3rd International Conference on Management and Economics

London, United Kingdom

17 - 19 July 2026

Labour Market Informality, Sectorial Employment and Inclusive Economic Growth in Nigeria

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Abstract

Nigeria presents one of the most striking labour market paradoxes in Sub-Saharan Africa: official unemployment has declined steadily to 3.1 percent in 2023, yet the informal employment rate has risen to 92.7 percent of total employment, poverty remains above 40 percent, and food inflation reached 26.4 percent following the May 2023 fuel subsidy removal. This study investigates the relationship among labour market informality, sectorial employment composition, and inclusive economic growth in Nigeria using annual data covering 2010 to 2023. An Inclusive Growth Index (IGI) is constructed from three normalised sub-indices capturing per capita income growth, poverty incidence, and labour market quality. The study employs OLS regression with heteroscedasticity-consistent standard errors, Error Correction Model (ECM), Granger causality tests, and gender-disaggregated specifications. The baseline regression explains 96.3 percent of variation in the IGI (adjusted $R^2 = 0.9446$). The informal employment rate exerts a strongly negative long-run effect on inclusive growth ($\beta = -0.657$, $p < 0.001$), agricultural employment share exerts a positive effect ($\beta = 1.040$, $p < 0.001$), services employment share a larger positive effect ($\beta = 1.313$, $p < 0.001$), reflecting the structural transformation dividend when workers move from agriculture into higher-productivity services while Food CPI inflation is negatively and significantly associated with inclusive growth ($\beta = -0.014$, $p < 0.05$). The ECM confirms co-integration and a significant error-correction speed adjustment of −1.878 ($p < 0.001$). Gender disaggregation reveals that female informal employment exerts a significantly stronger negative effect on the inclusive growth ($\beta = -1.195$) than male informal employment ($\beta = -0.500$), pointing to compounded gender disadvantages within the informal sector. The study argues that employment formalisation, particularly for women and in the services sector, and macroeconomic price stabilisation are the binding constraints on inclusive growth in Nigeria.

Keywords: Inclusive Growth; Labour Market Informality; Sectorial Segmentation; Nigeria; Error Correction Model