

Impact of Informal Sector on Employment Generation and Poverty Reduction in Chikun Local Government Area of Kaduna State, Nigeria.

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Abstract: *Successive governments in Nigeria from independence till date have repeatedly made effort at reducing poverty by establishing series of laudable programmes that could bring succour and smiles to the Nigeria poor masses, but never made any headway owing to formulation or implementation problems. The fallout of these programmes has made informal sector to continue to blossom in the economy as a panacea in reducing poverty. This work assessed the impact of informal sector on poverty reduction in Chikun Local Government Area of Kaduna State, Nigeria. Questionnaires were administered to respondents in the study area to obtained primary data. The evidence from this study reveals that informal sector help significantly in poverty reduction through employment generation and improved earnings of the operators. Government must commit herself to develop the informal sector through implementation of sound financing programs, education and employment policies.*

Keywords: *Informal Sector, Employment Generation, Poverty Reduction.*

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I. Introduction

Globally, there has been a considerable debate about the role of informal sector in an economy. There are views that the expansion of the informal sector obstructs economic growth in the developed as well as the developing countries as the informal sector may create a barrier to increased productivity and economic growth. However, some contrasting views also view the informal sector as a solution to poverty reduction [1]. In Africa, the informal sector has been a subject of debate since the [2] sponsored several surveys of labour markets in developing nations in the early 1970s. The debate is gaining momentum, especially in Sub-Saharan Africa (SSA) economies, where over half of the population lives on less than one dollar per day.

The activities are usually conducted underground without following the laid down procedures in the formal spheres, they constitute largely unrecognized, unrecorded and unregulated activities. They therefore escape the attention of the administrative machinery responsible for enforcing laws and regulations. It should be noted that a government restriction in one area creates an informal market in another. In most of the Sub-Saharan Africa countries, neither the public sector nor the formal private sector is able to provide enough jobs for its expanding labour forces. Thus self-employment is increasingly the only alternative, given the growing youth unemployment. Following this changing policy environment, most of the Sub-Saharan Africa economies which depended on agriculture were exposed to foreign competition. However, most of the private economic agents were un-prepared to assume roles previously performed by the public sector. As a result, the private sector economic agents in the commodity sector, production chain were competed out of business and mass unemployment followed. These are the unemployed who are opting for the informal sector [3]. Moreover, according to the [2] definitions, the liberalization and Structural Adjustment Programmes efforts involved retrenchment and early retirement schemes, some with packages to enable employees to employ themselves and put up small scale businesses, categorized as informal sector activities. Based on this background, the role of the informal sector in Sub-Saharan Africa economies towards private investment growth, generation of employment, incomes, and poverty reduction cannot be overemphasized [3].

In Nigeria the government as the largest employer of labour was content to continue to provide employment in the bloated civil service so long as oil revenue paid for it. The burst in oil industry resulted, in serious employment difficulties. An attempt by the government to reduce spending in accordance with revenues generated led to retrenchment of thousands of workers in the public sector and the private sector also followed suit. Further rapid urbanization with the upsurge of rural-urban migration, due to rural urban imbalance increases the problem of unemployment. The informal sector has emerged as a new area of study in both the

developed and developing countries. More attention has been given to the role of informal sector because of its enormous assistance in alleviating the problems of poverty. The twin problems of widespread unemployment and poverty facing Nigeria economy call for serious concern among elites, policy makers and academia. It is clear that the public sector and private formal sector are unable to adequately address the menace. It is on this background that this study intends to examine the impact of the informal sector on poverty reduction.

The basic definition of poverty is lack of basic necessities of life such as food, shelter and clothing. It also the general sign of economic stagnation namely; unemployment, low consumption, low purchasing power, low productivity, poor health care and poor educational system, [4]. Governments at all levels are faced with many functions and obligations. One of such obligations is how to reduce poverty among its populace. Despite of the numerous programmes geared towards poverty reduction in Nigeria by successive government, poverty continues to increase because people are unable to meet their basic needs. From independence till date, successive governments in Nigeria have repeatedly made effort at reducing poverty by establishing series of programmes which include: National Accelerated Food Production (NAFP) in the year 1972, Operation Feed the National (OFN) in 1976. The Green Revolution (GR) in 1980, Structural Adjustment Programme (SAP) in 1986, National Directorate for employment (NDE) in 1986, Better Life Programme/family support programmes (BLP/FSP), The Family Economic Advancement programmes (FEAP) in 1997, National Poverty Eradication Programme (NAPEP) in the year 2000, [5]. Others are Youth Enterprise with Innovation in Nigeria (YouWin) in 2010 and Subsidy Reinvestment and Empowerment Programme (Sure-P) in 2012. These were laudable government programmes meant to bring succour and smiles to the Nigeria poor masses, but never made any headway owing to formulation or implementation differentia. The fallout of this programmes has made informal sector to continue to blossom in the economy. The problem here is that, has the informal sector able to reduced poverty?

