

Evaluation of the Impact of Informal Entrepreneurship on Poverty Alleviation in Nigeria

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Abstract

This study appraised the contribution of informal entrepreneurship to poverty alleviation in Nigeria. Primary data was collected through the use of the questionnaire. Data was analysed using Analysis of Variance (ANOVA). Findings show that: trade and commerce ($F=14.65$,) has a significant influence on poverty alleviation because $\text{Prob}>F = .0050$ is

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less than the 0.05 level of significance; manufacturing with F value = 24.92 significantly influences poverty alleviation because the Prob>F = 0.0000 is less than the 0.05 level of significance. Also, the technical work with F value of 16.59 has a significant influence on poverty alleviation since Prob>F = 0.0000 is less than the 0.05 level of significance. Transportation, with F value of 7.52 and Prob>F = 0.0000, which is lower than 0.05 level of significance, significantly influences poverty alleviation. Farming with 4.41 F value significantly influences poverty alleviation because the Prob>F = 0.0016 is less than 0.05 level of significance. Service business also shows significant influence on poverty alleviation with F value of 5.58 and Prob>F = 0.0009, which is less than 0.05 level of significance. However, the model has F value of 22.92 and Prob>F value of 0.000, which is less than 0.05 level of significance. It is concluded that the aggregate income generated from informal entrepreneurship leads to a reduction in poverty; thus, the informal entrepreneurs should look inwardly at things eroding their income to maximise profit from their operations.

Keywords: Informal Entrepreneurship; Poverty Alleviation; Income; Transportation; Technical Works.

Introduction

This study appraises the contribution of informal entrepreneurship to poverty alleviation in Nigeria. The informal sector has been variously described as a vital source of employment and income for the poor, the seedbed of local entrepreneurship and a potent instrument in the campaign to combat poverty and social exclusion (Akande and Akerele, 2006). The employment generation capacity of informal sector activities is indispensably crucial and cardinal in its contribution to the economy, and is especially relevant now that formal sector employment capacity is fast shrinking. This suggests that the informal sector is a veritable engine of employment generation in Nigeria. In literature, the informal sector activities in Nigeria and West Africa have been categorised succinctly to include trade and commerce,

manufacturing, technical work, transportation, farming, and service business. These activities cover the needs of the informal sector and thus absorb a lot of people who do not fit into the formal sector. Many scholars have investigated the sizes, motives, nature, and working conditions of the informal economy. It has been a very difficult task to measure the magnitude and practices of the informal economy for academic researchers and policymakers. Informal entrepreneurship includes economic activities that produce normal goods and services, which are not intrinsically unlawful but violate some non-criminal rules through their unregulated production arrangements (Castells and Ports, 1989; Raijman, 2001). The pursuit of economic development has been a major goal of many developing nations of the world. Developing countries are confronted with several problems, such as a high rate of poverty and unemployment, which have continued to hinder the attainment of socio-economic development. For any nation, industrialisation, gainful and meaningful employment are important indices used as a measurement of economic development (Opafunso and Adepoju, 2014).

Most people in Nigeria are seeking means of alleviating poverty to improve their standard of living by leveraging on what they have in terms of resources, skills and training. Understanding the nature of poverty has been upgraded with the modern theoretical approach that considers the income dimension as the core of most poverty-related problems. Poverty may arise from changes in average income or changes in the distributed income. Equitably distributed income increases the chance of the poor having access to basic services (food consumption, housing, etc.). Indeed, it is now generally agreed that although there is a close positive relationship between per capita income and the measures of well-being, it is not so much the level of per capita income that determines capabilities but how it is distributed. The argument for growth as a precondition for poverty reduction is that it increases incomes and the narrowing of income distribution. Again, a major lesson that can be drawn from the conceptualisation of poverty above is that any attempt to design a pragmatic approach to poverty alleviation has to adopt a mixture of strategies since poverty is multifaceted in scope and dimension. There has not been any identified single cause or determinant of poverty. A combination of several complex factors contributes to poverty.

