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IMPACT OF INFORMAL BUSINESSES ON POVERTY REDUCTION AMONG ENTREPRENEURS IN ZARIA LOCAL GOVERNMENT AREA, KADUNA STATE, NIGERIA

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ABSTRACT

This study assesses the Impact of Informal Businesses on Poverty Reduction in Zaria Local Government Area of Kaduna State, Nigeria. Data was collected from a sample of 300 respondents selected from owners of informal businesses in Zaria Local Government Areas of Kaduna State using questioning method. Descriptive statistics and chi-square were used as the techniques of analysis. The study found that, Informal businesses in Zaria Local Government Area, Kaduna State have a positive significant impact on consumption expenditure, access to good education and ability of entrepreneurs to access good health care services. It was concluded that Informal business significantly contributed to poverty reduction in Zaria Local Government Area of Kaduna State. The study therefore, recommends the need for the government to strengthen informal businesses in their operation by supporting the business with more capital to make them formal, so as to expand the scope of their businesses. Kaduna State Government in collaboration with Small and Medium Scale Enterprises Development Agency (SMEDAN) to enlighten informal business owners on the use of modern equipment to enhance their product quality in Zaria Local Government and beyond. This will go a long way to boost their productivity and consequently their ability to increase their household consumption thereby reducing the level of poverty.

Keywords: Informal Business, Poverty Education, Entrepreneurs

Introduction

In Nigeria, the informal sector is essential for giving the country's impoverished households a means of subsistence and jobs for the country's hordes of unemployed people. The informal sector has persisted in conducting economic activity; by creating jobs and offering necessary, reasonably priced goods and services, it makes a substantial contribution to both social and economic life. Because they participate in supply chains and strategic networks,

informal enterprises in some economies are essential to the competitiveness of formal firms. Although their role in international trade has also been recognized, little is known about their management, organization, and strategy.

Informal enterprises have gained recognition on a global scale for their role in promoting sustainable development and economic expansion. A sizable section of the labor force in many developing nations, including Nigeria, is employed in the informal sector. Informal enterprises offer economic activities that help people survive, create jobs, generate revenue, and enhance their level of living. Research has shown several intriguing results. Contributions to the well-being of several individuals who utilized its services and to the livelihoods of those involved are among the findings. The regional distribution of wealth was aided by the transfer of a portion of the revenue from these enterprises to the other provinces from where the vendors originated. The majority of these companies provided work for the unemployed by hiring family members or relatives. Sub-Saharan African labor markets are characterized by both official and informal sector characteristics. The urban labor market is especially marked by this duality (Farayibi, 2015).

Even though Nigerian informal companies are often neglected, they nonetheless provide jobs for the impoverished since they offer work in a variety of economic activities. This economic sector has assisted in absorbing those with low levels of education and those who are unable to find wage work in modern Nigeria, especially in Kaduna State, as well as those who are migrating from rural to urban areas. Like in most African nations, Nigeria's informal sector is growing as a result of government failures and the untapped potential that arises when governments fail. The lack of income security and other benefits that are included in the formal employment framework are among the difficulties faced by the informal sector, despite the fact that it offers the impoverished a viable means of subsistence.

According to a Nigeria Bureau of Statistics (NBS, 2015) survey, the country's poverty profile rose from 54.4% in 2004 to 69% in 2010 and from 35% in 2011 to 33.1% in 2013 and 2014 (World Bank, 2014), despite the country's enormous number of informal businesses. This suggests that poverty has been rising in Nigeria but only decreased between 2011 and 2014.It is important to highlight that the majority of the examined material on the compilation process of this study was conducted in areas other than Kaduna state's Zaria local government region.

Studies like Oloyede (2008) and Farinmade (2012) looked into the difficulties in enhancing the circumstances for activities in the informal sector on Lagos Island, Nigeria.Obara and Nangih (2017) investigated the effects of taxing Nigeria's informal sector, while Oluranti (2011) studied the contribution of motorcycle taxis, also known as Okadas, to the provision of self-employment and income-generating opportunities to urban unemployed youths in south-west Nigeria. In order to do so, the

researchers sent out 110 questionnaires to people in the city of Port Harcourt and the surrounding area; Farayibi (2015) looks at the informal sector's capacity to create jobs in Nigeria. Because the study's primary data was gathered at random using questionnaires and interviews with respondents in six randomly chosen locations in Ilorin, Kwara State, the results cannot be applied to Zaria local government metropolis. The purpose of this study was to determine whether informal enterprises help entrepreneurs in Zaria Local Government Area, Kaduna State, Nigeria, reduce poverty in light of this reality.

Purpose of the Study

The study is aimed at assessing the impact of informal businesses on poverty reduction in Zaria Local Government Area of Kaduna State, Nigeria.

Research Question

To what extent does informal business contribute to poverty reduction in Zaria Local Government Area of Kaduna State, Nigeria?

