

LAGOS' INFORMAL SECTOR

Taxation & Contribution to the Economy



HEINRICH BÖLL STIFTUNG

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STRUCTURE OF LAGOS STATE ECONOMY

Lagos, with a population of seventeen million people, accounts for approximately 30 percent of economic activities in Africa's largest economy. Lagos is the economic nerve center and home to two of Nigeria's leading ports – Lagos Port Complex and Tin Can Island Port – and the fifth largest economy in Africa. In addition, the state has the largest cluster of formal and informal workers in the country, and it is known as the seventh fastest growing economy in the world.





THE INFORMAL ECONOMY: CONTRIBUTION TO THE ECONOMY

The informal economy is the diversified set of economic activities, enterprises, jobs, and workers that are not regulated or protected by the state. The informal sector is not an illegal sector though the composition of workers found in the sector is mostly self-employed individuals in micro businesses or artisanal trades, excluded from the formal sector, which is regulated by government. On the other hand, informal economic activities may be termed illegal when after exchange of services, income is unreported, and taxes are unremitting. Presently, Lagos State circumvents that challenge by operating a blanket tax system that covers personal income tax and land use charge. The state's decision to collect tax in the informal sector invariably legitimises transactions in the sector.

In 2015, the GDP of Lagos State was projected at \$90bn. Approximately 54 percent of manufacturing activities in Nigeria are carried out in Lagos State, while over 50 percent of Nigeria's non-oil industries are located in Lagos. The state is also the financial hub of the





GROSS DOMESTIC PRODUCT

Nigeria	\$481.1bn
Lagos	\$90bn

SOURCE: NBS, LAGOS STATE GOVT, BUDGET RESEARCH

country with the presence of the major banks, and other financial service organisations, and the stock market headquartered in the city. In 2013, the state government estimated the value of the informal economy at N7.615tn (\$48.2 billion), with approximately 5.58 million people employed in the sector according to the Labour Statistic Collaborative Survey. In 2016, the value of informal economic activities has been estimated to reach N9.87tn.

The informal sector has also shaped the labour force; the National Bureau of Statistics estimates that there are approximately 2.38million men and 3.2million women that make a living in the sector in Lagos. This represents 65 per cent of the working population, and accounts for approximately 42 percent of economic activities. Nationally, the sector accounts for approximately 95.4 per cent of new jobs created (476,563) in the last quarter of 2015. Meanwhile, the formal sector accounted for just 5.5% (27, 246) new created jobs

N7.62tn

VALUE OF THE INFORMAL ECONOMY IN LAGOS

SOURCE: LAGOS STATE GOVT, BUDGET RESEARCH

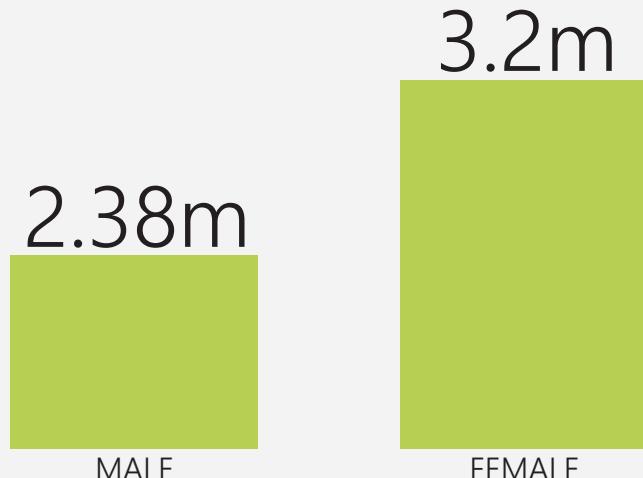
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in the fourth quarter of 2015, and the public sector recorded a negative figure of -4,288 for that quarter. Today, the informal sector is estimated to engage approximately 70 percent of the working population in Lagos state, despite the economic recession.

LAGOS WORKING POPULATION (INFORMAL SECTOR)



SOURCE: Labour Statistic Collaborative Survey (NBS)

N5.58m
TOTAL NUMBER OF
EMPLOYED PERSONS IN
THE INFORMAL SECTOR
LAGOS (2013)

SOURCE: Labour Statistic Collaborative Survey (NBS)

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SECTOR CLASSIFICATION

According to FIWON research, there are at least 27 sectors in the informal economy. However, the National Bureau of Statistics release information on the informal sector using a broader classification which BudgIT research relied on.

