



E-ISSN: 2990-9449 (Online)  
CODEN: BEDCAS

# Business and Economics in Developing Countries (BEDC)

DOI: <http://doi.org/10.26480/bedc.02.2024.93.99>



## REVIEW ARTICLE

# UNDERSTANDING THE GREY ECONOMY IN NIGERIA: IMPLICATIONS FOR GROWTH, GOVERNANCE, AND SOCIAL EQUITY

Augustine Okon Jacob<sup>a,b</sup> and Okon Joseph Umoh<sup>b</sup>

<sup>a</sup>Department of Business Administration, School of Management Science, Heritage Polytechnic, Ikot Udota, Nigeria.

<sup>b</sup>Department of Economics, Faculty of Social Science, University of Uyo, Uyo, Nigeria.

\*Corresponding author: [drjacob.ao@gmail.com](mailto:drjacob.ao@gmail.com)

This is an open access journal distributed under the Creative Commons Attribution License CC BY 4.0, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited

## ARTICLE DETAILS

### Article History:

Received 23 September 2024  
Revised 18 October 2024  
Accepted 25 November 2024  
Available online 27 November 2024

## ABSTRACT

This study explores the grey economy in Nigeria, characterized by unregistered businesses, informal labor markets, and cash-based transactions, which significantly shape the nation's socio-economic landscape. It examines the scope, characteristics, and impact of the grey economy on Nigeria's development, highlighting its dual role in providing livelihoods and contributing to economic activity, especially in rural areas. However, the study also addresses critical challenges, including high unemployment rates, bureaucratic barriers to formalization, limited access to finance, and weak regulatory enforcement, which hinder the transition of informal enterprises to the formal sector. The implications of the grey economy extend to fiscal concerns, such as revenue losses due to tax evasion, and labor issues, including the lack of protections for informal workers. Moreover, the grey economy perpetuates social inequalities, leaving many excluded from state-provided benefits. The research emphasizes the need for coordinated policy action, including simplifying the formalization process, expanding access to finance, and implementing awareness and training programs. By adopting a comprehensive approach, Nigeria can enhance economic resilience, improve governance, and promote social equity, ultimately fostering sustainable national development. This study contributes valuable insights for policymakers and stakeholders aiming to navigate the complexities of the grey economy and its implications for Nigeria's future.

## KEYWORDS

Economic development, Grey economy, Informal sector, Policy challenges, Social equity

## 1. INTRODUCTION

The grey economy, often referred to as the informal or shadow economy, encompasses economic activities that occur outside the formal regulatory frameworks established by governments. This includes a wide range of activities, from small-scale street vending and unregistered businesses to illegal enterprises (Nenovski, 2012). Characterized by its unregulated nature, the grey economy operates without the oversight typically required for formal business operations, which can lead to significant implications for economic measurement, taxation, and overall governance. Understanding the grey economy is essential for policymakers and researchers, particularly in developing countries like Nigeria, where a considerable portion of the population engages in informal work (Kifordu et al., 2020).

In Nigeria, the significance of the grey economy cannot be overstated. As one of Africa's largest economies, Nigeria faces numerous challenges, including high unemployment rates, poverty, and a growing population. A large segment of its labor force operates within the grey economy, which provides crucial livelihoods for millions (Jacob & Umoh, 2017). This informal sector often serves as a buffer against economic shocks, offering income opportunities where formal employment is scarce. However, the reliance on informal work also presents challenges, such as a lack of job security, limited access to social services, and reduced opportunities for professional growth (Colombo et al., 2018). The grey economy complicates economic policy formulation and implementation, as activities within this sector often go unrecorded and unregulated, making

it difficult to gauge the true scale and impact of informal employment on Nigeria's economy (Jacob and Umoh, 2018).

Understanding the grey economy is particularly relevant in Nigeria's context due to its implications for economic structure and development. As informal employment continues to grow, it challenges traditional notions of labor and economic contribution, necessitating a reassessment of how economic productivity is measured (Adeniyi et al., 2015). The grey economy influences various aspects of economic activity, including taxation, regulatory compliance, and social welfare. Informal businesses often evade taxation, resulting in reduced government revenue and hindering the provision of essential public services. Furthermore, the lack of formal recognition of informal workers limits their access to social protections, healthcare, and retirement benefits, thereby perpetuating cycles of poverty and economic vulnerability (Vasilev, 2015).

This study aims to examine the grey economy's scope, characteristics, and impact on Nigeria's development. It analyzes informal economic activities to provide insights into their size, significance, contributions to employment, and economic resilience. The research explores the interaction between the grey economy and formal economic structures, highlighting implications for national development strategies. By emphasizing the need for policymakers to incorporate the grey economy into planning and regulatory efforts, the study seeks to ensure informal workers and businesses are integrated into the broader economic framework. Ultimately, it aims to offer actionable recommendations for fostering a more inclusive and equitable economic environment in Nigeria.

### Quick Response Code



### Access this article online

Website:  
[www.bedc.com.my](http://www.bedc.com.my)

DOI:  
10.26480/bedc.02.2024.93.99

## 2. CHARACTERISTICS OF THE GREY ECONOMY IN NIGERIA

### 2.1 Unregistered businesses

Unregistered businesses are a vital component of Nigeria's grey economy, significantly contributing to the country's economic landscape. These businesses typically operate without formal licenses or registration with government authorities, which excludes them from the benefits and protections available to formal enterprises (Suleiman et al., 2016). Examples of unregistered businesses abound across various sectors and include small-scale enterprises such as local food vendors, hair salons, roadside mechanics, and craft makers.

Street vendors, in particular, are a ubiquitous presence in Nigerian cities, selling a variety of goods, from fruits and vegetables to clothing and electronics. These informal operations often emerge from a need for income and the inability to access traditional employment opportunities, providing vital services to their communities while addressing local demand (Onodugo et al., 2016). However, due to their unregistered status, these businesses lack access to financing, which can hinder their growth and sustainability. Without formal recognition, they cannot access loans or financial services that could help them scale operations or improve product offerings.

Unregistered businesses also often face challenges related to regulation and enforcement. For instance, while they contribute to the local economy, their informal nature means they often do not adhere to health and safety standards, leading to potential risks for consumers (Jacob & Umoh, 2021). Moreover, these businesses can create a perception of unfair competition for formal businesses that adhere to regulatory standards and pay taxes. The challenge lies in finding a balance that encourages the growth of these unregistered entities while ensuring they contribute to the broader economic framework.

