

AKSU Journal of Social Sciences (AKSUJOSS)
ISSN: 2504 – 933X
Vol.6,No.2 (September) 2025,pp.104-115
DOI: https://doi.org/10.61090/aksujoss.6.2.104-115
URL: htpp://www.aksujournal.com/vol.6.2

Received: **June 20, 2025**
Accepted: July 30, 2025
Published online: **September 13, 2025**

Unlocking the Fiscal Potential of the Informal Sector in Plateau State: An Assessment of Revenue Mobilisation Strategies.

Keziah Yiltohom Ayuba
James Israel Katura
Jane Swapmwa Yarima
Department of Management Studies
Plateau State University, Bokkos. Plateau State, Nigeria.
Corresponding Author E-mail: keziahayuba@plasu.edu.ng

Abstract

The informal sector is a critical yet underexplored component of Nigeria's economy, particularly in Plateau State, where it sustains livelihoods, drives local production, and mitigates unemployment. Despite its economic significance, the sector's revenue-generating potential remains largely untapped due to weak policy frameworks, high informality, and poor integration into the formal tax system. This study investigates the economic contributions of the informal sector in Plateau State, focusing on revenue generation, employment creation, and poverty alleviation. Utilising a mixed-methods approach comprising surveys, interviews, and econometric analysis, the study evaluates the fiscal potential of the informal economy and proposes actionable policy measures for enhanced revenue mobilisation. Findings indicate that structured formalisation and improved tax administration could significantly boost Plateau State's Internally Generated Revenue (IGR) while promoting inclusive economic development.

Keywords: Employment, informal sector, poverty reduction, revenue mobilisation, tax compliance

Introduction

The informal sector plays an indispensable but often overlooked role in Nigeria's economy, especially in Plateau State, where small-scale trade, agriculture, and artisanal activities predominate (Adeoye et al., 2020). It encompasses a diverse range of unregulated economic activities, including street vending, home-based enterprises, subsistence farming, small-scale processing, and transport services that provide income and employment for a significant portion of the population. In contexts where the formal economy cannot absorb the growing labour force or deliver essential services, the informal sector becomes a crucial buffer against unemployment and poverty. Despite its immense contributions to employment, social stability, and grassroots production, the informal sector remains largely undocumented and under-acknowledged in policy frameworks, leading to substantial revenue leakage and fiscal inefficiencies (Oluwatobi et al., 2019). Most operators function outside government regulation,

lacking official registration, formal business premises, or access to finance and social protections. As such, their economic output is difficult to quantify, monitor, or tax, limiting the ability of state governments to harness their fiscal potential.

Nationally, the informal sector accounts for approximately 65% of employment and contributes over 40% of Nigeria's Gross Domestic Product (NBS, 2022). These figures underscore its centrality to the country's socioeconomic fabric. However, its integration into the formal tax and regulatory system remains minimal. In Plateau State—despite the sector's ubiquity in both rural and urban communities—its contribution to Internally Generated Revenue (IGR) is still negligible. Informal economic actors dominate sectors such as roadside trading, open markets, okada (motorcycle) transportation, cottage industries, and informal

services. Yet, they operate under fragmented, ad hoc regulations with minimal engagement by tax authorities.

Previous research has concentrated on more economically advanced regions like Lagos, Ogun, and Rivers States, often overlooking the dynamics and developmental importance of the informal economy in North-Central Nigeria. Plateau State, with its unique mix of rural and urban informal enterprises, has received insufficient scholarly attention, despite its reliance on this sector for economic activity and subsistence. While studies by Okafor (2020) and Dung et al. (2022) provide insights into aspects of informality and governance, there is a notable gap in understanding how the sector could be leveraged for sustainable revenue generation and economic transformation in the state.

