




DETERMINANTS OF PRIVATE INVESTMENT IN THE INFORMAL SECTOR OF URBAN AREAS IN NIGERIA



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ABSTRACT

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The increasing importance of informal economy in entrepreneurship development, job creation and improvement in the overall social welfare of the people has been widely acknowledged in literature. This article presents various enterprise compositions and private investment in the informal economy in an urban center of a developing country. Ilorin metropolis in Nigeria was chosen as the study area due to the high concentration, high growth rate and economic significance of these activities. The level of business capitals, which form part of the private investment volume, play vital roles in the survival and growth rate of any business venture, hence the output and income earnings from business. The cross sectional data were collected from a field survey through a structured questionnaire administered to 500 informal entrepreneurs. Out of these, 482 questionnaires were retrieved and analyzed. The data was presented and explained using tables, percentages, mean scores, and median and standard deviations using the EViews 9 statistical package. The coding structure of the questionnaire and spreadsheet of the raw data collected have been made accessible in order to ensure more comprehensive investigation for further studies.

Contribution/Originality: The informal sector plays a critical role in the economic landscape of most developing countries, especially in Nigeria. Previous studies on private investment determination focused more on the formal sector. This study contributes to the existing literature by empirically identifying the various determinants of private investment within the purview of informal economy.

1. INTRODUCTION

There has being an increasing interest globally in the informal sector as a tool for the actualization of sustainable growth and development in the developing nations. The informal sector represents an important part of the economy and particularly of the labor market. In many countries, especially developing countries, the informal sector plays a major role in stimulating activities critical to economic development. Economic development parameters closely enhanced by informal institutions include an increase in domestic production, employment creation, income generation and poverty reduction. It has been argued that the swiftly developing informal sector has acted as shock absorber, particularly by providing employment opportunities for many rural migrants pushed

out of the agricultural sector by landlessness and other economic pressures. According to the African Development Bank (AfDP), the predominance of the informal sector stems from the opportunities it offers to the vulnerable population, such as the poorest, women and youth. In countries with a high rate of population growth or urbanization like Nigeria, the informal sector tends to absorb most of the growing labor force in the urban areas.

Nigeria has the largest informal sector in Africa, a predominance that stems from its massive population and decades of poor economic performance with an estimated informal sector size of about 57.9% of its GNP (Central Bank of Nigeria, 2009). This study of informal private investment and economic development takes a look at the economic activities being carved out of the purview of government regulations, which are referred to as the informal sector. The informal sector is generally viewed as another sector outside the normal organized formal sector that provides employment and sustenance through a variety of activities, such as street trading, hawking, vulcanizing and cobbling (Ademola & Anyankora, 2012).

Over the years, informal sector activities have witnessed a tremendous increase both in size and in proportion compared to the formal sector. Apparently, a substantial proportion of economic activities in most developing nations are unrecorded. In the same vein, most cross-border trade currently flows through informal channel. From this, there is a strong indication that unrecorded economic activities in these countries are sometimes greater in volume than what has been officially captured.

Olunloyo (2012) argues that, although the economic activities in the formal sector such as manufacturing and other services are significant, industry, commerce and trading activities predominantly in the informal sector contribute immensely to the success of the economy. The informal sector is therefore viewed as crucial in creating sustainable livelihoods for millions of households in Nigeria. It is a major means through which economic development reaches the poorest of the populace.

Onyebueke and Geyer (2011) likened Nigeria's account of informal institution to the global account, which epitomizes the informal sector as a huge and diverse area of enterprise with discernable dynamic and structural properties. Nigeria's informal sector has a huge share in the overall employment generated and contributions to gross national product (GNP). The informal economic institution has evolved in Nigeria over the last 50 years. It is a vital source of employment and income for the poor, the seedbed of local entrepreneurship and a potential instrument in the campaign to combat poverty and social exclusion (Olunloyo, 2012).

Several studies exist on the role of private investment on economic growth and development in Nigeria. It is worthy of note, however, that most of these studies were undertaken to capture activities in the formal economy, which has a relatively high record rate. This current research looks beyond the traditional theory development and the understanding of the nature of the informal sector, which were the limitations of previous works. In the previous studies on development, little or no attempt had been made to empirically investigate the extent to which sustainable development can be achieved through private investment in the informal sector. This is a research gap that this study sets out to fill.

2. REVIEW OF LITERATURES

Several previous studies on the informal sector initially encountered the difficulty of how to define it (Ogbuabor and Malaolu, 2013). According to Oduh, Eboh, Ichoku, and Ujah (1998); Ajakaiye and Akerele (1996); Thomas (1992), and as cited in Ogbuabor and Malaolu (2013), it was reported that it had been difficult to involve a conceptual framework that can be applied to definitively decide whether a particular activity is formal or informal. Without a precise and unambiguous conceptual framework for demarcating the boundaries between formal and informal activities, systematic research into the salient feature of informal activities in ways that will enhance knowledge about this phenomenon may be difficult (Ajakaiye & Akerele, 1996).

Ekpo and Umoh (2013) defined the informal sector in Nigeria as economic activities in all sectors of the economy that operate outside the purview of government regulations. The informal sector denotes economic

activities that could be found outside the formal standard of economic transaction established by the state and formal business practices (Fasanya & Onakoya, 2012).

