CAN TAXING THE INFORMAL SECTOR IMPROVE REVENUE GENERATION IN SELECTED NORTH CENTRAL STATES IN NIGERIA?

Ahmed Mohammed[1] & Fashagba Paul Femi[2]

[1,2]Department of Accounting, School of Financial Studies.
Federal Polytechnic Bida, Niger State,
Nigeria.
ahmedmohammed@fedpolybida.edu.ng
phone contact: +234 8038412848

ABSTRACT
Many developing countries are currently grappling with chronic fiscal deficits that hinder their ability to finance essential public expenditures. To address this challenge, several governments have turned to taxing the informal sector as a viable revenue source. The present study investigates can taxing the informal sector contributes to revenue generation of Nigeria. To accomplish this objective, the researchers administered 448 throuugh Likert scale structured questionnaires to participants within the selected North central states (Abuja, Kogi, and Nigger). Responses were presented and summarized using descriptive statistical tools and regression to ascertained the result. The findings demonstrated that taxing the informal sector would significantly increase government revenue and contribute positively to the economic development. The study concludes that there a positive and significant influence of informal sector on revenue generation. Based on the conclusion, it recommended that measures to strengthen revenue generation among informal sector operators is to intensified and effective monitoring by auditing informal businesses. Also, reduction of multiple and overlapping taxation; and supportive reforms to facilitate voluntary compliance and sustainable revenue mobilization. Policy maker and government ought to show accountability and transparency in order to build trust in the informal sector business for tax remittance and compliance.

Keywords: Informal sector, tax compliance, revenue generation, economy, North central, Nigeria.

1. Introduction

Revenue collection has been on a decline in many African countries as modernization, globalisation of trade, and empowerment of taxpayers take precedence.1 Developing countries have found that their economies are not keeping pace with rapid urbanization, infrastructural gaps and an expanding informal sector2 – all factors adversely affecting tax revenue generation. As anti-government demands grow, the burden of generating sustainable revenues at home increases. This challenge is exacerbated by the combined impact of a disjointed tax system and the all-too-common proliferation of the informal sector, both having profound implications on the burgeoning fiscal terrain (Mpofu, 2022). The informal sector in SSA has been expanding at a high rate, employing a sizeable proportion of the work force. Estimates indicate that the informal economy contributes more than 60% of employment and up to 40% of GDP in most SSA countries (Gwaindepi, 2022). This rise also is due to a number of factors, such as constrained formal employment opportunities and regulatory requirements, but also a youthful population

who seeks to be engaged in economic activities. This is what makes the sector a cushion to unemployment and poverty for families as well as an important source of income for national consumption. beyond the scope of established regulatory systems. Consequently, it avoids formal taxation often because of inadequate enforceable mechanisms and administrative resources. This creates a contradictory scenario where the informal economy provides livelihoods while simultaneously weakening the fiscal capacity of governments (Chimilila & Leyaro, 2022).

Despite increasing literature, important gaps persist in understanding how informal economies, tax systems, and revenue collection interact in sub-Saharan Africa. Most studies are qualitative, leaving limited quantitative evidence on causality between informal sector expansion and tax revenue (Muchiri, 2014). Greater use of econometric and panel-data approaches is needed to assess long-run dynamics and policy effectiveness across the region. Second, existing research often treats the informal sector as a uniform entity, overlooking its significant internal diversity. Informal businesses vary widely from survivalist street vendors to lucrative yet unregistered small and medium enterprises. Applying a uniform tax policy to this heterogeneous group disregards these differences and increases the likelihood of policy ineffectiveness (Joshi et al., 2014).

Additionally, studies have disproportionately focused on Anglophone countries such as Kenya, Nigeria, and Ghana, while Francophone and Lusophone countries in sub-Saharan Africa remain underexplored. This geographic bias restricts the broader applicability of research findings and policy prescriptions across the region (Rotich, 2020). Finally, the intersection of digitalization, financial inclusion, and revenue mobilization in the informal sector remains severely understudied. Emerging tools such as mobile-money taxation, digital wallets, and blockchain-based systems hold considerable promise for transforming tax collection, yet robust empirical evidence on their real-world impact and effectiveness is still scarce (Mpofu, 2022).

