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Informal Sector Development in Nigeria: how impactful is the government financial interventions?

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Abstract:
In light of recent price swings in oil and the need to reduce the country's dependency on the commodity, the government of Nigeria has implemented a number of reforms and initiatives to stimulate the non-oil sector of the economy, most notably the informal sector. Government financial support as interventions would have otherwise been a relief in changing the narrative of ugly financial accessibility of participants in the informal sector. The level of financial accessibility and its relationship to the economic performance of participants in the informal sector have been largely understudied. Therefore, the purpose of this research is to assess the shortcomings of current government interventions in the informal sector and to provide a viable financial intervention structure to address these issues. This research included both primary and secondary sources of information. Questionnaires were used to collect primary data from respondents. A total of 700 informal sector participant who are mainly SMEs operators, 300 registered and 400 unregistered, were chosen using a purposeful selection technique from the six states of Southwest Nigeria. Data was examined in two ways using SPSS: descriptive and inferential. Thus, the study showed the flaws of the past interventions, such as a faulty programme design, bias in the distribution of financing facilities, a lack of knowledge about the facilities, and convoluted procedures for gaining government funding support.

1. Introduction

The informal sector is a relatively new economic force in Nigeria that holds promise for significant contributions to the country's economic revival and for helping the government lessen its reliance on the oil industry. In light of widespread acceptance of the oil industry's finite nature and widespread projections of its eventual decline over the next few decades, this is unavoidable

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(Alrashidi 2013). As a result of its importance to developing and less developed countries' economies and societies, the informal sector has become a central focus of development debates (Mashimbyi, 2019).

Informal sector participants that operate outside of the purview of government regulation and taxation make up the bulk of the informal economy in these countries (Okafor, Adeola, & Ituma 2020). This sector is emphasized because it facilitates entrepreneurial activities, business, small income generation, and offers employment opportunities that formal institution can not even provide adequately. However, the sector is still the most neglected because official agencies in underdeveloped nations sometimes lack the resources essential to support and oversee economic activity (Galdino, Kiggundu, Jones, & Ro 2018). So, the informal sector needs greater support and stronger policies and programmes to help it reach its full potential and help Nigeria become one of the world's top ten largest economies by 2030.

Unfriendly business climate, poor or limited access to funding, lack of managerial skills, and a lack of current technology are the four main problems facing the country's informal sector (Financial System Strategy, 2020). The absence of sufficient financial resources ranks prominently among these. Commercial banks, which remain the largest source of funds to those in the informal sector worldwide, have generally shied away from doing so due to concerns about the sector's perceived risks and uncertainties, as well as the sector's generally weak financial bases, low credit ratings, and poor business structures. Since financial institutions lack the data essential to assess the type and size of the businesses operating in the informal sector, they are generally hesitant to extend credit to them (Ramady, 2010). Banks charge high interest rates for loans to small and medium-sized enterprises (SMEs) because of the considerable risk associated in doing so (Ramady 2010). The high costs of credit associated with lending to small and medium-sized enterprises (SMEs) can be difficult for banks to cover due to the inadequate capital basis, poor financial records of SMEs, and intense market rivalry (Adebisi & Olayinka 2013; Vasilescu 2014).

Taking into account the unpredictability of oil prices and the necessity to address the country's heavy reliance on revenue from oil exports, the government of Nigeria has launched a number of programmes and reforms to stimulate the non-oil sector of the economy. Because of this, the government is looking to the informal sector as a way to expand the economy and secure a reliable source of revenue for the Nigerian government. This is why, over time, Nigerian governments have implemented a variety of financing interventions, including the Bank of Industry, the Central Bank of Nigeria, and the National Enterprise Development Programme, the Small and Medium Enterprises Credit Guarantee Scheme (SMECGS), and direct disbursement of fund to the deserving, e.g. traders, in the informal sector of the economy.

Many governments and donors place a high priority on interventions that expand the availability of credit to small and medium-sized businesses. Nigeria's small and medium-sized businesses (SMEs) continue to be un-served or under-served by banks, despite government efforts to improve their "bankability" (Berg & Fuchs 201). Financial institutions are generally hesitant to lend money to these enterprises because of their nature and size (Coleman 2004).
Indeed, it has been established that due to the nature of the enterprises and the owners or managers, those operating in the informal sector typically have issues getting money, even the government-sponsored finance (Dabo 2006). Interventions are often created for SMEs without first determining whether or not they will be effective. Therefore, it is unclear how much those efforts have improved the performance of informal sector in Nigeria.