MANUFACTURING

Thirty per cent of economic activities are found in the manufacturing sector. The National Bureau of Statistics estimates that 12.1 percent of manufacturing activities in Nigeria is carried out by the informal sector workforce, and given the fact that most of the manufacturing companies are located in Lagos State, it may be safe to assume that a large proportion of manufacturing activities in Lagos happen in the informal sector.





The following informal activities are dominant in the following manufacturing sub-sectors:

1 Apparel Manufacturing (including tailoring)

2 Leather and Allied Product Manufacturing (including shoe making)

3 Wood Product Manufacturing (including saw mills)

4 Printing and Related Support Activities

5 Fabricated Metal Product Manufacturing (including welders)

6 Furniture and Related Product Manufacturing (Including carpenters)

7 Baked Goods (including Agege bread bakers)





In other words, the state and local government depend heavily on this informal workforce in the manufacturing sector to generate tax revenue. Owing to the fact that the state lacks specific data on the total number of people working in the sector, it extrapolates using the 2013 collaborative household survey created by the National Bureau of Statistics and data derived from the state government. But, the manufacturing sector has been estimated to employ approximately 25 percent of the labour force in the state.

TRANSPORTATION

The transportation sector is one of the sectors that dominate in the mobilization of tax revenue and employment. It is estimated that 30 percent of the economic activities in the state is derived from transportation. Road transportation is the most utilised means of commuting in the state, which accounts for approximately 85 percent of commercial and passenger mobility in Nigeria.

In Lagos State, the informal sector drives most of the economic activity in the transportation sector. Mini-buses popularly known as "Danfo", motorcycle taxis (Okada) and tricycle (Keke) move approximately 75 percent of commuters in the state according to state government projections. So far, waterway transportation in the state is limited, but dominated by wooden boat operators.





There are thirteen to fifteen million passenger-trips daily, out of which over 95 percent are undertaken primarily by car, bus, motorcycle, tricycle and taxi. Privately owned transport operators make up between 75 and 80 percent.

The state and local government depend on the sector for road taxes, which is a critical and huge revenue source. Workers in the sector pay series of taxes including personal income tax, radio tax, local government levies among others. Truck drivers that move goods from the ports also pay road tax among others.

REAL ESTATE SECTORS

The sector is the most lucrative business in the Lagos economy considering the fact that 72 percent of household residents in Lagos are tenants. Also, an informal workforce drives 64.7 percent of real estate activities in Nigeria. The state recently consolidated all property and land based rates, taxes and charges payable under the Lands Rates, Neighborhood Improvement Charge and Tenement Rates Laws. These laws were replaced by the state's Land Use charge.

In 2013, approximately 646, 273 properties existed in the state, according to the state government, and the number is estimated to increase to 1.3 million properties by 2017. Given that the informal real estate sector is the biggest revenue generator, the sector again is very important in the state's drive for revenue.





BUILDING AND CONSTRUCTION

Largely, an informal workforce drives the building and construction sector, which generates employment opportunities. The workforce is comprised of artisans, plumbers among others, who often construct most residential buildings in the state. The state government and local government collect tax ranging from building permits to personal income tax from informal workers.

RETAIL AND WHOLESALE TRADE

Retail trade activities are majorly carried out in open markets and stalls on the streets in the state, and according to the National Bureau of Statistics, 55.7 percent of these types of trade activities in Nigeria happen in the informal sector. Given that Lagos state is the commercial hub of the country, most businesses including blue chips companies, depend on the sector for sales and distribution of their products. This critical mass contributes to value added tax receipts for Lagos State.

Retailers pay tax ranging from personal income tax (MTCC), lockup/shop permits, trade permit, radio and television permit, extension permit and hawkers tickets. In addition, the retail sector is estimated to employ approximately 38 percent of the labour force in the Lagos state, and is critical in the state's drive to implement its development aspirations.

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There are more than 52 markets in Lagos.

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NOLLYWOOD

Lagos State continues to be a major center for motion-picture production popularly called Nollywood. At the end of 2015, informal practitioners in television, radio, film, and other related entertainment industries constituted 97.9 percent of the workforce. The state also generates value added tax revenue from sales and spending in the sector. In addition, practitioners pay personal income tax, land use charge among others to the state revenue pool.

SUMMARY

To sum it all up, about 65 percent of the working population in the state works in the informal sector, and they account for approximately 42 percent of business activities in Lagos State. The informal economy is a major source of employment, services and taxes, among others. The sector is largely dominated by self-employed individuals excluded from the formal economic sector regulated by government, and contributions to employment and economic activities. Areas of the informal sector where the state government is able to monitor and collect taxes are not regarded as illegal.





