

EXPLORING THE CONTRIBUTIONS OF INFORMAL SECTOR TOWARDS INCOME AND EMPLOYMENT GENERATION IN KATSINA METROPOLIS: A CASE OF METAL WORKS ENTERPRISE

*Abdullahi Abdurrahman

*Supporting staff; Department of Economics, Umaru Musa Yar'adua University, Katsina, Katsina state, Nigeria.

abdulabdul04@yahoo.com

And

**Abubakar Atiku Muhammad

**abbaktn@yahoo.com

ABSTRACT

Not until recently, the quest for economic growth and development have been resting upon the shoulders of formal sector of the economy to which western world and free market system owes a great debt. However, the role of informal sector of the economy as was hitherto considered is at best narrowed. Consequently, as time pass, specifically, with the emergence of Asian tigers and their new economic doctrine, there revealed the hidden fortunes of informal sector towards economic buoyancy, leading many nations to follow suit. Nigeria and Katsina state were no exception. This paper examines the contributions of informal sector towards income and employment generation with a particular reference to metal works enterprises in Katsina metropolis. The paper adopted Linear Probability Model in the analysis of the primary data elicited via questionnaire administration. Findings of the study shows that, metal works enterprises contribute significantly towards income and employment generation in Katsina metropolis. This is supported by the respective p-values <0.05 V coefficients of income and employment as used in the model. Although, metal works enterprises are plagued with the dearth of sufficient capital, government support and more often than not, dilapidated infrastructures necessary for the triumph of their operation. The study hence recommends that, entrepreneurship development programmes and its outlets should be established across the state. The demands for informal sector enterprises should be adequately met and their major problems smoothly eroded. This will undoubtedly end the tragedy of poverty and yawning unemployment in the realm and therefore, marked a new watershed in the politics of development economically and otherwise in our beloved state and the nation at large.

1.1 INTRODUCTION

The growing importance of informal sector towards reducing income inequality and the dilemma of unemployment has for long attracted the attention of many Developing nations, non-government agencies aimed at combatting the menace in question, and achieving a set target macroeconomic goal. Nigeria and Katsina states were no exceptions.

This chapter therefore, highlights the general overview of the scheme of the study, the rationale behind the choice of the problem, its aim and objectives, hypothesis of the study, the area the study intends to cover and the significance of the study in general.

The informal sector represents an important part of the economy and the labor market in many countries, especially in developing countries, which plays a major role in employment creation, production, and income generation. The informal sector as defined in the resolution of the 15th International Conference of Labor Statisticians held in January, 1993 as any economic activity, that

is engaged in production and distribution of goods and services by the operating units of the households, which essentially differ from the formal sector in terms of technology, economies of scale, use of labor- intensive processes, and virtual absence of well-maintained accounts (Kapunda, 2007).

A variety of terms have been in vogue within the administrative setup and statistical systems of countries to describe enterprises in order to capture one certain similar characteristics, such as “unregistered”, “unorganized”, micro-enterprises etc.

The informal sector represents a substantial portion of economic activity, especially in developing and transition countries. It has been estimated that more than two thirds of total employment generation is from public sector and one third of the total Gross Domestic Product (GDP) of Nigeria comes from the non-agricultural sector in Nigeria (NBS, 2009).

However, despite the negligible consideration giving to informal sector in most developing nations its contributions cannot be over emphasized in terms of employment generation, capital savings mobilization, efficiency and its strong linkages with other sectors.

Since the beginning of 1980s, the economic position of Nigeria has been drastically deteriorating. The per-capita income falls considerably and wage employment has declined (UN report, 1993).

However, the informal sector constitutes a significant segment of the Nigerian economy. The sector thereby contributes to the Gross Domestic Product (GDP) and employment and contributes significantly to economic development of Nigeria in general (Adhikari, 2011).

In view of its estimated size the sector invites high policy interest in many parts of the world. Given their high potential for job creation and income generation in developing economies, the informal sector is gaining the attention of policymakers.

