Getting to Work:

Quality of life outcomes and informal-Formal Sector participation in Nigeria

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**ABSTRACT**

As developing economies continue to mature, labor force participation has proved necessary to sustained growth. Nigeria’s labor force is strongly defined by its’ informal sector, comprised of small businesswomen and men, skilled artisans, market vendors, tailors, and more. The main consequences of the underground economy are divided by the macro-level, market-level and household-level. On the macro level, the informal economy distorts labor market information and limits the effectiveness of public policies and services. On the market level, there is a limited access to formal support, which in turn, limits productivity, growth and innovation. Lastly, at the household level, informal employment results in a lack of social insurance. While informal employment marginally reduces unemployment, its untaxed and unmonitored nature is often seen as an impediment to actualized growth of a country’s GDP. This project aims to study the differences (quality of life, education, etc.) among those participating in informal and formal sector employment. We will use statistical programming (R) to analyze data retrieved from national public attitude and demography surveys from the Afrobarometer 2015 survey rounds. The data will hopefully provide an insight into demographic factors in different employment sectors, as well as information about standard of living. The data is specific to 2015 and Nigeria.

***Background***

The terms “informal economy” and “informal sector” were coined by Anthropologist Keith Hart, in “Informal Income Opportunities and Urban Employment in Ghana” (1973), where he conducted research on the migration patterns and urban labor markets. During his field research, Hart focused on urban areas of Southern Ghana in the 1960s. At the time, informal employment constituted as economic activities of low-income populations. Due to unattainable requirements, unskilled and illiterate workers found limitations and barriers to entry in the urban labor market. Over the years, Hart and other academics have continued to contribute to the surrounding literature on informal employment and informal sector participation. In economic and sociological literature, there are four main theories of thought that contribute to our understanding of the informal sector. As characterized by Martha Chen, HKS Lecturer and Coordinator of Women in the Informal Economy Global Organization (WIEGO), the informal economy is mainly seen through a Dualist, Structuralist, Legalist, or Voluntarist perspective.[[1]](#footnote-1) Each perspective argues different motivations for participation in the informal sector, however, this can be covered in another analysis.

***In Context: Nigeria***

As mentioned earlier, as its population increases, Nigeria’s labor force continues to depend highly on informal sector participation. As the country continues to see rapid urbanization in its major cities of Lagos and Abuja, rural to urban migration continues as well. As one of Africa’s top urbanizing countries[[2]](#footnote-2), Nigeria makes for an ideal case study. With this in mind, I wanted to use household level data that allowed a deeper analysis specific to the countries regions and provinces, as opposed to country level data. I would like to compare the returns of education in both sectors of employment, coupled with different measures of quality of life. In this case, quality of life refers to incidences of food insecurity, inconsistent income, inconsistent medication, and shortage of fuel for cooking[[3]](#footnote-3). I am expecting to see that the higher levels of education completed might result in increased participation in the formal sector. However, I have a few hesitations because of the limited job availability in Nigeria. The country’s National Bureau of Statistics measured its unemployment rate in 206 at 13.9 percent at the third quarter of 2016[[4]](#footnote-4). Additionally, what might also happen is that people complete their education (either vocational or collegiate), but take different jobs that are not as relevant to their degree or become self-employed (i.e. informal employment). I do not have any presumptions about quality of life indicators measured against informal vs. formal sector participation.