THE INFORMAL ECONOMY: CONTRIBUTION TO LAGOS STATE GOVERNMENT'S REVENUE

THE STATE GOVERNMENT

Lagos State may be the envy of other states in Nigeria taking into consideration the huge revenue it generates internally in contrast to its revenue derived from the federal government. Compared to other states, Lagos is highly industrialized and remains the nation's economic capital and commercial hub.

In 2015, Lagos State's entire revenue was placed at N399.3bn (\$1.3bn). Internally, the state generated N268.2bn in 2015, a drop from N276.1bn in 2014, according to the state government's financial report for 2015. Personnel cost stood at N98bn - a development expected to set off debates among civil interest groups such as health, education, and security circles about who should get the largest allocation. Lagos State's high overhead at N124bn is a reflection of its huge bureaucracy and cost of servicing debt. Regardless, Lagos remains a model state.





INTERNALLY GENERATED REVENUE (LAGOS STATE)



SOURCE: NBS

However, analysts point out that Lagos State's financial statements are notoriously opaque. They contain little information that is useful. It is also very difficult to measure the fiscal impact of the state's clamp down on the informal sector on its finances. Despite efforts, it has been difficult to unbundle Lagos State financials to disclose to the public.

STATE GOVERNMENT'S REVENUE MIX

Presently, Lagos State officially maintains that there are twelve types of taxes and levies collectible by the government namely: Personal Income Tax, Withholding Tax (Individuals only), Capital Gains Tax (Individuals only) and Stamp Duties on instruments executed by individuals. The state also collects pool betting and lotteries tax, gaming and casino tax, road tax, business premises registration fee; development levy (Individuals only), naming of streets registration in the state capital, right of occupancy fees on lands owned by the state government in urban areas of the state. Other revenue source includes market tax and levies - where the state is involved in the construction of the market - hotel occupancy and restaurant consumption tax.





CLASSIFICATION OF STATE REVENUE POOL

Lagos State revenue is sub-divided into two broad classes namely:

1. Federation Accounts Allocation Committee (FAAC) Revenue
2. Internally generated Revenue

FEDERATION ACCOUNTS ALLOCATION COMMITTEE (FAAC) REVENUE

The Federal Accounts Allocation Committee is responsible for the distribution of revenue accrued in the federation account between the federal, state and the local governments. Revenue from FAAC is further divided into: Statutory Allocation and Value Added Tax.





STATUTORY ALLOCATION

COMPANY INCOME TAX

Company Income Tax (CIT) – a tax on corporate profitability – for Nigeria is projected to reach N867bn in 2016. Most businesses in Nigeria depend on the informal sector for support services including logistics and sales; therefore, the informal sector contributes to their bottom line and profitability, which feeds into their company income tax pool.

Another way that the informal sector contributes to the company income tax revenue pool is through stamp duties, which is a critical part of the company income tax mix. However, the Federal Inland Revenue Service does not publish disaggregated information showing informal and formal revenue mix.





VALUE ADDED TAX

Lagos State receives approximately 20 percent of the Value Added Tax (VAT) pool – a form of consumption tax added to a product's sales price. On average, the state presently receives N6.18bn monthly from the federation account from the collective Value Added Tax pool.

The informal sector's contribution to the VAT pool is significant; given that Nigerian employees in the formal sector spend only 33.2 percent of their total salaries, which is a fraction of their final consumption expenditure, on food, goods and services to meet their needs in every household. In other words, the huge gap shows that a huge portion of Nigerians are expanding their earning power beyond the formal economic environment. Given that approximately, 41.3 percent of economic activities in Nigeria are classified as informal according to the National Bureau of Statistics, the implication is that

ESTIMATED MONTHLY VAT REVENUE MIX (LAGOS STATE)

*ESTIMATE (JAN. - JUNE 2016 FAAC REPORT)



SOURCE: OAFG, BUDGIT RESEARCH





approximately 40 percent of consumers' income that is spent is derived from revenue generated from the informal sector. In the long run, the informal sector contributes substantial funds (about 38-40%) into the Value Added Tax revenue pool of the Lagos state government – tax placed on consumers when they buy goods and service.

The informal sector's contribution to Lagos State's share of Value Added Tax revenue pool of approximately N70bn is estimated at 38 percent of Value Added Tax pool or N27.4bn. However, The Federal Inland Revenue Service does not publish disaggregated information showing informal and formal revenue mix.