Research on activities encompassed by the term 'informal sector' grew out of studies in the 1950s and 1960s on the dualistic nature of developing societies. These include Lewis (1954), Jorgenson (1971) and Harris and Todaro (1970). The concept of dual economy or dualism related to various asymmetries in organization and productions and dualism in the structure of an economy as between traditional and modern, and peasant and capitalist sectors was considered to be a distinguishing characteristic of developing countries. The distinction between formal and informal activities emerged from the attempts of scholars to apply the dualism framework to labor markets in urban areas of developing countries. The emphasis on urban labor markets derived from dissatisfaction with development policies that were slow to trickle down, which left a large pool of visibly unemployed people. Problems of urban unemployment and underemployment of the working pools and large numbers of self-employed people led to the factors that motivated several studies on informal sector activities (International Labour Organisation, 1991; Joshi, 1997). A combination of factors has brought the informal sector into mainstream discussions on economic development. The relevance of the term was questioned by Peatti (1987). He argued that the adoption of the term 'informal sector' observes critical issues relating to poverty. The term 'informal sector' was able to incorporate activities that were earlier ignored in the theoretical models of development and in the national economic accounts into the discourse on development, as most activities in the informal sector are excludable from the standard measure of economic production. Researchers of the formal–informal sector dichotomy have not assumed a steady decline of the informal sector over time and in the course of development. A job in the informal sector may either be viewed as a stepping-stone to another in the formal sector or as a desirable end in itself. Also, a job in the informal sector may even be as remunerative as that of one in the formal sector and movement from formal to informal cannot be ruled out. Furthermore, the apparent resurgence of informal activities in developed countries contributes to the ambiguity regarding the role of the informal sector in the process of development.

2.1. Determinants of Private Investment

Although the concept of investment has been widely developed in literature, Aysan, Pang, and Veganzonnes (2011) opine that little is known, both theoretically and empirically, about what induces private firms to invest in developing countries such as Nigeria. In fact, it is believed that developing countries do not operate a competitive environment and face constraints that are not accounted for in the neoclassical model. As a key to economic growth, Barro and Lee (1993), and other recent empirical studies conducted in Asia, Africa and Latin America, have established beyond doubt the critical linkage between investment and the rate of capital growth (Seruvatu & Jayaraman, 2001). After the Keynesian theory of investment, put forward in 1936, the next phase of investment theory gave rise to the accelerator theory, which gives investment a linear proportion of change in output. In the accelerator model, expectations, profitability and capital cost are considered the key determinants of private investment.

Aysan et al. (2011) consider macroeconomic stability as an important part of the investment climate of a country. Macroeconomic stability constitutes an integral part of the investment decision for an enterprise due to the relative assurance of a more predictable environment for economic activities. The mobilization and allocation of resources through the financial system is another critical factor that could determine an investment decision in an economy. A well-developed financial institution creates a conducive environment for private credit by money deposit in banks and other financial institutions is also found from empirical literature to have explained the size and growth of the private investment in most countries being studied. Moreover, tax policy within the sub-national and national trade environments, as well as intermediate tariffs which have implications on inter-regional production and exports levels, influence the volume of private investment in the economy. Obasaju, Olayiwola, Okodua, Eseyin, and Ahmed (2019) provide insight for a clearer understanding of this debate.

Most of the previous studies on the determinants of private investment only captured firms in the formal sector, though the availability of time series data was obtainable. The empirical evidence from the work of [Gnansounou \(2010\)](#) that looked at the impact of demand fluctuation, cost of factors and demand uncertainty on the variation of investment in French firms in the Benin Republic revealed that a low level of demand and cost of labor were found to have majorly accounted for the stagnation of investment on the part of private firms in the Republic of Benin. His analysis, which made use of the Cobb–Douglas model, also found that the elasticity of capital in relation to the unit cost of capital utilization to be high, significant and negative. Therefore, cost of capital utilization is considered as one of the key determinants of private investment in the study.

[Zenfack \(1997\)](#) studied the investment behavior of manufacturing firms in Cameroon between 1988 and 1992. The findings revealed a negative influence of uncertainty on investment. Also, in the studies conducted by [Sene \(2000\)](#) on 30 Senegalese firms over nine years (from 1988 to 1996) found that private investment was mostly influenced by the accelerator phenomenon. Thus, investment decisions by the Senegalese firms depend on demand fluctuation. [Gnansounou \(2010\)](#), in a separate study on investment behavior required of big firms in the Republic of Benin, showed that these firms are influenced mostly by the relative cost of capital and demand fluctuations to which manufacturing firms are more sensitive than commercial firms. Aggregate data work on non-financial companies and individual French businesses was also conducted, which revealed that the accelerator variables and profit rate were the only explanatory variables for the investment behavior of French firms during 1990s. The other variables (interest rate, Tobin's Q and the rate of utilization of production capacity) were irrelevant.

[Asante \(2000\)](#) used both cross-sectional and time series data to discover that political and economic instability, credibility of government policies and officials' attitudes towards investors were the determinants of the rate of private investment in Ghana. His work also revealed that, on the time series analysis, the growth rate of real credit to the private sector had a positive sign on all the trials and was significant in all of them at the 1% level of significance. The lack of data on investment, earnings, profits and production expenditures among other activities of firms in the informal sector has been a serious constraint since the sector has no such longitudinal surveys of investment behavior, especially in Sub-Saharan Africa. Even the recent investment studies on the informal sector generally captured the usage of qualitative factors that were employed by the Reserve Bank of Fiji in 1999. In the survey sample of 240 companies in the country, respondents were requested to rank the various impediments listed in the questionnaire with the option of adding other factors they felt were barriers. The survey indicated that the principal factor hindering investments were largely policy-related variables. [Aysan et al. \(2011\)](#) found the state of physical infrastructure to be a complementary factor of private investment in the Middle East and North Africa.

2.2. Determinants of Private Investment in Nigeria

Despite the previous structural reforms, the Nigerian economy continues to face a variety of problems. These include a low level of savings and investment, high rate of inflation, high unemployment level and extreme poverty ([Oriavwote & Oyovwi, 2013](#)). Improving private investment has been at the forefront of different fiscal and monetary strategies in Nigeria. The Structural Adjustment Programme (SAP) and the National Economic Empowerment and Development Strategies (NEEDS) were both premised on the enhancement of private investment design with the neoclassical paradigm ([Oriavwote & Oyovwi, 2013](#)).