Research Hypothesis

H0: Informal businesses do not contribute to poverty reduction of their owners in Zaria Local Government Area, Kaduna State.

Theoretical Leaning

The Individualistic idea of Poverty serves as the foundation for this idea. The incapacity of the person or household to be productive in order to escape poverty is the perspective from which this idea is examined. The individualistic perspective, on the other hand, blames poverty on personal weakness or pathology, emphasizing that: The poor were poor because they did not work hard, they wasted money on drinking, gambling, and needless luxury, and their family lives were chaotic. They suffered from an intractable educability, were fatalistic, lacked ambition, and had no inner drive for labor (Islam, n.d.). According to this theory, which is based on self-help survival, the poor and the non-poor are the results of the failure of the weak and the success of the hard-working. The Poverty Alleviation Programme (PAP), National Poverty Eradication Programme (NAPEP), Universal Basic Education (UBE), and Nomadic Education Programme are Nigerian initiatives that align with this approach. This is due to the fact that the final two programs try to help those who have not been able to obtain the necessary education, whereas the first two programs were defined by payment stipends (in the case of PAP) and loan granting to persons under NAPEP.

According to the overview above, the individualistic theory of poverty serves as the foundation for this investigation. The theory was chosen as the study's theoretical framework because it clarifies how people become impoverished when they are unable to meet their basic needs—such as those related to health, education, and consumption—due to indolence and a lack of production. This is demonstrated by the individualistic theory's attribution of poverty to personal weakness or pathology, which highlights that the impoverished were poor due to a lack of effort, wasteful spending on unnecessary luxuries, gambling, and family dysfunction. According to the thesis, the poor and the non-poor are the results of the failure of the weak and the success of the hard-working.

Empirical Review

Numerous academics and researchers have empirically examined the role of the informal sector in reducing poverty in Nigeria and other nations worldwide. Among these studies are Tshuma & Jari (2013), who looked at how the unorganized sector in Alice Town, in the province of the Eastern Cape, South Africa, contributed to household income. The interviewer's questionnaire is the primary source of data used in the study. According to the report, by giving them a source of income, the informal sector offers job prospects to those with less education and those who are officially unemployed. Based on their research, they conclude that the nation's small company and informal sector contributions demonstrate that it is possible to escape poverty and achieve higher rates of economic growth and development, particularly if these sectors are given support.

Agupusi (2007) investigated how the government and private sector initiatives in Alexandra, South Africa, helped the small business sector reduce poverty. He used semi-structured interviews with key informants, actors, entrepreneurs, and prospective entrepreneurs to gather primary data in addition to critical examination of secondary sources. He discovered that small enterprises in Alexandra, primarily informal and semi-formal, could not only reduce poverty but also aid in the process of overall transformation if development agencies and these firms had a good working relationship.

Additionally, Delbiso (2011) looked into how the unorganized sector may lower youth unemployment. A sample of 204 young people working in the unorganized sector in Hawassa City, Ethiopia, provided the study's data. The study uses logistic regression to identify the factors that can help operators enhance their standard of living. According to the report, the informal sector is essential in reducing urban poverty by generating employment opportunities.

Mbeng (2013) looked into how Douala, Cameroon's informal garbage recovery and recycling industry helped reduce unemployment, poverty, and environmental pollution. The study's approach includes a quantitative survey with random sampling and a qualitative interview to provide more context and information about the survey results. According to the study, poverty rates in Cameron are higher in rural than in urban regions, which is a primary factor in rural-urban migration.

The majority of research conducted in Nigeria concentrated on how the unorganized sector generates income and creates job chances. For example, with reference to Kogi state, Phillip, Samson, and Ogwu (2013) investigated the importance of the informal sector as a strategy for alleviating poverty in Nigeria. Both primary and secondary sources of data are used in the study. Chi-square statistical techniques and tables were used to analyze the data. According to the results of the study, the informal sector is essential to Nigeria's socioeconomic development.

Oluranti (2011) investigated the contribution of motorcycle taxis, often known as Okadas, to the supply of self-employment and income-generating options for urban

unemployed youths in southwest Nigeria's informal transportation subsector. A survey of 777 randomly chosen motorcycle riders in the research area provided the data for the investigation. Ordinary least squares techniques are used to specify and estimate the two econometric models used in the study. According to the report, the subsector of Okada riding, which is prone to accidents, employs a large number of young school dropouts. Additionally, it showed that the operators made more than the minimum wage.

Farinmade (2012) looked into the difficulties in enhancing the circumstances for activity in the informal sector on Lagos Island, Nigeria. To provide a fair representation of the population on each chosen street, stratified random sampling was used to conduct the survey. According to the study, there is a connection between employment in the informal sector and unemployment, illiteracy, environmental deterioration, and widespread planning violation in the formal sector.

