

INFORMAL BUSINESSES IN NIGERIA: EXPLORING THE ROLE OF LOCAL ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT

Daniel Chukwuma Nzereogu, PhD

Department of History and International Studies

Nnamdi Azikiwe University, Awka.

dc.nzereogu@unizik.edu.ng

&

Chiamaka Esther Nzereogu

Department of Accountancy

Nnamdi Azikiwe University, Awka.

ce.nzereogu@unizik.edu.ng

Abstract

Informal businesses constitute a significant portion of Nigeria's economy, providing employment, income, and essential goods and services in the face of limited formal job opportunities. This study explores the role of local entrepreneurship within the informal sector as a driver of economic development in Nigeria. It examines how small-scale, unregistered businesses contribute to poverty reduction, innovation, and community resilience, while also addressing the challenges they face, including limited access to finance, regulatory constraints, and infrastructural deficits. Using qualitative and descriptive method of data analysis, the research highlights the adaptive strategies of informal entrepreneurs and their potential to spur inclusive growth. The findings underscore the need for supportive policies that recognize the value of informal enterprises and facilitate their integration into broader economic planning. This study contributes to a deeper understanding of the informal economy's role in national development and offers policy recommendations to harness its full potential for sustainable economic progress.

Key words: Businesses, Entrepreneurs, Economy, Informal, Development

Introduction

The informal businesses refer to economic activities that operate outside formal regulatory and legal frameworks. These activities are typically unregistered, unregulated and untaxed, making them distinct from the formal economy, which adheres to established legal and institutional rules. For instance, these informal businesses in Nigeria include transportation services such as motorcycle taxis, informal finance (e.g. rotating savings/due/etc.), domestic work, small scale farming, street vending and artisan trades (Schneider, 2005).

Nigeria operates as a mixed, middle-income emerging market, with major sectors including oil and gas, agriculture, services, manufacturing, financial services, entertainment, and communications. In Nigeria, informal businesses encompass a wide spectrum of activities and form a significant part of the overall economy. According to the International Labour Organization (ILO), the informal sector contributes approximately 65% to Nigeria's Gross Domestic Product (GDP) and employs more than 80% of the labor force, (Kashgain, 2024).

According to London Stock Exchange Group (LSEG) in the third quarter of 2024, Nigeria's real GDP grew by 3.46% year-on-year, driven mainly by the services sector, which contributed over half of total output. Gross domestic product (GDP) growth was driven mainly by the services sector, which contributed more than 50% to aggregate output in the July-September period of 2024, (Bala-Gbogbo, 2024), thus highlighting the impact of the informal sector on the Nigerian economy. Also agriculture continues to be a key employer and according to World Bank Group accounts for around 35% of jobs in 2020 and remains vital for livelihoods and exports such as cassava, yam, groundnut, cocoa, and others, (World Bank, 2020).

The informal economy also known as the shadow economy is vast in Nigeria. It employs 80–90% of the labour force, with some estimates citing 76.7% to over 93% engaged in informal work. Accounts for 40–65% of national GDP, depending on methodology and period (e.g. IMF estimates of 65% in 2017; NBS and other estimates around 45% to 57%), (Olubiyi, 2022),(Tunji, 2024).

In the second quarter of 2024, informal employment was 93% of total employment, with 85.6% self-employed, according to NBS data. Among self-employed Nigerians, urban areas report around 78–79%, while rural rates reach as high as 91–94%, (NBS Q2 2024 Report).

Informal Businesses are typically micro- or small-scale, often family-run, operating with low or no fixed capital, little infrastructure, and cash-based transactions (Williams & Nadin, 2010). According to Moniepoint's 2024 informal economy report: Only about 1.3% of informal businesses earn more than ₦2.5 million/month in profit; 79% earn under ₦250,000/month. Over half of informal activity (53.6% by transaction volume) is in retail/general trade and food/drinks. 58% of informal-sector operators are under 34 years old, and about 80% of informal businesses have existed for less than 5 years, indicating high turnover and fragility, (Olowogboyega, 2024).

Nevertheless, despite being a major part of the economy, informal businesses in Nigeria remain under-researched and under-supported, hence no significant attention has been paid to that sector of Nigeria's economy resulting to lack of efficient policies or none existence of policies to properly boost this sector.

