



## Chapter 12

# Determinants and Implications of Hopping Between Formal and Informal Jobs in Nigeria


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### ABSTRACT

*Job hopping between formal and informal sectors represents an important driver of welfare and productivity changes. The study investigates the patterns, forms, and drivers of informality and factors determining hopping between formal and informal jobs in Nigeria. The data obtained from the general household surveys (GHS) was estimated with binary logistic regression technique within and between waves of each GHS across 13 primary economic activities in the formal and informal employment. The authors found high hopping from informal to formal in six sectors including manufacturing, buying and selling, construction, financial services, professional services, and education. Focus was also on dividing the households into three stages of life course. There is a greater hopping among early adulthood than any other age categories. Hence, bottlenecks to performance and productivity of the identified sectors should be adequately tackled to engender an improved formal sector characterised with better remuneration and living standards of its workers.*

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## INTRODUCTION

Job hopping between formal and informal sectors is a necessary dynamic characterising labour market and could represent an important driver of welfare and productivity changes. For instance, the informal sector largely does not operate under existing legal or regulatory framework making certain labour laws such as minimum wage not to be strictly adhered to. Even where informal sector employers can afford to pay the minimum wage they shy away from it as they prefer to pay lower wages. This is perhaps one of the reasons for job hopping among others. There is convincing evidence of earning gaps between formal and informal sector (see Nordman, Rakotomanana and Roubaud, 2016). Therefore, any opportunity for an informal worker to hop to formal sector will imply enhanced welfare through provision of decent and remunerative jobs.

Besides, job-switching between formal and informal sector is not a one sided issue but an incredibly important channel by which better skills and practices can be deployed. For example, an individual may decide to be self-employed by establishing an informal enterprise having worked in the formal sector. The skills and knowledge previously gained in the formal sector can be deployed in the informal sector leading to productivity increase (Osabuohien et al., 2019). The evidence from Latin America indicates that a substantial share of workers voluntarily exits paid employment in the formal sector and form their own small informal businesses, this is however rare in West Africa (African Development Forum, 2012). From a policy perspective, facilitating employee mobility might be an important way to stimulate growth of the informal sector.

There is a gender dimension to the issue. Non-remunerative work undertaken in an income-producing enterprise is one of the characteristics of informal sector. In certain instances, informal family businesses headed by male (husbands) often engage female (wives) who are not remunerated. However, there is no consensus on whether male or female are more in (in)formal employment or not. For instance, while Nordman, Rakotomanana and Roubaud (2016) found that female workers have more opportunity to get informal sector jobs in the case of Madagascar, ILO (2018) indicated that informal employment is a greater source of employment for men (63.0%) than for women (58.1%)<sup>1</sup>. This implies that the relationship between gender and (in)formal employment may be context specific.

The size of informal economy varies from one region to another and from one country to another. In Africa, 85.8% of employment is informal, while the proportion is 68.2%, 68.6%, 40.0% and 25.1% in Asia and Pacific, the Arab States, the Americas, and Europe and Central Asia, respectively (ILO, 2018). In selected African countries, informality range from a low of 20% to 25% in Mauritius, South Africa, Namibia, and to a high of 50 to 65% in Benin, Tanzania and Nigeria (Medina, Jonelis, and Cangul, 2016). Specifically, Schneider (2002) estimated the size of Nigeria's informal sector at 57.9% of its gross national product (GNP), which was equivalent of US\$212.6 billion. The arguments in the literature show possibility of bi-directional causality between poverty and informality in developing countries. While high incidence of informality is a challenge for the realization of decent work and inclusive development that reduces poverty, pervasive informality in developing African countries is traceable to poverty where people see informal enterprises and poorly paid casual jobs as a way of surviving.

The above shows that labour mobility from informal to formal sectors which guarantee decent and remunerative work remains an unmet need and a policy challenge in many African countries including Nigeria.

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