

AN EVALUATION OF THE INFORMAL SECTOR ACTIVITIES AND THEIR CONTRIBUTIONS TO URBAN ECONOMY: A FOCUS ON IDAH, KOGI STATE

¹Ifatimehin, Olarewaju O. and ²Jegede, Joy A.

¹Department of Geography and Environmental Studies, Kogi State University, Anyigba. Kogi State.

²Department of Urban and Regional Planning, The Federal Polytechnic, Idah. Kogi State.

Corresponding Author's email: lanreifa@gmail.com



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ABSTRACT

This study analyzes the activities of the informal sector and their impact on the economy of Idah. This analysis was dependent on data obtained from the administration of questionnaire that was designed to elicit information on the socio-economic attributes of the informal sector practitioners and other issues relating to the informal sector activities. For the purpose of this study, Idah was divided into seventeen neighbourhood clusters out of which five with high density of informal sector activities were purposive selected for in-depth study. The informal activities in the selected neighbourhoods were grouped into three based on their operational small-scale enterprise for proper analysis (manufacturing, services and marketing). The data was analyzed using ANOVA and chi-square test. The result indicated that there is no significant variation between the informal economy and the economy of the town ($F=0.7144$, table value of 102.43 at 0.05 degree of significance). The result further indicates that the effect of location on the enterprise is significant from the chi-square test value of 30.909 at a degree of significance of 5 with P-value of $9.672e^{-06}$ and a table value of 11.0705. The study recommends a review of the plan of the area to reflect the principles of land use zoning so as to enhance the activities of the informal enterprise as well the economy of the town.

Keywords: Informal sector; Informal economy; Informal activities; and Enterprise.

Introduction

The increasing level of urbanization in most Nigerian urban centres has no doubt resulted in economic crisis. The teeming population in these urban areas are left to compete for the little opportunities available. As a result, there is a high level of unemployment and underemployment and due to the rate of

inflation currently in place, even the employed are faced with the difficulty of sustainability (i.e. making ends meet). Again the on-going downsizing of government agencies and other private firms; industries, banks, communication outfits amongst others lead to job cut while the hike in foreign exchange and

ban on most imported goods, closure of border and power problems lead to a fold-up and low capacity utilization in the industrial sector. The effects of these are increased unemployment, poverty and social insecurity, etc. Most of these retrenched workers and unemployed flood the informal sector which is a major employer of labour especially in the urban areas. The informal sector of Nigeria has made enormous contributions to national development through employment and income generation as well as linkage with the formal sector (Obadina, 2007).

According to Dickenson et al (1996) and Onyenechere (2011), employment in the third world cities is heavily reliant on petty services and petty commodity production on a small-scale (bazaar economy). The International Labour Organisation (ILO) estimates that the proportion of the urban work force engaged in informal sector activities is highest in Sub-Saharan Africa, and account for more than 50% of urban employment in two thirds of countries surveyed in 1999. In Nigeria, the informal sector unfolded conspicuously after the Structural Adjustment programme (SAP) was introduced in 1984 by the then Buhari led military administration which eventually led to mass retrenchment of formal sector workers. A large percentage of the victims however, found solace in the informal sector employment which seemed to be saviour to the economic crisis as at that time (Oshinowo, 2007; Farinmade and Anyankora, 2012). The term informal sector was first used by Hart (1973) to refer to small scale industries, retail trade, cottage industries, artisans and self employed. The informal sector is generally viewed as another sector outside the normal organised formal sector that provides employment and sustenance through engaging in a variety of activities such as street trading, hawking vulcanizing, local manufacturing and cobbling to mention a few. According to Lawanson (2011), the features of

informal sector economic units are: ease of entry; small scale of the activity; self employment; little capital and equipment; labour intensive technologies; low skill; low level of organisation with no access to organized markets; formal credit; education and training or services and amenities; low productivity and low income. Informal sector participants generally live and work in appalling, often dangerous and unhealthy conditions, usually without basic sanitary facilities, in the shanty towns of urban areas. The informal economy however is a system of trade or economic exchange used outside state controlled or money based transactions. It is practised by most of the world's population; it includes barter of goods and services, mutual self-help, odd jobs, street trading and other such direct sale activities. Income generated by the informal economy is usually not recorded for taxation purposes, and is often unavailable for inclusion in Gross Domestic Product (GDP) computations. This study goes further to analyzing the activities of the informal sector and their impact on the economy of Idah.

Objectives

1. Explore the nature of informal sector activities operational in Idah.
2. Determine the factors responsible for the location of the informal activities in the study area.
3. Determine the socio-economic status of the participants of this sector.