They include but are not limited to: unemployment and underemployment, low economic growth performance, macroeconomic shocks and policy failure, lack of human resource development, crime and violence, labour markets deficiencies and lack of popular participation in governance and decision-making, as well as weak institutional base. Any economic growth that will reduce poverty is that growth with employment-generating capacity and with an export base. Growth rates (whether poverty reducing or otherwise) have been low in the last few years in Nigeria. This is partly due to external shocks such as adverse changes in several countries' terms of trade, changes in global demand for exports and changes in global interest rates on developing countries' external debt. All these are responsible for the increase in poverty level in various countries of the world. World Bank (1990) links high economic growth to poverty reduction.

Literature Review

Informal Entrepreneurship

Informal Entrepreneurship comprises any economic activity or source of income that the government does not fully regulate, and other public authorities; this includes enterprises that are not officially registered and which do not maintain a complete set of accounts, and workers who hold jobs lacking basic social or legal protection and employment benefits. Examples of informal employment workers include: street traders, subsistence farmers, small-scale manufacturers, service providers (e.g. hairdressers, private taxi drivers, and carpenters), etc. The sector currently accounts for over half of global employment and as much as 90% of employment in some of the poorer developing countries. Due to its flexible nature, the informal sector in some ways is better able to adapt to difficulties such as the current global recession, providing some measure of support to those most in need.

According to Ladan (2016), recurring elements of the definitions include setting up and managing nascent unregistered businesses, non-payment of taxes, and non-compliance with regulations. "Informal entrepreneurship" can therefore simply be defined as establishing and managing an enterprise that engages in licit economic activities operating fully or partially outside the purview of state regulatory arrangements, such as non-registration with

regulatory authorities, non-payment of tax, or both. It therefore involves the production and/or marketing of legal goods and/or services partially or fully outside the government regulatory framework governing business operations, such as registration, payment of tax and social security, welfare provision, and other labour-management relations. It comprises all economic activities not fully covered by the formal arrangements, except for criminal activities.

The Role of the Informal Sector in Poverty Reduction

Fourie (2018) observed that closely linked to the role of informal entrepreneurship in job creation is the vital impact of informal-sector employment on poverty alleviation. The work of Cichello and Rogan (2017) shows that informal-sector income is relatively effective in reducing poverty. This is because income from informal-sector work mostly flows to households that are poor. In terms of poverty impact, the destruction of 100 jobs in the informal sector is the equivalent of losing about 60 to 80 formal-sector jobs. From a poverty-reduction viewpoint, this is a major finding for policy-makers: one cannot be cavalier about losing or destroying informal-sector jobs.

At this point it can be said that the overall policy goal must be to retain existing informal-sector employment (i.e., measures should do no harm), to improve the livelihoods, security and income of those already in the informal sector, and address barriers to entry and growth to create room for newcomers and employment expansion. In short, policy must enable and support enterprises and workers in the informal sector. The informal sector simply is, to borrow a phrase, ‘too big to fail’. Recognising the informal sector as an integral part of the economy, rather than ignoring it, is a crucial first step towards such a policy approach.

Cichello (2017) opined that, in the aggregate, earnings from jobs in the informal sector play a small role in reducing national poverty rates, especially because there are relatively few informal-sector jobs. However, if we compare, on a per-job basis, the poverty reduction associated with one informal-sector job is generally between 50% to 100% of the poverty reduction associated with one formal-sector job. Growth in the number of jobs in the informal sector would be a sensible component of any plan to reduce poverty.

Theoretical Review

Post-Structuralist Theory- Biles James(2009); Risa Whitson (2007)

For many years, those recognising the persistence and growth of informal entrepreneurship were confronted with a simple theoretical choice between structuralist or neo-liberal explanations, or structure vs agency. Recently, however, an alternative third explanation has emerged, inspired by a small stream of critical, post-colonial, post-structuralist, post-development and post-capitalist thought that has transcended the conventional “thin” portrayal of economic and monetary exchange as universally market-like and profit-motivated by adopting “thicker” portrayals of the complex and messy characters and logics of economics. The Post-structuralist approach includes different hypotheses that share a common critical position on both the structuralist and neoliberal explanations.