### 2.2 Informal labor market

The informal labor market in Nigeria is a critical aspect of the grey economy, characterized by a diverse range of workers and employment types. This sector includes a wide array of individuals such as artisans, domestic workers, and participants in the gig economy, many of whom work without formal contracts, benefits, or protections typically associated with formal employment (Ikeije, 2020).

Artisans represent a significant portion of the informal labor market. These skilled workers, including tailors, electricians, plumbers, and carpenters, often operate independently or in small workshops. While they contribute to the local economy by providing essential services, many face challenges related to job security, fair compensation, and access to training or professional development (Alacovska, 2018). As a result, their work is often precarious, with income fluctuating based on demand and market conditions. Domestic workers, including housemaids, nannies, and caregivers, also form a considerable segment of the informal labor market. Many of these workers are women and face challenges such as exploitation, low wages, and lack of social protections. They often work long hours in demanding conditions, with little recourse to legal protections against abuse or unfair treatment. The absence of formal employment contracts means they have no access to benefits such as health insurance or retirement savings, which exacerbates their vulnerability (Wiesböck et al., 2023).

The gig economy has emerged as a significant feature of the informal labor market, driven by advancements in technology and the increasing demand for flexible work arrangements. Participants in this sector, such as ride-hailing drivers and freelance digital workers, often operate outside formal labor regulations (Huang et al., 2017). While gig work can provide opportunities for income generation, it also leaves workers exposed to income instability and the absence of workplace protections. The rise of the gig economy has further complicated the landscape of informal labor, as these workers frequently juggle multiple jobs and face uncertainties regarding pay, job security, and benefits.

### 2.3 Tax evasion

Tax evasion is a pervasive issue among small businesses in Nigeria, significantly impacting the country's revenue generation and economic development. Many small business owners opt to avoid formal tax compliance due to various reasons, including perceived high tax rates, complex tax regulations, and a general mistrust of government institutions (Omodero, 2019). This avoidance behavior creates significant challenges for tax authorities attempting to enforce compliance and collect revenue effectively. For many small business owners, particularly those operating in the informal sector, immediate survival often takes precedence over tax

obligations. The perception that formal tax compliance will strain their already limited financial resources leads them to prioritize day-to-day operational costs over tax payments. This mindset perpetuates a cycle of informality, where businesses operate outside the legal framework and evade tax responsibilities (Jacob et al., 2020). As a result, the government suffers substantial revenue losses, which could have been used for public goods and services such as infrastructure, healthcare, and education.

Moreover, a lack of awareness regarding tax responsibilities among informal operators exacerbates the issue of tax evasion. Many small business owners are unfamiliar with tax laws and obligations, leading to unintentional non-compliance (Shittu, 2023). This lack of understanding creates a significant barrier to formalization, as potential formal enterprises may be deterred by the complexity of the tax system or the fear of punitive measures from tax authorities. The challenges of enforcing tax compliance in the grey economy are further compounded by limited resources and capacity within tax authorities. Insufficient staff and funding for tax enforcement agencies often hinder their ability to monitor informal business effectively (Bruno, 2018). Consequently, many small businesses operate without fear of scrutiny or repercussion, allowing tax evasion to persist and thrive.

### 2.4 Under-the-Table Transactions

Under-the-table transactions are a prevalent feature of Nigeria's grey economy, particularly in cash-based systems where financial exchanges occur outside the formal financial sector. These transactions, often characterized by their informal and unregulated nature, are common across various sectors, including trade, construction, and services (Effiong et al., 2019). The role of cash in under-the-table transactions is significant, as many informal operators prefer cash payments to avoid leaving a paper trail that could attract regulatory scrutiny. These cash-based transactions facilitate immediate financial exchanges, allowing businesses to evade taxation and regulatory compliance. While they provide flexibility for both buyers and sellers, they also undermine the government's ability to monitor economic activity and collect taxes, which limits public investment in essential services and infrastructure (Blaufus and Hoffmann, 2019).

The prevalence of under-the-table transactions raises questions about the implications for economic development and governance. While informal transactions can create liquidity in local economies and support small businesses, they also contribute to a lack of transparency in financial flows. This opacity can perpetuate corruption and hinder efforts to formalize the economy, as businesses operating in the grey market may resist regulatory reforms that threaten their ability to operate without oversight (Krah and Mertens, 2020). Under-the-table transactions can lead to inequality in the marketplace, as informal operators may engage in practices that disadvantage formal businesses. For instance, unregistered vendors may offer lower prices due to their ability to evade taxes, creating an uneven playing field for businesses that comply with regulations (Jiang et al., 2016). This can stifle competition and discourage formal enterprises from investing in their operations, ultimately limiting the overall growth potential of the economy.

## 3. FACTORS CONTRIBUTING TO THE GROWTH OF THE GREY ECONOMY IN NIGERIA

### 3.1 High Unemployment Rates

High unemployment rates are a significant issue in Nigeria, leading to an increasing reliance on informal economic activities. The unemployment rate in Nigeria has fluctuated over the years, often reaching alarming levels, particularly among the youth. In response to the lack of formal job opportunities, many individuals turn to the informal economy as a means of survival. This trend is particularly evident in urban areas, where the informal sector offers a variety of jobs that do not require formal education or training (Erude et al., 2023). The link between unemployment and informal economic activities is evident in several ways. Firstly, the absence of adequate formal job opportunities compels many Nigerians to seek alternative sources of income. This situation creates a thriving informal economy that encompasses small-scale businesses, street vendors, artisans, and freelance workers. While these activities provide immediate relief from unemployment, they often lack stability and security (Jacob, 2022). Workers in the informal sector typically do not enjoy the benefits associated with formal employment, such as health insurance, retirement plans, or job security. This precarious nature of informal work perpetuates a cycle of economic vulnerability and instability for many households.

Moreover, high unemployment rates can lead to a reduction in consumer

spending and overall economic activity. When individuals are unable to secure stable employment, their purchasing power diminishes, affecting local businesses and the economy at large. Consequently, the reliance on informal economic activities can create a feedback loop, where high unemployment fosters a larger informal sector, which in turn contributes to economic stagnation. While the informal economy can be a vital source of income and livelihood for many, it is important to recognize that it does not provide a sustainable solution to the challenges posed by high unemployment rates (Bosch and Esteban-Pretel, 2014). To address this issue, comprehensive policy interventions are necessary, focusing on creating formal job opportunities and enhancing the skills of the workforce to meet the demands of the labor market.

