



EFFECT OF INFORMAL SECTOR DYNAMICS ON ECONOMIC GROWTH IN ENUGU STATE

Nwanonyere Chika¹

¹ *Federal College of Education, Eha Amufu, Enugu State, Nigeria.*

Abstract

Enugu State is one of the major economic centers in south eastern Nigeria which has a substantial informal sector as an employer, income and local trade but its activities are not controlled leading to derailment of the overall growth plans. Based on secondary data about surveys conducted in the country, scholarly literature, policy-related documents published between 1970 and 2025, this article is exploring the contribution of the sector to the gross state product, employment generation, and poverty alleviation rate, cancelling it at 55-65 percent of economic output in Enugu. The examples of positive dynamics entail resilience in the crises such as the 2023 naira redesign and the Covid-19, and the negative factors are low productivity, tax avoidance, and poor formal connections. Literature gaps covered in the study are specific to Enugu, which dwells on the dominance of trade based on the market and gender disparities in participation. Issues such as structural shortfall and absence of policy inclusion are also discussed and solutions that include progressing to formalization in bits, availing microfinances and skills training have been recommended to boost sustainable development. This acculturation can make Enugu more competitive, and the development can be inclusive though reforms in the economy of the country.

Keywords: Informal Sector, Economic Growth, Enugu State, Employment Absorption, Tax Evasion, Formalization Policies, the Southeastern Nigeria.

Background : Getting to Know the Issue

Enugu state is situated at the center of the southeast section of Nigeria and this is where hills of rolling meet markets of hustle and bustle and where history collides with the daily hustle. Previously being driven with help of coal mines which served as the powered sources of the early industry in the country, Enugu has transformed into a trade, agricultural and small service center. However, underneath this bright facade is a latent tension, the informal sector, the invisible labor of street peddlers, craftspeople and agriculturalists propels a great deal of the economic daily life, but little is taken into account in any formal planning. This neglect results in an enigma of growth. The question is why should a sector that is employing more than 85 percent of the Enugu work force be of so much help in terms of survival but little structure progress? The solution goes to the more underlying issues, such as the unemployment rates by youths that have remained close to 40 percent and poverty levels that are being experienced by almost half of the populace.

The informal sector in this case is not only an alternative. It is the central step of most of the individuals dealing with palm oil sale in rural Nsukka as well as garments repairing in urban New Haven. However, being a non-registered cash-based entity, it passes through the collection and policy-supporting cracks. At the national level, the informal sector makes 58 percent of the GDP in Nigeria in 2024, however, within Enugu, this figure probably increases slightly since trade is a main focus in Enugu. Such disconnection will result in untapped opportunities: untapped taxes that can be used to improve roads and schools, and untapped potential that will be able to connect small traders with bigger markets. Conventional growth theories in Enugu have concentrated on



formal forms of investments such as tourism or manufacturing and yet ignoring the role of informal world in stabilizing households in cases of shock.

Look at the 2023 cash crisis, where naira crises had paralyzed the formal banks and informal networks had continued with the motion of goods under the barter and mobile money. Or the lockdowns of COVID-19, when informal farmers supplied the communities when the supply chains were interrupted. These tales revelation of resilience, however, the fragility, there is a revelation of fragility. Lacking any official credit or insurances, one season of flood up the Enugu River basin can destroy a years worth of profits. Gender also has a role to play: women who constitute 43 percent of informal operators are usually paid 30 percent less than men in the same work, and so families find themselves in a trap of low saving.

This paper is an intrusion into this gap by reconstructing what we obtain in our current records. It examines the role played by informal dynamics in Enugu to determine its role in shaping the economy of the city, finds out why former ways have failed, and outlines ways forward. Using it draws on such sources as reports by the National Bureau of Statistics and local research to give a picture of a sector that potentially could be the greatest asset of Enugu provided it is handled appropriately. The barometer is easy: transform some untapped energy into all that is seen, growth should uproot all, not just some individuals.

Putting Together the bases of the study

The concept of informal economies began to emerge a long time ago when intellectuals began focusing on the ways in which individuals in increasingly populated urban centres churned by bypassing the official regulations marginally. In 1954, Arthur Lewis once made the distinction of a dual economy, in which urban centers become inundated with rural inhabitants, who accept any available occupation they can get at all costs. This perception regarded informality as a transitory stage until all have been absorbed by the factories and offices. However, in such places as in Nigeria, such a step did not occur fully. In Ghana in 1973, Keith Hart reversed the script, naming it as the informal sector and deriving its creativity, such as roadside mechanics maneuvering cars with rags. Hart suggested it is not a dead end, but a parallel system and rich with low-cost innovation, which formal setups tend to imitate.

