

## **LABOUR PRACTICES IN THE INFORMAL SECTOR OF NIGERIAN ECONOMY: A CRITICAL ANALYSIS**

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**ABSTRACT:** *The dual labour market hypothesis recognized the existence of informal labour market as part of the Nigerian labour market dichotomy. This is to the extent that informal sector represents an important part of the economy and certainly of the labour market and thus plays a major role in employment creation, production and income generation in Nigeria. Therefore, this paper examines the nature of labour practices within the Nigerian context of the informal sector and the linkages between the formal and the informal sectors with focus on ways of improving labour practices in the informal sector.*

**KEYWORDS:** Informal Sector, Labour Practices, Integration, Decent Work, Labour Market, Child Labour

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### **INTRODUCTION**

Over the past few decades, employment in the informal sector has risen rapidly in most regions of the developing countries including Nigeria. The proportion of the workforce in formal employment which had never been very significant in Nigeria has further declined in the past three decades, starting from the period of the Breton Woods Institutions-inspired Structural Adjustment Program, with consequent expansion of workers within orbits of informal labour and employment relations (Aye, 2011). The reason for this has been the failure of the formal sector, which has traditionally been an important source of employment generation to absorb the multitudes of semi-skilled and unskilled migrants to the city (Castells, 1984) due to the weakness of the government and modern private sector to generate adequate employment in recent years (UNDP, 1993). In Nigeria, various policies and programs of the government have tended to skew in favour of the expansion of urban informal sector activities. For instance, the Central Bank of Nigeria (1998) observed that the Structural Adjustment Program of 1998 induced the unprecedented growth of the informal sector activities. "The sector has had a self reliance initiative and is dominated by small scale producers that largely employ indigenous technology. Its growth is fostered by a combination of repression and structuralist tendencies (Adeyinka, Omisore, Olawuni and Abegunde, 2006).

More particularly, the effect of unemployment is felt in the urban areas because of an apparent over response to the attraction of cities. In such a situation, the migrants who are handicapped in terms of skills and education find succour in transitional employment (Omuta, 1986). As Schaefer (1976) puts it, the informal sector provides employment opportunities to those who lack the necessary credentials for immediate entry into the formal sector. As such it helps to rehabilitate fresh migrants by cushioning their economic plight thereby reducing their likelihood of becoming undesirable elements in the city. Thus, informal sector has attracted much attention from both policy makers and researchers alike,

especially in developing countries, because of the crucial roles of the sector in these economics (Folawewo, 2006). The sector plays a major role in the development process of developing economics, for example, it contributes greatly to employment and income generation (Muller, 2003). A common feature of both policy and research on the informal sector is the often assumed notion of unrestricted entry and self-employment. This has led to not focusing on wage employment in the sector. More importantly, the process by which new workers are absorbed, especially wage-earning workers, in the sector remains largely unclear.

Given that activities in the informal sector are largely unregulated, labour practices in this sector do not conform to the standard conditions. Some of the features of the labour practices in this sector include: indecent work, low wage, non-recognition of employees' right, precarious working condition etc. Therefore, this paper examines the nature of labour practices within the Nigerian context of the informal sector and the extent of linkages between informal sector and the well-regulated formal sector.

### **Theoretical Considerations**

Labour practice situation in Nigeria informal sector is captured vividly by dual labour market theory also known as labour market segmentation theory. Early characterization of the dual labour market described it by the presence of two distinct segments (Cain, 1976; Doeringer & Poire, 1980; Saint-Paul, 1996). These segments have been variously identified as primary labour market and secondary labour markets; formal and informal labour markets; modern and traditional etc. Dual market theorists have maintained that jobs can be roughly divided into two groups: those with low wages, bad working conditions, unstable employment, and little or no opportunity for advancement, which are typical features of the secondary (informal) market; and those with relatively high wages, good working conditions and opportunities for advancement into higher paying jobs, which are typical features of primary (formal) segments (Doeringer & Poire, 1980).

This dichotomy is significant in explaining the situations of labour practices in the Nigerian informal sector. The informal sector in the Nigeria context is unstructured with unregulated activities that create the environment for unfair labour practices due to non-protection of workers within this sector. As demonstrated by the segmentation theory which assumes a dual labour market structure consisting of a capital-intensive, secure primary segment and a labour-intensive, insecure but flexible secondary labour market segment (Lillie, Caro, Berntsen, & Wagner, 2013), the employment conditions under which many low-skilled and low-wage workers work are characteristics of the secondary (informal) market segment.