PERSONAL INCOME TAX (PAYE)

The state's total receipt from Personal Income Tax – a tax on individuals' incomes – was estimated at N150bn in 2015, and accounts for approximately 55.6 percent of total internally generated revenue.

Informal sector workers and macro business owners indirectly contribute between an estimated N22bn and N30bn to the state's purse. However, the Lagos State government does not publish disaggregated information containing the breakdown of generated revenue from the formal and informal sectors. But the informal sector is estimated to contribute approximately 22 percent indirectly through services and logistics support to the total personal tax receipt.





INTERNALLY GENERATED REVENUE

DIRECT ASSESSMENT

Direct Assessment is used to assess tax for self-employed individuals, mostly informal sector workers. Informal workers are given e-TCC (Tax Clearance Certificate) as proof of payment. With over 5.5million people working in the informal sector, the state presently places a flat tax rate ranging from N5, 100 to N10, 000 on artisans.

In 2014, the informal sector's contribution to the revenue pool generated internally by Lagos State was approximated at N9.4bn. On the other hand, in 2015, the state's revenue classified under direct assessment was estimated at approximately N10.2bn and projected to reach N18.5bn by 2019.





LAGOS STATE REVENUE (DIRECT ASSESSMENT PRIMARILY FROM THE INFORMAL SECTOR)



SOURCE: NBS, BUDGIT RESEARCH

ROAD TAXES

The Lagos State government revenue from Road Tax – tax placed on motor vehicles before its used on public roads – was estimated at N4.6bn in 2014. Today, state's revenue from road tax is estimated at N6.5bn.

LAGOS STATE
50%
ROAD TAX REVENUE
COMES FROM THE
INFORMAL SECTOR

SOURCE: Labour Statistic Collaborative Survey (NBS)

It is equally important to state that the informal sector accounts for most of the economic activity in the transportation sector. "Danfos", "Okadas" and "Kekes" move approximately 75 percent of commuters in the state according to state government projections. The state does not disaggregated revenue source using the formal and informal mix;





however, given that approximately 35 percent of motor vehicles in Lagos are used for commercial activities and many other vehicles are used for logistic activities, it is safe to assume that 50 percent of the revenue classified as road tax comes directly from the informal sector.

OTHER REVENUE

Over N108.59bn of the revenue collected by Lagos State is classified as other revenue. This is derived from other revenue generating agencies among others. However, operators in the informal sector complain about multiple levies paid to different agencies cleared by government, and this lack of accountability in the collection of tax from the informal sector is detrimental to further growth.

The informal sector's contribution to the revenue pool classified as other taxes was estimated between approximately 40 percent and 50 percent or about N50bn in 2015. However, the state does not publish disaggregated information or breakdown of the revenue composition.





SUMMARY

The state should be looking to expand and revive the manufacturing sector. Also, the state should examine the process of expediting the integration of the informal sector into the formal economy. The state will also need a lot of technical skills, which are in abundance in the informal sector to bridge the deficit in home ownership.

Most importantly is that Lagos should strive to stay competitive and retain the larger percentage of the middle class within its borders. To achieve that, the state will need to maintain the army of workers in the informal sector whose savings and economic activities help maintain more than 45,000 people who work for the state's financial sector.





LOCAL GOVERNMENT REVENUE MIX

The Local Government Councils in Lagos state are authorised to collect the following tax and levies:

1. Shops and kiosks rates
2. Approved open market levy
3. Tenement rates
4. Licensing fee for sale of liquor
5. Slaughter slab license fee in abattoirs under local government control
6. Marriage, birth and death registration fees
7. Street naming registration fee
8. Motor Park levy (including motor cycles and tri-cycles)
9. Parking fee on local government streets or roads as may be approved by the State
10. Government Domestic animal licence fee (excluding poultry farmers)
11. Licence fees for bicycles, trucks, canoes, wheelbarrows and charts (other than a mechanically propelled trucks)
12. Radio and Television licence fee (excluding radio and television in motor vehicles, transmitters and other communication equipment)





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- 13. Public convenience, sewage and refuse disposal fees
 - 14. Cemetery and burial ground permit fee
 - 15. Permit fee for private entertainment and merriment in public places (excluding roads and streets).
 - 16. Wharf landing fees

However, the local government in Lagos does not publish information of total revenue collected, among others. The local government revenue mix is similar to the state government's mix. Statutory allocation, which stands at approximately N15bn, fell from approximately N20bn in 2011. But the local government's internally generated revenue was projected at approximately N4.5bn in 2015.