Adisa et al. (2019) observe that unlike the disorganized informal sector, which facilitates tax avoidance, the formal sector is structured to promote compliance. Adhikari (2020) emphasizes that a large proportion of people in developing countries depend on informal activities for survival, including unregistered micro-enterprises, subsistence farming, street vending, food kiosks, informal transport, garment and vehicle repairs, construction, waste collection, and diverse personal services (hairdressing, domestic work, etc.).

Operators in the informal sector commonly perceive oil revenue as a “national gift” or windfall that should fully fund government operations, rendering their own tax contributions unnecessary. Concurrently, governments particularly in resource-rich countries—have, often implicitly, reinforced the notion that the informal sector is merely a passive recipient of state services and that any financial contribution from it is inconsequential. This mutual mindset of indifference and low fiscal legitimacy, shared by both citizens and the state, remains a fundamental obstacle to mobilizing tax revenue from the informal economy.

The severe lack of documentation on informal sector activities has made it extremely difficult to bring these operators into the formal tax net. Compounding this challenge are the sector’s rudimentary (or nonexistent) record-keeping practices and the widespread reluctance or outright resistance among informal workers to pay taxes. At the same time, governments often lack the administrative capacity, outreach mechanisms, and resources required to effectively engage,

register, and collect revenue from this segment. Together, these factors continue to pose formidable barriers to successful taxation of the informal economy. A further critical barrier is the persistent lack of political will on the part of governments to systematically tax the informal sector. However, the ongoing decline in public revenue coupled with the disappearance of oil windfalls has intensified calls for authorities to widen the tax base by formally incorporating informal operators, thereby increasing domestic revenue. At the same time, expanding public-service obligations and the imperative of achieving sustainable development with limited resources have made this task even more urgent. Many resource-dependent emerging economies now confront these same fiscal pressures in a post-bum era. Consequently, governments in developing countries, including Nigeria, have increasingly turned their attention to taxing the previously untaxed informal sector as a strategy to broaden the tax base and bolster revenue. Although similar studies have been conducted in Nigeria's Southwest and Southeast regions, to the best of our knowledge, no comparable empirical assessment has been undertaken in North-Central Nigeria. Moreover, comprehensive data on the profile and dynamics of the informal sector in this region remain scarce.

Given these persistent gaps, this study is both timely and highly necessary. As sub-Saharan African (SSA) countries pursue the Sustainable Development Goals particularly those focused on inclusive growth and infrastructure development securing sufficient domestic revenue has become imperative. Achieving this goal, however, demands a fundamental re-examination of tax systems and more effective integration of the informal sector. This study advances the literature by providing a rigorous quantitative analysis of how tax policy design and informal sector characteristics jointly shape revenue mobilization outcomes across SSA. Using multi-country panel data, this study examines how presumptive taxation, institutional quality, and digital infrastructure affect revenue mobilization from the informal sector in Sub-Saharan Africa. Its region-specific focus ensures contextually relevant and widely applicable policy insights, while providing actionable recommendations for governments, tax authorities, and development agencies. The study calls for differentiated tax regimes, greater regulatory transparency, and ICT-enabled tax administration that are specifically tailored to the diverse realities of the informal sector.

As Di John (2010) stresses, truly transformative revenue mobilization strategies must be grounded in rigorous political economy analysis and meaningful stakeholder engagement. Ultimately, the twin challenges of a growing informal economy and a persistently underperforming tax system can only be overcome through coordinated and synergistic reforms. A tax system that overlooks the reality of informality is doomed to persistent revenue shortfalls, whereas policies that criminalize informal activities risk deepening social exclusion and poverty. Bridging this divide, therefore, is not merely a technical challenge it is a fundamental development imperative. By highlighting how inclusive and context-sensitive tax reforms can be designed and implemented, this study charts a viable path toward unlocking the considerable untapped revenue from Africa's large informal economy. Therefore, the main objective of this study is to investigate the rethinking taxation in developing countries: does taxing the informal sector influence revenue generation. The following research hypothesis is formulated for underlying factors:

H_{01}: Informal sector has no significant effect on revenue generation in Nigerian economic development

H_{02}: Informal sector has a significant effect on revenue generation in Nigerian economic development.