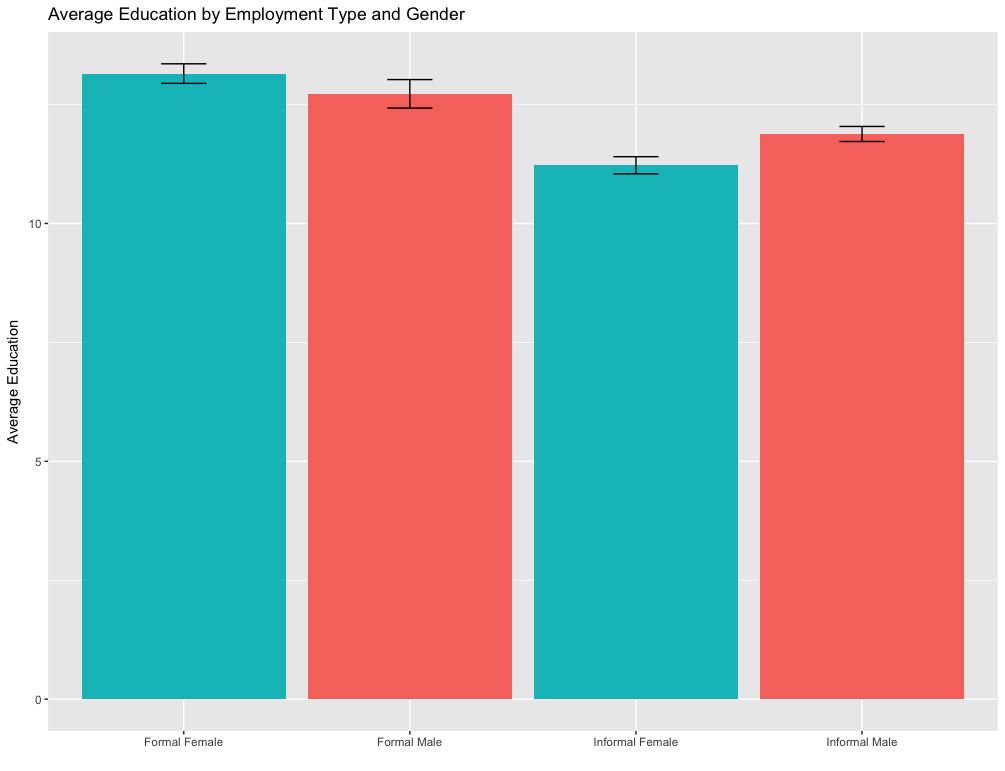
As mentioned earlier, the data is from the round 6 of the Afrobarometer Survey of Nigeria in 2015. The Afrobarometer is an Africa-based, continent-wide, household survey data collection and analysis project dating back to 1999. The Afrobarometer asks households a series of questions regarding socio-demographics*,* civic engagement, taxation, equality and gender, institutions and leaders, crime & security, economy, democracy and so on.

For the purposes of this project, I focused my efforts on demographic questions (region, urban/rural landscape), employment/occupation, living standards, and sample characteristics (gender, age, and education level). For employment/occupation classification of “informal sector”, I focused on legal, non-agricultural forms of informal employment\*\*[[5]](#footnote-5).