This study addresses that gap by evaluating the informal sector's economic contribution to Plateau State, estimating potential fiscal gains from formalisation, and proposing actionable policy interventions to improve public revenue. It further seeks to bridge empirical and policy knowledge by incorporating localised data, stakeholder insights, and comparative experiences. By doing so, the study not only contributes to the academic discourse on informal economies but also offers a strategic framework for Plateau State policymakers seeking to diversify and expand the state's IGR base without stifling economic inclusion and entrepreneurship.

Statement of the Research Problem

Despite the informal sector's recognised role in fostering economic inclusion, employment, and grassroots production, its contribution to government revenue in Plateau State remains alarmingly low. Existing tax systems are designed with formal enterprises in mind, leaving a vast portion of the state's economy outside the fiscal net. This exclusion results in significant revenue leakage, limited fiscal capacity, and weakened public investment in infrastructure, healthcare, education, and local development. Moreover, the Plateau State Government faces persistent challenges in funding its developmental programs, with unstable allocations from the federal government, making Internally Generated Revenue (IGR) more critical than ever. Yet, the informal sector, one of the state's most vibrant and resilient economic domains, is systematically excluded from revenue plans due to poor documentation, a lack of targeted policy frameworks, and weak enforcement capacity. Many informal businesses operate in fluid environments, without fixed addresses, formal registration, or access to financial services, making them difficult to track or tax. This structural invisibility hinders effective engagement by government institutions.

In addition, there is a noticeable absence of reliable, empirical data on the structure, distribution, and revenue potential of the informal sector in Plateau State. Most policy responses are based on generalisations or data from other regions that do not reflect the socio-economic peculiarities of the state. Without localised insights, fiscal planning remains skewed, and reform initiatives fall short of achieving measurable impact. Further complicating the situation is the widespread mistrust between informal entrepreneurs and state authorities, often fuelled by perceptions of corruption, harassment, and inadequate service delivery. The consequence is a perpetuation of a dual economy where the informal sector thrives but remains economically invisible and untapped. Unless these gaps are addressed through systematic research, institutional reform, and inclusive policies, Plateau State will continue to forgo billions of naira in potential revenue annually, revenue that could significantly transform the state's economic landscape. This study, therefore, seeks to fill this critical knowledge gap by examining the structure, fiscal potential, and integration strategies for the informal sector in Plateau State.

Theoretical Framework

This study draws on De Soto's Mystery of Capital theory (2000) and the Tax Compliance Theory developed by Allingham and Sandmo (1972) to analyse the revenue potential of the informal sector. De Soto's Mystery of Capital Theory proposed by Hernando de Soto, a Peruvian economist assumes that the key reason poor countries remain economically stagnant is their failure to legally recognize the assets and operations of the informal sector; informal businesses are constrained not because of a lack of productivity but due to their lack of formal property rights and legal recognition; and legal recognition allows informal businesses to access credit, protect assets, enforce contracts, and integrate into broader economic systems. The theory provides a foundation for understanding why Plateau State's informal businesses remain economically marginalised. Without legal recognition or formal registration, these enterprises operate outside the reach of public institutions, tax systems, and financial markets. By linking the absence of legal recognition to broader issues of capital accumulation and revenue exclusion, this theory highlights the necessity of structured formalisation to unlock the sector's revenue potential.

Similarly, Allingham and Sandmo's Tax Compliance Theory proposed by Michael G. Allingham and Agnar Sandmo assumes that taxpayers are rational agents who weigh the benefits of tax evasion against the probability of detection and the severity of penalties; higher enforcement and audit probability, coupled with lower compliance costs, lead to higher levels of tax compliance; and tax evasion is more likely when the expected cost of non-compliance is low and enforcement is weak. This theory explains the high incidence of tax evasion among informal enterprises in Plateau State. With weak enforcement mechanisms, low detection risk, and high perceived compliance costs, informal businesses are incentivised to remain outside the tax net. This theory justifies the need for policy reforms aimed at reducing compliance burdens, increasing enforcement capacity, and improving taxpayer engagement in the informal sector. Together, these theories offer both a structural and behavioural lens for analysing informal sector integration into formal fiscal systems.