Notwithstanding, it is generally believed that informal sector represents a weapon for conquering the bedeviled predicaments of unemployment, poverty and mounting social chaos in the society. In addition to employment generation, poverty reduction and income generation, informal sector contributes towards raising productivity in the economy. Unfortunately, due to their very nature, that is; their small size, invisibility and high rates of entry and exits, informal sector enterprises do not enter the business registers or the list frames usually maintained by National Bureau of Statistics (NBS, 2011). Thus, many enterprise surveys conducted by NBS in developing countries usually target only enterprises beyond a threshold, generally measured in terms of size of employment, which are available in the official lists. As a result informal sector enterprises escape official data collection systems, and their contribution to GDP is often understated in the official national accounts data despite their significant contribution (Joshi, 2009).

The main objective of this paper is to assess the contribution of the informal sector towards income and employment generation in Katsina state with a particular reference to metal works enterprises in Katsina metropolis. The paper will equally examine the main source of capital for metal works enterprises, and determine the strength, weaknesses, opportunities and threats of metal work enterprises in the study area.

1.2 LITERATURE REVIEW

- **Concept of Informal Sector in Nigeria**

The concept of the informal sector was introduced into international usage in 1972 by the International Labour Organization (ILO) in its Kenya Mission Report, which defines informality as a ‘way of doing things’ characterized by ease of entry; reliance on indigenous resources; family ownership; small scale operations; labour intensive and adaptive technology; skills acquired outside of the formal sector; unregulated and competitive markets.

Ajakaiye (1995) proposed that the informal sector workforce can be categorized into three broad groups: (i) owner-employers of micro enterprises, which employ a few paid workers, with or without apprentices; (ii) own-account workers, who own and operate one-person businesses, work alone or with the help of unpaid workers, generally family members and apprentices; and (iii) dependent workers, paid or unpaid, including wage workers in micro enterprises, unpaid family workers, apprentices, contract labour, homeworkers and paid domestic workers. Since its invention the concept of informal sector has attracted much interest, discussion and disagreement.

Atoloye (2007) affirms that there are currently two approaches to defining informal sector activities. First is the definitional using which Farrel defines the informal sector as one which consists of economic activities, which are not recorded in the gross domestic product (GDP) and or the national income accounts. Second is the behavioural, which is at times referred to as the legalistic.

Duru (2012) defines the same based on whether or not an activity complies with the established judicial, regulatory, and institutional framework.

Ojo (1981) says that the informal sector consists of small scale units engaged in production and distribution of goods and services with the primary objective of generating employment and income, notwithstanding the constraints on capital, both physical and human, and the technical-knowhow. Feige 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. Adamu (2006) affirms that the 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. As Eghareube (2008) observes the massive additions to the labour force by this sector do not show up in formal modern sector unemployment statistics. The bulk of new entrants to the labour force create their own employment or work for small scale family owned enterprises. Fernandes (2007) contends that on average almost two-thirds of all informal sector enterprises are one-person businesses. Most of these enterprises are labeled as subsistence level firms with only a small likelihood of growing into larger enterprises. Earnings and profits in these small enterprises are low by comparison with larger enterprises that hire other workers. These small enterprises are sometimes referred to as the “working poor.” Akintoye (2006) asserts that 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, backward, underground, subterranean, unobserved or residual. Informal economic activities in Nigeria encompass a wide range of small-scale, largely self-employment activities. Most of the informal sector activities are traditional occupations and methods of production. Others include such financial and economic endeavors of subsistence nature as: retail trade, transport, restaurant, repair services, financial inter-mediation and household or other personal services. Activities in the informal sector in Nigeria are difficult to measure; they are highly dynamic and contribute substantially to the general growth of the economy and personal or household income. The non-agricultural informal sector employs about 35 per cent 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.

- **EMPIRICAL LITERATURE**

In Nigeria, few studies exist on the urban informal economy and even the existing ones are not very recent as, for example, the data used for the most recent one (Fapohunda, 1991) were collected in 1976.