II. Literature Review

2.1.The Informal Sector:

The most frequently adopted definition in existing studies came from [6] which defines informal sector enterprise as those that employ a handful of workers, who earn low income, utilize rudimentary or subsistence technology, and operate largely outside the boundaries of government regulations governing business in general.

2.2 Poverty Reduction

United Nation International Children Emergency Fund identifies certain basic needs, such as food, clothing and shelter that must absolutely be fulfilled to keep people out of poverty. Poverty, in this sense, is defined as deprivation in the material requirements for minimally acceptable fulfillment of human needs, including food. This deprivational concept goes far beyond a lack of private income: it includes the need for basic health and education and essential services that must be provided by the society to prevent people from falling into poverty

2.3 Employment Generation

This is the process involve in engaging the labour force in productive activities in the economy. Full employment is the most desire employment condition in the economy. But, this is a ruse in developing countries like Nigeria, because it is a dream that is yet to be achieved. It is generally believed that the formal sectors of the developing and under-developed nations lack capacity to absorb large number of labour force. Hence, the alternative sector, known as informal sector has always been serving as back up for the formal sector in employment generation.

2.1 Theoretical Framework

The Dualist Thought

This school was popularized by the International Labour Organization in the 1970s, and subscribes to the notion that the informal sector is comprised of marginal activities which is distinct from and not related to the formal sector that provide income for the poor and a safety net in times of crisis [7]. The informal sector exists as an avenue for the lower class and the poor to be able to make out a living. The informal sector acts as a buffer for those workers lay-off in times of economic recession. According to this school, “the persistence of the informal sector activities is due largely to the fact that not enough modern job opportunities have been created to absorb surplus labour, due to a slow rate of economic growth and or a faster rate of population growth

III. Empirical Literature Review

There is no gain saying that this aspect of study has been exhaustively researched on, still, the room for further study always exist as the previous study would have created the other loopholes that demand further study. Since pioneer study on this topic by Hart [8], in Ghana the study has attracted attention of other

researchers. The unrelenting efforts of International Labour Organisation starting from the year 1972 and the study of poor in Calcutta, India have to be acknowledged which has created avenue to contribute and fill the knowledge gap in this area of study.

[9] Carried out a study on urban poverty and informal motorcycle transport service in Auchi. Primary data were sourced using structured questionnaires. Of 148 questionnaires administered, 135 were found analyzable. SPSS software was used for data analysis. The frequency distribution result of the demographic information of the regression reveals that males aged 21-30 years are predominantly involved in the operation. 56 percent of the operators do so for self employment, income generation and poverty alleviation.

[10] Conducted a study on Nigeria's informal sector: opportunity for self employment and income generation. The primary data used was generated from Sabon Gari Local Government Area of Kaduna state which is composed of a number distinct settlements. Three was selected because of the predominant of the informal sector activities in them. They are samaru, Sabon Gari and Kwangila. Descriptive analysis was used to analyzed the data. The result reveals that the bulk of the new entrants to the urban labour force seem to create their own employment and income by engaging in the production and distribution of goods and services in the informal sector which also help to reduce poverty.

[11] Examine the role of informal sector as a strategy for reducing unemployment in Nigeria. Primary and secondary data were sourced. Primary data were collected through the administration of questionnaires while secondary data were collected through related research work, text books, newspaper and journals. The study was conducted in three local government area of the three senatorial district of kogi state. Ankpa, okene and Lokoja. 369 questionnaires were distributed but only 348 were returned. The data was analyzed using tables and chi-square statistical tools. The result shows that by putting mechanism in place, the informal sector has significantly reduced unemployment in Kogi state, created more employment and reduced poverty in the state

[12] Carried out a study on the role of informal sector in providing the means of survival and livelihood to the unemployed in Kwara State, Nigeria, The study used a linear regression model that shows the relationship between the performance of entrepreneurs in the informal sector and their characteristics; and descriptive statistics was used to analyze the data collected. The study revealed that educational qualification of the entrepreneur, the value of the initial capital, and the location of the enterprise are significant determinants of employment generation and earnings by the operators of the small and medium scale enterprises in Kwara State.

[13] Conducted an empirical study to test the impact of informal sector on employment generation in Nigeria during the period 1970 to 2010 making use of annual time series data. The empirical analysis rests on the augmented Solow growth analytical framework. The result shows that informal sector activities have significant impact on absorbing the large pool of labour force in Nigeria. If employment is generated, poverty on the other will reduce.