Although human capital theory has tended to emphasize differences among people, rather than among jobs, as a determinant of the distribution of income; workers in low-wage jobs are viewed simply as low-productivity workers who are unwilling or unable to obtain the skills that are necessary for access to higher paying jobs (Dicksens & Lang, 1985). This is in sharp contrast with the situation in Nigeria as many workers with high skills and high degrees found themselves in the informal segment where wages are low due to their inability to secure employment in the high-paying formal (primary) segment of the labour market. Thus, the next particularity of the dualism is that the wage setting in the secondary (informal) market does not depend on the level of accumulated human capital whereas in the primary (formal) market the role of human capital is crucial (Launov, 2004).

### **The Concept of Informal Sector within Nigerian Context**

One of the basic problems with policies concerning the informal sector has to do with inappropriate definition of the sector. Several criteria have been used to define the informal sector, such as size, ease of entry, legal status, ownership and management, and technology (Cole and Fayissa, 1991). According to Magbagbeola (1996), the informal sector in Nigeria refers to economic activities in all sectors of the economy that are operated outside the purview of government regulation. This sector may be invisible, irregular, parallel, non-structured, backyard, underground, subterranean, unobserved or residual. Also within the Nigerian context, Fajana (2000) sees it as those labour intensive oftentimes self-employment economic activities which exist side by side with or partly dependent on the modern sector of the urban labour market.

The above definition aptly captures the activities of the informal sector which largely depend on the functioning of the formal sector, thus establishing the inevitable linkages between the formal and the informal sector. Fiege (1990) cited in Fapohunda (2012) further opines that the informal sector does not appear to have a meaning independent of the formal sector, as it only derives its meaning when contrasted with the formal sector. Thus, the survival and functioning of the informal sector is a function of the survival and functioning of the formal sector. Adamu (2006) affirms that informal sector comprises those employment generating activities undertaken for survival in the absence of formal employment. These activities are characterized by lack of regulations by institutions of society in a social and legal environment in which similar activities are regulated (Fapohunda, 2012).

International Labour Organization (ILO, 2002) defined the informal economy as “all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements. Their activities are not included in the law, which means that they are operating outside the formal reach of the law; or they are not covered in practice, which means that – although they are operating within the formal reach of the law, the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome or imposes excessive cost.” Informal economic activities in Nigeria encompass a wide range of small-scale but largely self-employment activities. Most of them are traditional occupations and methods of production. Others include such financial and economic endeavours of subsistence nature as: retail trade, transport, restaurant, repair services, financial intermediation and household or other personal services (Adamu, 2006). In the area of financial intermediation, there are informal money lenders, saving and credit associations and credit unions. Asechemie (1992) in trying to define the informal sector wrote that the market traders, the hawkers on the street, the road side mechanic, the road side barber, and the village farmer are examples of businesses in the informal sector. While describing the features of the informal sector, Fajana (2000) points out that: “The informal sector is usually regarded as the residual labour market where labour is highly heterogeneous and sources of income are not largely wage dependent; working time is discretionary and some jobs are not paid at all.”

Although in Nigeria there are other aspects of informal sector activities which are tagged ‘illegal activities’ such as sale of narcotics, prostitution, touting, fraudsters etc. which exist under the pretence of ‘business’ in the informal sector (Fajana, 2000). Fajana (2000) further stressed that it is probably inaccurate to consider the foregoing examples as informal sector business. To do this will amount to regarding informal sector activities as illegal and dangerous. Thus, informal sector can be explained as the sum total of income generating activities outside modern contractual relationship of production. Therefore, what is common

to the wide range of information available is that the operations in the sector are usually in small scale; that production technique is labour intensive and that ownership is usually private. In most cases the workers in this sector are family members, apprentices and few paid employees.

### **Issues in Informal Sector Labour Practices**

Labour practices within the informal sector of Nigerian economy show evidence of violation of employees' right and non-implementation of labour regulations. Although the informal sector provides a safety net for skilled, semi-skilled or unskilled labour who could not find job in the formal sector of the labour market, however, informal sector in Nigeria has practices that are not in conformity with the International Labour Organization (ILO) best practices as ratified in its conventions. Notwithstanding that Nigeria is a signatory to these conventions, there still a lot of deficits in the implementations of these conventions. One of such areas of concern relates to decent work deficit. Decent work is work with fair and equal treatment, decent remuneration, fair conditions of employment, safety and social protection, opportunities for training and development, and collective bargaining (Eger and Sengenberger, 2001). ILO (1999) report underscored the importance of decent work by stating that "the primary goal of the ILO today is to promote opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and human dignity. Decent work is the converging focus of all its four strategic objectives: the promotion of rights at work, employment, social protection, and social dialogue." On the contrary, many jobs in the informal labour market in Nigeria still experience decent work deficit. Employees in the informal sector are often seen as having no right and are not treated fairly by their employers. Notwithstanding, the 2002 discussion and resolution on decent work and the informal economy at the International Labour Conference recognized that informal workers – employed and self employed – have the same rights as formal workers to decent work, and promotes the organization of informal workers (ILO, 2002).