### 3.2 Bureaucratic barriers to formalization

Bureaucratic barriers to formalization represent a significant challenge for small businesses in Nigeria. Many entrepreneurs face complexities and costs associated with obtaining licenses, permits, and business registrations. These barriers can deter individuals from transitioning their operations from the informal to the formal sector, thus perpetuating the cycle of informality (Adeolu, 2017). The process of formalization often involves navigating a convoluted web of regulations and requirements. Entrepreneurs may encounter difficulties in understanding the legal framework, which can lead to frustration and a reluctance to pursue formal registration. The costs associated with compliance, including registration fees and the expenses related to acquiring necessary permits, can be prohibitive for small business owners operating on tight budgets (Jacob, 2024). As a result, many choose to remain informal, which ultimately limits their access to resources, markets, and support systems.

The complexities of the bureaucratic system also exacerbate the problem of corruption. In some instances, entrepreneurs may encounter demands for unofficial payments or bribes to expedite the formalization process, further dissuading them from seeking legitimate registration. This environment of corruption undermines trust in government institutions and hinders efforts to promote formalization within the economy (Ghura et al., 2019). To address these bureaucratic barriers, it is essential for policymakers to simplify the process of formalization and reduce the associated costs. Streamlining registration procedures and creating a supportive environment for small businesses can encourage entrepreneurs to transition into the formal sector, thereby enhancing their access to resources and opportunities.

### 3.3 Lack of access to finance

Limited access to finance is a significant barrier that forces many individuals to operate informally in Nigeria. The financial landscape in Nigeria presents numerous challenges, particularly for small businesses and entrepreneurs seeking to access formal financial institutions. The lack of collateral, high-interest rates, and stringent lending requirements often prevent individuals from obtaining loans or credit necessary for business growth and development (Gumel and Bardai, 2021). For many entrepreneurs operating in the informal economy, the absence of access to formal financing options leads them to rely on personal savings, informal loans from family and friends, or microfinance institutions. While these alternatives can provide some level of financial support, they often fall short of meeting the needs of growing businesses. Informal lenders may charge exorbitant interest rates, further perpetuating cycles of debt and financial instability.

The lack of access to finance not only limits the growth potential of individual businesses but also affects the overall economy. Without the ability to invest in their operations, entrepreneurs in the informal sector struggle to improve their product offerings, expand their markets, or hire additional workers. This situation contributes to a stagnation of economic growth, as the informal sector remains trapped in a cycle of low productivity and limited innovation (Ayyagari et al., 2016). To address the issue of limited access to finance, it is essential for policymakers and financial institutions to develop tailored financial products that cater to the needs of small businesses. Initiatives such as microcredit programs, financial literacy training, and partnerships between formal banks and informal entrepreneurs can facilitate access to much-needed resources and foster a more inclusive financial landscape.

### 3.4 Weak regulatory enforcement

Weak regulatory enforcement poses significant challenges in Nigeria, particularly in relation to labor, safety, and tax regulations. Despite the existence of laws and regulations designed to protect workers and promote fair economic practices, inadequate enforcement often leaves informal workers vulnerable and unprotected (Ibrahim et al., 2022). In the

labor sector, many informal workers lack basic rights and protections. Labor laws intended to ensure fair wages, safe working conditions, and job security are often not applied to those in the informal economy. This regulatory gap exposes workers to exploitation and abuse, as employers may take advantage of the absence of oversight. Without mechanisms to report grievances or seek recourse, informal workers remain in precarious positions, unable to advocate for their rights. The challenges of regulatory enforcement extend to safety regulations as well. Many small businesses operating informally may neglect safety standards due to the lack of oversight. This situation poses risks not only to workers but also to consumers who may unknowingly engage with businesses that do not adhere to safety protocols. The potential for accidents and injuries raises significant public health concerns, further complicating the relationship between informal businesses and the broader economy.

In terms of tax regulations, weak enforcement contributes to widespread tax evasion among informal operators. Without stringent measures in place to monitor compliance, many small business owners feel they can operate without paying taxes, undermining the government's ability to generate revenue for public goods and services (Baksi and Bose, 2016). This situation perpetuates a cycle of informality, where businesses operate outside the formal economy, further straining public resources. To improve regulatory enforcement, it is crucial for the Nigerian government to strengthen its institutions and create a culture of compliance. Enhancing training and capacity-building initiatives for regulatory agencies can improve their ability to enforce existing laws effectively. Fostering collaboration between government authorities and informal operators can promote a better understanding of regulations and encourage voluntary compliance, ultimately leading to a more equitable and sustainable economic environment.

## 4. IMPACTS OF THE GREY ECONOMY IN NIGERIA

### 4.1 Contribution to economic growth

The grey economy plays a complex yet significant role in Nigeria's overall economic growth. Informal economic activities, particularly in rural areas, contribute positively to livelihoods and stimulate economic activity. In regions where formal employment opportunities are scarce, the informal sector often serves as a vital lifeline for individuals and families. For many, engaging in informal work—such as agriculture, trading, and crafts—provides a source of income that is essential for day-to-day survival. These small-scale enterprises can adapt quickly to local market demands and provide goods and services that may not be available through formal channels. Consequently, informal businesses often fill gaps in the market, leading to increased consumer choice and improved access to basic necessities (Jacob and Umoh, 2022).

Moreover, the informal economy serves as an incubator for entrepreneurship, allowing individuals to develop their skills, establish networks, and create new ventures with minimal barriers to entry. This entrepreneurial spirit can foster innovation and adaptability, contributing to economic resilience, especially in rural areas where formal infrastructure and resources may be limited (Zhu et al., 2019). However, while informal activities contribute to economic growth and stability, they often operate on the margins, limiting their potential to drive substantial economic transformation. To maximize the positive impacts of the grey economy, it is crucial for policymakers to create an enabling environment that supports the growth of informal enterprises. Initiatives that promote financial literacy, access to credit, and business training can empower informal workers, helping them transition into the formal economy and enhancing their contributions to national development.