IV. Methodology

4.1 Research Design

Structural questionnaires was use for data collections. The questionnaire was divided into two parts. The first section is the demographic of the responders such as sex, age, occupation and so on. The second section contains questions on the research objectives and questions. The questionnaire design contained both opened ended and closed ended questions. The closed ended questions are designed to keep the questionnaire to a reasonable length and it aim at minimizing the risk of misinterpretation. It also permits easier tabulation and interpretation by the researcher.

4.3 Sampling Procedure and Sampling Size

The population for this study was drawn from the total number of four (4) identified informal activities in the area. They are Tailoring, Carpentry, welding and Mechanics from Chikun Local Government Area of Kaduna. Using the adjusted Taro Yamane formula for calculating the sample size [14], the formula is:

$$n = \frac{N}{(3 + N(e^2))}$$

Where,

N= population size

n = sample size

3=Adjusted Constant

e = error margin

The result of the sample is shown in table 1 below

Table 1. Sample frame and sample size of Informal Sector operators

S/N	Sub Sector	Sample Frame	Ratio	Sample size/ subsector	Sample size
1.	Mechanic	115	0.12	22	181
2.	Tailoring	515	0.52	94	
3.	Metal Fabricators	152	0.15	27	
4.	Carpenters	211	0.21	38	
	Total	993	1.00	181	

Source: Authors compilation 2017

4.4 Nature and Sources of data

Primary sources of data were used in this study. Primary data were sourced through the use of questionnaires on the dependent variable as well as information concerning the explanatory variables. [15] Opined that any study that seeks to analyze the informal sector must depend on primary sources of data, since activities in this sector are not formal and are hardly entered into official records.

4.5 Method of Data Analysis

Inferential statistics was used to analyze data. The binary logistic regression was used to develop the predictive model to measure the proportion of reduction in poverty attributed to the informal sector. Following [16], the model for this work is justified on the ground that it simply shows the logarithm of odds that individuals with attributes X_i will choose to stay in the informal sector. The beauty of the model is that it transforms the problem of predicting probabilities within (0, 1) interval to the problem of predicting the odds of an events occurring within the range of the entire real line.

The model for this study is adapted thus:

$$\Pr (\text{pov} = 1, X_1, X_2 \dots X_7) = \beta_0 + \beta_i \sum X_i + U_i \dots\dots\dots (1)$$

$$\ln \left(\frac{1}{1-p} \right) = \beta_0 + \beta_1 \ln X_1 + \beta_2 \ln X_2 + \beta_3 \ln X_3 + \beta_4 \ln X_4 + \beta_5 \ln X_5 + \beta_6 \ln X_6 + \beta_7 \ln X_7 + U_i \dots\dots\dots (2)$$

Where:

- X_1 = Age of business (years); 1 for above 5 years and 0 for otherwise
- X_2 = number of meals taken per day (0 if 3-times per day and 1 if otherwise)
- X_3 = House type (0 if zinc roof and cemented walls/floor, and 1 if otherwise)
- X_4 = Access to improved medical service (0 if respondent visit dispensary and specialized general hospital and 1 if otherwise)
- X_5 = Access to clothing (1 if at least one new clothes is purchase in a year, 0 if otherwise)
- X_6 = Children/family member education (0 if family members have access to formal education and 1 if otherwise)
- X_7 = Education of the respondent; 0 for post-secondary and 1 for otherwise

$Y = \ln \left(\frac{1}{1-p} \right) =$ Poverty measure which is the dependent variable.

P= poverty

Pov= poverty status which is computed as:

$$Pov = \frac{\text{Annual income of respondents}}{\text{Total number of days in a year (that is 365)}}$$

If poverty status is less than \$1, then respondent is poor, and will be scored 1, otherwise scored 0.

β_0 = Constant;

β_i = Regression Coefficients;

u = Error term.

V. Results And Discussion

Table 2: Binary Logistic Output

Variable	Coefficient	Prob.
X_1	-2.77078	0.0005*
X_2	-1.81206	0.0001*
X_3	1.44162	0.0100*
X_4	0.87242	0.0008*
X_5	0.72914	0.0019*
X_6	-0.40934	0.0080*

X ₇	0.98831	0.0030*
C	-1.52434	0.0026*
McFadden R-squared	0.621182	
Prob(LR statistic)	0.000000	

Source: Researchers computation (2017)

5.1 Interpretation of the coefficients

Interpretation of the coefficients results or ratios of coefficients provides a measure of the relative changes in the probabilities. The coefficient of the age of business (X₁) is significant with probability value of 0.0005 and is far less than 0.05. The coefficient of -2.77078 gives the probability that a business with more than five years existence can take the owner out of poverty. Since this value is negative and probability cannot be negative, we treat the value as zero [16]. This is meaningful in the present result. To be precise an additional one (1) year of business existence *ceteris paribus* can take one out of poverty by 277 percent chances. The more the years of existence of the business the more it sustained an individual in the informal sector.

