



LUND UNIVERSITY  
School of Economics and Management

## Master programme in Economic History

THE INFORMAL SECTOR ACTIVITIES WITHIN THE INFORMATION  
AND COMMUNICATIONS TECHNOLOGY INDUSTRY- A CASE  
STUDY OF THE LAGOS COMPUTER VILLAGE, NIGERIA

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***Abstract:** The informal sector is often seen as one sector with the potentials to transform the economies of developing countries if well harnessed. This is particularly true in the case of Nigeria where the informal sector creates employment opportunity for a large number of the labor force compared to the formal sector economy. However, it is also pertinent to bear in mind that the informal sector is often associated with a lot of socio-economic ills some of which are inimical to development objectives of States. This paper examines the informal sector activities within the Information and Communications Technology (ICT) industry using the Lagos Computer Village (LCV) as a case study. In doing this, three critical issues are examined: the level of tax evasion of informal sector entrepreneurs within the LCV, the extent to which the urban employment created by the informal sector activities at the LCV could be classified as a relevant case of disguised unemployment and the extent of illegality to which the informal sector entrepreneurs at the LCV are involved in terms of trading in pirated ICT components. This paper draws a conclusion by using relevant theories to analyze data collected from the field work.*

***Key words:** Formal Sector, Informal Sector, Lagos Computer Village, Tax Evasion, ICT components.*

**EKHM62** Master Thesis, second year (15 credits ECTS)

June 2012

Supervisor: Ellen Hillbom

Examiner: Erik Green

Word Count: 17,000

**Acknowledgement.**

I wish to acknowledge my lovely wife who is my jewelry of inestimable value. For most times when I felt like giving up she was always there to urge me on. Like the saying goes-“blessed is the man who finds a good wife, let him ask for no more”. I must also not fail to mention my three lovely daughters- Obehioya, Adesua and Ann-Marie as they too have had their own share of “absentee father”.

My sincere gratitude also goes to my former lecturers at Lund University whose contributions to my academic live is invaluable

The responsibility for any errors, mistakes and other shortcomings in this work are solely mine.

**Abbreviation:**

LCV: Lagos Computer Village

LASG: Lagos State Government

ICT: Information and Communications Technology

ICTs: Information and Communication Technologies

SON: Standard Organization of Nigeria.

ISEs: Informal Sector Entrepreneurs

FSEs: Formal Sector Entrepreneurs.

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## **Chapter 1**

### **Introduction**

#### **1.1 Introduction**

Developing economies are often in a precarious situation in which a large percentage of the labor force is engaged in informal economic activities under the so-called informal sector economy. The reasons for this are due firstly to the inability of the organized formal sector to absorb potential migrant workers moving from the rural areas (often running away from farm work) to the urban areas (in search of the so-called ‘white collar jobs’). Secondly, the informal sector serves as a source of temporary employment for young school leavers (from both the secondary and tertiary institutions) pending when they are able to secure jobs in the formal sector. Thirdly, in most developing countries government often enact laws which makes it virtually impossible for small businesses to survive as a result of the various bureaucratic bottlenecks involved coupled with a tax system which in some cases are multiple and often viewed by small business owners as inimical to their business’ survival (See de Soto, 2001). It is against this background that the informal sector economy which has become so active in developing countries and generating employment opportunities for a much larger percentage of the labor force compared to the formal sector becomes a very interesting topic worthy of investigation if the issues of under-development and poverty alleviation are to be addressed. The informal sector which is also referred to as “the urban informal sector” (Ekpenyong, B. & Nyong, M. O. 1992) is thus seen as a means of not only reducing unemployment but also improving the standard of living of the people due to the fact that the sector is viewed as providing new dynamics of economic growth. The informal sector is however, one sector that is equally viewed as sometimes constituting a clog in governmental development objectives as a result of its involvement in extralegal activities such as tax evasion. According to de Soto (2001: 90-91), the extra legality that is often associated with the informal sector is rarely antisocial in intent since it serves as a means to an end-with the end been to provide services and generate enough income to improve the standard of living of those employed by the sector. Therefore, the very fact that those entrepreneurs involved in the informal sector activity operates outside the law and appears to be comfortable with it, is an indication that it is the social contract which is vital for their very survival since they are generally prevented directly or indirectly, by the legal and political systems from entering the

formal property system (ibid). Basically, two categories of people often find employment in the informal sector economy: those who on their own free will made deliberate and conscious decision to go into the sector (see de Soto 2001) and those who Dickenson et al (1996) referred to as engaged in petty services and petty commodity production on a small scale in what is referred to as ‘bazaar’ economy i.e. those who in most cases find employment in the informal sector as a result of a temporary job loss. However, the extralegal nature of the informal sector which makes it difficult for the government to effectively regulate it with a view among others, to generate tax revenue results in the general “unfriendly” attitude of government towards the informal sector entrepreneurs. One implication of this is that such entrepreneurs are further driven down the path of extralegal activities in order to beat the so-called “government regulations” as it affects their business activities.

In Nigeria, the informal sector has become a very significant sector in recent time as the sector has equally become the main source of employment for the greater percentage of the labor force with estimate suggesting that the sector accounts for between 45% and 60% of the urban labor force (Nwaka, 2005). Despite the significance of the informal sector to the Nigerian economy however, government policies are very often geared towards promoting and improving the formal sector activity as against that of the informal sector which is often viewed from the point of extra legality and as such not too relevant when it comes to policy implementation. The situation is not different at the Lagos Computer Village (henceforth referred to as LCV) where an organized formal structure operates side by side with the informal sector. This somewhat symbiotic relationship between the formal sector and the informal sector has today become a subject of debate in the literature. Since the LCV has the potentials of becoming the innovation nerve center of Nigeria, it may perhaps be relevant to investigate the role of the informal sector entrepreneurs at the LCV. This is therefore, the whole essence of this study since to the best of my knowledge it is a pioneering work on the informal sector activities at the LCV in Nigeria.

## **1.2 Aim of the Study**

The aim of this study is to investigate the activities of the informal sector as it concerns the Information and Communication Technologies (henceforth referred to as ICTs) industry in Nigeria using the LCV as a case study. The LCV is estimated to be the



biggest IT market in West Africa and provides services to all categories of people and firms within the ICTs industry. To be specific, the study becomes significant when viewed against the following:

- (a) The study will add to the existing body of knowledge and literature on the informal sector. While it may be true that the informal sector is an area that have not been sufficiently researched, the case of Nigeria is particularly pathetic when it comes to research on the informal sector services with reference to the LCV.
- (b) The study being a pioneering work on the informal sector activities at the LCV in Nigeria will serve as a basis for future and further research.
- (c) It is hoped that this study will also serve as a useful source of reference to the Lagos State government (henceforth referred to as LASG), especially regarding policy making and decisions on matters such as taxation, control of illegal activities such as piracy of ICTs components as well as in the general regulations of activities at the LCV.

### **1.3 Research questions**

My research questions are threefold:

- (a) To what extent does the LASG benefit from the activities of the Informal sector entrepreneurs (ISEs) in terms of tax revenue generation?
- (b) To what extent is the urban employment generated by the Informal sector at the LCV a relevant case of disguised unemployment?
- (c) To what extent are the Informal sector entrepreneurs (ISEs) at the LCV aware of the illegality of trading in pirated ICTs components?

The rest of this paper will be divided into six Chapters. Chapter Two gives a background to the study. Chapter Three reviews existing literature. Chapter Four discusses the theoretical and conceptual framework. Chapter Five is on the methods and data presentation. Chapter Six is the empirical section while Chapter Seven discusses the concluding remarks.

## **Chapter 2**

### **Background to the Study.**

#### **2.1 Introduction to Nigeria**

The Nigerian economy is one of the most developed economies in Africa (Economy Watch 2010). According to the UN classification, Nigeria is a middle-income nation with developed financial, communication and transport sectors in addition to having the second largest stock exchange in the continent of Africa. The Nigerian economy is also a mixed economy in which both the public and the private sectors operate side by side. Suffice to say that the petroleum industry is central to the Nigerian economic profile since the country is the 12<sup>th</sup> largest producer of petroleum product in the world with the industry accounting for about 80% of GDP share and above 90% of the total export (ibid). The country also ranks as the number seven country in the world in terms of total oil reserves and exports two million barrels of oil per day (Jegede, 2001: 1). The population of Nigeria was estimated to be closed to 160 million in 2010 by the United Nations department of Economics and Social Affairs with an estimated 79 million people living in urban areas. This estimate shows that approximately 50% of Nigerians are urban dwellers. The mass exodus of people from the rural areas which is basically an agrarian setting to a budding urban industrial society was characterized by the usual problems associated with rural-urban drift such as high crime rate, human traffic, vehicular congestion, environmental pollution, pressure on infrastructural facilities, spurious expansion of territories to accommodate human additions and of course mass unemployment (Okunmadewa, 2001). In the case of Nigeria, it is virtually impossible to talk of industrialization without making reference to Lagos State of Nigeria due mainly to the fact that Lagos State which was the former federal capital city of Nigeria is the commercial, financial and industrial nerve center of Nigeria (see Lagos State Government, 2011). It is estimated that between 60 to 70 per cent of the total commercial transactions in Nigeria are confirmed or finalized in Lagos while metropolitan Lagos alone accounts for over 60 per cent of the total value of industrial investment compared to six major industrial centers of Nigeria put together (ibid). The formal economic sector of Lagos State is largely dominated by the service and the manufacturing sectors while also holding a large share of Nigerian's banking and corporate entities. Other equally vibrant sectors include building and construction,

transport, utilities and mining. These factors among others make Lagos State the first choice for would-be migrant in the rural-urban drift saga in Nigeria. The history of Lagos as an important economic and commercial center dates back to 1821 when the city was acclaimed the most important slave port on the coast of West Africa. The British took full control of Lagos in 1861 after the abolition of slave trade and succeeded in making the city the terminal of many trade routes. The first steamer service between England and Lagos actually began operations in 1853, followed by the establishment of a Bank in 1881; telephone in 1882 and a chamber of commerce in 1894 (Olokesusi, 2011). With these developments, Lagos led the urban population explosion which became noticeable in Nigeria after 1950. The 1952 census put the population of Lagos at 346,137 but by the 1963 census, the population had gone up to 1,135,805 indicating that there was an annual growth rate of 11.4% (ibid) while the 2006 Lagos State census shows that the population had grown to as high as 17 million ([www.lagosstate.gov.ng](http://www.lagosstate.gov.ng)). Though the Federal Government of Nigeria (henceforth referred to as FGN) officially moved the political capital of the country from Lagos to Abuja in 1991-a position which Lagos enjoyed from 1953, yet Lagos remained the commercial and industrial hub of Nigeria with virtually all the major companies having headquarters in the city of Lagos. According to Roberts and Oladeji (2001 c.f. Olokesusi, 2011), Lagos is a mini Nigeria as almost every Nigerian ethnic group is represented in the city. The reason for this is not unconnected with the fact that Lagos as the commercial nerve center of Nigeria, offers by far the best opportunity for job seekers to get jobs and engage in other meaningful economic activities as it contributes about 40% of Nigeria's non-oil GDP while about 65% of the working population is engaged by the Lagos informal sector (Olokesusi, 2011).