Thus the purpose of this study is to explore the contribution of informal entrepreneurship to Nigeria's economic development. It has the objectives of

- highlighting the nature of informal entrepreneurship in Nigeria,
- throwing light on how informal businesses contribute to employment, innovation, and local development
- pointing out the challenges and opportunities these businesses face

Research Methodology

This study involved a descriptive analysis of data collected from journals, theses, and other published works. Library research and internet-based/desktop investigation were conducted to gather relevant information. Consequently, qualitative and descriptive methods of analysis were employed. The study applied a discrete analysis of materials to achieve the research objectives.

Theoretical Framework

Dualist Theory

The informal sector in Nigeria is vast, dynamic, and a critical component of the country's economy. Local entrepreneurship within this sector provides employment, sustains livelihoods, and contributes to GDP despite limited formal recognition and support. Analyzing this phenomenon through the lens of dualist theory offers insights into how informal businesses coexist with and respond to the formal economy, particularly in the context of economic development.

Dualist theory, particularly as articulated by scholars like W. Arthur Lewis (1954) and later expanded by the International Labour Organization (ILO, 1972), posits that economies in developing countries are characterized by two coexisting sectors:

Formal sector: Capital-intensive, regulated, and often aligned with modern economic structures.

Informal sector: Labor-intensive, unregulated, low-capital businesses, typically outside state oversight.

According to this theory, the informal sector is seen as separate and distinct, existing largely due to the inability of the formal sector to absorb the growing labor force. According to the International Labour Organization, *"The informal sector emerges not as a result of illegal activity, but rather as a rational response to lack of opportunities in the formal economy"* (ILO, 1972).

Local Entrepreneurship as a Survival Strategy

The dualist perspective views informal entrepreneurship in Nigeria as a survivalist response to unemployment and underemployment. With limited access to formal employment, many Nigerians turn to petty trading, transportation (e.g., okadas and keke napeps), and home-based services.

Example: Street vendors in Lagos, market traders in Onitsha, and informal tailors in Kano all embody local entrepreneurship in the informal sector.

This aligns with Lewis's (1954) assertion that the traditional (informal) sector acts as a "labor reservoir" that absorbs surplus labor from the modern sector.

Limited Linkages with the Formal Economy

Dualist theory emphasizes the lack of strong economic linkages between formal and informal sectors. In Nigeria, most informal entrepreneurs operate without licenses, access to formal credit, or government support, reinforcing their isolation. Limited access to capital and bureaucratic barriers prevent integration with the formal financial system (Meagher, 2013).

Implications for Economic Development

From a dualist perspective, informal businesses are not seen as contributors to long-term economic growth but as temporary stopgaps. However, in Nigeria, evidence shows informal entrepreneurship is more than transitional; it often constitutes a permanent livelihood for millions. Despite this, informal businesses contribute significantly to Nigeria's GDP—over 50% according to the National Bureau of Statistics (2020). This discrepancy challenges the more rigid assumptions of dualist theory and suggests the need for a nuanced understanding.

Critiques and Limitations of Dualist Theory in the Nigerian Context

While dualist theory provides a useful framework, it has limitations:

Static view of the informal sector: The theory underestimates the dynamism and innovation within informal enterprises in Nigeria (Chen, 2012).

Ignores hybrid realities: Many Nigerian entrepreneurs straddle both sectors—using informal methods while engaging formal institutions, especially in urban areas.

Fails to capture informal sector growth: Dualist theory doesn't explain how and why the informal sector continues to expand, even in times of economic growth.

Using dualist theory to analyze informal businesses in Nigeria highlights their role as a buffer to formal sector failure, supporting livelihoods and cushioning economic shocks. However, the theory's rigid dichotomy does not fully capture the complex, interdependent, and entrepreneurial nature of Nigeria's informal economy. Local entrepreneurship in the informal sector is not merely residual or peripheral; it is central to Nigeria's socio-economic fabric and deserves integrated policy recognition that transcends the dualist assumption of separateness.

Structuralist Theory

Informal businesses are a dominant feature of Nigeria's economic landscape, contributing significantly to employment, income generation, and poverty alleviation. However, despite their economic importance, these enterprises often exist outside the regulatory framework, facing challenges related to productivity, access to finance, and legal recognition. Understanding their role in economic development through the lens of structuralist theory provides insight into how structural constraints shape entrepreneurial activity in Nigeria and how systemic change may be required for sustainable development.