Literature Review

Keith Hart (1971; 1973), a social anthropologist was the first person to bring the term informal sector (in a Third World context) into the academic literature. He introduced the concept of the informal sector to describe a part of the urban labour, which works outside the formal labour market. Hart (Gërxfami, 1999) considered the informal

sector as almost synonymous for all categories of (small) self-employed individuals. This was thereafter typically used to refer to ways of making a living outside the formal wage economy, either as an alternative to it or as a means of supplementing income earned within it (Bromley and Gerry, 1979; Gërkhani, 1999). Even though Hart's original notion of the informal sector is limited to the self-employed, the introduction of the concept made it possible to incorporate activities that were previously ignored in theoretical models of development and in national economic accounts (Swaninathan, 1991; Gërkhani, 1999).

In this light, the existence of the informal sector has been widely acknowledged globally, it is difficult to obtain information on the size and employment structure of the informal sector. Viewing it statistically from Nwaka's (2005) estimate, it is suggested that the sector accounts for between 45% and 60% of the urban labour force, up from about 25% in the mid 1960s. The rapid growth has been backed by several reasons. Sethuraman (1991), feels that the migrants to the urban centres find it easier to cope with the informal sector because it generates demand for semi-skilled and unskilled labour unlike the formal sector that requires skilled labour. According to Olarewaju (1999), participation in the informal sector provides an autonomous and efficient capacity for generating growth in the income of the poor. In addition, Lawanson (2011), connotes that the sector is characterized by small-scale operations, labour intensive techniques, low income families, private and indigenous ownership of enterprises that are largely unprotected by government hence employment generation is easier and rapid growth is facilitated.

The development of the informal sector follows closely the general pattern of urban development in Nigeria. Each phase in the development of Nigeria's cities and economy

has its own dynamics in informal sector development. A large number of Nigerian cities pre-date British Colonial rule – as centres of traditional, political and religious authority (Zaria, Benin, Sokoto, Arochukwu, Ile-Ife) or as centres of internal and international trade across the Sahara and the Atlantic (Kano, Lagos, Calabar) or as military fortifications that attracted large numbers of farmers and craftsmen for defence and related purposes (Ibadan, Abeokuta). These native towns with large indigenous populations, subsequently had European reservations and migrant quarters grafted onto them during colonial rule, but they have often retained their traditional characteristics – with traditional compound houses; customary attitudes and practices regarding food handling, waste disposal, and personal hygiene; urban agriculture; and livestock keeping. The areas of informality in such sites are very extensive. (Nwaka, 2005).

The informal sector encompasses a wide range of areas of informality – environmental, spatial, economic, and social, covering business activities, employment, markets, settlements and neighbourhoods. The informal sector has since the early days of independence been the dominant provider of urban land and housing, as only about 20% to 40% of the physical development in Nigeria cities is carried out with formal government approval. The weakness of government planning control and the haphazard developments associated with the informal sector have created disorderly and unhealthy urban environments (Nwaka, 2005).

Conceptual Discourse

Keith Hart (1971; 1973), a social anthropologist was the first person to bring the term informal sector (in a Third World context) into the academic literature. He introduced the concept of the informal sector to describe a part of the urban labour, which

works outside the formal labour market. Hart (Gërxfami, 1999) considered the informal sector as almost synonymous for all categories of (small) self-employed individuals. This was thereafter typically used to refer to ways of making a living outside the formal wage economy, either as an alternative to it or as a means of supplementing income earned within it (Bromley and Gerry, 1979; Gërxfani, 1999). Even though Hart's original notion of the informal sector is limited to the self-employed, the introduction of the concept made it possible to incorporate activities that were previously ignored in theoretical models of development and in national economic accounts (Swaninathan, 1991; Gërxfani, 1999).

Informal business can be defined as one in which the common traits are low level of technology, few capital requirements, simple division of labour and little differentiation of ownership of means of production. But in many cases, there are businesses that are partially informal and partially formal. They comply with some of the regulations but not with others (Omar, 2006). The informal economy in the broad sense refers to the portion of commercial activity that is either unregulated or insufficiently regulated by the state. This implies that informal economic activities are those productive activities that are unrecorded or insufficiently accounted for in a country's national income account (Omar, 2006).

Various labels have been used by scholars to refer to the 'informal economy'; it has been called the irregular economy (Ferman and Ferman, 1973), the subterranean economy (Gutmann, 1977), the underground economy (Simon & Witte, 1982; Houston, 1987), the black economy (Dilnot & Morris, 1981), the shadow economy (Frey, Weck & Pommerehne, 1982; Cassel & Cichy, 1986), and the informal economy (McCrohan & Smith, 1986). The popular media uses terms like invisible, hidden, submerged, shadow,

irregular, non-official, unrecorded or clandestine (U.S Department of Labour, 1992). The common thread is that these activities are not recorded or imperfectly reflected in official national accounting systems. In its application to issues of equity, economic opportunity, and social development, the term 'informal economy' first came into widespread use as a means of describing a dualistic economic structure found in developing countries.