Apart from the flawed government policies, other factors that have inhibited the growth of private investment in Nigeria include poor infrastructure, high level of corruption at all levels of government, difficulties faced by private investors to obtain loans in Nigeria, inefficiencies in the capital and money markets and an import-dependent product structure. Literature identified three other factors that accounted for the low level of private investment in Nigeria; weak domestic demand, high cost of production and the different natures of uncertainties (such as political, social and economic) ([Oriavwote & Oyovwi, 2013](#)).

Bamidele and Englana (1998) studied the relationship between the macroeconomic environment and private investment behavior in Nigeria. They discovered that the macroeconomic environment, political instability and poor infrastructural facilities were responsible factors for the high cost of business transactions. Busari and Omoke (2008), in their assessment of private investment behavior and trade policy in Nigeria, found that macroeconomic uncertainties measured by volatility of relative price have an impact on corporate investment. Patience and Osaro (2010) also investigated the trade and dynamics of determinants of private investment in Nigeria. Using cointegration techniques, they found that past outcomes of domestic investment strongly influenced the present level of investment. They also found that market fundamentals do not encourage domestic investment.

Bakare (2011) studied the determinants of private investment in Nigeria using a cointegration technique with its implied error correction mechanism (ECM). The study showed that political crisis may have created a climate that is hostile to positive investment. Olusegun (2010), in his assessment of the role of government in explaining domestic investment in Nigeria, found from the long-run estimation and impulse response that a well-structured and stable socioeconomic environment will boost domestic investment behavior, that government size did not complement private investment initiatives and that credit to the private sector was significant in stimulating private investment in Nigeria. Olaniyan (2000), in order to identify the determinants of private investment in Nigeria between 1970 and 1998 from the microfoundations, showed that government infrastructure positively affected private investment. The study also observed that private investment declined from 12.3% of GDP in 1991 to 8.3% of GDP in 1992. It then increased to 12.5% of GDP in 1993 and 16.0% in 1999 before declining to 10.7% in 2000. Between 2001 and 2005, the ratio averaged at 13.0%.

3. STUDY AREA

The study area is Ilorin metropolis, Nigeria. The metropolis comprises five local government areas in Kwara State; Ilorin is the capital city. The state was created on May 27th, 1967, with the population of about 3.3 million people, based on the 2006 National Population Census. Ilorin is located on latitude 8.4799° N, 4.5418° E in the middle belt of Nigeria, about 300 kilometers north of Lagos and 600 kilometers south of Kaduna. It was one of the traditional Yoruba towns that developed between the 17th and 18th centuries and falls within the North Central geopolitical zone of Nigeria (Adedayo, 1994). Nigeria represents 15% of Africa's population with 11% of her contribution being Africa's total output as well as 16% of its foreign reserves, accounting for half of the population.

Since independence, however, the most important factor that has influenced the urban development of Ilorin has been its selection as the capital of Kwara State, which was the combination of the then Kabba and Ilorin provinces under regional government before states were created in 1967. Thus, the attraction of the city has offered employment and other economic potential and has not been without implications for growth and informal small-scale enterprises. As a result of its location within Nigeria, Ilorin shares many characteristics of informal economic activities typical of both Yoruba and Hausa-Fulani with a substantial number of economically vibrant Igbo populations. In recent times, the security situation in the middle belt and northern parts of Nigeria has worsened. This ranges from Boko Haram insurgency, herdsman-farmer clashes and kidnapping. Ilorin, despite its ethno-religious diversity and its location, is relatively free from such menaces of insecurity. Thus, the prevailing peace in the metropolis has spurred its population growth and other economic potential; hence the growth of informal economic activities since the formal sector cannot sufficiently provide employment of its economically active population.

4. DATA COLLECTION AND RESEARCH METHODOLOGY

A direct field survey approach was adopted for the collection of data. The primary data were collected through the sample selection of 500 informal enterprise entrepreneurs within Ilorin metropolis. This approach involves the administration of a structured questionnaire and telephone interviews where necessary to the proprietors and

managers of informal business enterprises within Ilorin metropolis. The open- and close-ended questionnaire was designed to provide both quantitative and qualitative information on the socio-demographic characteristics, the nature, investment and other activities in the informal sector; they also reflected a list of possible ratings of the severity and magnitude of various components of private investment and its various determinants. The questionnaire was administered to the entrepreneurs or managers of these informal business activities.

The information sought via the questionnaire included socio-demographic characteristics of the operators, which include gender, age, marital status, household size and educational status of the respondents. Information on the nature of the informal sector activities were also sought in line with [Mulwafu \(2010\)](#) and [Ijaiya et al. \(2015\)](#), which are among the most recent works on the subject. This information was used to determine investment behaviours of these informal enterprises in Ilorin metropolis. Some other quantitative response sets (such as earnings and financial structure of the firm) from the questionnaire were also sought. However, responses of this kind may not be completely devoid of some degree of bias because, typical of entrepreneurs, respondents tend to be apprehensive in disclosing accurate information about the financial activities of their firms. In the same vein, most small-scale business enterprises often lack accurate bookkeeping records. The data collected were coded and entered into a Microsoft Excel spreadsheet and the analysis was conducted using the EViews 9 statistical package.