Majority of urban informal sector workers live in poor areas, lack basic health and welfare services and social protection and work in an unhealthy and unsafe working environment. The conditions under which most informal workers operate are precarious and unsafe (Forastieri, 1999). Non- implementation of labour regulations such as Employees' Act, 2010 and Pension Act, 2004 constitute part of the unfair labour practices common in the Nigerian informal sector. Most of the provisions of these Acts such as group insurance and contributory pension scheme are not implemented by most of the employers in the informal sector and the strength of enforcement is very lax. In addition, the inability of union to organize workers in this sector makes it impossible for the workers to embark on any meaningful bargaining in order to secure better conditions of services for themselves.

Besides the issue of decent work deficit and general poor and precarious working conditions, another burning issue in the Nigerian informal sector is child labour. Greater percentage of under-age workers is found in the informal sector. Child's Rights Convention notes "that it is the right of every child to be protected from economic exploitation and from any work that is likely to be hazardous or interfere with the child's education, or be harmful to the child's health, or physical, mental spiritual, moral or social development" (UN Children Right Convention, Article 32. 1). A study by UNICEF showed that, in the year 2000, the incidence of child labour was particularly high in West and Central African countries such as Benin, Burkina Faso, Cameroon and Nigeria. In 1992, three large scale studies of working children funded by the Ford Foundation and UNICEF in Nigeria found six categories of children

working on the streets in urban areas: 64.3% were street vendors in mobile or stationary positions and were largely female. The other five categories included shoe-shine boys (3.9%), car washers/watchers (5.9%) and head loaders/feet washers in market (7.6%). In these other categories of work boys predominated. Millions of children of both sexes engaged in hawking as part and full-time activity in urban and semi-urban areas such as Lagos, Ibadan, Oshogbo, Aba, Onitsha, Kano, Maiduguri and Abuja (Oyerinde, 2001). A study on Nigerian informal traders found that 10% of informal traders were children between the ages of 5 and 14 (Trade Union World, 2000).

Another important issue relates to gender and income disparity in the informal sector. An effect of growing in-formalization of the economy has seen a rise in the number of women participating in the informal sector (World Labour Report, 1997). Available data do not always accurately reflect the extent of women's involvement in the informal economy. This is because much women's informal work is uncounted in official statistics, or unpaid, or both (ILO, 2002). According to Chen (2001), most women in the informal economy in Africa are either self-employed or unpaid workers in family enterprises. Average incomes are lower in informal than in formal employment. Chen (2001) also notes that the gender gap in income appears higher in the informal economy due to two interrelated factors: (1) Informal incomes decline as one moves across different types of employment from employer to self-employed, casual wage worker, etc. (2) Women are under-represented in high income activities and over-represented in low-income activities such as subcontracted work. A majority of women in the informal sector economy are own-account traders and producers or casual and subcontracted workers. Relatively few are employers who hire paid workers.

According to The Federal Office of Statistics (FOS) 2003 Annual Report, the informal sector employs about 46 percent of the female labour force, mainly in petty trading and home-based processing and manufacturing, where they have little access to official sources of credit or information. In Nigeria, the 2006 census reveals that 67.6 percent of employed women in the country were enumerated as sales workers while 8.4 percent were craft and production workers, all in the informal sector (Fapohunda, 2012). Fapohunda (2012) therefore concludes that informal sector has its challenges especially for women, such as inaccessibility of credit. Added to this is that very little is known or documented about workers with disabilities in the informal sector. In many developing countries and Nigeria in particular, the chances of disabled persons finding salaried employment or work in the formal sector are far smaller than their able-bodied peers. Thus, many of them find respite in the informal sector where they are largely denied access to credit.

### **Linkages between Informal and Formal Sectors**

The labour market situation in most developing countries and Nigeria in particular shows that both informal and formal labour markets exist side by side and share a great deal of interdependency. This interdependency is vividly captured by the nature of linkages between informal and formal sectors and the level of integration of the informal economy into the formal economy. The nature of this linkage could be forward linkage (to market beyond the borders of the informal economy) and backward linkages (in the form of inputs from outside the informal economy) (Meagher, 1989). For example, Stavrou and May (1989) found that in South Africa the formal economy depends on the informal economy to act as a source of goods and services and to provide a market for its own produce. Thus, this shows the indispensability of the informal sector to the survival and even growth of the formal economy.