The informal sector encompasses a wide range of areas of informality – environmental, spatial, economic, and social, covering business activities, employment, markets, settlements and neighbourhoods. The informal sector has since the early days of independence been the dominant provider of urban land and housing, as only about 20% to 40% of the physical development in Nigeria cities is carried out with formal government approval. The weakness of government planning control and the haphazard developments associated with the informal sector have created disorderly and unhealthy urban environments (Nwaka, 2005). The World Employment Report (2002) revealed that the informal sector is a major provider of urban jobs and accounts for over 60% of total urban employment. It is however almost impossible for the urban economy to stand without the informal sector.

Materials and Method

Study Area

Idah is one of the oldest settlements in Igala land. It harbours the seat (Palace) of the Attah of Igala Kingdom. The pattern of interaction in Idah is based on family ties and kinship. Idah was one of the earliest Nigerian towns on the River Niger to have contact with the European traders. Idah was a thriving port, trading in palm oil, kernel and rubber to Europeans and staple crops, cotton, woven clothes, horses and other livestock, pots and knives to the

Igbos especially during 19th century. The Igalas were able to maintain strict control over the lower Niger trade, north of Idah and partially south of the town (no Igbo boats were allowed above the port).

The present day Idah remains a major trade centre for palm produce, yams, cassava (manioc), rice and fish (especially by the Ibajis). Beside trading and farming, the local population is engaged in canoe making, production of fishing nets, soaps and cotton weaving. It is geographically located at the south eastern part of the state and on the eastern bank of River Niger. It is lying beside the middle course of the River Niger. It is the Headquarter of Idah local government area of Kogi State. It has commercial routes (waterways) on the River Niger linking Lokoja to the north of the country; Onitsha in Anambra to the south; Agenebode in Edo State to the west; and Enugu to the east. It is a homogeneous community dominated by the Igala's and few of other tribes. The population of the area from the 2006 census is 79,755 (NPC, 2006), and by projection using geometric growth model (Agbola et al 2003) the figure is put at 102,092 for 2016.

Instrument and Analytical Method

This study involved the use of both primary and secondary data. The research instrument employed in collecting the primary data was a structured questionnaire which was designed to obtain information on among other things,

personal data of the respondents, type of informal business, demographic characteristics of the participants in informal sector, age of the enterprise, source of capital, initial and present work force and the conformity with land use type of the area where it is located. The questionnaire was administered in the major streets of five selected neighbourhood clusters out of the seventeen neighbourhoods in Idah. They include; Igalaogba, Angwa, Ofiji, Ega and Sabon-gari. These selected neighbourhood clusters were purposively chosen because they have much of concentration of informal activities and a mix of various land uses – industrial, commercial, semi-public, circulation and residential land uses. The other twelve not selected are majorly residential land use with less of informal activities. The choice of these sampling zones was meant to reflect the high density of informal sector activities in the sampled clusters in addition to the general land use character of the area.

In preparatory to this study, reconnaissance survey was carried out on the area under study so as to get acquainted with the geography of the area as well as the streets bearing a huge concentration of informal activities. A total number of 132 copies of questionnaire were administered to 132 respondents representing 105 of the entire residential housing units from the five selected neighbourhoods under study in Idah. The breakdown is shown in table 1 below

Table 1: List of Selected Neighbourhoods and Number of Buildings

S/n	Neighbourhoods	No. Of Buildings	10% Sample Size
1	Angwa	312	31
2	Ega	229	23
3	Sabongari	311	31
4	Igalaogba	282	28
5	Ofiji	191	19
Total		1325	132

Researcher's Field Survey, 2016.

The informal activities in the selected neighbourhoods were grouped into three based on their operational small-scale enterprise ie manufacturing which entails – bakery, shoe making, food processing enterprise, furniture/carpentry, water packaging enterprise, block making enterprise and other forms of informal manufacturing enterprises; services – this include; hair dressing and barbing salons, welding, mechanics, tailoring, vulcanizing, shoe mending, computer typesetting, public biking (okada), electrical/electronic repairs and other forms of services rendered to generate income; marketing – these are food vendors, newspaper vendors, water vendors, kiosks, hawking, street trading, and all sorts of petty trading. The random purposive sampling technique was employed to select and sample the informal sector participants in the various streets within the selected neighbourhoods.