This study distinguishes itself from previous research by simultaneously examining the interrelationships among three key corporate dimensions: ownership structure, corporate governance mechanisms, and firm performance. Given the limited empirical research on these linkages in the Botswana context, the present study makes a valuable contribution to the literature by providing robust evidence on how these elements interact and jointly influence firm outcomes in an under-researched emerging market. The rest of the paper is structured as follows: Section 2 presents a comprehensive literature review covering informal sector, taxation, and revenue generation. Section 3 outlines the data and method employed with model specification and measurement. Section 4 present the result and discussions, and section 5 offers concluding remarks and policy implications.

2. Literature Review

Conceptually, revenue generation is the fundamental purpose of a contemporary tax system is to generate sufficient revenue to enable the government to finance the continually expanding expenditures of the public sector (Samuel & Tyokoso (2014). Therefore, the classical and primary function of any tax system is to generate the revenue necessary to finance government expenditure. These funds are essential for delivering public goods and services that the private sector cannot efficiently provide on its own such as national defence, law and order, and internal security as well as merit goods like healthcare and education, which federal and state governments deem more effectively supplied through public provision.

The concept of informal sector encompasses economic activities that operate largely outside formal government regulation and registration frameworks. Despite its unstructured nature, it makes substantial contributions to household incomes, employment generation, poverty reduction, and overall economic growth and development in both developed and developing countries. Frequently serving as a critical catalyst for job creation and revenue mobilization, the informal sector plays an indispensable role in fostering inclusive economic progress. The informal sector comprises a wide array of micro, small, and medium-scale enterprises and activities, including small traders, caterers, artisans, independent professionals, domestic workers, farmers, street vendors, entertainers, transporters, and entrepreneurs. Collectively, these actors employ a large share of the workforce and make significant contributions to socioeconomic development and to the gross domestic product (GDP) of their respective countries.

Although the general concept of taxation is universally understood, its interpretation varies depending on the stakeholder's perspective. Governments regard tax primarily as a vital source of public revenue, businesses treat it as an operational cost, and individuals often perceive it as a reduction in disposable income (Olowookere & Fasina, 2013). According to the revised National Tax Policy (Federal Ministry of Finance, 2017), a tax is defined as any compulsory, non-penal payment levied by law on individuals or entities, with no requirement for the government to provide a direct, quid-pro-quo benefit or service to the payer regardless of the label attached to the payment. This definition underscores that a payment qualifies as a tax only when it satisfies three

essential elements that is compulsory in nature, imposed and backed by legislation; and it does not confer any direct, specific benefit or quid-pro-quo service on the payer. Consequently, taxation is distinctly not a voluntary contribution, gift, or donation; rather, it constitutes an obligatory levy enforced by the state under the authority of law.

Theoretically, the normative approach to taxation was dominated by the theory of optimal taxation. Rooted in the conviction that the design of an efficient and equitable tax system constitutes a cornerstone of economic policy, optimal taxation theory seeks to structure tax instruments in ways that minimize economic distortions and deadweight losses. The core objective of this framework is to devise tax policies that maximize social welfare while preserving incentives for production, investment, and labor participation. The classical theory of optimal taxation, building on Adam Smith's canons, stipulated that an ideal tax should be proportional to income and ability to pay, certain in its application, inexpensive to administer, and convenient for taxpayers. The modern approach, pioneered by Mirrlees (1971), advanced this framework by arguing that a truly optimal tax system should simultaneously raise the required revenue and achieve desired resource redistribution while introducing the least possible distortions to economic behavior. The modern optimal taxation framework employs vertical equity whereby higher-income individuals bear a proportionally greater tax burden than lower-income individuals as a key mechanism to reconcile the inherent trade-off between economic efficiency and distributional fairness. This paper adopts the optimal taxation approach to inform the design of effective and equitable tax policies specifically tailored to the unique characteristics and challenges of the informal sector.

