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DEVELOPING THE INFORMAL SECTOR AND UNVEILING ITS ENVIRONMENTAL IMPLICATIONS IN NIGERIA

By

[1]Simon Daniel, [2]Alkali Daniels Emmanuel, [3]Idenyi Simon, [4]Opaluwa Friday, [5]Siaka Ojo

[1,3]Department of Geography and Environmental Studies, Prince Abubakar Audu University, Anyigba, Nigeria. [2]Department of Sciences, School of Preliminary Studies, Kogi State Polytechnic, Lokoja,[4]Department of Political Science, Kogi State College of Education, Ankpa, Nigeria, [5]Directorate of Entrepreneurship Development Center, Kogi State Polytechnic, Lokoja.

Corresponding Author: alkalyn4dan@yahoo.com

ABSTRACT

Informal economic activities can include doing unregulated jobs or providing services for which one is paid. This study is aimed at exploring the informal sector for industrialization in Nigeria and its economic consequences. The objectives are to; identify the roles of informal sector, identify the drivers of informal sector economy, describe its effects on livelihoods, categorize the informal sector, examine core informal sector parameters and identify its effects on the environment. A survey design was adopted for this study. Nature of data included those on roles, drivers, livelihoods, categories, core parameters and effects of informal sectors on the environment. Data sources included the primary and secondary sources. Questionnaire administration was the research instrument. Descriptive statistics was used for data analysis. The results revealed that 9(7.45) in Lagos, 5(4.1%), in Kano, 6(4.9%) in Edo and 2(1.6%) in Enugu reported that informal sectors are important to industrialization. Reported drivers of informal sector Lagos 10 (8.2%, Kano 8 (6.6%) was raw materials availability. On effects on livelihood, 72(59.5%) had improved livelihood. On categories of informal economies, Services 46(30.0%) and trade 34(26.4%) were most reported. On contribution to business, 42(34.7%) reported job creation, 34(28.1%) was cheap labour. On obstacles 13(10.7%), 11(9.0%), 10(8.2%) and 6(4.9%) observed office space. In Lagos, 11(9.1%, Kano 7(5.8%), Edo 3(2.5%) reported exposure of land surface for construction as environmental effect of informal sector activities. The result of cross tabulation shows that P> .05. It was recommended that informal sector should be encouraged for higher productivity, an open playing ground should be given to the players, aside services sector, other categories should also be encouraged to grow.

Keywords*: Developing, informal, Sector, Economic, Industrialization, Environment and Nigeria*

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1.0 BACKGROUND TO THE STUDY

The informal economy refers to economic activities that are not regulated by the government or formalized institutions such as street vending. In the global context of the environment, informal sector and the environment are interconnected and the development of the informal sector for industrial growth has a complex and multifaceted effects on the environment. Informal economic activities are often linked to land, water, air and a times sound pollution on one hand. On the other, it is seen as a cleaner of environment due to their capacity for recycle, repurpose and re-use waste materials that originated from the formal economy (Chirisa and Bello, 2018), Elgin and Brousallis (1999) and Oztunali (2014). Sustainable Development is viewed as the ideal paradigm of development and quest for satisfying three aims: environmental protection, economic efficiency and social equity. In the sustainable Development Report (2019), the informal sector is highlighted as a potential contributor to an urgent transformation in socio-economic and environmental systems that may separate nations but can add up global outcomes to ensure human wellbeing, social health and minimal environmental impact.

Informal economic activities have been projected as the thematic area of United Nation's Sustainable Development Goals (SDGs) SDG 8.3 and SDG 10.2 (ILO, 2015b and 2015a), and are considered as one of the most significant to sustainable development in the 21st century (Huang, et al., 2020). To achieve Sustainable Development Goals, two vicious cycles that feed on each other must be addressed: poverty and development, leading to resource depletion and environmental degradation (Roger et al., 2008). The informal sector/economy leads to both of these cycles in developing economies like Nigeria due to its association with low income, low productivity, labour right abuses, unfair competition and environmental degradation (Adeola et al., 2019 and Briassoulis, 1999). Moreover, precarious work conditions are visible in informal enterprises were workers are deprived of their rights along with increased risk of abuse and job uncertainty (Estevao et al, 2022).