Results and Interpretation

Age of Entrepreneurs

The distribution of the informal sector enterprise as shown in Table1 reveals that a higher percentage of people in their middle ages are involved in informal sector activities ie between 20-49years of age. This can also be attributed to the fact that most informal sector activities involve manual labour (physical energy). The survey thus shows that respondents within the ages of 20-29years, 30-39years and 40-49years (being the most active ages) have the greater percentage of 26.5%, 33.3% and 19.6% respectively. This is because people within this age range are more active and energetic and strong to do works like carpentry, welding, brick-laying than people of older ages. It was also revealed from the survey that more males are involved in the informal sector activities than females. It can be seen from Table1 that 59% of the respondents are male practitioners of the informal sector activities while 41% represent

the female. This is traceable to the fact the pressure for sustainability lies majorly on men and the type of informal sector activities operational in the study area are those practiced by men like carpentry, mechanic, vulcanizing, welding, newspaper vendor.

Attributes of Informal Sector Participants

The survey carried out revealed that a greater percentage of people that have attained the secondary level of education are the major participants in the informal sector. About 44% of the respondents sampled have attained the secondary level of education. Those with the primary school leaving certificate and the tertiary level of education which ranges from NCE, National Diploma and School of Health Technology and above rank almost the same of about 25 and 24%. Those without any formal education are very few because most informal sector activities requires educational knowledge as well as reading or writing as the case may be.

The informal sector activities in the study area have been in existence for some time with some ageing more than 20years. About 30% of the sampled enterprises are ageing over 20years while 36% are ageing between 10-14years; 32% ageing 15-19years; 20% ageing 5-9years and 14% ageing less than 5years as shown in table 2. This implies that the various informal sector activities are being rejuvenated, as some are ageing, new ones are cropping up. Hence these activities have come to stay more so that it is a source of livelihood for most people.

Types of Enterprise

The study revealed that various types of enterprise are practised in the area. These are in the form of manufacturing, rendering of services and marketing. The informal sector activities in the area that are involved in manufacturing include mini-bakeries, wood work (furniture making), food processing; the

service rendering informal sector enterprise include- hair dressing salon, barbing salon, tailoring shops, mechanic workshops (vehicle and generators), laundry services, grinding services, shoe mending, vulcanizing, welding; and the trading activities include all forms of street trading, hawking activities and kiosks like petty retail shops, food vendors, water vendors, unregistered patent medicine stores. Sources of Capital and other forms of Mobilization for the Informal Enterprise

The survey as shown in Table 3 reveals that major source of capital for the informal enterprise in the study area is personal savings since 76% of the respondents sampled attest to this. Other sources include support from friends and relatives (24%), loans from cooperative societies (20%) while a few others (12%) get their capital from financial institutions. The table also shows that a

greater percentage of the workforce is skilled and unskilled labour and the categories of people employed in this sector are family members and the entrepreneur himself. The numbers of persons involved in this type of business are often times not more than 7. Most of the informal enterprise has low income of below ten thousand naira per month from 44% of the respondents sampled. 32% of the respondents reveal that the income per month from the business is between #20000- #29000. One quarter of the respondents (25%) make income of about #30000-#39000 monthly while very few (5%) get income of more than #50000 on monthly basis. With this however, it is evident that the informal sector activities in the study area is very petty and poor.

Impact of Informal Sector activities on the Economy of the Town

Hypothesis

There is no significant difference between the informal sector activities and the economy of the town.

Analysis of Variance Table

Response: trt

	Df	Sum Sq	Mean Sq	F value	Pr(>F)
factors	4	1452	363.00	0.5317	0.7144
Residuals	15	10240	682.67		

> Decision rule: Reject Ho if Pr(>F) is less than 0.05 otherwise accept Ho

> Conclusion: Since Pr(>F)=0.7144 is less than the table value of 102.43 at 0.05 degree of significance, we accept Ho and conclude that:

> There is no significant difference between the informal sector and the economy of the town,

> An indication that the informal sector activities influences the economic activities of the town.