Oloyede (2008) looked at two important but connected questions: how well has the informal banking sector mobilized rural savings, and how well have the savings that resulted from this been directed toward profitable investments that support Nigeria's rural development? The study uses random sampling strategies to source data and critically analyzes primary data obtained from questionnaires and field surveys. According to the report, when it comes to raising money for rural development, the informal finance sector is more significant than its formal counterpart. The study also showed that there are still a lot of issues with their efficient operation.

The informal sector and its contribution to the growth of the Nigerian economy were examined by Onwe (2013). The study made use of the CBN's informal sector survey in Nigeria. According to the study, the traditional or informal sector is steadily growing in emerging nations and has been acting as a safety net for the hordes of impoverished people by giving them jobs and income.

Farayibi (2015) investigated Nigeria's informal sector's capacity to generate jobs. Interviews and questionnaires were used to randomly gather primary data for the study from respondents in six randomly chosen locations in the Nigerian state of Kwara, namely in the city of Ilorin. The acquired data was subjected to a descriptive analysis. According to the study's findings, Nigeria's informal economy can employ individuals of all skill levels and is a powerful instrument for generating jobs, generating revenue, and reducing poverty. The study comes to the conclusion that the informal sector is a real tool for lowering unemployment in Nigeria and suggests creating an employment strategy centered on the informal sector.

According to the examination of empirical research, the northern region of Nigeria, particularly the north-west, has not been extensively and experimentally studied, and any extrapolation based on these studies from the southern region of Nigeria is skewed.

Therefore, our study aims to close this gap in the literature.

Methodology

Descriptive survey design was used for the purpose of this study. The data for this study was essentially derived from the primary source. Specifically, the study used questionnaire as the source for data. A sample of 300 participants were purposively selected from the target population.

Table 1: Sample of the Study

S/n	Name of Businesses	Sample
1	Restaurants	60
2	Tailoring services	60
3	Barbing saloon	60
4	Clothes vending	60
5	Business Centre's	60
	Total	**300**

Based on the data presented in Table1, it shows that 60 respondents each were purposively sampled from entire population. The study employed both descriptive and inferential statistics for data analysis. For Descriptive, the study used absolute numbers, percentages and tables or schedules. A nonparametric test chi-square(X^2) was carried out to find out whether informal businesses contribute to poverty reduction before and after joining the business in the area.

Chi – square is given as:

$$\chi^2 = \sum \frac{(0-E)^2}{E}$$

Where X^2 = Chi – square

O = Observed frequency
E = Expected frequency
Σ = Summation of the frequency.
This text is based strictly on the primary data gotten from the use of questionnaire.

Decision Rule: Reject Null Hypothesis if calculated value of (X^2) is greater than the critical value and accept Null Hypothesis if calculated value of (X^2) is less than the critical value.

The Degree of Freedom (DF) = (K-M-1)
Where df = Degree of Freedom
M = Number of Parameters to be estimated
k = Number of category to be estimated
1= constant

Discussion of Results

The summary of the descriptive statistics is captured in Table 4.1 below. Table 4.1 present descriptive statistics – means, minimum, maximum, standard deviation skewness and kurtosis. The skewness statistics which, was used to show the direction of the normal distribution curve reveal that, the data of Table 4.1 had both negative and positive distribution.

Table 4.1 Descriptive Statistics

	ACEFB	AGEFB
Mean	0.596667	0.793333
Median	1.000000	1.000000
Maximum	1.000000	1.000000
Minimum	0.000000	0.000000
Std. Dev.	0.491386	0.405591
Skewness	-0.394102	-1.448866
Kurtosis	1.155316	3.099214
Jarque-Bera	50.30154	105.0837
Probability	0.000000	0.000000
Sum	179.0000	238.0000
Sum Sq. Dev.	72.19667	49.18667
Observations	300	300

Source: Author's Computation, (2025)

The table shows that access to consumption expenditure from the business has an average of 0.596667 with standard deviation of 0.491386, and minimum value of 0 and 1 as the maximum value. The standard deviation of 0.491386 implies that the data deviate from the mean value from both sides by 49.1%, implying that the data is dispersed from the mean because the standard deviation is lower than the mean. This is also supported by the coefficient of Skewness and Kurtorsis of -0.394102 and 1.155316 respectively, which suggest that the data follow normal distribution. The result of Jarque – Bera 50.30154 reveals the normal distribution of access to consumption expenditure from the business.

Access to good education from the business has an average of 0.793333 percent with standard deviation of 0.405591, and minimum value of 0 and 1 as the maximum value. The standard deviation of 0.405591 implies that the data deviate from the mean value from both sides by 40.5%, implying that the data is dispersed from the mean because the standard deviation is lower than the mean. This is also supported by the coefficient of Skewness and Kurtorsis of -1.448866 and 3.099214 respectively, which suggest that the data shows sign of normal distribution. The result of Jarque – Bera 105.0837 reveals normal distribution of access to good education from the business.