Structuralist theory, rooted in Latin American development economics of the 1950s and advanced by thinkers such as Raúl Prebisch and Celso Furtado, posits that underdevelopment is not a result of insufficient integration into global markets but rather the inherent structural imbalances within capitalist systems. The theory emphasizes:

- The dualistic nature of developing economies (formal vs. informal, modern vs. traditional sectors)
- Persistent dependency and unequal exchange between core (developed) and peripheral (developing) economies
- The need for structural transformation, including state intervention, industrial policy, and redistribution

Structuralists argue that the informal sector is not merely a transitional or residual phenomenon but an integral part of the structure of underdeveloped economies (Tokman, 1978; Portes & Schauffler, 1993).

Informal Businesses in Nigeria: A Structuralist Interpretation

1. Dualism in the Nigerian Economy

The Structuralist perspective interprets the informal sector in Nigeria not as a space of entrepreneurial freedom but as a structural necessity arising from the failure of the formal sector to absorb the labor force. Nigeria's formal economy—highly capital-intensive and often foreign-dominated—has limited capacity to generate inclusive employment. This creates a segmented labor market, forcing a majority into informal livelihoods such as petty trade, informal manufacturing, transportation, and service provision. According to Portes and Walton, *"The informal sector is not a marginal or deviant component of the economy, but a structural feature of dependent development"* (Portes & Walton, 1981).

2. Informality as a Response to Structural Constraints

Local entrepreneurship in Nigeria is often driven by necessity rather than opportunity. Structuralists highlight that informality emerges in response to:

- Chronic unemployment and underemployment
- Limited access to education and skill development
- Weak financial and institutional support

Entrepreneurs innovate out of compulsion, using indigenous knowledge, social networks, and localized resources. While this may reflect resilience, it also indicates structural exclusion from formal economic processes (Chen, 2012).

3. Dependence and Unequal Exchange

Structuralist theory also explains how global economic structures perpetuate informality. Nigeria's dependence on commodity exports (e.g., crude oil) and import of finished goods stifles local industrialization. Informal entrepreneurs struggle to compete with cheap imported products, undermining the growth of local manufacturing and reinforcing peripheral dependence (Amin, 1976). This dynamic hinders value addition and local capital accumulation, keeping informal businesses small and vulnerable.

4. The Role of the State and Structural Transformation

Structuralists advocate for state-led intervention to address systemic inequalities and to transform the economic structure. For Nigeria, this implies:

- Formalizing informal enterprises through inclusive regulation
- Providing access to credit, training, and infrastructure
- Strengthening domestic value chains
- Protecting local industries from unfair competition

Rather than treating informality as a problem to be eliminated, Structuralist theory suggests it should be integrated into a broader development strategy aimed at restructuring the economy to be more inclusive and self-reliant (Tokman, 2001).

Viewed through a Structuralist lens, informal businesses in Nigeria represent more than isolated acts of individual entrepreneurship—they are embedded in a broader system of structural inequality and underdevelopment. Recognizing the structural origins of informality is key to formulating effective policies that do not just promote entrepreneurship but transform the economic conditions that constrain it. Thus, the informal sector must be seen not as a residual of backwardness but as a symptom of deeper systemic issues, requiring coordinated and structural reform to harness its full potential in national development.

The Informal Economy in Nigeria: Context and Characteristics

The informal economy plays a pivotal role in Nigeria's socio-economic landscape. Despite its often overlooked status in national policy planning, it remains a crucial source of employment, income, and survival for millions of Nigerians. In Nigeria, where formal employment opportunities are limited, the informal sector provides a safety net, especially for marginalized groups such as women, youth, and rural dwellers. Understanding the context and characteristics of the informal economy in Nigeria is essential for crafting inclusive economic policies and driving sustainable development.

Context of the Informal Economy in Nigeria

Nigeria's informal economy has grown out of a combination of structural economic factors, including high unemployment, underemployment, and weak industrial development. The collapse of major industries in the 1980s and 1990s, coupled with the Structural Adjustment Program (SAP), resulted in massive job losses and a decline in formal employment (Meagher, 2013). As a result, many Nigerians turned to the informal sector as an alternative means of livelihood.