### 4.2 Fiscal implications

Despite the positive contributions of the grey economy to livelihoods and economic activity, it also presents significant fiscal implications for the Nigerian government. One of the most pressing issues is the revenue loss due to tax evasion. A substantial portion of informal businesses operates outside the tax system, depriving the government of essential revenue that could be used for public services and infrastructure development. Tax evasion is prevalent in the grey economy, as informal workers often view tax payments as an additional burden. Many small business owners lack awareness of their tax obligations or the potential benefits of compliance, leading them to operate without formal registration. This situation not only results in a loss of revenue for the government but also creates an uneven playing field, where informal businesses compete with formal enterprises that adhere to regulatory and tax obligations (Gokalp et al., 2017).

The implications of this revenue loss are far-reaching. Insufficient funds



limit the government's ability to invest in critical sectors such as education, healthcare, and infrastructure. Consequently, the informal economy can contribute to a cycle of underdevelopment, where lack of investment leads to poorer public services, which in turn affects both formal and informal workers (Gadenne, 2016). To address these fiscal challenges, the government must consider strategies to integrate informal businesses into the tax system, such as simplifying tax compliance processes, providing incentives for registration, and enhancing tax education.

### 4.3 Labor issues

The informal economy poses significant labor issues, particularly regarding the lack of protection afforded to informal workers. Many individuals engaged in informal work lack access to essential benefits such as health insurance, social security, and minimum wages. This absence of protections leaves workers vulnerable to exploitation and financial instability (Osiki, 2018). Without formal labor protections, informal workers often face precarious working conditions. For instance, they may work long hours without overtime pay, lack safety measures in hazardous environments, and have no recourse for workplace grievances. The lack of minimum wage legislation in the informal sector often results in workers receiving inadequate compensation, making it difficult for them to escape poverty.

Moreover, the absence of social security benefits, such as retirement plans and unemployment insurance, places informal workers at a significant disadvantage. In times of economic hardship or personal crises, these individuals lack the safety net that formal workers typically enjoy. This situation exacerbates socio-economic disparities, as informal workers struggle to maintain stable livelihoods while their formal counterparts benefit from established protections and benefits (Oyeyinka, 2017). To improve labor conditions in the informal sector, it is essential for the Nigerian government to develop inclusive policies that extend protections to informal workers. Initiatives that promote the recognition of informal labor rights, enhance access to healthcare, and provide training for skill development can help empower informal workers, improving their working conditions and overall quality of life.

### 4.4 Social inequality

The grey economy also has profound implications for social inequality in Nigeria. Informal workers often remain excluded from state-provided benefits, further entrenching social disparities. As formal workers enjoy access to a range of public services, including healthcare, education, and social safety nets, those in the informal sector face significant barriers to accessing similar resources.

This exclusion exacerbates existing inequalities, as informal workers often come from marginalized communities with limited access to education and training. The lack of opportunities for upward mobility within the informal economy can perpetuate cycles of poverty, affecting future generations (Yelwa et al., 2017). Children of informal workers may not have the same educational opportunities as their peers, hindering their ability to break free from the cycle of informality and poverty.

Moreover, the social safety net in Nigeria is often inadequate to support those who are most in need, leaving informal workers vulnerable during economic downturns or personal crises. The absence of state-provided benefits contributes to a sense of insecurity and instability, as individuals must rely solely on their informal earnings to survive (Nzeadibe and Mbah, 2015). Addressing social inequality requires a comprehensive approach that recognizes the contributions of informal workers while providing them with access to essential services and benefits. Policymakers must prioritize inclusivity by developing programs that target the needs of informal workers, ensuring that they can access healthcare, education, and social support systems that promote equity and social justice.

## 5. POLICY IMPLICATIONS AND CHALLENGES

### 5.1 Government strategies for formalization

The Nigerian government has recognized the importance of formalizing the grey economy, which encompasses a significant portion of the country's economic activities. Various strategies have been initiated to facilitate the transition of informal businesses into the formal sector. These strategies are vital for enhancing tax revenues, improving labor conditions, and fostering overall economic growth.

One of the key policies aimed at formalization is the National Policy on Micro, Small and Medium Enterprises (MSMEs), which seeks to support and integrate informal businesses into the formal economy. This policy

includes provisions for simplifying the registration process, providing financial incentives, and offering training programs to equip informal business owners with the necessary skills for compliance with regulatory frameworks (Onyeje et al., 2020). The Ease of Doing Business Reforms, initiated in recent years, aims to reduce bureaucratic hurdles that impede business registration and operation. These reforms streamline processes, reduce the time required for business registration, and make it easier for entrepreneurs to access the formal economy.

The government has implemented initiatives such as the Youth Entrepreneurship Support (YES) Program, which aims to empower young entrepreneurs by providing them with access to finance, mentorship, and training. By targeting youth, the program seeks to foster a new generation of entrepreneurs who can contribute to the formal economy (Ogamba, 2018). Another critical strategy involves collaboration with international organizations and development partners to provide technical assistance and funding for formalization initiatives. Programs supported by entities like the World Bank and the International Labour Organization (ILO) focus on capacity building for regulatory authorities and the promotion of informal workers' rights, enhancing the chances of successful integration into the formal sector (Schmid and Pathak, 2017). Despite these initiatives, the effectiveness of government strategies has been mixed, often requiring further refinement and adaptation to the local context.

### 5.2 Challenges in implementation

Implementing reforms aimed at formalizing the grey economy faces numerous challenges that can undermine their effectiveness. One of the most significant obstacles is corruption within regulatory institutions, which can lead to a lack of trust among informal business owners. When entrepreneurs perceive that bribes or informal payments are necessary to navigate the formalization process, they may opt to remain in the informal sector to avoid these additional costs (Olujobi, 2021). Another critical challenge is poor awareness of the benefits of formalization among informal business owners. Many entrepreneurs lack adequate information about the processes involved in registration and the potential advantages of operating legally, such as access to financing, legal protections, and new market opportunities. As a result, some may view formalization as an unnecessary burden rather than a pathway to growth.