Innovation on all fronts is key to industrialization and this must align with the importance of the informal sector in the emergence, growth and development of industries but with its aftermath effects on the environment. A challenge for African countries is to design and implement innovations that take into account the unique structural nature of African economies, environmental systems in which the informal sector is dominant or prevalent. International Labour Organization (ILO, 2021) defines the informal sector as all economic activities by workers and economic units that in law or practice either not covered or insufficiently covered by formal arrangements unlike the formal counterparts. The term "informal economy" covers a vast array of circumstances and events globally. In contrast, working in the informal economy (IE) is frequently based on small and defined work places, unsafe and unhealthy working conditions, unregulated, low level of skills and productivity, low or irregular income, long working hours and lack of access to crucial information, market, financing, training and technology. Informal activities are those that occur outside of the legal framework and the government regulation. The informal economy can as well be viewed either as the nature of the enterprise's operations or the nature of its employee's relationship (BusinessDay, July 2022). It can also be described as a grey market in labour. Other concepts that can be characterized as informal economy include the black market (shadow economy, underground economy), agonism, and system D. associated idioms include" under the table", "off the books", and "working for cash" with left overs that may diminish the integrity of the environment

The environment of most informal sectors has grown with wastes and the rise of this sector has been dubbed as a growth of 'System D' that is as critical and crucial to the success of global industrial economy. The workers in this informal sector have been characterized as a "precariat" class or those whose lives are forever precarious or liquid. The latest figures from the National Bureau of Statistics (NBS, 2022) shows that of 39,645,385 total MSME in Nigeria, 34,413,420 (86.8%) operate informally, which makes it impossible for government to regulate it (NBS, 2023). The sector is largely dominated by self-employed individuals excluded from the formal economic sector regulated by government, and contributions to employment and economic activities. The informal sector has wide ranging impacts on the environment, economic and social development of developing and less developing countries of the world (industrialization) and it has become a central issue in development discourses (Arvin-Radat, et al., 2010, Elbahnasawy, et al., 2016, Porta and Schleifer, 2014). The informal economy that comprises small and medium scale economic activities outside of government regulations or taxation is largely visible in the developing countries (Adeola et al., 2019).It is highlighted for entrepreneurship, business, income, and employment since public authorities often face inadequacy of resources to support and regulate business activities in developing countries (Maloney, 2004).

This study was aimed at exploring the informal sector, its contribution to economic and industrialization in Nigeria and its attendant environmental implications. The following objectives have been set to achieve the aim; identify the roles of informal sector development, drivers of informal sector, identify urban informal sector as a means of livelihood, to describe the categories of informal sector and examine the its roles, identify effects on the environment and the perceived obstacles to informal sector development in Nigeria.

Nature of data required for this study were those on identification of roles, drivers of informal sector, categories of informal sector in Nigeria and urban informal sector as means of livelihood, core parameters of informal sector, contributions, challenges of informal sector economy and the effects of informal sector development on the environment. Both primary and secondary data were elicited for this study while descriptive survey design was used as research design. Questionnaire administration was the research instrument.

The study used multi-stage sampling approach which is a combination of purposive, stratification and simple random sampling methods. In the first stage, Nigeria was first selected. Secondly, four states according to prevailing regions (Lagos, Kano, Edo and Enugu) representing 4 geopolitical zones were later selected and at the third stage, the capital cities of the states from each of the zones were selected for the study purposively. The four (4) states became the focus of the current study due to its high youth unemployment and its existing informal enterprises providing means of livelihood for the significant proportion of the urban labour force. Several authors worked on informal sector activities; Estavoa, et al 2022, Dell'Anno, 2018, Schneider, 2005, Ozsunali, 2014, Huynh, 2020, Azunre, 2021, De Soto, 1989, Chau, 2015 and Romero, 2021 but none studied development of the informal sector for economic industrialization and its environmental implications on the selected states in Nigeria. Upon this backdrop, this study examines developing the informal sector for economic industrialization and its environmental implications in Nigeria. The current study tested the hypothesis that says "informal sector activities have no statistically significant effects on the environment."