The first known works on the urban informal sector are those of Callaway (1964, 1965, and 1973). These studies were based on a rather comprehensive survey of all the indigenous craft enterprises and small industrialists as well as their apprentices, employees and/or journeymen in the city of Ibadan. The survey was conducted in 1961, in which 135 enterprises were covered and from these 250 apprentices were selected for further questioning in order to examine the process of skill acquisition through the apprenticeship system (Callaway, 1964). The 1965 study made use of the same data set, and examined among other things: the dimensions of the indigenous industries in Ibadan in the 60's as well as the nature of employment and training they provide for young primary and secondary school leavers. In his 1973 study, the author's efforts were concentrated on 225 craft and small-scale enterprises in the informal sector of Ibadan. The study highlighted various important operational characteristics of informal sector enterprises in manufacturing, services, building and printing. His research findings show that the sector contributes to employment and skill development of young school leavers who would have otherwise remained unemployed.

A survey of small-scale industries was undertaken by the Industrial Research unit of IFE (now Centre for Industrial Research and Development of Obafemi Awolowo University, IILE – IFE) in 1972. In the then Western State (now Oyo, Ogun and Ondo States) 13,592 industrial units were covered in the 24 divisional headquarters of the state, while 1,673 industrial units were covered in 25 other towns and villages.

Originally, the industrial survey of the Unit was not planned for informal sector enterprises alone but for all small-scale industries in general. However, the definition of small-scale industry is:

‘one whose total assets in capital equipment, plant and working capital are less than \$25,000 (i.e. ₦50,000) and employment fewer than 50 fulltime workers. It includes a factory or a non-factory establishment. It may be a household, a cottage, a craft or a factory industry. It may or may not use motive power’ (p. vi).

One can then infer that the survey includes a reasonable number of informal sector enterprises. The study is a comprehensive survey of every industrial activity that was willing to cooperate with field workers. The unit was able to achieve a high response rate of 75 per cent and this success was as a result of wide publicity engaged in before and during the data collection exercise. The result of the survey shows that about 52 per cent of the enterprises were engaged in tailoring, 10 per cent in carpentry while 5 per cent were gold-smiths. Other significant ones are motor-repairing (4.8 per cent); bicycle and shoe-making, (4.20 per cent) [Panneerselvam, 2004].

Olowoakeere (2000) opines however, that interesting to learn from the survey report that the structure of small-scale industries is the same in both urban and rural centres. It was also reported that the majority of the industries covered in the survey render services rather than actually manufacturing. However, this survey did not cover operators in the wholesale and retail trades. This subsector of the informal sector is too significant to be neglected in small-scale industrial survey.

Isaiah (1991) conducted a survey on the non-formal vocational training in the small-scale industries of Western Nigeria. His study focuses on the mode of skill acquisition of the urban youths in the formal sector jobs. Using part of the data collected by Ismail & Adegbemi (2007), the author was able to find out that the apprenticeship system is an important mode of vocational training for the urban informal small-scale establishments. It is an alternative to unemployment in cities and farm-work in the villages. The apprentices, as revealed by the study, were of low education, young, have low preference for traditional crafts like pottery, dyeing etc., and quite a number of them are recent migrants to the cities. The study also shows the importance of the informal economy in skill development and labour absorption.

However, one wonders why the researcher did not include Ibadan, the capital city of Western State which is the focus of the study.

Using 1976 cross-section data on 2,074 informal sector enterprises of Lagos, Fapohunda (1991) critically examined the factor affecting the size and structure of enterprises in terms of income and employment generation, the extent of linkages between enterprises and possible constraints affecting growth. The sampling procedure adopted in the study is the 2-stage random sampling technique, that is, a minimum of ten enterprises were selected from each of the delimited 200 enumerated areas. The analysis of data revealed that the sector provides a wide range of income opportunities for those not having the skill and/or the opportunity of entering the formal sector enterprises.