In today globalization, most people agree that taxes are the most effective way for governments to generate domestic revenue. Nigeria's economy is divided into official and unofficial sectors. More than 75% of workers are employed in the unorganized sector out of the two. Forty percent of low-income nations' GDP is attributed to the informal sector, according to the Global Economic Prospects (2019). Empirically, Thaci & Gërxhaliu (2021), "they are the least taxed despite their significant contributions to the economies of developing countries." "Taxing the booming informal sector presents the hope of generating extra income to make up for the deficit in tax revenue," but Obara & Nangih (2017) and Neef (2018) contended that this approach is not without its challenges. "How to tax the informal sector remains a pressing question (Mpofu, 2021).

Also, Obara and Nangib (2017) employed a field survey methodology to examine the implications of taxing Nigeria's informal economy. A total of 110 respondents from the Port Harcourt metropolitan area and its environs participated in the survey. Results from Kruskal-Wallis and Chi-square tests demonstrated that imposing taxes on the informal sector would significantly increase government revenue and exert a positive impact on economic growth in developing countries. The study recommended several practical measures to enhance tax compliance among informal sector operators, including: (i) strengthened and more efficient tax monitoring and auditing of informal businesses; (ii) substantial capacity building for staff of revenue authorities; (iii) the prompt establishment of specialized revenue courts to expeditiously prosecute tax offenders when necessary; and (iv) the elimination or sharp reduction of multiple and overlapping taxes that currently burden informal operators.

The analysis of the literature found that, despite the validity of various research findings and generalisations, the informal sector has the potential to contribute significantly to government tax revenue. Many have made this argument, blaming the informal sector for its lack of potential for good tax revenue contributions because of the cost and benefit and logistical strength of the current tax administration system, which favours organised employment and corporate bodies. Therefore, Kehinde (2018) concluded his study after conducting a structured analysis and interpretation of the data. The majority of government funding for macro and microeconomic initiatives may come from the informal sector. Similarly, Ogundajo et al. (2019) examined how Nigeria's informal economy affects the country's ability to generate tax income. Their study concluded that the informal sector significantly affects the creation of tax income in Nigeria based on the findings of the regression analysis.

The informal sector has played a pivotal role in driving socioeconomic development across numerous countries worldwide, a contribution that is well-documented in an extensive body of literature. However, the extent to which these findings and insights are directly applicable to—or have been empirically tested within the specific context of Lagos State, Nigeria, remains largely unclear. Adisa et al. (2019) investigated the revenue potential of Lagos State's informal economy while identifying the key challenges and opportunities associated with taxing its operators. Primary data for the study were collected through a survey questionnaire administered to 670 respondents across five local government areas in the state. Responses were analysed using descriptive statistics, while the study hypotheses were tested with Kruskal-Wallis and Chi-square tests. The results showed that the informal sector in Lagos State has considerable untapped potential to contribute to employment creation, household income generation, and increased tax revenue for the state government.

Awa (2022) examined the contribution of tax revenue from the informal sector to capital development in Abakaliki, the capital of Ebonyi State. Employing an ex-post facto research design, the study relied on secondary data collected from the Ebonyi State Internal Revenue Service and the Ministry of Budget and Planning over a 21-year period (2000–2020). The data were analysed using Ordinary Least Squares (OLS) regression. The results revealed that taxes collected from market traders, petty traders, and traders' associations exerted a statistically significant positive effect on capital expenditure and infrastructure development.

Hammond et al. (2023) explored potential implementation challenges associated with tax reforms targeting the informal sector and proposed strategies to address them. The study applied a multi-criteria decision-making framework based on the Best-Worst Method (BWM). Drawing on an extensive literature review, the authors identified twenty potential obstacles and twelve mitigation strategies, then engaged eight experts to rank both the barriers and the corresponding solutions in order of importance for successful reform implementation. Through an online survey, the experts identified and pairwise compared their most- and least-preferred criteria. Using a linear Best-Worst Method (BWM) solver, optimal weights were calculated for each criterion. The analysis revealed that the single most critical barrier to successful tax policy implementation in the informal sector was the public's perception of tax administration. Consequently, building taxpayer trust emerged as the most essential prerequisite for effective reform rollout.