Owing to the fact that most of the taxes derived by the local government come from the informal sector, it is safe to assume the 95 percent of its internally generated revenue comes from the informal market. One interesting fact is that the markets situated at the local government areas in Lagos contribute approximately N500m or approximately 12 percent of the internally generated revenue of the state.





THE INFORMAL ECONOMY

The informal sector is not an illegal sector though the composition of workers found in the sector is mostly self-employed individuals in micro businesses or artisanal trades, excluded from the formal sector, which is regulated by government. Presently, Lagos State circumvents that challenge by operating a blanket tax system that covers personal income tax and land use charge. The state's decision to collect tax in the informal sector invariably legitimises transactions in the sector.

INFORMAL MARKET
(LAGOS STATE)

95%

CONTRIBUTION TO LOCAL
GOVT. INTERNALLY
GENERATED REVENUE

SOURCE: Labour Statistic Collaborative Survey (NBS)

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Financial Services	Thrift cooperative (Alajo), money lenders, accountants
Food Services	Street vendors, hawkers, caterers, jewelry sellers, food stuff sellers
Education	Private tutors, local child minders
Core informal services	Make-up artist, photographers, fashion designers, artisans, technicians, furniture makers, scrap dealers Mechanics, tailors, bricklayers, electricians, dry cleaners
Transportation	Okada (motorcycle riders), private taxi drivers, Maruwa (tricycle), commercial bus drivers (danfo) an wooden (canoe) paddlers
Agriculture	Fishermen, poultry, crop and snail farmers





MAJOR CHALLENGES OF THE STATE

DEMOGRAPHY

The demography of Lagos State poses as a major challenge to her economic growth. With a fast growing population, which some analysts estimate at twenty-four million and a land mass of 3,671 km² (the smallest in the country in terms of size), the state has been unable to keep pace with the geometric increase, even with her relatively high IGR, which is not sufficient to meet the increasing social welfare, infrastructural and environmental needs of the people.

The unemployment rate in Lagos and Nigeria is alarming. With unemployment nearing 50 percent among young people in Nigeria, many move into the cities, especially Lagos,





which is the destination of choice. Social vices such as hooliganism, robbery, among others have risen as a result of high unemployment. Without the informal sector, the unemployment rate in the state would be close to 95 percent.

HEALTH CARE

Providing affordable, accessible and quality healthcare in a megacity like Lagos is a huge task. There are about two hundred and seventy-four health care centers (primary, secondary and tertiary) in Lagos; however, not all of them can sufficiently meet the health care needs of Lagosians. Also there are overwhelming cases of patients' complaints about the poor services and poor workers' attitude. The revenue accrued by the state is not adequate to meet health needs; therefore, the revenue from the informal sector supports to maintain and provide these services. Other wise, the state's overwhelmed health infrastructure might be in a more terrible state.

ENVIRONMENT

Industrial waste, solid waste, poor sanitation, water pollution, and air pollution are major environmental challenges in Lagos. Industrial pollution is a major concern. Lagos generates ten thousand tonnes of waste daily, almost three times higher than that of





Ghana, the country, generates daily. There are two hundred slum communities in Lagos and almost half of these communities are labelled as "severely blighted". Many houses in areas such as Ajegunle in Ikorodu, Amukoko, Orile-Iganmu, Ijora Badia, Ajegunle in Ajeromi and Idi Araba in Mushin lack sanitary facilities such as toilets. In some houses, septic tanks are channelled directly into the drain. The notorious Lagos traffic situation also poses a serious threat to the environment. For instance, the proximity of some areas in Lagos to the Lagoon exposes the residents to several health hazards.

ENERGY

The challenges in the energy sector include issues ranging from sabotage of power generation, distribution and transmission equipment, security of gas transportation pipelines, among others. To meet the energy needs of its residents; Lagos State requires 12,000MW electricity, but only receives less than 1,000MW from the national grid. Many residents rely mostly on generator sets. In addition, in spite of the power supply from the IPPs (independent power plant) in Lagos, the city suffers from incessant power shortages, thus crippling the growth of small scale businesses.





The housing deficit in Lagos is estimated at 4.67million and home ownership rate is about 18 percent. The state will need to build at least 187, 500 new homes every year for the next five years to reduce this huge deficit.

