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RURAL DEVELOPMENT AND INFORMAL SECTOR: CHALLENGES, ISSUES AND PROSPECTS IN NIGERIA

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ABSTRACT

This study assessed the impact of the Informal Sector on rural development, challenges, issues and prospects in Nigeria. The informal Sector is the economic activity that is not subject to government regulation or taxation and supports some of the most vulnerable in society. They are viewed as the driving force in the job creation process since it typically includes many small and micro-enterprises. This sector is therefore the fastest thriving and adds to employment and investment through its crucial characteristic of thriving anywhere. Despite these efforts of the informal sector, they are faced with challenges such as formalization which is also one of the causes of poverty because of the low level of the productivity and the absence of linkages with the market: as a result, this production comes down to a basic subsistence agriculture generating very poor incomes. Despite the wide range of informal sector of economic processes and activities, current knowledge of the size, causes, characteristics, and dynamics of the informal sector remains very scanty and inadequate. Key recommendations include; Government needs to create an enabling environment for the Informal Sector to thrive by removing multiple levies often imposed on them and provision of soft loan to them to cushion the effect of Covid-19 which ravaged the world last year.

Keywords: Rural development, Informal sector, Prospects &Nigeria.

Introduction

Background of the Study

The informal sector represents a fundamental component of the economic structure of many developing countries. They are key form of organization of production and an important provider of employment and income opportunities in both rural and urban areas. The sector is broadly characterized as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. The informal economy is broadly defined as economic activity that is not subject to government regulation or taxation and supports some of the most vulnerable in society**.** In rural areas, the informal economy sustains livelihoods of impoverished populations through natural resource and land based economic activities such as farming, logging and mining. The rural informal economy is messy and complex: activities are at times classified as illegal yet are often rooted in traditional resource and land rights. Local communities may receive significant income, but sustainability of resource use is a pressing concern as informal trade increasingly serves ever-expanding urban and international markets. (Xiaoxue 2015).

Most developing countries have recently recognized the informal sector as a viable sector in their economic progress. The small-scale industries and handicrafts have hitherto received very little attention from policy makers and as a result little government assistance. The colonial governments in most developing countries had pursued strategies of growth which neglected the development of such activities in favour of heavy industrial establishments and consequently, the activities remained unexploited. Recent evidence shows increased awareness of the need to encourage their exploitation. In Kenya, the recognition of the sector is provoked by the increasing problem of unemployment, the need to improve on the life of the rural people and the need to moderate the growth rate of the major towns.

The informal sector, due to its role in many developing countries such as South Africa, is viewed by Schmögnerová (2004) as one of the principal driving forces in economic development. It has a number of roles other than just the provision of income for the less educated and unskilled people. The businesses within this sector are flexible and can adapt quickly to changing market demand and supply situations, they generate employment, help diversify economic activity, make a significant contribution to exports and trade, provide raw materials to local producers and also help in alleviating poverty.

Objectives of the Study

The main objective of this study is to assess the impact of the Informal Sector on rural development: challenges, issues and prospects in Nigeria.

Review of Related Literature

Conceptual Review

The concept of rural development

The concept of rural development in Nigeria lacks a unified definition as different scholars tend to view it from varying perspectives. Rural Development is the process of improving the quality of life and economic well-being of people living in rural areas, often relatively isolated and sparsely populated areas. (Moseley 2003). Rural Development has traditionally centered on the exploitation of land-intensive natural resources such as agriculture and forestry. However, changes in global production networks and increased urbanization have changed the character of rural areas. Increasingly tourism, niche manufacturers, and recreation have replaced resource extraction and agriculture as dominant economic drivers Ward & Brown (2009)

There is also no universally accepted definition of rural development. As a result, different scholars and institutions define and conceptualize it in different ways. In supporting this, it is argued that the definition of rural development has advanced through time as a result of changes in the perceived mechanisms and goals of development (Anríquez and Stamoulis, 2007).

Rural development was seen as purely an economic issue or raising the low levels of rural income through agricultural modernization. This definition is reflective of rural development as a subset of development in the 1970s. This is because in the 1970s development was also viewed merely from the economic dimension. However, nowadays development is broadly viewed as an overall improvement of the quality of life of a human being in terms of economic, social, economic, political, environmental, and administrative issues. (Tadele, 2020)

The concept of Informal Sector

The term "informal sector" is today widely used in writings on both developing and developed countries. It is invoked to refer to street vendors in Bogota, shoe-shine workers in Calcutta, specialized knitwear makers in Modena and producers of fashion garments in New York City.