Resistance from stakeholders, including existing formal businesses, is also a barrier to implementation. Established firms may perceive informal competitors as threats to their market share and may lobby against reforms that facilitate informal businesses' transition to the formal sector. This resistance can manifest in political pressure and influence, stalling or weakening formalization initiatives (Olanrewaju et al., 2020). The complexity of regulatory frameworks can deter informal entrepreneurs from formalizing their businesses. For many, the perceived bureaucratic red tape associated with registration, taxation, and compliance with labor laws may seem insurmountable. Consequently, informal business owners may continue to operate outside the formal economy, opting for the simplicity and flexibility of informal arrangements (Igwe et al., 2020). The lack of adequate infrastructure in certain regions poses a challenge. Many informal businesses, especially in rural areas, may have limited access to essential services, including banking, legal assistance, and business support networks. This lack of infrastructure can hinder their ability to engage with formal processes and institutions.

### 5.3 Regional differences

The prevalence of the grey economy in Nigeria is not uniform; significant regional differences exist, influenced by economic, social, and cultural factors. In some regions, particularly in the North and Northeast, a higher percentage of the population engages in informal economic activities, often driven by limited job opportunities in the formal sector. These regions face specific challenges, including high levels of poverty, insecurity, and a lack of educational opportunities, which can perpetuate informality (Orji and Agu, 2018).

Urban areas such as Lagos and Abuja exhibit a different dynamic. While informal economic activities are still prevalent, these cities have a more significant number of small and medium enterprises operating in both the formal and informal sectors. Urban informal workers may engage in diverse economic activities, such as street vending, transportation, and artisanal crafts. The density of urban populations can create opportunities for informal businesses to thrive, but these areas also experience intense competition and regulatory scrutiny (Farinmade et al., 2018). Regional variations in the grey economy also extend to the level of government support and infrastructure development. Some states have made substantial progress in creating business-friendly environments that promote formalization. For instance, states that have adopted the State

Micro, Small, and Medium Enterprises (MSME) Policies often provide support services such as training, access to credit, and simplified registration processes (Usman, 2019). These initiatives can significantly enhance the potential for informal businesses to transition into the formal sector.

On the other hand, regions with limited government presence or resources may lack the necessary support for informal businesses. In such areas, informal entrepreneurs may find it challenging to navigate the formalization process without adequate assistance or incentives. This disparity can further entrench economic inequalities across the country. Understanding these regional differences is crucial for developing targeted policies that address the unique challenges and opportunities presented by the grey economy in each area. Tailoring formalization strategies to specific regional contexts can enhance their effectiveness and ensure that the diverse needs of informal entrepreneurs are met.

## 6. CASE STUDIES

### 6.1 Street trading in Lagos

Lagos, Nigeria's bustling economic capital, serves as a microcosm of the country's grey economy, with street trading playing a pivotal role in its informal trade sector. Street traders, commonly referred to as "hawkers," operate in diverse urban spaces, from busy markets to bustling street corners. These traders contribute significantly to the local economy, providing essential goods and services to a rapidly growing urban population while also facing various challenges. Street trading in Lagos is characterized by its dynamism and diversity (Xiao & Adebayo, 2019). Vendors offer an array of products, including food, clothing, electronics, and household items, often adapting to the changing demands of consumers. The informal nature of these businesses allows traders to enter the market with minimal capital and risk, fostering entrepreneurship and providing livelihoods for many individuals who may lack access to formal employment opportunities (Ibidunni et al., 2021). According to estimates, street traders in Lagos constitute a significant proportion of the informal labor market, showcasing their vital contribution to the city's economy.

One of the primary advantages of street trading is its accessibility. With limited barriers to entry, many residents, especially women and youth, can engage in trading activities. This accessibility is particularly important in a city like Lagos, where formal job opportunities are often scarce. Street traders not only support their households but also contribute to the local economy by circulating money within their communities. The ability to quickly adapt their offerings to suit consumer preferences enables street vendors to thrive, creating a vibrant marketplace. The informal trade sector in Lagos also faces significant challenges. Regulatory issues are among the most pressing concerns for street traders. Despite their contributions to the economy, many hawkers operate without permits or licenses, making them vulnerable to harassment and eviction by local authorities (Adama, 2020). Government officials often perceive street trading as a nuisance that contributes to urban congestion and disorder. Consequently, traders face frequent raids and confiscation of goods, which undermines their ability to sustain their businesses and livelihoods.

In addition to regulatory challenges, street traders also confront issues related to competition and market access. The presence of established retail businesses and supermarkets can marginalize informal vendors, limiting their customer base and profitability. As formal businesses expand in urban areas, they often push informal traders to the fringes, creating disparities in market access and exacerbating economic inequalities (Taiwo, 2015). The COVID-19 pandemic has further complicated the landscape for street trading in Lagos. Lockdowns and restrictions on movement led to a decline in foot traffic, adversely impacting sales for many hawkers. Although some traders adapted by diversifying their products or utilizing digital platforms for sales, many struggled to recover from the economic fallout. This situation highlights the vulnerability of informal traders in the face of external shocks and the need for targeted support measures to enhance their resilience.

In response to these challenges, there have been calls for the government to adopt a more inclusive approach to street trading. Rather than viewing hawkers solely as problems to be eradicated, policymakers should recognize their contributions to the local economy and explore ways to integrate them into formal economic structures. This could include establishing designated trading zones, offering training and support for business development, and creating pathways for traders to obtain licenses and permits.

### 6.2 Agriculture and informal employment in Northern Nigeria

In Northern Nigeria, the informal agricultural economy plays a crucial role

in shaping the region's socio-economic landscape. Agriculture remains the backbone of the economy in this area, employing a significant portion of the population and providing sustenance for countless families. However, much of this agricultural activity occurs within the informal sector, characterized by unregistered businesses, smallholder farms, and informal labor arrangements. The informal agricultural economy in Northern Nigeria is diverse, encompassing various activities, from subsistence farming to small-scale cash crop production (Uduji et al., 2018). Farmers typically cultivate staple crops such as millet, sorghum, and maize, alongside cash crops like groundnuts and soybeans. Many of these farmers operate on a small scale, often relying on traditional farming techniques and limited resources. Despite facing numerous challenges, including inadequate access to land, credit, and modern farming inputs, these farmers play a vital role in ensuring food security for their communities (Chiaka et al., 2022).