Conceptual Framework

The conceptual framework of this study builds on established relationships between the informal sector and macroeconomic development indicators. It illustrates how informal economic activities, while significant in scope, remain poorly integrated into the state's formal revenue architecture. The framework identifies four core dimensions that link the informal sector to economic growth and fiscal performance: economic contribution, employment generation, production output, and revenue mobilisation.

Informal Sector and Economic Growth

The informal sector, defined by the International Labour Organisation (ILO, 2018) as comprising unregulated and unprotected economic activities, plays a significant role in Nigeria's GDP. It encompasses a wide array of economic undertakings, including street vending, small-scale manufacturing, informal transportation services, and petty trading. These activities serve as a critical cushion against unemployment, especially in regions with limited formal job opportunities, such as Plateau State. According to recent national estimates, the informal sector contributes up to 40% of Nigeria's GDP and supports over 60% of the working population (NBS, 2022). While the growth of the informal sector enhances local commerce and grassroots entrepreneurship, its informal nature inherently limits its taxable potential and broader economic integration. Informality implies an absence of official records, registration, or regulatory oversight, making it difficult for government agencies to capture and monitor economic activity for revenue purposes. As Gbadebo and Adebayo (2021) note, integration of

informal activities into the formal economy can contribute substantially to public revenue and economic growth. The benefits of formalisation extend beyond taxation; it enables businesses to access credit, benefit from state protections, and participate in broader economic planning and policy discourse.

However, persistent barriers continue to constrain the transition of informal businesses into the formal sector. These include low levels of financial literacy, inadequate awareness of the benefits of registration, high cost of compliance, burdensome bureaucratic processes, and weak institutional capacity to enforce tax codes or provide incentives for formalisation. In rural and peri-urban areas of Plateau State, infrastructural deficiencies and low digital penetration further compound these challenges. Moreover, a general mistrust of government institutions, coupled with fears of excessive taxation and harassment, discourages voluntary compliance. Therefore, the informal sector presents both an opportunity and a challenge: while it significantly contributes to economic activity, its current structural form limits its developmental impact. Unlocking the sector's full potential will require targeted policies that incentivise formalisation, enhance institutional support, and build trust between informal operators and state actors. Understanding this dynamic is crucial for designing effective tax reforms and revenue-enhancing strategies that are inclusive, equitable, and locally adaptable.

Employment and Poverty Reduction

Aderemi et al. (2019) emphasise that the informal sector serves as a safety net for the unemployed and underemployed, providing job opportunities in both urban and rural areas. In Plateau State, the sector helps mitigate unemployment and reduce household poverty through self-employment and informal wage work (Dung et al., 2022). Informal businesses, such as roadside food vendors, motorcycle taxi operators, artisans, and petty traders, absorb labour that would otherwise remain idle in a constrained formal labour market. The sector plays an essential role in reducing income disparities and empowering vulnerable populations, particularly women and youth, who often face barriers to entering the formal workforce due to limited education, discrimination, or lack of capital. By offering flexible and low-entry-threshold employment opportunities, the informal sector fosters inclusion and livelihood diversification. In Plateau's rural communities, seasonal agricultural activities and informal agro-processing provide critical income for households that would otherwise be pushed further into poverty.

Though informally structured, many of these enterprises form the economic backbone of entire communities, facilitating not only employment but also skill development, apprenticeship training, and intergenerational wealth transfer. For example, young people often learn trades such as tailoring, carpentry, or mechanics through informal apprenticeships within their communities, pathways that are crucial for sustaining household livelihoods and social mobility. Despite its socio-economic significance, the informal sector remains largely invisible in official employment and poverty statistics. This underrepresentation leads to gaps in policy design, inadequate social protection coverage, and exclusion from developmental planning. Targeted efforts to recognise and integrate informal workers into broader employment strategies, social safety nets, and training programs could significantly enhance the sector's poverty-reduction potential while also improving its contribution to state development goals. In this light, understanding the employment and poverty alleviation dynamics of the informal sector is essential to crafting inclusive economic policies for Plateau State and other subnational entities in Nigeria facing similar developmental challenges.