PUBLIC SAFETY

Lagos State remains largely unsafe and continues to have security challenges due to overpopulation, housing challenges and unemployment. Security challenges in the form of robberies, kidnapping, crime threats, cyber attacks and road attacks, among others continue to plague the state.

INFRASTRUCTURE DEFICIT

Lagos State will need to spend over \$300bn to overcome its infrastructure deficit ranging from building roads, connecting the metropolis with a rail system, fixing the drainage, sewage and water system. The state will also have to invest significantly in electricity generation, distribution and transmission, and build out a fibre-optics network, among others.





ENGAGEMENT WITH THE INFORMAL WORKERS IN LAGOS STATE

THE NUMBERS AND FACTS

There are at least fifty-two registered markets in Lagos, and our survey showed that the following taxes and levies paid by the traders in the markets show excessive remitted taxes without official records. A total of twenty-five people were interviewed.





	Tax/Levy	Previously	2016
			(Amount)
State	MTCC (Per Annum): Paid by every informal worker from 18 years and above.	N2600	N5, 100/N10, 000(based on status)
Local Government	Lockup/Shop Permit		N15, 000
	Lockup/Shop Permit (attachment shops)		N2, 500
	Trade Permit		N10, 000
	Radio/Television	N20	N1, 500–N2, 500
	Extension		N1500–N2000 (Based on size of extension)
	Hawkersticket (Per day)	N50	N100
	Market Stall Sellers (Per day)	N50	N100





THE USE OF KIOSKS ATTRACTS A LAND USE CHARGE.

NOTES ON TAX COLLECTION PROCESSES

- The government permits selected people to collect revenue for political gain
- Demand for certain types of taxes are made based on status
- The MTCC card is based on the numerical strength of a certain local government area. Hence, it determines the amount individuals are expected to pay (i.e. more taxpayers equal less tax).
- The MTCC card is issued to first time taxpayers. Subsequent payments are electronically uploaded on the same card.
- Tax is sometimes reduced based on privileges/status/protests.
- Some local government taxes/levies are collected by unrecognised bodies/individuals/touts