The coefficient of the number of meals taken per day (X₂) is significant with probability value of 0.0001 and is far less than 0.05. The coefficient of -1.8120 gives the probability that a person cannot be considered living in poverty if he is able to provide himself with three square meals per day. Since this value is negative and probability cannot be negative, we treat the value as zero [16]. This is meaningful in the present result. It also means that the more the business person work and put food on the table the more tendency to be out of poverty. Additional square meal in a day reduces poverty *ceteris paribus* by 181 percent chances. The more the meals taken per day the more an individual in the informal sector stay healthy.

The coefficient of the house type (X₃) is significant with probability value of 0.0100 and is far less than 0.05. The coefficient of 1.44162 gives the probability that one percent improvement in the housing of an individual holding other things constant has 144 percent chances to take one out of poverty. It also means that the more the business person work and improve his house the more tendency to be out of poverty.

The coefficient of the access to improved medical service (X₄) is significant with probability value of 0.0008 and is far less than 0.05. The coefficient of 0.87242 gives the probability that a person cannot be considered living in poverty if he is able to provide himself with improved medical service. It also means that the more the business person has access to improved medical service the more tendencies to be out of poverty. Additional improved medical service can reduce poverty *ceteris paribus* by 87 percent chances.

The coefficient of the access to new clothing (X₅) is significant with probability value of 0.0019 and is less than 0.05. The coefficient of 0.72914 gives the probability that a person cannot be considered living in poverty if he is able to provide himself with at least one new clothe per year. It also means that the more the business person has access to new clothing the more tendencies to be out of poverty. Additional improved access to clothing can reduce poverty *ceteris paribus* by 72 percent chances.

The coefficient of the respondent family member access to formal education (X₆) is significant with probability value of 0.0080 and is less than 0.05. The coefficient of -0.40934 gives the probability that a person cannot be considered living in poverty if his family members have access to formal education. Since this value is negative and probability cannot be negative, we treat the value as zero [16]. This is meaningful in the present result. It also means that the more the business person family members have access to formal education the more tendencies to be out of poverty. Additional improved access to formal education can reduce poverty by 40 percent chances.

The coefficient of the education of the respondent access to post primary formal education (X₇) is significant with probability value of 0.0030 and is less than 0.05. The coefficient of 0.98831 gives the probability that respondent access to post primary formal education can take the one out of poverty. The more the person qualification the more he run a profitable venture to take himself out of poverty in the informal sector.

This finding is in line with [12] that educational qualification of the entrepreneur is a significant determinant of employment generation and earnings by the operators. Also that gotten by [21] that number of children being sponsored in school, and health facility patronized significantly influence the poverty status of the respondents. The results indicate that the higher the income of the respondent and the better the health facility patronized, the lower the log odds of being poor. However, the results further indicate that the higher the number of children being sponsored in school, the higher the log odds of being poor.

McFadden R-squared value is 0.62118 this shows that 62 percent variation in the dependent variable is jointly explained by the set of independent variables in the model. The 62 percent variation shows that the model is best-fit for forecasting.

VI. Conclusion And Recommendation

The evidence from this study help in making the conclusion that informal sector help significantly in poverty reduction through Job creation and improved earnings of the operators. This confirms the findings of Kachere [17], [18], [19] and [20] who assert that ‘engagement in Informal Sector reduces poverty by increasing income of informal traders’. It is also in conformity with the postulation of the dualist school of thought that believes that informal sector activities exist to help the lower class make a living. It was recommended that:

1. Businesses especially those in the study area should strive to exceed five years since any additional year has the probability of taking the owner out of poverty *ceteris paribus*. Also, informal sector operators should try to earn more income to be able to put food on the table. Since a person cannot be considered living in poverty if he is able to provide himself with three square meals per day. Living in a decent home is a sign of not living in poverty *ceteris paribus*, operator in the informal sector should try to earn more income and provide there selves with a decent house.
2. Public private partnership is highly encouraged in the aspect of provision and access to improved medical service since a person cannot be considered living in poverty if he is able to provide himself with improved medical service. Also the ability of the operators in the sector to have access to new clothing signifies absence of poverty *ceteris paribus*. Again, a person cannot be considered living in poverty if he and his family members have access to formal education. Here operators should try to earn more to be able to create access to formal education to the family members and him.

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