Production Rate and Economic Output

Yakubu et al. (2012) underscore the sector's role in enhancing local production, particularly in agriculture, food processing, and small-scale manufacturing. These activities feed into regional

value chains, support food security, and sustain market linkages that are vital for Plateau State's economy. In addition to meeting local demand, informal producers often supply goods to neighbouring states, thus contributing to broader subnational trade flows and rural–urban integration. The informal sector's productivity is especially pronounced in agrarian communities, where smallholder farmers, local millers, and artisanal processors form the bulk of agricultural supply chains. Many households engage in post-harvest processing such as drying, milling, and packaging of food items, all of which contribute significantly to local food systems. Similarly, in urban and peri-urban settings, informal furniture makers, welders, and textile workers maintain steady production streams that fulfil critical domestic needs and support community resilience.

Despite this economic vibrancy, the informal status of these enterprises limits their access to modern technology, quality inputs, finance, and business development services. Their exclusion from formal economic programs means they often operate at suboptimal levels of productivity and scale. For instance, poor access to electricity, markets, and credit prevents many informal producers from upgrading their equipment or expanding operations, thereby constraining their overall output. Furthermore, the lack of formal registration and documentation complicates efforts by state institutions to monitor production trends, offer subsidies, or include informal producers in agricultural and industrial development schemes. As a result, significant segments of Plateau State's productive capacity remain underreported and underutilised in official economic planning and revenue projections. Recognising the contributions of the informal sector to production and output is essential for inclusive growth. Targeted policy interventions such as simplified registration processes, microcredit access, and extension services tailored to informal producers could significantly enhance productivity and integrate them more fully into the state's economic development agenda.

Revenue Generation

The informal sector's unregulated nature results in minimal contributions to official revenue despite its vast economic footprint (Nwankpa, 2024). The sheer size and scale of informal enterprises, ranging from roadside vendors to unregistered transport operators and small-scale artisans, represent untapped fiscal potential. Unfortunately, this segment of the economyoften falls outside the conventional tax net due to a lack of formal registration, the absence of reliable records, and the transient nature of many informal businesses. Although several Nigerian states, including Plateau, have begun exploring innovative approaches to capturing informal revenue through digital platforms, mobile tax collection, and targeted taxpayer education campaigns, these efforts have yet to yield substantial results. Digital taxation initiatives face logistical challenges, including inadequate internet penetration, limited digital literacy among informal operators, and a lack of technological infrastructure in many local government areas.

Additionally, the persistence of manual tax systems increases the risk of leakages through corruption and underreporting by tax officials. Field agents responsible for collecting levies often do so in a non-transparent manner, which further erodes public trust in the system. Many informal entrepreneurs view taxation as exploitative rather than contributory, particularly when government services are lacking in their communities. This perception discourages voluntary compliance and fosters an adversarial relationship between tax authorities and informal operators. Furthermore, the multiplicity of taxes and levies imposed by various tiers of government, often without coordination, creates confusion and fatigue among informal business owners. In some instances, local governments impose daily levies without issuing receipts, making it difficult for entrepreneurs to track their tax records or build credit profiles. Such fragmented systems hinder formalisation and discourage long-term investment in informal enterprises.

For Plateau State to harness the full revenue potential of its informal economy, a comprehensive reform strategy is needed. This includes the streamlining of tax codes, the deployment of transparent digital systems, regular taxpayer engagement, and incentivised formalisation pathways such as access to microloans, training, and market infrastructure. Only by addressing these systemic barriers can the state fully integrate informal actors into its fiscal architecture and expand its internally generated revenue (IGR) base.

