various attempts to map out the features of an informal economy, its sheer diversity and complexity have been the main stumbling blocks.

5.0 SUMMARY

The delineation of the features of informal economy was pioneered by Hart who compared it with the formal economy to deduce its features. This initial effort despite its shortcomings provided many scholars with as a standard template until recently when the informal economy was began to be studied as a segment in a national economy. Generally, the most predominant

features relate to size, poor working conditions and wages, tax evasion and disregard for state regulations, and predominance of women.

6.0 TUTOR-MARKED ASSIGNMENT

1. Why is the characterization of informal economy problematic?
2. What distinguishes earlier characterization of informal economy from the later one?

7.0 REFERENCES/ FURTHER READINGS

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MODULE TWO: INFORMAL ECONOMY AND THE NATIONAL ECONOMY.

Unit 1: Contributions of Informal Economy to National Economy

Unit 2: .The State and Informal Economy

Unit 3: Revenue Generating Capacity in Informal Economy

Unit 1: Contributions of Informal Economy to National Economy

CONTENT.

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1.1 Informal Economy and Economic Growth in Developing countries.

3.1.2 Informal Economy and Economic Growth in Developed Countries.

4.0 Conclusion

5.0 Summary

6.0 Tutor-Marked Assignment

7.0 References/ Further Readings

1.0INTRODUCTION.

The wide spread prevalence of informal economy in the developing countries; the complexity of the segment; and competing theories about its nature, composition and dynamism have divided scholars, institutions and policy makers over its contribution to national economic growth and development. For example La Porta and Shleifer (2014) using the modernization conceptual work have argued against the impact of informal economy on economic growth because it has extremely low productivity compared to the formal economy; and that the informal firms are typically small, inefficient, and run by poorly educated entrepreneurs. They added that even the lowering of registration costs cannot transform many informal firms into formal nor unleash economic growth.

But Castells and Portes(1989, p.12) taking a different lens and in a neo-Marxian tinge, asserted that the notions of economic dualism and social marginality which have been so pervasive in the development literature despite empirical evidence against such notions, studies in both developed and developing countries have proven the economic dynamism of the informal economy and the relatively high level of income of many informal entrepreneurs, which is sometimes higher than the formal economy workers. They further argued that there is strong evidence of the systematic linkage between formal and informal sectors dictated by the urge of the former to exploit the latter for profitability.

Similarly, Bromley, (1990) observed that although de Soto did not directly oppose dualistic divisions of the economy and labor market, yet he endorsed the formal-informal continuum and the significance of "informality." Being a neo-liberal, his concern was with how the state stifles enterprises through interference in the economy which hurt entrepreneurs desperately struggling to make a living. By 1980s, the neoliberal idea of free markets has virtually taken a global sway as the United States, United Kingdom, ILO and IMF became its vanguards. Thus, the IMF accepted the informal economy “as comprising activities that have market value and would add to tax revenue and GDP if they were recorded.” But the high incidence and persistence of informal labor in emerging market and developing economies was condemned as an obstacle to sustainable development and informal firms as being small, with low productivity and do not contribute to the tax base (Deléchat and Medina,2020). However, the widespread assumption that the informal economy has low productivity and, therefore, contributes to low growth in countries does not hold in developing countries where large informal economies exist despite the need for improvement in the methods for measuring the contribution of the sector (Devlin, n.d.). Also Huang, Xue, and Wang, (2020 have cited a 2018 ILO report which showed that two billion or (61.2%) of the global employed population aged 15 years and over were informal workers.

2.0 OBJECTIVES

At the end of this unit you are expected to

- Understand the contribution of informal economy to economic growth.
- Delineate the key sectors in the contribution to the economic growth.

3.0 MAIN CONTENT

3.1.1 Informal Economy and Economic Growth

Generally, the informal economy contributes to economic growth in all countries regardless of the level of development through economic activities by enterprises which produce goods, services and state revenue for national development programmes on one hand, and employment opportunities for working age populations on the other hand. Since the presence of an informal economy in a national economy is a function of national advancement as espoused in the modernization theory, then the higher the level of development, the lower the level of informality? As Loayza, (n.d) posited informality is a fundamental characteristic of underdevelopment as depicted in graph one below which shows the predominance of informal enterprises in Sub-Saharan Africa and Latin America which is > 40% in contrast to the developed countries where it is < 20%. Similarly, whereas informal employment is < 10% in developed countries, it is 90% in Southern Asia and Sub-Saharan Africa.

DIAGRAM ONE

Percentage of Informality in Production and Employment

Across World Regions



Source: Loayza, N.V. (n.d).Globalization and Informality: Two Challenges to Development and Integration. <https://www.bbvaopenmind.com/en/articles/globalization-and-informality-two-challenges-to-development-and-integration/>

3.1.2 Informal Economy and Economic Growth in Developing Countries.

Undoubtedly, informal economy is the bedrock of the economies of most developing countries in terms of employment generation, poverty alleviation, and contribution to GDP.

According to La Porta and Shleifer, (2014), informal firms account for up to half of economic activity in developing economies. In China for instance, informal employment is the main source of employment in cities and provides more employment opportunities than the formal economy (Huang, Xue and Wang, 2020). Thus, informal employment grew from 111.5 million

in 2000 to 214.8 million in 2010, including 44.6 million self-employment persons composed of small-shop and stall owners, artisans and apprentices, and proprietors of small eateries and food stalls(*ibid*).

Similarly, in India where the formal economy employed only 10 % of the nation's workforce(or 48 million) out of 472 million economically active people in 2011-12, the informal economy sustained the livelihoods of more than 400 million workers and their families Ghatak (2017).In Sub-Saharan Africa, excluding South Africa, 78% of non-agricultural employment is in informal economy, and in South Africa where apartheid policies excluded the black majority from the core national economy dominated by capital intensive industries about 1.1million non-agricultural employment was created between 1997 and 2005 (Altman, 2008).

As regards distribution of non-agricultural economic activities by sector, Farrell, (2004) contends that the greatest concentrations were in retailing and construction in which companies are often small in scale and geographically dispersed to avoid detection. But .Charmes (2000) outlines the following distributions:

- In all countries it represents a very high proportion of trade employment (73 to 99% of total employment in this sector, and the most often >90 %); and women account for >50% (and up to >90 %) of the labour force (except in Tunisia and in India due to the restrictions).
- In the industrial sector, the share of informal economy is also very high in employment generation (from 55 % in Kenya to 97 %in Benin) and for value addition (from 33 % in the Philippines to 71% in Burkina Faso, but with a lower contribution for Kenya, 11.8%, Indonesia, 16.7% and Tunisia, 21.4%); and women's participation ranges from 25 % (in India, Tunisia, Chad) to 88 % (in Burkina Faso).
- In services, the share is lower in employment (from 31 % in Tunisia to 70 % in Benin and Kenya) and in GDP (from 10 % in Benin to 57 % in Burkina Faso).
- Women's participation accounts for nearly 54%; and women's contribution to GDP to more than 53 % exception in India and Tunisia where the figures are lower.

TABLE SIX

Estimated Share of Value-Added Activities in Informal Industries in Percentage of GDP In Developing Countries.

INDUSTRY	% SHARE IN GDP
Construction	>80
Apparel	80
Retail	80
Cement	>30
Steel	>30
Auto Parts	30
Food Processing	30
Consumer Electronics	20-25
Software	20

Source: Farrell, D.(2004).The hidden dangers of the informal economy.<https://immagic.com/eLibrary/ARCHIVES/GENERAL/MCKNSYUS/M040413F.pdf>

As regards the contribution of informal economy to GDP however, table seven provides its glimpse in some selected countries. It shows the high incidence of informality in developing countries relative to transition countries; and the high incidence of agriculture in Sub-Saharan Africa relative to the transition countries, Asia and Latin America. The informality of agriculture in Sub-Saharan Africa is typified by smallholders who represent 80% of all farms in the region and produce up to 90% of food products in some countries according to Livingston *et al.* (2011), cited in Weng, (2015).

But as Charmes,(2000) observed, the statistics deployed in the measurements across the developing world are mostly tentative because they are based on estimates in Africa and in various Asian countries while in Latin America data are scarce. Another hindrance to accurate measurements is the articulation of formal-informal activities in some industries and services

which could cause underestimation or over estimation on either side. For instance, Devlin's (n.d.) study of the informal economy in China found out that it provides low-cost labour, inputs, goods, and services to both formal and informal enterprises. Another nuanced issue although not captured in the table is the relatively low contribution of the informal economy to the South Africa's GDP which Altman, (2008) citing Budlender, Buwembo and Shabalala (2001) estimated at between 8-12% , far below the threshold of >50% for Sub-Saharan Africa. According to Altman, (2008) the low contribution to South Africa's GDP was caused by state policies such as apartheid which impoverished the black majority citizens who denied quality formal education and access to business activities in white dominated zones, and the adoption of capital intensive industrialization.

TABLE SEVEN

Informal Economy Contribution to GDP in Selected Developing Countries in 2010s

Countries (years)	(A) Informal Economy in % of total GDP (including agriculture)	(B) Informal Economy in % of total GDP (excluding agriculture)	Difference Between (A) and (B) as input of Agriculture in % of total GDP
North Africa			
Algeria (2013)	43,5%	33,8%	9.7
Egypt (2012)	21,1%	7,5%	13.6
Sub-Saharan Africa			
Benin (2012)	57,8%	35,5%	22.3
Mali (2013)	64,4%	28,4%	36.0
Niger (2013)	58,0%	22,2%	35.8
Asia			
India (2013)	41,6%	25,9%	15.7

Transition Countries			
Russia (2013)	8,4%	6,5%	1.9
Ukraine (2013)	19,8%	15,2%	4,6
Latin America			
Nicaragua (2011)	40,0%	25,3%	14.7
Venezuela (2007)	16,5%	15,2%	1.3

Source: Adapted from Lupi, A. (2018,Jun12). Contribution of the informal economy to GDP. <https://europa.eu/capacity4dev/rnsf-mit/wiki/133-contribution-informal-economy-gdp>. The last column on Agriculture is added by the author.

3.1.3 Informal Economy and Economic Growth in Developed Countries.

Contrary to the proposition of the modernization theory noted above (Module 1,Unit3), informal economy did not wither away as a result of advanced economic growth and development of national economies in developed countries. Houseman and Osawa, (2003) have observed that in virtually all European countries, the US and Japan, the fraction who are in part-time, temporary, or other nonstandard positions has increased in recent years. The nonstandard employment, or shadow economy in the phraseology of Schneider, a Professor of Economics at Johannes Kepler University of Linz, Austria, who carried out a deep study of the informal economy across the world defined the economy as “all market-based legal production of goods and services that are deliberately concealed from public authorities for the following reasons:

1. To avoid payment of income, value added or other taxes,
2. to avoid payment of social security contributions,
3. to avoid having to meet certain legal labour market standards, such as minimum wages, maximum working hours, safety standards, etc., and
4. to avoid complying with certain administrative procedures, such as completing statistical questionnaires or other administrative forms.” (Schneider, 2009)

Although his findings for the 21 OECD countries he studied showed that since the end of 1990’s the size of the informal or shadow economy in most of the countries had declined up to 2007 the

terminal date of the study (see table seven), the trend was not sustained as the 2008 economic meltdown triggered crisis that stimulated informal economic activities. In China for instance, 130 million migrant workers lost their jobs by January, 2009 according to official Chinese figures (Chaudhuri and Mukhopadhyay, 2010), while urban informal employment grew from 111.5 million in 2000 to 214.8 million in 2010 (Huang, Xue and Wang, 2020). Similarly, in Canada from 2007 to 2012, the informal or underground economy is said to have grown by 14%, while contribution to GDP expanded to 17% (Market Business News, 2021), compared to 12.6 % in 2007 (see table seven). The four dominant sectors which represented 66% of Canada's total (estimated) shadow economy are:

- Residential construction: 28%
- Insurance, finance, real estate, rental, leasing, and holding companies: 14%
- Retail trade: 12%
- Food services and catering: 12% (Market Business News, 2021)..

On the contribution of informal economy to GDP in the developed countries, Schneider, (2009) estimated that in 2007, the US shadow economy injected 7.2% to GDP excluding criminal activities such as hacking for organized crime, drug dealing, smuggling, gun selling, etc. Table seven provides the statistics for five other selected developed economies.

TABLE EIGHT

Estimated Share of Informal Economy in the GDP in Selected Developed Countries: 2003-2007

Country	Informal Economy (In % of official GDP)		
	2003	2005	2007
Canada	15.1	14.3	12.6
United States	8.5	8.2	7.2
Germany	17.1	15.4	14.8

Great Britain	12.2	12.0	10.6
France	14.7	13.8	11.8
Italy	26.1	24.4	22.3

Source: Adapted from Schneider, F. (2009). Size and Development of the Shadow Economy in Germany, Austria and Other OECD Countries Some Preliminary Findings. <https://www.cairn.info/revue-economique-2009-5-page-1079.htm>

As the statistics clearly reveals the US had the least informal economy contribution to its national GDP while Italy had the highest which partly reflects their different development levels. Thus, in 2019 whereas US GDP was \$21,433.23 billion, and its GDP per Capita was \$65,297.517, those of Italy were \$2,003.58 billion GDP, and \$33,225.617 GDP per Capita (Boyle, 2021). In another contrast, Nigeria's GDP in 2019 was \$448.12 billion and its GDP per Capita was \$2,229.917 leading to wide spread poverty at a rate of 40.1% in 2019 (ibid). Consequently, poverty and unemployment triggered informal emigration to richer countries in the course of the 1980s and 1990s as thousands of Nigerians dispersed to the US, Saudi Arabia and Europe in response to a strong demand for unskilled labour and a relatively liberal immigration policy in southern Europe. Nigerian women and men found work, primarily in agriculture and the service sector such as African food markets, hairdressers, telephone centres, video rental shops, travel agencies and money transfer (Carling, 2006). Italy's relative high incidence of informal economy pulled many Nigerians in response to a high demand for agricultural workers and prostitutes which started slowly in the second half of the 1980s. Most women leaving Edo State for Europe to work as prostitutes go to Italy first before proceeding to Netherlands, Spain, Germany, Belgium or Austria (ibid). But, the most wide spread informal activity which cuts cross all countries of the world seems to be street vending. Daniels (2004: 503) cited in Wilson, (2014), found out that a number of highly populated urban areas of the world or "mega-cities" contain thousands of street vendors including Tokyo, Bombay, Lagos, São Paulo, Mexico City, Dhaka, New York and Los Angeles, Karachi, Manila, Cairo etc. This finding contrasts with how Barnett, (1988, pp. 69-70) described

Third World cities which he said differed from those in Europe and North America by:

“not being based on widespread industrial development. Many people spend their lives in occasional casual employment in the service sector, working when they can as mechanics, shining shoes, washing cars, selling cigarettes, and sometimes as beggars and prostitutes. This kind of employment/ unemployment is called the informal sector”.

4.0 CONCLUSION.

Although the significance of informal economy cuts across developed, transition and developing economies boundaries, it is more important in the developing countries where agriculture, trade, industry and services are the major sources of employment and GDP growth. Also, it is the principal source of employment and income for women in the developing world especially in agriculture and trade sectors. In the developed economies it provides employment and income to those that could not be absorbed in to the formal economy. Finally, in all countries the formal economy is intricately linked to the informal economy either as a supplier of inputs such as raw materials and cheap labour or in redistribution of manufactured goods and services of transnational and national firms.

5.0 SUMMARY.

The informal economy contributes significantly to the economic growth of developing countries especially in the areas of GDP and employment. In the developed countries although the contributions to national GDP and employment are relatively low, yet it provides employment for domestic workers, own-account workers internally, and the formal firms with migrant workers and subcontracting of production out to developing or transition countries.

6.0 TUTOR-MARKED ASSIGNMENT

1. What is the relationship between informal economy and underdevelopment?
2. Should the informal economy in the developing countries be formalized?

7.0 REFERENCES/ FURTHER READINGS

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Unit 2: The State and Informal Economy

CONTENT

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1.1 Taxation

3.1.2 Regulations.

4.0 Conclusion

5.0 Summary

6.0 Tutor-Marked Assignment

7.0 References/ Further Readings

1.0 INTRODUCTION

Since the state partly derives its legitimacy from the outcomes of its development policies which depend on financial capacity, then, its relationship with the informal economy hovers on taxation and regulations. The former enriches the state coffers and the latter ensures compliance to rules which the state promulgates or permits relevant authorities to do for the mutual benefits of the state and the society. But since the emergence of the formal-informal dichotomy, the informal economy has been predominantly defined from the legal framework. Thus, in his study on the causes and consequences of informality and implications on development, Ulyssea,(2020),described informal firms as those that do not register with the tax authorities and comply with regulations, and informal workers as those who do not have a formal labor contract. Similarly Loayza, (n.d) affirming the definition introduced by de Soto in1989 conceptualized informal economy as “the set of companies, workers, and activities operating outside legal frameworks and regulations”, which the International Conference of Labour Statisticians adapted in the 2003standard definition in which the phrase “not legally regulated” is embedded. This unit will engage you in figuring out whether taxes are paid in informal economy or not and whether regulations are obeyed or not, a nd why.

2.0 OBJECTIVES

At the end of this unit you are expected to able to

- Explain the issues and problems in informal economy taxation and regulations.
- Suggest measures to make informal economy tax and regulations compliant for improved state revenue and employee security and welfare

3.0 MAIN CONTENT

3.1.1 Taxation

State taxation is an old institution that has been deployed in state building and nation building projects. But as Leah Gardner (2013:224), cited in Meagher,(2016) rightly argued, the colonial experience in Africa in particular has distorted the functional role of taxation from that of nation building to that of state building to maintain law and order. Consequently, tax payment becomes worthless as the payee derives little or no benefit which leads to evasion. However, Rogan (2019) and Joshi et al (2014) have done extensive literature reviews on taxation in the informal economy posited four different motivations for its significance:

1. Its potential benefits in terms of revenue generation capacity due its large size in many developing countries (which is still growing) and large share in GDP which could be mobilized to augment the relatively small tax bases in those countries which depended almost exclusively to taxes from employees of large private firms and the public sector (Schneider & Klinglmair 2004; Schneider et al. 2010)
2. Tax compliance among informal economy enterprises and workers could promote “tax morale” and greater compliance among larger formal firms (Torgler 2003; Alm et al. 2004; Torgler and Schneider 2007).
3. Registration for tax could trigger formalization process which could improve growth in informal firms as well as a multiplier effect on the growth of larger formal firms (Perry et al. 2007; Fajnzylber et al. 2009, 2009; Loeprick 2009; de Mel, McKenzie, and Woodruff,2012).

4. Tax compliance by informal economy firms could improve the social contract between the state and business which could foster good governance, political accountability and civic engagement which enhances state legitimacy (Joshi & Ayee 2008; Prichard 2009, 2015).

But as regards the first expectation, Keen, (2012) cited in Joshi et al (2014) argued that informal economy potential revenue yields are low; administrative costs are high; tax incidence is likely to be regressive; and tax enforcement risks exposing vulnerable firms to harassment. But contrary to Keen, in Lagos State where political leadership undertook administrative reforms, public education and improvements in public service delivery there was rapid improvement in tax performance and voluntary compliance on the part of citizens through which 53% of its N500 billion state budget was generated from taxes on citizens in 2013 compared to Kano State which generated only 13 % for its budget(Meagher,2016), due to lack of similar measures. Similarly, in the United States Paglin, (1994) cited in Miller (2006) ,estimated that the unreported income from the informal economy was worth \$492 billion in 1994 equivalent to 9.6% of all personal income and 8.1% of GDP. According to Market Business News.(2021), in the state of California alone which has America's largest GDP, between 15% to 17% of its labor force work in the informal economy, and it generates between \$60 billion and \$140 billion annually.

On the second expectation on improved tax morale in formal economy, it is not the tax evasion in the informal economy that triggered partial compliance by formal firms, but the high rate which the firms considered unprofitable as neo-liberal theory predicts. So it is the threshold that matters rather than formal economy evasion. On the third expectation that taxation could induce formalization, Joshi et al, (2014) have cautioned that despite a convincing body of evidence that formalization can drive broader economic gains, there remains significant uncertainty about whether the smallest micro firms would benefit.

And finally, tax payment may not be the only bargaining strength for engaging the state to fulfill the social contract as Meagher (2011) found in Kano State in 2011. When the state government decided to tax motorcycle taxi operators, some five hundred aggrieved members deployed

traditional bargaining strategy rather tax payment to engage the state through the Emir of Kano who intervened on their behalf and the decision dropped to the frustration of the State revenue officers.