2.0 DATA PRESENTATION, ANALYSIS AND DISCUSSION OF RESULTS

Table 2.1: Roles of Informal Sector in Economic and Industrial Development

Role	*Lagos*		*Kano*		*Edo*		*Enugu*		*Total*
	Freq	%	Freq	%	Freq	%	Freq	%	
Launching a Business	9	7.4%	5	4.1%	6	4.9%	2	1.6%	22(18.1%)
Provides for cost until Revenue comes	2	1.6%	3	2.4%	2	1.6%	3	2.4%	10(8.2%)
Creates Operating Expenses	5	4.1%	7	5.7%	2	1.6%	4	3.3%	18(14.3%)
Launches operation Equipment	10	8.2%	3	2.4%	5	4.1%	3	2.4%	21(17.3%)

Source: Author's Computation, 2024.

As revealed by table 1, informal sector plays major role in the growth and development of the industrial sector. Respondents from Lagos 9(7.4%) reported that informal sector is more or less a launchpad for industrialization, 5(4.1%), Edo 6(4.9%) and Enugu of the total respondents making 22(18.1%) of the total respondents. 2(1.6%) in Lagos, 3(2.4%) in Enugu reported that Informal sector provides for the cost until revenue comes. On operating expenses, 5(3.3%) in Lagos, 7(5.7%) in Kano and 4(3.3%) in Enugu reported that reported that informal sector plays important role in the emergence same (table 1.). This finding reveals that informal sector plays important role in the growth of the industrial sector in Nigeria. This finding supports Nahid, Mohammad and Rasheda (2022). The researchers applied panel data to investigate the role of informal economic activities on industrial development. It was discovered that most informal sector activities grew to become formal which enhances economic opportunities there by creating employment higher opportunities for the populace. This implies that, informal sector activities create job opportunities which reduces unemployment rate in the society.

Table 2.2: Drivers of Informal Sector Economy

Drivers	*Lagos*		*Kano*		*Edo*		*Enugu*	
	Freq	%	Freq	%	Freq	%	Freq	%
Raw Materials	10	8.2%	4	3.3%	4	3.3%	8	6.6%
Cheap Labour	8	6.6%	8	6.6%	3	2.4%	3	2.4%
Infrastructure	5	4.1%	2	1.6%	9	7.4%	2	1.6%
Psychological factors	7	5.7%	3	2.4%	2	1.6%	2	1.6%
Institutional factors	5	4.1%	13	10.7%	5	4.1%	2	1.6%
Social Factors	5	4.1%	3	2.4%	5	4.1%	3	2.4%

Source: Author's Computation, 2024.

As shown by table 2, several factors were responsible for the growth of the informal sector in the study area. on availability of raw materials, respondents from Lagos, 10(8.2%), Enugu 8(6.6%) observed that raw materials' availability is a driver of informal sector development in the study area. in Kano, 8(6.65%) reported cheap labour, 13(10.7%) observed institutional factors while 3(2.4%) and 2(1.6%) observed infrastructural issues as a driving force for informal sector development. In Edo State, 4(3.3%) reported the factor of raw materials availability, 9(7.4%) saw infrastructure and 5(4.1%) ported social factors. In Enugu, 8(6.6%) also reported raw materials and 3(2.4%) observed social factors as driver of the informal sector in the study area.

Table 2.3: Livelihood Status of Informal Sector Players

	Livelihood of informal sector players						*Frequency*	
	Improved		Not Improved		No Idea			
Lagos	21	17.4	13	10.7	4	3.3	38	31.4
Kano	27	22.3	11	9.1	4	3.3	42	34.7
Edo	9	7.4	4	3.3	5	4.1	18	14.9
Enugu	15	12.4	5	4.1	3	2.5	23	19.0
Total	72	59.5	33	27.3	16	13.2	121	100

Source: Author's Computation, 2024.

As revealed by table 3, the effects of the informal sector on the livelihood of the respondent cannot be over emphasized. In Lagos, 21(17.4%) reported improved livelihood. 13(10.7%) were not improved while 4(3.3%) had no idea about the subject matter. In Kano, 27(22.3%) had livelihood improved but 11(9.1%) was not improved while 4(3.3%) had no idea about the improved livelihood due to engagement in informal sector. In Edo, 9(7.4%) experienced improved livelihood while 4(3.3% did not and 5(4.1%) had no idea about the subject matter. At Enugu, 15(12.4%) experienced improved livelihood but 5(4.1%) were without improved livelihood. In all, 72(59.5%) experienced improved livelihood due to involvement of respondents in informal activities. 33(27.3%) had no improved livelihood and 16(13.2%) had no ideas about the subject matter.