Meagher (1998) argues that in the third world countries, the linkages between informal and formal economy have led to informalization of work in the formal economy as a means to enhance the profit of the firms. Although this linkage has negative consequences for informal labour because it has cheapened labour, and working conditions have deteriorated (Meagher, 1998). This typifies the situation in Nigeria as many businesses in the informal market exist to serve the formal sector. The high rate of unemployment which has left many graduates in Nigeria with no job in the formal economy has necessitated these graduates to establish small businesses in order to provide a particular service or another to the corporate organizations. Such services like cleaning, laundry, supply of gasoline, loading or off-loading of goods among others are labour services that these operators in the informal sector provide to the formal sector. Meagher (1998) noticed this development in South Africa and Nigeria, where formal distributors and manufacturers are beginning to use informal operators to extend their market to a wider public, and even into rural areas. In addition, the market for goods and services produced in the informal economy becomes a formal economy market, and amongst participants in the informal economy there is fierce competition for consumers in low-income groups (ibid).

The linkages between the informal and formal economy had earlier on been captured by the structuralist school which views the existence of the informal sector as a relatively permanent feature of the modern economy which is integrated with its lead sectors (Portes, Castells and Benton, 1989). The linkage between the informal and formal sector(s) is established through the latter subcontracting certain labour intensive stages of production to the former (Arvin-Rad, Basu & Willumsen, 2010). Besides, there is also increasing linkage between the formal and informal labour markets in the area of finance and credit mobilization. These linkages were observed both in savings mobilization and in credit allocation (Aryeetey, 1992). There is evidence that illustrates the considerable interaction between the formal and informal financial institutions (Floro & Ray, 1997). These linkages typically take the form of a significant flow of funds between the two sectors. Informal lenders often borrow from their formal counterparts, banks being an important source of funds (Alam, 1989). Most of the banks in Nigeria derive their deposit funds from the informal sector, which comes from “*Esusu*” (savings from regular contribution) from market women, artisans, retailers etc. Currently, “*Esusu*” has been integrated into the formal banking system in Nigeria.

## **RECOMMENDATIONS FOR IMPROVING LABOUR PRACTICES IN THE INFORMAL SECTOR**

Against the background of the following, it is obvious that the labour conditions under which most workers in the informal sectors operate in Nigeria can be described as unfavourable. These unfavourable labour conditions still persist notwithstanding the increasing linkages between the formal and the informal sector. Therefore, given the growing integration between these sectors, it is important that a closer attention should be paid to the informal sectors by policy makers and implementers to improve the labour condition of the participants in this sector. This position is also in congruence with the advice of Chen (2007) “that since informal sector is here to stay and that the informal and formal economies are intrinsically linked, what is needed is an appropriate policy response that promotes more equitable linkages between the informal and formal economies and that balances the relative costs and benefits of working formally and informally.” “While the focus here is on the role of government, there is a role for all stakeholders, including for formal firms in promoting

socially responsible corporate practices and for organizations of informal workers in policy making” (Chen, 2007).

In addition, Nigerian government can equally borrow a leaf from policy trust of other nations like Shanghai which extended government assistance to the informal sector by encouraging their growth and eventual incorporation into the formal sector. This policy trust was supplemented by a public works programme, which provided employment to a portion of informal labour organizations in public services such as street cleaning, security, and the maintenance of public facilities (Garcia-Bolivar, 2006). Just like the Shanghai government, Nigerian government can do a lot more by providing additional assistance to the informal economy by offering of training, social insurance, preferential tax treatment, and subsidized credit to informal ventures. Besides, strict enforcement of group insurance scheme and pension scheme as specified by the labour regulations should be encouraged especially among informal sector employers. All these will help to reduce the incidence of unfair labour practices which have been a common feature of Nigerian informal sector.

## CONCLUSION

In Nigeria, the informal sector is experiencing an increase and the condition is bound to continue. The current rate of graduate and youth unemployment left the youth with no other option than to look for ways of survival, which they can only find in the informal labour market. Again, given the emphasis on entrepreneurial skill acquisition, it is obvious that medium and small scale business may provide the panacea to the high unemployment rate. Whether the unemployed, new entrants or multiple job holders (moonlighting), the informal sector in Nigeria have helped in bridging the gap between those who are formally employed and those who could not get job in the formal sector. Thus, it is imperative at this point to consider the advice of Fajana (2000) that “with clear policy to remove institutional bottlenecks to enhance adequate recognition, proper funding, legal backing, proper accounting, and formal integration into the mainstream of the macro-economy, the informal sector is poised to thrive.”

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