- **Theory of Employment**

At the macro level, employment refers to the application of the factors of production to efforts that will generate income for the welfare of the citizens. Indeed, it is in that process that employment of labour at the sub-macro (micro) levels by the diverse economic agents is endangered. Consequently, any change in the quantum, mix, and nature of combining these factors of production at the macroeconomic level, *ceteris paribus*, also translates to changes in the same direction in the combination and condition of employment of labour at the micro level. In John Keynes' *The General Theory of Employment, Interest and Money*, the great economist postulates that the national income depends on the volume of employment, i.e. on the quantity of effort currently devoted to production, and there is a unique correlation between the two. In addition, a state of full employment is achieved by an economy when all its resources have been appropriated to the fullest and economic activities are in a stable condition, so that a shift in the dependent variables results in unstable conditions and/or reduced level of real income. However, evidence indicates that full or even approximately full employment is of rare and short-lived occurrence. Until then, additional increases in and different combinations of the factors of production are possible efforts to attain a full employment condition. In other words, there will always be an inducement to push the rate of new investment to the point which forces the supply-price of each type of capital-asset to a figure which, taken in conjunction with its prospective yield, brings the marginal efficiency of capital in general to approximate equality with the rate of interest, and changes in the rate of consumption will move in the same direction (though smaller amount) as changes in the rate of income. In the same vein, if we assume (as a first approximation) that the employment multiplier is equal to the investment multiplier, we can, by applying the multiplier to the increment or (decrement) in the rate of investment, infer the increment of employment, as long as the value of output will rise when employment increases even if the wage-unit and prices are unchanged. In formulating the general theory of employment, some existing or available factors are taken as given, but this does not mean that these factors are

assumed to be constant; but merely that, the effects and consequences of changes in them are not taken into consideration or into account, for now. They influence the independent variables, but do not completely determine them. The independent variables, in the first instance, are the propensity to consume, the schedule of the marginal efficiency of capital and the rate of interest.

Therefore, the above theory was selected to serve as the basis or framework backing up this research owing to their relevance to the problem(s) that informed this study in general.

1.3 METHODOLOGY

The study used mainly primary data from surveys of 50 self employed workers. The population considered in this study include workers from metal works enterprises (e.g. welding, aluminum/glasswork, blacksmithing etc.) who dwell on self-reliant business in Katsina metropolis. Considering the size of study population (metal workers), it seems plausible to employ the use of sample in drawing conclusion on the subject matter of the study. A sample is defined as an element of the population used to represent the population under study.

This study will use a sample size of 50 respondents (meal workers) in eliciting the data for the analysis of the study. The study employs the use of simple random sampling (SRS) technique in choosing the sample. The selection of SRS technique in this study is informed by the fact that, it accords each element of the population equal chance of being selected.

- **Model specification**

The question is basically on the level of how income generated through such businesses helps to maintain their very survival. Hence, the Linear Probability Model (LPM) which is a linear regression model with a binary dependent variable was introduced because of its simplicity unlike the logit and a probit model, the linear probability model is stated thus:

$$Y_i = \beta_1 + \beta_2 X_i + \mu_i \dots \quad (1)$$

Where

X = Self-employment (metal work enterprise)

Y = Dummy dependent variable, with 1 if self-employment add to income and 0 if it does not.

μ = error term

β'_s = estimation parameters

$$Y_i = \beta_1 + \beta_2 X_i + \mu_i \dots \quad (2)$$

X = Self-employment (metal work enterprise)

Y = 1 if self-employment add to employment generation in Katsina metropolis and 0 if it does not.

- β'_s are the slope coefficients measuring the probabilities.

μ = stochastic error term

Method of Data Analysis

This study adopts the use of linear probability Model (LPM) of regression in the analysis of the result. For, qualitative Response Regression Model specifically known as model (1) and (2) above is a Linear Probability Model (LPM), this is because the dependent variables are binary or dichotomous (See Gujarati, 2004).

The result or coefficient(s) in the LPM will thus be interpreted as 'probabilities'.