Figure 2.4: Contributions of Informal Sector to Business

	CHEAP LABOUR MARKET		*CREATES EMPLOYMENT*		*INCREASES PRODUCTION*		*GENERATES INCOME*			
	Freq	%	Freq	%	Freq	%	Freq	%	TOTAL	
Lagos	15	12.4	7	5.8	9	7.4	7	5.8	38	31.4
Kano	11	9.1	23	19.0	6	4.9	2	1.6	42	34.7
Edo	3	2.5	5	4.1	7	5.8	3	2.5	18	14.9
Enugu	5	4.1	7	5.8	9	7.4	2	1.6	23	19.0
TOTAL	34	28.1	42	34.7	31	25.6	14	11.6	121	100

Source: Author's Computation, 2024.

Informal sector plays crucial roles in economic development of many countries of the world. As revealed by table 4, at Lagos, 15(12.4%) reported provision of cheap labour, 9(7.45) observed increased production, 7(5.8%) reported creation of employment opportunities and generation of income respectively. Respondents from Kano, 23(19.0%) reported employment

creation, 11(9.1%) provision of cheap labour. In Edo, 7(5.8%) reported increase in production while 5(4.1%) observed job creation. Enugu in the Eastern Nigeria, 9(7.4%) also reported increased production, 7(5.8%) creation of employment and 5(4.1%) reported cheap labour provision. This indicates that 42(34.7%) opined creation of employment, 34(28.1%) reported cheap labour market and the least response was 14(11.6%) reported generation of income.

Table 2.5: Informal Sector to Informal Sector Relationship

	Flexible/Adaptive characteristics		*Provides Support*		*Employment Opportunity*		*Reduces Insecurity*		*Creates Social Security*		*Improve GDP*		*Total*	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Lagos	11	9.1	9	7.4	6	4.9	3	2.5	2	1.6	7	5.7	38	31.4
Kano	5	4.1	10	8.3	11	9.1	7	5.7	7	5.7	2	1.6	42	34.7
Edo	3	2.5	5	4.1	3	2.5	2	1.6	3	2.5	3	2.5	18	14.9
Enugu	4	3.3	2	1.6	8	6.6	4	3.0	3	2.5	2	1.6	23	19.0
Total	23	19.0	26	21.5	28	23.1	16	13.2	15	12.4	14	11.6	121	100

Source: Author's Computation, 2024.

Several businesses/industries have emanated and grown from the informal sector of the study area. 11(9.1%) reported its flexibility and adaptive characteristics, 9(7.4%) opined that informal sector provides business support but 11(9.1%) observed reported employment opportunity and 7(5.7%) observed that informal sector creates social security and reduces insecurity in the study area. In Edo, 5(4.1%) observed that informal sector provides support to the players. 3(2.5%) reported employment opportunity, 4(2.5%) observed that informal sector creates social security, 4 (3.3%) in Enugu reported that informal sector is flexible and adaptive in nature, 8(6.6%) of the total respondents in Enugu observed that informal sector creates employment opportunity. The result further shows that 23(19.0%) reported informal sector's flexibility and adaptability in business. 14(11.6%) reported improved GDP while 15(12.4%) reported social security among respondents of the study area. This finding agrees with Oluwaseyi (2020). It was reported that more than 61% of the world's active population work in the informal sector, with 85.8% of employment in Africa. World Bank (WB, 2021) reports that 80.4% of Nigeria's employment are in the informal sector. This is an indication that informal activities in the economy sector are important in many developing countries in terms of job creation, capital saving and mobilization, efficiency and strong link with other sectors.