The informal economy is particularly prominent in urban areas, where street trading, small-scale manufacturing, and service-based enterprises thrive. In rural areas, informal agricultural activities dominate. According to the National Bureau of Statistics (NBS, 2020), over 65% of Nigeria's working population is engaged in the informal sector, contributing an estimated 57.7% to the country's GDP.

Characteristics of the Informal Economy in Nigeria

1. Lack of Regulation and Formal Registration

One of the defining features of Nigeria's informal economy is its limited integration into formal regulatory and tax systems. Most informal businesses operate without formal business licenses, registration, or tax obligations. This lack

of oversight often results in minimal legal protection for workers and limited access to financial services or government support (Chen, 2012).

2. Low Entry Barriers and Informal Employment

The informal sector is characterized by low capital requirements and minimal entry barriers, making it accessible to a wide range of people, including the unskilled and semi-skilled workforce. Employment in this sector is predominantly informal, meaning workers often lack formal contracts, social security, and job security (ILO, 2018).

3. Dominance of Micro and Small Enterprises

Micro and small enterprises dominate Nigeria's informal economy. These include petty traders, artisans, mechanics, tailors, and street vendors. Most of these businesses are family-run and have limited capacity for expansion due to inadequate financing, lack of formal training, and poor infrastructure.

4. Prevalence of Cash-Based Transactions

Transactions in the informal sector are mostly cash-based, with limited documentation. This hinders the ability to assess the financial performance of informal businesses and restricts their access to credit and formal banking services (Osei-Boateng & Ampratwum, 2011).

5. Gender and Youth Participation

Women and youth are disproportionately represented in Nigeria's informal economy. Due to limited access to education, credit, and formal employment, many women engage in informal trading, domestic work, and food processing. Similarly, a significant portion of Nigeria's youth, facing high unemployment rates, are compelled to work in the informal sector (UNDP, 2019).

Furthermore, it is important to note that while the informal economy provides income and employment, it also presents numerous challenges. Informal workers often lack social protection, health insurance, and legal rights, leaving them vulnerable to exploitation. Moreover, the informal sector's low productivity and limited integration into the formal economy constrain overall economic growth and tax revenue (La Porta & Shleifer, 2014). Nonetheless, the sector holds potential for economic transformation if properly supported. Policies aimed at improving access to finance, vocational training, and formalization incentives could enhance productivity and welfare within the sector.

Contributions of Informal Entrepreneurship to Economic Development

Informal entrepreneurship refers to business activities that are not formally registered with the government or do not comply with certain regulatory frameworks, such as taxation or labor laws. Despite being outside the formal economy, informal entrepreneurship plays a vital role in many countries, particularly in developing economies where formal employment opportunities are limited. Informal entrepreneurs contribute significantly to economic development through job creation, poverty alleviation, innovation, and the promotion of grassroots economic activity. Some of the contributions of informal entrepreneurship to economic development include-

1. Job Creation and Livelihood Support

One of the most important contributions of informal entrepreneurship is employment generation. According to the International Labour Organization (ILO, 2018), over 60% of the world's employed population work in the informal sector. In many low- and middle-income countries, informal entrepreneurs—such as street vendors, small-scale artisans, and home-based producers—offer critical livelihood opportunities for individuals who are excluded from the formal labor market. This informal employment acts as a buffer against economic shocks, providing income in regions where public welfare systems are weak or non-existent (Chen, 2012).

2. Poverty Alleviation and Social Inclusion

Informal entrepreneurship plays a critical role in reducing poverty and promoting social inclusion. By offering income-generating activities, especially to marginalized groups such as women, youth, and rural populations, informal businesses serve as entry points into economic participation. Research by Williams and Nadin (2014) shows that informal entrepreneurship often serves as a stepping stone for economically disadvantaged individuals to gradually improve their livelihoods and gain financial independence. In regions with limited access to formal education or professional training, informal entrepreneurs often rely on skills passed down through generations, helping to preserve and utilize traditional knowledge while reducing poverty.

3. Fostering Innovation and Flexibility

Although typically resource-constrained, informal entrepreneurs demonstrate significant innovation and adaptability. They often create products or services tailored to the needs of local communities at affordable prices. According to the World Bank (2020), informal enterprises frequently fill gaps left by formal businesses, especially in remote or underserved areas. Their ability to operate with limited capital and infrastructure enables them to respond rapidly to market changes and consumer demands, fostering grassroots innovation that can influence broader market dynamics.