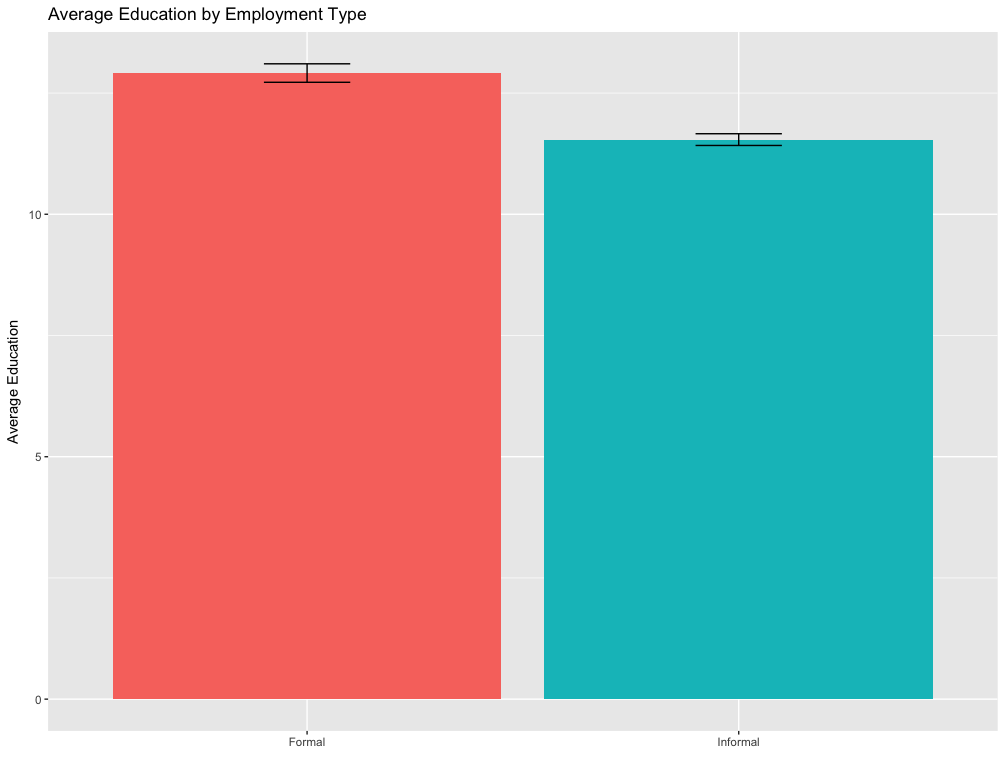
***Summary Statistics***

After reading in the CSV file, I renamed the variables to make the data more accessible to the user. Afterwards, I recoded the *informal employment*, based on categorizations (“vendor/hawkers”, “unskilled manual worker”, “artisan/skilled manual worker”, “housewife/homemaker”). While employment like “supervisor”, “mid-level professional”, “upper-level professional”, “clerical or secretarial” or “security services” or “retail shop” was classified as *formal employment*. These classifications are debatable (as academics spend their work defining the two types of work but I tried my best to define the two based on majority of the literature on informal employment).

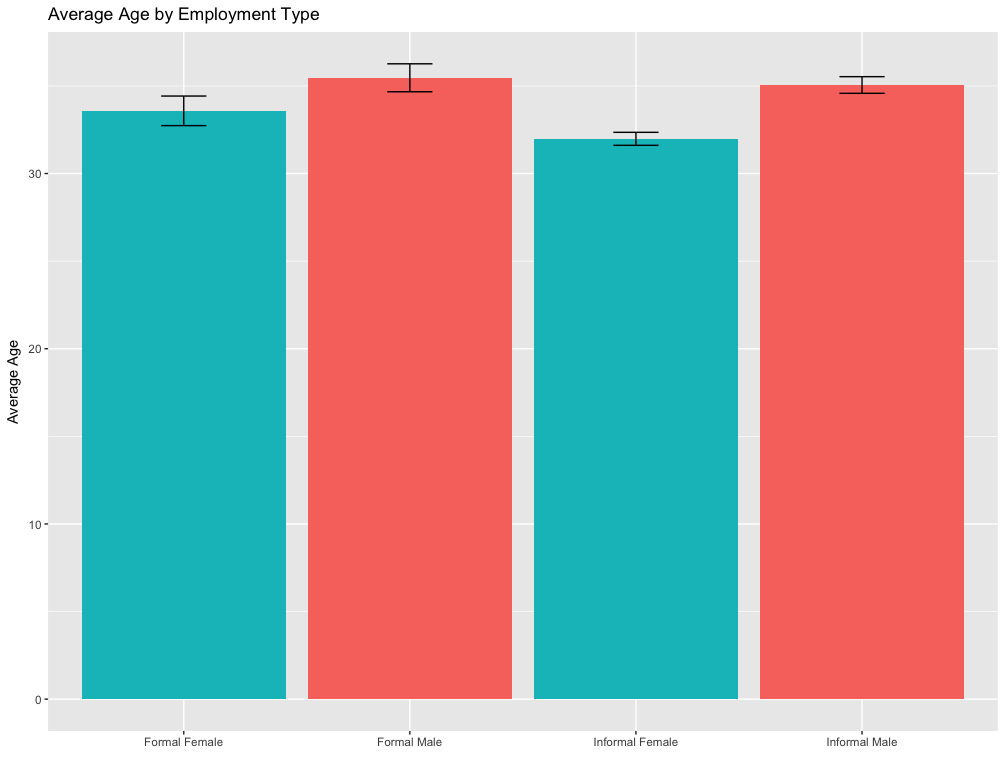
After cleaning the data, recoding values and exploring it, I created some graphs (see below):