What these activities appear to have in common is a mode of organization different from the unit of production most familiar in economic theory, the firm or corporation. These activities are also likely to be unregulated by the state and excluded from standard economic accounts of national income. (Madhura, 1991)

The concept of informal sector since its inception becomes elusive because of different paradigms, disciplines, interests, and moments in history, that had mutated the meanings he argues that Informal economy continues to grow as the bulk of new employment in recent years, particularly in developing countries and transition countries, has been in the informal economy. Most people have been going into the informal economy because they cannot find jobs or are unable to start businesses in the formal economy. (Yusuf, 2011) The informal sector covers a wide range of labor market activities that combine two groups of different nature. On the one hand, the informal sector is formed by the coping behavior of individuals and families in an economic environment where learning opportunities are scarce.

The informal economy is broadly defined as economic activity that is not subject to government regulation or taxation and supports some of the most vulnerable in society. In sub-Saharan Africa, it generates 90 per cent of employment opportunities in some countries, and contributes up to 38 per cent of GDP in others. In rural areas, the informal economy sustains livelihoods of impoverished populations through natural resource and land based economic activities such as farming, logging and mining. **(Xiaoxue 2015).**

Job creation by the Informal Sector

With unemployment and underemployment on the rise, Nigeria faces tremendous challenges in terms of sustainable job creation and productivity. In fact, the incidence of high unemployment has become a major socio-economic challenge over the past decade, despite strong economic growth. In recent years, job creation and the quality of jobs have been marred by a slowdown in economic growth, and the recession. Latest available data from the National Bureau of Statistics (NBS) puts Nigeria's unemployment rate at 18.8% as at Q3'17. Two years' prior, this rate was 9.9%. Similarly, the underemployment rate reached the highest on record at 21.2%, from 17.4% over the same period. Pierre. (2018)

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 Bretton Woods Institutions-inspired Structural Adjustment Program, with consequent expansion of workers within orbits of informal labour and employment relations (Ugochukwu, Lekan &Onumba, 2016)

However, the informal sector may be viewed as the driving force in the job creation process since it typically includes many small and micro-enterprises. This sector is therefore the fastest thriving and adds to employment and investment through its crucial characteristic of thriving anywhere.

Issues of the Informal Sector in enhancing Economic Activities in Rural Areas

A general overview of the development literature would indicate that economists appear to have continuously neglected the importance of the informal sector in the development process. This situation may have arisen from predictions of the pioneer economists such as Arthur Lewis, as History informs us that in the mid-1950s, Arthur, W. Lewis developed a theoretical model of economic development based on the assumption that there was an unlimited supply of labour in most developing countries and that this vast pool of surplus labour would be absorbed as the modern industrial sector in these countries grew. It was then assumed that the traditional sector, comprised of petty traders, small-scale producers and a range of casual jobs would eventually be absorbed into the formal economy and subsequently disappear. (Onyemaechi, 2013)

“Informal economy” is one of many terms used to describe diverse economic activities that are omitted from or only partially accounted for in macroeconomic analyses. Other terms used include informal sector, secondary sector, alternative economy, black market economy, cash economy, clandestine economy, domestic economy, hidden economy, household economy, invisible economy, irregular economy, moral economy, nonofficial economy, parallel economy, second economy, shadow economy, and underground economy (Rebecca, Susan & Eric, 2008). The informal sector produces more than half of the country's total economic output and accounts for three-quarters of total employment. In particular, it provides a major source of employment for youth and women, since entry is generally easier than in the formal labor market, while the incomes are always lower.

According to Tshuma & Jari (2013), the informal sector consists of small-scale, self-employed activities (with or without hired workers), typically at a low level of organization and technology with the primary objective of generating employment and incomes. They add to this definition by stating that this sector comprises all those activities which generate incomes that go unrecorded in the formal accounts of the national economy. Thus, the sector encompasses all the economic activities undertaken by entrepreneurs who sell legal goods and services within a space deemed to be public property. What makes informal trading attractive worldwide is that the sector typically requires relatively small capital which in most cases comes from the traders own personal savings. The sector is also not homogenous and can come in almost any form. For example, it can cover the (i) sale of cooked and uncooked foods which reflects the dominance of agriculture in the economy; (ii) service sector which includes barber shops, general stores (or kiosks), open-air garages and sale of used clothing; and (iii) the manufacturing of wood and metal products notably furniture and related household metal based goods. On this line of thought, they noted that women dominate the less profitable food and beverages sub-sector whereas males have a near-monopoly in the more profitable manufacturing enterprises such as the production of household metal goods and furniture. Whilst most of those engaging in this sector are those that could not be accommodated within the formal sector either due to their lack of education or skills. (Tshuma & Jari 2013), It has a number of roles other than just the provision of income for the less educated and unskilled people. The businesses within this sector are flexible and can adapt quickly to changing market demand and supply situations, they generate employment, help diversify economic activity, make a significant contribution to exports and trade, provide raw materials to local producers and also help in alleviating poverty.