Factors affecting Enterprise Location

The location of informal businesses is affected by various factors. They include proximity to entrepreneur's residence, concentration of business activities, space availability, family property, accessibility, and low rent. A greater percentage of the respondents (32%) agree to the fact that the property where their business is located is a family property, hence they do not pay rent for the space used. 23% is of the opinion that where their business is sited is they could secure space, the others claim the location is close to their residence. This they say is convenient and cuts transportation cost to their place of business. Businesses located in areas where there is

concentration of activities booms because many people are attracted to such areas and there is high patronage.

```
> observed_freq=c(18,12,30,42,16,14)
> null_probs=c(1/6,1/6,1/6,1/6,1/6,1/6)
> ksq_gudnes=chisq.test(observed_freq, p=null_probs)
> expected_freq=kisk_gudnes$expected
> obs_exp=cbind(observed_freq,expected_freq)
> n=length(observed_freq)
> tablev=qchisq(0.95,n-1)
> list(obs_exp=obs_exp,kisk_gudnes=kisk_gudnes,tablev=tablev)
$obs_exp
      observed_freq expected_freq
[1,]          18             22
[2,]          12             22
[3,]          30             22
[4,]          42             22
[5,]          16             22
[6,]          14             22
$kisk_gudnes
      Chi-squared test for given probabilities
data:  observed_freq
X-squared = 30.909, df = 5, p-value = 9.762e-06
$tablev
[1] 11.0705
```

The above chi-square test for the given probabilities shows that χ^2 value is 30.909 at a degree of freedom of 5, the P-value is 9.762×10^{-6} . The table value is 11.0705. Since the table value is greater than the calculated value, it therefore implies that the effect of location on the business enterprise is significant. Simply put, location affects the productivity and outcome of a business as in this study.

Summary of Findings

- The detailed consideration of the factors influencing enterprise location revealed that the location of an enterprise to a great extent determines the economic output and performance of the business. The chi-square test shows that areas with concentration of activities and accessibility attract more people and

gives room for more boost in business than other areas.

- The informal sector activities affect the economy of the town. An increased informal business yields a better performing economy.
- More of the people involved in informal businesses have attained education up to the secondary level.
- People between ages 20-49 are more involved in this sector and the male population are more in this sector.
- The informal sector activities in the area have been in existence for more than twenty years.
- The business is majorly located where the entrepreneur's family own a property or where space is available.
- Personal savings is the major source of capital for the business.

- The workforce comprises of unskilled, semi-skilled and skilled labour and it is made up of majorly family members.
- The size of labour is very low usually not more than 7.
- The income from the business is very poor hence it is a petty enterprise.

Conclusion and Recommendation

This study reveals that the informal sector enterprise is a major employer of labour in Idah and overtime, it has helped to boost the economy of the town. Notwithstanding the enormous reliefs the informal sector enterprise have brought to the people of Idah especially in the area of creating avenue for employment as well sustaining the economy

of the town, there is also the need for restructuring of the land use plan to reflect the principles of land use zoning to enhance orderliness.

Consequent upon this, the town planning authority of the area should embark on an elaborate development plan that will help to order the activities of the informal sector enterprise for better performance. This drive should thus be strengthened by the regional government who should also embark on financial empowerment policies with little or no interest rate to encourage more participants and strengthen those in this sector so as to yield a better performing economy for the town.

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APPENDICE

Table 2: Distribution of Informal Enterprise by Type, Age, Gender and Educational Qualification.

S/n	Age of Entrepreneurs (yrs)	Frequency
	<20	13
	20-29	35
	30-39	41
	40-49	26
	50-59	14
	60 and above	3
	Gender of Entrepreneurs	
	Male	78
	Female	54
	Educational Qualification	
	No formal education	8
	Primary education	34
	Secondary education	58
	Tertiary education	32
	Type of Enterprise	
	Manufacturing	26
	Services	50
	Marketing	56
	Age of the Enterprise	

	<5years	14
	5-9years	20
	10-14years	36
	15-19years	32
	20 and above	30
	Total	132

Source: Field survey, 2016.

Table 3: Distribution of the Informal Enterprises by Source of Capital, Skill, Employment Type, Monthly Income, Size of Labour Force.

S/n	Source of capital for the business	Frequency
	Personal savings	76
	Support from friends and relatives	24
	Loan from financial institutions	12
	Loan from cooperate societies	20
	Skill of the Entrepreneur	
	Skilled	38
	Semi-skilled	46
	Unskilled	48
	Type of Employment	
	Apprenticeship	47
	Paid workers	12
	Family/personal labour	73
	Size of labour force	

	0-3	88
	4-7	36
	8-11	6
	12 and above	2
	Monthly income from the enterprise	
	<#10,000	44
	10,000-19,000	32
	20,000-29,000	25
	30,000-39,000	14
	40,000-49,000	12
	#50,000 and above	5
	Total	132

Source: Field survey, 2016.

Table 4: Factors affecting the location of Informal Sector Enterprise

S/n	Locational Factors	Frequency
	Proximity to residence	18
	Concentration of activities	12
	Space availability	30
	Family property	42
	Accessibility (Road)	16
	Low rentage	14
	Total	132

Source: Field survey, 2016.