1.1 Review

Following independence, the government implemented a number of programmes meant to boost the efficiency and growth of informal sector. These programmes included the Industrial Development Centers (IDCs) in 1962, the Small Scale Industries Credit Scheme (SSICS) in 1971, and the Small Scale Industries Fund in 1982. (SSIF). Through preexisting commercial banks, the government issued policy efforts to meet the unique requirements of SMEs. Among these are the Rural Banking Scheme (1977) and the National Economic Reconstruction Fund (NERFUND), both of which were formed in the mid-1980s to help small and medium-sized enterprises (SMEs) cope with the effects of the Structural Adjustment Programme. The Fund established the community banking scheme in 1991 with the goal of rural development and providing start-up facilities for smallholders; the Bank of Industry (BOI) with the main goal of providing credit to the industrial sector including SMEs at a rate of 10%; the Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB); and the African Development Bank (AfDB). In addition, there are initiatives like the Micro, Small, and Medium Enterprises Development Fund (MSMEDF), the N50 Billion Textile Sector Intervention Fund, the Establishment of Entrepreneurship Development Centres (EDCs), the Nigerian Industrial Development Bank (NIDB) Ltd, and the Nigerian Bank of Commerce and Industry (NBCI).
Prior studies have produced mixed but interesting results about effectiveness or otherwise of financing to informal sector and how government intervention to the sector could be resourceful. Prior studies such as Grimm and Paffhausen (2015) assessed the employment effects of interventions targeting micro entrepreneurs and SMEs (they did not assess the effect on other/intermediary outcomes), and Cravo and Piza (2016) only conducted a systematic analysis on business support services for SMEs. This research aims to close that knowledge gap by analysing the relationship between government finance interventions in Nigeria and the

long-term success of small and medium-sized enterprises. The amount of accessibility and its relationship to SMEs has been generally understudied, although government financing measures would normally be a relief to shift the narrative of ugly financial accessibility of SMEs. This research aims to evaluate the impact of government funding on small and medium-sized enterprises (SMEs) in Nigeria in order to highlight the sector's significance and create a long-term financial plan for the economy.

2. Research Methodology / Materials and Methods

Since the development of informal sector is seen as crucial to the achievement of long-term sustainable economic growth, SMEs are the primary focus of this study in the Nigerian economy. Southwest Nigeria, which includes the states of Lagos, Oyo, Ogun, Ondo, Ekiti, and Osun, is the primary focus of this investigation. Structured questionnaires were used to collect the qualitative information. Small and medium-sized enterprise (SME) operators who have secured financing through government financial interventions during the period under investigation were the primary target population for the distribution of questionnaires. These two groups include both legitimate and shady small and medium-sized enterprises. Each state's department of commerce (or equivalent) provided the list of registered SMEs, and 900 SME operators were picked at random from this pool to fill out the questionnaire. Additionally, a purposive sample method was used to select a similar number of SMEs that were not formally registered. It was decided to divide respondents into two groups: those who have previously benefited from government financing initiatives (and so have completed the first set of surveys) and those who have never before benefited from such assistance. Statistical Analysis Software for the Social Sciences was used to process the data (SPSS). Each descriptive and inferential analysis technique was used to this data. Descriptive analyses included the use of tables, charts, means, chi-square tests, and other statistical methods; inferential analyses included correlation tests, regression analysis, and analysis of variance; and the goals of the study were addressed and achieved through the use of these methods.

3. Results & Discussion

A descriptive method was used to distribute and analyse 900 questionnaires in the Osun/Oyo axis and the Lagos/Ogun axis in south-western Nigeria. a total of 700 copies of questionnaire were collected from the field for analysis, making up 78% of the total questionnaires sent. Table 1 shows the demographic and personal details of the respondents, broken down by gender. Of the total, 520 (or 74.3% of respondents) were male, while 180 (25.7%) were female. This demonstrates that more male than female participants answered the survey. This is an indicator that males are more interested in small and medium-sized enterprises (SMEs) than females. The age distribution of the sample is as follows: 45 (6.4%) were under the age of 20, 150 (21.4%) were between the ages of 21 and 30, 310 (44.3%) were between the ages of 31 and 40, 132 (18.9%) were between the ages of 41 and 50, and 63 (9.0%) were 51 and over. The majority of survey takers were between the ages of 31 and 40. According to a breakdown of the respondents by their marital status, only 113 (16.1%) of those surveyed were currently unattached, while 552 (78.9%) were in stable, committed partnerships. One percent of respondents had a School Leaving Certificate, seven percent had a WASSCE/SSCE/GCE, twenty-five percent had an Ordinary National Diploma (OND/DIP), thirty-nine percent had a Bachelor's degree or higher, and fifty percent had a Master's degree or higher, according to the respondents' demographic and personal data. According to the compiled data of respondents by state, 294(42.0%) of the respondent polled had a racial background of Osun/Oyo state, whereas the greater percentage of respondents (406) were from Lagos/Ogun State. Of the respondents, 338 (48%) had been in business for two years or less, 282 (40%) had been in company for three to five years, 50 (7.1%) had been in business for six to ten years, 25 (3.6%) had been in business for more than ten years, and 5 (0.7%) did not respond. What this means is that the sample was representative of the population and had the knowledge to make educated choices concerning government actions, particularly with regards to the financing intervention of the government.