As regards the contributions of informal economy taxes to state coffers however, they are likely to be substantial despite very little information on the amounts paid to local authorities partly because the taxes/fees are varied and are not accounted for in municipal budgets or financial statements (Rogan,2019). For instance, market revenues in Ghana in the form of fees and stall rents represented an average of 27% and 24% of local government tax revenue from 2001 to 2011 according to Clark(2010) cited in Rogan (2019). The informal sector employers and own-account workers pay assorted taxes either directly or indirectly. In the former through presumptive taxation which is a uniform and fixed amount tax based on the “presumed” incomes of different occupations; tax stamp programmes for informal traders; and a flat rate tax on retail turnover. And in the latter through VAT and import duties (Rogan,2019).

3.1.2 Regulations.

Unlike taxation which is virtually the prerogative of the state, regulations emanate from both the state and non-state actors. As indicated in table nine below for example, whereas legislations one to seven could emanate from a national state, legislation eight could emanate from United Nations Environment Programme (UNEP); legislation nine from ILO; legislation twelve from IMF or World Bank; and legislation sixteen from World Trade Organization. Also, although some scholars such as Swaminathan, (1991) have singled out state regulation as the defining characteristic of informal economy, Weng’s (2015) study on the rural informal economy in agriculture, timber and mining sectors in sub-Saharan Africa discovered that customary rights and norms largely shaped the behavior of economic actors as opposed to state regulation that was perceived as exclusionary and costly. Thus, as de Soto,(1988) pointed out:

...in the case of Peruvians at least and ...this is true of the other Latin American countries too, it is not a question of things being done illegally due to a vocation for illegality, but because the law itself was extremely costly for them...above all we like to overregulate ourselves... a problem

inherited from Spain and from which we will not easily extricate ourselves. Moreover, state regulations have multiple objectives. In a study of street and market vendors in Guadalajara and Mexico City Martí (1994) cited in Wilson (2014) found three objectives: revenue maximization policy in which large merchants contributed most funds to municipal revenues, while street and market vendors supplied from 5 to 10% of the total; subsistence goods maximization policy in which vendors supplied basic foodstuffs and other goods to a poorly paid labor force to lower pressures on wage increase; and the federal government's modernization policy which prohibited the public presence of street and market vendors.

TABLE NINE

Examples of Legislations/ Regulations Affecting Informal and Formal Economies

1. Company, commercial and contract laws	10. Rental laws
2. Property laws, including property rights	11. Laws of association
3. Taxation laws	12. Credit legislation, banking and financial market laws
4. Accountancy law	13. Stock exchange law
5. Bankruptcy law	14. Insurance laws
6. Laws concerning compensation for damage	15. Intellectual property rights law
7. Laws concerning consumer safeguards,	16. Laws on competition, including anti-trust laws
8. Laws concerning environmental protection	
9. Labor laws, minimum wage laws, working safety laws	

Source: Adapted from OECD, (2004). Promoting Entrepreneurship and Innovative SMEs in a Global Economy: Towards a More Responsible and Inclusive Globalisation <https://www.oecd.org/cfe/smes/31919278.pdf>

In another vein, critics have found ambivalence in the state attitude to taxing and regulating the informal economy. Joshi, Prichard and Heady (2014) have argued that politicians deliberately keep the informal economy as it is to ensure secured votes during elections because once

formalized they could lose their hold over such workers' votes since they would be free to vote as they wanted. Similarly, Castells and Portes (1989, p27) note that European governments count on the informal economy to reduce unemployment and to provide new incentives to battered national economies. Furthermore, the state in the highly developed countries is said to have sustained the informal economy due to its several advantages: at least 2/3 of the income earned in the informal economy is immediately spent in the formal economy; it increases the standard of living because it provides employment to at least 1/3 of the working population which diverts their attention away from unproductive demonstrations; and between 40 and 50% of its activities have a complementary character, which increases the size of formal economy contribution to GDP (Schneider, 2009). Apart from complementing the formal economy, Mukherjee (2016) attributed the contemporary growth of informal economy in response to globalization because of its advantages in reducing transaction costs, and in sidestepping the bureaucratic obligations.

4.0 CONCLUSION

The informal economy has potential revenue generation capacity which is being partially tapped directly because of lack of formalization, and indirectly from its complementary role in servicing the formal economy which contributes directly to the state coffers. Onerous taxation and regulations have stymied the full realization of the revenue yields in informal economy forcing it to operate underground. The lack of genuine commitment by the state in both developed and developing countries to effect formalization of informal economy for political and economic reasons contributes to below potential revenue yields.

5.0 SUMMARY

Despite the overwhelming view that informal economy neither pays taxes nor obeys state regulations, there is no empirically valid evidence. The evidence in Mexico City and Lagos shows that informal economy firms and workers pay dues especially if the revenue is spent on social ends as in the Lagos case. Disregard for regulations derive from their unprofitability and overregulation, and the decision of the political elites to soften full implementation in exchange for votes during elections.

6.0 TUTOR-MARKED ASSIGNMENT

1. Discuss the costs and benefits of taxing the informal economy.
2. To what extent is regulation a form of taxation?

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Unit 3: Revenue Generating Capacity in Informal Economy

CONTENT

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
- 3.1 Revenue Generating Capacity in Informal Economy
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/ Further Readings

1.0 INTRODUCTION

As explained in Unit 2, the revenue generating capacity in the informal economy is quite considerable despite lousy assessment, collection and social utilization. Consequently the potentials remain to be tapped since it has already been characterized by such negatives as “tax evasion”; “difficult to tax” ; and “unregulated.” Therefore, all that you will learn in this unit is the policies that could facilitate the transition from potential to actual revenue generation.

2.0 OBJECTIVES

At the end of this unit you are expected to able to:

- Discover the revenue potentials in informal economy.
- Suggest the best measures to realize the potentials.

3.0 MAIN CONTENT

3.1 Revenue generating capacity in informal economy.

According to Joshi et al (2014), the revenue yield in the informal economy is comparatively modest because individual incomes are low, and tax rates correspondingly low, while the costs

of collection are very high, owing to the large number of individual firms and the difficulty of monitoring them. This pessimism derives from treating the economy independent of the formal economy with which it has reciprocal relationship exchanging inputs and out puts for its survival and at the same time enhancing the capacity of formal economy to generate more profits and yield relatively more revenue to the treasury. Moreover, the underestimation of the informal economy revenue yielding capacity has ignored the multiple burdens of formal as well as informal taxation borne by informal actors; the failure of existing tax burdens to deliver the promised improvements in governance; the generally monolithic view of the economy, which glosses over differences of class, gender, ethnicity, religion, age and occupation; and the differences in power and political leverage in relations between informal actors and the state (Meagher, 2016). With regard to class for instance, in a study on informal firms developing world economies, Farrell, (2004) found not only large supermarket chains, software distributors, auto-parts suppliers, consumer-electronics assemblers, but also large-scale labor-intensive industrial concerns operating in the gray economy. This contradicts the widely held assumption of the informal economy being dominated by poor in search of survival means or small firms hiding underground.

Similarly, disregard for religion has underrated the significance of Islamic compulsory Zakat tax as a vital source of revenue that is principally channeled towards alleviating poverty and distress which the principles of sustainable development endorse. As Johoora (2021) explained, Zakat management practices vary across the world: in Saudi Arabia, Pakistan, Sudan it is obliged by state law; in Indonesia, Iran, Kuwait, and Bangladesh the state administers voluntary Zakat funds; and many Muslims also contribute Zakat to non-governmental organisations, or donate directly to the needy in their own communities. Although the precise amount paid is difficult to ascertain since much of Zakat-giving is done informally direct from the donor to the recipient, Rehman and Pickup (2018) have cited sources in 2015/2016 which estimated the global Zakat pool to be between US\$200 billion and US\$1 trillion annually. In the Kingdom of Saudi Arabia, the birth place of Islam, the Department of Zakat and Income Tax (DZIT) charged

with calculating and collecting zakat was established in 1951, and in 2009 it collected 15 billion Saudi riyals (around \$4 billion) while in 2013 the figure rose to 23.5 billion Saudi riyals (around \$6.26 billion), (Allami, 2015;197). The United Nations Development Programme having realized the potentials of Zakat revenue in the realization of Sustainable Development Goals programme particularly the no poverty goal (SDG 1), zero hunger (SDG 2), reduced inequalities (SDG 10) and partnership for the 16 goals (SDG 17) has already begun harnessing Zakat for SDG projects in the Republic of Indonesia is the world's most populous Muslim-majority country where a micro hydropower plants, which bring electricity to more than 4,500 people in four remote communities (Rehman and Pickup, 2018). In Bangladesh, where over 90% of the population is Muslim, both the government private Non-Governmental Organisations (NGOs) and individuals collect and distribute Zakat. The NGOs for instance undertake human development programmes, scholarships for underprivileged children, and emergency humanitarian assistance, while individuals distribute clothes to the needy, funds to maintain mosques and direct cash transfers within their local communities (Johoor, 2021). In the US Halil Demir founded Zakat Foundation of America in 2001 to collect Zakat payments and voluntary Sadaqah (charity) for distribution to the divinely decreed eight categories of deserving recipients. It focuses on Sustainable Development, Education, Health and Nutrition, Orphans and Child Welfare, Water and Sanitation, Emergency and Disaster Preparedness. Its revenue generation capacity shows that in the first half of the year 2020, it had collected the sum of \$12,914,856, which enabled it to provide Covid-19 relief support to millions of people in the US and globally (Zakat Foundation of America, 2020).

.Furthermore, the pessimistic view has ignored the asymmetric power relations between the developed countries and the powerful Trans-National Corporations on one hand, and the developing countries and the informal economy on the other hand. Here, most of the international policies favour the powerful to the neglect of the developing world largely treated as the underdog. Policy prescriptions by IMF, World Bank, WTO and neo-liberalism usually suffocate the informal economy thereby depressing profits and hence the capacity to remit more

revenue. In this regard, Gallien and Boogaard (2021) have observed how international and private sector actors (including accountancies and consultancies such as McKinsey Global Institute, the Institute for Liberty and Democracy (ILD), founded by Hernando de Soto, the UN High Level Commission on Legal Empowerment of the Poor) influence policies in low-income countries because they are often constrained in their capacity to engage in research as a result of limited time and resources which force them to depend on foreign technical expertise and aid, apart from the pressure put on them to be responsive to international organizations and donors.

These challenges notwithstanding, micro studies have under scored the capacity of the informal economy in developing countries to yield appreciable state revenue. In a study on the revenue generation capacity of the informal economy in Rivers State of Nigeria

Chukwuma and Efeeloo (2017) found that taxing the sector boosted revenue generation and impacted positively on the economic development of the State. Another study on Lagos metropolis by Olabisi, et al.(2020) revealed that tax collected from the associations, petty traders, and market men and women had a significant effect on capital development in the metropolis as evidenced from the monumental capital projects executed by the government.

Thus in order to promote the informal economy, the OECD (2004) has recommended the following:

1. Property rights are clearly recognized.
2. Contracts should be easily enforced.
3. A simple and transparent tax system with low compliance costs .
4. Businesses should be able to register with the authorities through a simple and inexpensive system, preferably via the internet.
5. Business licensing requirements are minimized, and when enforced they aim to safeguard the health and safety of consumers and labour rather than to serve as a source of revenue for local and/or central government.
6. Labour regulations should be balanced and flexible to protecting the rights of labour and the firms.
7. SMEs interact with a streamlined customs administration that is efficient, simple and transparent.

8. Financial sector regulations (banking, insurance, leasing) should recognize SMEs constraints and include legal and regulatory instruments that enable SMEs assets as collateral.
9. Public administrators at the local level should appreciate entrepreneurs as contributors to economic growth, treat them fairly and be committed to limiting corruption.
10. Legislation and regulations should be gender blind, applicable equally to men and women.
11. SMEs should be able to easily set up and join membership organizations.
12. Bankruptcy legislation should not impose unduly high penalties on entrepreneurs or SMEs.

The soundness and palatability of the twelve recommendations hinges on three issues: first, the recognition of the powerlessness of the informal economy actors in the contemporary globalized world which deserves equitable treatment on the sector rather than the equity of “better to leave them alone” suggested by Kloeden (2011) and other critics cited in Joshi et al (2014) on the grounds that taxing them yields very little revenue and potentially regressive. Secondly, the recognition that the informal economy is an independent entity that deserves to be treated in its own terms to advance its journey to its peculiar formalization process. For instance, the fifth recommendation draws the attention of informal actors to value their workers and customers outside the context of revenue generation issue, which tallies with the argument Gallien and Boogaard (2021) that policies ought to usefully focus on ensuring the benefits of formalization, rather than only on the bureaucratic or punitive sides. The sixth recommendation recognizes mutual equity between labour and firms which enables the former to be efficient and the latter to derive maximum profits; the eighth recommendation recognizes the acceptance of commonly available SME assets as collateral to ease access to bank services etc. Thirdly, the transition to formality is made voluntary because there are apparent benefits for the change. This approach contrasts with the enforced formalization envisaged in modernization theory anchored on the conditional stimulus-response frame work which requires informal economy to change in order to access state and bank support services.

In this regard, Gallien and Boogaard (2021) have argued that despite policy enthusiasm in support of formalization, the outcomes of the policies have frequently been disappointing because of the narrow conception of formalization that is rooted in three conceptual fallacies:

(a) A binary fallacy based on a distinction between formal and informal economic actors which ignores the myriad ways in which firms straddle the formal–informal binary where by firms and individuals in the informal economy develop a ‘formal’ relationship with one state actor (e.g. a public service provider) but not with another (e.g. the business licensing department of a municipal government) or economic actors combining different activities through multiple jobs or seasonal labour that may straddle the formal and informal economy.

(b) An evolutionary fallacy arising from the binary view of informality which assumes that ‘formalization’ involves a switch-like change from an ‘informal’ status, with all the features usually associated with it (e.g. tax evasion, lack of access to public and financial services, avoidance of sanitary, health, and safety regulations, etc.) to a ‘formal’ status, with all the ostensibly associated features (e.g. tax payment, access to public and financial services, compliance with regulations, etc.)

(c) A homogeneity fallacy by some policymakers, administrators, and analysts that what characterizes an informal firm are small size, poverty of funds or self-employed trader or vendor to the exclusion of large operators and their dependent contractors – for example, supermarket chains, software distributors etc.

Arising from these fallacies therefore, Gallien and Boogaard (2021) challenged the conventional and Western centric view of formality and called for a more robust understanding that could cater for the extremely diverse economic activities and diverse actors which they reasoned:

No single formalization policy will fit all...As a consequence,
Formalization needs to be understood as one aspect of a wider
Set of policies that connects states and informal economies,
Rather than as a ‘rationalizing’ silver bullet.

4.0 CONCLUSION

Although the informal economy has been associated with low productivity and tax evasion, its revenue yielding capacity is yet to be realized. As you will learn in Module Four, the rebasing of Nigeria's GDP in 2014 by capturing the informal economy for the first time shows the magnitude of informal economy contribution in elevating the country's ranking among the comity of nations. With appropriate policies as outlined in OECD strategy, the informal economy has the potentials and capacity to yield appreciable state revenue.

5.0 SUMMARY

The unit has explained that overwhelming pessimism over revenue generation in the informal economy, empirical evidence exists to the contrary. For instance the revenue yielding capacity of *Zakat* compulsory Islamic tax in Islamic countries often ignored in Western literature is quite considerable up to the tune of a US\$1 trillion annually and in Saudi Arabia, the Department of Zakat and Income Tax (DZIT) collected 15 billion Saudi riyals (around \$4 billion) in 2009 and 23.5 billion Saudi riyals (around \$6.26 billion) in 2013. The United Nations Development Programme (UNDP) has recently found the potentials of Zakat revenue relevant in the realization of Sustainable Development Goals programme particularly in reducing poverty (SDG 1); hunger (SDG 2), inequality (SDG 10); and in partnering with relevant stakeholders for the realization of the 17 goals (SDG 17). Similarly in Nigeria studies have found that taxing the segment boosted revenue generation and impacted positively on the economic development in Rivers State of Nigeria, and in Lagos metropolis tax collected from the informal associations, petty traders, and market men and women had a significant effect on capital development in the metropolis.

6 TUTOR-MARKED ASSIGNMENT

1. In what ways do you think the informal economy revenue yield can be efficiently realized?
2. Why is informal economy difficult to tax.

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MODULE THREE: INFORMAL ECONOMY AND DEVELOPMENT

Unit 1: Dynamics of the Informal Economy.

Unit 2: Globalization and the informal Economy.

Unit 3: Advantages and Disadvantages of the informal Economy

Unit 1: Dynamics of the informal Economy.

CONTENT

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1.1. The Dynamics of the Informal Economy.

4.0 Conclusion

5.0 Summary

6.0 Tutor-Marked Assignment

7.0 References/ Further Readings

2.0INTRODUCTION

Despite the negative image with which the informal economy is perceived in development literature and in national and international policy making, the fact remains that outright formalization is yet to be achieved in both the developed and the developing countries as we have learnt in the previous Modules. For instance, in their studies of the structure and dynamics of the informal economy originally limited to Latin American and other Third World cities, Portes et al (1989) promptly discovered that informal activities in the Third World were also present and growing not only the US cities of New York, Miami, Los Angeles, and San Diego but also in a number of Western and Eastern European countries including the former Soviet Union. So, what is the dynamics behind this development which countered the modernization and neo-liberal theories predictions? Is it due to the persistence and resilience of pre-capitalist institutions as Wilson (2014) found in the surviving small-scale cottage industries in Cuba and dying out handicrafts in China; or the desire of contemporary capitalism to squeeze out higher

profits regardless of the level of societal development across the globalized economic system as the neo-Marxist theory predicted

2.0 OBJECTIVE

At the end of this unit you are expected to

- Be able to explain the factors behind the growth of informal economy particularly in the developing countries.

3.0 MAIN CONTENT

3.1. The Dynamics of Informal Economy.

3.1.1 The views of Cling, Razafindrakoto and Roubaud.

In an article which derives from their book on informal economy in Asia, Africa and Latin America Cling, Razafindrakoto and Roubaud (2015) have posited four factors behind the growth of informal economy:

1. It serves as a temporary phase for workers seeking a formal job or leaving agriculture.
2. Economic, institutional and social constraints such as corruption, red tape and burdensome legislation prevent informal workers from integrating into the formal economy in developing countries.
3. Public policy such as structural adjustment policies and economic crises such as global financial crisis (e.g. 1973 oil shock and 2008 stock market crunch) contributed to a huge increase of employment in the informal sector.
4. A strong correlation between poverty and informality which inhibits the transition from informal to formal employment.

Thus on the first factor Cling et al (2015) discovered that majority of Vietnamese workers outside of the farming sector having realized that working informally is unrewarding due to lower benefits and poorer working conditions use it as a temporary phase for a formal jobs. Similarly, Williams (2014) reports that a YouGov survey of small businesses in the UK in 2012 found that trading in the informal sector was a necessary base when starting a business to test the viability of the business venture. As regards the second factor for example, Wilson, (2014) notes that both neoliberal de Soto and neo-Marxist Portes linked the growth of informal

economy to the state legislative policies in which the former based his position on the distorting effects of state legislations that favor elite groups, and the latter on the effects of labor legislations unsuited to the needs of the domestic economy. Nevertheless, on the fourth factor on the correlation between poverty and participation in the informal economy, Williams (2014), found a significant level of 99% confidence in a comparative study of the 27 European Union member states. He concludes that the greater the percentage of poverty level in a country, the larger is the informal economy.

3.1.2 The views of Castells, Portes and Benton.

According to Castells, et al (1989, 27-29) there are five dynamics in the growth of informal economy in both the developed and developing countries:

1. The idea that the expansion of the informal economy is part of the process of economic restructuring aimed at superseding the structural crisis of the 1970s.
2. The reaction against the state's regulation of the economy, both in terms of taxes and social legislation, health and environmental controls imposed during the 1960s and the tax increases necessary to pay for them
3. The growing integration of national economies into the international system resulting in a tendency in labor-intensive industries in developed countries to be outsourced to low labor cost regions and countries to manufacture such as garments and footwear. This international competition affects not only producers in the advanced countries but also those in the developing countries, as they compete to reduce labor costs in an endless downward spiral.
4. The process of industrialization in many developing countries requires the newly industrializing countries to informalize themselves, vis-à-vis their competitors as well as vis-à-vis their own formal laws, so as to obtain a comparative advantage for their production relative to the more regulated areas of the world economy.
5. The effects of the economic crisis since the mid-1970s throughout the world which force millions of people to accept whatever ways out of their misery they could find particularly in developing countries of the periphery which are heavily affected by

global recession and the austerity policies promoted by international financial institutions. Under these conditions, formal employment has contracted significantly.