5. DATA

The description in [Table 1](#) shows that a total of five hundred (500) copies of the questionnaire were administered to informal business entrepreneurs in Ilorin metropolis. Four hundred and eighty two (482) filled questionnaires were retrieved, which represents a 96.4% response rate. This high response rate is attributed to a focus group discussion method which the researchers adopted. The distribution of demographic characteristics, which revealed information about the respondents regarding their gender, marital status, educational attainments, household size and age, has been presented in [Table 2](#). [Table 3](#) presents the distribution of enterprise composition and other components of informal business enterprises, which include the nature of the informal enterprise, ownership structure, major source of capital for the enterprise, other income-earning jobs engaged in, motive for engaging in informal business, power supply availability in the business location, proximity of the business to a major road, severity of tax payment harassment and expectation of a future rise in demand for the enterprises' products and services. [Table 4](#) presents the descriptive statistics of various components of the volume of private investment and income earnings of informal business enterprises in Nigerian Naira (NGN), which include the amount of start-up capital, the monetary value of fixed assets of the enterprise, the amount of working capital and average weekly earnings.

Table 1. Response Rate of the Administered Questionnaire

Response Rate of Questionnaire	Questionnaire	Count	%
	Filled and returned	482	96.4
	Not returned	18	3.6
	Total questionnaires administered	500	100

5.1. Demographic Distributions

The survey conducted in the informal sector of Ilorin metropolis shows that 51.66% of the informal entrepreneurs are male and 48.34% are female. Furthermore, it reveals that 71.78% of the informal business entrepreneurs are married, while 18.67% are still single. The dataset also shows that 85.55% of the informal entrepreneurs completed the minimum schooling years; the minimum schooling in Nigeria is nine years, which is equivalent to Junior Secondary School. Hence, the proportion of illiterate informal business entrepreneurs is gradually diminishing over the years. This will, to an extent, enable any regulatory policy of the government on informal business activities to have a significant impact. Also, owing to this development, the qualities of product

and service delivery of informal entrepreneurs have improved over time. This data agrees with the findings of Johnson and Tomal (2005) and Ijaiya et al. (2015) on the characteristics of informal business operators in Bogota, Colombia and Ilorin metropolis.

Table 2. Socio-Demographic Characteristics of the Respondent Informal Entrepreneurs

Gender of the Respondents:	Gender	Count	%
	Male	249	51.66
	Female	233	48.34
	Total	482	100
Marital Status:	Marital Status	Count	%
	Single	90	18.67
	Married	346	71.78
	Divorced	12	2.49
	Separated	8	1.66
	Widowed	26	5.39
	Total	482	100
Educational Qualification:	Education attainment	Count	%
	No formal education	20	4.149
	Primary education	50	10.37
	Junior secondary school	55	11.41
	Senior secondary/Technical	131	27.18
	Post-secondary 1 - OND/NCE	101	20.95
	Post-secondary 2 - HND/Degree	92	19.09
	Post graduate	33	6.846
	Total	482	100
Respondents' Household Size:	Household Size	Count	%
	Below 5	251	52.07
	Between 5 – 10	221	45.85
	Above 10	10	2.08
	Total	482	100
Age:	Age	Count	%
	Below 20	6	1.24
	20 – 35	166	34.43
	36 – 50	151	31.31
	51 – 70	144	29.85
	Above 70	15	3.11
	Total	482	100

The informal business entrepreneurs include a variety of activities which cut across various age groups from a minimum of 16 years of age to a maximum of 88 years. The mean age of informal entrepreneurs is approximately 42 years. The labor active ages of between 20 and 50 years account for 65.74% of the total informal entrepreneurs. The average household size is approximately five people per family; the maximum household size was found to be 15 while the minimum was one person per family. Economically, it implies that any policy aimed at enhancing the socioeconomic welfare of informal business operators is likely to have a direct impact on society as a whole without age discrimination. Informal sector activities form an integral part of economic activities in developing economies. Also, given the medium to large household sizes of the informal sector operators in Ilorin metropolis, as obtained from the dataset, the majority of the entrepreneurs are likely to be faced with weighty financial burdens due to high household consumption. Consequently, the entrepreneurs' marginal propensity to save tends to decline thereby shrinking the magnitude of their investment capacity. This could be detrimental to the growth and expansion of the affected business.

Table 3. Informal Sector Enterprise Composition

Composition of Informal Enterprise:	Nature of Business	Count	%
	Retail trading	179	37.14
	Agribusiness	19	3.94
	Food processing	23	4.77
	Catering/food vendor	38	7.88
	Manufacturing	21	4.36
	Construction	71	14.73
	Repair and services	46	9.54
	Tailoring/fashion design	25	5.19
	Hair dressing/barbing	24	4.98
	Computer center/cyber	36	7.47
	Total	482	100
Ownership Structure of the Enterprise:	Ownership Structure	Count	%
	Sole proprietorship	317	65.77
	Family ownership	131	27.18
	Partnership with others	28	5.81
	Others	6	1.24
	Total	482	100
Main Source of Capital for the Business:	Main Source of Capital	Count	%
	Personal savings	159	32.99
	Spouse/relation/friends' donations	97	20.12
	Acquired by inheritance	34	7.05
	Loan from friends/family	50	10.37
	Loan from informal money lenders	69	14.32
	Loan from microfinance	43	8.92
	Loan from government agency	18	3.73
	Loan from commercial bank	12	2.49
	Total	482	100
Other Work Engaged in:	Other Works Engaged in	Count	%
	None	282	58.51
	Farming	20	4.15
	Other informal activities	59	12.24
	Organized private sector	34	7.05
	Government work	60	12.45
	Others	27	5.6
	Total	482	100
Reason for Entering into Informal Business:	Reason for Establishing the Business	Count	%
	Passion for the business	141	29.26
	Unemployment in the formal sector	119	24.69
	As alternative source of family income	208	43.15
	Availability of business opportunity	11	2.28
	Other	3	0.62
	Total	482	100
Assessment of Power Availability:	Quality of Power Supply	Count	%
	Very bad	83	17.22
	Bad	56	11.62
	Fair	132	27.39
	Good	133	27.59
	Very good	64	13.28
	Excellent	14	2.9
	Total	482	100
Business Proximity to Major Road:	Is the Business Located Along a Major Road?	Count	%
	No	156	32.37
	Yes	326	67.63
	Total	482	100
Tax Payment Harassments:	Frequency of Tax Payment Harassments	Count	%