Table 1: Demographical Information

Items	Variables	Frequency	Percentage
Sex	Male	520	74.3
	Female	180	25.7
	Total	**700**	**100**
Age	below 20years	45	6.4
	21-30years	150	21.4
	31-40years	310	44.3
	41-50years	132	18.9
	51 years & above	63	9.0
	Total	**700**	**100**
Marital Status	Single	113	16.1
	Married	552	78.9
	Divorce	35	5
	Total	**700**	**100**
Educational Background	WASSCE/SSCE/GCE	55	7.9
	OND/DIP	205	29.3
	B.Sc/HND	390	55.7
	MPA/MBA/M.A/M.Sc.	50	7.1
	Total	**700**	**100**

Racial background	Osun/Oyo State	294	42.0
	Lagos/Ogun State	406	58.0
	Total	**700**	**100**
Year of working before start up business	2 years or less	338	48
	3-5 years	282	40
	6-10 years	50	7.1
	More than 10 years	25	3.6
	Not Applicable	5	0.7
	Total	**700**	**100**

Source: Field Survey 2022
Diagnostic Test

Result of Reliability and Validity of Instrument
The Cronbach alpha was calculated to determine the test's consistency. According to Nunnally and Bernstein's proposal, the test resulted in a reliability coefficient of 0.71, which is greater than the cutoff value of 0.7 and indicates that the instrument is reliable and suitable for its intended purpose (1978).

Table 2: Cronbach alpha reliability test

Reliability Statistics

Cronbach's Alpha	N of Items
.705	48

Source: Field work 2022
Validity Test

The goal here is to test the reliability of the tools themselves.
KMO > 0.5 (0.527 > 0.5) and p-value 0.05 in table 3 below indicates sufficient variance in the data to partition using factor analysis; this signifies the obtained data is scalable and can be sent to factor analysis.

Table 3: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.527
Bartlett's Test of Sphericity	Approx. Chi-Square	184.19
	Df	10
	Sig.	0

Source: Field work 2022

3.1 Rationales/Drivers for Desiring Government Financial Intervention Programmes
In spite of the fact that government's intention in adopting SME finance initiatives was to promote the SME subsector in order to stimulate economic growth and development, different causes have prompted entrepreneurs not to

participate in the programmes. According to the responses of the respondents as contained in Table 4, 55% of the business owners were prompted to grow by the necessity. Existing businesses with expansion plans are the intended recipients of these funds. Also, 61% of people said they work hard because they want to keep their businesses going. The primary goal of this group of respondents is to maintain operations in spite of market fluctuations. 58% of those who answered the survey said they exclusively used financial aid to launch a business. By all accounts, this group of responders should be prioritised in order to broaden the economy's base of micro, small, and medium-sized enterprises (SMEs). Moreover, the need to expand company coverage prompted around 57 percent of respondents to express this desire. This group of respondents has likely been operating for some time and needs simply to broaden its customer base in order to achieve full coverage. The need to verify the genuine position or authenticity of the intervention was cited by fewer than 61% of respondents, who also accounted for the majority of those who accessed the financial interventions. It follows from this that those who needed the money to expand were the most responsive, and that those who wanted to start a new business or keep their current one were less likely to use the funds for those purposes. Therefore, future intervention should be shaped to give more credence to people planning to launch a new venture or those who have been hit hard by the economic downturn brought on by the current health pandemic. The majority of respondents are already involved in some form of economic activity, with expansion being their top priority. Based on these findings, future government finance interventions can be made to better encourage growth.