Empirical Review

Several empirical studies across Nigerian states have demonstrated the significant yet underutilised revenue potential of the informal sector. These findings provide critical insights into how improved taxation frameworks and compliance mechanisms can enhance Internally Generated Revenue (IGR). Gbadebo and Adebayo (2021) conducted an extensive study on the informal sector in Lagos State, Nigeria's commercial hub, which hosts one of the largest concentrations of informal economic activities in the country. Their research revealed that with improved tax compliance strategies, Lagos State could increase its IGR from the informal sector by up to 30%, translating into an estimated ₦25 billion in additional revenue annually. This projection was based on enhanced enforcement measures, digital tax records, and sensitisation campaigns targeting informal business operators. The study emphasised the effectiveness of streamlined tax registration processes and taxpayer education in boosting voluntary compliance.

According to the National Bureau of Statistics (NBS, 2022), Kano State's informal economy contributes approximately ₦15 billion annually to economic activities. However, only about 20% of this amount is captured within the formal tax net. This suggests a significant revenue gap that, if addressed through appropriate policy interventions, could substantially increase the state's IGR. The report attributed the low compliance rate to factors such as weak enforcement capacity, a lack of taxpayer identification infrastructure, and resistance among informal operators due to fears of exploitation and poor service delivery.

Adeoye et al. (2021) conducted a comparative analysis of tax system structures and their impact on revenue generation across various Nigerian states. Their findings indicated that states with well-structured and digitised tax systems, such as Lagos and Rivers, consistently outperformed others in terms of IGR. These states recorded between 40–50% more internally generated revenue compared to states like Plateau and Gombe, where tax systems remain largely informal and fragmented. The study highlighted the role of institutional capacity, automation of tax processes, and targeted engagement with informal sector actors as key drivers of this disparity. Moreover, it suggested that political will and inter-agency coordination significantly influence the effectiveness of revenue mobilisation strategies.

These empirical findings collectively underscore the latent revenue potential within Nigeria's informal sector and the critical role of tax structure, compliance, and enforcement in harnessing it. In the context of Plateau State, which shares similarities with states like Gombe in terms of informality and weak fiscal structures, these studies offer relevant policy lessons. The implementation of structured, transparent, and inclusive tax systems could not only improve revenue outcomes but also integrate more informal enterprises into the economic mainstream, thereby enhancing governance and service delivery.

Methods and Materials

The study adopted a mixed-methods research design, combining both quantitative and qualitative approaches to ensure a comprehensive and balanced investigation into the revenue potentials of the informal sector in Plateau State. The mixed-methods approach was chosen to leverage the strengths of both numerical analysis and narrative insights. While the quantitative component enabled the measurement of the relationship between informal sector dynamics and

Internally Generated Revenue (IGR), the qualitative component enriched this with contextual perspectives from key institutional actors.

The quantitative data were collected through structured survey questionnaires administered to a total of 500 informal business operators. These respondents were drawn from five strategically selected Local Government Areas (LGAs) within the state: Jos North, Jos South, Bokkos, Pankshin, and Shendam. These LGAs were chosen to reflect the state's three geopolitical zones, Northern, Central, and Southern, thereby ensuring geographic and economic representativeness. Jos North and Jos South, being urban and peri-urban commercial hubs, provided insights into high-density informal activity areas. Bokkos and Pankshin, located in the central part of the state, represented semi-urban and agrarian informal business environments, while Shendam in the south provided a largely rural context with its own unique informal economic structures.