4. Contribution to the Local Economy

Informal entrepreneurship contributes to the local economy by stimulating domestic demand and circulating money within communities. These entrepreneurs often source materials locally, support other small businesses, and provide affordable goods and services. The cumulative impact of these transactions sustains local markets and enhances community resilience. While informal businesses do not always pay taxes, they incur indirect costs through permits, bribes, and informal fees, contributing to the economy in complex, often overlooked ways (La Porta & Shleifer, 2014).

5. Pathways to Formalization and Economic Integration

Informal entrepreneurship can serve as a stepping stone toward formal business activity. As entrepreneurs grow and develop more stable operations, many seek formal registration to access broader markets, financial services, and legal protections. Governments and NGOs are increasingly recognizing the value of supporting the transition from informal to formal business practices through capacity-building programs, microfinance, and regulatory reform (ILO, 2018). Encouraging formalization not only expands the tax base but also helps integrate informal entrepreneurs into national economic planning.

Challenges Facing Informal Entrepreneurs in Nigeria

The informal sector in Nigeria plays a crucial role in the country's economic landscape. It is estimated that over 65% of Nigeria's labor force operates within the informal economy, contributing significantly to employment creation and income generation (ILO, 2020). Informal entrepreneurs—those operating businesses that are not registered with the government and are largely outside the formal regulatory framework—span diverse areas such as street vending, informal retail, home-based services, and small-scale manufacturing. Despite their importance, informal entrepreneurs face numerous challenges that hinder their growth and potential contribution to national development. These challenges include limited access to finance, inadequate infrastructure, regulatory constraints, lack of business training, and social insecurity.

1. Limited Access to Finance

One of the most significant obstacles facing informal entrepreneurs in Nigeria is access to capital. Due to their lack of formal documentation, business registration, or credit history, most informal businesses are unable to secure loans from traditional financial institutions (Akinwale et al., 2019). This financial exclusion forces many entrepreneurs to rely on informal lending sources such as friends, family, or loan sharks, often at exorbitant interest rates. Without adequate financing, entrepreneurs struggle to expand their operations, purchase equipment, or invest in innovation.

2. Inadequate Infrastructure

Poor infrastructure, particularly unreliable electricity supply, inadequate road networks, and lack of access to clean water, is another critical issue. According to the World Bank (2021), Nigerian small and medium enterprises (SMEs), including those in the informal sector, cite erratic power supply as a primary constraint. Informal entrepreneurs often have to invest in expensive alternatives like generators, which increase their operational costs and reduce profitability. Additionally, poor transportation infrastructure limits market access and distribution, particularly in rural areas.

3. Regulatory and Institutional Constraints

Although informal businesses are not officially registered, they often face harassment from local authorities and law enforcement. Informal entrepreneurs frequently report extortion, illegal levies, and arbitrary enforcement of rules (Meagher, 2018). Furthermore, the complex and often corrupt registration and taxation systems discourage many entrepreneurs from formalizing their businesses. The lack of clear and supportive government policies towards informal businesses perpetuates their marginalization and vulnerability.

4. Lack of Business and Technical Skills

Most informal entrepreneurs in Nigeria operate with minimal education or business training. This deficiency affects their ability to manage finances, adopt modern marketing techniques, or integrate technology into their operations (Olawale & Garwe, 2010). The absence of skill development programs tailored to the informal sector further limits the capacity of entrepreneurs to scale up or compete with more established businesses.

5. Social Insecurity and Unstable Environment

Social insecurity, including theft, communal conflicts, and terrorism (especially in northern Nigeria), poses a serious threat to informal businesses. Markets are sometimes targets of violence, leading to destruction of property and disruption of business activities. Additionally, political instability and economic fluctuations such as inflation and currency devaluation make it difficult for informal entrepreneurs to plan and sustain their enterprises (Osabohien et al., 2020).

The Adaptive Strategies of Informal Entrepreneurs in Nigeria

Informal entrepreneurship in Nigeria constitutes a vital part of the national economy—accounting for over half of household income and employing millions despite lacking formal regulation or recognition. Informal entrepreneurs navigate manifold constraints—such as limited access to finance and poor infrastructure—with a remarkable capacity for adaptability. Below we explore the adaptive strategies they deploy to survive and thrive amidst economic turbulence.