	Never	169	35.06
	Rarely	88	18.26
	Seldom	94	19.5
	Often	71	14.73
	Always	60	12.45
	Total	482	100
Expectation of Rise in Demand:	Expectation of Rise in Demand:	Count	%
	No	156	32.37
	Yes	326	67.63
	Total	482	100

5.2. Structures of Informal Enterprise

The nature and activities engaged in by the informal sector operators in Ilorin metropolis varies considerably; in that 37.14% of the informal entrepreneurs engage in retail trading (buying and selling). Construction and repair services account for 14.73% and 9.54% of the sampled dataset, respectively. Agriculture and agro-allied activities account for 3.94%. The proportion of those engaging in manufacturing stands at 4.36%. Due to the low concentration of multinational companies and a high presence of civil servants of both federal and state government in the research location, a larger percentage of the operators in the buying and selling informal business category is mostly dominated by women, while the informal construction activities are dominated by men. With just a small percentage of informal business operators engaging in manufacturing and agriculture, prices of goods produced within this economy are bound to consistently increase due to imminent supply shortages. However, the availability of some of these products may not be challenging due to a larger proportion engaging in buying and selling.

The survey data set also reveals that the ownership structure of informal enterprises is dominated by sole proprietorship and family ownership of approximately 65.77% and 27.18%, respectively. The reasons for this dominance are easy entry and exit, no need for a government approval license, low start-up capital requirement and no accountability to business regulators, which is in agreement with the discoveries of Ijaiya et al. (2015). Family ownership is supported by the need to keep strong family ties, especially for women for religious and cultural reasons. Business collaborations and partnerships more often than not results in synergy and speedy expansion. On account of a low business partnership culture, the pace of expansion of most informal business activities in the surveyed data location would most likely be hampered. Hence, it won't come as a surprise if the moribund nature of some of these informal ventures persists.

There is a high rate of entrants and investment into the informal sector. The reason for this is connected with the positive expectation of a future increase in demand for their products and services, as revealed by 67.63% of the entrepreneurs. This assertion might have accounted for the high influx of people into the metropolis. The data set further shows that there are various motives for establishing informal business ventures; 29.26% of the operators are motivated by personal interests, 24.69% stated a lack of employment in the formal sector and 43.15% of the operators established the outfits due to a desire to earn more income for the family.

According to the survey data, not all the informal entrepreneurs in the research location operate on full-time basis. Of these, 58.51% of the operators do not engage in other income-generating activities, while 12.45% are civil servants and 7.05% work in other organized private sectors.

The investment behaviours of the informal sector in the research location as revealed by the data set shows that there are various means by which their start-up capital is being sourced. Of the various major sources of finance, 32.99% of the entrepreneurs sourced their capital from personal savings, while 20.12% sourced their capital through donation from friends, spouses and relations. Informal business enterprises that acquired capital from inheritance account for 7.05% of the total sampled. In terms of formality for the funding source, funds obtained from the informal financial sector for starting informal business ventures account for 84.86%, while the formal financial sector (i.e., microfinance banks, commercial banks and government loans) accounted for just 15.14%. This outcome

is in line with the assertion of [Shane and Venkataraman \(2000\)](#) that most informal investments are made by friends and family, not business angels. Based on the analysis of entrepreneurship, 92% of informal investment is provided by friends, family, neighbors and co-workers.

It is generally believed that the availability of electricity is critical to the growth and survival of business enterprises (both formal and informal) in Nigeria. The survey data shows that 33.3% of informal businesses within the research location have access to electricity power supply considered to be above average; 27.39% of respondents considered the availability of power supply in their areas to be average, while other business locations that account for 27.84% of the informal enterprises have electricity supply availability considered to be worse than average. The cost of seeking an alternative power supply (where and when it is not available) by most of these operators is somehow unaffordable, thereby limiting the scope of their investment capacity.

The data set further shows that the frequency of harassment from both state and local government officials on account of operation permission fees is reported to be high by 27% of respondents, average by 19.5% and below average by 53.36%. Although informal business is generally considered to be free from taxes and levies, this does not apply in all cases.

5.3. Components of Private Investment of Informal Enterprises

The average start-up capital among the entrepreneurs of informal businesses stands at ₦126,331, while the lowest and highest start-up capital were found to be ₦2,500.00 and ₦3,500,000.00, respectively. The dataset further reveals that the mean of the average gross earnings of informal business operators per week of business activities stands at ₦72,606.80. The least lucrative businesses grossly earned a minimum of ₦500.000 per week and highly profitable ones could boast as high as ₦1,200,000.00 average weekly gross earnings. Given this result, the vast majority of informal business operators in Ilorin metropolis began their informal business ventures with weak start-up capital, especially when their businesses were not inherited. This challenge emanates from the fact that the means of accessing external sources of finance apart from personal savings and friend or family donations are not easily come by. Most often, among the most critical challenges for informal entrepreneurs in Ilorin metropolis is poor financing, whereas robust start-up capital has a multiplier effect of enhancing the business operating finances. This connotes that, even in cases where prospective entrepreneurs possess the required operational skills and fascinating entrepreneurial ideas, poor financing may cripple their business initiatives.