1.4 DATA ANALYSIS

Table 1: Informal Sector and Income Generation

	B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1 Income	.17	.167	.027	1	.042	1.028
Constant	.189	1.593	.014	1	.006	1.208

Source: Researcher's computation using SPSS V. 16

The above tables shows data that illustrate informal sector (1= has impact, 0= has no impact) and respondents' (Metal works) χ for 50 enterprises in Katsina metropolis. From the data, the Linear Probability Model (LPM) estimated by Ordinary Least Squares (OLS) procedure is;

$$\text{Income} = 0.189 + 0.17(\text{Metal works}) \dots\dots\dots (1)$$

(3.01) (0.064)

$$\rho\text{- Value} = [0.0000] [0.0000]$$

$$\text{R- Squared (R}^2) = 0.67$$

$$\text{F- Statistic} = 56.81$$

$$\rho(\text{F- Statistic}) = 0.000000$$

From equation (1), the intercept of 0.189 gives the probability that income could be generated without partaking in to informal sector. The slope value of 0.17 means that for a unit change in informal sector (metal works expansion), on the average, the probability of increasing income level increases by 0.17. From equation (1), we thus estimate the actual probability of increasing income level through informal sector expansion (metal works) in Katsina metropolis.

Table 2: Informal sector and Employment Generation

Variable	B	S.E.	Wald	Df	Sig.	Exp(B)
Employment	.23	.268	.000	1	0.010	1.000
Constant	.405	2.831	.021	1	.886	1.500

Source: Researcher's computation using SPSS V. 16.

The above tables shows data that illustrate the contribution of informal sector (metal works) (1= has impact, 0= has no impact) and employment generation χ for 50 metal works enterprises in Katsina metropolis. From the data, the Linear Probability Model (LPM) estimated by Ordinary Least Squares (OLS) procedure is;

$$\text{Employment} = 0.405 + 0.23(\text{Metal works}) \dots\dots\dots (2)$$

(2.68) (2.831)

$$\rho\text{- Value} = [0.0000] [0.0000]$$

$$\text{R- Squared (R}^2) = 0.71$$

$$\begin{aligned} \mathbf{F\text{-Statistic}} &= 63.14 \\ \rho(\mathbf{F\text{-Statistic}}) &= 0.000000 \end{aligned}$$

From equation (1), the intercept of 0.405 gives the probability that employment could be generated without expansion of informal sector. The slope value of 0.23 means that for a unit change in metal works enterprises (Expansion) on the average, the probability of increasing employment opportunities in the area increases by 0.23. Notwithstanding, the respective R^2 values (0.67 and 0.71) for equation 1 & 2 above were significant on the basis of the F-test (56.81 and 63.14 respectively). As proven statistically, the contribution of informal sector (Metal works enterprises) to income and employment generation is significant as the respective computed t- statistic for 1 & 2 equation are 0.17 & 2.831, whose ρ - Values are 0.0000, which is significant. Overall, all the estimating parameters have a significant impact on the income and employment generation in the study area, as the calculated F- statistic values for equation 1 & 2 are respectively 56.81 and 63.14, whose associated ρ - Values are 0.0000, which is infinitesimally small.

Therefore, these results suggest that informal sector *ceteris paribus*, contributed significantly towards curbing unemployment and poverty menace in the study area. Hence, prioritizing this sector will certainly marked a new dawn to the challenges of unemployment and poverty in Katsina metropolis and other crannies of the state at large.

1.5 CONCLUSION AND POLICY RECOMMENDATIONS

It was discovered that, the informal sector enterprises do not enter the business registers or the list frames usually maintained by National Bureau of Statistics (NBS, 2011). Thus, many enterprise surveys conducted by NBS in developing countries usually target only enterprises beyond a threshold.

Furthermore, it has become evident that people who venture in to metal works enterprises are mostly low incomes, whose aim is to maintain their livelihood. Their family size is relatively high, with no much formal education at tertiary level, yet they provide entrepreneurial skills, income and employment generation to the teeming population of Katsina metropolis. Following the findings of the study, the paper therefore, concluded that informal sector if efficiently utilized could accelerate the triumph of socio-economic growth and development of the area under study. It is in view of this, the paper strongly recommended that government should initiate skills acquisition and craft centers to support entrepreneurship in a wide effective range and also disburse loans as take off capital to aid its recognition by the stakeholders, considering its social and economic fortunes to which the prevailing economic cog mires in the state largely depends upon its wreck.

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