As regards the first factor on structural crisis, Robinson.(2004) contends that it was more than merely capitalism's cyclical crisis but part of the deeper cycles of expansion and contraction in world capitalism as posited in world system other Marxist-inspired theories. The crisis ushered in a new mode of global capital accumulation as espoused in neoliberalism and its consolidation in "Washington Consensus" which Lee (2003) cited in Mullard, (2004) dated to 1973 when President Richard Nixon abandoned the policy of fixed exchange rates. According to Robinson.(2004) it were the Reagan and Thatcher regimes of the 1980s that catapulted Washington Consensus paradigm to the center stage of world capitalism, and the eventual imposition of structural adjustment programs on much of the Third World in the 1980s and 1990s. Harvey, 2007, cited in Tobias, (n d) explained that the citizens of the US, Western and Southern Europe experienced economic security decline, loss of jobs, and decrease in welfare provisions under the neoliberal policies that have been implemented in these countries since the 1980s. U.S. workers in particular are said to have experienced higher rates of unemployment, declining real wages, higher costs of living, and longer work weeks, while the implementation of neo-liberal structural adjustment (SAP) programs devastated Latin America, Africa, Asia, and the Caribbean as a consequence of privatization, fiscal austerity, deregulation, trade liberalization, and government retrenchment leading to increased unemployment and poverty, labor migrations, informal labor arrangements, and extreme polarization of income throughout the world (Robinson, 2004).

The second factor concurs with no.2 in Cling et al above. Similarly the fifth factor concurs with no 3 in Cling et al, but both views have ignored two fundamental dynamics in informality growth: population growth and its implications on migration, urbanization and employment opportunities; and climate change-induced environmental challenges and its implications on migration, urbanization and poverty.

With regard to population growth and its nexus with migration, urbanization and employment in informal economy Cortez, (2012) notes that in contrast to many developed countries and some developing countries where populations are either stable or even declining, early marriage and

weak family planning methods in a number of developing countries have resulted in population explosion particularly in low-income and some middle-income countries where a large proportion of the labour force is also engaged in the informal economy and low productivity agriculture. Also, citing (ILO, 2011) he points out that in 2009 the share of the working poor in total employment was 43.5% in South Asia and 58.5% in Sub Saharan Africa. In another vein, Benanav (2019), using a conceptual frame work that he called “demographic dispossession” which seeks to explain the autonomous role of demographic growth in the processes of proletarianization of global population and informalization of urban workforce, argued that since 1950, the world’s urban labor force outside of China, has expanded dramatically as consequence of demographic expansion rather than rural-to-urban migration and that a large portion of the world’s urban-born workforce ends up in informal employment. But Wilson’s (2014), “surplus labor” thesis argued that rural-urban migration is one of the root causes of the expansion of the informal economy in opposition to neo-Marxist Portes who attributed the surplus labor to the dynamics of capitalist development. In China’s vibrant urban informal economy, for instance, Xin (2001) cited in Wilson (2014) shows that most informal self-employment is undertaken by rural-to-urban migrants.

Similarly, in sub-Saharan Africa as in most of the world, cities are the main destination of migrants from both rural and urban but increasingly becoming inter-urban and often between neighboring states in response to changing situations when the economy of one urban center declines and another improves (Tobias, n.d). Moreover, as rural-to-urban migration is no longer a vehicle for upward mobility because the migrants must compete with the growing number of urban unemployed for the poorest paying temporary jobs (Robinson, 2004, p.61), many migrants in in sub-Saharan Africa as in the industrialized north many of the migrants face particular difficulties in accessing the professional and formal labor markets predominate in the service sector such as in hotels and restaurants; domestic work, such as gardening, driving, or childcare for the professional and political elites; entrepreneurship(Tobias, n d).

On climate change-induced challenges which have implications on migration, urbanization and poverty however, the ILO (n.d) has identified droughts, heat waves, heavy precipitation, cyclones, sea level rise, rising temperatures and changing rainfall patterns as the most menacing.

These challenges singly or in combination cause income reduction, job losses and uninhabitable environment across regions which **force the victims to undertake short-term and long-term migration as coping strategy (ILO, n.d).** For instance, **in 1982, devastating drought wrought havoc across five continents and damaged crops and livestock among others in Australia, Spain, Italy, Nicaragua, Thailand, Zimbabwe, Botswana and Morocco**(Grainger,1984). Lustgarten, (2020) reports that monsoon rainfall and drought have made farming more difficult in Southeast Asia there by forcing more than eight million people to move toward the Middle East, Europe and North America; in the African Sahel, millions of rural people have been streaming toward the coasts and the cities amid drought and widespread crop failures; and new projections on rising seas show that high tides could subsume much of Vietnam by 2050 — including most of the Mekong Delta, parts of China and Thailand, most of southern Iraq and nearly all of Egypt's Nile Delta and many coastal regions of the US.

And as we have explained above most migrants end up in informal economy because of its advantages that are more suited to informal economy: low capital base, easy of entry and exit, weak state taxation and regulations etc. In this regard, Wilson, (2014) reports that a research in the Kakuma Refugee camp on the Kenya-Sudan border discovered various types of informal economic activities that sustain and normalize the lives of its 90,000 refugees from a number of African countries while the Somali traders seized the opportunity provided by the camp to engage in retail and wholesale goods to small stores run by refugees. During the 1968 to 1973 drought that hit the Sahelian regions of Chad, Mali, Mauritania, Niger, Senegal and Upper Volta thousands of people and millions of livestock perished (Grainger,1984). In Guatemala, Lustgarten,(2020) reports that hundreds of thousands of Guatemalans have been fleeing north to US in recent years to escape drought, flood and starvation, while Maria Waldinger and Fankhauser (2015) note similar significant emigrations of highly educated manpower from Kenya, Pakistan, Senegal and Tanzania in response to environmental challenges. While migration is the most easiest rational response to both environmental challenges and poverty, the two episodes reinforce each other and converge in informal economy. For instance, Lustgarten (2020) notes how an undocumented Guatemalan migrant, Jorge found steady work in a construction firm in US where he earned enough money to pay his

debts and remit some home. Similarly, the hundreds of Nigerien Tuareg drought refugees that fled to Sokoto town in the peak of 1973 were easily absorbed socio-economically in varied ways: marriage, prostitution, begging, petty trading, house watchmen, bar attendants etc (Kwaire, 2014). The war in Syria has been linked partly to a drought that caused rural workers to migrate to urban areas in search of opportunity that were lacking which led to mass protests that eventually helped trigger the war (McCarthy,2020).

On the nexus between poverty and informality however, Cling et al., (2015) posited that poverty and informality are strongly correlated, and Williams, (2014) added that people in poverty are more likely to work informally, and because their pay rates and total income are lower than for other population groups, the informal economy reinforces their poverty. Accordingly Hallegatte, Fay, and Barbier (2018) **posit that the nexus between** poverty and informality is likely to run both ways: if people are unable to escape poverty because they are affected by challenges that make it more difficult to accumulate assets, poverty constrained them in terms of where they live and the occupations they pursue. According to Kishan Khoday and Ali (2018) over 2 billion people (one third of the global population) today are poor or near-poor and face persistent threats to their livelihoods, including from climate change and that by 2030 an estimated over 100 million people could fall back into extreme poverty due to climate change, while over 200 million people could be displaced due to more frequent and severe climatic disasters. Consequently, the likelihood of decline in informal economy is negative particularly in sub-Saharan Africa.

4.0 CONCLUSION

In this unit you have learnt the diverse ways through which informal economy is produced and reproduced as a result of poverty; economic crises and restructuring; climate change challenges; migration and urbanization processes. It has explained the interaction of easy entry, poverty, state inaction, environmental challenges, and urbanization as basic dynamic ingredients in the reproduction of informal economy world wide.

5.0 SUMMARY

The dynamics of informal economy are many: weak implementation of state laws and regulations in the sector; Third World poverty and income inequality across and within nations; periodic unemployment due to global economic crises and reorganization of production in formal economy; social processes of migration and urbanisation; and climate change-induces challenges in form of droughts, floods, cyclones etc. and their association with poverty, migration and growth in urban informal economy.

6.0 TUTOR-MARKED ASSIGNMENT

1. Compare and contrast the views of Castells et.al and those of Cling et.al on the dynamics of informal economy.
2. How does climate change cause growth in informal economy?
3. Discuss the relationship between urbanisation and growth in informal economic activities.

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Unit 2: **Globalisation and Informal Economy**

CONTENT

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1.1 Global Outsourcing and Informal Economy.

3.1.2 Global Subcontracting and the Informal Economy.

3.1.3 Global Migration and the Informal Economy.

4.0 Conclusion

5.0 Summary

6.0 Tutor-Marked Assignment

7.0 References/ Further Readings

1.0 INTRODUCTION

Contemporary globalization which has political, economic, cultural and technological dimensions is generally associated with contraction of distance and time which facilitates the movement of capital, goods and labour across national boundaries. The informal economy benefits from the globalization process in a number of ways: capital investment through direct foreign investment (FDI) which generates employment and entrepreneurial opportunities in both formal and informal economies; supply-chains generate employment in physical labour and entrepreneurship; and transnational migration enables unemployed and underemployed labour to fill in labour factor vacuum across nations and enterprises in both formal and formal economies.

The argument that some nations particularly the developed ones have gained from globalization while the developing ones have lost is empirically flawed because it has ignored the distinction that exists within nations and that between informal and formal economies in which there are gainers and losers as well. For instance, China's recent significant economic growth has

elevated her to the position of the second largest economy behind US making critics such as Greer Meisels (2012) to question the validity of labeling her a developing country when she is now the world's largest exporter, accounting for over 10 percent of international commerce, and may soon surpass the US. Ignoring the Western global agenda of worldwide adoption of liberal democracy, China's adoption of state capitalism focused on exploiting the opportunities provided by economic globalization (free trade ideology): cultural globalization(spreading Confucius Institutes and Chinatowns); and technological globalization(construction of the New Silk Road to expand trade links between Asia, Africa, Europe and beyond). As Greer Meisels (2012) notes, China's economic development has made the world richer because it has created a huge and growing market for the exports of other countries and consumers around the world have benefited from cheap Chinese goods, but at the expense of unfair trade practices.

China's massive economic growth derives partly from the simultaneous exploitation of formal and informal economies and as regards the later it was efficiently deployed to exploit market opportunities in both developed and developing countries. For instance, Adekoya (2019), citing the World Bank trade statistics for 2017 showed that 88.2% of total footwear imports come from China, accounting for \$115 million, while the highest export for footwear valued at \$8,461.68 went to the US. Similarly, in Nigeria many informal shoe producing industries whose prices have been rendered uncompetitive by high cost of inputs and poor power supply resorted to designing the footwear and outsourcing them to China for mass production with made in Nigeria labels (ibid). In another vein, Chinese informal vendors have formed a China Town in Lagos from where Chinese products are distributed to major markets across Nigeria. At the Ariaria International Market, Aba, for instance, 70% of the shoes, bags and leathers currently sold are dominated by Chinese brands at the expense of over 70, 000 shoemakers and 250,000 artisans engaged in the production of shoes and garments (Effiong, 2017).

. 2.0 OBJECTIVES

At the end of this unit you are expected to be able to

- Explain how globalization impacted on informal economy.
- Explain how informal economy sustained globalization

3.0 MAIN CONTENT

3.1.1 Global Outsourcing and the Informal Economy.

Outsourcing was first recognized as a business strategy in 1989 because of its cost-cutting advantage which enables in-house tasks to be carried by individuals or businesses outside of the firm and not affiliated with it. It permits a company to reduce labor costs in many areas within a firm by allocating out entire jobs or departments or a portion the labor component of production within a firm to an external firm permanently (Boyko, 2004; Drury, 2021). Thus, to achieve global competitiveness firms move any factory anywhere in the world where there are cheaper or better materials, labor, and vendors, and where laws and governments are more congenial (National Research Council, 1988). There are three types of outsourcing according to Boyko (2004)- sovereign, surrogate, and structural:

Sovereign outsourcing: in which production is transferred to another country. For example, the relocation of the large Japanese automaker, Toyota Motor, to US to take advantage manufacturing the product close to the customer base and at the same time providing employment to 35,000 Americans and an investment capital worth \$14 billion to the national economy.

Surrogate outsourcing: in which production is transferred among political subdivisions within the same country such as the relocation of 40% of companies in California to Texas due to favorable regulatory climate in the state for high-value jobs.

Structural outsourcing: in which a slowdown in innovation and decline in profits in a firm triggers outsourcing experts to restore efficiency. Thus, when IBM faced such a challenge, it employment Louis Gerstner, a retailer who knew how to operate a company to be its new CEO.

He broke IBM's corporate culture, redesigned its products, and returned the company to profitability.

Out of the three, sovereign and surrogate outsourcing strategies are more pronounced in articulating the informal economy to formal firms in a globalized economic system. But scholars are divided over why formal firms outsource. Bacchetta, Ernst and Bustamante.(2004) citing Maloney's (1998) study on the integration of Mexico to the North American Free Trade Area (NAFTA) regional block argued, from a neo-Marxian perspective, that it was in response to increased global competition that the US firms outsourced in Mexico where labour costs are low relative to its domestic labour. But the National Research Council(1988) taking a neo-liberal position considered the US firms outsourcing of production to Mexico as "production sharing" as a result of the transition of the US economy to high-tech industries and the eventual relocation of traditional labor-intensive industries outside: electrical and electronic equipment and accessories, textiles, shoes, transportation equipment, food, services etc. Although the production sharing is said to have benefitted Mexico by providing jobs to its unemployed and underemployed labour, the study acknowledges that from 1975 to 1983:

"...only 1.5% of the total use of components and supplies of the materials used in these operations is of Mexican origin... most of the jobs created are for unskilled workers... receives little training... many of the assembly plants use sophisticated equipment and technology, there is a low level of technology transfer to the rest of the Mexican economy...only part of the wages paid to assembly workers are spent on Mexican goods and services, because the population near the border routinely shops across the frontier for a significant proportion of its requirements... the income generated by assembly production for foreign manufacturers...provide only a limited stimulus to the Mexican economy... women represent more than three-quarters of the total ...the labor force... that national enterprise in Mexico has not gained as much as it could from assembly activities."

This outcome and the conclusion of the study however vindicate the neo-Marxian exploitative outsourcing arrangement which positively rewarded capital over labour. Thus, Robinson (2004), notes that the implementation of NAFTA and the resultant massive entrée of subsidized agricultural products from the U.S. and European Union ruined millions of peasant families (mostly small farmers and Indians) in Mexico, Brazil, Ecuador, while in Bolivia, Colombia and Peru the unemployed switched to growing alternative crops such as coca. Loss of jobs and poverty triggered large-scale emigration to urban slums or to overseas. For instance, Mullard (2004) explained how Mexican immigrant tomato pickers in South Florida were exploitatively employed (at about US\$7500 per annum) by a sub-contracting firm, Six Ls Packing Company under a contract with Taco Bell which is affiliated to Tricon Group, a transnational firm that has some 30 000 food outlets worldwide and an estimated turnover of US\$1.2 billion. By 2002, Reifer, (2004) contends that the manufacturing powerhouses of Mexico and China exported over \$100 billion each into the US market annually although Mexico and a host of other global investment and production centers are losing out to China (see table ten). As the data shows, despite the proximity of Mexico to the US and its comparative cost advantage in lower transport cost, the logic of china's cheap labour made it more attractive to the US multinationals.

TABLE TEN

Activities of Foreign Affiliates of US Multinationals in Foreign Manufacturing Sectors in China, Mexico and India: 2010 and 2014 (million \$US)

Country	Year	Total Assets	Net Property, Plant and Equipment	Research and Development	Sales
CHINA	2010	95,709	95,709	n.a.	107,088
	2014	171,794	37,659	1,494	204,328
MEXICO	2010	68,629	19,095	303	98,901
	2014	95,082	24,197	332	135,965
INDIA	2010	19,288	5,996	445	20,340

	2014	31,295	9,540	909	30,577
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SOURCE: Adapted from Hammer, A.(2017). The Size and Composition of U.S. Manufacturing Offshoring in China. <https://www.usitc.gov/publications/332/>

China's economic reforms in the 1980s and admission into the WTO in 2001 made her the most attractive developing country for capitalists of US, Asia, and Europe. What makes China better than the rest from a corporate perspective according to Rapoza, (2019) includes low corporate tax which was 25% compared to 35% in India and 30% in Mexico; and cheaper labour than Brazil's and Mexico's because, China's labor rights is one of the worst in the world similar to India's according to the International Trade Union Confederation.

US-based multinationals have been heavily involved in China's manufacturing revolution, and as Hammer (2017) argued lower Chinese wages (paying 10-25% of comparable U.S. salaries) have undoubtedly enticed some firms to offshore their production in China. For instance, in 2014 the U.S. affiliates (i.e. US firms that are at least 50% owned by U.S. multinationals) employed more than 1.7 million workers in China nearly half of which were in China's manufacturing sector (e.g., semiconductor firms) and that the affiliates sold more to the local market in China than the affiliates in Japan, Mexico, and India, combined (ibid). Also, in the same year, the affiliates employed local labour in a variety of areas: computer and electronic products sector which employed most of the workforce, followed by the machinery/ electrical equipment and chemical sub-sectors (ibid). For instance, although Apple uses contract manufacturers in any country, yet the choice is determined by lowest possible labour and environmental standards which made China a juicy destination for outsourcing the manufacturing of its iPhone to surrogate Taiwanese Hon Hai Precision Ind Co LTD which runs the largest known sweatshop factories in the world (Snapp and Hosting.,2021). At one of the company's factories, over 600,000 employees drawn mostly from rural areas of China work in a single giant sweatshop, and with consent the Chinese Government because Apple dictates that its contract manufacturers must not follow labour or environmental regulations as part of its profit-maximizing strategy(ibid). According to The Economist (2009), China's rise to a global

manufacturing hub is built on the exploitation of tens of millions of cheap rural workforce which facilitated the production of cheap clothes, shoes and electronics for export.

The economic miracle therefore is heavily anchored on the backbone of informal economy in which the state mediates between the State Owned Enterprises (SOEs) the multinational firms and the underpaid domestic labour. Nair, (2020) citing Cooke (2011) points out that despite the introduction of the first labour contract law in 1986 and subsequent amendments in 1994 and 2007 wages remained low until the 2008 Law and its subsequent amendments when wages improved (ibid). As a consequence of increased labour costs firms that were unable to bear the new wages particularly the SMEs fled to other developing countries where wages are lower especially in Sub-Saharan Africa.

In another vein, Alfery, and Pryor (n.d) have described the convergence of outsourcing and subcontracting in global value chain in an episode in Canada where a Canadian trade union organizer in an attempt to help an immigrant Chinese garment worker get her unpaid wages. To his dismay, the whole value chain in the production and distribution of the garment at issue began and ended in a Canadian retail firm that outsourced the manufacturing to a Hong Kong firm. The Canadian intermediary who put out the work to the Chinese declined to pay the back wages due to the garment homemaker on the grounds that the Hong Kong manufacturer who sub-contracted the work to him did not pay him either.

3.1.2 Global Subcontracting and the Informal Economy.

Subcontracting is an older business strategy than outsourcing. As Drury (2021) explained, it refers to the practice of bringing in an outside company or an individual to perform specific parts of a business, a project or a task that cannot be handled internally, and usually temporarily, but under the control of the hiring party. Ana, Pieters and Erumban (2012) have identified two theories on why formal firms adopt subcontracting strategy in India:

The first view which is associated with neo-Marxism such as Tokman, (1978); Portes, (1994) etc. contends that formal enterprises subcontract the most labor-intensive production activities to

traditional informal enterprises, in order to minimize labor costs. which nourishes traditional informal activities but contributing to stagnation of the informal sector. The second view associated with neo-liberalism holds that subcontracting is a means to the modernization process in the informal economy because formal enterprises subcontract only to the modern informal enterprises through which costs of production are reduced to the advantage of the formal economy, while simultaneously the informal economy gains from enhanced quality of output and delivery by observing standards required by formal enterprises.

Comparing the two views with regard to China's experience since its economic reforms began shows empirical evidences for both. The first view holds as regards informal labour rather than informal enterprises on which the hypothesis is built. In a comparative analysis of Foxconn electronics industry in Shenzhen which manufactures export oriented electronic goods for Apple, and the Shanghai IT industry which manufactures higher value-added goods for domestic market, Bieler and Lee(2017) found the former to be characterised by strikes, incidence of suicides due to sever exploitation of the cheap informal labour by the Taiwanese Foxonn company under pressure from Apple, its main customer which sought to reduce costs and maximize profits. This contrasted with the latter which was regulated and its employees enjoy good working hours, higher salaries and better working condition including better benefits for the workers themselves as well as their families in order maintain stable workforce.