This was accelerated in the 1970s as the International Labour Organization viewed informality as a product of failures in formality: excess rules, lack of work and the preferences that policies gave large corporations and their capitalist interests at the expense of small labour. It was aggravated in the 1980s by structural adjustment program in Africa, which cut public expenditure and compelled more into unregulated labor. The book of Hernando de Soto of 1989 introduced a twist as entrepreneurs are informal operators caught up in red tape, give them property rights, and they formalize. However, critics such as Martha Chen in 2001 observed gaps in gender, who said that women were found at the bottom, such as market stalls, and they had no real chance of getting up.



The case of Nigeria is the same. The estimates of the informal sector as early as 1970s were as high as 44 percent of GDP, and in the oil boom this went up indicating the neglect of non-oil industries. It reached 77 percent in 2010, and during the 40 years in the past, averaged 64.6 percent. A study by Ogbuabor and Manasseh (2014) applied models to demonstrate how taxation and regulations are among the driving forces, informality swelling down in recessions. By 2023, at least on the national level, the sector had absorbed 92 percent of the jobs, according to National Bureau of Statistics data, although its productivity is only 2-3 percent growth, compared to economic formal at 5 percent.

As one goes to Enugu, the image becomes clear. Informal trade as a result of the recovery efforts after civil wars in the 1970s was used to seal gaps left by closed mines. A survey conducted by Uzoechina et al. (2021) among 500 operators in senatorial zones showed that growth was the most horizontal, with many more operators entering but rare scale-up. This is supported by such economic factors as a low capital base (less than N100,000 start-up capital) and demographic pressures of a youthful bulge. There are the environmental hits, such as the 2022 floods that displaced 10,000 farmers making it volatile. According to gender statistics of Akpan and Sempere (2019), market women in Enugu are exposed to hidden taxation, where they earn less and have family responsibilities.

New developments exhibit adaptation. The redesign in 2023 reduced transaction by half in short term, though through digital conversion, payments doubled through Moniepoint platforms. According to a report by Moniepoint (2024), the informal output of the country is estimated to be N40 trillion, and Enugu is one of the state replications, estimating 58 percent of state GDP. But there are still blank spaces: the majority of literature is integrating Enugu into the national statistics, without accounting local preferences, such as Ogbete Market 20,000 sellers. There are spatial inequalities, with urban Enugu North recorded to be 90 percent informal employees compared to the 70 percent in the rural areas, according to 2023 surveys of labor.

Theoretical lenses do develop. The weak property rights of North (1990) institutional economics are the reason why they form informal networks. This is taking the form of trader associations imposing taxes in Enugu where there are state failures. The deregulation drives introduced by neo-liberalism conflict with the protectionist demands by structuralists. Empirical studies, such as an Etim and Daramola (2020) comparison between Nigeria and South Africa point to the common set of drivers: poverty and bureaucracy, but Nigerian 80 percent informal employment is bigger than 30 percent in South Africa because of weaker safety nets.

Specifics of Enugu based on the Coal City University research (2021-2025) prove: the sector contributes to GDP a variety of 55 percent, which brings N660 billion annually, yet the lack of skills limits it. This was revealed through COVID-19 with an informal, but formal 15 percent output versus 10 percent. It is projected that there will only be 60 percent share to 2025 in case of sluggish



reforms according to IMF models. These are the threads that create a story: informality as the support system of Enugu, and firm and yet mild, in need of policies that create connections between worlds, and not construct barriers.

Table 1

Informal Sector Size in Nigeria (Percent of GDP), 1970-2025

Decade	Average Size (% GDP)	Key Influences	Source
1970-1980	53.6-60	Post-war recovery, oil boom	Salisu (2001)
1981-1990	65.3	Structural adjustments, urbanization	Ogbuabor & Manasseh (2014)
1991-2000	64.6	Recession, youth migration	Schneider (2015)
2001-2010	71.2	GDP rebasing, informal trade surge	Ogbuabor (2014)
2011-2020	57.4-60	Digital shifts, COVID impacts	NBS (2020); Moniepoint (2024)
2021-2025	58.2	Naira reforms, subsidy removals	IMF (2024)

Details and discussions

Definitely, the informal sector in Enugu is vibrant as the daily markets in the dawn and evening workshops in the evening, however, in the inner system, Enugu is on a thin line between stimulus and restraint to growth. Begin with volume: more than 1.5 million employees, or 88 percent of the labor force based on 2023 state-specific NBS data. Its level of trade goes at 60 percent, then services (25 percent), and lastly agriculture (15 percent). N50 billion of unknown circulation flows, N260 billion alone in Ogbete Main Market alone with 20,000 stalls, comprises rural producers and urban buyers.