Table 4: Rationales/Drivers for Desiring Government Financial Intervention Programmes

Variables	Frequency
The urge for growth	55.0
The importance of being able to keep going and expanding as a firm	61.8
Urgent need to launch a brand-new enterprise	58.0
There is a pressing need to expand commercial coverage	57.4
The necessity of doing necessary tests or confirmations on the facilities	61.0
Total	**100**

Source: Field work 2022

3.2 Argument against accessing the government financial intervention programmes

Table 5 details the reasons why some people were deterred from participating in government financial interventions notwithstanding the good intentions behind

them. The politicisation of the funding facilities is one of the reasons why many did not access the schemes. They hold the view that the finance resources were originally political in character, but have since become politicised, making it unavailable to them. There is also a group of persons who have said they are not aware of the resources available to them. The proportion of respondents in this group is 21%. This could be because the government did not do enough to raise awareness, or because the efforts it did make were directed at the educated elite rather than the general population. Another group of respondents (17%) said that the bias that characterised the allocation of the facilities was the main reason they were unable to participate in the scheme. This demonstrates that favouritism was embedded in the scheme's implementation in a way that was inseparable from many government initiatives. On the same percentage of respondents (12%) cited a lack of peer information about the application process as the reason they did not apply for government support. Various people gave explanations, some involving the necessity of collateral or the inclusion of interest rates.
Therefore, the findings indicate that low levels of public knowledge about the programme, politicisation of the financing scheme, and high levels of favouritism in the disbursement of the intervention scheme are the primary reasons why some people are unable to benefit from government financial assistance.

Table 5: Argument against accessing the government financial intervention programmes

Variables	**Freq. (%)**
The incorporation of a (high) interest rate	78(11.14)
Nepotism in the distribution of financial resources	122(17.43)
Politicization of financial institutions	127(18.14)
Lack of adequate information and publicity about the government intervention	149(21.29
	123(17.57)
Absence of clear application process	86(12.29)
Economically unfavourable to SMEs operators	15(2.14)
Total	**700(100)**

Source: Field work 2022
percentage values in parenthesis

By looking at how different groups of people answered, we can learn more about the barriers people face when trying to apply for intervention funding. Table 6 shows that the majority of respondents in both the Oyo/Osun and Lagos/Ogun axes took part in the study to determine why they had not accessed government financing programmes. According to the findings, the most common barriers to participation in the government financing scheme are the politicisation of financing facilities, low levels of awareness, and partiality in the distribution of financing facilities. Respondents from the Lagos/Ogun and Osun/Oyo axis were the most likely to voice these worries.

Table 6: Reason for not seeking any of the previous government financial aids

Variables	Racial background			Total
	Osun/Oyo State	Lagos/Ogun State	Ondo/Ekiti State	
Interest rate is exorbitant	32(4.3)	36(5.3)	5(1)	73(10.4)
Characterized by bias in the distribution of financial facilities	45(6.7)	72(10.1)	5(1)	122(17.4)
Characterized by politics	28(3.9)	97(14.1)	2	127(18.1)
Low publicity	61(8.4)	86(12.7)	1	150(21.4)
Collateral requirement	69(9.6)	54(7.0)	2	123(17.6)
Poor documentation and application processes	37(4.9)	48(7.1)	1	86(12.3)
Not favourable to start-ups	12(1.7)	3	4	19(2.7)
Total	**276**	**404**	**20**	**700**

Source: Field work 2022

3.2 Inherent Deficiencies Associated with Government Financing Interventions/Facilities in Nigeria

This research also aimed to learn about the problems and shortcomings of government-funded interventions directly from the people who have been affected by them. For future intervention programmes to be well-packaged to address these gaps, it's important to first identify the areas of concern in the intervention schemes. Table 7 shows that most intervention programmes do not use merit as a selection criteria, which is a major problem. (Mean = 3.6; P = 0.01). That prior interventions were characterised by bias due to political patronage and affinity is demonstrated by this fact. It was also discovered that the preceding intervention financings were marked by exceedingly demanding processes. For example, the average number of steps required to obtain government financial aid was significantly higher than average (Mean = 3.1; P = 0.03). The fact that the chi-squared value for this claim also leans in the direction of acceptance demonstrates that most earlier government actions were not that freely accessible to the people. In most cases, the procedures were not well simplified, making it difficult for people, especially those with less formal education, to participate in the schemes. Despite the prevalence of online operations, there are often additional forms that must be filled out thereafter.

Most of the earlier intervention abilities were characterised by intrinsic corruption with the distribution of the funds (mean = 3.8: p=0.00), as revealed by the narrative. Hence, this indicates that the prior intervention abilities were not able to increase openness and accountability to an acceptable level. As a result, what the government promises in terms of funding does not always materialise, as many of these funds have been diverted for private or personal purposes, leaving the intended recipients unattended. This is an indication that, in most cases, intervention skills were lacking and corruption was high. Respondents also shared their thoughts on the politicisation of the aforementioned talents, with a consensus reaching a mean score of 4.2 ($p=0.04$), indicating that respondents believe individuals who stand to gain the most are those who already have some sort of political connection or affiliation. That the members of the ruling party at the time of the intervention were typically the ones who benefited is evidence that earlier interventions were carried out with the intention of bolstering that party's influence. The success or failure of a government initiative is typically determined by the degree to which the programme is publicised. This is because the level of collaboration and acceptability envisaged, as well as the effect on people's welfare, would not be felt if the citizens were not fully informed through the publicising of the programme.