The second view is also empirically validated in Wang's (2006) study on China's consumer goods manufacturing modeled on Italian cluster system in which rural households set up small and medium enterprises (SMEs) to produce food, clothes, shoes, ball-pen etc particularly in towns located in between large cities and the deep countryside. The most promising however are the shoe-related enterprises clustered mainly in the east coastal provinces of Guangdong Fujian Zhejiang and Shandong and few others scattered in the west which employ modern machinery and technology to produce high quality products that pulled world brand names such as Reebok, Nike, Riddell, Wilson and Wal-Mart which integrated them in their respective global value chains through subcontracting.

Chen and Sinha (2016) cited in von Broembsen (2018) have identified some main drivers for suppliers to subcontract work outside the factory:

- Transferring the risk of fluctuating demand.
- Downloading non-wage costs onto workers, including the costs of workspace and electricity; equipment (such as sewing machines), and supplies (such as thread and glue), equipment
- Avoiding employer responsibility for worker benefits, social protection contributions and occupational health and safety.
- Tasks that cannot be mechanised such as embroidery and work of art.

In this regard therefore, the construction industry in India and China exemplifies how the need to transform their respective capital cities to tally with their new positions as hubs of global manufacturing triggered the maximum use of subcontracting informal economy sector to reduce costs and avoid employer responsibility for worker benefits, social protection and safety. In the India's construction industry which is said to be the biggest non-agricultural industry, Praveen (2013), found that most big government projects in Delhi are contracted to big private construction companies which subcontracted the supply of unskilled and semi-skilled labour to small contractors who also depended on ethnic middlemen for the supply of cheap migrant labourers mostly male including children below the age of 18 from their villages, districts or states. The majority of the workers were left vulnerable to poor working conditions and without any legal entitlements other than relatively lower wages from their subcontractors in contrast to their counterparts, the *chowks* (literally, roadside squares) who worked in smaller jobs breaking down old houses, small renovation projects, and building new houses. Similarly, in China where 90% of the migrant workforce is absorbed in the construction industry, and despite provisions under Chinese law that migrant workers receive a legal minimum wage, monthly wage payments, medical and accident insurance, and paid overtime, migrant construction workers in Beijing hardly receive these HRW (2008). Describing the subcontracting system in a Beijing construction project which is akin to Delhi scenario Brown(2006) notes that:

“The subcontracting system began with a property developer who was responsible for land reclamation and the design of a villa project. Responsibility for the construction was shifted down the chain through a bidding process to a state-owned construction company, which... relied on three "big contractors"... from Jiangsu, Hebei and Guangdong ... responsible for providing raw materials and labor for the project. Two of them set up a labor service company to help recruit rural laborers, but in reality they relied on labor-supplier subcontractors to recruit the labor, manage the daily division of work and pay out wages on completion of the project...these labor-supplier subcontractors depended on labor-use facilitators (*daigongjiL*), usually relatives or co-villagers, to look for workers in their own or surrounding villages. Surveys also revealed that wage levels for construction workers were often significantly lower than reported in the Chinese media.”

3.1.3 Global Migration and the Informal Economy.

As global labor market becomes more open in response to demand for formal and informal workers, and improved transportation and communication facilities more people are relocating across nation-states in all directions and along the rural-urban-international continuum. For instance, China’s global infrastructure building by Chinese construction companies triggered by the Belt and Road Initiative planned to link more than 65 countries along a modern Silk Road has hugely expanded state-funded infrastructure projects abroad, apart from a real estate boom in south-east Asia’s Malaysia and Indonesia which stimulated large scale migration of contracted labour and to some extent domestic workers from informal economy in response to the development projects (Feng, 2019). In 2017 alone, China is said to have committed to more than \$23bn to infrastructure projects in Africa forcing those eager to work abroad to turn to informal network of subcontractors who charge rates as high as Rmb30,000 to match workers with construction projects abroad (ibid). According to Politzer (2008), there are 800 Chinese

companies in 49 African countries which relied heavily on migrant labour although they also hired Africans to work not only in infrastructure and public works, but also in oil and mining operations. Since most of the informal migrant workers drawn from rural areas lacked travel documents except those contracted by the formal companies, the undocumented migrants had to pay human smugglers or "snakeheads" to facilitate the illegal entry for which they charge as much as \$25,000 per worker going to Europe and \$30,000 to the US(ibid).

In another vein the high demands for low-wage domestic workers in richer nations for instance has fuelled a south-to-north flow of female domestic workers from Mexico and Central America to move to the US ; Indonesian women to richer nations in Asia and the Middle East; Sri Lankan women to Greece and the Middle East; Polish women to Western Europe; and Caribbean women to the U.S. and Canada; and Filipino women to more than 187 countries including Britain, France, the Netherlands, Italy, Spain, Greece, Hong Kong, Malaysia, Singapore, Taiwan, Kuwait, Saudi Arabia, United Arab Emirates, Canada and the US (Parreñas, 2004)..

Furthermore, the growths of entertainment and tourist industries have also fuelled the migration of informal sex workers across the globe. In this regard, Useche and Cabezas (2004) have argued that entertainment centers of cities such as Amsterdam, Barcelona, Frankfurt, Las Vegas, New York, Rome, San Francisco, and Tokyo have pulled migrant sex workers from Asia, Africa, Latin America, the Caribbean, and Eastern Europe to those destinations. Useche and Cabezas (2004) have reported the migration of female sex workers from Africa; Eastern Europe; Latin America and the Caribbean; and Southeast Asia to Western Europe and the US. The Nigerian newspaper, Punch (2019) reported on how sex traffickers deceitfully lured Nigerian women and girls to Europe with false promises of jobs as hairdressers or seamstresses, only to find themselves selling sex on arrival to repay their debts, while (O'Brien, n.d) notes the exploitation of the *Hajj* window by male and female prostitutes in Arabia. Similarly, in Latin America Cabezas, (2004) has delineated variety of informal jobs in the Cuban tourist industry in the 1990s consisting of *pinguero*, who are either gay or as straight who source male sex workers to gay tourists because male-to-male sexual practices are more lucrative than straight sex. Similarly in the Dominican Republic, men who work in the informal economy of the tourist

sector are known as *sanky pankys* or beach boys who worked as gigolos exclusively to foreign tourists and provide sexual services and companionship to both men and women, straight and gay, for which the tourists reciprocate in long-lasting romance or even marriage and migration.(ibid). And in both countries hospitality workers complement their meager wages and earn foreign exchange in the sex sector either by facilitating sexual liaisons between tourists and locals or servicing the guests themselves in a secured environment free from the constant police harassments and incarceration of outside prostitutes(ibid). Also, as the training and distribution of informal work are organized along racial, sexual, and gender considerations most of the front desk workers are lighter skinned Cubans, entertainment dancing, games, and live shows) and kitchen workers are mainly black (ibid).

In spite of this ugly side of the tourists' migration, there are good sides as well. Mowforth and Munt (2009) have posited a number of such benefits: firstly, the pro-poor slum tourism exposes new middle class tourists to the 'reality' of informal urban settlements across developed and developing countries: 'Banglatown' in East London's Brick Lane; Toronto's Parkdale district; Rotterdam's southern inner city; Kibera, on the outskirts of Nairobi; Rocinha near Rio de Janeiro; and street children in and around Delhi's main railway stations. Secondly, it draws the attention of the world and high profile personalities about the plight of urban poor as evidence in the visit of UN Secretary-General Ban Ki-moon to Kibera. Thirdly, community members benefit from employment as tour guides, van drivers, policing security teams and in Delhi case part of the proceeds from the £2.50 (or 200 rupees) paid by both western and local tourists were expended on rehabilitating the street children; health and school projects in Kibera; and in Rocinha a number of artists depended on the tours to sell their work. And lastly it increases state revenue by expanding the range of tourist activities beyond the traditional visits to parks and cultural heritage sites particularly in Kenya where tourism is the highest revenue earner.

As regards the significance of labour migration however, the most important is remittance which diasporas send to their families, and its contribution to national growth and development. Remittances whether from formal or informal employment have implications on the growth of informal economy in destination countries because they sustain the reproduction of informality through consumption of informal economy goods and services, and the overall growth in the

economy through increased foreign exchange, new innovations and positive ideas. Mowforth and Munt (2009) citing World Bank (2006) report that diaspora remittance as a source of foreign exchange has outpaced private capital flow and official development assistance (ODA) over the last decade, and that in countries such as Morocco remittances were larger than tourism receipts. The bank calculated that remittances through formal banking channels alone amounted to a staggering US\$167 billion in 2005 and that informal remittances might amount to an additional 50% (or more) of that total(ibid). Thus, the bank and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP,2006) have concurred in positing the following contributions of remittances on national development: improved creditworthiness of a country and ability to raise external financing; deficit reduction in the current account of many developing countries; improved welfare of individual migrants themselves; households poverty reduction and increased consumption; cushioning household consumption during adverse shocks (crop failure, job loss, or a health crisis); ease working capital constraints on farms and small-scale entrepreneurs; increased household expenditure in areas considered important for development, particularly education, entrepreneurship, and health(ibid).

Yet, other aspects of non-economic remittance not captured by Word Bank relate to good governance, cultural consciousness and innovation. Firstly, as regards good governance, Kushkush (2019) reports how the nearly 5 million Sudanese diaspora across the Middle East, Europe, North America, and Australia organized large solidarity protests in big cities in support of anti-government protests against high bread prices in Sudan, and called for an end to president Omar al-Bashir's 30-year reign. They provided funds to help the injured and assist medical teams, and the diaspora artists and musicians amplified event through political cartoons and music which were widely shared on social media. Similarly in the Philippines where nursing schools graduate hundreds of thousands of registered nurses, but only few remain in the country made the Philippine Women Centre (PWC) of British Columbia to condemn the policy of training nurses to work abroad rather than as a means to serve the needs of Filipinos as a "commodification of the nursing profession in the Philippines."(Chang,2004). Thus, as Baggio and Asis (2008) reported, Philippines is not only among the major recipients of remittances,

but in 2004 it ranked fifth after India, China, Mexico, and France in terms of remittance receipts according to United Nations.

But in Mexico the diaspora collaborated with the state at federal, state and municipal levels to promote social development especially in the 1990s when Mexican migrants in the US formed hundreds of informal Home Town Associations (HTAs) according to Rivera-Salgado and Rabadán (2008). These HTAs promoted the well-being of their communities by collecting money to fund urban infrastructure and to support basic community projects in their hometowns of origin with special attention to the needs of the most vulnerable groups like children and the older people; financial support to key sectors like education and health; and by channeling a majority of their projects to smaller, more rural, that receive little government spending (ibid). In the Zacatecan state which has the most organised HTAs, funds raised by the associations are added to the government grants through a matching grant scheme to execute projects that are of interest to both parties.

Secondly, in the case of cultural consciousness Baggio and Asis (2008) note that Filipino domestic workers in Italy which hosts the second largest population of overseas Filipinos in Europe, (next to the United Kingdom) used the opportunity provided by their increased incomes to exercise the traditional obligations of *bayanihan* (helping each other) *damayan* (empathy), and *pakikipagkapwa* (sharing) directed largely toward church-related and development-oriented projects in their hometowns. In China however, the “Chinatown model” seeks to preserve indigenous culture, solidify community bond, facilitate international migration and facilitate the entry of firms and entrepreneurs in to foreign markets. Indeed the model has promoted informal migration of workers and entrepreneurs across the globe. As Hernandez (2018) explained in his “dual entry” hypothesis citing the examples of Chinatown (informal) and California’s Silicon Valley (formal) models in the US, that a firm usually enters a foreign location that has its ethnic population and operates either formally or informally according to the prevailing environment: if the location has weak courts, laws, and property rights it operates informally and if otherwise it operates formally. Most Chinatowns in Europe, North America, Africa and Oceania/Asia operate informally to facilitate informal migration and business activities in host destinations. In Italy for instance, Aloisi (2013) notes the formation of a bustling Chinatown outside Prato’s city

walls filled with Chinese restaurants, hairdressers, schools, travel agents, and youths practicing the martial art of Tai Chi in the park, And even their own banks and police force (Max, 2018). Finally, with regard to innovation, whereas Hernandez (2018). contends that it one of the three factors that power growth in an economy apart from labour and capital, Heilmann (2006) citing Conway, (2004) have asserted that ‘transnational practices’ of migrants provide possibilities for achieving sustainable development through skill and knowledge transfer. In this regard, Kuznetsov and Sabel(2006) have reported on a Peruvian migrant Luis Miyashiro who worked for several years in a turkey firm in Japan returned to Lima and deployed the managerial skills he acquired to found Norkys, a chain of chicken restaurants, the first of its kind in the country, by combining Western standards of cleanliness and efficiency with the familiar corner foodstand concept common in Latin America. Similarly, in Nigeria Akinwotu (2021) reported on a 31 year Elégbèdé who was raised in US after his mother won visa lottery and relocated to Chicago and set up a restaurant and bakery in Illinois. Having been trained at the Culinary Institute of America and worked in a string of Michelin-starred restaurants, he was perturbed by the negative Western perceptions of Nigerian and African food abroad and the dominance of European, Middle Eastern and Asian food, and jollof rice and *suya* (roasted meat in Hausa) in commercial restaurants around Nigeria which offered a smaller range of choices despite the diversity of Nigerian local food . He consequently returned to Nigeria and set up *Ìtàn* (a Yoruba word for story) restaurant in Lagos in 2017 in which history and innovation found expression: the menu changes every six to eight weeks, often innovating popular dishes from across Nigeria – such as *tozo*,(ox hump in Hausa) a fairly tough, grilled meat dish from the north, to the southern eba (pounded grains of cassava) variety with egusi soup but in a new twist with t efo (spinach) crisp amaranth leaves added; the sitting is based on a singular table to facilitate “conversations around food, around memory, around their reality and history”; the clay plates were made by artisans in Ogun State; and the walls of the restaurant were adorned in Nigerian cultural masks and artworks.

Apart from international informal labour migrants, there are international informal firms and entrepreneurs that also exploited the opportunities which globalization unfolded particularly the Chinese in Europe and Sub-Saharan Africa. For instance, when the formal Italian companies and

many small manufacturers collapsed under the weight of global competition, Chinese migrants from the city of Wenzhou flocked to the famed textile Italian city of Prato in the mid-1990s and revived the city's textile firms first as workers in Italian-owned textile factories, and subsequently as owners when the entire production chain reverted to them. More than half of Italian-owned businesses in the industrial zone disappeared, and by 2013 there were approximately 4,000 Chinese-run clothing factories in Prato that imported far cheaper fabrics from China and exported millions of low-cost garments bearing the "Made in Italy" tag to shoppers in the major European markets within a day or two in swift trucks (Aloisi, 2013; Smith, 2013). Although some politicians had condemned the underground economy for destroying the city's economy due to unfair competition and profits repatriation to China instead of the Tuscan treasury (Max, 2018), such assertions had been ineffective to Prato's local government which derived benefits from the growing Chinese community because they brought in a lot of money that helped cushion the impact of the global financial crisis on the region (Aloisi, 2013). Also, a Chinese entrepreneur in Prato is said to have asserted that Italian companies cannot compete on price as their strength lies in the area of aesthetics, and added, "If the Chinese weren't in Prato and the clothes were made in mainland China instead, the Italians would be suffering far more...We have helped the Italians by ensuring the Made in Italy brand is ever more popular in China" (Smith, 2013).

Similar trend occurred in Sub-Saharan Africa, but even of a wider scale than that of Prato in which there was no exodus of poor rural farmers. Thus, when Li Ruogu, the head of China's Export-Import Bank urged the farmers to migrate to Africa in 2007 and promised to support them with investment, project development, and the sale of their products, thousands of Chinese farmers from Baoding in Hebei Province responded by emigrating to Kenya, Uganda, Ghana, and Senegal over few years to find work (Politzer, 2008), while China's Chipata Cotton Company is said to have acquired its cotton from Zambia, Zimbabwe, Malawi, and Mozambique (Frey,2019). The development not only provided employment to the Chinese and African rural farmers but also increased the exports of raw materials to China, while in Sub-Saharan Africa the Chinese migrant entrepreneurs were able to start small and medium enterprises. China's state

firms, private sector industrialists and traders exploited the region's technological underdevelopment maximally through the exploitation of cheap labour and underpriced raw materials. As Yuan Sun (2017) notes Africa provides an appealing location for whatever business model a manufacturer has, and a widest array of market options: Nigeria has an enormous domestic market with high margins and relatively little competition for a variety of consumer goods ; Lesotho enjoys tariff-free access to the US market and proximity to excellent South African infrastructure and logistics services for shipping time-sensitive fashions to American customers such as Kohl's yoga pants, Levi's jeans, and Reebok athletic wear ; and Ethiopia offers attractive tax breaks along with cheap power and proximity to lucrative Middle Eastern markets.

In addition to large markets and strategic location, there are also varieties of mineral resources which the multinationals have been scrambling for since the 19 century. As oil lost its international market due environmental concern, new commodities relevant to green technology replaced it. Also, global urban growth rates especially in the developing countries where it is fastest and fast fashion craze across the globe have fuelled high demand for consumer goods which the industrialists of developed economies no longer find economically rewarding, but still relevant in the developing world where China and India in particular have arisen to fill the vacuum. With regard to China for example, Shepard (2019) has argued that, China needs Africa for its long-term economic and political stability because over a third of its oil and 20% of its cotton are sourced from Africa apart from such strategic resources as manganese, cobalt, coltan. Whereas manganese is vital ingredient in steel making for deployment in the New Silk Road physical infrastructure, cobalt and coltan are vital in the production of electric vehicles and the booming mobile phones market which China aspires to dominate among others.

Therefore, it was in order to exploit cheap labour and commodities that China took measures to boost industrial cooperation with Africa so as to offshore labour-intensive and dirty industries to address rising labour costs triggered by the series of improved labour laws from 1990s to 2008, saturated domestic market biting the small and medium-sized enterprises(SMEs), and secured raw materials for its global supply chains among others. For example in a study on the migration

of Chinese manufacturing investments to Ethiopia, Ghana, Nigeria, and Tanzania, Brautigam et al., using Akamatsu's 'flying geese' model identified four principal actors in this regard:

1. Geese seeking raw materials that are active in the agribusiness sector in which they add value to local agricultural raw materials for export to China for further value addition (sisal and honey in Tanzania and leather tanning and finishing in Ethiopia).

2. Large, global supply chain geese that relocated garment and shoe production to Tanzania and Ethiopia such as Tooku which manufactured garments and its US clients including Levi's and Russell Brands which relocated to Tanzania to exploit its lower labour costs and its access to the US market through the African Growth and Opportunity Act (AGOA). In Ethiopia, the two Chinese firms- New Wide and C&H relocated to the country from Kenya rather than China to produce garments for US and EU markets. Also the two large shoe factories, Huajian from China and New Wing from Hong Kong that invested in Ethiopia took advantage of the low labour costs, abundant leather supply, and incentives for duty-free entry into the United States under AGOA and the EU's 'Everything But Arms' window. Taiwan also opened a new production base in Addis Ababa in 2014 and joined the other two to export to the US through international shoe agents such Solano, Brown shoes and so on.

- 3 Strategic, local market-seeking geese: these are firms that have been formed largely by private traders who matured and began producing in Africa. For instance, Wang Nianyong, who had been a commodities trader in Nigeria since 2000, founded Viju Milk firm in 2004 which by 2014 had nearly 2,000 Nigerian workers; Hongda Steel in Nigeria employs some 3,500 Nigerians in its recycled steel factory; while in Ghana Rebecca Wig, manufactures artificial hair pieces using 900 local employees.

4. Small geese, travelling together: these are small-scale manufacturers who cluster together in the same sector or industrial zone, and are often related to each other or have similar regional origins. In Tanzania, for example, Weng a native of the coastal province of Fujian was a trader before transforming to an industrialist in plastic recycling and products in the year 2000. Having

opened the first of such a company he was joined by his younger sister and his elder brother who opened similar firms respectively while the friend of his cousin, the aunt of his son in law invested in plastic footwear production.

Unfortunately for Sub-Saharan Africa neither the prediction of modernization and neo-liberal theories that globalization would cause informal economy to wither away (Loayza, n.d) nor the actual relationship with China decelerated informality in the sub-region. Instead, it blossomed due to two main reasons: globalization caused expansion of informal economy worldwide; and engagement with China which promoted extractive industries, construction industry for the New Silk Road (or Belt and Road Initiative) and Chinese owned SMEs.