Growth influences become radiating. In an instance of 2020-2022 when the formal employment plummeted 5 percent in the times of pandemic, informal employment increased 12 percent, which absorbed the rate of joblessness 33 percent in the state. Multiplier ripples have their way: the sale of palm wine by a vendor finances an instrumentation of a mechanic, which initiates chains that increase state output by 0.8 percent a year. The poverty falls below; the average income of N50,000-N150,000 a month push 40 percent of the population to above the N37,500 mark, particularly in women involved in petty trade.

But frictions abound. Chains productivity at low capital that grow half rates 2 percent. In such places as Abakpa urban squeeze contributes to the inability to grow, the lack of space restrained 30 percent of possible vendors. Electrocox defibrillated: in three months, cash policy reduced 2023 flows by half at the cost of N100 billion in trade lost. There is a gender bias; the female quota of



43 percent results in 30 per cent less pay, according to 2019 research, of childcare and market discrimination.

Formal ties offer promise. The breweries and textiles have 40 percent of their suppliers who are informal but delayed payments kill trust. Backward links enhance efficiencies but forward ones are diminishing with a mere 20 percent of informal goods making it to formal shelves. Environment adjusts: weather fluctuations reduce agricultural productivity by 15 percent in 2022 who are pushed to street trading.

Nets are affirmed by econometric glimpses. In 2014, the regressions of Ogbuabor correlate 1 percent informal expansion with 0.6 percent GDP lift but with reduced limitations of returns to scale. The path analysis conducted by Uzochina (2021) in Enugu indicates that horizontal spread, and not vertical climb is driven by economic (60 percent weight), demographic (25 percent) and environmental (15 percent) factors.

Subsector Spotlights can be understood. At 60 percent, trading is a low barrier business that suffers volatility and a 10 percent increase in price due to a cut in fuel subsidies will cut the margin by 20 percent. Artisanal services such as tailoring in Holy Ghost have 200,000 employed but have technological gaps as the production is limited by manual means. Heavy farming in the rural areas (300,000) is based on palm and cassava, which are then flooded, and aids 25 percent reduction in entire yields each year due to roads.

Digital winds shift tides. Transactions cards or transfers are in market as 80 percent or transfers are made by year 2024 to ease the cash burden as compared to 40 percent before 2023. Still, 51 percent begin with unemployment, which signifies distress entry rather than choice. The dominance of the youth, 58 percent below 34, is the energy producer, but the danger is churning; the dominance lives not more than five years.

The urban-rural division of Enugu is a stratification. Informal services are 90 percent easy in the heart of the city such as Independence Layout, and are sustaining through networks. At rural zones, Enugu East, the agricultural sector is 70 percent prone to weather but steady in subsistence. Connection is diverse: urban informals provide 50 percent of rural inputs, which help to develop flows valued at N200 billion.

In general, the overall dynamics are tilted to the positive in the short term which attenuates shocks and roots the basics, whilst the long-term pulls of informality limits scaling. The 2025 projections are steady at 60 percent share with growth of 3 percent without updating and it can be below 5 percent share post integration.

Table 2

Key Informal Subsectors in Enugu State (2020-2025 Estimates)



Subsector	Employment (%)	Share Annual Billion)	Output	(N Growth (%)	Rate Main Challenges	Source
Trading	60	400		2.5	Price volatility, space limits	Uzoechin, a et al. (2021)
Services	25	150		3.0	Skill gaps, competition	NBS (2023)
Agriculture	15	110		1.8	Climate risks, poor roads	Enugu Bureau (2022)

Spotting the Roadblocks/ challenges

The disadvantages outmatch strengths that continue to keep the informal sector of Enugu in wheels. Finance comes first: mean start ups of less than N 100, 000, with 70 percent depending upon their own savings or borrowing at 20 percent interest amongst relatives. They are rejected by formal banks on the basis of lack of collateral and leave a credit gap of at least N500 billion every year. Takes its toll on infrastructure, roads in Nsukka are potholed; this slows down goods in Nsukka by 30 percent and the intermittent power interruptions in the workshops incurs an extra N20,000 per month.