## **2.2 Informal sector in Nigeria**

The informal sector in Nigeria may be traced to the so-called colonial legacy which created a dual economy of a capitalist urban and an agrarian rural economies (see Todd J. Moss 2007; David K. Leonard & Scott Straus 2003; Mathew Lockwood 2005; Nicholas van de Walle 2007) since British colonial rule in Nigeria as in other African countries was never in support of the idea of a rapid urban growth which was generally regarded as an unfortunate by-product of colonial rule which needed to be firmly contained in order to avoid political subversion and social disorganization. According to

Nwaka (2005), cities and towns were not conceived or promoted as centers of industrial production for job creation and self-sustaining growth but rather as small enclaves for administration, colonial trade and transportation. Therefore, urban planning and housing policies where they existed under colonial rule were used as instruments for segregation and social policy with a view to ensuring that the small community of Europeans was protected in segregated high-quality residential reservation areas (ibid). Unfortunately, it was these codes, regulations and institutions which were designed for the small population envisaged by the British colonial authority that was inherited at independence by post-colonial administrations. The growth in the Nigerian economy in the earlier 1970s which saw these urban centers as industrial areas creating jobs acted as a pull factor to the mass army of unemployed people in the rural areas to move to the urban with the hope of finding jobs in the formal sector but with most ending up in the informal sector if only temporarily before securing employment in the real or formal sector. The development of the informal sector in Nigeria subsequently followed closely the general pattern of urban development with each phase in the development of Nigeria's cities and economy having its own dynamics in informal sector development (Nwaka, 2005). From the "oil boom" period of the 1970s to the economic crisis and adjustments of the 1980s and 1990s, the informal sector in Nigeria experienced a rapid expansion in its activities and scale (ibid) as a result of which, when poverty level increasing from 27.2% in 1986 to as high as 65.6% in 1996 (see Federal Office of Statistics, 2000 c.f. Elijah, O. A. & Uffort, L. 2007), the rural-urban drift increased as well resulting in an unprecedented rise in informal sector activities since the poor, in an attempt to survive the harsh economic realities embarked on a series of strategies to cope with the reality on ground (ibid). It is also relevant to note that the economic recession of the 1980s and the subsequent austerity measures accompanying the IMF-imposed Structural Adjustment Policies (SAP) affected the informal sector adversely on both the demand and the supply sides as markets contracted and input costs went up (Nwaka, 2005). The overall effect was a reduction in public spending, declining real wages and public sector retrenchments which swelled the ranks of the informal sector beyond its absorptive capacity (ibid) leading to further pauperization of the urban middle class (Olokesusi, 2011).

### **2.3 The ICTs in-road into Nigeria**

The advent of the ICTs in Africa is often seen by some as having the potentials of transforming Africa's economic fortune for the better while others see it as a tool for further imperialist's subjugation of the African economy. For instance, Versi (2007) enumerated how mobile phones may lead to empowerment and transparency in Africa while also being optimistic about a 24 hours TV station that will be available on mobiles all over the African continent. Such enthusiasm and optimism is shared by Ferraro (2008) who emphasized the use of mobiles to collect data for community development, provide market access for farmers while also allowing for easy access to information. On the other hand, Cammack's (2006) argued that there was an imperialist motive behind western power's encroachment into developmental policies and projects of Africa using major UN and other multilateral agencies. Leye (2009), is of the opinion that profit motive and emphasis on market liberalization which is often associated with ICTs projects is unlikely to allow any meaningful development associated with the ICT take place in Africa while Wade (2002) argues that the sudden interest in bridging the digital divide was suspicious and warned that Africa was in the process of slipping into an ICT trap which will result in a new form of dependency on the west. Others (e.g. Alden, 2006; and Alzouma, 2005 c.f. Ayonka, 2010), believes that the G8 should devote their resources to more important and fundamental problems confronting Africa while perceiving that the pursuit of ICT objectives by major donors to Africa while other developmental commitments remained unfulfilled is unjustifiable. The federal government of Nigeria (FGN) however, appeared to have been sold on the prospect of using the ICTs as claimed by the optimist's school in bringing about economic revolution which will in turn transform the economy with the declaration of the Information and Communication Technologies (ICTs) as a national priority by the FGN in 2001 (Bello, 2003: 1 c.f. Akinsola et al, 2005) which marked a turning point in the quest by Nigeria as a country to move into the league of technologically advanced countries. The digital divide which hitherto existed between those who had access to ICTs and those who have little or no access due to a number of factors such as socio-economic, geographical or both gradually began to be bridged (see Doczi, M. 2000) since ICTs was seen as a critical resource in the promotion of socio-economic development with the potential to alleviate poverty (Gopalakrishnan, 2005). A further boost was the implementation of the National Space Research and Development Agency

(NARSRDA) for the Nigerian satellite system by the FGN in the year 2000. This was seen as steps in the right direction when viewed against the fact that at Independence in 1960, Nigeria had a total of 18,724 telephone lines for an estimated population of 40 million people which translates into a teledensity of about 0.5 telephone lines per 1000 people (Akinsola et al, 2005). Between 1960 and 1985, the telecommunication sector consisted of the Department of Posts and Communications (P&T) which was in charge of internal network while a limited liability company- the Nigerian External Telecommunications (NET) limited was responsible for external telecommunication services (Arzika, 2000:3 c.f. Akinsola et al, 2005). By the end of 1985, the installed switching capacity was about 200,000 lines as against the planned target of 460,000 lines with all the exchanges been analogue while telephone penetration remained poor at one telephone line per 440 inhabitants (Akinsola et al, 2005). The situation today however, is completely different with the introduction of the Global System of Mobile Communications (GSM) into Nigeria in August 2001 with only 400,000 lines and a dismay 0.4 teledensity which had now expanded to an unbelievable active lines of over 90 million with a teledensity of 64.16 (Nigerian Times, 2011). Nigeria is now ranked as the largest and fastest growing telecom market in Africa and among the top ten fastest growing telecom markets in the world with the leading GSM operators in Nigeria being the MTN, Airtel, Etisalat, Globacom, Starcomms, Mtel, Visafone, Zoommobile and Multilinks (ibid). One thing that is undisputedly clear as can be seen from the astronomical growth in the ICTs industry in Nigeria is the fact that it has been effectively harnessed for the purpose of poverty reduction by making markets work better for the poor thereby increasing their assets, by empowerment which makes government institutions work better thereby removing social barriers for the poor and by security which help poor people to manage risks which are often associated not only with their business activities but also in their day to day social interactions.

#### **2.4 The Lagos Computer Village**

The LCV which is said to be the biggest IT market in West Africa is home to major dealers of mobile phones, computers as well as other IT accessories. The history of the LCV actually dates back to around the late 1999 and early 2000 when internet technology was becoming a household name in Nigeria.<sup>1</sup> By 2003, a year after GSM

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<sup>1</sup> [www.business-travel-nigeria.com/ikeja-computer-village-lagos.html](http://www.business-travel-nigeria.com/ikeja-computer-village-lagos.html)

services were introduced into Nigeria, LCV had become a household name among telecommunication users, especially small businesses and end users<sup>2</sup>. One would have expected that LCV as the name connotes is a well-planned village for the sole purpose of IT innovations. A visit to the Computer Village however shows the haphazard nature of the village and the limited involvement of government except for the purpose of taxation and other regulations that does not require too much governmental financial commitment. Be that as it may, the LCV with its multistory buildings in which the phone and computer repairers are usually found in the interior parts of the buildings and with sellers placing outdoor signs may be said to be Nigeria's answer to China's Shenzhen's SEG Electronics market- a crammed, multistory building that holds booths and booths of almost any component and hardware one can imagine<sup>3</sup>. As is the case with the LCV, SEG-China is simultaneously thrilling and horrifying for its low-cost and copy-cat goods<sup>4</sup>. A noticeable feature as one enters the LCV is the army of unemployed youth who have found it profitable to solicit buyers on behalf of the sellers for a commission. These categories of people form a large part of the informal sector at the village with the formal sector participants (i.e. the large sized store owners) working directly or indirectly with them in order to increase sales.

Major dealers for computer products at the LCV include HP, Dell, Toshiba, Packard Bell, Fujitsu and Siemens while phone manufacturers are Nokia, Sony Ericsson, Motorola and SAGEM<sup>5</sup> to mention but a few. Among the products on sale at the LCV are: Mobile Phones and Mobile Phone accessories such as memory cards, phone chargers, batteries, casings etc. while computer and computer accessories include-DVD writers, Mother Boards, LCDS, Keyboards, RAM cards etc.<sup>6</sup> It is not uncommon also, to come across digital products such as Camcorders, Digital Cameras and Flat screen television. As earlier mentioned LCV like SEG Electronic market in China is famous for selling copy-cat and pirated goods but, the Standard Organization of Nigeria (SON) whose responsibility it is to fight fake and sub-standard goods in Nigeria have taken the fight to the LCV as the SON raided and sealed off several companies dealing in

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<sup>2</sup> ibid

<sup>3</sup>[www.techcrunch.com/2011/05/06/strolling-through-nigeria-best-buy-a-photo-essay](http://www.techcrunch.com/2011/05/06/strolling-through-nigeria-best-buy-a-photo-essay)

<sup>4</sup> ibid

<sup>5</sup> [www.business-travel-nigeria.com/ikeja-computer-village-lagos.html](http://www.business-travel-nigeria.com/ikeja-computer-village-lagos.html)

<sup>6</sup> ibid

substandard ICTs products within the village in 2011<sup>7</sup> with a view to making sure that products traded at the village meet internationally acceptable standard.

## **Chapter 3**

### **Literature Review**

#### **3.1 Introduction**

Up until the early 1950s, the very idea of studying any economic activity that was outside the framework of a formal economic arrangement by economists was almost unthinkable and at best left to sociologists and anthropologists to ponder over (Gerxhani, 1999). In the 1950s and 1960s however, the informal economy started gaining cognizance as a distinct and separate sector within an economy worthy of research by economists (see Blau & Scott, 1963; Gouldner, 1954). The recognition of the informal sector as a separate, distinct arrangement from the formal economy, led some scholars to postulate the idea of the existence of a dual economy made up of the formal and the informal sectors. These concepts of a dual economy and social marginality were mentioned in 1953 by the “colonial economist” Boeke to describe a dual economy as consisting of an urban market economy (of a capitalist nature) on the one hand and a rural subsistence economy (a rather static agricultural system of production) on the other hand. Todaro (1969) sees the informal sector as a way station en route to a job in the urban modern sector at a prevailing real wage rate. According to Todaro, the whole migration process can be split into two: first stage being when the unskilled rural worker migrates to an urban area and finds a temporary job in what is referred to as ‘urban traditional’ sector while the second stage is reached when a permanent job is attained in the ‘urban modern’ sector by such worker. The views which presupposes that the informal sector was a ‘holding ground’ for workers awaiting entry into the formal sector (Rauch, 1991) was challenged by the International Labor Office (ILO) mission in the 1970s with the reports on Ghana and Kenya which categorized the informal sector as a distinct source of employment in its own right and as a category for economic planning (Sethuraman, 1981). Harding and Jenkins (1989) also criticized the dualist school for propounding that the informal sector was a ‘set of survival activities

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<sup>7</sup> [www.vanguardngr.com/2011/10/we-raided-lagos-computer-village-to-remove-killer-products-son](http://www.vanguardngr.com/2011/10/we-raided-lagos-computer-village-to-remove-killer-products-son)



performed in a marginal society' and thereafter, came up with a theory that recognizes the dependence of the informal sector on the formal economy- a dependence which could be complementary ( for example through sub-contracting activities) or competitive ( for example through unregistered business activities which takes advantage of cheap labor and lower prices).