Table 2.6: Perceived obstacles to Informal Sector Development of selected entrepreneurs

Perceived Obstacles	*Lagos*		*Kano*		*Edo*		*Enugu*	
Capital	9	7.4%	8	6.6%	3	2.4%	4	3.3%
Office Space	13	10.7%	11	9.0%	10	8.2%	6	4.9%
Equipment	2	1.6%	5	4.1%	3	2.4%	2	1.6%
Licenses	3	2.4%	2	1.6%	7	5.7%	2	1.6%
Manufacturing Cost	6	4.9%	2	1.2%	3	2.4%	3	2.4%
Market and Effective Marketing	7	5.7%	3	2.4%	2	1.6%	3	2.4%

Source: Author's Computation, 2024.

As shown by table 6, informal sector of the study area encountered myriads of challenges/ obstacles. It was reported that in Lagos, 9(7.4%) observed lack of capital, 13(10.7%) office space, 7(5.7%) reported market and effective marketing as obstacles. Among the respondents from Kano, 11(9.0%) also reported office space, 5(4.1%) opined equipment for service. In Edo, 10(8.2%) also reported office space, 7(5.7%) observed issues with operational license. In Enugu, 6(4.9%) reported office space, 4(3.3%) observed manufacturing cost, market and effective marketing of their products as major obstacle to the informal sector of the state. In a study conducted by Areful (2023), it was reported that 103(31.21%) of informal sector players encountered with continuous threat of evacuation by local security operatives and this reports on inadequate office space was 66(20.00%). This shows that informal sector activities face a lot of challenges and obstacle in their operation. This hinders maximum operation.

Table 2.7: Urban informal Sector and start-up capital sources

Intended Sources of capital	*Lagos*		*Kano*		*Edo*		*Enugu*	
	Freq	%	Freq	%	Freq	%	Freq	%
Personal Investment	16	13.2%	7	5.7%	8	6.6%	3	3.4%
Venture Capital	5	4.1%	2	1.6%	2	1.6%	2	1.6%
Business Incubator	4	3.3%	3	2.4%	2	1.6%	2	1.6%
Govt Grants	11	9.0%	2	1.6%	4	3.3%	4	3.3%
Bank Loan	4	3.3%	8	6.6%	12	9.9%	9	7.4%

Source: Author's Computation, 2024.

Every business needs a start-up capital to begin with. Table 7 shows several sources of urban informal sector services. In Lagos, 16(13.2%) reported personal investment, 11(9.0%) reported government grants while 4(3.3%) believed in business incubator. In Kano, 7(5.7%) reported personal investment, 3(2.4%) reported business incubator while 8(6.6%) opined bank loans. 8(6.6%) of respondents in Edo also reported personal investment while 4(3.3%) observed government grants. 9(7.4%) relied on bank loans, 4(3.3%) reported government

grants and 3(3.2%) reported personal investment as source of start-up capital for informal operations in the study area.

Table 2.8: Core Informal Sector Parameters of the Study Area

Parameters	Economic		Business		Socio-demographic		Governance		Science and Technology		Total	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Lagos	11	9.1	14	11.6	4	3.3	3	2.5	6	4.9	38	31.4
Kano	5	4.1	7	5.8	13	10.7	14	11.6	3	2.5	42	34.7
Edo	4	3.3	5	4.1	2	1.6	3	2.5	4	3.3	18	14.9
Enugu	9	7.4	3	2.5	5	4.1	3	2.5	3	2.5	23	19.0
Total	29	24.0	29	24.0	24	24.0	24	24.0	16	13.2	121	100

Source: Author's Computation, 2024.

Five core informal sector parameters were discovered through this study. Table 8 reveals that11 (9.1%) in Lagos reported economic parameter, 14(11.6%) business while 6(4.9%) opined science and technology. In Kano, 13(10.7%) reported demographic parameter, 14(11.6%) observed governance and 5(4.1%) reported economic parameter as core informal sector indices. in Edo, 4(3.3%) reported economic index, 5(4.1%) business, 4(3.35) observed science and technology but 2(1.6%) believed that sociodemographic index was the core informal sector index in the study area. In Enugu, 9(7.4%) reported economic index, 3(2.5%) pitched with governance while 5(4.1%) reported sociodemographic index as informal sector core parameter in the study area.