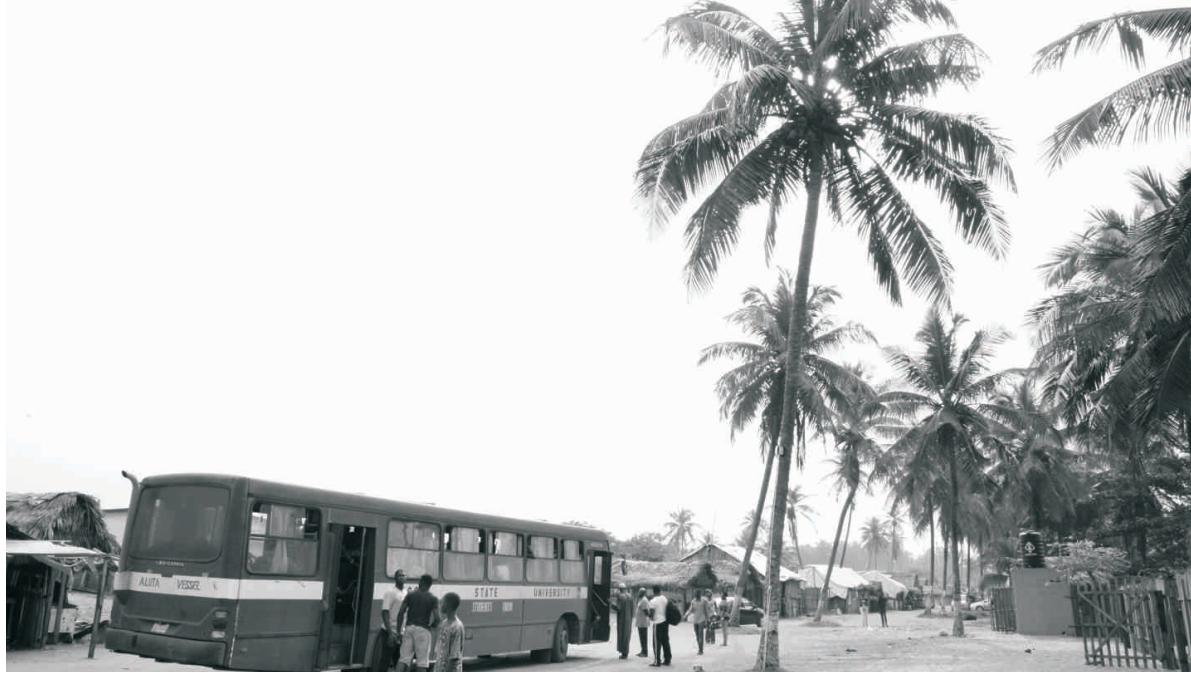
NOTES ON SERVICE DELIVERY

- No welfare service programmes from the government and workers pay for everything in spite of paying taxes.
- Workers are made to pay for sanitary facilities such as toilets (N20-N50 per use)
- They are made to pay for cleaning services (N200 every Friday).
- Security is not provided by the government, and they are made to pay for security (N1000 per Month).
- They pay private sector participation (PSP) operators in waste management (N400 per Month).
- They pay KAI (Environmental/Per Thursday).
- The markets have drainage systems in deplorable conditions.

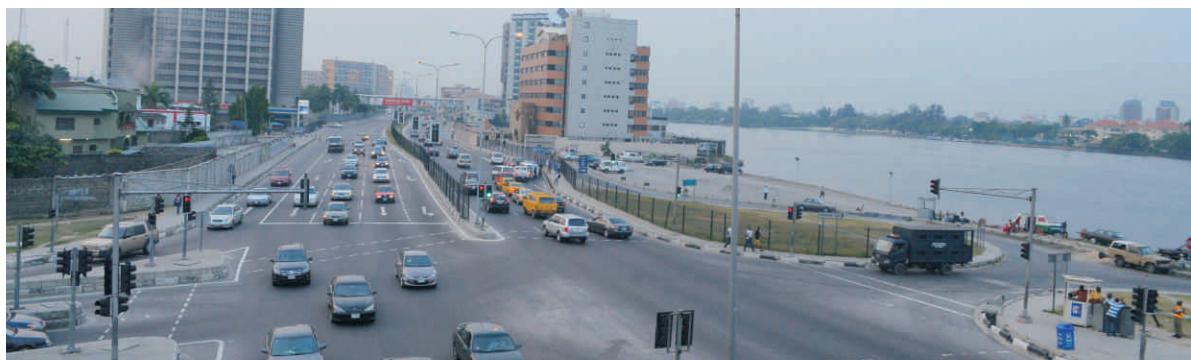
NOTES ON EXPLOITATION AND HARASSMENT

- Extortions and harassment is carried out mainly by area boys and task force
- Goods of traders are usually illegally confiscated.
- Law enforcement agencies are more focused on apprehending workers than enforcing law and order.
- Dealers in scrap metals are made to bribe KAI, LAWMA, council agents, state government officials, and union workers





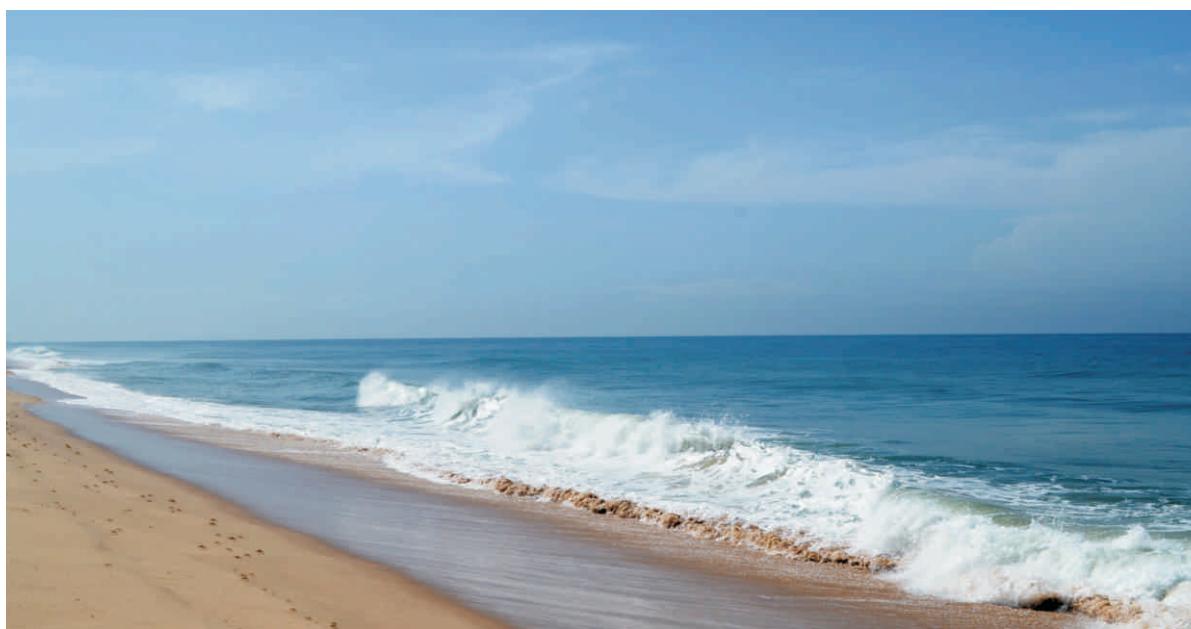
- Hawkers and stall owners are sometimes made to pay for different types of tickets from different agents.
- Waste pickers are often picked up, beaten and robbed by law enforcement agents.
- Sometimes they are locked up and only released on bail terms as high as N100,000.
- The Central Business District agents (CBD) collect money for permits to allow traders arrange goods outside their stories, but an entirely different agency confiscates the goods, which results in another payment.
- Extensions permits (despite extension fees paid to the local government) are sometimes destroyed by agencies not under the local government.
- Forced transfer of taxes paid by customers for services for example gate fees, fees for using "alabaru", the push cart service.
- Workers are forced to contribute money during festive seasons, for example, special events by Government appointed market leaders.
- Female workers are often sexually molested when they fall short of tax payments
The government is unresponsive to the obligations of taxpayers.