### **3.2 The Definition of the Informal Sector**

The idea of a comprehensive and an all embracing universally acceptable definition of the Informal sector since the term was first used by the ILO in the early 1970s in its report on Kenya has remained a mirage. This is because different scholars have defined it differently depending on the circumstance prevailing on the economy in which they base their study of the concept on i.e. depending on the problem at hand (Thomas, 1992). On this, Schneider F. & Enste D.H. (2000 38(1): 77-114) concluded that "attempts to measure the shadow economy first faced the problem of defining it" while Thomas (1992) argued that three main questions needed to be asked in an attempt to define and differentiate the types of informal activities: (1) Are market transactions involved (2) Are the goods and services being produced legally? (3) Is the method of production and/or distribution legal? Be this as it may, some very useful definitions of the informal sector can be found in the literature which enables us to conceptualize the term. Hart (1973: 11(1): 61-89) sees the informal economy as "unregulated economic enterprises or activities" while for Feige (1989), it is "all economic activities that contribute to the officially calculated gross national product (GNP) but which are currently unregistered". Smith (1994) postulated that the informal sector is the market-based production of good and services whether legal or illegal that escape detection in the official estimates of the gross domestic product (GDP). Lubell (1991) argued that the informal sector is characterized by small-scale units who are engaged in the production and distribution of goods and services and whose primary objective is to generate employment for the participants rather than to maximize profit. Farrell et al (2000) however, argues that two approaches were at the moment being used to define informal sector activity- the behavioral approach and the definitional approach. Accordingly, the former i.e. the behavioural approach sees the informal sector as based on whether or not activity complies with the established judicial, regulatory and institutional framework while the latter i.e. the definitional approach, sees the informal

sector as any economic activity not recorded in the official statistics such as the gross domestic product (GDP) and/or the national income (NI) accounts. Thomas (1992) offered some clarification on the dichotomy between the behavioral and definitional approaches when he stated that while the behavioural approach is used to explain the causes of the informal sector, the definitional approach on the other hand is used to estimate the size and economic value of the informal sector activity. It is obvious from the above that, the classification of the informal sector with a view to bringing all economic activities that are not recorded under the formal economy under it is rather broad. In attempting to narrow down the definition, Harding and Jenkins (1989) and Renooy (1990) see the informal sector as made up of the sum total of all income earning activities with the exclusion of all those involving contractual and legally regulated employment. Feige (1981, 1990), Tanzi (1982-1986), Frey (1989), Cowell (1990) and Alm (1991) among others describe the informal sector as “the sum of all taxable money income left unreported with the intention to evade tax”. Sethuraman (1976) believes that any employment activity that employs less than ten people should be considered as informal sector employment. A quick reflection on the above classifications will reveal one thing which is the existence of extra-legality as exemplified by the inability of the government to properly regulate and control the informal sector economy. It is perhaps important to mention that in recent times, institutional economists have made a great contribution to understanding the concept of the informal sector by focusing their attention on the relationship between the “rules of the game” and economic development while emphasizing that institutions are not neutral since they can either stimulate or hinder the process of economic and overall development (Feige, 1990: 900). Thus, since institutions consist of both the formal (political and economic rules) and the informal (social norms and traditions), North (1997: 19) asserted that “changing merely the formal rules will produce the desired results only when the informal norms are complementary to that rule change and enforcement is either perfect or at least consistent with the expectations of those altering the rules”. It is worth mentioning that the informal economy is not only a characteristic feature of developing countries but also that of transition economies where it is generally referred to as the ‘second economy’ and the developed world where it is simply known as the underground economy (see Feige, 1989). Thus interests in informal sector activities has continued to increase especially in developing countries since the concept was first used in the early

1970s (Losby & Edgcomb, 2000) and also in the more advanced economies with particular references to the 1970s as a result of the oil crisis and the resultant recession coupled with the reorganizations of the 1980s (see Tanzi, 1982 and Portes et al, 1989). Suffice to say however, that the nature of the informal sector differs significantly among countries with different socio-political and institutional structures (see Cowell, 1990).

### **3.3 What is excluded from the Informal Economy as used in this Study?**

At this juncture, it is important to emphasize if only for the sake of this study, that certain types of activities are excluded from our use of the term informal sector, informal economy or informal services as the case may be. Though it is true that the “underground economy” is a subset of the informal economy but for the purpose of this study, criminal activities such as sales of hard drugs, prostitution, child and human trafficking, robberies etc. are excluded from our definition. Also excluded from our definition are all goods and services which households provide for themselves such as caring for one’s children, caring for elderly parents or other relatives, cleaning, washing, cooking or repairing electrical appliances at home etc. No wonder then that Kacapyr (1998 c.f. Losby, J.L et al 2002) estimates that by far the largest type of production not included in official accounts is both legal and ethical.

Basically, the four elements listed below<sup>8</sup> are hallmark of the informal sector as used in this paper:

- (1) It operates on a small scale with weak levels of organization and with little or no distinction between the factors of production (labor, capital).
- (2) Informal employment relationships are usually based on part-time employment, kingship or personal and social relationships rather than contractual agreements or formal guarantees.
- (3) Individual enterprises are not distinct moral entities separate from the households to which they belong. They therefore fail to keep accounts that distinguish the activities of the owner from the activities of the business.
- (4) From a legal perspective there is unlimited personal liability on the part of the proprietor for all commitments entered into during the business process.

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<sup>8</sup> See AFRISTAT, Method series No. 2, 1999; see also UNECA/ AAPAM, 1992.

The use of the informal sector activities in this paper also include those enterprises and activities that may not comply with taxation regulations, standard business practices and business reporting requirement but are otherwise not engaged in criminal activities.

### **3.4 How the Informal Sector came about**

Keith Hart (1971, 1973) may be credited as being the first person to bring the concept of the informal sector (from a third world perspective) into the limelight. The concept of the informal sector as used by Hart was to describe that part of the urban labor force working outside the formal labor market setting. Hart's underlying argument was that the informal sector was made up of all categories of small 'self-employed' individuals. Not minding the fact that the informal sector as classified by Hart was limited to self-employment, his work drew attention to the otherwise previously ignored economic activities in theoretical models of national income account and development (Swaminathan, 1991). The International Labour Office (ILO) which is generally believed to have made the concept popular with its reports on Kenya and Ghana in the early 1970s (Sethuraman, 1981; ILO, 1972) characterized informality as: (a) avoidance of government regulation and taxes (b) ease of entry (c) family ownership (d) small size of business (e) labor intensive and adaptive technology (e) skill acquired outside the formal sector and (f) lack of access to credit facilities. De Soto (2001; 1989) thereafter, added another dimension when he postulated that the regulatory framework in which the legal status stand was the main distinguishing factor between the formal and the informal sector economy. According to him, the informal sector came about as a result of the regulatory policies applied by the government which have the tendency to increase transaction costs thereby forcing people into the underground; extralegal, informal economy. He therefore advocated market deregulation, minimization of state intervention and greater private property rights as a way of using the informal economy as a channel for economic development and poverty alleviation. Put succinctly, empower the poor legally so as to make them have greater control over their assets and economic transformation will take place.

### **3.5 Main characteristics of the Informal Sector**

There are a number of distinguishing characteristics of the informal sector since the concept itself is bedeviled by terminological confusion (Harding and Jenkins, 1989 c.f.

Gerxhani, K. 1999). Different terms have been used to describe the informal sector some of which include: 'bazaar economy' and the 'firm centered economy' (Geertz, 1963), 'black market' (Smithies, 1984), 'underground economy' (Feige, 1989). Still others have used terms such as: shadow, hidden, parallel, clandestine and household to describe the informal sector (see Gerxhani, K., 1999). The very fact that different scholars gave different definition to the concept depending on which field they are from makes it virtually impossible to have a single definition that will satisfy the different domains (Feige, 1989) hence the need to have certain defining characteristics with which to identify informal sector activities. The three main criteria used by Harding and Jenkins (1989) to characterize the informal sector include the political characteristics which stipulates that the business activity of the informal sector is such that all attempts by the government to regulate the sector has proved abortive-a situation that has led some government officials to regard the informal sector as inimical to developmental objectives of government. This general absence of government regulation in the activity of the informal sector has also led some scholars to define the informal sector from this point of view i.e. any form of activities that is not subjected to government regulation should be seen as belonging to the informal sector (see e.g. Anderson (1998); Breman (1980); Feige (1979; 1989); Gershuny (1983); Harding and Jenkins (1989); Renooy (1990); Kaufmann and Kaliberda (1996); and ILO (1972). The second criterion uses the size of the people employed in the sector to differentiate the formal sector from the informal sector in what is referred to as the economic characteristics criterion. Sethuraman (1976) suggested that any employment that is less than ten should be classified as belonging to the informal sector since the size of people employed in the sector also to a large extent; determine the scale of operation of the business. This criterion had made it possible especially in developing countries to pin point enterprises that operate in the informal economy. A number of scholars have equally defined the informal sector along this line (see e.g. Anderson, 1998; Beneria, 1989; Castells, M. & Portes, A. 1989; Commander & Tolstopiatenko, 1997; Renooy, 1990; Swaminathan, 1991; and ILO, 1972). In addition, the status of labor in the informal sector is also used to differentiates it from the formal sector since labor in the informal sector are often exposed to poor working conditions, low wages and a general lack of any form of social benefits hence the definition of the sector as "the sum of all income-earning activities with the exclusion of those that involve contractual and legally regulated employment"

becomes very relevant (See e.g. Anderson (1998); Beneria (1989); Breman (1980); Castells, M. & Portes, A. (1989); Commander & Tolstopiatenko (1997); Renooy (1990); Swaminathan (1991); Gershuny (1983); Harding and Jenkins (1989); Kaufmann & Kaliberda (1996); Hart (1971, 1973); and ILO (1972)). This may be due largely to the fact that informal sector businesses are mostly made up of self-employed or family ownership (see Hart, 1971, 1973) since in the case of Africa, the self-employed can very easily mobilize cheap and often unpaid labor from family members. Some scholars such as Anderson (1998), Swaminathan (1991), Breman (1980) and ILO (1972) sees this criterion as viable to identifying the informal sector. Again, since enterprises operating in the informal sector are generally unregistered and unlicensed (see Swaminathan 1991), they are often unable to access credit facilities from banks since an unlicensed enterprise cannot be used as a collateral of any sort leading to a situation in which most of the enterprises in this sector are perpetually small scale. There are those who believe that it is actually because of the tedious nature of the business registration process in terms of time and financial implication that informal sector entrepreneurs are forced to leave their enterprises unregistered ( see e.g. de Soto, 2001). Non registration also implies that most of the business activities of the informal sector are not recorded thereby creating a distortion when measuring national account or GNP. This led Feige (1981), to define the informal sector as “all economic activities which because of accounting conventions, non-reporting or under-reporting escape the social measurement apparatus, most notably the GNP accounts”. The third criterion sees the informal sector as a transition or a way station to getting a permanent job in the formal sector. This is particularly true when viewed against the fact that migrant from the rural areas to the urban form a substantive number of the informal sector employees. This view is giving credence by Lewis (1956, 1972) who sees the sector as “unlimited source of labor supply” to the modern urban sector. The sector also serves as a transition ground for graduates from both the secondary schools and tertiary institutions on their way to getting jobs in the formal sector. However, many people employed in the informal sector with particular reference to developing countries are in the sector as a last resort with the need to survive the harsh economic reality being upper most in their minds. In Nigeria, the term “hustling” is generally used to refer to the survival nature of the job done in the informal sector while a “hustler” is used to refer to the person doing the actual job of “hustling”. Scholars such as Anderson (1998); Beneria (1989);

Grossman (1982); Renooy (1990); Swaminathan (1991); and Kaufmann & Kaliberda (1996) have discovered this characteristic aspect of the informal sector which makes it a safety net for the poor. Social networking is also a very vital aspect of the informal sector activity as far as it been a safety net for the poor is concerned. This can be seen from the whole process of getting their supplies, to marketing, to granting credit facilities to some customers up to the stage of collecting sales money. The same is also true for those offering services since they are often willing to offer such services with the understanding that payment could be made at a later date. The significance of the social network to the informal sector is emphasized by researchers such as: Anderson (1998); Beneria (1989); Breman (1980); Castells, M. & Portes, A. (1989); Grossman (1982); Renooy (1990); Harding & Jenkins (1989); and ILO (1972). The ease of entry into the informal sector as a result of the low capital requirement means that anybody can decide any time to set up business in the sector while also taking advantage of flexibility in terms of work hours and freedom to take business decisions which often act as a strong motivation for informal sector entrepreneurs especially in the developed countries and for some who deliberately choose to go into the sector in developing countries. These factors are strongly related to the so-called “need to be my own boss” syndrome in developing countries such as Nigeria (see e.g. Anderson (1998); Beneria (1989); Breman (1980); Castells, M. & Portes, A. (1989); Gershuny (1983); Renooy (1990); Harding & Jenkins (1989); and Swaminathan, 1991).