3. Methodology

This study employed field survey research, targeting the North Central (Kogi, Nasarawa, Niger) informal sector operators as the population and as well the sample subjects using total enumeration sampling techniques. The sample frame used for the informal sector was largely restricted to Abuja, Kogi, and Niger state. According to Saunders et al. (2000), "dividing the population into a series of relevant strata means that the sample will more likely be representative, as you can ensure that each of the strata will be represented". Five- point Likert-type scale structured questionnaire was used as data collection instrument with options ranging from Strongly Agree; Agree, Undecided, Disagree, and Strongly Disagree and coded as SA (5), A (4), UD (3), D (2), SD (1). The questionnaire was subjected to reliability test using Cronbach Alpha Coefficient Technique and the result of 0.988 being greater than 0.70 thresholds implied that the questions formulated in the questionnaire standing as the research instrument is consistent in generating relevant information for the analysis. The data obtained from the administration of structured questionnaire were analysed using descriptive and regression analysis. Multivariate regression (Pooled Ordinary Least Square) analysis was carried out in testing the hypothesis, while Statistical Package for Social Sciences software was used in carrying out the regression analysis (SPSS).

The population for this study consists of owners and/or managers of registered informal sectors operating in Abuja, Kogi and Niger State. Data obtained from field survey which collectively are 448 of informal sector businesses. The population represents the viewpoints of informal sector business on issues of unregistered commercial activities within the study frame as a whole, making them essential sources of information and support for this study. Table 3.1 below presents the population of informal sectors business data for the states under study.

Table 1: Informal Sector in Niger, Abuja and Nasarawa States

	Abuja	Kogi	Niger
Regisred Informal Sector business	622	414	304
Percentage %	23	46	31

Source: Researcher's Survey Data, 2025.

Model Specification

SIS = (ISR = f (ACTE, TCOP, EACT, BACQ) (i)

The econometric model is as follows:

$ISS = \beta_0 + \beta_1 ACTE + \beta 2TCOP + \beta 3EACTi + \beta 4BACQ + \mu$ (ii)

Where;

SIS = Size of informal sector
ACT = Assessment collection technique TCOP = Tax compliance
EACT = Economic activities
BACQ = Business acquisition
β_1 to β_4 = represent the Coefficient of the independent variables
μi = The error term

4. Results and Discussion

About four hundred and Sixty-two (462) structured questionnaires were administered to the from the entrepreneurial operators of small-scale enterprises in Abuja, Kogi, and Niger States of the North Central Nigeria as respondents, while four hindered and forty-eight (448) were duly filled, returned and analyzed to achieve the stated objective in this study. The proportion of the returned questionnaire to the total number administered was 97%, which was considered adequate for the analysis as it was above 80% expected returned rate. The demographic bio-data of the respondents as obtained from the filled questionnaire were presented and analysed in Table 2.

Table 2: Demographic Data

Characteristics	Group	No of Respondents	Percentage %
Sex	Male	257	57
	Female	191	43
Age of the Respondents	21-30 Years	184	41
	31-40 Years	104	23
	41-50 Years above	160	36
Marital Status of the Respondent	Single	268	
	Married	180	
Educational Qualification of the Respondent	ND/NCE	293	65
	HND/B.Sc	121	27
	Master Degree	26	6
	PhD	8	2
Civil Service Experience of the Respondent	1-5 years	197	44
	6-10 Years	146	33
	11-15 Years	58	13
	16-20 Years	47	10

Source: *Field Work, (2025).*

As shown in Table 2, the demographics data of the respondents in relation to: gender of the respondents are male 257 (57%) while 191 (43%) the least happens to be female. Majority of the respondents' age fall within 21 - 30 years (181 respondents, 41%); followed by for age brackets 41 – 50 years, (160respondents, 36%); age 31 - 40 years (104 respondents, 23%) respectively. The highest educational respondents' qualifications are ND/NCE is 293 (65%), followed by HND/BSc with 121 (27%), followed by Master Degree 26 (6%) and the least happens to be PhD with 8 (2%) Majority of the respondents have a cognate work experience of 1 to 5 years 197 (44%) followed by 6-10 years 146 (33%), 11 -15 years 58 (13%) and the least is 16-20 years 47 (10%). This implies that majority of the respondents are male and majority fall between the age brackets of 31-40 years, most of the respondents are married. The highest educational qualification for them is ND/NCE, majority of them have a work experience of 1-5 years.