The mean of the informal sector operators' total working capital is estimated at ₦341,489.40. Given that the survey data covers various informal business activities, the highest class of the total working capital stands at ₦4.5 million, while the lowest working capital stands at ₦2,000.00. In addition, the data set further shows that the mean of the monetary value of asset base of the informal business enterprises is calculated at ₦442,989.60. This comprises the total estimated value of all the properties owned by the informal business enterprises mainly used for business operation. As a result, the upper and lower limits of informal operators' asset base was found to be ₦5 million and ₦4,000.00, respectively. From this finding, the large standard deviation of these financial variables could be linked to the fact that some informal business activities, such as those engaging in repair services, may not require much working capital like their counterparts in trading and manufacturing. Generally, in terms of earnings, working capital outlay and asset base profiles, existing business ventures usually stand a better chance of operating on a healthier financial profile than new ones. By this, existing informal businesses with robust physical assets stand the chance of having the required collateral security for securing loans from external sources as a means of augmenting the existing investment. Also, existing informal ventures are at an advantage having accumulated consistent and reliable customers and business partners over the years, hence the means of consolidating existing investment could be less challenging.

The above assertion is consistent with the findings of [Burke, Hartog, Van Stel, and Suddle \(2010\)](#) that the average invested amount among all informal investors is equal to \$30,799. Each informal investor reported the in-

vested amount in the currency of his or her country. The demand for informal venture finance tends to generate its own supply. Burke, Hartog, Van Stel, and Suddle (2010) also found that this effect is over two and half times stronger for females than males. We also found evidence that risk aversion reduces the number of females who choose to become informal investors but increases the amount of investment per informal female investor.

5.4. Regression Analysis of the Determinants of Private Working Capital in the Informal Sector

The results of the regression analysis conducted on the determinants of private investment in the informal sector of Ilorin metropolis in Nigeria are presented in the tables below.

Table 4. Regression Results on the Determinants of Informal Sector Total Working Capital

Variable	Coefficient	t-Statistic	P-Value
Age***	0.007242	2.685360	0.0075
Credit availability***	0.047184	2.704200	0.0071
Demand ***	0.268364	3.322888	0.0010
Education***	0.109427	4.101624	0.0000
Gender	0.046048	0.659735	0.5097
Govt. tax**	0.0558913	2.445215	0.0148
Household size	0.024423	1.534279	0.1256
Log earnings***	0.547263	13.03395	0.0000
Location	0.060997	0.788266	0.4309
Log start-up capital***	0.264108	8.214942	0.0000
Motive	0.000913	0.023871	0.9810
Other work	0.011337	0.541237	0.5886
Power***	0.082419	2.909942	0.0038
Constant***	1.765987	2.909942	0.0038
R ²	0.719001		
Adjusted R ²	0.711196		
F-Statistics***	92.11453		0.0000
Durbin-Watson statistics	1.980594		

Note: *** Statistically significant at the 1% level of significance; ** Statistically significant at the 5% level of significance; * Statistically significant at the 10% level of significance.

The result estimations summarized in Table 4 above reveals that the coefficient of determination (R²) is 0.719001, which shows that about 72% of the determinant variables of informal sector working capital volume is explained by the model, leaving other variables that lead to a 28% variation not being included in the model. Also, the F-statistic, which tests the statistical significance of the overall model was found to be 92.11453 and is statistically significant at the 1% level of significance considering the probability value. Consequently, the result from the model is considered reliable with high explanatory power. In addition to that, the Durbin-Watson statistic value is 1.980594. This, according to Gujarati and Porter (2009), must often be around two, which would suggest that there is no first order autocorrelation in the model under study.

The results from the study further show that the statistically significant determinants of working capital volume identified among informal business operators are entrepreneurs' age, access to external credit sources, expectation of future rise in product or service demand, entrepreneurs' level of educational attainments, amount of gross earnings from the informal business, quantity of start-up capital and quality of power supply. These variables positively determine the volume of working capital that accrues for informal business operators in Ilorin metropolis and they all conform to the a-priori expectation. While government tax levies are also a significant determinant, they counter the a-priori expectation. Generally speaking, the assertion could be linked to the fact that better educational exposure could increase their access to credit facilities, induce their business financial managerial skills, boost their intelligence quotient to understand the trend and technicalities of the chosen business and their quality of service delivery, contribute to a better projection plan and risk taking ability. The result was found to be consistent with Bates (1997) and Altinay and Altinay (2008) in their studies of Korean and Chinese entrepreneurs in

the US who found that highly educated owners had much better access to bank loans, thereby placing them on a better platform to expand their investment working capital than lesser educated people, who mostly relied on their families and friends. Kushnirovich and Heilbrunn (2008) also emphasised access to their own start-up capital and the owner's personal savings as determinants of informal business financing or success in different terms. Also, Yazdanfar and Abbasian (2013) asserted that the amount of start-up capital has a positive influence on external loan acquisition from banks, friends and family members.

In terms of the strength and magnitude of the coefficients, which signify the relative impacts of each determinant factor, the study reveals that volume of earnings from informal business is the strongest determinant of its working capital. In the same vein, the second highest determinant of working capital volume is the level of expected rise in the demand of informal sector products and services, while the least statistically significant of the identified determinants of informal sector working capital is the age of entrepreneurs. Therefore, in a bid to boost the level of working capital of informal businesses, induced earnings will impact the achievement of the goal of expanding working capital volume more than other variables. This could be attributed to growth in entrepreneurs' financial capability to reinvest part of their earnings, positive expectations and anticipation for bigger earnings, and improvement in their risk taking ability due to better confidence and assurance in the business economic prospects. Furthermore, an optimistic anticipation of higher product or service demand by informal entrepreneurs increases their amount of working capital commitment to the enterprise.

This assertion is in conformity with Cavalluzzo and Wolken (2005) who suggested that informal business operators' personal wealth and credit history are possible explanations for the differences in receiving bank loans, hence the chance of expanding their working capital. In addition to that, Yazdanfar and Abbasian (2013) established that human capital and educational level have been examined as impact factors on immigrant informal business owners' chances of attaining bank loans compared with indigenous business owners.