### **3.6 The size of the Informal Sector**

A casual observer of the informal economy in developing country with particular reference to sub-Sahara Africa may notice that it is by far larger than the formal economy. Yet, researchers have found it extremely difficult to accurately estimate the size of this underground, untaxed and unregulated segment of the economy as against its above ground counterpart. The difficulty in estimating the size of the informal economy has led some scholars to conclude that all forms of measurement of the informal sector is flawed in one way or another (see e.g. Feige, 1977). Yet, differences in measurement techniques and results have not prevented scholars from attempting to estimate the size of the informal sector. The International Labor Organization (ILO) for instance, estimates that the proportion of the urban work force engaged in the informal sector is highest in sub-Sahara Africa and accounts for more than 50% of the urban employment

in two-thirds of the countries surveyed in 1999 (Nwaka, 2004). In Nigeria for instance, it is estimated that between 45% and 60% of the urban labor force are employed in the informal sector up from about 25% in the mid-1960s (ibid) while more than 90% of the food supply also comes from the sector (Nkom, 2000 c.f. Onyenechere, 2011). It is perhaps pertinent to mention from the literature the four principal approaches that may be used to measure the size of the informal sector. The first of these approaches is the percent of the gross national product (GNP) which as propounded by some researchers, estimates the size of the informal economy by calculating the money value of production occurring outside what is counted in the GNP and then measured as a percent of the Gross National Product (see e.g. Guttman, 1977; Feige, 1979; Tanzi, 1980; 1982). The estimates of the size of the informal sector using this approach is simply based on calculating the difference between the actual amount of money in circulating and the amount expected to be in circulation based on “legitimate” needs of the economy (Losby et al, 2002). The second approach which is the percent of adjusted gross income came about in an attempt to come up with a better measure of the size of the informal economy. Some researchers have argued that using the percent of the GNP as a measure may introduce some element of bias and error into the estimate and suggested instead that the percent of Adjusted Gross Income (AGI) be used (Feige, 1997, c.f. Losby et al 2002). The basis for their argument is that since the GNP included non-taxable government and private expenditures, AGI becomes the appropriate scale measure for presenting estimates of unreported income since it forms the basis for assessing taxable income (ibid). The third approach which is the so-called percent of economically active people is very popular with sociologists and laid great emphasis on the structure of the informal economy. Attempts are made to determine who participates in the informal sector, in which geographical areas, the type of informal economic activities and of course, in which industries (Losby et al, 2002). This method enables researchers to arrive at an estimate of the percent of economically active people (EAP) who are engaged in the informal economic activities and in specific sectors of the economy (ibid). The fourth approach which is the estimate of the number of enterprises operating informally defined informal enterprises as those enterprises with less than ten employee (Sethuraman, 1976). Attempt is made to estimate the numbers of such firms and based on the estimate, projection as to the size of the informal economy is made.



### **3.7 Effects of the Informal Sector**

There are researchers who have argued that the informal sector gets an undue advantage when compared to the formal economy as a result of the fact that the former do not need to officially register their businesses (Swaminathan; 1991) nor do they pay tax to the appropriate government agencies (see e.g. Anderson (1998); Beneria (1989); Castells, M. & Portes, A. (1989); Renooy (1990); Feige (1979, 1989); and Swaminathan (1991). This is seen as eroding competition as the informal economy may be able to produce the same goods or services as the formal sector but at a much cheaper price. There is also the view that a large informal sector as is the case in most developing countries means that the government may be denied much needed revenue in form of taxation which is needed for the provision of public services such as roads, schools, electricity and pipe borne water etc. One implication of this is that the formal economy may then be forced to bear a higher taxation costs than was otherwise necessary and may lead to a situation in which some entrepreneurs leave the formal sector for the informal as a way of escaping the high tax burden (Johnson et al. 1997). The mechanisms of staying in business in the informal sector when the legal and regulatory framework of the government is not suitable to their business interests is well documented by de Soto (1989) and Pei (1995) who both believed in less governmental regulation. In the literatures one can find commentators who are of the views that people engaged in the informal economy simply because they have very little or no hope of growing their businesses compared to those engaged in the formal sector who are generally more able to access credit facilities such as loans from banks. As argued by de Soto (2010), most of the people in the informal sector are not privileged to have rights to their property-a situation which seriously deprives them of the ability to turn their assets into working capital. The implication of this according to him is that most of them are trapped in the vicious cycle of poverty often associated with the informal sector. This however does not in any way reduce the role of the informal sector in creating employment opportunities both for those who decide to work in the sector permanently and for those who are on a transition to formal employment. The employment generating ability of the informal sector can be harnessed with a view to bringing economic transformation if only as suggested by de Soto (2010) the government can legally empower the people involved in this sector. For as Sassen (1997) argued, microenterprises can and do thrive in the informal economy in the urban sector since they serve low-income workers who

find the costs of goods and services in the open market prohibitive and also provide low-cost service operations to commuters and tourists flowing into the urban centers on a daily basis.

### **3.8 The link between the Informal and the Formal Sectors**

Earlier commentators on the informal sector presented it as distinct from the so-called “capitalist” urban economy. The idea of a dual economy thus encompassed an urban, organized, tax paying and regulated economy on the one hand and an urban, unorganized, unregulated and a non-tax paying economy on the other hand (see e. g. Boeke, 1953; ILO 1970). However, there are those who have argued against such dualistic approach to the labor market while insisting that the informal sector is dependent and subordinate to the capitalist sector with the capitalist or formal sector exploiting the informal sector by obtaining cheap labor and wage goods (see e.g. Breman 1976, 1977 c.f. Swaminathan 1991). Thus, the idea that the informal sector was independent, unorganized and having little relationship to the authorities and big business as suggested by the initial report of the ILO was rejected (ibid). Others such as Duncan (1992) and Gutmann (1977) also argued that the formal and informal work are gross substitute for one another since when people lose jobs in the formal economy, they often turn to the informal jobs to make ends meet. It may perhaps be difficult not to notice the importance of the informal sector in developing countries in terms of job creation and its integration into the national economy since the informal sector which consists of both self-employment and wage employment (Losby et al 2002) is linked in many aspects which helps in no small way to further solidify its integration into the national economy. It is a very common scenario to see self-employed people augmenting income from the informal sector with regular salary from the formal sector as a way of making ends meet (ibid). For these set of people, self-employment is a part time employment providing supplementary income to their primary employment (Alden, 1981 c.f. Losby et al 2002) and involves organizing work schedule between the two sectors (formal and informal). For others however, the informal sector is a primary source of wage employment such that these categories of people earn their income from the informal sector but the money earned is spent on the formal economy such as when they make a saving in the bank, pay house rent, buy a television set or a mobile phone as the case may be. Schneider (1998) using his study for Austria and Germany reports that

about two-third of the income earned in the ‘shadow economy’ is immediately spend on the formal economy resulting in a positive and stimulating effect on the economy. In the study for Belgium, Adam and Ginsburge (1985) also reported a positive relationship between the informal sector and the formal sector. For developing countries, the study by Moir in Jakarta concluded that the informal sector contributed about 30% to overall income in the region (see Moir 1981, p.117 c.f. Hemer & Mannel 1989). Little wonder that Swaminathan (1991) cautioned against viewing the informal sector in isolation. Raijman (2001 c.f. Losby et al 2002) in his article summarized Portes and Sassen – Koob’s (1987) four of the common linkages between the formal and the informal economy thus:

- (a) The Informal Marketing Chain-which is commonly used by industries to eliminate costs involved in maintaining regular and permanent sales staff in what appears to be a disorganized mass of street vendors and merchants but is which actually a well-coordinated network by a group of middle men dependent on formal firms (Portes, 1994a; 1994b).
- (b) The informal Supply Chain-where informal workers serve as suppliers of inputs to local buyers who, in turn, sell their products to the central wholesaler who is the final link to the formal industry (Fortune & Prates, 1989; Gowan, 1997).
- (c) Construction and Repairs Services-formal firms often use informal workers to carry out construction and repairs service contracts. This informal subcontracting allows formal firms to maintain a relatively small regular labor force since work is often assigned to principal contractors who in turn mobilize the informal network i.e. informal subcontractors and laborers to supply the specific service or services (Stepick, 1989).
- (d) Manufacturing-Subcontracting in manufacturing (or Sweatshops) rely on individuals who are defined as industrial outworkers and who are under the illusion of self-employment (being nominally self-employed) when actually they work for larger firms (Fortune & Prates, 1989; Portes, 1994b; sassen-Koob, 1989).

It becomes rather easy to see from the above analysis that the dichotomy between the formal and the informal sector is increasing becoming blur.

## **Chapter 4**

### **Conceptual and Theoretical Framework**

#### **4.1 Introduction**

The informal sector is one sector that has generated a lot of controversy in recent times. There are those who think that since the sector creates employment opportunities, government should find a way to harness the potentials inherent therein with a view to bringing about economic transformation. Others believe that the informal sector's main feature is illegality while others yet postulate that the illegality often associated with the informal sector is actually created by unnecessary regulations by the government. One thing that is very clear from the literature is that some element of illegality is often associated with the informal sector economy with varying degree depending on whether the researcher is looking at the informal sector activity in a developed economy, developing or transition economy. This study seeks to investigate the informal sector activity at the LCV by posing three research questions which are assumed will, to a large extent help in reaching a conclusion which will add to the already existing body of knowledge on the informal sector. The aim of this section is therefore to discuss the different theories that will be used specifically to answer the research questions which motivated this study.