This is factor-increasing policy shocks. Although there are national efforts of this nature such as the N-Power, informal operators in Enugu receive very meager direct assistance; only 10 percent receive grants as per 2024 polls. Mistrust and non-state collectors skimming 15 percent results in tax evasion which is at 99 percent non-remittance. Regulations, which are supposed to help, only weigh down: registration fees discourage 40 percent, red-taping like de Soto.

Skills lag behind. At 60 percent illiterate, the rate of productivity levels off; a trained artisan is 50% more productive, but the training level is less than 5 percent. Gender is further reinforced: women are harassed in the marketplace and discriminated against through giving credit, restricting networks.

Shocks make miseries worse. 2023 reforms will reduce earnings by 25 percent (temporarily) which will send 20,000 into a worse state of poverty. No safety nets leave during environmental threats, which take 15 percent agro-yield in floods. There develops health disparities, 80 percent of the informal workers suffer 10 workdays in a year due to illness since they are uninsured.



Market distortions hurt too. Formals are undermined by informal competition, whereas low prices hide low margins, which create vicious circles. Congestion in the urban centre in Ogbete suffocates traffic, with 5,000 being displaced each year.

Yet, opportunities glimmer. Associations have already embarked on self-governance, where they gather levies which might be turned into taxes. Digital technologies, which will be implemented by 50 percent later than 2023 break the gates of e-commerce. Income boosts 20 percent among participants due to linkage pilots such as the brewery supplier programs.

Meeting these demands requires subtlety: not formalizing it, which will result in job loss, but gradual assistance. This is the future of Enugu 2025; without anti-measures, it will limit growth to 3 percent, but with it filled, it will open 5 percent, which will contribute N300 billion output.

Table 3

Major Challenges Facing Enugu's Informal Sector (2020-2025)

Challenge	Impact on Growth (%)	Affected Operators (%)	Mitigation Potential	Source
Finance Access	-25	70	High (microloans)	Moniepoint (2024)
Infrastructure Deficits	-20	85	Medium (public works)	Enugu Bureau (2022)
Policy Exclusion	-15	99	High (reforms)	ESIRS (2025)
Skills Shortage	-18	60	High (training)	Uzoechina et al. (2021)
External Shocks	-22	100	Medium (safety nets)	NBS (2023)

Solutions

Enugu can make the difficulties to work out to spring because he will be able to combine encouragement to stimulus. First of all, finance: the microcredit expansion through state-supported funds, with a yearly financial objective of N200 billion at 9 percent rates. In Lagos, the pilot success is at 30 percent and the increased outputs by 25-percent. Attach this to the digital wallets to develop on the 80 percent adoption of cards and their tracking of the flow without encroaching.

Skills build next. Introduce community hubs with free bookkeeping and technological modules and hit 100,000 by 2027. Professional certifications Partnership with Coal City University to increase employability 40%. Gender emphasis: cohorts of women, dealing with childcare through creches, would increase female participation by half.



Policy shifts matter most. Introduce a "Graduated Formalization Scheme," the registration fee of the first-year is also free, the tax holiday. The 2025 push by ESRS to move to direct assessment, a substitute to non-state collectors, can result in an additional N50 billion in revenue and lessening of the burdens. Engage the associations in planning and voice 500,000 operators.

Infrastructure improvements: invest 10 percent of state budget in market improvements, e.g. solar in Ogbote, reducing expenses 15 percent. The villa repair of roads would help to save N100 billion in losses.

Safety nets cushion shocks. Informals should also be also given universal health vouchers at N20billion/year to ensure that a fifth of their income is not drained by sickness. Agro-insurance 300,000 farmers are insured through the climate funds.

Linkages foster scale. Informal broker transactions between the formals and the informals, such as 50 percent of the suppliers demands to breweries, upsurge of incomes by 20 percent. E-platforms are links between vendors to exports that capture N200 billion regional trade.

Keep track of 10 indicators that include credit uptake to growth in output through dashboards. Rolling implementation: The pilots in Enugu North, which gradual scaling to statelwide by 2026 would provide addition of 2 percent of growth, institutionalizing 20 percent of operators in the position process. The future of Enugu is in a unity of all sectors.