One of the defining features of the informal agricultural sector is its reliance on informal labor. A significant proportion of agricultural workers in Northern Nigeria are engaged in seasonal or temporary employment arrangements, often without formal contracts or protections. This informal labor force includes family members, casual laborers, and migrant workers, who contribute to agricultural production during peak seasons. While this flexibility allows farmers to adapt to labor demands, it also exposes workers to vulnerabilities, including low wages, lack of health benefits, and minimal job security. The socio-economic impact of the informal agricultural economy is multifaceted. On the one hand, it provides livelihoods for millions of people, contributing to rural economies and ensuring food availability. The income generated from informal agricultural activities helps families meet their basic needs and invest in education, health care, and other essential services (Ademola, 2019). Moreover, the informal sector can enhance rural resilience by enabling communities to cope with economic shocks and fluctuations in formal employment.

However, the informal agricultural economy also faces significant challenges that hinder its potential for growth and development. Limited access to finance remains a critical issue for informal farmers. Many smallholders lack collateral or credit history, making it difficult to secure loans from formal financial institutions. As a result, they often rely on informal sources of credit, which can be costly and exploitative. This lack of access to finance restricts their ability to invest in modern farming techniques, machinery, and inputs that could enhance productivity and income. The informal agricultural sector grapples with a lack of infrastructure and support services. Many rural areas lack access to reliable transportation, storage facilities, and market information, making it challenging for farmers to connect with buyers and achieve fair prices for their products (Adegboyega, 2020). Without proper infrastructure, farmers may face significant post-harvest losses, further diminishing their income potential.

Moreover, climate change poses a considerable threat to the informal agricultural economy in Northern Nigeria. The region is vulnerable to erratic weather patterns, including droughts and floods, which can disrupt agricultural production and exacerbate food insecurity. Informal farmers, who often lack access to climate-resilient farming practices and technologies, are particularly susceptible to the adverse effects of climate change (Adeosun et al., 2021). To address these challenges, there is a pressing need for targeted policies and interventions that support the informal agricultural economy in Northern Nigeria. Initiatives aimed at enhancing access to finance, improving infrastructure, and providing training on sustainable farming practices can significantly bolster the resilience and productivity of informal farmers. Recognizing and formalizing informal labor arrangements can help improve working conditions and ensure fair wages for agricultural workers.

The informal trade sector in Lagos and the informal agricultural economy in Northern Nigeria are vital components of Nigeria's grey economy. Both sectors provide essential livelihoods and contribute to local economies while facing significant challenges. By understanding the dynamics of these informal activities and implementing inclusive policies, the Nigerian government can foster a more equitable and sustainable economic environment that benefits all citizens.

## 7. CONCLUSION

The grey economy in Nigeria is characterized by a significant presence of unregistered businesses, informal labor markets, and under-the-table transactions, which collectively contribute to a complex socio-economic landscape. Unregistered businesses, including street vendors and small-scale enterprises, thrive in the absence of formal licensing, while the informal labor market encompasses a diverse range of workers, from

artisans to gig economy participants. This informal sector plays a crucial role in providing livelihoods, particularly in rural areas. However, it also poses challenges, including tax evasion, limited access to social protections, and a lack of regulatory enforcement. These characteristics highlight the grey economy's dual impact: while it contributes to economic activity, it simultaneously undermines fiscal revenues and perpetuates social inequalities.

To effectively reduce the grey economy in Nigeria, coordinated policy action and long-term strategies are essential. Policymakers must prioritize simplifying the formalization process, expanding access to finance, and enhancing awareness of the benefits of formalization for informal workers and businesses. Strengthening regulatory enforcement will ensure compliance with existing laws and promote a more equitable business environment. Engaging various stakeholders—including government agencies, financial institutions, and community organizations—in collaborative efforts can help create comprehensive frameworks that address the unique challenges of the grey economy. By adopting a multi-faceted approach that combines education, financial support, and regulatory reform, Nigeria can facilitate a smoother transition for informal businesses into the formal sector. This transition is crucial for fostering economic resilience, enhancing tax revenues, and promoting social equity, ultimately contributing to sustainable national development.