#### **4.2 Public choice theory**

Since the general assumption from the literature is that the informal sector often evade tax, the public choice theory will be used to investigate our research question number one which seeks to find out the extent to which the Lagos State Government benefits from the activity of the informal sector entrepreneur at the LCV in terms of revenue generation in the form of tax. The public choice theory as postulated by Downs (1957); Niskanen (1971); Olson (1971) and Peltzman (1976), has it that there were various agents in the policy process of any country or society such as politicians, bureaucrats and other interest groups. Accordingly, all agents involved are assumed to be rational utility maximizers with politicians being vote maximizers, bureaucrats being budget-maximizers while interest groups who usually have narrow interests are wealth maximizers (see Cullis and Jones, 1992). According to Mueller (1989), the public choice theory is actually a theory of the state in which voter's behavior, party politics,

bureaucracy and voting rules among others are taken into consideration. Pommerehne et al (1994) using a theoretical model to explore the relationship between governmental public good provision, fairness aspects, government waste and tax compliance concluded that tax evasion was higher the greater the difference between the individual's optimal choice of public goods provision and the actual level, and the higher the level of government waste in previous period. Thus the public choice theory like all other 'social welfare' theories assume that government officials are honest and can be trusted to do the right thing not only in raising tax revenue but also in using such tax revenue fairly. Sanyal et al (2000) carried out a study in which the behavior of tax revenue net of collection costs in a regime of widespread administrative corruption was tested. The result from the study shows that in corrupt regimes in which the government does nothing to fight corruption, tax evasion was widespread. In addition, they find out that if there were a tendency of increased corruption due to higher taxes and fines, using fines as a penalty to punish tax evaders would be ineffective for the government. From the foregoing, it can be deduced that the ability and level of tax revenue to be generated by the Lagos State Government using the public choice theory is dependent on two factors: the issue of fairness and honesty on the part of the government towards its citizens, and the issue of generating tax revenue by the government from the citizens were the level of tax compliance of the citizens is assumed to be connected to the level of honesty displayed by the government in question. The relevance of using this theory to investigate the informal sector activity at the LCV cannot be over-emphasized when viewed against the high level of corruption in Nigeria. Little wonder then that Wintrobe (2001) who introduced the 'trust' aspect of social capital theory maintained that even from the public choice point of view, the assumption still needed to be made that citizens trust their government well enough to deliver on the services promised before they would "voluntarily" pay taxes.

### **4.3 Theory of disguised unemployment**

The second research question of this study seeks to find out the extent to which the urban employment generated by the informal sector at the LCV represents a relevant case of disguised unemployment using the theory of disguised unemployment. After all, when conceptualizing the part of the labor force that is disguisedly unemployed, we are often faced with the task of separating from the employed those workers who are

inadequately employed so as to allow for easy identification and measurability of the size of the labor force with substandard employment. Ducoff & Hagood (1957) singled out two sub-classes of the inadequately employed:

- (a) The under-employed who do not have sufficient amount of work
- (b) The employed who get substandard returns per hour of work because of low productivity (mainly self-employed or unpaid family workers) or because they are employed at substandard wages.

It is important to bear in mind that terms such as disguised unemployment, under-employment or partial employment are often used to describe the different manifestations in whatever guise, of inadequate employment opportunity or the under-utilization of the actual or potential manpower resources. Although difficulties often arise when one tries to find a universally acceptable and an all-encompassing definition for the term disguised unemployment, some researchers have managed to formulate some useful concepts of under-employment which allows us to grasp the meaning of the term in such a way that is generally applicable to different situations. A study by the United Nations in the early 1950s (c.f. Ducoff & Hagood, 1957: 156) sees under-employment thus; ‘employment in jobs which occupied only a part of the workers’ available time or permit only the partial utilization of the capacities. The latter form of waste of human resources is something called ‘concealed’ or ‘disguised’ unemployment, and may be created by any of the conditions which produce total unemployment, including structural maladjustments, cyclical fluctuations, or persistent deficiency of the general demand for labor....since the concept of under-employment includes employment which does not permit the workers to make their full potential contribution to the output of the community since full employment requires an occupational distribution of the labor force which is optimal from the standpoint of maximizing per capita output’. In examining the problem of under-employment as is manifested in Asia, Chiang (1952 c.f. Ducoff & Hagood, 1957) conceptualized the problem simply by making a distinction between-visibly, disguised and potential under-employment and treated each of these types as different stages in which redundant labor may be released from an economic sector without necessarily reducing output in that same sector. Accordingly, visible under-employment was defined as the excess of manpower available over manpower needed to carry out current production activities under existing methods and capital investment. On the other hand, disguised unemployment

was seen as the labor time or manpower potential that will be released if only simple changes in methods of production were made without any additional capital investment while potential under-employment was said to be the manpower that could be released from a given economic sector by a more fundamental change in methods of production, including substantial capital investment. Using a more theoretical analysis, Bishop (1954 c.f. Ducoff & Hagood, 1957: 157) conceptualized the problem of under-employment by saying that “economic under-employment of labor exists when the real return which owners receive for the use of their labor in the particular field of resource use is less than the real return which could be obtained for comparable resource services in other uses”. He further pointed out that unemployment usually arises out of either or both of the conditions stated below:

- (1) Imperfect knowledge regarding employment opportunities
- (2) Barriers to the mobility of labor among uses.

Relating this whole concept of disguised or under-employment to problems often seen as hindering economic development with respect to under-developed countries, one can deduce that under-employment poses a far greater hindrance to economic growth as compared to outright situation of unemployment since disguised unemployment and inadequate employment imply some standard or norms of employment which are not being met simply because such standards are implicitly formulated and therefore does not allow for easy measurability (Ducoff & Hagood, 1957).

#### **4.4 The illegalist school**

The theory of the so-called illegalist school will be used in analyzing the third research question of this paper which seeks to investigate the extent to which the informal sector entrepreneurs at the LCV are aware of the illegality of trading in pirated ICT components. Popularized by the neo-classical and neo-liberal economists, the illegalist school postulates that the informal entrepreneurs deliberately choose to remain informal in order to avoid regulation and taxation and at times dealing in illegal goods and services (Maloney, 2004). Therefore, the description of the informal sector as the sum of all taxable money income left unreported with the intention to evade taxes is one that government officials are often too familiar with and leading to a rather hostile predisposition towards the sector. Many researchers such as Anderson (1998); Beneria (1989); Castells & Portes (1989); Commander & Tolstopiatenko (1997); Renooy

(1990); Swaminathan (1991); Feige (1979, 1989); Gershuny (1983); Harding & Jenkins (1989); and Kaufmann & Kaliberda (1996), mentioned this aspect of illegality by the informal sector in their different definitions of the sector. To the illegalist school therefore, the informal sector is shielded in a lot of extralegal activity both in its business operations and in the unauthorized use of vacant public or private land. It is a common site in Africa for instance, to see people hawking in traffic and selling fake and substandard goods or to see the unauthorized construction of small shops and containers in strategic locations without government permit. Some scholars likewise along the line of the illegalist school have defined the informal sector using this singular criterion of illegality (see Grossman, 1982; Barwa, 1995). It is however important to point out that within the informal work itself, activities may be legal or illegal as the case may be with the way and manner the particular activity (good and services) is carried out (produced or exchanged) making it a legal or illegal activity. For instance, the services rendered by a day care center for children are usually legal but the way and manner it is rendered may make it illegal since without a proper registration of the day care center, a given law as it concerns business registration is contravened hence such day care though not intrinsically unlawful has violated some non-criminal law such as not filling taxes or adhering to labor laws. Such center may therefore be said to be involved in extralegal activity with the extent of illegality being the fact that the business was not registered for the purpose of effective regulation and taxation. It is this type of illegality that this study seeks to investigate at the LCV.

## **Chapter 5**

### **Research Methodology and Data Presentation**

#### **5.1 Introduction**

The objective of this section is two-folds: to discuss the different techniques and methods used for collecting and analyzing data for this research work and, to present and analyze data thus collected during the field work proper. It must be emphasized, that certain factors were of extreme importance to this writer while carrying out this research work such as: how to go about collecting the primary and secondary data, how to segment the study area so as to reach the target population and of course the techniques or methods to be used in analyzing data.



## **5.2 Target population**

The main target population for this study was the informal sector entrepreneurs within the ICTs industry in Lagos-Nigeria. The sample frame used for the informal sector was however, restricted to the LCV due to the nature of the research questions. The target population also included the formal sector within the LCV and officials of the Lagos State Government. While sample used for the formal sector was also restricted to the LCV, the sample for the LSG was restricted to Ikeja Local Government Council since the LCV comes under the jurisdiction of the council. The writer's view is that subdividing the total target population into relevant strata was a foolproof method of making sure that the sample was more likely a representation of the population. This assertion finds credence in Saunders et al (2000) who stated that "dividing the population into a series of relevant strata means that the sample was more likely to be representative, as you can ensure that each of the strata was represented proportionally within the sample". Thus, the total sample size for this study was 100. This comprises 60 informal sector operators, 30 formal sector entrepreneurs and 10 LASG officials. It is this writer's considered opinion that a total sample size of 60 gives a rather fair representation of the sample frame considering the nature of the LCV where a large majority of the informal sector operators were perpetually on the move without any fixed shop or office. As for the formal sector, selecting a sample of 30 systematically and methodologically is most likely to limit the possibility of error due to biasness with a view to presenting an outcome which may be considered scientific (Mason et al, 1999). Ten officials of the Ikeja Local Government Council which is a council under the LASG were interviewed.

## **5.3 Data collection procedure**

This study made very robust use of secondary data in addition to primary data collected in May 2012 from three categories of people-the Informal sector entrepreneurs, the formal sector entrepreneurs and officials of the Ikeja Local Governmnet Council of Lagos-Nigeria. It is relevant to mention that the general assumption among researchers to the extent that informal sector operators are "not too willing" to talk to people 'unknown' to them on matters relating to taxation since they generally evade tax, proved

not to be totally correct during the course of this study as respondents were very willing to discuss the issue of tax evasion and reasons for such evasion.

### 5.3.1 The design of the questionnaire

The study used questionnaire which were structured in such a way as to allow for simplicity with a view to getting adequate and relevant information from respondents while also allowing for easy analysis of the data. Samples of the questionnaire can be found in the appendix attached under the appendix list. The resulting demographics of the different categories of people interviewed are presented herein.

#### **Exhibit 1: Demographics of individual interviewees for the informal sector at the LCV.**

Marital Status:	40% (12) = Single 30% (18) = Married 0% (0) = Widowed
Educational Level:	10% (6) = Primary school level 65% (39) = Secondary school level 25% (15) = Polytechnic level
Age:	50% (30) = 25-40 years old 30% (18) = 18-25 years old 20% (12) = 40-60 years old
Time at the LCV	40% (24) = 3 years or less 60% (36) = More than 3 years

Source: Field Survey, May 2012.

**Exhibit 2: Demographics of individual interviewees for the formal sector at the LCV.**

Marital Status:	40% (12) = Single 60% (18) = Married 0% (0) = Widowed
Education Level:	20% (6) = Primary school level 60% (18) = Secondary school level 20% (6) = High school/ Polytechnic
Age:	50% (15) = 25-40 years old 50% (15) 40-60 years old 0% (0) = 18-24 years old
Time at the LCV	40% (12) = 3 years or less 60% (18) = More than 3 years

Source: Field Survey, May 2012.

**Exhibit 3: Demographics of individual interviewees at Ikeja Local Government Council (Government Officials).**

Marital status.	20% (2) = Single 70% (7) = Married 10% (1) = Widowed
Education Level:	0% (0) = Primary school level 50% (5) = Secondary school level 50% (5)=High school/Polytechnic
Age:	40% (4) = 25-40 years old 60% (6) = 40 -60 years old 0% (0 ) =18-25 years old
Time as a government official:	20 (2) = 3 years or less 80% (8) = More than 3 years

Source: Filed Survey, May 2012.

This closed and open-ended questions format was employed with a view to making the questions as unambiguous as possible while also bearing in mind the general assumption that informal sector entrepreneurs were mostly illiterates who may have

difficulties in completing the questionnaires. This format also made it possible for this researcher to read the questions to those who were busy carrying out some form of business transactions during the course of the interview and therefore, not having time to fill the questionnaires themselves. Answers provided were then quickly ticked in addition to taking vital field notes in accordance with Warren (2000 pp.183-199). The open-ended question was administered in conjuncture with the closed-ended on the three tiers of interviewees-the informal sector operators, the formal sector entrepreneurs and official of the LSG. Those who had the time completed the questions themselves while those who claimed to be busy were assisted to do so as the interview progressed. As stated above, this researcher was well aware of the general impression in the literature that the majority of the informal sector entrepreneurs were illiterates and also not too willing to talk about tax issues. Therefore, the mindset of this researcher was to use the interviewer-administered questionnaire-a system where the research completes a questionnaire based on the respondent's answer as much as possible. This method was actually used in about 60% of the cases not because the respondents were illiterates as postulated in most literatures but because they were simply too busy to have the spare time to fill the questionnaires. About 40% used the self-administered questionnaires where the questionnaires were completed by the respondents themselves. One very remarkable observation here was the fact that about 90 percent of the people interviewed were literate as against the general assumption in the literature. This again may however, be due to the fact that i was talking to people within the ICT environment where some basic level of literacy is required.