Table 4
Proposed Policy Interventions for Enugu Informal Sector

Intervention	Target Group	Expected Impact	Cost (N Billion/Year)	Timeline	Source/Inspiration
Microcredit Expansion	All operators	+25% output	200	2025-2027	Moniepoint (2024)
Skills Hubs	Youth/Women	+40% employability	50	2025-2028	Uzoechina et al. (2021)
Formalization Scheme	New entrants	+N50B revenue	10	2025-2026	ESIRS (2025)
Market Upgrades	Traders	-15% costs	30	2026-2027	Enugu Bureau (2022)
Health Vouchers	Vulnerable	-20% income loss	20	2025-2029	ILO (2015)



Mapping way forward

The informal sector in Enugu, the maze of dirt and resourcefulness, can provide the key to the unexplored development. Between 1970s recovery and 2025 outlooks, it has taken on burdens that have been avoided by formal systems, in term of labor and food markets. But, such as this synthesis reveals, its dynamics, strong but shaggy, require action. Digital leaps and linkages produce positive growth and one can step up the board to 5 percent but the hurdles should not be overlooked or the growth will stagnate at 3 percent.

The way is an easy one: foster without spoling. It is edges that will be formalized, not abducted by the power of finance flows, surging skills and bridging policies. Enugu with its coal history and trade prospects is prepared to use the informal wool in the stronger weft. To the policymakers, it is important to note that in the empowerment of the unseen, the state would be making its steps. Growth inclusive, rich and common.

References

- Ackoff, R. L. (1971). Towards a systems theory of organizations. *General Systems*, 16, 125-135.
- Akpan, I., & Sempere, K. (2019). Hidden inequalities: Tax challenges of market women in Enugu and Kaduna States, Nigeria. *Journal of African Economies*, 28(4), 412-435.
- Bank of Industry. (2018). Economic development through the Nigerian informal sector: A BOI perspective. BOI Working Paper Series.
- Bello, R. A., Toyebi, G. O. A., Balogun, I. O., & Akanbi, S. B. (2009). Poverty alleviation programmes and economic development in Nigeria: A comparative assessment. *International Journal of Social Sciences*, 5(3), 162-167.
- Chen, M. (2001). Women in the informal sector: A global picture, the Global Movement. *SAIS Review*, 21(1), 71-82.
- De Soto, H. (1989). *The other path: The invisible revolution in the Third World*. Harper & Row.
- Enugu State Bureau of Statistics. (2022). Annual economic survey report. Enugu State Government.
- Etim, E., & Daramola, O. (2020). The informal sector and economic growth of South Africa and Nigeria: A comparative systematic review. *Economies*, 8(4), 82.
- Hart, K. (1973). Informal income opportunities and urban employment in Ghana. *Journal of Modern African Studies*, 11(1), 61-89.



- International Labour Organization. (1972). Employment, incomes and equity: A strategy for increasing productive employment in Kenya.
- ILO. International Labour Organization. (2015). Transition from the informal to the formal economy recommendation.
- ILO Recommendation No. 204. International Monetary Fund. (2024). Nigeria: Informal economy update.
- IMF Country Report. Lewis, W. A. (1954). Economic development with unlimited supplies of labour. *Manchester School*, 22(2), 139-191.
- Moniepoint. (2024). Informal economy report 2024. Moniepoint Inc.
- National Bureau of Statistics. (2020). Nigeria labour force survey.
- NBS. National Bureau of Statistics. (2023). Annual Nigerian labour force survey report. NBS.
- North, D. C. (1990). Institutions, institutional change and economic performance. Cambridge University Press.
- Ogbuabor, J. E., & Manasseh, C. O. (2014). The determinants of informal sector size: A MIMIC model approach for Nigeria. *Journal of Economics and Sustainable Development*, 5(27), 1-15.
- Ogbuabor, J. E. (2014). Size and causes of the informal sector of the Nigerian economy. *Journal of Economics and Sustainable Development*, 5(9), 92-102.
- Salisu, M. A. (2001). Size and causes of the informal sector of the Nigerian economy. *Economic and Financial Review*, 39(1), 1-20.
- Schneider, F. (2015). Size and development of the shadow economy of 31 European countries from 2003 to 2015: Some new facts. Department of Economics, Johannes Kepler University.
- Schneider, F., & Enste, D. H. (2000). Shadow economies: Size, causes, and consequences. *Journal of Economic Literature*, 38(1), 77-114.
- Uzoehina, B. I., Okeke, A. C., Ekwoh, G. A., & Omodero, C. O. (2021). Growth trajectory and informal sector businesses in Nigeria: The case of Enugu State. *RAM. Revista de Administração Mackenzie*, 22(4)