The post-structuralists argue that informal entrepreneurship is not (only) a rational choice of economic actors influenced by the cost/benefit ratios (i.e., neoliberal theory) or an exploitative global economic system (i.e., structuralist theory), but rather, it is a voluntary choice made by marginalised people. This “exit” option can be due to social relations, redistributive reasons, or resistance practice to the exploitation of workers, as well as identity reasons. Among the post-structuralists, Biles (2009) and Whitson (2007) show that “informality not only served as a simple livelihood strategy; many men and women employed informality as a form of resistance in response to the exploitation of workers within Argentina’s neo-liberalised economic system.” .

The Legalist Theory

Feigie (1981) and De Soto (1989) propounded the legalist theory. It has been argued that the legalist theory is a result of exorbitant, inefficient, cumbersome and costly government rules and regulations, which make it hard for micro-entrepreneurs to comply, and consequently make them decide to go informal. The legalist enterprises participate in the formal economy to avoid the burden of high taxes and strict regulations in the informal sector. McClain, Alexander, and Jones (2008) argued that nations can take three approaches when faced with informal activities that take place in the economic domain, subject to regulation, ignoring their existence, making an effort to control or legalise these activities. Regulation is encouraged to

ensure the market regulates its economy and also to curtail the growth of the informal sector. The theory focuses on government policies, since there is a consensus that the policies have a direct impact on the growth and expansion of the underground economy. It is imperative to stress the importance of government addressing its laws, rules and regulations towards the informal business activities, and this sector would be allowed to grow and heavily contribute towards the overall economic growth.

Empirical Review

Semih (2016) examined transitional dynamics under different initial wealth levels in Turkey. Whether an initially small business will be trapped in the informal economy and remain small forever or grow quickly and become a large formal business depends on tax and enforcement policies. High tax rates accompanied by loose enforcement– which is mostly the case in less-developed countries (LDCs)– induce tax avoidance, discourage investment in formal businesses, and drive entrepreneurial activities toward the informal sector even though the initial wealth level is high. Lowering taxes on formal activity, joined with strict enforcement, can help reduce the magnitude of poverty traps in LDCs. The researcher did not provide the methodology for the research but based his findings on empirical literature.

Joseph, Elda and Simplicie (2018) assessed the impact of the Federal Government of Nigeria (FGN) e wallet programme on informal farm entrepreneurship development in rural Nigeria. Informal sector farmers are those who are not legally registered at the national level, although they could be connected to a registered association. One thousand one hundred and fifty two rural farmers were sampled across the six geopolitical zones of Nigeria. Results from the use of a bi-variate probit model indicate that the mobile phone based technology via the e wallet programme is a critical factor that has enhanced farm entrepreneurship in rural Nigeria. However, results also show that the impact of mobile phones (as a channel to accessing and using modern agricultural inputs) is contingent on how mobile networks are able to link farmers who live in rural areas and work mainly in farming. The results suggest that increasing mobile phone services in rural Nigeria enhances farmers' knowledge, information, and adoption of improved farm inputs and, by extension, spurs rural informal sector economic activities in sub Saharan Africa.

Opafunso and Adepoju (2014) examined the impact of small and medium-scale enterprises on the economic development of Ekiti State, Nigeria. A survey research design was adopted to obtain data from 150 respondents comprising traders, artisans, production factories and other small and medium enterprises, which were selected using multi-stage sampling method across 16 local government areas in Ekiti State. Three Null hypotheses were tested to identify the significant effects of Small and Medium Scale Enterprises on poverty reduction, employment generation and improvement in the standard of living in Ekiti State. Data for this study was analysed using Statistical Package for Social Sciences (SPSS), and Chi-square at 0.05 level of significance was used to test the hypotheses. The findings revealed that there is a positive and significant relationship between SMEs and poverty reduction, employment generation and improvement in the standard of living of people in Ekiti State.

Goel, Saunoris and Schneider (2019) analysed the major determinants of the underground economy in the United States of America for over a century, ranging from 1870 to 2014. The study found evidence that while inflation and prosperity were statistically insignificant, bigger government and greater trade openness decreased the shadow economy. It was also discovered that US underground economy increased during World War II, but World War I had an insignificant effect, but the severe depression reduced the shadow economy. However, the study established that the addition of new states to the Union made a positive impact on the shadow economy.