### **5.3.2 Personal or face-to-face interviews**

In addition to data collected using the questionnaire, the researcher used both the structured and unstructured face to face interview to get more information from all the parties of interest to this study. This is based on the belief that an enquiry such as this imposed both discretion and responsibility on the researcher to adjust methods as the case demands (Cresswell, 2005). The researcher who was ably assisted by a former junior colleague who is an IT expert, was able to participate in some of the actual market transactions (as a customer and observer) in order to study the actual operational methodology of the market.

### **5.3.3 Procedure for data analysis**

For easy analysis, data collected were grouped according to respondents using tables with a view to finding out the percentages of the groups so as to interpret these percentages accordingly within our conceptual framework. Leaning heavily on Odell (2001: 173), the interpretive section of this thesis involved a combination of methods as the inquiry proceeded as well as a quest for theories to explain developments. The Statistical Package for Social Sciences (SPSS) was employed in the final analysis.

## **Chapter 6**

### **The Empirical Section**

#### **6.1 Introduction**

One very vital industry with a great potential for bringing about socio-economic transformation in view of the immeasurable impact it has had on the Nigerian economy since the advent of the GSM in 2001 is the ICTs industry. Thus, the informal sector activity within the ICTs Industry in Nigeria with particular emphasis on the LCV is as intriguing as it is challenging particularly when viewed against the fact that the LCV being a potential innovation nerve center also offers some form of specialized and technical services such as the repairs or refurbishment of used computer, the de-coding of coded mobile phones and laptops to mention but a few. The aim of this empirical section therefore is to attempt to provide answers to the research questions using findings from the survey conducted.

#### **6.2 LASG tax revenue from the informal sector activity at the LCV**

In order to find out whether or not the LASG was generating adequate revenue from taxing the informal sector entrepreneurs in accordance with the research question one compared with the huge volume of business activities at the LCV, we shall relay heavily on the public choice theory to draw our conclusion from our survey. To this end, a number of questions revolving around: literacy rate, the number of informal sector business on permanent location at the LCV, the basis for business transactions, keeping of financial records, the number of informal sector entrepreneurs using the services of accountants to keep financial records, and taxation were asked. The view of this writer is that answers to these questions will enable us form a valid conclusion.

### 6.2.1 Literacy rate

A large number of the informal sector entrepreneurs sampled have at least secondary school education. This in my opinion could be due to the fact that we are here dealing with the ICTs industry where some minimum educational requirement is needed if only to understand the workings of ICTs components. The data gathered from the field work on the level of education of the informal sector entrepreneurs is presented below.

Table 6.1: What is your level of education?

Level of Literacy	No. of Respondents	Percentage (%)
High Education (University/Polytechnic)	15	25
Medium Education (i.e. Secondary School)	39	65
Low Education (Primary School)	6	10
Total	60	100

Source: Field Survey data, May, 2012.

Table 6.1 above shows that 25% of the informal sector entrepreneurs at the LCV have high education mostly polytechnic education as was gathered during the interview proper. 65% of the informal sector entrepreneurs at the LCV had secondary school education while only 10% had primary education. This result was rather surprising as the literature on informal sector speculates that the sector was dominated by people with very low or no education (see e.g. Gallaway & Bernasek, 2002; Marcelli, Pastor, & Joassart, 1999). This result however, agrees with the study by Nelson (1999) on participation in the informal economy of a rural setting.

### 6.2.2 Informal sector businesses on permanent location at the LCV

The response of the respondents to the question as to whether they have a permanent place of business like shops or offices for easy identification and regulation is presented below.

Table 6.2: Do you have a permanent Shop or office that serves as you place of business?

Response	No. of Respondents	Percentage (%)
Yes	9	15
No	51	85
Total	60	100

Source: Field Survey data, May, 2012.

Table 6.2 shows that 85% of the informal sector entrepreneurs surveyed did not have a permanent place in form of shops or offices from where they carried out their business activities while 15% had shops from where business activities are carried out. The implication of this is that the informal sector business activity at the LCV is difficult to regulate for taxation purposes since entrepreneurs cannot be traced to a particular location. The writer discovered during this survey that some of those who had permanent place of business merely used such shops as a kind of warehouse pending when they can move their goods out to other shops which are usually located outside the LCV. Reasons given by these group of entrepreneurs for not having a permanent place of business within the LCV includes: high cost of renting a shop, insufficient fund and a general belief by the majority that being in the informal sector was only a transition to getting a better job elsewhere.

### **6.2.3 Predominance of cash as basis for business transactions**

Majority of the respondents sampled in the informal sector carry out their business transactions purely on cash. A few of the entrepreneurs however, asserted that they transact business both in cash and cheque but were quick to add that cheques were only collected from known customers.

As can be seen from Table 6.3 below, 83.3% carried out their business transactions solely on the basis of cash while 16.7% accepted both cash and cheque payments. None of the respondents agreed to transacting business on the basis of cheques alone. The preference for cash as against cheque is due largely to the fact that cash is seen as more liquid. This however, does not allow for easy monitoring of the financial activities of the informal sector entrepreneurs for taxation purposes.

Table 6.3: Do you transact your business in cash or do you accept cheques from customers?

Basis for transaction	No. of Respondents	Percentage (%)
Cash Only	50	83.3
Cheque Only	0	0
Cash and Cheque	10	16.7
Total	60	100

Source: Field Survey Data, May 2012.

#### 6.2.4 Financial record of business transaction

This study shows that a majority of the informal sector entrepreneurs at the LCV keep a fairly good record of their financial transactions. They are however quick to point out that such records are only for their “personal use”. The below shows the result of the survey.

Table 6.4: Do you keep a Financial Record of your Business Transactions?

Response	No. of Respondents	Percentage (%)
Yes	43	71.7
No	17	28.3
Total	60	100

Source: Field Survey. May 2012.

As can be seen from Table 6.4 above, over 70% of the respondents confirmed that they actually keep a financial record of their business transactions. This writer was privileged to access some of such financial records and noticed that some dates back twelve months earlier. This writer was also told in very clear terms that the financial record was solely for the personal consumption of the record keeper and not for the government. About 28% said they do not keep a formal record of their business transactions as money from transactions was barely enough to meet their day to day financial challenges.



### 6.2.5 Informal sector entrepreneurs using the services of accountants

The response of respondents as to the use of trained accountants to keep a proper record of financial transactions shows that majority of informal sector entrepreneurs do not believe in the use of such services for reasons ranging from high cost of hiring the services of an accountant to not making enough money as to warrant keeping such proper financial records.

Table 6.5: Have you ever employed the services of an accountant to help keep proper records? If no, why?

Response	No. of Respondents	Percentage (%)
Yes	2	3
No	58	97
Total	60	100

Source: Field Survey, May 2012

Table 6.5 shows that 97% of those interviewed did not see the need to employ the services of a professional accountant. The writer was told by some of the respondents that the record of financial transaction they kept for their personal use was all that is needed as far as accounting was concerned. It was observed that the respondents who claimed to hire the services of accountant were the ones that also had business activities outside of the LCV.

### 6.2.6 Informal sector entrepreneurs and taxation

The issue of taxation in the literature as far as the informal sector is concerned is often taken for granted that informal sector entrepreneurs generally do not pay tax as they are more comfortable evading taxes due firstly to the nature of their businesses and secondly because government regulation is virtually impossible. The table below shows the responses solicited from the informal sector entrepreneurs during this study. It is relevant to emphasize that this writer observed a general lack of willing to pay any form of taxation among respondents who were of the general opinion that since Nigeria is an

oil producing country, taxing the citizens should not be of paramount importance as the oil money was more than enough to take care of the citizens.

Table 6.6: Do you pay taxes to the government? If not, why?

Response	No. of Respondents	Percentage (%)
Yes	6	10
No	54	90
Total	60	100

Source: Field Survey, May 2012

As can be seen from the table, 90% of those interviewed do not pay tax nor do they believe that they ought to pay any form of taxation. This writer was told repeatedly that since government officials had stolen oil revenue accruing to the country due to corruption, paying taxes will provide additional public fund for misappropriation. There was as a matter of fact, a general lack of trust on government and politicians in general due to corruption in the polity. The 10% who admitted to paying tax insisted that they do so because they had permanent business interests elsewhere which government officials are easily able to track down. Even at that, they do everything within their power to reduce their tax payment to the minimum through fictitious claims in which a man for example may declare that he has four children and aged parents when in actual fact he has just one child and no surviving parent all in an effort to reduce his tax obligations.

### **6.2.7: Interview with Ikeja local government official on the informal sector activity in general**

In order to conduct this interview, i visited the Ikeja local government council office on three different occasions between 2012-05-01 and 2012-05-06 and spoke directly with some council officials who were in charge of the LCV. The main question which was of paramount importance to the government was asked thus-“are you satisfied with the level of taxes that the LASG is generating from the LCV? The response was shocking as every single one of the officials interviewed expressed anger and regrets at the activities of the informal sector entrepreneurs at the LCV. The officials saw the Informal sector at

the LCV as constituting a nuisance to the formal sector entrepreneurs there present, the customers to the village as well as the government whose inability to maximize revenue generated at the village is often attributed to the informal sector tax evading tactics. In addition, most of the officials regretted not having enough law in place to prosecute tax evaders as epitomized by the informal sector entrepreneurs at the LCV. When this researcher mentioned to the officials his observation about the existence of a seemingly multiple tax system imposed by government officials at the LCV, the response to this was that what appeared to look like multiple taxation was actually a tax system that taxed the different areas of business activities traded and was not in any way multiple.

### **6.2.8: The Formal sector response to taxation system at LCV**

In order to obtain the views of all the parties involved in this vexed issue of “taxation”, this researcher presents herein the tabulated response of the formal sector entrepreneurs on the issue of taxation at the LCV. Thus to the question- “are you satisfied with the taxation system of the government”? The response is presented below in table

Table 6.7: Formal sector entrepreneurs’ to the question-Are you satisfied with the taxation system of the government at the LCV?

Response	No. of Respondents	Percentage (%)
Yes	2	7
No	28	93
Total	30	100

Source: Field Survey, May 2012.

As shown in Table 6.7, 93% of the sampled respondents were not happy with the taxation system at the LCV as a result of multiple taxation system that is often imposed on them by government officials. In the course of this survey, this writer was shown different receipts of payments issued for different levies. It was obvious that levies were usually imposed under various guises in order to extract money from the traders. The 7% who claimed that they were satisfied with the tax system at the LCV however, lamented the fact that tax money collected are usually not used for development purposes as it should be but rather such money are misused or stolen due to corruption.