4.1. Data Presentation and Analysis

Data that was collected for the purpose of this study was collated, analyzed, interpreted, and presented in the following tables shown below.

Table 3: Analysis of Respondents of Informal Sector in selected States

Variables	Characteristics	Frequency's	Perc.-(%)
States under Study	Abuja	102	23
	Kogi	208	46
	Niger	138	31
Total		448	100

Source: *Researcher's Field Survey, 2025.*

Table 3 gives the information of selected states in North Central Region of Nigeria that is under study and number of sample size of informal sector in the location. The analysis from the table shows that Abuja state has one hundred and two (102) respondents which comprised of the informal sector under study which represent (23%), Kogi has two hundred and eight (208) respondents small scale enterprises, this represents 46% of total informal sector while 0ne hundred and thirty-eight (138) of the respondents representing 31% informal sector businesses' is in Niger state. The analyzed table 4.3 revealed that Abuja has the largest number of informal sectors performing in the North Central Region of Nigeria.

Table 4: Descriptive Analysis

S/N	**Items measuring Small Scale**	**SA**	**A**	**D**	**N**	**SD**	**Mean**	
	Enterprise Revenue Generation	**(%)**		**(%)**	**(%)**	**(%)**	**(%)**	
1	Tax authorities adopt different types of technique in tax collection	65 14%		100 22%	55 12%	126 28%	102 22%	**2.77**
2	Informal sector tax administration templates in relation to assessment, collection and remittances has not been fully automated	165 36.8%		181 40.4%	46 10.3%	26 5.8%	30 6.7%	3.94
3	Tax collection techniques reduces the level of tax evasion in the informal sector	250 55.8%		147 32.8%	22 4.9%	21 4.7%	8 1.8%	4.36
4	Tax assessment method allows for transparency and efficiency in tax collection in the informal sector.	16 3.6%		50 11.2%	209 46.7%	90 20.1%	83 18.444	2.61
5	Inadequate knowledge of the tax authorities' personnel is one of the major challenges of full implementation of presumptive tax, thus creating conflict with taxpayers.	55 12.3%		75 16.7%	120 26.8%	120 26.8%	78 17.4%	2.80
							3.30	

Source: *Field Survey (2025).*

Table 4 depicts the descriptive statistics of the Items measuring informal sector on revenue generation. This section presents the results and analysis of the responses obtained from the

structured questionnaire, organized according to the key research questions and objectives of the study. Responses to items measuring perceptions of tax assessment and collection techniques produced an aggregated mean of 3.30, indicating strong overall agreement. Specifically, respondents concurred that that tax authorities employ a variety of techniques in the collection of taxes from the informal sector; and tax administration processes for the informal sector particularly with respect to assessment, collection, and remittance have not yet been fully automated. Respondents further agreed (within the same aggregated mean of 4.30) that, well-designed tax collection techniques effectively reduce tax evasion in the informal sector; current tax assessment methods enhance transparency and efficiency in revenue collection from informal operators; the presumptive tax regime, despite its introduction, has not been fully or effectively implemented; and tax authority personnel generally lack the requisite knowledge and skills to properly administer presumptive taxation. The regression result is depicted in table 5 is as follows:

Table 5: Model Summary

Mode	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.991[a]	.981	.980	.15306

Source: *Field Survey (2025).*

The table 5 shows useful information about the regression analysis. From the table 'R' column shows the relationship informal sectors on revenue generation in the selected North central of Nigeria (Kogi, Niger and Nasarawa) (i.e., predicted by the regression equation). R^2 is the square of R, known as the 'coefficient of determination' which shows the proportion (or percentage) of the variation in informal sector performance that can be as a result of the implication of revenue generation. The model summary table above revealed r^2 as 0.981which implies that 98.1% of the variables can be explained while the remaining 1.9% cannot be explained due to other factors outside the variables of interest. This shows that the model has a good fit for the estimation and meet the assumptions of best linear unbiases estimator (BLUE). On the comparism of mean the table 6 depict the ANOVA result.