Globally, there has been a considerable debate about the role of the 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. In Africa, the informal sector has been a subject of debate since the 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. (Waziri & Tafida, 2018)

Challenges faced by the Informal Sector in developing the Rural Areas

Rural populations depending on agricultural activities in remote areas usually belong to the informal sector because of the low level of formalization of the production means, absence of formal and legally recognized business entities. This lack of formalization is also one of the causes of poverty because of the low level of the productivity and the absence of linkages with the market: as a result, this production comes down to a basic subsistence agriculture generating very poor incomes. One of the major constraints to development policymaking and economic management in Nigeria is the paucity of credible statistics and systematic evidence on the informal sector. Despite the wide range of informal sector economic processes and activities, current knowledge of the size, causes, characteristics, and dynamics of the informal sector remains very scanty and inadequate (Jonathan & Victor, 2013)

The capacity of the informal sector economy to absolve a teeming population of the unemployed into the labour force has posed a considerable challenge to urban land use planning and management not only in Nigeria but also in some other developing countries of the world. This challenge is borne out of the capacity of the sector to generate land use problems such as sprawl problem, incongruous land uses, building alterations, the menace of temporary structures, alteration of land use functions, open space conversions and land degradation (Adeyinka, Omisore, Olawuni & Abegunde, 2006).

Assets owned by rural households determine their ability to sustain their livelihoods as farmers, participate and compete in markets as entrepreneurs, and find gainful employment as workers. These assets, mainly human capital, land, and finance, are often underutilized. They are also unprotected especially in rural areas given insecure property rights, weak contract enforcement, and poor access to financial services, weak labour market institutions and social security systems. Various forms of discrimination, often based on gender and ethnicity and especially prevalent in rural areas, affect the productive use of the assets of over half of the labour force.

There are significant overlaps between informality and poverty, the extent and severity of which tends to be greater in rural than urban areas. The last 60 years of development experience have shown that growth does not reduce poverty unless associated with improved employment opportunities, better conditions of employment and the elimination of informality, especially in rural areas. A large proportion of the rural labour force remains in vulnerable employment, and

the highest incidence of child labour is found in agriculture. More than half of these child labourers are involved in hazardous work and the majority of rural youth are disproportionately represented among the working poor living in rural areas. (Rahman, Bhattacharya, & Hasan 2018)

There are various reasons why governments may be concerned about large informal sectors. These include potentially negative consequences for competitiveness and growth, incomplete coverage of formal social programs, undermining social cohesion and law and order, and fiscal losses due to undeclared economic activity. For most governments, these concerns outweigh any advantages that the informal sector offers as a source of job creation and as a safety net for the poor. (Adeeko, 2016)

More so, globally, two billion people take part in informal employment, with the accompanying risks and vulnerabilities. This translates into 60% of the global labour force and 90% of all small- and Medium-scale enterprises. This poses policy challenges to governments especially in the Global South, where documentation shows that most individuals depend directly or directly on the informal sector for survival. Presently, formal employment as is generally known in the developed and developing countries has been transformed by globalization and shifts in economic incentives and policies. Larger portions of manufacturing, as well as the service industry, are being outsourced from organized and regulatory factories to non-centralized, flexible, production units. Unregulated and non-unionized contractual informal employments are put in place between non-formal workers and most corporations as a means of reducing operational costs and increasing profitability of these companies. A new trend in employment revolves around part-time/part-year employment, flexible/fixed-term employment contracts, employment arrangement achieved through temporary agencies or contract firms, casual employment, contract labour, and services outsourced to home workers with flexible working schedules. Unfortunately, all these forms of employment directly or indirectly feed into the growth dynamics of informality in the economy (Enerst & Olawande, 2020)

Prospects of the Informal Sector

In Sub-Saharan Africa, a significant number of people are engaged in small and household enterprises outside formal wage employment. Although the prospects for economic growth have improved in the region since 2000 along with prospects for the expansion of modern industries and wage employment, household enterprises and small businesses remain a cornerstone of

national economies and make up the livelihoods of millions. Arvil, Sara & Setareh, 2013). The nonfarm informal sector has established its role as a major source of employment and earnings for rapidly growing populations. Informality, at least in developing countries, appears to be less the result of cumbersome regulations and mistrust in public institutions and taxation, and more a result of significant pressures on job creation and sustaining livelihoods.