Table 2.9: Effects of the informal sector Activities on the Environment

challenges	*Lagos*		*Kano*		*Edo*		*Enugu*		*Total*	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Exposure of land surface for construction	11	9.1	7	5.8	3	2.5	5	4.1	26	21.5
Unplanned constructions	9	7.4	15	12.4	5	4.1	9	7.4	38	31.4
Overexploitation of resources	5	4.1	11	9.1	7	5.8	6	4.9	29	24.0
Pollution and waste management	13	10.7	9	7.4	3	2.5	3	2.5	28	23.1
TOTAL	38	31.4	42	34.7	18	14.8	23	19.0	121	100

Source: Author's Computation, 2024.

The development of informal sector can have both negative and positive effects on the environment. Informal sectors are often driven by poverty and limited opportunities for formal employment. Table 9 shows the effects of informal sector development on the environment. On exposure of land surface for construction, 11(9.1%) in Lagos, 7(5.8%) in Kano, 3(2.5%) in Edo and Enugu 5(4.1%) reported that informal sector development exposes

the land surface which can enhance soil erosion and subsequent land degradation. Informal sectors always develop shops that are unplanned. 9(7.4%) in Lagos, 15(12.4%) in Kano and 9(7.4%) in Enugu responded that informal sector economies result in unplanned developments. On over exploitation of resources 11(9.1%) in Kano, 7(5.8%) in Edo and 6(4.9%) in Enugu opined that informal sector economy over use available resources within the environment. 13(10.7%) in Lagos, 9(7.4%) in Kano and 3(2.5%) in Edo reported pollution and poor waste management in the study area.

3.0: TESTING THE HYPOTHESIS

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	10.175[a]	9	.336
Likelihood Ratio	10.223	9	.333
N of Valid Cases	121		

a. 4 cells (25.0%) have expected count less than 5. The minimum expected count is 3.87.

DECISION RULE: Since P> .05, we accept H_0. In other words, informal sector activities have no statistically significant effects on the environment.

4.0: Research Findings

i It was discovered that the most notable of the roles of informal sector in economic and industrial development was most businesses began as informal until it grows to become formal. Acting as a launchpad.

ii Availability of the local raw materials was discovered to the driver of the informal economy in the study area.

iii It was noticed that 72(59.5%) had improved livelihood via the informal sector activities.

iv Service sector 46(38.0%) was the most patronized of all the categories.

v On contribution of informal sector to other businesses, it was revealed that employment creation 42(34.7%) was most reported followed by provision of cheap labour 34(28.1%).

vi The study revealed that in economic and industrial development, creation of job opportunities 28(23.1%) was most reported in the study area followed by the flexible and adaptive nature of the informal sector (no strict rules) in transformation into the formal business sector over time.

vii It was further revealed that informal activities of the study area have no planned construction.

viii Obstacles to informal sector development in Lagos 13(1`0.7%), Kano 11(9.0%), Edo 10(8.2%) and Enugu 6(4,9%) were office space.

5.0: Summary and Conclusion

Informal sector plays a pivotal role in industrial growth of any nation be it developed or developing. Sustainable development has been put forward a universal remedy to the challenges of development. The informal sector is relevant in the issues of sustainability since one of the goals of SDGs is to promote work and sustainable economic growth by supporting the policies of micro, small, and medium enterprises. Been motivated by this, the present study explored the effects of informal sector on economic and industrial development of Nigeria. Roles of informal sector and industrial development were considered, the drivers of the informal sectors in Nigeria were analyzed, and the effects of informal sector on the livelihood of the players were explored. This study has revealed the roles of informal economy in national development, the contribution of the informal sector to economic growth, livelihood impacts, roles and challenges of the informal sector in nation's industrial development among others in the study area.

5.1: Recommendations

i Informal sector should be encouraged for more productivity.
ii Since local raw materials are the basis for informal sector development, an open playing ground should be given to the players in the informal sector for more productivity.
iii Aside service sector, other informal sector categories should be encouraged to grow also in the study area.
iv As at August 2023 in Nigeria, employment in the informal sector stood at 92.6%. The sector should be supported the more for efficient productivity.
v In a way, there should be some form of planning for the informal sector development.
vi More spaces (industrial estates) for accommodation of the informal sector activities should be created or better still be expanded for more productivity.

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