Table 6: ANOVA[b]

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	502.136	39	12.875	549.566	.000[a]
Residual	9.559	408	.023		
Total	511.694	447			

Source: *Field Survey (2025).*

The analysis of variance (ANOVA) result shows that the overall regression is statistically significant since the P-value is 0.000 < 0.05. Table 6 for Model Summary/F statistic explains the overall fit of the model as R = 0.991; Adjusted R = 0.980; R^2 = 0.981; F = 549.565 at p = 0.000 < 0.05. This result also shows that the regression model has good fit and statistically predicts the informal sector on revenue generation performance in the North Central of Nigeria (Abuja, Kogi, Niger).

4.2. Test of Hypothesis

Restatement of research hypothesis one on the statement that Leadership Interest & skills has no positive significant relationship with small scale enterprise performance in Abuja, Kogi, Niger State of North Central Nigeria. Pearson product moment correlation was used to test this hypothesis. In order to use Pearson product moment correlation, the statements related to informal sector on revenue generation performance is as on table 4.

Table 7: Pearson Product Moment Correlation

		Informal Sector Tax	Revenue Gen.
Informal Sector Tax	Pearson Correlation	1	.857**
	Sig. (2-tailed)		.000
	N	448	448
Revenue generation	Pearson Correlation	.857**	1
	Sig. (2-tailed)	.000	
	N	448	448

**. Correlation is significant at the 0.01 level (2-tailed).

Source: *Field Survey (2025).*

Table 7 showed the result of Pearson product moment correlation test on the relationship between informal sector and revenue generation performance. The test is on statement of hypothesis one ($H0_1$) which pointed that taxing informal sector does not have significant positive effect on small scale enterprises' performance in Abuja, Kogi, Niger State of Nigeria. Result indicates that informal sector tax has significant positive effect on revenue generation performance in the North Central Nigeria under study ($r = 0.857$). The result shows that the relationship between the two main variables of informal sector tax and revenue generation performance is statistically significant (Sig. = 0.000) at 5% level of significance. This shows an implication that an increase in the level of the application of best practices of taxing informal sector would lead to an increase in informal sector business' conduct and revenue generation performance in Abuja, Kogi, Niger State of North Central of Nigeria.

From the above results, the null hypothesis one ($H0_1$) stands rejected and we conclude therefore, that taxing informal sector business' has significant positive effect on revenue generation which impact economy of Abuja, Kogi, Niger State. Considering the P-value (0.000), and putting it differently, this relationship is statistically significant at the level of 5%. This finding suggests that informal sector business' performance in these particular states of North Central Nigeria under study experiences an appreciable increase in their business performance and showcase a driven force for tax payment. This is so because large majority of the respondents in this study respectively from the item statement agreed that their informal sector business' performance improved and serves as a basis for tax registration and invariably impact revenue generation in Nigerian economy. These findings align with a priori expectations, which posited that effective tax administration in the informal economy would significantly enhance revenue generation. This anticipated outcome is already partially observable through the introduction of strategies such as presumptive taxation in Abuja, Kogi and Niger State. The results confirm a statistically significant positive relationship between the informal sector and tax revenue generation in Nigeria, thereby corroborating the earlier conclusions of Ogunjobi et al. (2019).

5. Conclusion and Recommendation

This study examined the influence of the informal sector on tax revenue generation in Nigeria.

The regression analysis revealed a statistically significant relationship, leading to the conclusion that the informal sector exerts a substantial and positive impact on tax revenue mobilization in the North central (Abuja, Kogi, and Niger State). Based on the study's findings, the following recommendations are that; the government should enhance tax assessment and collection methods for the informal sector to boost revenue mobilization while introducing targeted tax incentives to encourage more informal businesses to register formally with the Corporate Affairs Commission (CAC). Authorities should develop and implement comprehensive strategies to strengthen tax compliance among informal sector operators and adopt supportive policies that stimulate revenue contributions from the informal sector across north central and Nigeria generally.

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