### **6.2.9 Conclusions on research question one using the public choice theory**

In order to reach a valid conclusion, two related questions were put across to the respondents. The first question was, “do you know what taxes or tax money are used for”? The answer to this question was overwhelming as virtually every one of the respondents agreed to knowing what money generated from taxation was to be used for. It was gathered from the respondents that tax money should be used to provide infrastructural facilities such as electricity, security, good roads, schools and hospitals. Then, the subsequent question was asked, “Do you pay tax to the government”? To this question, 90% of the respondents answered categorically that they do not pay tax to the government. This was rather surprising to this writer since one would have expected a far greater level of tax compliance from people who knew so well about the “benefits” of paying taxes. It is pertinent to note that different reasons were adduced for their non-tax compliance such as: corruption amongst government officials leading to theft of crude oil money which ought to be used to provide infrastructural facilities; failure by the government to provide any form of social security package to help alleviate the economic hardship which majority of the poor are subjected to, and the fact that they generally do not see themselves as generating enough revenue as to warrant paying any form of tax to the government. These reasons are in agreement with the theoretical postulation of the public choice theory that tax evasion is higher the greater the difference between the individual’s optimal choice of public goods provision and the actual level, and the higher the level of government waste in previous period. This also agrees with Wintrobe’s (2001) model which assumed a positive relationship between a citizen’s willingness to pay taxes and his/her level of trust in the government’s honesty or in other individual’s civil spirit. Therefore, going by the public choice theory, in a country like Nigeria where corruption is so widespread and in which the general impression is that the government is doing very little or nothing to fight such corruption, tax evasion should be expected to be on a high level hence the inability of the LASG to optimize tax revenue generation at the LCV. This high level of tax evasion was also confirmed during the interview proper conducted with officials of the Ikeja Local Government council who claimed that they were not able to maximize the potential revenue generation from the LCV because of the informal sector entrepreneurs’ illegal activities leading to governmental inability to regulate the sector for taxation purposes.

### 6.3 Informal sector entrepreneurs at the LCV disguisedly unemployed?

The section attempts to answer research question number two which seeks to find out the extent to which the urban employment generated by the informal sector at the LCV represented a relevant case of disguised unemployment. To do this, this writer asked the respondents two questions which were deemed necessary and which might enable us draw a valid conclusion from the study viz: “do you think that you are gainfully employed?” and, “would you remain in the informal sector economy if offered an opportunity to move to the formal sector of the economy?”. Theories on disguised unemployment were used in analyzing these questions.

#### 6.3.1 Informal sector entrepreneurs who believe they are gainfully employed.

The respondents were asked “Do you think you are gainfully employed?” The essence of this question was to find out if respondents earn enough income from participating in the informal sector economy at the LCV such that their standard of living are so positively affected and warranting their continuous stay in the sector. The responses as presented in Table 6.7 shows that 90% of respondents believed that they were not gainfully employed while a mere 10% think they were gainfully employed. This writer actually sat down with some of the respondents to find out why they think they were not gainfully employed and discovered that virtually every one of them live on the daily income they make from sales or ‘hustling’ as they call it. It was also discovered that some of them go on for days without making any money and have to depend on whatever little money they had made from the previous period for survival.

Table 6.8: Informal Sector Entrepreneurs who believe they are gainfully employed.

Response	No. of Respondents	Percentage (%)
Yes	6	10
No	54	90
Total	60	100

Source: Field Survey, May 2012.

### 6.3.2 Informal sector Entrepreneurs who are willing to move to the better organized formal sector.

When asked if they will be willing to leave this sector if offered employment in the formal sector with fringe benefits. This writer defined the formal sector job to them in terms of having a steady job with regular salary that guarantees other benefits such as housing allowance, transport allowance, medical benefits and an opportunity for pension- benefits which are usually taken for granted in the formal sector. 96.6% of the respondents answered in the affirmative with 3.3 % of the respondents saying they prefer to remain in the informal sector.

Table 6.9: Informal sector entrepreneurs who will willingly move to the formal sector

Respondents	No. of respondents	Percentage (%)
Yes	58	96.6
No	2	3.3
Total	60	100

Source: Field Survey, May 2012.

### 6.3.3 Conclusions on research question two using disguised unemployment theory.

In order to reach a valid conclusion as earlier stated, a few questions were asked as a premium to our two most relevant questions shown above. The respondents were asked if they were happy working in an informal sector environment. The response shows that 85% of respondents answered that they were not happy working in the informal sector at the LCV with only about 15% saying they were happy to work in the sector. The respondents were then asked if they deliberately made a decision to work in the informal sector economy, the answer shows that 90% of respondents said they found themselves in the informal sector by accident or simply there to try and make out a living no matter how little. Thus the result of the survey shows that 90% of respondents believed that they were not gainfully employed and an even higher number 96.6% showing a readiness to quit the informal sector immediately if such as opportunity presents itself while 3.3% said they would choose to remain giving reasons such as the freedom of being your own boss, flexibility of business hours and old age for choosing to remain.

The conclusion drawn from this study is that the informal sector economy at the LCV represents a clear case of disguised unemployment as postulated in the theories of disguised unemployment (Bishop, (1954); Chiang (1952) c.f. Ducoff, L. J. & Hagood, M. J., 1957).

#### **6.4 Informal sector entrepreneurs involved in the sales of pirated ICTs components at the LCV?**

The section seeks to answer research question number three which is to find out the extent of involvement of the informal sector entrepreneurs in the buying and selling of pirated ICT components and whether or not they are fully aware of the illegality of doing so. The illegalist theory of the neo-classical and neo-liberal economists who postulated that the informal entrepreneurs deliberately choose to remain in the informal sector in order to avoid regulation and taxation and at times dealing in illegal goods and services will be relied on with a view to answering the question raised. Therefore and in line with the style of this paper, certain questions which are relevant to the research question proper were asked such that answers to them will enable us draw a valid conclusion. The question and the relevant responses are presented below:

##### **6.4.1 Informal sector entrepreneurs trading on pirated ICTs components**

Since the LCV was famous for trading on pirated ICTs components, a question relating to that was specifically asked in order to find out the level of involvement of respondent in this criminal activity. To the question-do you buy and sell pirated CDs and other pirated ICT components? The response is shown below.

Table 6.10: Informal sector entrepreneurs involved in trading pirated ICTs Components

Response	No. of Respondents	
Yes	49	81.7
No	11	18.3
Total	60	100

Source: Field Survey, May 2012.

As can be seen in Table 6.10, 81.7% of respondents agreed to buying and selling pirated ICTs but maintained that it was not a criminal offense since the products were dually

imported into Nigeria with only 18.3% saying they do not sell pirated products. It was discovered during the study, that pirated ICTs components are generally called “China Products”. Thus, if a researcher goes to the LCV for instance and demands for a pirated product, such researcher was going to meet with a ‘stone wall’ response as none will readily agree to selling pirated products. However, if the same demand is made again and the word “China product” is used instead of “pirated”, the response will be completely different.

#### **6.4.2 Informal sector entrepreneurs who are aware that it was illegal to trade pirated ICTs Components.**

The writer wanted to find out whether or not those involved in trading pirated ICT components were aware of the illegality of doing so. The question asked was-are you aware that it is illegal and a crime to trade in pirated ICTs component such as CDs, Phones, Computer software e.t.c? The result is presented in Table 6.10

Table 6.11: Awareness of the illegality of trading pirated ICTs Components

Response	No. of Respondents	Percentage (%)
Yes	48	80
No	12	20
Total	60	100

Source: Field Survey, May 2012.

As shown in Table 6.11, 80% of the respondents said they were very much aware that it was a criminal act to engage in the buying and selling of pirated ICT components and other intellectual properties. The awareness was largely helped according to the respondents by the campaign embarked upon by the Standard Organization of Nigeria (SON). The LCV was in 2011 investigation and accordingly, shut down as a result of the failure on the part of operators to comply with continuous warnings from the SON to desist from trading pirated products. Even though 20% maintained that they were not aware that it was a criminal act to trade pirated ICT component, this writer however,



finds this hard to believe as the SON had created a lot of awareness about the ills of piracy at the LCV.

#### **6.4.3 Conclusions on research question three using illegalist theory.**

The third and final objective of this study was to investigate whether or not the informal sector entrepreneurs involved in the buying and selling of pirated ICTs products at the LCV were fully aware that they were involved in illegal activities? What are the incentives for dealing in pirated products at the LCV and was it a rational choice on the part of the traders to deal in such products. As can be seen in Table 6.10 above, 81.7% of respondents agreed that they traded pirated ICTs products though they preferred to refer to it as made in “China” products as against pirated products. Also, from Table 6.11 above, we see that 80% of respondents confirmed that they were fully aware of the illegality of trading on pirated ICTs products through the awareness campaign of SON. From the foregoing and the on the site assessment by this researcher, it can be said that the informal sector entrepreneurs at the LCV are fully aware of the illegality associated with trading in pirated ICTs products and that, it is a rational choice on the part of the entrepreneurs to deal in such pirated items. As for the incentives that drives these entrepreneurs to continue to trade on pirated commodities, this writer was told by virtually all the respondents that the prices of pirated ICTs products were far cheaper than that of the genuine ones which they prefer to refer to as “Europe products” as against the pirated one which is generally referred to as “China” products. According to them, majority of customers buying pirated products are fully aware that they were buying sub-standard product but the fact that the prices were usually lower was a motivating factor compelling customers to demand for the products. Since the entrepreneurs were out to maximize sales, they simple follow the market trend by supplying what is demanded. This is in agreement with the position of the illegalist school which states that the informal sector entrepreneurs may simply decide to be informal so as to enjoy the benefits associated with such illegality.

#### **6.5 Analysis of the data on the formal sector**

This section presents some of the findings from the survey conducted on the registered shop owners otherwise referred to as the formal sector entrepreneurs at the LCV. For the

sake of clarity, this writer has decided to show the result of findings for a few of the very relevant questions.

### 6.5.1 Formal sector entrepreneurs trading on pirated ICTs components

Since the issue of buying and selling pirated ICTs products had generated a lot of controversies at the LCV such that the village was closed down in 2011 by the SON for dealing in pirated products, this writer decided to put forward a direct question on the issue of selling pirated products thus: “do you sell pirated ICTs products?” The response is shown in Table 6.12

Table 6.12: Formal Sector Entrepreneurs involved in trading pirated ICTs Components

Response	No. od Respondents	Percentage (%)
Yes	3	10
No	27	90
Total	30	100

Source: Field Survey, May 2012.

From the survey and as shown in Table 6.12, 90% of the respondents denied selling pirated products while only 10% openly agreed to dealing on such products. This writer observed however, that virtually every single shop visited had a wide range of pirated ICTs product on display side by side the genuine ones.

### 6.5.2 Relationship between the formal and Informal sector.

In order to find out if the registered shop owners were comfortable with the activities of the informal sector at the LCV, respondents were asked to state whether or not they were happy with the role of the informal sector entrepreneurs at the LCV. The response is presented below.

Table 6.13: Formal entrepreneur’s reaction to informal sector activities at the LCV

Response	No. of Response	Percentage (%)
Yes	23	77
No	7	23
Total	30	100

Source: Field Survey, May 2012.