However, the informal sector is a prevalent and persistent economic feature of most developing economies, contributing significantly to employment creation, production, and income generation. Recent estimates of the size of the informal sector in developing countries in terms of its share of employment range roughly between one-fifth and four-fifths. In terms of its contribution to GDP, the informal sector accounts for between 25% and 40% of annual output in developing countries. (Adeeko, 2016).

ILO, 2015 noted that informal sector should adopt the formalization process would thus involve:

• **Formalizing informal economic units:**

Incorporation of informal firms, increased compliance of registered firms with labour and social security obligations; registration of cooperatives; simplifying business registration procedures and taxation requirements; extension of the scope and application of labour and social security regulation.

• **Formalizing informal jobs:** Extension of the scope and application of labour law and social security to the rural economy and agriculture sector workers; establishment and effective enforcement of commercial and work contracts; registration of unregistered employment relations; and registration of own-account or self-employment work.

• **Broader transitions in the economy:** this facilitates formalization due to improved economic policies, market opportunities and skills upgrading. This could lead to enabling conditions in which new and more dynamic enterprises are created, the workforce shifts towards
more productive and higher value sectors, and contractual relationships are improved.

Amidst all of the above considerations, special attention should be given to expand productive employment opportunities for those who continue to live in extreme poverty, earning less than 1.25 USD per day, two thirds of which are in rural areas. Certain groups, particularly women and youth, tend to be among the poorest of the poor, being disproportionately held back by

disadvantages rooted in inequalities. These are the groups that are most likely to work in the informal economy. ILO (2015)

THEORETICAL FRAMEWORK

Various approaches have been used by different experts to illustrate the informal sector. Chen (2012) delineates three of these core approaches:

• The Structuralist school sees the informal economy as subordinated economic units (micro-enterprises) and workers that serve to reduce input and labour costs and, thereby, increase the competitiveness of large capitalist firms (Moser 1978; Castells and Portes 1989).

• The Legalist school sees the informal sector as comprised of "plucky" micro-entrepreneurs who choose to operate informally in order to avoid the costs, time and effort of formal registration and who need property rights to convert their assets into legally recognized assets (De Soto, 2000).

• The Voluntarist school also focuses on informal entrepreneurs who deliberately seek to avoid regulations and taxation but, unlike the legalist school, does not blame the cumbersome registration procedures. Each school of thought subscribes to a different causal theory of what gives rise to the informal economy.

• The Legalists argue that a hostile legal system leads the self-employed to operate informally with their own informal extra-legal norms. The Legalists focus on informal enterprises and the formal regulatory environment to the relative neglect of informal wage workers and the formal economy per se. But they acknowledge that formal firms, what De Soto calls "mercantilist" interests, colluded with the government to set the bureaucratic "rules of the game" (De Soto 2000). They argue that governments should introduce simplified bureaucratic procedures to encourage informal enterprises to register and extend legal property rights for the assets.

The informal economy is considered to be 'audacious' by the legalist school, this is because they took it upon themselves to operate in the 'shadow' (informal) economy in order to escape taxation and costs to the government (De Soto, 2000). The unfavorable and harsh legal system allows the self-employed to function informally with their own informal extra-legal rule.

In yet another approach that is associated with developing countries, the informal economy is considered to be illegal, underground, shadow, irregular, black and subterranean economy. This is because the economic activities of the informal workers are concealed from the regulatory

authority (United Nations Statistical Commission 1993). Therefore, the legalist theory is the most appropriate for this work.

CONCLUSSION

In conclusion therefore, the informal sector is a prevalent and persistent economic feature of most developing economies, contributing significantly to employment creation, production, and income generation, the sector is also viewed as the driving force in the job creation process since it typically includes many small and micro-enterprises. Government should integrate the sector into the mainstream of the economy to enable them to do more in absorbing our teaming youths that are turned out every year from our various educational institutions in the country.

RECOMMNDATIONS

Considering the efforts of the Informal Sectors in developing the rural populace, more needs to be done in empowering them to do more in stimulating our economy:

1. Government needs to create an enabling environment for the Informal Sector to thrive by removing multiple levies often imposed on them.
2. They need to be given a coping fund to enable them get back on their feet and to cushion the effect of Covid-19 which ravaged the world last year.
3. Government needs to provide the sector with soft loans or interest free loans to boost their performance in Job creation to absorb our teaming Youth.
4. Government needs also make Laws that will regulate the activities of the informal Sector to ensure that they operate within the ambit of Law.

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Page: 133 - 146

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