Study results indicate that most people are not typically well informed across several channels (mean = 2.1: $p = 0.02$). Low levels of publicising for government activities suggest low levels of awareness (mean =2.1 $p=0.02$). If a government programme is underfunded, it is unlikely to succeed (mean = 1.9; $p = 0.03$). As a result, it's safe to assume that funding was lacking for numerous intervention projects. Another finding is that government support in the form of finance is rarely adequate for the SMS's needs (mean=4.8: $P = 0.04$).

A company's size is a major factor in determining the financial backing it will need to stay afloat and grow. Based on the results of this analysis, it can be concluded that established businesses benefit more from government funding than startups do (mean=3.8; $P = 0.02$). As a result, this will have a long-term impact on the rate at which new businesses can credit government intervention programmes with providing initial funding. Sometimes, however, respondents felt that the intervention programmes were poorly conceived and didn't do enough to help small and medium-sized enterprises (SMEs). The success of a programme that is intended to benefit one company at the expense of others is highly unlikely.

Table 7: From your experiences about government financing facilities, what are the inherent deficiencies/challenges usually associated with government intervention funding in Nigeria?

Variables	Frequency	Percent	Mean Value	Chi Square
Not merit based	161	23	3.6	0.01
It requires very stressful procedures: Difficulty in the procedures for accessing government financing support	196	28	3.1	0.03
It is inherently corruptive	25	3.57	3.8	0.00
It is over politicized	51	7.29	4.2	0.04
It is not well publicized for the people to be aware of it	96	13.71	2.1	0.02
It is underfunded	50	7.14	1.9	0.03
The finance being provided is not sufficient for business expansion	61	8.714	4.8	0.04
Government financing is only favorable to already grown business and not new business	25	3.57	3.8	0.02
Poor design of the program in addressing the needs of the SMEs	28	3.6	3.8	0.00
Others	10	1.43	1.2	0.05
Total	**700**	**100**		

Source: Field work (2022)

4 Conclusion & Recommendations

This study evaluates the effectiveness of government finance interventions in ensuring the long-term viability of small and medium-sized enterprises. The successive governments of Nigeria have established a number of measures to promote the sustainability of SMEs in Nigeria, as evidenced by the existing literature and the numerous publications/documents on government interventions to SME sustainability. Implications and motivations for past interventions are analysed here. The need to grow, stay in business, launch a new venture, increase business coverage, and verify or test facilities are just a few of the many reasons why people look to the government for help. It has also been established that potential applicants are put off by a number of factors, including but not limited to (high) interest rates, favouritism in the disbursement of financing facilities, politicisation of the financing facilities, a lack of knowledge about the facilities, a lack of clear information on the application process, and a government financing scheme that does not favour SMEs. This study thus proposes a long-term strategy for informal sector financing intervention. This strategy may be domiciled in a CBN-managed department or unit, subject to further oversight by the Ministry of Finance. Manufacturing, service, and casual sectors, as well as other characteristics like turnover rate and staff size, should be used to categorise the target market.

In this result-based financing model for the guarantee scheme, the designated scheme would only guarantee the banks' ability to extend unsecured, low-interest loans, and the scheme and banks would fund the initial loan together. The demand side of the framework is made up of SME business owners, while the supply side is made up of financial institutions. The Central Bank of Nigeria serves as both a mediator and a financial backer between these two groups. Informal sector participants can seek assistance from this Central Bank Unit geared specifically at SMEs. The plan presented by the SME operator will then be reviewed by this Unit/section, which should be set up in each State capital of the federation. The primary requirement of the proposal will be determined by this unique Unit. The requirements can involve instruction, inspiration, a reliable network, or financial support. If the sum sought is within a range that the Unit can provide, the application may proceed. If the sum is much larger than expected, the applicant may first be sent to specialists in the field before being referred to a specific commercial bank for a loan backed by the Central Bank of Nigeria (CBN) at a low or no interest rate.

The government should implement policies that increase the accessibility of financing for small and medium-sized enterprises (SMEs), notably in the field of institutional credit, which would provide reasonably priced medium and long-term loans for growth and working capital needs. This is better achieved by setting up Credit Guarantee and Insurance Schemes to ensure that the both the borrower and banks are adequately protected.

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