The result of the survey shows that 77% of the respondents believed that the informal sector's activity at the LCV was complimenting the formal sector activity and therefore see no reason to label them as inimical to the formal sector activity. However, 23% of respondents see the informal sector as inimical to the business activity of the formal sector at the LCV in view of their anti-social activities which include occasional harassment of customers, theft, illegal construction of shops and environmental degradation activities

## **CHAPTER 7**

### **Concluding Remarks**

One sector with a great potential for rapid economic transformation in Nigeria is the urban informal sector. This is particularly true when viewed against that fact that it offers employment opportunity to a far larger proportion of the labor force as compared to the formal sector. Yet, it is a sector that is greatly misunderstood by government and therefore seen by successive governments in Nigeria as inimical to developmental objectives. Be this as it may be, the role of the informal sector in employment creation and poverty alleviation in providing incomes for skilled and unskilled workers who otherwise would have been unemployed cannot be denied (Onyenechere, 2011). This is particularly true in the case of the LCV where a greater number of people are employed in the sector when compared to the formal sector employment. Employment yes, but the kind of employment created is another issue all together as the term "employment" itself could be ambiguous when viewed against the fact that such employment may be under-employment or even disguised unemployment. This paper therefore provides an empirical study of the informal sector activity at the LCV with a view to testing our findings with some of the criteria used in defining the informal sector in the literature. The chief motivating factor for this paper is borne out of the fact that the writer had expected the LCV as the name implies, to be a leading innovation center in Nigeria with

the potential to bringing about the technological transformation of Nigeria. The overall picture of the informal sector activity at the LCV as was apparent during this study was that of buying and selling ICTs products as against any attempt at technological innovation. One must admit though and based on a number of observations during the survey that the potentials for innovation thus exist when viewed against the ingenuity often displayed at tackling virtually every technical problem that arises from the ICT gadgets. This so called technological 'ingenuity' however, stems from experience and not from experiment cum science (see Yifu Lin, 1995) and therefore does not allow for any real scientific innovation as such. One very important observation during this study was that the impact of China in the ICTs industry in Nigeria cannot be overemphasized. This is as a result of the fact that Chinese products which to a large extent are sub-standard when compared to similar products from the USA and Europe are everywhere. Thus, the possibility is usually high that the first product a would-be customer to the LCV is presented with is a 'made in China' product which is usually cheaper. It is only if the customer insists on not buying a China product, that the European option is offered. The implication of this is that the LCV has gradually become a dumping ground for made in China sub-standard ICT products. The very fact however, that the SON is now waging a war against sub-standard and pirated products is an indication that the problem which has reached an alarming situation is now been tackled. Suffice to add that by far the highest number of pirated ICTs components is from China hence the use of the word 'China Product' at the LCV is generally used to refer to pirated products. On a final note, since the motivation for this study was borne out of the fact that the LCV had the potentials of becoming the innovation nerve center of Nigeria and also bearing in mind the disappointment of this researcher when viewed against the fact that a potential innovation center has become a trading center for the buying and selling of ICTs components, there is the need for further research especially on how to re-structure the LCV in such a way as to make it a proper ICT innovation center as the name Lagos Computer Village (LCV) connotes.

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**Appendix 1**

**LAGOS COMPUTER VILLAGE, IKEJA-NIGERIA**

**TOPIC:**

**THE INFORMAL SECTOR ACTIVITIES WITHIN THE INFORMATION AND COMMUNICATION TECHNOLOGY (ICTs) INDUSTRY-A CASE STUDY OF THE LAGOS COMPUTER VILLAGE.**

**Introduction:**

This questionnaire seeks to investigate the activities of the informal sector at the Lagos Compute Village (LCV) by looking at the sector’s role at the LCV and its relationship with the formal sector entrepreneurs on the one hand and also with the government. The findings will add to the existing knowledge on problems confronting the informal sector in its day to day activities. The research is not to collect information for government or its agencies.

**Back Ground Data**

Name of Interviewer.....  
Name of Location.....  
Type of Business engaged in.....  
Language of interview.....  
Date and Time of interview.....  
Signature of interviewee.....

QUESTIONNAIRE ADMINISTERED FOR RESEARCH PURPOSE ONLY ON THE INFORMAL SECTOR. INFORMATION SUPPLIED WILL BE TREATED AS STRICTLY CONFIDENTIAL.

(1) HOW OLD ARE YOU? 18-25 25-40 40-60 60 & Above

(2) ARE YOU MARRIED? YES/NO

(3) DO YOU HAVE CHILDREN? IF YES, HOW MANY? YES/NO

(4) WHAT IS YOUR LEVEL OF EDUCATION

University/Polytechnic	Secondary school	Primary school
------------------------	------------------	----------------

(5) DO YOU HAVE A PERMANENT SHOP OR OFFICE THAT SERVES AS YOUR PLACE OF BUSINESS? YES/NO

(6) ARE YOU HAPPY WORKING IN THIS KIND OF ENVIRONMENT? YES/NO

(7) DID YOU DELIBERATELY MAKE UP YOUR MIND TO WORK IN THIS SECTOR? YES/NO

(8) DO YOU HAVE ACCESS TO CREDIT FACILITIES LIKE LOANS FROM BANKS? YES/NO

(9) DO YOU TRANSACT YOUR BUSINESS IN CASH OR DO YOU ACCEPT CHEQUES FROM CUSTOMERS?

Cash only	Cheque only	Both
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(10) DO YOU GIVE CREDIT FACILITIES TO YOUR CUSTOMERS? YES/NO

(11) DO YOU THINK YOU MAKE ENOUGH MONEY TO IMPROVE YOUR STANDARD OF LIVING? YES/NO

(12) DO YOU KEEP A FINANCIAL RECORD OF YOUR BUSINESS TRANSACTIONS? YES/NO

- (13) HAVE YOU EVER EMPLOYED THE SERVICES OF AN ACCOUNTANT TO HELP KEEP PROPER RECORDS? IF NO, WHY? YES/NO
- (14) DO YOU KNOW WHAT TAXES ARE USED FOR? YES/NO
- (15) DO YOU PAY TAXES TO THE GOVERNMENT? IF NO, WHY? YES/NO
- (16) DO YOU THINK YOU ARE GAINFULLY EMPLOYED? YES/NO
- (17) IF YOU GET A BETTER JOB, WILL YOU LEAVE THIS KIND OF BUSINESS? YES/NO
- (18) DO YOU SELL PIRATED CDS AND COMPUTER COMPONENTS? IF YES, WHY? YES/NO
- (19) ARE YOU AWARE THAT IT IS A CRIMINAL ACT TO PIRATE OTHER PEOPLES INTELLECTUAL PROPERTIES IN FORM OF CDS, PHONE ACCESSORIES, AND COMPUTER SOFTWARE ETC? YES/NO
- (20) WILL YOU BE WILLING TO MARKET GENUINE CDS AND OTHER COMPUTER COMPONENT? YES/NO

**Appendix 2**

**LAGOS COMPUTER VILLAGE, IKEJA-NIGERIA**

**TOPIC:**

**THE INFORMAL SECTOR ACTIVITIES WITHIN THE INFORMATION AND COMMUNICATION TECHNOLOGY (ICTS) INDUSTRY-A CASE STUDY OF THE LAGOS COMPUTER VILLAGE.**

**Introduction:**

This questionnaire seeks to investigate the activities of the informal sector at the Lagos Compute Village (LCV) by looking at the sector’s role at the LCV and its relationship with the formal sector entrepreneurs on the one hand and also with the government. The findings will add to the existing knowledge on problems confronting the informal sector in its day to day activities. The research is not to collect information for government or its agencies.

**Back Ground Data**

Name of Interviewer.....  
 Name of Location.....  
 Type of Business engaged in.....  
 Language of interview.....  
 Date and Time of interview.....  
 Signature of interviewee.....

QUESTIONNAIRE ADMINISTERED FOR RESEARCH PURPOSE ONLY.  
 INFORMATION SUPPLIED WILL BE TREATED AS STRICTLY CONFIDENTIAL.

(Shop Owners only, please circle the answer applicable).

(1) HOW OLD ARE YOU?

18-25	25-40	40-60	60 & Above
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(2) ARE YOU MARRIED?

YES/NO

(3) DO YOU HAVE CHILDREN? IF YES, HOW MANY?

YES/NO

(4) WHAT IS YOUR LEVEL OF EDUCATION

University/Polytechnic	Secondary school	Primary school
------------------------	------------------	----------------

(5) DO YOU KEEP A FINANCIAL RECORD OF YOUR BUSINESS TRANSACTIONS?

YES/NO

(6) IF NO, PLEASE GIVE REASON WHY YOU DO NOT.....

(7) DO YOU PAY TAX?

YES/NO

(8) IF NO, PLEASE STATE REASONS WHY YOU DON'T.....

(9) ARE YOU HAPPY WITH THE TAXATION SYSTEM OF THE GOVERNMENT?

YES/NO

IF NO, PLEASE GIVE REASON(S) WHY NOT?.....

(10) DID YOU DELIBERATELY MAKE UP YOUR MIND TO WORK IN THIS SECTOR?

YES/NO

(11) WHERE DO YOU GET YOUR PRODUCT FROM?.....

(12) DO YOU SELL PIRATED CD AND OTHER COMPUTER COMPONENTS?



YES/NO

(13) ARE YOU HAPPY WITH THE ROLE THE NON-SHOP OWNERS PLAN IN THE LCV?

YES/NO

(14) ARE THEY COMPETING WITH OR COMPLEMENTARY YOUR ACTIVITIES?

(15) DO YOU PAY PROTECTION MONEY TO ‘AREA BOYS’ IN THE MARKET?

YES/NO

**Appendix 3**

**IKEJA LOCAL GOVERNMENT, LAGOS-NIGERIA**

**TOPIC:**

**THE INFORMAL SECTOR ACTIVITIES WITHIN THE INFORMATION AND COMMUNICATION TECHNOLOGY (ICTs) INDUSTRY-A CASE STUDY OF THE LAGOS COMPUTER VILLAGE**

**Back Ground Data**

Name of Interviewer.....

Name of Location.....

Type of Business engaged in.....

Language of interview.....

Date and Time of interview.....

Signature of interviewee.....

**QUESTIONNAIRES FOR OFFICIALS OF IKEJA LOCAL GOVERNMENT.**

INFORMATION SUPPLIED IS PURELY FOR RESEARCH PURPOSES ONLY AND SUCH INFORMATION WILL BE TREATED AS STRICTLY CONFIDENTIAL.

- (1) DO YOU BELIEVE PEOPLE SHOULD PAY TAXES? YES / NO
- (2) ARE YOU SATISFIED WITH THE LEVEL OF TAXES THE LAGOS STATE GOVERNMENT IS GENERATING FROM THE LAGOS COMPUTER VILLAGE? YES/NO
- (3) I OBSERVED THE EXISTENCE OF MULTIPLE TAXATION SYSTEM DURING MY STUDY. WHY DO YOU ALLOW A MULTILPE TAXATION SYSTEM AT THE LAGOS COMPUTER VILLAGE?
- (4) ARE YOU AWARE OF THE EXISTENCE OF THE INFORMAL SECTOR OPERATING SIDE BY SIDE WITH THE REGISTERED FORMAL SECTOR AT THE LAGOS COMPUTER VILLAGE? YES/NO
- (5) DO YOU THINK THE INFORMAL SECTOR EMPLOYERS CONSTITUTE A NUISANCE AT THE LCV? YES/NO
- (6) WHAT EFFORTS IF ANY ARE YOU MAKING TO BETTER REGULATE THE ACTIVITIES OF THE INFORMAL SECTOR EMPLOYER AT THE LCV?
- (7) ARE YOU AWARE THAT IT IS A CRIMINAL OFFENCE TO PIRATE OTHER PEOPLE'S INTELLECTUAL PROPERTIES? YES/NO

- (8) WHAT EFFORT IS THE LAGOS STATE GOVERNMENT MAKING TO CHECK THE HIGH VOLUME AND SALES OF PARITED CDS AND OTHER COMPUTER COMPONENTS AT THE LCV?
- (9) ARE YOU AWARE OF THE EXISTENCE OF 'AREA BOYS'- A CRIMINAL GANG THAT COLLECTS ILLEGAL LEVIES FROM TRADERS AT THE LCV? YES/NO
- (10) WHAT EFFORTS ARE YOU MAKING TO GET RID OF THE 'AREA BOYS' AT THE LCV SO AS TO STOP THEIR ILLEGAL ACTIVITIES AT THE LCV?