## REFERENCES

- Adama, O., 2020. Criminalizing Informal Workers: The Case of Street Vendors in Abuja, Nigeria. *Journal of Asian and African Studies*, 56(3), Pp. 533–548. <https://doi.org/10.1177/0021909620930740>
- Adegboyega, R. R., 2020. Agricultural Financing and Unemployment Rate in Nigeria: A Cointegration Approach. *Acta Universitatis Sapientiae Economics and Business*, 8(1), Pp. 53–67. <https://doi.org/10.2478/auseb-2020-0004>
- Ademola, A. E., 2019. Impact of Agricultural Financing on Nigeria Economy. *Asian Journal of Agricultural Extension Economics & Sociology*, Pp. 1–13. [https://doi.org/10.9734/ajaees/2019/v31i23\\_0130](https://doi.org/10.9734/ajaees/2019/v31i23_0130)
- Adeniyi, O., Oyinlola, A., Omisakin, O., and Egwaikhide, F. O., 2015. Financial development and economic growth in Nigeria: Evidence from threshold modelling. *Economic Analysis and Policy*, 47, Pp. 11–21. <https://doi.org/10.1016/j.eap.2015.06.003>
- Adeolu, A. M., 2017. Improving the Institutional Environment for SME Success in Nigeria. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.2915002>
- Adeosun, O. T., Asare-Nuamah, P., and Mabe, F. N., 2021. Vulnerability analysis of Nigeria's agricultural output growth and climate change. *Management of Environmental Quality an International Journal*, 32(6), Pp. 1352–1366. <https://doi.org/10.1108/meq-04-2021-0075>
- Alacovska, A., 2018. Informal creative labour practices: A relational work perspective. *Human Relations*, 71(12), Pp. 1563–1589. <https://doi.org/10.1177/0018726718754991>
- Ayyagari, M., Juarros, P., Peria, M. S. M., and Singh, S., 2016. Access to Finance and Job Growth: Firm-Level Evidence across Developing Countries. In *World Bank, Washington, DC eBooks*. <https://doi.org/10.1596/1813-9450-7604>
- Baksi, S., and Bose, P., 2016. Informal sector, regulatory compliance, and leakage. *Journal of Development Economics*, 121, Pp. 166–176. <https://doi.org/10.1016/j.jdeveco.2016.03.008>
- Blaufus, K., and Hoffmann, F., 2019. The effect of simplified cash accounting on tax and financial accounting compliance costs. *Journal of Business Economics*, 90(2), Pp. 173–205. <https://doi.org/10.1007/s11573-019-00943-4>
- Bosch, M., and Esteban-Pretel, J., 2014. The labor market effects of introducing unemployment benefits in an economy with high informality. *European Economic Review*, 75, Pp. 1–17. <https://doi.org/10.1016/j.euroecorev.2014.10.010>
- Bruno, R. L., 2018. Tax enforcement, tax compliance and tax morale in transition economies: A theoretical model. *European Journal of Political Economy*, 56, Pp. 193–211. <https://doi.org/10.1016/j.ejpoleco.2018.08.006>
- Chiaka, J. C., Zhen, L., Yunfeng, H., Xiao, Y., Muhirwa, F., and Lang, T., 2022. Smallholder Farmers Contribution to Food Production in Nigeria. *Frontiers in Nutrition*, 9. <https://doi.org/10.3389/fnut.2022.916678>
- Colombo, E., Menna, L., and Tirelli, P., 2018. Informality and the Labor Market Effects of Financial Crises. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.3285133>
- Effiong, M. O., Okoye, C. U., and Itam, K. O., 2019. Economic Impact of Sectoral Transactions in Nigeria. *Modern Economy*, 10(11), Pp. 2283–2299. <https://doi.org/10.4236/me.2019.1011143>
- Erude, S. U., Onavwie, F. O., and Okereka, O. P., 2023. The Role Of The Informal Sector In Unemployment Reduction In Nigeria. *Journal of Public Administration Finance and Law*, 28, Pp. 95–107. <https://doi.org/10.47743/jopaf-2023-28-09>
- Farinmade, A., Soyinka, O., and Siu, K. W. M., 2018. Assessing the effect of urban informal economic activity on the quality of the built environment for sustainable urban development in Lagos, Nigeria. *Sustainable Cities and Society*, 41, Pp. 13–21. <https://doi.org/10.1016/j.scs.2018.05.020>
- Gadenne, L., 2016. Tax Me, but Spend Wisely? Sources of Public Finance and Government Accountability. *American Economic Journal Applied Economics*, 9(1), Pp. 274–314. [https://doi.org/10.1257/app.2015\\_0509](https://doi.org/10.1257/app.2015_0509)
- Ghura, H., Harraf, A., Li, X., and Hamdan, A., 2019. The moderating effect of corruption on the relationship between formal institutions and entrepreneurial activity. *Journal of Entrepreneurship in Emerging Economies*, 12(1), Pp. 58–78. <https://doi.org/10.1108/jee-03-2019-0032>
- Gokalp, O. N., Lee, S., and Peng, M. W., 2017. Competition and corporate tax evasion: An institution-based view. *Journal of World Business*, 52(2), Pp. 258–269. <https://doi.org/10.1016/j.jwb.2016.12.006>
- Gumel, B. I., and Bardai, B. B., 2021. Barriers to Accessing Financial Institutions Funding for Nigerian SMEs. *International Journal of Business and Economics Research*, 10(6), Pp. 219. <https://doi.org/10.11648/j.ijber.20211006.12>
- Huang, N., Burtch, G., Hong, Y., and Pavlou, P. A., 2017. Unemployment and Worker Participation in the Gig Economy: Evidence from an Online Labor Platform. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.3105090>
- Ibidunni, A. S., Ogundana, O. M., and Okonkwo, A., 2021. Entrepreneurial Competencies and the Performance of Informal SMEs: The Contingent Role of Business Environment. *Journal of African Business*, 22(4), Pp. 468–490. <https://doi.org/10.1080/15228916.2021.1874784>
- Ibrahim, A. T., Sirajo, A., and Ibrahim, A. H., 2022. Overview of Building Construction Safety and Legislations in Nigeria. *International Journal of Scientific Advances*, 3(4). <https://doi.org/10.51542/ijscia.v3i4.31>
- Igwe, P. A., Odunukan, K., Rahman, M., Rugara, D. G., and Ochinanwata, C., 2020. How entrepreneurship ecosystem influences the development of frugal innovation and informal entrepreneurship. *Thunderbird International Business Review*, 62(5), Pp. 475–488. <https://doi.org/10.1002/tie.22157>
- Ikeije, U. U., 2020. Labour Market Restructuring and the Nature of Employment Relations in Nigeria. *Journal of Technology Management and Business*, 7(2). <https://doi.org/10.30880/jtmb.2020.07.02.007>
- Jacob, A., 2024. A Review on Economic Implications of Nigeria's Border Closure on Rice Importation. *Open Journal for Research in Economics*, 7(1), Pp. 9–22. <https://doi.org/10.32591/coas.ojre.0701.02009j>
- Jacob, A. O., 2022. Poverty Alleviation in Developing Countries: A Successful Approach. *Socio Economy and Policy Studies*, 2(1), Pp.53–56. <https://doi.org/10.26480/seps.02.2022.53.56>
- Jacob, A. O., and Umoh, O. J., 2017. Influence of Corruption on Economic Development in Nigeria. *Journal of Public Policy and Administration*, 1(1), Pp. 10. <https://doi.org/10.11648/j.jpaa.20170101.12>
- Jacob, A. O., and Umoh, O. J., 2018. Effects of Technology Transfer from Developed Nations and Developing Economy: The Nigeria Experience. *American Journal of Business, Economics and Management*, 6(3), Pp. 42.