As regards globalization-induced informal economy growth, Neuwirth's book, *Stealth of Nations* which NPR.(2011) commented on, and Doe (2014) reviewed informed us about the author's field trips across selected nodes where he observed whole sale and retail trade in open markets of Lagos (Nigeria),Rio(Brazil) Ciudad (Paraguay) Guangzhou (China) and New York city (US) and his conclusion that globalization has accelerated the growth of informal economy because of two factors: first, the formal and informal economies are closely connected; and second, the informal economy is infiltrated by illicit business and organized crime. On the first factor, he argued that the informal economy relies on formal economy to copy, forge and invent cheap goods for distribution around the world at no profit to the original manufacturers manufacture goods.. And the formal economy, on the other hand, relies on the informal economy to largely handle the lower levels of their supply chain at an affordable enough rate to provide manufactured goods at reasonable prices to buyers in the "regulated world" even if this results in some loss through forged and stolen goods. In this regard Kawooya (2014) found that in Uganda, the undersupply of automobile spare parts for imported used cars and the high cost of new ones opened opportunities for the artisans affiliated with semi-formal Gatsby Garage to fabricate parts (via a mix of repairing old parts and creating new ones) not readily available on the Ugandan market. The second factor found expression in organized crime in Nigeria where thugs manned bridges and roads exploiting small traders in illegal fees and artificial taxes, a

phenomenon he describes as existing throughout history as far back as the Middle Ages. He therefore asserted that successful companies of the future in the developing world would be those that could harness the power of the informal economy and build-up or start-up large-scale production businesses because many of the major businesses in the US started out that way.

On the second issue on the role of China in the growth of informality in Sub-Saharan Africa however, they include, firstly, the preponderance of African labour being tied to low skilled jobs which prevents accumulation of capital and skills that could effect transition to formal economy. Oforu and Sarpong (2021) report that both Chinese State Owned Enterprises (SOEs) and private firms reserved employment in highly skilled and top-level management positions to Chinese nationals, while Africans were generally confined to unskilled jobs. Secondly, most of SOEs invested in extractive industries and physical infrastructure tied to the long term realization of Belt and Road Initiative (BRI).

With regard to the extraction of cobalt in the Democratic Republic of Congo's five biggest cobalt mines for instance, Thomas (2021) cited a British NGO, Rights and Accountability in Development (RAID) which found that the large scale companies which accounted for 80% of Congo's cobalt exports (the artisanal miners produced the remaining 20%) subcontracted the supply of their workforce paid extremely low wages below the monthly local living wage of \$402. Similarly, Frankel (2016) report that artisanal miners not only produce more cobalt than any other nation apart from Congo's large companies, but also flood the domestic market with cheaper cobalt which some international traders preferred at the expense of company ores, and in Kolwezi town where Chinese buyers owned at least 70 small shops under paid the artisans by manipulating the Metorex machines that detects cobalt content per load. As regards infrastructure however, Runde, Savoy and Staguhn (2021) note that 21% of all the money pumped in to sub-Saharan Africa since 2013 went in to physical infrastructure as 40 out of the 46 nations in the region signed a Memorandum of Understanding with China to join the BRI. In this regard, Chiyemura (2021) explained that Chinese companies not only dominated the financing and development of critical infrastructure in Africa, but African workers suffered from low wages and poor working and living conditions. For example, construction firms in DR

Congo paid 3 dollars per day but at the end of the month in 2008, and the workers accepted without protest because it would result in to loss of jobs unlike the carbon miners of southern Zambia who protested against too low wages and in the process killed a Chinese official (Bruguière,2013).

On the private sector, however, the Chinese dominated the region's SMEs: leather, textile, plastics, construction materials, furniture, food and beverages, cardboard and plastic packaging etc. characterised by little technology sharing and knowledge transfer. Consequently most African industrialists were reduced to retail and petty trading in which they also compete with Chinese vendors. As Frey (2019) explained with regard to Lesotho where the textile and garment industry is the largest private-sector enterprise in which 82 % of the garment employees were single women who earned very little money and were subjected to gender violence, but remained to get the cash to build houses and send their children to school. Also, the domestic market has pulled Chinese immigrants who operated wholesale and small businesses in hardware, tailoring and restaurants causing natives' resentment because they sell similar goods at lower prices (ibid).

Thirdly, wealthy African industrialists and merchants ventured in to China to engage in large scale importation of consumer goods due to the decline of native industries partly as a consequence of Chinese competition in domestic and global market space. For instance, according to Sandrey and Edinger (2011) US clothing imports from Africa stagnated after 2004 while that from China increased spectacularly from 2003 to 2007 before declining in 2009 due to recession. Moreover, China benefitted more than Sub-Saharan Africa from the AGOA window because it owed the resuscitated industries that exported to US as the 2008 statistics revealed: Lesotho (\$340m), Madagascar (\$280m), Kenya (\$247m), Swaziland (\$125m) and Mauritius (\$102m) in contrast to \$27 billion for China and Egypt \$742m (more than the combined totals of Egypt; Vietnam \$5 billion; \$4 billion each for Indonesia and Mexico; \$3 billion each for India Bangladesh and Honduras; and \$2 billion each for Cambodia and Thailand (ibid). As a consequent of China's global dominance in manufacturing which

partly suffocated Sub-Saharan Africa industries, the African industrialists who lost out were forced to join in the prevailing mercantilist mood by sourcing consumer goods directly from China. Politzer (2008) citing *Guangzhou Daily* report estimated that about 100,000 Africans were living in Guangzhou city and that the number increases annually at the rate of 30% to 40% since 2003. Some of African migrants buy cheap Chinese goods for retail in African markets; others exported raw oil and minerals etc. to China; and a small group of entrepreneurs worked in informal drugs markets (ibid).

Thus, in Nigeria where domestic textiles have not been resuscitated by Chinese investors to enable them exploit the huge domestic market for metropolitan manufactures and Chinese traders, investment was directed in to SMEs in ceramics, hair wigs, plastics etc. leading to considerable migration of Nigerian merchants to China to partake in the boom being enjoyed by Chinese merchants. According to Migration Policy (2008) there were 2000 or 3000 Nigerian businessmen in Guangdong in 2006 based on Nigerian Embassy estimate. Similarly, there was an estimated 10,000 Nigerian entrepreneurs in Guangzhou in 2014 majority of whom ran small, medium and large scale businesses in shipping of goods to Nigeria (and other parts of Africa) which is said to have grown from \$185 million 1996 to over \$10 billion 2014 (Olakpe, 2018). In another vein the 'yan Kano-Jiddah business community in Kano in response to the collapse of manufacturing in the state have exploited the *Hajj* window to organise regular shuttle between Nigeria and Arabia to trade in consumer clothing, electronics etc. (which must be of Chinese origin), gold, drugs and *bori* healing services for patients inflicted with spirit-borne challenges in which modern scientific medicine proved ineffective (O'Brien, n.d)..

Finally the influx of Chinese informal immigrants in Sub-Saharan Africa has widened the scope of informal economy in the region. Although it is very difficult to estimate the total number of such migrants, Politzer (2008) contends that formal Chinese compatriots sheltered them while they survived as street vendors, delivery men, fritter-sellers, etc. before eventually becoming legally established as full-time workers, entrepreneurs or tradesmen.

4.0 CONCLUSION

This unit has demonstrated that globalization and informal economy growth are correlated positively. As global capital migrates in search of lower wages across the globe, informal economy responded by providing cheap labour in producing needed raw materials and in manufacturing of consumer goods demanded by rising urban-based middle classes globally. Labor too crossed borders in search of better wages and in the process reinforced informal economy growth either by engaging in informal jobs or businesses in host countries or through remittances which largely stimulate construction public utilities,, petty trading and increased access to consumer goods at home. This empirical evidence therefore, has challenged the proposition that the train of globalisation anchored on the universalisation of modernization and formal tenets would wither away the informal economy.

5.0 SUMMARY

The interaction between globalization and informal economy evidenced growth through outsourcing and subcontracting production from developed economies to the developing ones exemplified in US-China relationship and China-Africa relationship. As China exploited the US window to push cheap informal rural labour to the cities either as workers or as operators of SMEs urbanization was quickened and SMEs mushroomed in competition with one another, and when the 2008 labour law caused wages to rise, firms that were uncompetitive migrated to other developing countries with relative lower wages as in Sub-Saharan Africa. Similarly, communications revolution in internet and travel enhanced global migration among middle class tourists as well as workers in search of better wages and working condition. Consequently, remittances became important sources of Foreign Direct Investment in such developing countries as Philippines, while in other countries tourism revenue became vital to governments in Cuba, the Dominican Republic and Kenya etc. These developments caused growth in informal economy across the globe: foreign firms engaged in formal labour for cheapness; informal migration promoted informal labour work force and businesses; remittances promoted construction projects and consumption beneficial to informality: and tourism promoted informal businesses including local transportation and sex trade.

6.0 TUTOR-MARKED ASSIGNMENT

1. With the use of any country or region, explain the link between globalisation and growth of informal economy.
2. In what ways did China promote reproduction of informal economy in Sub-Saharan Africa?
3. Discuss the role of tourism in the development of informality.
4. Analyse how China used informal economy to reduce rural poverty.

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Unit 3: Advantages and Disadvantages of Informal Economy

CONTENT

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1.1 The Advantages and Disadvantages of Informal Economy

4.0 Conclusion

5.0 Summary

6.0 Tutor-Marked Assignment

7.0 References/ Further Readings

1.0 INTRODUCTION

Although academics and institutions have expressed differing views on the advantages and disadvantages of informality, the general position is that informal economy is a drag on economic growth and development. But contentious issues still haunt the position: is it morally feasible to formalize prostitution?; do maximum profit seeking multinationals support generalised formal markets?; can the poor survive without informal economy to access affordable goods and services and or employment?; are corrupt states interested in substituting informal economy with the formal one? Etc.

2.0 OBJECTIVE

At the end of this unit you should be able to:

- To explain the positive and negative sides of informal economy in the developing countries.
- To decide on whether informal economy contributes to development as it is or to be transformed in to formal.

3.0 MAIN CONTENT

3.1.1 Advantages and Disadvantages of Informal Economy: A Sample of Views.

(i) Loayza (n.d):

The positive aspects of informality are employment generation; creativity; ingenuity; and perseverance. And on the negative side, informality is associated with inefficient use of basic

public services such as police protection, the legal system, and social security; inability to attain sustained economic and social development; social dangers such as on-the-job injuries with no health insurance and major misfortunes due to lack of safety laws.

(ii) Pardo (2019):

The advantages of informal economy are: **easy access for less qualified workers; employment opportunity** in times of economic recession; workers **acquire skills and knowledge** which will serve them at a later date to change over to the formal economy.

The disadvantages are lack of protection to **workers** and their families; businesses do not pay taxes and are not subject to any tax system which **has a direct negative impact on a country's national budget; unfair competitive** advantage against formal economy; and it is a perfect breeding ground for criminal activities.

(iii) Slonimczyk (n.d.):

The advantages of informal economy are: it provides opportunities for upward social mobility through entrepreneurship; informal networks of family and friends could substitute for unreliable state welfare systems; firms could escape corruption by public officials and inspectors; and it provides employment opportunity of last resort for excluded workers. But its disadvantages are: informal firms congest infrastructure and other public services without contributing to finance them through taxes; informal workers are unprotected against ill-health.

(iv) ILO (n.d.):

Informal economy workers across all economic sectors – agriculture, industry and services often work in the most hazardous jobs, undesirable living and working conditions; they lack access to good quality nutrition, housing, drinking water, sanitary facilities and basic health services; gender inequality is rampant as women are concentrated in the lower end and earn significantly less than men; and child and bonded labour allowed.

Although the sampled views have enriched our understanding on the advantages and disadvantages of informal economy, yet its inherent heterogeneity and complex articulation with the formal economy have rendered the lump sum evaluation as unrepresentative compared to case by case approach. For instance, Chaudhuri, and Mukhopadhyay (2010) have argued that despite substantial research on the workings of informal wage employment, the self-employed in the informal economy are rarely studied. The self-employed street vendors most of whom are vital in the supply chain of formal firms especially the multinationals from which they source the goods they sell in developing countries. For instance, Eastleigh international market in the east of Nairobi's central business district owes much of its wealth to the trade in mass produced goods from China which thousands of wholesale and retail traders including South Africa's Shoprite sell to customers: clothing (jeans, suits, and polo shirts), electronics, fabrics etc. with an annual turnover worth \$28 million(Kuo, 2017). Similarly, Robert Neuwirth cited in NPR.(2011) reports that the electronics market in Lagos is a multimillion-dollar industry. The World Bank (2016) described the Otigba ICT cluster as the Silicon Valley of West Africa due to its 3,500 firms spanning the formal-informal continuum, which between them employed about 10,000 workers, and variety of activities from sole-traders dealing in laptop accessories, to retailers and small repair shops, and firms that make locally branded hardware products, including laptops and tablet computers, which are formally registered and even export internationally. Moreover, the Lagos State government even collects taxes from informal firms (ibid).

According to Alfery and Pryor (n. d.) apart from strong linkages to the formal economy street vendors create jobs not only for themselves but for porters, security guards, transport operators, storage providers; they keep the streets clean and safe for their customers and provide them with friendly personal service; they generate revenue for cities through payments for licenses and permits, fees and fines; and they add vibrancy to urban life through the sale or display of historical and cultural heritage, which Jimoh (2010) captured in his survey Masaka market in the neighbourhood of Abuja FCT: an elderly and 36 years experienced calabash carver and designer from Jigawa state who produces for Fulani women milk sellers, women in the villages, brewers

and operators of local beer palm-wine and guinea corn made *Burukutu*. Similarly the Sokoto traditional leather industry associated with the 19 century Moroccan leather from Sokoto red goat still flourishes in a modernized form at Madunka leather workers cluster in Sokoto city, to serve elite taste for exotic brands such as decorative cushions for sitting rooms pictured below. There are about 10,000 tanners across twelve of the twenty three local governments in the state who still use the ancient methods of leather processing (Muhammad, 2018).



Source: Muhammad, R. A.(2018). Sokoto’s waning leather works.dailytrust.com.ng

In another vein, the advantages or disadvantages of waste pickers are complex. Although the arguments of ILO and Loayza hold as regard hazardous job conditions, the position of Pardo on

unfair competition with formal economy and failure to pay taxes does not hold. Apart from providing recyclable materials to formal enterprises, private individuals and the general public Thaís and Fernandes (n.d.) citing Scheinberg, et al. (2010) who studied waste picking across Cairo in Egypt, Cluj-Napoca in Romania, Lima in Peru, Lusaka in Zambia, Pune in India, Quezon in Philippines) found that the more than 80,000 workers were responsible for recycling about 3 million tons of waste annually across the six cities. According to the Steel Recycling Institute, recycling of one ton in the steel industry can conserve about 1.1 ton of iron ore and 0.6 ton of coal which could yield at least 75 % savings in energy, and significant reduction in water and air pollution there by promoting environmental sustainability (Lee and Sohn,2015). Scrap metals trade in an important global business for the countries that have the smelting technology. In 2020 the European Union is said to be the leading exporter of steel scraps(recycled steel) worth 22.6 million metric tons, seconded by the US which exported its largest share to Turkey, the leading steel scrap importer worldwide in the year (Statista Research Department,2021).

In Kenya's scrap metals businesses, **Jiwaji** (2014) notes that because of the small number of companies that smelt ferrous and non-ferrous metal which is reused in the domestic building, construction and hardware sectors, the bulk of the non-ferrous metal is exported to China, India and Barcelona in Spain, and that scrap metal export rose from \$11m in 2011 to \$32m in 2012. Due to the significance of the industry, Metal Merchants firm, one of six companies in Kenya authorised to export non-ferrous scrap sourced its scrap of copper, aluminum, brass and bronze not only in Kenya but also in Uganda, Tanzania, Rwanda and Burundi, and according to Honorable Irshadali Sumra who holds tripartite positions of a parliamentarian, a proprietor of Roma Metals, one of the six largest scrap metal dealerships in the country and the Secretary General of the politically powerful Kenya Scrap Metal Dealers Association (KSMDA), there were 800,000 dealers in the country, while in Nairobi county alone there were 800 *jua kali* (informal workers).

The availability of raw materials facilitated the growth of informal metal working clusters in Kenya. Boyd (2017), in an interview with Erika Kraemer, Mbula and Sacha Wunsch, Vincent who researched on two Nairobi clusters reported that the Kamukunji cluster specialises in fabricating cheap wheelbarrows, boxes, stoves, pots and pans for low-income populations; and the Racecourse cluster specialises in art objects for middle and high-income consumers including luxury hotels as pictured in the beautiful metal giraffe below:



Source: Boyd, T. (2017). The informal economy in developing nations: a hidden engine of growth. https://www.wipo.int/wipo_magazine/en/2017/03/article_006.html

Similarly, in Nigeria, the underdeveloped mining industry and massive importation of second-hand automobiles including motorcycles and bicycles in response to rapid urbanization and low incomes have fuelled informal scrap metals trade and recycling. *Egwu* (2019) reports that the annual demand of an estimated 6.8 million metric tons of steel is met entirely from scraps. But whereas the Nigerian waste pickers and dealers supplied the commodity the Chinese, Indians and Lebanese investors dominated the scrap recycling and export businesses. Main sources of metals scraps are plea markets known as *Panteka*, mechanics' yards, and waste pickers. For instance, Badmus et.al(2017) report that in the Lagos Owode Onirin scrap metals market the Chinese, Indians and Lebanese buy directly from the dealers and convert them into steel pipes,

aluminum and other metals in their milling companies; and at the Mechanic Village in Oke-Afa the mechanics buy unwanted vehicles and employ some young men to dismember them while the purchasing companies pay and pick them themselves at given prices: one ton of metal costs between N35,000-N40,000, 10 tons or trailer-load costs N350,000-N400,000, while one ton of aluminum costs N130,000 and 10 tons cost N1,300,000. In Abuja, Ogwueleka and Naveen (2021) note that the scrap dealers have three main sources of scraps: deployment of loyal waste pickers in groups of 5 to 15 members to scavenge for scraps raw materials which they would weigh on a scale and pay for the service; the Goza junkyard; and *Panteka* where the dealers go to collect the scraps in trucks or motorized cabs. A waste picker earns between N1000 (\$2.8) and N1500 (\$4.2) per day; itinerant dealers earn between N1500 (\$2.8) and N2000 (\$5.6) per day, and scrap dealers earn between N10, 000 (\$27.77) and N15, 000 (\$41.67) per day (ibid). Although there are more than 20 recycling companies operating in the country across Benin, Lagos, Ogun, Keffi Kano etc. to facilitate the scrap metals industry and promote local manufacturing which necessitated the ban on scrap metals export, only few are operational according Samuel Ekeoma, the chairman of the Scrap Dealers Association of Nigeria, expressing his disgust over the ban and the levies of between N4,000 to N6,000 collected by government agencies before allowing a scrap truck to move (*Egwu, 2019*).

By and large, despite the difficulty in macro delineation of the advantages and disadvantages of informal economy due to its complex diversity, table 12 below provides a much more robust characterization derived from micro analyses of variety of informal economic activities from the literature on the subject matter.

TABLE TWELVE

Advantages and Disadvantages of the Informal Economy

A: Disadvantages	B: Advantages
TO THE INFORMAL ECONOMY	
1. Lack of access to credit and financial services.	1. A source of income to stay out of poverty.
2. No entitlement to labour rights: minimum	2. Acts as a test-bed for enterprise creation,

wage, sick pay, or redundancy rights etc.	
3. Difficulty in expanding a business which cannot be openly advertised.	3. Flexibility in where, when and how to work
4. May face higher barriers of entry due to inability to provide relevant documents	4. Disregard for state taxes and labour regulations
5. No legal recourse for poor job, denial of health and safety benefits	5. Resort to cheap customary dispute resolutions mechanisms
6. May provide substandard products or services.	6. Accessibility to all categories of workers: male and female; youth, elderly and children; legal and illegal migrants
7. Harassments from law enforcement agencies and other state officials.	7. Suitable for illegal and criminal activities.
	8. Disregard for intellectual property rights; and open access to skills acquisition.
TO THE FORMAL ENTREPRISES	
1. Supply of cheaper alternative products and services	1. Access to cheap labour, subcontracting, outsourcing and raw materials.
	2. Supply chain to remote and low income customers.
	3. Avenue to evade regulations and taxes
TO THE STATE	
1. Tax base depression.	1. Employment generation and poverty control.
2. Growth in crimes and slums	2. Provision of basic infrastructure in remote and other areas not captured by the state due to politics or inadequate funds
3. Vandalisation of public infrastructure.	3. Orderly market organisation for smooth operations through informal associations.
4. Promotes official corruption.	
TO THE CUSTOMER	
1. Probability of low quality products and services.	1. Affordable products and services at home or market spaces.