Mughal and Schneider (2018) estimated the shadow economy of Pakistan, using the currency demand approach, the autoregressive distributed lag technique and Engel Engle-Granger two-step approach for the period from 1973 to 2015. The results showed that the average percentage of shadow economy within the period was between the ranges of 25.29-26.41. The findings also revealed that the shadow economy growth had a positive impact on the formal sector in the long run while in the short term, the impact was negative.

Methodology

This study employed primary data. Primary data was collected through questionnaire. The close and open-ended questionnaire was used with options

given to the respondents, because the research objective was incorporated into specific questions, which motivated respondents to communicate the required information. The study population comprises all six states in the southwest, Nigeria. Six local governments were randomly selected based on the population of the informal sector in each local government. Data was analysed using Analysis of Variance (ANOVA).

Model Specification

This model divulges the relationship between poverty alleviation and informal entrepreneurship. Poverty alleviation was employed as a dependent variable, while informal entrepreneurship was considered as the independent variable. This is in line with the extant literature, which disclosed that poverty alleviation is a function of Informal entrepreneurs.

Poverty alleviation = f (informal Entrepreneurship) 1

Informal Entrepreneurship was proxied by Trade and Commerce, Manufacturing, Technical Work, Transportation, Farming, and Service Business.

The mathematical form of the model therefore takes the form of:

$$\text{POV. ALVN} = \beta_0 + \beta_1 \text{TAC}_{it} + \beta_2 \text{MAN}_{it} + \beta_3 \text{TEW}_{it} + \beta_4 \text{TRANS}_{it} + \beta_5 \text{FARM}_{it} + \beta_6 \text{SERVB}_{it} + e_{it} \quad 2$$

Where as

POV. ALVN	- Poverty alleviation
TAC	- Trade and Commerce
MAN	- Manufacturing
TEW	- Technical Work
TRANS	- Transportation
FARM	- Farming
SERVB	- Service Business

Results and Discussion

Table 1 Descriptive Evaluation of Informal Entrepreneurship and Poverty Alleviation

S/N	Items	SA(%)	A(%)	N(%)	D(%)	SD(%)	Mean	S.D
1	Your income from the business is enough to take care of your domestic needs	213 (39.44)	294 (54.44)	19 (3.52)	8 (1.48)	6 (1.11)	4.31	.685
2	The business can hardly take care of other things after feeding	214 (39.63)	304 (56.30)	8 (1.48)	8 (1.48)	6 (1.11)	4.19	.587
3	There is no savings for the past one year from the business	137 (25.37)	387 (71.67)	8 (1.48)	2 (0.37)	6 (1.11)	4.19	.737
4	Your current housing condition has been worse since the beginning of the business	167 (30.93)	342 (63.33)	6 (1.11)	17 (3.15)	8 (1.48)	4.05	.837
5	You have not been able to fulfil the economic expectations you have for your dependent relatives	148 (27.41)	321 (59.44)	34 (6.30)	27 (5.00)	10 (1.85)	4.05	.737
6	In your evaluation, your friends in the government work are better than you economic-wise	180 (33.33)	310 (57.41)	18 (3.33)	25 (4.63)	7 (1.30)	4.16	.800
7	You are still looking for government job to augment your income from the business	153 (28.33)	331 (61.30)	32 (5.93)	15 (2.78)	9 (1.67)	4.11	.7686

Note: - The bracket figures indicate the percentage, and figures not bracketed indicate frequency. **Source:** Researcher's Field Survey, (2025).

As shown in Table 1 above, 39.44% and 54.44% of the respondents strongly agree and agree simultaneously that their income from the business is enough to take care of their domestic needs, while 3.52%, 1.48% and 1.11% respectively are indifferent, disagree and strongly disagree. This implies that those engaging in the informal find their means within the basic needs of life. However, 31.67% and 55.56% unanimously claimed their businesses can hardly take care of other things after feeding, while 1.48% and 1.11% are indifferent and disagree, respectively. This suggests that informal business, in the study area, lacks the profitability capacity to alleviate poverty beyond meeting domestic needs.

Furthermore, 25.37% and 71.67% of the respondents strongly agree and agree that their businesses had no savings for the past one year from the business, while 1.48%, 0.37% and 1.11% respectively are indifferent, disagree and strongly disagree. This experience might be attributed to the post-effect of COVID-19 on informal business activities. However, 30.93% and 63.33% of the respondents unanimously agree that current housing condition has been worse since the beginning of the business, while 1.11%, 3.15% and 1.48% are indifferent, disagree and strongly disagree, which suggest that high cost of living constitutes a threat to the survival of the informal business activities in the area.