OTHERS

- The exorbitant rates to rent shop (about N150, 000 - N200, 000)
- The rent of government shops is also very high due to third-party let.
- More informal workers paid more tax when taxes were low, and increase in tax drastically reduced the number of taxpayers
- Increase in tax is usually not commensurable to income
- Market spaces are auctioned to individuals for rent, and levies are then assigned to individuals in order to gain back what was paid to the government.





CONCLUSION

RECOMMENDATIONS:

It would be good to mention also that LSG needs to re-invest the income from the informal trade into infrastructure (road access, drainage etc) and public health

The informal sector in Lagos is important as it creates significant job opportunities in Lagos, which some analysts put at 68 percent of the total jobs in the state. The income generated from the sector helps Lagos State's economy. Though the state government does not publish disaggregated information; the informal sector is projected to have contributed approximately 40 percent or N111bn to the internally generated revenue pool of the state and local governments.

In 2015, at the state level, an estimated 40 percent of the Internally Generated Revenue (IGR) came from the informal economy; approximately N22bn was accrued to feed into the personal income tax pool; under the state's revenue pool classified as direct assessment, an estimated sum of N10.2bn was generated. Commercial transportation in the state is estimated to have contributed N3.25bn into the state IGR mix, while estimated revenue of N50bn classified as "Other revenue" flowed into the state.





At the local government level, it was projected that out of the estimated N4.5bn that was accrued as internally generated revenue in 2015, the informal sector directly contributed about N4.1bn into the pool. It is also important to know that the local governments do not publish revenue numbers. It is equally important to note that most of the revenue collected at the local government level does not reflect in the local government's account as most use agents and touts in their drive for revenue.

The workforce in the informal sector has vocational and technical skills that are critical for national development and economic growth. The state government should invest in assisting the workforce in this sector improve their skills, and create knowledge transfer initiatives to pass on knowledge of these skills to another generation. The sector creates an opportunity in the country to build essential valuable skills and gain work experience that cannot be obtain in the formal educational system.

Many entrepreneurs in the formal sector started out in the informal sector. On the other hand, the sector creates an opportunity for formal sector employees to earn another source of income on a part-time basis. Increased income boosts consumer spending, which is critical to grow revenue including government receipt from Value Added Tax.





Although income from workers in the informal sector may seem smaller when compared to those in the formal sector, generated revenue has helped ease government's expenditure on essential services including education, health etc. for the populace. Many formal businesses require informal services such as logistics services, cleaning services or catering services.

It is important that the state government acknowledges the important role the informal sector serves in building the economy of the state from transportation to housing to the retail sector. It is also important that the state government refrain from implementing regulations, levies/taxes that are detrimental to the informal sector to operate effectively. Furthermore, the state government should assist to ease the multiple taxation burden on the informal sector, protect the workforce from unscrupulous fee collecting agencies, and aim to be transparent and accountable in the execution of tax collection through credible enforcers, and disclose its financials.

The consequence of a burdened informal workforce will be lower revenue, which will affect the state's ability to provide essential services to the state. Government should rather promote and actively implement policies to reduce taxes for small businesses and artisans while making formal registration process faster and easier.