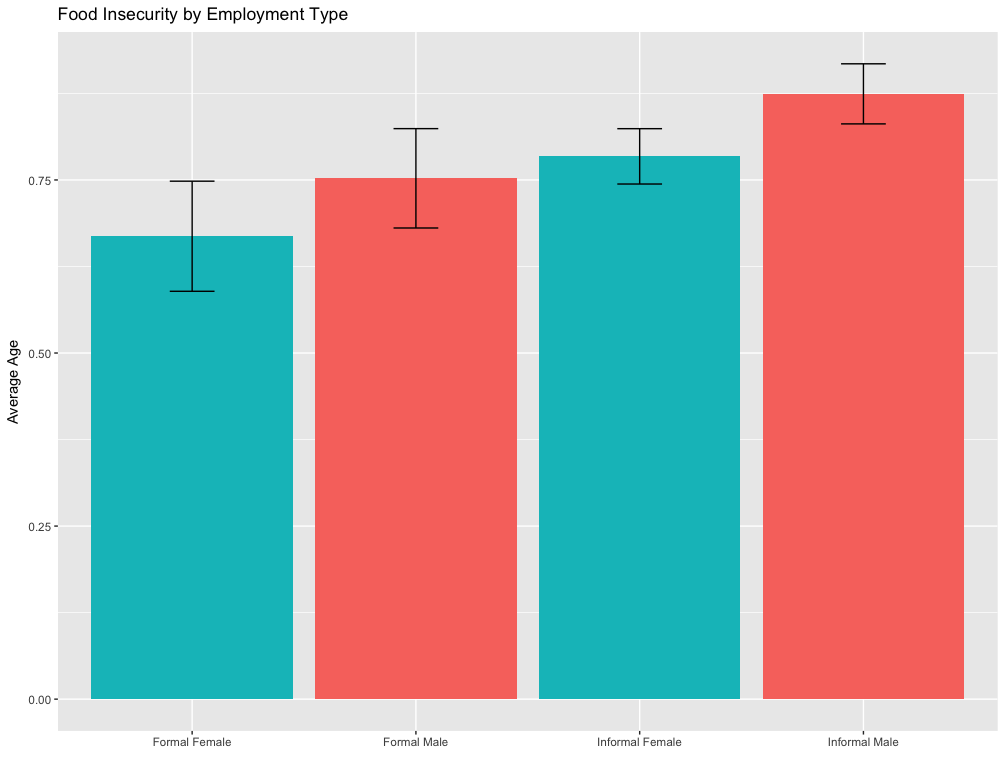
This graph was split by formal and informal employment by gender, based on average education. In comparison among the two groups of employment types, those in the formal sector had a slightly higher education, on average than those in the informal sector. Secondly, the contrast between informal employment and formal employment had more variation among female workers, where women in the formal sector had an average completed secondary school. While women in the informal sector, on average, had only finished some of secondary school. There can be many reasons for this, specifically among women (childbirth, marriage, lack of funding for education). I hope to explore this a bit more, moving forward.



This graph was a more condensed version of the graph above, without attention to gender. On average, those in the formal sector were more educated (slightly below fully completing secondary school).



This graph was to see age distribution by employment type. The male demographic seemed to be the most closely aligned, with an average age of 35 for men in the formal sector, and 35 in the informal sector. While women had an average of 34 in formal employment, and 31 for those in informal employment.



This graph was based on responses to the question, *“Over the past year, how often, if ever, have you or anyone in your family: Gone without enough food to eat?”* The responses varied from “0” – Never, to “1” – Just once or twice, “2” – Several times, “3” – Many times, and so on. Based on this graph, those with informal jobs had on average higher responses. There could be many reasons for this, but I would like to explore further weather low-wage and inconsistent income (characteristics of informal sector employment) have a relationship with food insecurity.

To conclude, educational attainment *can* have an impact on informal employment but the level of significance might be based on other factors like age, gender, or even region/urban-rural landscape. The informal sector is also a difficult subject to interpret because of different definitions of the term. Moving forward, I would like to continue exploring the differences in responses among the two groups in questions of water insecurity, medicine availability, and volatility of income.

1. Chen, Martha. WIEGO. “The Informal Economy Debate: Four Dominant Schools of Thought”. Article. N.d [↑](#footnote-ref-1)
2. Cairo, Egypt and Lagos, Nigeria are Africa’s #1 and #2 Megacities, respectively. [↑](#footnote-ref-2)
3. *Based on questions from Afrobarometer Survey* [↑](#footnote-ref-3)
4. “Nigeria’s unemployment rate rises to 13.9%.” *Vanguard NGR.* December 16, 2016. [↑](#footnote-ref-4)
5. In the document titled “Codebook Values”, I recoded informal employment based on these characteristics. Please view the word document for additional information. [↑](#footnote-ref-5)