In addition, 27.41% and 9.44% of the respondents strongly agree and agree respectively that they have not been able to fulfil the economic expectations of their dependent relatives, while 6.30%, 5.00% and 1.85% respectively are neutral, disagree and strongly disagree. This suggests the reason for the continuous cycle of poverty, since a large proportion of informal businesses are not viable enough to sustain the owners and their dependents.

Furthermore, 33.33% and 57.41% strongly agree and agree respectively that their friends in the government work are better economic-wise, while 4.63% and 1.30% respectively disagree and strongly disagree, while 3.33% are neutral; thus, many people engaging in informal businesses are looking for a government job to augment their income.

Table 2: The Analysis of the Contribution of Informal Entrepreneurship on Poverty Alleviation

Source	Seq. SS	Df	MS	F	Prob > F
Model	239.03829	23	10.392969	22.92	0.0000
Trade & Commerce	26.572183	4	6.6430457	14.65	0.0050
Manufacturing	45.204869	4	11.301217	24.92	0.0000
Technical Work	30.085808	4	7.5214519	16.59	0.0000
Transportation	13.647886	4	3.4119716	7.52	0.0000
Farming	7.9952269	4	1.9988067	4.41	0.0016
Service Business.	7.5872027	3	2.5290676	5.58	0.0009
Residual	233.99875	516	.45348595		
Total	473.03704	539	.87761973		
R-squared = 0.5433			Number of obs = 539		
Adj R-squared = 0.5230			Root MSE = .512311		

Source: Researcher's Field Survey, (2025).

Table 2 shows that trade and commerce ($F=14.65$,) has a significant influence on poverty alleviation because $\text{Prob}>F = .0050$ is less than 0.05 level of significance. Similarly, manufacturing with F value = 24.92 significantly influences poverty alleviation because the $\text{Prob}>F = 0.0000$ is less than 0.05 level of significance. Also, the technical work with F value of 16.59 has a significant influence on poverty alleviation since $\text{Prob}>F = 0.0000$ is less than the 0.05 level of significance. With F value of 7.52 and $\text{Prob}>F = 0.0000$, which is lower than 0.05 level of significance, transportation significantly influenced poverty alleviation. Farming with 4.41 F value significantly influenced poverty alleviation because the $\text{Prob}>F = 0.0016$ is less than 0.05 level of significance. Service business also shows significant influence on poverty alleviation with F value of 5.58 and $\text{Prob}>F = 0.0009$, which is less than 0.05 level of significance. However, the model has F value of 22.92 and $\text{Prob}>F$ value of 0.000, which is less than 0.05 level of significance; hence, the null hypothesis, which stated that there is

no significant relationship between Informal Entrepreneurship and Poverty Alleviation, was rejected.

Discussion of Findings

This study examined the Contribution of Informal Entrepreneurship to poverty alleviation in Nigeria. According to the results, income generated from informal entrepreneurship led to a reduction in poverty (F value = 22.92, $P_{rob>F} = 0.000 < 0.05$). This implies that informal entrepreneurship is an escape route from poverty, which is in line with the submission of Opafunso and Adepoju (2014). Trade and Commerce, Manufacturing, Technical Work, Transportation, Farming, and Service Business have a significant influence on poverty alleviation. This corroborates the findings of Akerele and Akande (2006) and Ogbo and Nwachukwu (2012).

Conclusion

From the result of the analysis of the contribution of informal entrepreneurship to poverty alleviation, the study proves that informal entrepreneurship significantly reduces poverty because informal entrepreneurship creates jobs. Though from the descriptive analysis, so many things might be affecting the profit volume of informal entrepreneurship activities, which in turn have negative impacts on the income of the informal entrepreneurship practitioners, yet, on the other hand, there might be other factors outside the business which might affect the income of the informal entrepreneurs. Since the research findings showed that the aggregate income generated from informal entrepreneurship leads to a reduction in poverty, the informal entrepreneurs should look inwardly at things eroding their income to maximise profit from their operations.

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