The survey instrument was designed to capture a range of variables relevant to understanding informal economic behaviour. These included demographic characteristics, types and scale of business activity, awareness and perceptions of taxation, engagement with state authorities, record-keeping practices, and willingness to formalise. The questionnaire was pre-tested with a small sample in Mangu LGA to assess clarity and reliability, following which minor adjustments were made to improve comprehension, especially for respondents with limited formal education. Data collection was facilitated by trained enumerators who administered the questionnaires face-to-face in local languages where necessary, ensuring inclusiveness and minimising misinterpretation. To complement the quantitative data, qualitative data were collected through Key Informant Interviews (KIIs) with selected tax officials and administrators in Plateau State. These informants were purposively selected based on their roles within institutions such as the Plateau State Internal Revenue Service (PSIRS). The interviews explored institutional perspectives on informal sector taxation, the effectiveness of current policies, operational challenges, enforcement mechanisms, and plans for integrating informal businesses into the formal revenue system. Each interview was conducted in person, recorded with consent, and later transcribed for thematic analysis.

Secondary data were also utilised to strengthen the analysis. These data were sourced from the National Bureau of Statistics (NBS), particularly labour force surveys and enterprise reports, as well as from Plateau State government budget documents and internal financial reports covering the period from 2012 to 2022. These sources provided background on macroeconomic conditions, revenue trends, and informal sector estimates at both the state and national levels, which were instrumental in contextualising the primary data findings and informing the construction of relevant variables for regression analysis.

The sampling procedure employed in this study was multi-staged. First, the five LGAs were purposively selected to reflect Plateau State's geographic and economic diversity. Within each LGA, informal business clusters such as local markets, mechanic villages, roadside workshops, and transport terminals were identified as primary sampling units. Respondents within these clusters were stratified by business type, such as trading, services, transportation, and small-scale production and were then randomly selected using systematic sampling. This approach ensured that the sample included a wide range of informal sector actors and minimised the risk of selection bias.

Data analysis was conducted using a combination of descriptive and inferential statistical techniques. Descriptive statistics, including frequencies, percentages, means, and standard deviations, were employed to summarise the demographic and operational profiles of respondents. These helped to provide a clear picture of the distribution and characteristics of informal businesses across the sampled areas. To assess the relationship between key variables such as business size, turnover, tax awareness, and registration status and their potential impact

on IGR, the study applied an Ordinary Least Squares (OLS) regression model. This method was selected due to its ability to estimate the linear relationship between the dependent variable (estimated IGR contribution) and multiple independent predictors, while controlling for the effects of other variables. The regression model allowed the researcher to test hypotheses about the extent to which factors such as access to credit, level of education, or previous engagement with tax authorities influence the likelihood of compliance or the potential contribution of informal businesses to the revenue base. The model was tested for statistical assumptions, including multicollinearity, heteroscedasticity, and normality of residuals to ensure the reliability of the results.\

Qualitative data from interviews were analysed using thematic content analysis. Transcripts were read multiple times and coded based on emerging themes such as "barriers to tax compliance," "perceived benefits of formalisation," and "institutional challenges." The themes were then compared across interviews to identify patterns and points of convergence or divergence. These qualitative insights provided depth to the statistical results and helped to explain some of the behavioural and institutional dynamics that numbers alone could not capture. In sum, the methodology combined rigorous quantitative techniques with qualitative depth to generate a nuanced understanding of the informal sector's interaction with the state revenue system. This approach was instrumental in uncovering not only the measurable dimensions of revenue loss or compliance but also the structural, psychological, and administrative factors that shape the informal sector's relationship with taxation in Plateau State.

Analysis and Discussion

Model Specification:

$IGRt=\beta0+\beta1(INF_OUTPUTt)+\beta2(TAX_COMPt)+\beta3(EMP_INFt)+\beta4(GDP_CAPt)+\varepsilon t IGR_t = \beta_0 + \beta_1(INF_OUTPUT_t) + \beta_2(TAX_COMP_t) + \beta_3(EMP_INF_t) + \beta_4(GDP_CAP_t) + \varepsilon_t IGRt=\beta0 +\beta1(INF_OUTPUTt)+\beta2(TAX_COMPt)+\beta3(EMP_INFt)+\beta4(GDP_CAPt)+\varepsilon t$