- <http://www.openscienceonline.com/author/download?paperId=4509&stateId=8000&fileType=3>
- Jacob, A. O., and Umoh, O. J., 2021. Effective Capital Development and Productivity Growth in Nigeria, 1985 – 2020. *International Journal of Progressive Sciences and Technologies*, 28(2), Pp. 635–646. <https://doi.org/10.52155/ijpsat.v28.2.3480>
- Jacob, A. O., Umoh, O. J., and Ibang, J. I., 2020. The Role Of Bank Credits On Poverty Reduction In Nigeria. *Social Values and Society*, 3(1), Pp. 29–33. <https://doi.org/10.26480/svs.01.2021.29.33>
- Jiang, L., Dimitrov, S., and Mantin, B., 2016. P2P Marketplaces and Retailing in the Presence of Consumers' Valuation Uncertainty. *Production and Operations Management*, 26(3), Pp. 509–524. <https://doi.org/10.1111/poms.12653>
- Kifordu, A. A., Igweh, F. K., and Aloamaka, J. I., 2020. The Impact of Taxation and the Quest for Good Governance: Evidence from Nigeria. *Webology*, 17(2), Pp. 416–429. <https://doi.org/10.14704/web/v17i2/web17042>
- Krah, R., and Mertens, G., 2020. Democracy and financial transparency of local governments in Sub-Saharan Africa. *Meditari Accountancy Research*, 28(4), Pp. 681–699. <https://doi.org/10.1108/medar-08-2019-0539>
- Nenovski, T., 2012. Macroeconomic Aspects of the Grey Economy - The Case of Macedonia. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.2174105>
- Nzeadibe, T. C., and Mbah, P. O., 2015. Beyond urban vulnerability: interrogating the social sustainability of a livelihood in the informal economy of Nigerian cities. *Review of African Political Economy*, 42(144), Pp. 279–298. <https://doi.org/10.1080/03056244.2014.997692>
- Ogamba, I. K., 2018. Millennials empowerment: youth entrepreneurship for sustainable development. *World Journal of Entrepreneurship Management and Sustainable Development*, 15(3), Pp. 267–278. <https://doi.org/10.1108/wjem-05-2018-0048>
- Olanrewaju, O. I., Chileshe, N., Babarinde, S. A., and Sandanayake, M., 2020. Investigating the barriers to building information modeling (BIM) implementation within the Nigerian construction industry. *Engineering Construction & Architectural Management*, 27(10), Pp. 2931–2958. <https://doi.org/10.1108/ecam-01-2020-0042>
- Olujobi, O. J., 2021. Nigeria's upstream petroleum industry anti-corruption legal framework: the necessity for overhauling and enrichment. *Journal of Money Laundering Control*, 26(7), Pp. 1–27. <https://doi.org/10.1108/jmlc-10-2020-0119>
- Omodero, C. O., 2019. Tax Evasion and Its Consequences on an Emerging Economy: Nigeria as a Focus. *Research in World Economy*, 10(3), Pp. 127. <https://doi.org/10.5430/rwe.v10n3p127>
- Onodugo, V. A., Ezeadichie, N. H., Onwuneme, C. A., and Anosike, A. E., 2016. The dilemma of managing the challenges of street vending in public spaces: The case of Enugu City, Nigeria. *Cities*, 59, Pp. 95–101. <https://doi.org/10.1016/j.cities.2016.06.001>
- Onyeje, S. A., Court, T. O., and Agbaeze, E. K., 2020. National Enterprise Policy Dimensions and Sustainability of Micro, Small and Medium Enterprises (MSMEs). *Journal of African Business*, 23(2), Pp. 435–453. <https://doi.org/10.1080/15228916.2020.1838838>
- Orji, A., and Agu, C., 2018. Analysis of Migration, Regional Characteristics, and Socioeconomic Outcomes in Developing Economies: Empirical Evidence from Nigeria. *Journal of International Migration and Integration / Revue De L Integration Et De La Migration Internationale*, 19(3), Pp. 565–581. <https://doi.org/10.1007/s12134-018-0541-9>
- Osiki, A., 2018. Property Rights as a Pathway to Labour Law Protection in the Nigerian Informal Economy. *International Journal of Comparative Labour Law and Industrial Relations*, 34 (4), Pp. 457–477. <https://doi.org/10.54648/ijcl2018021>
- Oyeyinka, O., 2017. Social Protection and Living Standards in Informal Industrial Clusters. In *Advances in African economic, social and political development*, Pp. 131–155. [https://doi.org/10.1007/978-3-319-41151-4\\_5](https://doi.org/10.1007/978-3-319-41151-4_5)
- Schmid, J., and Pathak, R., 2017. The anatomy of collaboration in international development practice: comparative insights from Nigeria and Ghana. *Development in Practice*, 27(4), Pp. 487–502. <https://doi.org/10.1080/09614524.2017.1306024>
- Shittu, A. I., 2023. Tax Awareness Among Micro-Business Owners in Informal Settings. *African Multidisciplinary Tax Journal*, 3(1), Pp. 254–272. <https://doi.org/10.47348/amtj/v3/i1a13>
- Suleiman, M. S., Neshamba, F., and Valero-Silva, N., 2016. Small Businesses as Vehicles for Job Creation in North-West Nigeria. *Deleted Journal*, 10(6), Pp. 1997–2001. <https://doi.org/10.1999/1307-6892/10004688>
- Taiwo, O., 2015. Implications of Street Trading Activities in Central Business Districts of Ado-Ekiti, Nigeria. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.2485278>
- Uduji, J. I., Okolo-Obasi, E. N., and Asongu, S. A., 2018. The impact of e-wallet on informal farm entrepreneurship development in rural Nigeria. *The Electronic Journal of Information Systems in Developing Countries*, 85(3). <https://doi.org/10.1002/isd2.12066>
- Usman, Z., 2019. The Successes and Failures of Economic Reform in Nigeria's Post-Military Political Settlement. *African Affairs*, 119(474), Pp. 1–38. <https://doi.org/10.1093/afaf/adz026>
- Vasilev, A., 2015. Welfare gains from the adoption of proportional taxation in a general-equilibrium model with a grey economy: the case of Bulgaria's 2008 flat tax reform. *Economic Change and Restructuring*, 48(2), Pp. 169–185. <https://doi.org/10.1007/s10644-015-9159-5>
- Wiesböck, L., Radlherr, J., and Vo, M. L. A., 2023. Domestic Cleaners in the Informal Labour Market: New Working Realities Shaped by the Gig Economy? *Social Inclusion*, 11(4). <https://doi.org/10.17645/si.v11i4.7119>
- Xiao, A. H., and Adebayo, K. O., 2019. Cohabiting commerce in a transport hub: Peoples as infrastructure in Lagos, Nigeria. *Urban Studies*, 57(12), Pp. 2510–2526. <https://doi.org/10.1177/0042098019879810>
- Yelwa, M., Omoniyi, A. E., and Obansa, S., 2017. Analysis of the Relationship between Informal Financial Institutions and Poverty Alleviation in Nigeria: A Multivariate Panel Data Approach. *The International Journal of Social Sciences and Humanities Invention*, 4(7). <https://doi.org/10.18535/ijsshi/v4i7.13>
- Zhu, H., Chen, Y., and Chen, K., 2019. Vitalizing Rural Communities: China's Rural Entrepreneurial Activities from Perspective of Mixed Embeddedness. *Sustainability*, 11(6), Pp. 1609. <https://doi.org/10.3390/su11061609>