2. Lack of product warranty.	2. Flexibility to negotiate price
3. Susceptibility to being cheated.	
TO THE SOCIETY	
1. Promotes pollution through the use of charcoal or plastics in processing; disregard for workplace toilets access and proper waste disposal.	1. Improved sanitation through waste picking.
2. Land degradation through poor agricultural practices.	2. Preservation of culture in building, clothing, foods, hair styles, medication, art works etc.

Source: Compiled from reviewed literature.

4.0 CONCLUSION

The diversity of informal economy and its complex relationship with formal economy preclude accurate macro delineation of its advantages and disadvantages. But table twelve characterisation deduced from micro analyses of informal firms and self-employed workers provides a broader picture, although neither sides claims supremacy. However, in relation to national development the disadvantages of informality outweigh the advantages for the informal firms, labour and the state itself..

5.0 SUMMARY

The informal economy has diverse relationships across different stake holders: the formal economy; the state; the society; the customer; and the informal firms and informal labour. In either case the advantages and disadvantages overlap

6.0 TUTOR-MARKED ASSIGNMENT

1. Critically examine the impacts of informal economic activities on any local environment of your choice
2. What are the disadvantages of scrap metals sector to the development of Nigeria's steel industry?

3. The disadvantages of informal economy far outweigh its advantages: Discuss.

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MODULE FOUR: THE INFORMAL ECONOMY IN NIGERIA

Unit 1: The Determinants and Structure of Informal Economy in Nigeria

Unit 2: Informal Economy in Nigeria’s Development process.

Unit 3: Problems and Prospects of the Informal Economy in Nigeria.

Unit 1: The Determinants and Structure of Informal Economy in Nigeria.

CONTENT

1.0 Introduction.

2.0 Objectives.

3.0 Main Content.

3.1.1. The Determinants of Informal Economy in Nigeria.

3.1.2. The Structure of Informal Economy in Nigeria.

4.0 Conclusion.

5.0 Summary.

6.0 Tutor-Marked Assignment.

7.0 References/ Further Readings.

3.0 INTRODUCTION

Although the idea of “informal economy” in Nigeria has its roots in British colonialism, the development of productive enterprises and exchange relations among Nigerians had been in existence since the rise of urban centres and long distance trade in historical times. As already noted neither the European colonial civilization mission in Africa nor the contemporary modernisation programmes in the continent halted the growth of informal economy in Sub-Saharan Africa. In Nigeria the informal economy is said to be expanding instead (Ogbuabor and Malaolu, 2013; Igudia, 2014) largely due to collapse of modern manufacturing industries which should have promoted the growth of formal economy. Thus, although the informal economy grew, it was in response to its complementary functions in servicing the formal sector, supply of cheap goods and services for low income earners and niche markets producing traditional goods and services which have stubbornly resisted modernization.

2.0 OBJECTIVE

At the end of this unit you are expected to

- Be able to explain the factors behind the growth of informal economy in Nigeria.
- Describe the structure of informal economic activities in Nigeria including gender orientation.

3.0 MAIN CONTENT

3.1.1 The Determinants of Informal Economy in Nigeria.

In a study on the informal economy in Nigeria, Igudia (2014) notes that its main determinants are population growth, corruption, unemployment, and survival factors, and that it is more prevalent in the north-west and south-west regions of the country. Although the determinants have ignored other factors which we shall explore subsequently, yet the regional distribution confirms the historicity of manufacturing, commerce and long distance in Hausa land and Yoruba land where the development of urban centres took off earlier than in south-east region. In another vein, Hoffmann and Melly(2015) who analysed Nigeria's trade with her West African neighbours from a neo-liberal frame work found the predominance of informality which they attributed to: slow, complex and expensive formal processes for customs clearing (nine documents in order to send an export shipment and at least 13 documents in order to bring in an import consignment); rigid and dysfunctional foreign-exchange and banking regulations which push most smaller traders into the incompletely regulated parallel exchange market; and burdensome corruption and unofficial taxation. But as Ademola et al (2015) discovered in a study on the factors that motivate informal entrepreneurship in Ibadan in South West Nigeria, the disregard for formal rules, principles and regulations by the business operators derived not from the high costs of taxes and other unofficial dues but the general perception that they were imposed legacies of British colonial masters.

However, the arguments of Igudia; and Hoffmann and Melly have ignored and underestimated four other significant determinants of Nigeria's informal economy: de-industrialisation; urbanisation; globalisation; and culture. Firstly, on de-industrialisation, the process originates with the 19 century European colonialism as already hinted at the beginning. As industrialisation was not part of the colonial economic policy since the colonies were meant to produce primary raw materials to feed foreign industries and to import their manufactured goods from Europe; and to produce not what they consumed or needed but what the Western industries required, the native industries lost out due to lack of state support and influx of cheaper Western manufactured goods under the British free trade policy (Isola, 2016; and Falola, et.al 2003). Those that lost out eventually relocated in to petty trading, migrant labour or other informal activities. But not all the traditional manufactures declined because some are culturally

valued such as Adire textiles in Western Nigeria, Bornu potash needed for snuff production in Eastern Nigeria etc., while others survived to cater for the needs of low income earners such as hoe-blade black smiths who continue to produce for peasant farmers. The next major wave in the de-industrialisation process was that caused by the implementation of neo-liberal Structural Adjustment Programme(SAP) economic reforms in the 1980s in which the imposition of free trade principle led to the virtual collapse of the manufacturing sector in Nigeria (Isola, 2016), and massive retrenchment of private and public sector workers. For instance trade liberalisation led to the dumping of cheap and highly subsidized foreign goods (electronics, automobiles, textiles, and beverages etc.) on the Nigerian market and caused mass closures of factories and sacking of workers: about 20,000 by February 1990, while the Nigerian Labor Congress is quoted to have stated that about 2 million workers were retrenched between 1985 and 1987 (Okolie, n.d). This undoubtedly expanded the size of the informal economy which has traditionally been the alternative abode for retrenched formal workers and uncompetitive enterprises.

As SAP failed to halt de-industrialisation in Nigeria retrenchment and unemployment continued and the informal economy continues to swell. For example, Chete, et al (n.d) note how the Nigerian textile industry which at its peak employed close to 700,000 people (making it the second largest employer after the government) declined from 175 firms in the mid-1980s to just 10 factories in 2004, while employment in the industry plunged from 350,000 direct workers to 40,000 direct workers in the same period. Similarly, Bloch, et al (2015) commented on the growth of informal organisations that provided basic public services such as housing, water supply, security, waste management and the movement of urban inhabitants to informal settlements due to high costs of housing.

Secondly, the rate of urbanisation in Nigeria is as high as 5%–10% per annum according to Egunjobi (1999) cited in Amadu (2017) .This has implication in the growth of Nigeria's informal economy because urban centres have traditionally been associated with job opportunities for both the urbanites and immigrants: rural, urban and international. In Lagos

State alone, the informal economy is said to employ about 5.5 million people (three-quarters of the State's 7.5 million labor force) currently (Olubiyi, 2021). Also, in Kano city more than four million tricycle operators are said to be on the road at any moment with adverse implication on air pollution (Ngbokai, 2019). Kano city is also a major destination for Igbo rural-urban migrants from South-eastern Nigeria including young and unmarried rural women (Smith, 2003). Migrants' remittances to their homes tend to stimulate informal economic activities. Black, et al. (2006) citing the International Institute for Environment and Development (IIED) report that migrants' remittances in South-eastern Nigeria were invested in housing, land acquisition and livestock breeding. In housing for instance informal masons, carpenters, water sellers, labourers, building materials traders etc. benefitted, while livestock breeding increased the size of peasant farmers and benefitted livestock feeds merchants and butchers among others. Furthermore, in Ado-Ekiti in South-eastern Nigeria, Olaosebikan, et al(2019) have explained how the immigration of Hausa entrepreneurs, workers and Fulani herders to the area stimulated informal economic pursuits: cattle herding and sale of cows; roasted meat (*Suya*), edible hide (*Ponmo*) and milk cheese (*Wara*); leather products which include belts, slippers, purse, bags etc; Islamic paraphernalia such as Prayer mat, *Tesibyu* (rosary), Quran cover, Islamic decorations; Bureau-de-Change operators who buy and sell foreign currencies (ranging from the Saudi Riyadh, the German Dutch Mark, the Japanese Yen, the French Francs, the French West African CFA, the British Pound Sterling to the American Dollar), buying new and old gold chains, bangles, earrings etc, and buying and selling of used iron rods; digging of well, pit latrine and soak-away digging of well, pit latrine and soak-away; splitting and breaking of planks and wood for homes and restaurants food; tailoring and fashion designing in Hausa apparels- gowns (*Babariga*) and caftan; perishables such as tomatoes, , onions and peppers; and legumes such as carrots, water melon, lettuce, cucumber, and green pepper, among others.

Thirdly, globalisation induced the growth of informal economy in Nigeria in two ways: the influx of Nigerian entrepreneurs to China where they ran SMEs and large scale shipping of manufactured goods to Nigeria (and other parts of Africa) whose population is estimated to be 10,000 in 2014 majority of whom lived in Guangzhou (Olakpe, 2018). The other is the influx

foreign entrepreneurs particularly the Indians and Chinese who displaced the traditional sway that the Lebanese enjoyed since colonial period. However, the state in China, entrepreneurs and SMEs are the most predominant players in Nigeria's informal economy in several ways. In agriculture for instance, although China's agricultural investment in Nigeria is meager in comparison to her investment in other sectors of the Nigerian economy (David and Metumara, 2021), yet the injection of \$25b Chinese investment into the sector (Ailemen, 2019) has contributed to agricultural growth and the informal economy, because agriculture is the largest employer of labour in the country, with crop production as the largest segment which accounts for about 87.6% of the sector's total output; followed by livestock 8.1%; fishing 3.2%; and forestry 1.1% (Oyaniran, 2020). Also, Chinese experts have helped Nigeria's peasant farmers in new agricultural techniques to achieve higher production and incomes. At the Wara Agricultural Park in the North-Western state of Kebbi more than 1,000 local farmers and agricultural machinery management staffers have studied in the training programs and many of them have left Wara to grow rice on their own, or get jobs at major farms in their hometowns (Xinhua, 2021). China also provided outlet for Nigeria's new exports such as Sesamum seeds and donkey hide. In the former, it has become Nigeria's biggest agricultural export earner for some years with top destinations to Japan, China, Turkey, India, and Vietnam (Adesoji, 2020). In the former however, a surge in demand by China's booming middle class for *Ejjiao*, (a substance derived from the boiled hide of donkey) an ancient medicament in the treatment of miscarriage, circulatory issues, and premature aging (Lesté-Lasserre, 2019) has fuelled the importation of donkeys to which Nigeria benefitted. The Nigerian Donkey Skin Processors Marketers and Export Association (DSPMEA) in collaboration with the Earthwheel Logistics Ltd, a private company have invested billions of Naira in ranches in Bauchi, Jigawa and other states in the north, and Anambra AND distributed donkeys to villagers for them to breed to massively increase the population of donkeys in Nigeria (Elebeke, 2019). According to Orjiude and Olatunji (2021) agricultural import and export trade have maintained an upward trajectory in 2020, although exports amounted to N320.7bn compared with the import bill which was N1.7tn, which indicates the underdeveloped nature of the sector dominated by peasant production and the use of outdated techniques of hoes and cutlasses among others.

China's entrepreneurs and SMEs have also boosted informal economic activities in Nigeria. Pushed by China's domestic economic slowdown, domestic overcapacity, rising wages and enforcement of environmental regulations thousands of manufacturing jobs were offshored to developing countries including Nigeria which welcomed the development to foster industrialisation, create jobs and reduce dependence on oil (Chen, 2020). As Ogbonna (2021) notes, it was in order to offshore low-technology aspects of the value chain abroad and to encourage the internationalisation of Chinese SMEs that the Chinese state promoted the development of Chinese Special Economic Zones (SEZs) in Africa in 2006, although the process had already been on course in Nigeria since 1992 when the Calabar Free Trade Zone in Cross Rivers State was established by the state government for steel manufacturing; the production of white goods and household appliances; and the SKD assembly plant owned by Chinese truck manufacturer F.A.W.(Chen, 2020).Promoted by the United Nations Conference on Trade and Development (UNCTAD) the Special Economic Zones (SEZs) variously termed Export Processing Zones(EPZs) or Industrial Development Zones (IDZs) (Toussaint et al,2019) they are primarily export oriented (Rudolf and Herbert, 2006) for which they enjoy relief from Value Added Taxes, import duties, corporate taxes, lower environmental or social standards, exclusion from labour laws etc. not only to incentivise investors but also to make their products competitive. But in Nigeria, the primary motive for the Chinese SME firms was to capture the country's large domestic market rather than as an export platform (Ogbonna, 2021). Accordingly, the Chinese SMEs(see table 13) whether located in the SEZs or privately owned spaces concentrated in assembling consumer goods made in China or manufactured in Nigeria with imported inputs and locally sourced raw materials: ceramics tiles and plates; paper and cardboard; freezers,; furniture; Viju milk and beverages; water containers and dispensers; plastic shoes and slippers; suitcase and bags; sheet glass; aluminum doors; cutlery; corrugated plastics; medicine; steel-pipe; tomato sauce; printing; plastic and metal recycling; construction materials etc. (Feng and Pilling,2019; Odutola , 2019; Chen, 2020). According to the President, China Chambers of Commerce in Nigeria, Ye Shuijin, *there are 160 Chinese firms operating in the country which invested about \$20billion and employed over 200,000 Nigerians* (Odutola , 2019).

TABLE THIRTEEN

Aspects of Chinese Manufacturing Investments in Nigeria

Sector	Sub-Sector	Observations	Select Firms & Location
Construction Materials	Ceramics	Mostly tiling, 7-8 firms.	WEMPCO (owned by Tung Group) Goodwill Ceramics (Ogun FTZ) Time Ceramics (Benin City)
	Steel	Steel bars, pipes, rods, and beams	Far East Steel (Ogun FTZ) Pannda Steel (Ogun FTZ) Baoyao Steel (Calabar FTZ) Yongxing Steel (Benin City)
Furniture	-	10-20 firms, most factories in Ogun State	Discovery Furniture (Ogun FTZ) Winghan Furniture (Ogun FTZ) Lifemate Furniture (Ikeja)
Food & Beverage	Drink & Beverage	-	Viju Milk (Ogun State) CWay (Ogun State)
	Food	Snack cakes	Gudy Foods
Beauty Market	Hair & Wig Products	At least 20 Chinese artificial hair & wig firms, make up 80% of Nigerian market	Rebecca Hair
Cardboard & Plastic Packaging	-	10-20 Chinese firms	Hexing Packaging (Ogun FTZ) Hewang Cardboard (Ogun FTZ)
Assembly Line Plants	Household Appliances	White goods & small electronics	Skyrun International (Calabar FTZ)

		Freezer assembly	Snowsea (Ogun FTZ)
	Vehicles	SKD trucks & vehicles	Sinotruck - 20% of Nigerian market (Lekki Zone) Yafei Trucks (Lekki Zone) FAW (Calabar FTZ)

Source: Chen, Y. (2020).“Africa’s China”: Chinese Manufacturing Investments in Nigeria in the Post-Oil Boom Era and Channels for Technology Transfer. www.saiscari.org/publications.

As the SMEs are predominantly involved in the assembly of already manufactured parts from China, there are limited opportunities for domestic firms benefitting from backward linkages other than in raw materials supply such as kerosene for insecticides, lumber, cotton, synthetic stuffing, and fabrics for furniture makers, kaolin quarry for ceramics (Chen, 2020;Ogbonna, 2021) and scraps from waste pickers for recycling iron and plastics. Similarly, forward linkages are limited to wholesale and local distribution by Nigerians because in the Chinese marketing strategy it is better to “present... a Nigerian face to Nigerian customers” Chen, 2020. Apart from agriculture and manufacturing, Chinese are also involved in distribution through the agency of China Town had its debut in Nigeria **in the Ojota area of Lagos** in 2001 to facilitate foreign direct investment between China and Nigeria through wholesale markets, leisure, shopping and dining facilities; training of competent sales teams to develop distribution networks in major cities in Nigeria and to spread Chinese culture among others (Uba, 2019). The Lagos China **Town has** 180 shops which sell everything from blue jeans to ceramic coffee cups (Langfitt, 2011), **and as a centre of diffusion of Chinese retail entrepreneurs to various urban markets in Nigeria from Lagos in the south as far as Sokoto in the north. In Lagos for instance,** Huang who was inspired by the presence in Nigeria of Africa's largest Chinese population, and a huge for Chinese goods arrived China Town in 2002 as a vendor importing suits, and door parts to build doors in his factory, but eventually left Nigeria because of poor

power supply, poor quality engineers, unstable exchange rates and theft of his suits at a point of Nigerian Customs (ibid).

The Chinese entrepreneurs have also provided outlet for Nigeria's artisanal gold miners in Osun and Zamfara states, and according to the Secretary, Board of Trustees of the Small-scale and Artisanal Miners Association of Nigeria, Saleh Katsina, the presence of the Chinese was good for the artisanal miners, whose activities make up about 90 per cent of the operations in the mining sector Chiedozie, 2020. The artisanal miners are equally delighted because they have no any market for their products other than the Chinese buyers, who however smuggled out the gold unprocessed there by depriving the federal and the state governments of large revenues (ibid). Arising from the forgoing therefore, China exploited the window from globalization to foster informal economy in Nigeria through the adoption of informal employment of Nigerians including teenagers as found in a wig factory in Lagos(Norbrook, 2010); promotion of informal raw materials production: kaolin, cotton, timber, scrap metals and plastics, solid minerals, and retail trading of consumer goods.

And lastly, cultural norms and tastes have also contributed to the growth of informal economy in several ways. For instance, the production of *Adire* (tie and dye) and *Aso Oke* (traditional weave) in South Western Nigeria derives from socio-cultural values of Yoruba ethnic group rather than pure economic motivation because according to Ogunsade and Obembe (n.d) the producers most of whom are women saw no need to register their business or trade in the formal economy, but the need to maintain an ancient inherited tradition. Similarly, *kayan mata*, a traditional sex enhancer still enjoys its niche market. The herbal preparations (aphrodisiacs) have varied preparations such as the chicken type which costs N45, 000 per dose while the one prepared with coke sells for N65, 000;cow tail prepared costs N25, 000 ;and liquid the *Zum* sells for N8, 500 for four litres. Each preparation is to be consumed by one person (Olaitan, 2015). *Kayan mata* is also part of the commodities that Nigerien Tuareg female migrants bring to Sokoto in about twenty six varieties to sell in the town(Kwaire,2014).