5.5. Regression Analysis of Determinants of Private Fixed Capital among Informal Business Operators in Ilorin Metropolis

The results of the regression analysis conducted on the determinants of fixed capital among informal sector operators in Ilorin metropolis of Nigeria are presented in Table 5. A look at the results in the Table 5 amplifies our understanding of the determinant factors of informal business fixed asset capital. The overall model was found to be of good fit, high explanatory power and statistically significant. The result further shows that the R^2 and adjusted R^2 are 0.747544 and 0.740516, respectively, the F-Statistic is 106.3714 and was found to be statistically significant at the 1% level of significance.

The results of the study show that the statistically significant determinants of informal sector fixed capital formation in Ilorin metropolis of Nigeria include age of the informal operators, access to external credit sources, expectation of future rise in demand, educational attainment of the entrepreneurs, household size of the operators, log of weekly gross earnings and log of start-up capital. While on the negative side, entrepreneurs' gender and government tax levies are also among the identified determinants of informal sector fixed capital. This could be linked to the fact that the age of informal operators is positively correlated with the firms' years of operation and the asset ownership of the firm. Also, proper financial management skills and investment foresights can be enhanced through high educational attainment of the informal sector operators.

Consequently, in terms of strength and magnitude of the determinants, gross earnings from informal businesses was identified as the strongest statistically significant determinant of fixed capital formation among informal sector in Ilorin metropolis; this is followed by the amount of informal business start-up capital. While the least determinant of informal sector fixed capital formation is the amount of government tax/trading levy. This is so because business finances are the core determinants of the scale of operation of any business venture. This could be associated with access to external funding in addition to the operators' personal savings.

The above findings were found to be consistent with that of Cocco (2004) and Bakare (2011) where age, financial wealth, income earnings and education were empirically found to have determined allocation of assets in informal business, and the determinants of financial variables are in conformity with the assertions of Kushnirovich and Heilbrunn (2008) and Yazdanfar and Abbasian (2013).

Table 5. Regression results on informal business fixed capital.

Variable	Coefficient	t-Statistic	P-Value
Age***	0.007127	2.922569	0.0036
Credit availability***	0.047805	3.029051	0.0026
Demand **	0.155526	2.129306	0.0338
Education***	0.126510	5.242597	0.0000
Gender*	-0.120877	-1.913223	0.0563
Govt. tax **	-0.000922	-0.042286	0.9663
Household size**	0.033694	2.336581	0.0199
Log earnings***	0.583654	15.36859	0.0000
Location	0.076511	1.0933339	0.2748
Log start-up capital***	0.221640	7.616774	0.0000
Motive	0.039914	1.1152993	0.2495
Other work	0.004319	0.227788	0.8199
Power	0.041730	1.629192	0.1039
Constant***	2.492391	17.451652	0.0000
R ²	0.747455		
Adjusted R ²	0.740516		
F-Statistics***	106.3714		0.000000
Durbin-Watson statistics	1.775657		

Note: *** Statistically significant at the 1% level of significance; ** Statistically significant at the 5% level of significance; * Statistically significant at the 10% level of significance.

6. RECOMMENDATIONS

The informal sector is a varied and heterogeneous sector operating in a number of fields providing services at low cost and within reach of consumers. Many of the people working in this sector are involved in different economic activities, socio-demographic backgrounds and educational attainments. These small enterprises provide more than 50% of employment in the non-agricultural sector thereby minimizing the unemployment dilemma. The increasing importance of informal entrepreneurship in job creation and improvement in the overall social welfare of the people has been acknowledged in the literature.

Given the fact that the level of private investment (both fixed and working capital) plays a vital role in the running of any business venture and subsequently the business output and earnings, this study of determinants of private investment in the informal sector of Ilorin metropolis, Nigeria was conducted. This was in a bid to examine the various factors which can determine the volume of private investment. Consequently, such identified determinants could vary according to the appropriate policy direction if the goal of enhancing private capital formation and investment in the informal sector is set to be pursued by informal sector operators, investment experts and policy makers.

The general objectives of the study were to examine the nature of the informal sector of Ilorin metropolis, Nigeria, to examine the nature of private investment in the informal sector and to examine the relative contributions of the determinants to the volume of private investment among the informal sector operators in Ilorin metropolis.

7. CONCLUSION

Regarding the nature of the informal sector, the results obtained from this research seems to concur with the outcomes and recommendations made by many economists. Based on the magnitude of their relative impact, the determinants of private working capital levels in the informal sector have been empirically identified. The strongest

determinant of private working capital is the amount of gross earnings from informal business; this is followed by the expected rise in the demand of informal sector products and services. Other determinants includes the amount of start-up capital, educational attainment of the informal entrepreneurs, availability of power supply, access to credit facilities and tax levies harassment rate. The least determinant factor of informal working capital is the age of the entrepreneur. The trading levy harassment rate was found to be positive, thus contrary to the a priori expectation. In harmony with the portfolio allocation theory as the theoretical underpinning for determinants of informal investment, the impacts of both socio-demographic characteristics of the investor and financial variables on the amount of informal business working capital were identified as significant determinants.

In the same vein, the amount of gross earnings from business operations was empirically identified as the strongest determinant of private fixed capital formation in the informal sector. This is followed by the amount of start-up capital. Other empirically identified determinants of informal sector private fixed capital level include expected rise in the product and service demand, educational attainment of informal entrepreneurs, gender of the operator, access to credit availability and age of the entrepreneur, while the empirically identified determinant with the least impact on fixed capital is the government tax levy harassment rate.

8. POLICY RECOMMENDATIONS

The earlier the various government organizations and agencies recognize the informal sector as allies of Nigeria's socioeconomic overhauling, the better it will be for the nation. The government should institutionalize the informal sector as a way of providing a regulatory and legal framework for their operations. Thus, a coordinating and supervisory agency for informal business activities should be established. Such an agency should be empowered financially and corruption-free. This will serve as mechanism for holistic mobilization engenderment of all kinds of informal ventures.