Table 4.2 Access to consumption expenditure from the business

	Observed N	Expected N	Residual
Before joining the business	121	150.0	-29.0
After joining the business	179	150.0	29.0
Total	300		

Test Statistics	Access to consumption expenditure from the business
Chi-Square	11.213[a]
Df	1
Asymp. Sig.	.001

Source: Author's Computation, (2025) SPSS Version 22

The result of this study revealed from descriptive statistics on the relationship between whether informal business contribute to consumption expenditure before and after joining the business in the area under study Zaria Local Government Area shows that the mean of $\bar{x}$= 0.596667 provide a good measure of comparison and further shows that on average data were normally distributed. The standard deviation of SD=0.491386 means that the value in the data set is close to the mean of average. The study found that respondents agreed on the relationship between contribute to consumption expenditure before and after joining business in the area under study Zaria Local Government Area. The chi-square result revealed that (x^2= 11.213) with the probability value of (p value=0.001) which is less than 5 percent level of significance. Thus, since the probability value is less than 5 percent level of significance, the study rejects null hypothesis and therefore, concludes that informal businesses have significant difference on contributions to consumption expenditure of entrepreneurs in Zaria Local Government Area, Kaduna State. The statistically significant different on contribution of informal business to consumption expenditure of entrepreneurs before joining the business and consumption expenditure of entrepreneurs after joining the business indicates that informal businesses play a very crucial role on consumption expenditure of entrepreneurs in the study areas. The findings of this study are in conformity with the individualistic theory of poverty which stated that household inability to be productive is one of the causes of poverty. The finding shows that there is a significant difference on contribution of informal business to consumption expenditure after joining the business.

Table 4.3 Access to good education from the business

	Observed N	Expected N	Residual
Before joining the business	62	150.0	-88.0
After joining the business	238	150.0	88.0
Total	300		

Test Statistics	Access to good education from the business
Chi-Square	103.253[a]
Df	1
Asymp. Sig.	.000

Source: Author's Computation, (2025) SPSS Version 22

The result of this study revealed from descriptive statistics on the relationship between informal business contribute to access to good education before and after joining the business in the area under study Zaria Local Government Area shows that the mean of $\bar{x}$= 0.793333 provide a good measure of comparison and further shows that on average data were normally distributed. The standard deviation of SD= 0.405891 means that the value in the data set are close to the mean of average. The study found that respondents agreed on the relationship between informal businesses contribute to access to good education before and after joining the business in the area under study Zaria Local Government Area. The chi-square result revealed that (x^2= 203.253) with the probability value of (p value=0.000) which is less than 5 percent level of significance. Thus, since the probability value is less than 1 percent level of significance, the study rejected null hypothesis and therefore, concludes that Informal businesses have significant difference on contribution to access to good education of the entrepreneurs in Zaria Local Government Area, Kaduna State.

Summary of Major Findings

The major findings of the study include the following:

1. The study found that, informal business improved to consumption expenditure of entrepreneurs. Since the results revealed that Informal businesses have significantly improved to consumption expenditure of entrepreneurs after joining the business in Zaria Local Government Area, Kaduna State.
2. It was also found that, informal business facilitated access to good education of the entrepreneurs. Since the results showed that Informal businesses have significantly improved access to good education of the entrepreneurs after joining the business in Zaria Local Government Area, Kaduna State.

Conclusion

The study examined the impact of informal businesses on poverty reduction in Zaria Local Government Area of Kaduna State, Nigeria. The finding of the study was in line with the view of others empirical studies that informal businesses operations contributed immensely on consumption expenditure of entrepreneurs, access to good education of the entrepreneur's and poverty reduction in Zaria Local Government of Kaduna State. Based on the finding of this study, it is concluded that informal businesses significantly contribute to poverty reduction in Zaria Local Government of Kaduna State.

Recommendations

Based on the findings of this study, it is therefore recommended that:

There is need for the government to strengthen informal businesses in their operation by supporting the business with more capital to make them formal. Since the results reveals that informal businesses have significant contributions to consumption expenditure of entrepreneurs and access to good education of the entrepreneurs in Zaria Local Government Area, Kaduna State.

There is need for the informal business owners to expand the scope of their businesses to be able to operate in the formal sector. Since the study found that informal businesses contribute significantly to household consumption expenditure in Zaria Local Government Area of Kaduna State, transforming them into formal setting will give them more access to credits from formal sector.

There is need for the Kaduna State Government in collaboration with Small and Medium Scale Enterprises Development Agency (SMEDAN) to enlighten informal business owners on the use of modern equipment to enhance their product quality in Zaria Local Government and beyond. This will go a long way to boost their productivity and consequently their ability to increase their household consumption.

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