3.1.2 The Structure of Informal Economy in Nigeria.

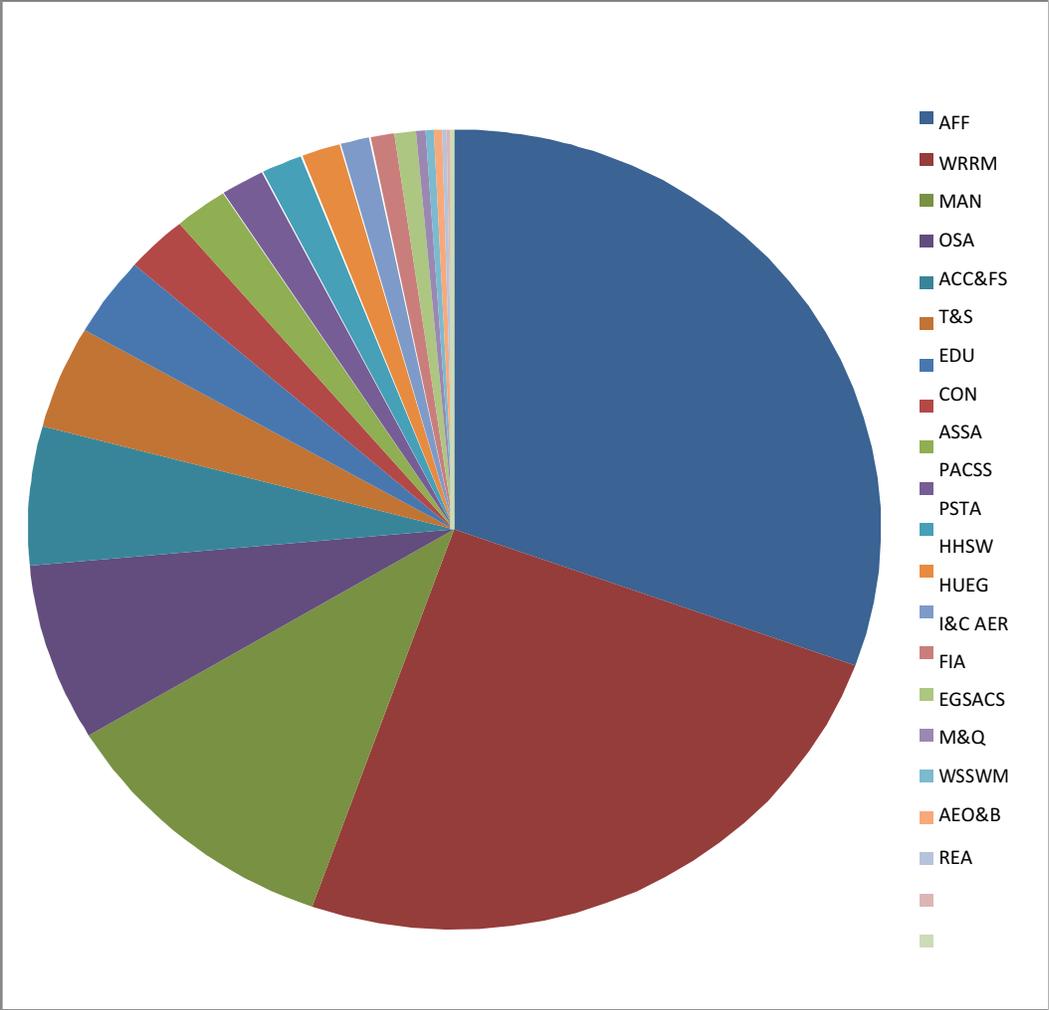
In the absence of a strong modern formal manufacturing, the informal economy constitutes the main pillar of the national economy in employment and income generation as well as the supply of essential goods and services to the society. As Becker (2004) quoted in Onwe (2013) argues, since it contributes substantially to the Nigerian economy it should be encouraged and facilitated. Despite inaccurate statistics on the proportion of its labour force, Bloch et al. (2015) posit that there are approximately 54.6 million informal workers compared to 48.5 million formal workers based on National Bureau of Statistics data. As regards its structure, it depicts the following features:

(i) Distribution of Informal Economic Activities by Sectors

Agriculture including forestry has the highest number of informal workers, followed by wholesale and retail trade while the manufacturing sector occupies the third position as shown in the diagram two below. The preponderance of agriculture not only symbolises the extent of Nigeria's economic underdevelopment, but also the high rates of poverty, youth unemployment, rural-urban drift caused by the impact of climate change on agriculture, and high incidence of crime as a consequence of limited employment opportunities. The high proportion of wholesale and retail trade shows the extent of weak modern manufacturing which has its genesis in the colonial economy before the contemporary neo-liberal free trade principle sustained it to reproduce Nigeria as a dumping ground for foreign goods and services including second hand automobiles, electronics, clothing and leather goods among others.

DIAGRAM TWO

Distribution of Informal Economic Activities by Sectors



Source: Aremu, Y.S.(2014). Informal Sector and Employment Generation in Nigeria
https://mpr.ub.uni-muenchen.de/55538/1/MPRA_paper_55538.pdf

The structure of contemporary informal manufacturing presents a dualistic image along traditional and modern lines, with the former depicted in the continuity of smithing, handloom weaving, wooden and clay production etc. dominated by Nigerians, while the latter is represented in automobile workshops, furniture making, shoes manufacturing etc in which the Chinese SMEs dominated the technology-based sector and the Nigerians in manually operated ones As at 1998,(See table fourteen) Nigeria had on record over two million informal

manufacturing enterprises, with the majority in food, beverages and tobacco, followed by textile and wearing apparel(Onwe, 2013).

TABLE FOURTEEN

**Distribution of Informal Manufacturing Enterprises by Activity
(1998)**

ACTIVITY UNIT	PERCENTAGE
Food, Beverages and Tobacco	69.1
Textile and Wearing Apparel	11.2
Wood and Wood Products	8.8
Paper and Paper Products	0.6
Chemical, Petroleum, etc.	0.5
Non-metallic Mineral Products	0.8
Basic Metal Industries	1.6
Fabricated Metal Products, Machinery & Equipment	2.2
Others (including home-based manufacturing)	5.2
Total	100

Source: Adapted from Onwe, O.J.(2013). Role of the Informal Sector in Development of the Nigerian Economy: Output and Employment Approach. www.aripd.org/jeds

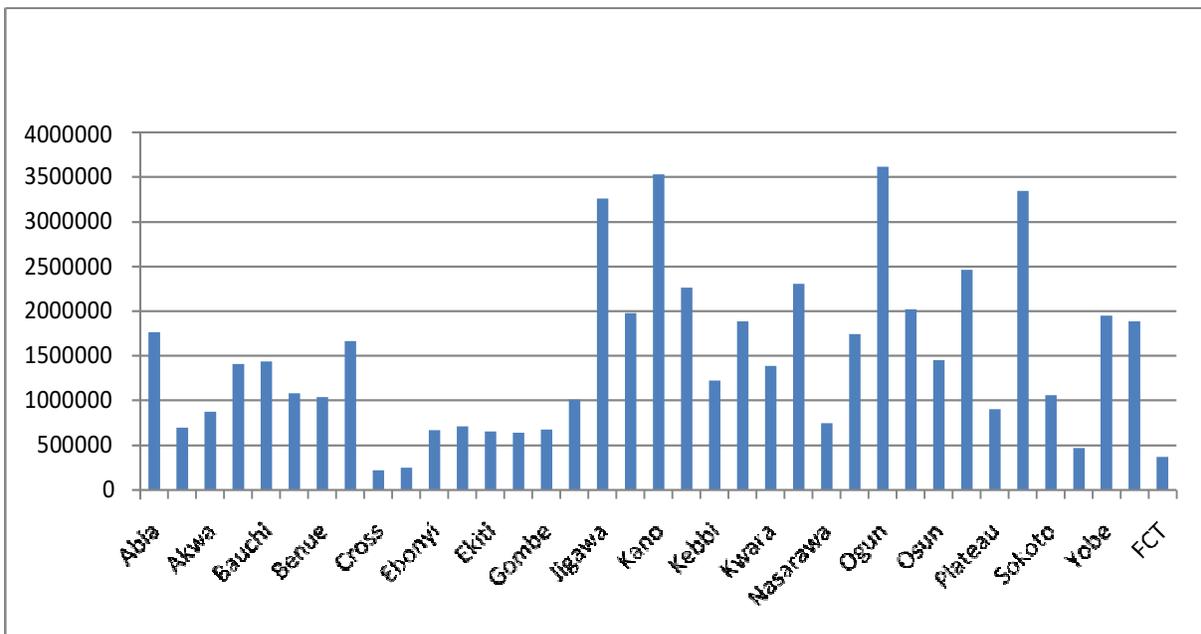
Another feature of the informal manufacturing subsector is predominance of women (58.5%) over men (41.5%) in food, beverage and tobacco; wears and leather works; metal fabrication; paper and paper products, but in the non-manufacturing (water supply; building and construction; wholesale and retail trade; repair works) men constituted 65.2% of the population compared to 34.8% against women (Onyebueke and Geyer, 2014). Impliedly therefore, there are more women in the Nigerian informal economy than men since food, beverage and tobacco (69.1%) and textile and wearing apparel(11.2%) are the predominant in the informal manufacturing subsector.

(ii) Distribution of Informal Economic Activities by State

According to Aremu (2014) Kano state had the highest employment of informal sector workers and followed by Rivers and Jigawa while Cross River and Delta states had the least employment in the informal sector as shown in diagram three below. Thus despite Lagos's significance in commerce, Kano has more informal workers of lower level of industrialisation relative to Lagos.

DIAGRAM THREE

Distributions of Informal Economy Workers by State



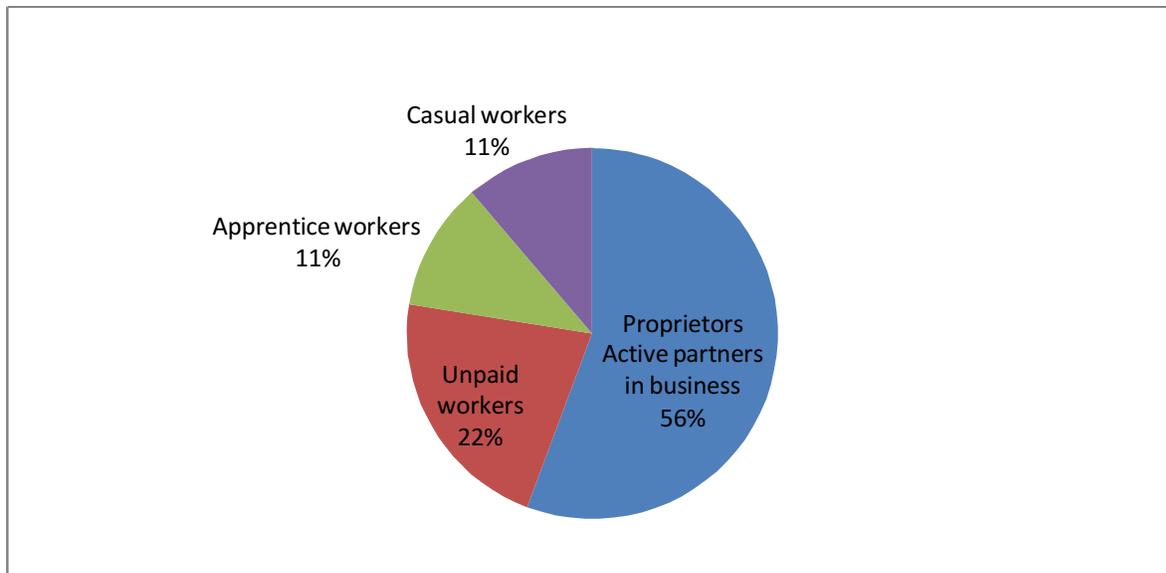
Source: Aremu, Y.S.(2014). Informal Sector and Employment Generation in Nigeria

https://mpru.ub.uni-muenchen.de/55538/1/MPRA_paper_55538.pdf

(iii) Distribution of Informal Economic Activities by Ownership

Decomposing the Nigerian informal economy into different categories of workers, Aremu (2014) found that 56% were proprietors and 22% were unpaid workers (self-employed) as shown in the diagram below:

DIAGRAM FOUR
Distribution of Informal Economy by Designation



Source: Aremu, Y.S.(2014). Informal Sector and Employment Generation in Nigeria
https://mpr.ub.uni-muenchen.de/55538/1/MPRA_paper_55538.pdf

Moreover, Onyebueke and Geyer(2014) found that male-headed enterprises are much more capital-intensive and as such reported much more profit than their female-headed counterparts.

(iv) Structure of Informal Economic Activities by Gender

The gender segmentation in Nigeria's total informal economy shows preponderance of women over in most sectors. In a 2010 Nigeria's National Bureau of Statistics(NBS) for instance, there were more females (27,483,577) working in the informal sector than males (27,160,099), and that more females were working as proprietors/active partners, unpaid workers, hired labour/casual workers/operatives, and clerical and related office workers in the informal sector

relative to their male counterparts (NBS,2010). Further disaggregation showed that more females were engaged in manufacturing (1,505,868), wholesale and retail trade (3,510,573); and accommodation and food services activities (1,123,693) than their male counterparts(ibid).

As regards informal economy distribution along urban and rural regions Dauda (2002) points out that more females 14.5 % in urban centres compared to 13.9% for males, while in the rural areas 37.8 % females relative to 34% males. But generally the male informal operators were more literate (54.2%) than their female counterparts with 45.8 %. Also, although women are heavily involved in the agricultural sector, constituting 60-80 % of rural agricultural labour force (Ogunlela and Aisha, 2009), they earn and produce much less than men, and have limited access to land, inputs, labor, and extension services(Oseni, Goldstein and Utah,2013). But in nonfarm activities among farming households, 70% were females with heavy concentration in retail trade, manufacture of food products, and apparel in contrast to79% for males who largely work in food and beverage service, wholesale/ retail trade, and repair (Oseni, Goldstein, and Utah,(2013)

4.0 CONCLUSION.

In this unit, there are two conclusions that you have learnt: first, the multidimensional determinants of informal economy in Nigeria beyond the propositions of neo-liberal explanation of excessive taxes and over-regulation. Among the factors, globalization has played a key role through the perpetuation of structures and institutions that keep Nigeria unindustrialised which British colonialism and post-colonial neo-liberalism sustained, and which China is now exploiting. Second, the predominance of informal economy, and the preponderance of women in it have implications on the high levels of poverty, informality, social exclusion of women in the development process, youth unemployment, and crimes in the country.

5.0 SUMMARY.

The determinants of Nigeria's informal economy cut across population growth, corruption, unemployment, and survival means for the poor, de-industrialisation, urbanization, globalisation

and cultural factors. Structurally, agriculture, whole sale and retail trade, as well as manufacturing are the most dominant sectors; women predominant over men; the north has more informality than the south with Kano as having the highest concentration of informal activities; and sole proprietors are the predominant segment

6.0 TUTOR-MARKED ASSIGNMENT.

1. How did the Chinese SMEs promote informal economy in Nigeria?
2. Explain the nexus between de-industrialisation and growth in informal employment in Nigeria.
3. Why are women predominant in the Nigeria's informal economy?

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Unit 2: Informal Economy in Nigeria’s Development process.

CONTENT

1.0 Introduction.

2.0 Objectives.

3.0 Main Content.

3.1.1. Informal Economy and Economic Growth in Nigeria.

3.1.2. Informal Economy and Development in Nigeria.

4.0 Conclusion.

5.0 Summary.

6.0 Tutor-Marked Assignment.

7.0References/ Further Readings.

1.0 INTRODUCTION

According to ILO (2018) more than 61.2% (about 2 billion women and men) of the world's employed population aged 15 and over work informally, and although it exists in all countries regardless of the level of socio-economic development, it is more prevalent in developing countries. The World Bank cited in Adenuga (2021) says 80.4% of Nigerians work in informal economy, which ranks the country as having the largest informal sector in Africa. Moreover, Awojobi, Ayakpat and Adisa (2014) citing Osalor (2011) have revealed that an estimated over 90 % of workers work in the informal economy in Nigeria; 80 % of all non-agricultural employment; 60% of urban employment, and 65% Nigeria GDP because it contributed 57.9% to Nigerian GDP in 2013 relative to 42.1% from the formal economy, while Oduwole and Sanni(n.d) regarded it as the backbone of the formal economy. Do these statistics conjure up economic growth or development? This is what this unit explores.

2.0 OBJECTIVE

At the end of the unit you are expected to

- Be able to distinguish between economic growth and socio-economic development.
- Explain whether the informal economy in Nigeria contributes to economic growth or development or both.

3.0 MAIN CONTENT

3.1.1 Informal Economy and Economic Growth in Nigeria.

According to Roser (2021) the term economic growth **“describes an increase in the quantity and quality of the economic goods and services that a society produces.”** Accordingly, **the informal economy fits in to the definition because it is essentially concerned with the production of goods and services but outside state taxation and regulations.** The composition of Nigeria's informal economy is diverse: agricultural production; mining and

quarrying; small-scale building and construction; machine-shop manufacturing; electrical work; traditional clothing, furniture, gold and silver smiting, and traditional healing; footwear; vehicle and mechanical repair; information technology and communication; credit services; and distilleries among others (Oduwole and Sanni, n.d). The economy is associated with economic growth because of the following:

- Supply of diverse affordable goods and services to the Nigerian society: farming tools (hoes, axes and cutlasses) knives, hair plaiting, shoe shining, local gins, aluminum wares, automobile repairs etc. .
- Increase in foreign exchange earnings through exports. Made in Nigeria goods and services re widely distributed: foodstuffs in China, India, US, and Western Europe; Aba shoes, in West Africa; Sokoto leather in West Africa and Italy; Bori traditional healers in Saudi Arabia etc.
- Provision of employment opportunities to unemployed persons irrespective of age, or gender and whether the person is under another formal or informal employment.
- Increase in the population of income earners triggers growth in informal activities from wheel barrow pushers in markets and motor parks to *Okada* motorcyclists on the streets of urban and rural areas and food vendors in schools, construction sites, mechanics workshops, hospitals, motor parks and highways.
- Promoting formal economic activities through distribution of goods and services directly to consumers: soft drinks, second hand automobiles imported largely from US and China, electronics, textiles, fast foods, books etc
- Export promotion of SMEs to attract foreign investors for improved technological and managerial inputs or to enlarge global supply chains. For instance, at the 15th edition of the China International Small and Medium Enterprises Fair (CISMEF) in 2018, twenty

one (21) Nigerian SMEs attended and displayed 25 Made-in-Nigeria products spanning foods, garments, agro-commodities(ginger, Shea butter, coconut oil, black seed and turmeric), arts/crafts and leather works; and the attendees were able to identify new markets and modern technology to improve their production, and niche markets in agro-commodities and solid minerals to focus on.

- Mass participation of Nigerians in the informal economy because of ease in entry has helped in reducing the share of people living in extreme poverty although many still lives on very low incomes. This has increased production of very cheap goods and services for the poor Nigerians: cassava flour, *wara* (fried cow milk cake), edible cow hide (*ponmo*) pictured below, hawking of second hand clothing etc.



A ponmo retailer in an open market.

Source: Oyesola, B.(2021). As in many developing countries, masses of women are slaving away in Nigeria's informal sector <https://www.dandc.eu/en/article/many-developing-countries-masses-women-are-slaving-away-nigerias-informal-sector>

3.1.2. Informal Economy and Development in Nigeria.

Development is a complex process that is anchored in economic growth. Fritz (n.d) defined the concept as “a planned and comprehensive economic, social, cultural and political process, in a defined geographic area, that is rights-based and ecologically oriented and aims to continually improve the well-being of the entire population and all of its individuals”, and posited the purpose of economic development in particular to be the improvement of the social and material well-being of all individuals and social institutions to achieve the highest possible level of human development. Stockbridge (n.d) identified the typical characteristics associated with economic development as follows:

- low levels of poverty, of hunger and malnutrition, of serious infectious diseases, of homelessness, of crime, of corruption;
- high levels of income, of consumption, of saving and investment, of employment;
- universal access to social safety nets for the unemployed and people on low incomes, to primary and secondary education, to healthcare services, to good public services (policing, fire service, refuse collection etc) ; and
- widespread access to good housing infrastructure, road and transport infrastructure, public utilities (power, water and sanitation, telephones)

Although the Nigerian informal economy has not fostered development directly, yet some of its ingredients provide positive support to the process particularly the SMEs which have more potential to easily migrate to formal statuses and export orientation. In this way, they could provide more state revenue for infrastructural development; their workers earn more to invest in formal economy; and produce standard goods and services that could be exported to earn foreign exchange that could enhance the value of the Naira and contribute to lower inflation. In China for instance, informal township and village enterprise clusters in small urban regions generated local scale economies that played a critical role in China’s economic development (World Bank, 2016).The capacity of Nigeria’s SMEs to replicate China’s experience derives from the existence successful informal enterprise clusters such as the Otigba ICT cluster already noted. The others noted by the World Bank (2016) include the Nnewi Automotive Parts Industrial

Cluster, the Aba shoe and garment clusters, the Ilorin weaving cluster, the Kano leather tanneries, and the Onitsha Plastic Cluster which have the potential to foster development because they share relevant distinct characteristics that enhance their cohesion and enabled them to survive market challenges and expand.

- I. The establishment of active business associations and social and popular networks;
- II. Innovation through skills, learning spillovers, and entrepreneurship;
- III. A significant interfirm links with large firms;
- IV. Specialization and division of labor among individual firms, which enhances productivity;
- V. Engagement in workplace apprenticeships training ;
- VI. A shared sociocultural identity provides a basis for trust and reciprocity in an informal setting (World Bank,2016).

The harnessing of the aforementioned features coupled with the entrepreneurial spirit of Nigerians, access to affordable finance, provision of basic infrastructure and business friendly regulations and taxation, these SMEs can replicate China's experience in Nigeria. For instance, the Nnewi Automotive Parts Industrial Cluster in Nnewi town in Anambra, four Nigerian manufacturing firms employed 58 Chinese experts and 8,297 Nigerian workers (Brautigam et al,2018) there by transforming the town from a hub for automobile spare part dealers to that manufacturing auto parts, while Innoson firm has become Nigeria's first indigenous car assembly plant.

Apart from their potential prowess to spur economic development, the Nigerian SMEs also nurture political consciousness among their members for a better deal from the Nigerian state. For instance, in a study on taxation and the informal economy in Northern Nigeria, Meagher (2016) found that informal firms with strong associations, resources and the education such as the Kano tailors and Igbo tyre traders who defended themselves fairly effectively against illicit taxation by state officials, and when the state government attempted to increase revenue collection from informal enterprises the chairman of the Kano Auto Parts Dealers Association threatened to argue it out with the government and even challenge it in court. Similarly the national textile union which educated tailors about their rights effectively shielded them against extortion from state officials because possessing a national labour union identity card was often enough to deter the officials from attempts at illicit extraction (ibid).