As a means of boosting the informal sector private investment, the enhancement of total business gross earnings becomes imperative. The structure of the informal business market in Nigeria is considered as a relatively competitive industry. This is due to the fact that it is one of the easiest industries to enter and the number of operators in this market is relatively large at both the demand and supply sides. Therefore, an indiscriminate increase in the prices of products and services in a bid to boost gross earnings is not advisable. Sales increase and expansion of the market share for products and services is an economically viable platform for augmenting the total gross earnings from informal economy. Hence, operators in this market should endeavor to charge consistent and reasonable prices for their products and services coupled with an upward adjustment in their output level.

In the same vein, business advertorials and various affordable channels of sales publicity, especially the adoption of social network products and services publicity, should be employed by informal sector operators to boost their gross earnings and guarantee a rise in demand for products and services. Attractive product and service branding and rebranding by the operators should be employed as a way of enhancing demand. This will also keep their products relevant and attractive in the market.

The establishment of a cooperative society and formation of informal product/service-related producer associations and unions are considered as highly beneficial means for accessing loans and credit facilities. Also, the existing associations, such as Kwara State Artisans Council (KSAC), Nigeria Automobile Technicians Association (NATA), Association of Tailors and Fashion Designers, Barbers and Hairdressers associations, etc., should be reinforced as a means of protecting their members' interests against illegal tax levies by unauthorized groups of people for self-aggrandizement and exploitation.

In its quest to reduce the high unemployment rate in Nigeria, the government should provide soft loans for informal entrepreneurs an option to be embraced. Also, the platform of the informal business supervisory agency will ease the flow of investible funds from the government, formal financial institutions and informal money lenders to informal entrepreneurs under tenable collateral.

Existing informal operators and prospective entrants into the informal economy should not haphazardly enter into any venture due to lack of employment in the formal sector or with the primary motive of easing heavy financial burden. Robust formal educational knowledge and prerequisite skill acquisition and knowledge should be pursued; this will serve as an enhancement tool for a strong financial investment base for informal ventures.

Finally, critical to the galvanization of economic activities of the informal sector, it involves the government's deliberate attempt to address the infrastructural dilemma in problematic areas. The quality and quantity of electricity supply should be enhanced and having discovered the importance of the quality and quantity of electricity availability to business survival and prosperity in Nigeria, the government should further proffer adequate measures to unravel and remedy the predicament in the power sector.

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Questionnaire

Dear Respondent,

This researcher from the above named institution is conducting a research on the topic “**Determinants of private investment in the informal sector of Ilorin metropolis**”. The following questions have been drawn in a bid to elicit necessary statistical information as data for analysis so as to achieve the research objectives.

Your cooperation and assistance in objectively answering the following questions shall be highly appreciated. Information supplied will not be used against you either now or later.

Please tick where appropriate.

Thank you.

Socio-Demographic Characteristics of the Respondent

1. Gender of the respondent (a) male 1 (b) female 2
2. Age of the respondent
3. Marital status of the respondent (a) single 1 (b) married 2 (c) divorced 3 (d) separated 4 (e) widow/widower 5
4. Educational status of the respondent (a) no formal education 0 (b) primary education 1 (c) junior secondary education 2 (d) senior secondary/technical education 3 (e) post-secondary 1 (OND/NCE) 4 (f) post-secondary 2 (HND/B.Sc.) 5 (g) post-secondary 3 (master and above) 6
5. Household size (i.e., number of people in the family) of the respondent

The Nature of the Informal Sector in Ilorin Metropolis

6. What is the nature of the enterprise activity you engage in? (a) trading (buying and selling) 1 (b) agriculture (fishing, farming, poultry and other agro-allied) 2 (c) food processing 3 (d) food vendor/catering 4 (e) manufacturing 5 (f) construction 6 (g) repair services 7 (h) tailoring/sewing/knitting/fashion design 8 (i) hairdressing/barbing salon 9 (j) computer center/cybercafé 10 (k) other 11
7. What is the ownership structure of this business enterprise?
 a Self/sole proprietorship 1 (b) family ownership 2 (c) partnership 3 (d) other 4
8. Do you foresee any future increase in the demand for your product or services? (a) yes 1 (b) no 0

9. What is the principal source of capital for starting the business? (a) personal savings [1] (b) donations from spouse/relations/friends [2] (c) acquired by inheritance [3] (d) loan from friends/family [4] (e) loan from informal money lenders (e.g., *ajo*, *esusu* and cooperative society) [5] (f) loan from micro credit lenders [6] (g) government loan (NDE, NAPEP, PAP) [7] (h) loan from commercial banks [8] (i) other [9]
10. Which other type of work do you engage in apart from this business enterprise? (a) none [0] (b) farming [1] (c) other informal activities [2] (d) organized private sector [3] (e) government work [4] (f) other [5]
11. Why did you establish this business enterprise? (a) personal interest [1] (b) lack of employment in the formal sector [2] (c) to earn more income for the family [3] (d) other [4]

Investment Behavior in the Informal Sector of Ilorin Metropolis

12. How much is your start-up capital for this business enterprise? ₦.....
13. How much is the total estimate of the current working capital for this business? ₦.....
14. The current total asset base of this business enterprise could be estimated at about how much? ₦.....
15. What is the average weekly gross earnings from the business enterprise? ₦.....
16. How do you rate the infrastructural facilities (e.g., power supply) needed for the smooth operation of your business based on its availability and quality? (a) excellent [5] (b) very good [4] (c) good [3] (d) fair [2] (e) bad [1] (f) very bad [0]
17. Is your business located along a major road within the metropolis? (a) yes [1] (b) no [0]
18. How often do you experience any form of harassment from government officials over the payments of tax, levies and dues? (a) never [0] (b) rarely [1] (c) seldom [2] (d) often [3] (e) always [4]

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