1. Harnessing Social Networks & Communal Finance

Entrepreneurs in informal settings heavily rely on rotating savings and credit associations (ROSCAs) and community-based finance; they include local platforms like Esusu and other forms of local cooperatives. These informal funding vehicles provide critical liquidity when formal banks are inaccessible or demand collateral unavailable to small operators. Embedded social networks also facilitate bulk purchasing, shared distribution, and trust-based lending—reducing transaction costs and enabling reliability in times of crisis.

2. Flexibility, Agility & Resourcefulness

The informal sector's flexibility is a core adaptive trait: businesses can swiftly pivot operations, switch products or locations, and adjust pricing in response to market shocks such as inflation or currency scarcity. Resourcefulness—operating under constrained resources—drives cost-effective innovation and enables survival in volatile environments: informal traders innovate with packaging, bundling, or repurposing materials to meet demand.

3. Apprenticeship & Skills Transfer Traditions

One uniquely Nigerian adaptive mechanism is the Igbo apprentice system (e.g., Igba-Odibo, Imu Ahia), where established entrepreneurs (Ogas) invest in training young people, who in turn serve as apprentices before launching their own ventures. This low-cost model supplies skilled labor and entrepreneurial continuity across generations, reinforcing resilience through knowledge transfer and capital formation within families or local communities.

4. Digital Adoption & Youth Innovation

With Nigeria's youthful informal entrepreneurs, mobile technology and digital platforms play an increasingly vital role: initiatives such as mobile money, social media marketing, and fintech apps (e.g., Paga, OPay, Paystack) expand market reach, reduce cash dependency, and automate transactions. During crises—like the COVID19 lockdown—small businesses adopted WhatsApp, Instagram, and other communication tools to sustain trade remotely. Digital agriculture platforms (e.g., Farmcrowdy, AgroMall, Hello Tractor) also enable small-scale farmers to access finance, data and markets.

5. Coping through Informality during Monetary Shocks

The 2023 naira scarcity following redesign policies illustrates informal entrepreneur adaptability. Petty traders coped by using POS machines (where available), leveraging family or friend's bank accounts, and trading within trusted networks despite network failures and cash shortages. These measures enabled continued commerce amid limited formal infrastructure.

6. Entrepreneurship as a safety net & enterprise strategy

Many Nigerians enter informal entrepreneurship due to unemployment or insufficient income from formal jobs—prompting a survival but strategic mindset. The sector thus becomes both a fallback and entrepreneurial incubation ground. Though low longevity (few businesses survive beyond 5 years), flexibility allows them to adapt to new niches rapidly.

7. Policy Leverage and Institutional Partnerships

While informal entrepreneurs are often overlooked, partnerships with government and non-profit institutions create enabling conditions. Programs such as GEEP (Government Enterprise & Empowerment Program) provide small low cost loans and training to youth and women entrepreneurs. The Industrial Training Fund (ITF) supports skills development which informal entrepreneurs can utilize to improve productivity.

8. Strategic Formalization & Regulatory Navigation

Selective formalization—such as registering with trade unions or forming thrift cooperatives—help entrepreneurs access government support and financial tools without fully formalizing. Some also negotiate delegated tax collection or simplified registration through local associations, maintaining informal operations while benefiting from legitimacy and service access.

The adaptive strategies of Nigeria's informal entrepreneurs are rooted in resilience, social capital, entrepreneurship culture, and opportunistic innovation. They navigate structural barriers—such as finance, infrastructure, and regulation—by leveraging local networks, training traditions, digital tools, and creative coping mechanisms. To unlock the full potential of Nigeria's informal sector, policy reforms must support rather than suppress these adaptive capacities: through access to credit, simplified formalization, skills development, infrastructure, and digital inclusion.

Through such recognition, informal entrepreneurship can be elevated from subsistence-level survival to inclusive socioeconomic transformation.

Needed Reforms and Policy Recommendations for Informal Businesses in Nigeria

The informal sector in Nigeria is a crucial part of the economy, contributing significantly to both employment and GDP. According to the International Labour Organization (ILO), over 80% of jobs in Nigeria are in the informal sector, which includes small-scale enterprises, street vendors, artisans, and subsistence agriculture (ILO, 2020). Despite its economic significance, the informal sector remains marginalized in terms of regulatory frameworks, access to finance, infrastructure, and legal protections. To harness its full potential and address systemic inefficiencies, urgent reforms and targeted policy interventions are required.