As regards the role of SMEs in the social development of Nigeria, this was achieved in stimulating rapid urbanisation in the absence of a strong formal manufacturing in Nigeria's urban centres. The location of SMEs and numerous opportunities in commerce largely pulled national and international migrants to the urban centres whose presence swelled most of them: Lagos transformed in to a megacity while the populations of Kano, Abuja, Ibadan, Nnewi, and Aba grew considerably. By 2030, World Bank (2016) predicts that the number of cities with more than 1 million inhabitants would be 23, against just 41 in all of Sub-Saharan Africa. Another contribution of the informal economy is in community development projects. For instance, Meagher(2016) notes how the Igbo tyre traders association in Kano mobilized their own resources to clear the gutters against serious flooding problems in the tyre market, and also imposed levies on themselves to donate N85,000 to local orphans, prisoners and the disabled in the state. Similarly, in Benue state rural settlements that receive little government-financed projects despite tax payment resort to communal measures such as the Nyiev community fundraising project to build the Keleke bridge connecting Udei town to other communities of economic importance in 2017(Iormbagah, 2021).

Another developmental contribution of the Nigeria's SMEs relates to preservation of cultural products such as the *Adire* and *Asoke* clothing already noted, the Ilorin weaving cluster and

traditional medications such as the Kano *bori* cultists(Jinn assisted treatment) have gained a niche market not only in Africa but also in Saudi Arabia where they treat illnesses that defy effective modern medications such as Indian hemp-induced mental disorder, women who were unable to menstruate, or unable to husbands among others (O'Brien, n.d).

4.0 CONCLUSION.

This unit has demonstrated that the Nigerian informal economy is very large and complex; it is the largest employer of labour and the biggest contributor to GDP; but it contributed more to economic growth than to national development.

5.0 SUMMARY.

Although economic growth and development have different meanings, yet they complement each other, and the former is usually a precondition for the realisation of the latter. The Nigeria's informal economy has stimulated both processes and although growth performance is greater, but it did not spur positive development of the economy and raise the living standard of most Nigerians other than the supply of low quality cheaper goods and services. The informal SMEs are the most active in the economy and largely contributed not only in the recent upward review of Nigeria's GDP measurement but also in the reclassification of Nigeria as the largest economy in Africa despite high poverty, inflation and unemployment rates.

6.0 TUTOR-MARKED ASSIGNMENT.

1. Although the Nigerian SMEs have stimulated economic growth, they fail to usher in development. Discuss
2. Distinguish between economic growth and economic development.
3. Analyse the impacts of globalization on Nigeria's informal economy.

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Unit 3: Problems and Prospects of the Informal Economy in Nigeria.

CONTENT

- 1.0 Introduction.
- 2.0 Objectives.
- 3.0 Main Content.
 - 3.1.1. The Problems of Informal Economy in Nigeria.
 - 3.1.2. The Prospects of Informal Economy in Nigeria.
- 4.0 Conclusion.
- 5.0 Summary.
- 6.0 Tutor-Marked Assignment.
- 7.0 References/ Further Readings.

4.0INTRODUCTION

Generally, the informal economy is beset by problems that inhibit its performance and adversely affects the economic growth and overall development of a nation. In Nigeria, the World Bank (2016)) notes that despite impressive growth and diversification, the economy failed to reduce unemployment, underemployment or an increase in formal employment. This is partly attributable to the predominance of informal economy which is usually associated with fewer employment opportunities relative to the formal manufacturing which generates more

employment opportunities. Also, the SMEs which should have generated more employment failed to do so because they catered for a narrow but large domestic market which the mainland Chinese SMEs avoided by catering for external markets in the supply of shoes, toys, ceramics etc some of which offshored their activities to Nigeria to eliminate transport costs.

Despite its shortcomings, the informal economy is vital to national economic growth and development. As the World Bank (2016) warned in relation to Nigeria, that “rather than focusing on reducing informality, it is more important to raise productivity across all sectors, in formal as well as informal enterprises.” Raising productivity in the informal economy not only ensures a smooth transition to formality but also preserves and improves the culturally oriented economic activities such as traditional medication which Ghana successfully integrated in to its modern healthcare system through the inclusion of a degree programme in herbal medicine in its university curriculum. and the prescription of traditional herbal treatments in some of its hospitals (Boyd, 2017)..

2.0 OBJECTIVE

At the end of the unit you are expected to

- Acquaint yourself with the problems bedeviling informal economy in Nigeria.
- Explain the prospects of informal economic activities in Nigeria.

3.0 MAIN CONTENT

3.1.1. The Problems of Informal Economy in Nigeria.

Generally, the Nigerian economy both formal and informal is characterized by various problems. Which have impeded development: inadequate power supply, deficient transportation infrastructure, a slow and ineffective judicial system, endemic public sector corruption, pervasive insecurity, non-inclusive growth, poverty, poor maternal and infant mortality indices, underachieving education services, underperforming healthcare sector, and poor distribution of wealth amongst its citizens (International Trade Administration,2021).On the informal economy

however, most studies have identified the following problems as the most serious in the negative performance of informal firms:

- (i) Multiple taxes:** Ojekunle (2021) reports that SBM Intelligence, a research firm surveyed informal activities in nine states across Nigeria, including the Federal Capital, Abuja, Anambra, Bauchi, Cross River, Delta, Oyo, Kano, Lagos and Rivers and discovered that 98% of businesses in Nigeria's informal sector paid their taxes — but to non-state regulated actors. The report added that most of the tax payments were made to tax groups in state governments, local governments, market organisations and unions. They paid the taxes either daily, weekly or monthly.
- (ii) Inconsistency in policy formulation and poor implementation.** For instance, the administration of President Obasanjo launched the Vision 2020, but it achieved none of its goals such as the expected target of 35,000 MW of electricity because supply never exceeded 5000MW (Abayomi, 2020). Similarly, President Buhari's Economic Recovery and Growth Plan (ERGP) which focused on achieving economic growth but without the aim of placing the country among the largest 20 economies in the world was abandoned and replaced with Agenda 2050 which according to the President replaced both the Nigeria Vision 20:2020 and the ERGP which have lapsed in December 2020 (Daka et al, 2020). At the Agenda 2050 inauguration, President Buhari promised to lift 100 million Nigerians out of poverty within the next 10 years but Abayomi (2020) asked whether the plans would continue if a new government came on board.
- (iii) Power supply.** For instance, Proshareng. (2018) notes that informal economy electricity requirements are huge in areas such as laundry services, printing and hairdressing, while it is moderate for photography and catering.
- (iv) Corruption,** (World Bank, 2016). For instance, Chen (2020) reports that chinese businessmen also have to negotiate for permits and licences for which the government officials have to be settled with US \$6,000 to \$10,000.
- (v) Low productivity** (World Bank, 2016).

- (vi) Low access to bank finance (World Bank,2016; Proshareng,2018).
- (vii) Low skills (Proshareng, 2018; Adeniji, 2020)

Similarly, the informal enterprises operators such as the Nigerian Shoe manufacturers for example have enumerated the problems of sector to be those of electricity supply; out-dated technology; smuggling of foreign shoes from China and neighbouring African countries; lack of domestic patronage; competition with imported second-hand shoes; and lack of funds to re-tool and upgrade their machines, which according to the president of Leather Products Manufacturers Association of Nigeria in Abia State, have given the Chinese producers a comparative advantage in technology and machinery compared to Nigerian local manufacturers (Effiong, 2017;Adekoya, 2019). With regard to the Chinese SME firms in Nigeria, Chen (2020) reports that their common complaints centred on low level of technology; **lack of inputs**; scarcity of foreign exchange; poor skill quality of Nigerian workers which according one Chinese shoe factory manager made him to use the local labour in packaging the shoes by hand because they could not operate the machines.

With regard to informal labour however, studies show evidences of violation of employees' right and non-implementation of labour regulations such as decent work principle which requires fair and equal treatment, decent remuneration, fair conditions of employment, safety and social protection, opportunities for training and development, and collective bargaining (Ikeije, Akomolafe, and Onuba.2016). Also, Oyerinde, (2001) cited in (ibid) found that millions of children of both sexes were engaged in hawking in urban and semi-urban areas of Lagos, Ibadan, Oshogbo, Aba, Onitsha, Kano, Maiduguri and Abuja, while Ford Foundation and UNICEF found six categories of children in Nigeria working on the streets in urban areas: 64.3% were street vendors in mobile or stationary positions and were largely female; 3.9% shoe-shine boys; 5.9% car washers/watchers; and7.6% head loaders/feet washers in markets (ibid).

3.1.2. The Prospects of Informal Economy in Nigeria.

The prospects of Nigeria's informal economy in the short term are predicated on the following three factors: employment generation, poverty reduction and contribution to national GDP. On the first factor, an estimate by the ILO (2018) shows that 93% of all employment in Nigeria is informal in which women predominated with 95% of the share as compared to 90% by men. Similarly, the United Nations (2020) reports that youth unemployment surged from less than 15 per cent in 2015 to above 35 per cent in 2018, with more than half of the country's young people unemployed or underemployed. These statistics indicate that the informal economy is not only the largest employer of labour, but also provides a vent for surplus unemployed and underemployed Nigerian youths. Moreover, Nigeria's large and growing middle class estimated to be about 50 million, and its significance in the Economic Community of West African States (ECOWAS) regional market (International Trade Administration, 2021) provide large domestic and regional markets for informal economy products and services to thrive considering the high incidence of informality in West African trade and the poverty in Sub-Saharan Africa which predisposes low income earners to patronise cheaper goods and services that have been associated with informality.

As regards the second factor of poverty reduction, the informal economy has been a key player in that direction as demonstrated in China's experience where millions of rural farmers living in the interior of the country moved to the industrialised coastal cities (Elliot, 2005), and the informal SMEs and vendors to overseas which resulted in large scale movement of the poor out of poverty. In Nigeria however, although the contribution of the informal economy in poverty reduction is less significant than that of China, yet it has provided jobs to millions as already noted. Notwithstanding the World Bank prediction that the number of poor people would rise from 82.9 million in 2019 to 90.0 million in 2022 due to natural population growth and the effects of the COVID-19 pandemic, President Buhari not only asserted that his administration had lifted 10.5 million (farmers, small-scale traders, artisans, market women etc.) out of poverty in the last two years, but also pledged to pull 100 million of its current population out of poverty in 10 years (Bakare, 2021). In line with the pledge, the Minister of Industry, Trade and Investment, Adebayo Adeniyi, has initiated some reforms and a review of the President

Jonathan's Nigeria Industrial Revolution Plan (NIRP) which sought to transform the nation's industrial landscape, boost skills development, enhance job creation and conserve foreign exchange but failed to deliver. Accordingly the critical role of Micro, Small and Medium Enterprises (MSMEs) as the economy's growth engine was recognized and an MSME policy to drive their growth and competitiveness launched: a \$1 billion syndicated term loan through Bank of Industry to provide affordable loans of medium to long-term tenor, alongside moratorium benefits to MSMEs; and the establishment of MSMEs Innovation Portal to ensure that MSMEs have wider market access where they can be matched with customers and clients (Adekoya, 2021). Also to help the MSMEs respond to the shocks caused by the COVID-19 Pandemic the MSME Survival Fund Initiative was implemented as follows:

- Payroll Support Scheme disbursement to 460,000 beneficiaries of which 43% was female-owned businesses;
- General MSME Grants disbursement to about 45,000 beneficiaries of which 35 % female-owned businesses have benefited;
- Transport and Artisan Grant disbursement to about 120,000 artisans and 200,000 transporters;
- CAC Formalisation Scheme which provided free company registration for over 200,000 MSMEs;
- Established a N15 billion MSME Guaranteed Offtake Stimulus Scheme (GOSS), to protect and sustain the income of vulnerable Micro and Small Enterprises by guaranteeing the offtake of their products (ibid).

Similarly, the World Bank prediction that natural population growth would cause the number of poor Nigerians to rise is not always an automatic relationship, but conditional. China's huge population and its capacity to massively reduce poverty in its territory shows that large population can be harnessed for development by using internal dynamics of a domestic market. Although the idea of using domestic consumption and demand for China's economic growth had been envisaged in the country's 11th Five-Year Plan (2006_2010), it was on May 14, 2020, that

President Xi proposed a new development model in that direction. Tagged “Dual Circulation”, the strategy focuses on exploiting the opportunities in both the domestic and international economies in a complementary manner, but with an emphasis on the former to harness the advantages of China’s super-large market to counter several negative challenges including the 2008 economic meltdown, severe flooding, food insecurity, Sino-US trade war and Covid19 pandemic (Javed, Bo, Tao and Dong, 2021). Nigeria too can deploy similar strategy because of shared historical experiences and factor similarity as Mr. Ye Shuijin, the President of China Chamber of Commerce in Nigeria (CCCN) observed in an interview in *Daily Trust* (2018) that Nigeria has a lot of advantages for economic development because its people are willing to work; it has a huge population; and it enjoys a strategic location, and then argued:

... population is our market. We don’t need to import. We make products in Nigeria, use them in Nigeria and export the surplus to other countries within Africa and by extension to the West and Asia. This is the target of the Belt and Road Initiative.

But for Nigeria to exploit its large domestic, poverty must be severely reduced for in China as poverty declines, people’s per capita income increased and spurred the demand for products and services which enabled the Dual Circulation strategy to strengthen the domestic consumption market (Javed, Bo, Tao and Dong, 2021).

Another source for optimism in poverty reduction drive is provided by revitalisation of agriculture, a renewed interest in solid mineral exploitation with a window for artisanal mining, and large scale emigration of Nigerian workers to overseas in search for higher wages part of which are remitted back home. On revitalisation of agriculture for instance,, the fact that Nigeria’s agricultural sector employs nearly 70% of the population coupled with abundance of arable land and a favorable climate for production of nuts, fruits, tubers, and grains(International Trade Administration., 2021) is a source for optimism in poverty reduction. Thus, apart from export of yam to the US market, about sixty-seven processed and semi-processed food products are being exported to the European Union market which included brown and white beans, melon seeds, palm oil, mushrooms, bitter leaf, Ugu leaves, shelled groundnut, smoked catfish and

crayfish despite problems of rejection of below standard ones (Joseph,2017). India and China are also significant importers of Nigeria's beans and other agricultural produce. With regard to large scale emigration of Nigerian workers to overseas however, it were the remittances that flowed back to the families of the emigrants that help reduce poverty. According to the International Fund for Agricultural Development (IFAD) remittance used primarily to meet immediate family needs (consumption) as well as investment is not only the world's largest poverty alleviation programme, but also effective grass roots economic development programme accessible to the rural dwellers (IFAD. n.d). Thus, in a study on the impacts of remittances on the welfare of recipients' households and on self-employment generation in Nigeria, Salman,(2016) reports a significantly increased per capita expenditure (welfare) and that in rural economies the monthly expenditures of remittance-receiving households increased by 41 percent and expenditures on food increased by 31 percent. But he found a negative impact on self-employment decisions by remittance recipients. Also, although Latif and Ashfaq (2013) cited in Salman, K.K.(2016) posited that illegal migrants find it harder to send remittances back home which halts their ability to raise the income levels of their recipient families, Oke's (2008) study on remittance behaviour of Nigerian migrants to Europe found that majority were in blue collar jobs; they remained connected to their families in Nigeria; illegal migrants remit more than legal migrants; they invested in Nigeria for security purpose because they planned to come back; male migrants get more wages because they work longer hours and have less leisure and so remit more than females; and remittances were mostly sent home informally.

On the third factor pertaining to contribution to national GDP, it is noteworthy that until the April 2014 rebasing exercise the informal economy has never been included in the measurement despite its overwhelming weight in the national economy. With this holistic measurement, the significance of informal economy in the nation's economic growth and national development was officially recognised for the first time as it accounted for an estimated 57.9% of the country's rebased GDP (Awojobi, Ayakpat and Adisa, 2014). The GDP value rose from \$269.5 billion to \$510 billion (Eribake, 2015; Daka et al, 2020). The Statistician-General of the Federation, Dr. Kale highlighted the features of the new rebased GDP of Nigeria in his April 6, 2014 presentation as follows:

- The revised GDP stood at N80.2 trillion (\$509.9 billion) which dramatically increased the GDP by 89%.
- Nigeria ranked 26th economy in the world and the largest economy in Africa.
- The structure of the economy changed: the contribution of agriculture sector hitherto 33% now represents 22%; the service sector (communication, Finance, Insurance, Arts and Entertainment, Real Estate, Public Administration, Education and Health Services) rose from 26% to 51% of GDP.
- Other vital sectors on the re-based GDP results are Oil and Gas 15%, Manufacturing 6.7%, Telecoms 8.7% and Nollywood 1.2% (Awojobi, Ayakpat and Adisa, 2014).

Finally, whereas the factors of employment generation, poverty reduction and contribution to national GDP are short term prospects, in the long term the sustainability of Nigeria's informal economy lies in formalization because sustainable development requires the gradual reduction in informality over time, as Deléchat and Medina (2021) rightly pointed out. Thus, the United Nations 2030 Agenda for Sustainable Development in its Goal 8.3 which targets the informal economy seeks to:

Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.

Accordingly, the ILO Recommendation 204 focuses mainly on the Transition from the Informal to the Formal Economy because it contributes to the Sustainable Development Goal 8 target.3 on decent job creation and the formalization and growth of MSMEs (ILO, n.d). Similarly at the 11thAfrican Regional meeting in Addis Ababa in April 2007, the necessity of implementing policies aimed at moving informal economic units into the mainstream economy was affirmed as regards employment generation; a favorable regulatory environment; the extension of social protection and promotion of labour rights; entrepreneurial and skill support among others (ILO,2007). The formalization of Nigeria's informal economy would place the nation's development trajectory on a more solid basis because according to ILO.(n.d) formalization yields the following positive outcomes:

- It creates more and better jobs, reduce poverty and address marginalisation of those who are prone to indecent work in the informal economy such as women, youths, migrants, older people, indigenious and tribal peoples, persons living with HIV or affected by HIV or AIDS and persons with disabilities.
- Formalization of micro, small and medium-sized enterprises accords with conducive business environment, economic growth and better working conditions. It also increases tax revenues which in turn are needed to provide public goods and services. Formal

businesses benefit from enterprise formalization in the sense that it reduces unfair competition by informal firms.

- Formalised enterprises gain access to finance, business development services and technologies and reduce their exposure to government fines. They can also participate in public biddings or act as suppliers or retailers of larger companies.

With this development Nigeria's informal economy will not only facilitate growth as it has been doing, but will facilitate national development because the formalized SMEs can replicate China's flying geese model as a substitute to current large scale emigration of Nigeria's labour force as raw materials to be exploited abroad despite the importance of remittance.

4.0 CONCLUSION.

In this unit you have been exposed to the problems that the Nigeria's informal economy is facing which have hindered production efficiency and stymied the momentum to migrate to informality. But increased global attention to the predicaments of informal economy enterprises and workers and the urge formalize them to which Nigeria shows commitment means that the informal economy prospects are bright because it serves as a pillar in employment generation, poverty reduction and transition to formality.

5.0 SUMMARY.

The problems of informal economy in Nigeria are many: multiple taxes; inconsistent government policies; poor power supply; corruption; low productivity; low access to bank finance and low skills among others. However, the prospects are equally bright and included the lifting of 10.5 million farmers, small-scale traders, artisans, market women etc.) out of poverty in the last two years; the commitment to pull another 100 million out of poverty in the next 10 years; the formulation of an MSME policy to drive their growth and competitiveness launched; the \$1 billion Bank of Industry loan to provide affordable loans to MSMEs; the establishment of MSMEs Innovation Portal to facilitate wider market access for MSMEs; the MSME Survival

Fund Initiative to help them respond to the shocks caused by the COVID-19 Pandemic; the inclusion of the informal economy in the GDP measurement; the revival of agriculture and solid minerals exploitation; and the increased promotion of Sino-Nigeria economic ties which positively impacted on the growth of SMEs, development of critical infrastructure, and a large market for Nigeria's agricultural and mineral exports

6.0 TUTOR-MARKED ASSIGNMENT.

1. What do you consider to be the most serious problem of informal enterprises in Nigeria?
2. Compare and contrast President Buhari's current policies on SMEs with those of General Babangida in the 1980s.
3. Suggest and explain at least five ways through which Nigeria can successfully migrate from the preponderance of informal economy to a formal one.

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