1. Simplification of Business Registration

Reforming the business registration process by simplifying procedures, reducing fees, and decentralizing services can encourage more informal enterprises to register. The Corporate Affairs Commission (CAC) could collaborate with local governments to introduce mobile and digital registration platforms (OECD, 2020).

2. Inclusive Financial Policies

Government and financial institutions should design micro-credit schemes and low-interest loans tailored for informal businesses. Initiatives like the National Collateral Registry should be expanded to recognize movable assets and informal credit histories.

3. Infrastructure Development

Improving basic infrastructure, particularly in urban slums and rural markets, can significantly boost informal business operations. Public-private partnerships (PPPs) should be leveraged for targeted investments in market spaces, power supply, and transportation systems.

4. Legal and Social Protection Frameworks

A formalized framework that includes health insurance, pensions, and occupational safety for informal workers is essential. Programs like the National Health Insurance Authority (NHIA) should be expanded to cover informal sector participants.

5. Capacity Building and Training

The government, in collaboration with NGOs and private sector stakeholders, should implement vocational training and business management programs. Leveraging technology and digital platforms can also bridge the education gap and enhance productivity.

6. Data Collection and Research

The National Bureau of Statistics (NBS) must prioritize regular data collection and research on the informal economy. Comprehensive data enables evidence-based policymaking and proper targeting of interventions.

7. Taxation Reform

A flexible, progressive tax regime tailored to the capacities of informal businesses can encourage tax compliance. The implementation of presumptive tax systems and incentives for transitioning to formal status is key.

Conclusion

The informal economy in Nigeria is a vital yet underappreciated part of the national economy. Its prevalence reflects deep-rooted structural challenges, but also highlights the resilience and entrepreneurial spirit of the Nigerian people. Addressing the challenges faced by informal workers and integrating the sector into national economic planning is crucial for inclusive and sustainable development.

Informal entrepreneurship is a critical driver of economic development, particularly in countries like Nigeria where formal economic structures are underdeveloped. It contributes to employment, reduces poverty, encourages innovation, and supports local economies. Recognizing and supporting informal entrepreneurs—while also offering pathways to formalization—can enhance inclusive and sustainable economic growth. Policymakers must strike a balance between regulation and support, ensuring that the potential of informal entrepreneurship is harnessed as a force for positive economic transformation.

Informal entrepreneurs are a vital component of Nigeria's economy, offering livelihoods to millions of people and filling critical service gaps. However, they operate in a challenging environment characterized by limited financial

access, poor infrastructure, regulatory obstacles, skill gaps, and insecurity. Addressing these issues requires a multifaceted approach, including inclusive financial services, infrastructural investment, streamlined regulation, skill development programs, and improved security. Governmental and non-governmental organizations must collaborate to create a supportive ecosystem that empowers informal entrepreneurs and harnesses their full potential for national development.

Nigeria's informal sector holds immense potential for inclusive growth, poverty reduction, and economic resilience. However, realizing this potential requires bold reforms and tailored policies that address structural weaknesses. With a holistic approach that promotes inclusion, legal recognition, and economic empowerment, Nigeria can transform its informal economy into a thriving component of its national development agenda. Countries like Rwanda and Ghana have successfully integrated large parts of their informal sectors by simplifying registration, offering mobile financial services, and establishing micro insurance programs. Nigeria can draw valuable lessons from these models by fostering inclusivity and minimizing compliance burdens (ILO, 2021).

References

- Akinwale, Y. O., Dongo, A. E., & Akinwale, O. T. (2019). Financial constraints and growth of informal sector enterprises in Nigeria. *Journal of Economics and Sustainable Development*, 10(12), 35–45.
- Amin, S. (1976). *Unequal Development: An Essay on the Social Formations of Peripheral Capitalism*. New York: Monthly Review Press.
- Bala-Gbogbo, E. (2024). Nigeria growth picks up in third quarter, fuelled up by services. London Stock Exchange Group. Reuters
- Chen, M. (2012). *The Informal Economy: Definitions, Theories and Policies*. WIEGO Working Paper No. 1.
- ILO. (2021). Transitioning from the informal to the formal economy. Retrieved from <https://www.ilo.org>
- International Labour Organization (ILO). (1972). *Employment, Incomes and Equality: A Strategy for Increasing Productive Employment in Kenya*. Geneva.
- International Labour Organization (ILO). (2020). *Informality and employment in Africa*. Retrieved from <https://www.ilo.org>
- International Labour Organization (ILO). (2020). *Women and men in the informal economy: A statistical picture*. 3rd edition. Geneva: ILO.
- Kashgain. (2024). Understanding the Informal Economy in Nigeria. <https://kashgain.net/blog/understanding-the-informal-economy-in-nigeria>
- La Porta, R., & Shleifer, A. (2014). Informality and development. *Journal of Economic Perspectives*, 28(3), 109–126. <https://doi.org/10.1257/jep.28.3.109>
- Lewis, W. A. (1954). Economic Development with Unlimited Supplies of Labour. *The Manchester School*, 22(2), 139–191.
- Meagher, K. (2013). Unlocking the informal economy: A literature review on linkages between formal and informal economies in developing countries. WIDER Working Paper 2013/087. <https://doi.org/10.2139/ssrn.2283130>
- Meagher, K. (2018). Cannibalizing the informal economy: Frugal innovation, structural transformation and the politics of inclusive growth in Africa. *African Affairs*, 117(469), 447–462.
- National Bureau of Statistics (2020). *Informal Sector in Nigeria: A Statistical Snapshot*.
- National Bureau of Statistics (NBS). (2020). *Labour force statistics: Unemployment and underemployment report (Q2 2020)*. <https://www.nigerianstat.gov.ng>
- National Bureau of Statistics, (2024). *Nigeria Gross Domestic Product Report Q2 2024*
- OECD. (2020). *The informal economy in developing countries*. Retrieved from <https://www.oecd.org>
- Olawale, F., & Garwe, D. (2010). Obstacles to the growth of new SMEs in South Africa: A principal component analysis approach. *African Journal of Business Management*, 4(5), 729–738.
- Olowogboyega, O. (2024). Only 1.3% of informal businesses earn above ₦2.5m monthly profits - Moniepoint informal economy report. Techcabal. <https://techcabal.com/2024/07/05>
- Olubiyi, T. (2022). *The informal Economy in Nigeria*. Thisdaylive
- Osabohien, R., Osabohien, E., & Urhie, E. (2020). Food security, institutional framework, and technology: Examining the nexus in Nigeria using ARDL approach. *Current Nutrition & Food Science*, 16(2), 162–171.
- Osei-Boateng, C., & Ampratwum, E. (2011). *The informal sector in Ghana*. Friedrich Ebert Stiftung.
- Portes, A., & Schauffler, R. (1993). *The Informal Economy in Latin America: Structure, Dynamics, and Policy Implications*. *International Labour Review*, 132(3), 441–452.

- Portes, A., & Walton, J. (1981). *Labor, Class, and the International System*. New York: Academic Press.
- Schneider, F. (2005). Shadow economies around the world: What do we really know? *European Journal of Political Economy*.
- Tokman, V. E. (1978). An Exploration into the Nature of the Informal–Formal Sector Relationship. *World Development*, 6(9–10), 1065–1075.
- Tokman, V. E. (2001). Integrating the Informal Sector into the Modernization Process. *SAIS Review*, 21(1), 45–60.
- Tunji, T. (2024). NBS says 85.6% of working-class Nigerians are self-employed. *Nairametrics*. <https://nairametrics.com/2024/11/26>
- United Nations Development Programme (UNDP). (2019). *Nigeria Human Development Report 2018: Achieving human development in North East Nigeria*. UNDP Nigeria.
- Williams, C. C., & Nadin, S. (2010). Entrepreneurship and the informal economy: An overview. *Journal of Developmental Entrepreneurship*.
- Williams, C. C., & Nadin, S. (2014). Facilitating the formalisation of entrepreneurs in the informal economy: Towards a variegated policy approach. *Journal of Entrepreneurship and Public Policy*, 3(1), 33–48. <https://doi.org/10.1108/JEPP-05-2012-0022>
- World Bank. (2020). *Employment in agriculture (% of total employment) (modeled ILO estimate) – Nigeria*. Retrieved 24 November 2020
- World Bank. (2020). *The informal economy in developing nations: Hidden engine of growth*. <https://www.worldbank.org/en/topic/jobsanddevelopment/brief/the-informal-economy>
- World Bank. (2021). *Doing Business 2021: Comparing Business Regulation in 190 Economies*. Washington, DC: The World Bank.