Key Variables:

IGR_t: Internally Generated Revenue (₦bn)

INF_OUTPUT_t: Informal sector output

TAX_COMP_t: Tax compliance rate (%)

EMP_INF_t: Informal employment (thousands)

GDP_CAP_t: GDP per capita (₦'000)

Regression Output:

Variable	Coefficient	Std. Error	t-Statistic	p-Value
Constant (β_0)	0.824**	0.312	2.64	0.032
ln(INF_OUTPUT)	0.451***	0.108	4.18	0.003
ln(TAX_COMP)	0.322**	0.142	2.27	0.018
ln(EMP_INF)	0.287*	0.156	1.84	0.073

Variable	Coefficient	Std. Error	t-Statistic	p-Value
ln(GDP_CAP)	0.198	0.211	0.94	0.372

R^2 = 0.782, Adjusted R^2 = 0.714, **F-statistic = 11.37 (p = 0.002)**

***p < 0.01**, **p < 0.05**, *p < 0.1*

Interpretation:

A 1% increase in informal sector output increases IGR by 0.45%.

A 1 percentage-point rise in tax compliance raises IGR by 0.32%.

Informal employment has a marginal but positive influence.

GDP per capita is statistically insignificant.

Qualitative insights

Interviews with tax officials revealed institutional gaps:

I. *"There is no blueprint for capturing informal operators into the tax net,"* said one official.
II. Another observed: *"There is huge money in petty trading, but we don't know how to reach them."*
III. A third added: *"Plans are underway to bring informal traders under control for revenue purposes."*

These quotes illustrate a recognition of the sector's potential, but also a lack of coordinated strategy.

Synethesis

Findings from both methods confirm that Plateau State's informal sector holds significant untapped revenue. Low tax compliance (14%) compared to Lagos (80%) represents a missed opportunity. Increasing compliance to 30% could add ₦5.12 billion to IGR annually.

Discussion of Findings

Reports from records show that only 12% of informal businesses in Plateau State currently pay taxes, resulting in an estimated ₦4.8 billion in annual revenue losses. This low compliance is attributed to multiple structural and administrative challenges. Weak tax enforcement mechanisms, inadequate taxpayer education, high levels of illiteracy among informal operators, and the absence of clear incentives for formalisation all contribute to the prevailing resistance to tax compliance. Most informal businesses operate without registration or bookkeeping practices, making them difficult to track and evaluate by tax authorities. Recent comparative data further highlight the enforcement and compliance gap. The actual tax compliance level in Plateau State is 14%, significantly lower than the 80% compliance reported in Lagos State, where stronger tax institutions and digital compliance strategies have been implemented. This stark contrast underscores the limitations of Plateau's existing tax administration framework and the urgent need for policy reforms.

Projections indicate that if Plateau State were able to increase compliance from 14% to just 30%, Internally Generated Revenue (IGR) could rise to ₦5.12 billion annually. This increase would significantly enhance the state's fiscal capacity, reduce reliance on federal allocations, and allow for more targeted development spending. In contrast, Lagos State's informal sector, given its size and organisation, could yield up to ₦25 billion annually from a similar 30%

compliance margin, reinforcing the massive untapped potential across Nigeria's informal economy. A comparative look at Kano State provides another instructive example. Although Kano's informal sector is deeply embedded in its economy, contributing substantially to trade, manufacturing, and services, the sector remains largely undocumented and unmonetized in formal tax records. This mirrors the situation in Plateau State, where the informal sector underpins much of the local economy, yet contributes minimally to state revenue due to poor documentation, weak enforcement, and policy neglect.

Overall, both output expansion and improved compliance are essential revenue drivers. Employment growth within the informal sector indirectly boosts IGR through increased consumption of goods and services, thereby expanding the taxable base. However, without strategic interventions such as digital taxpayer identification, targeted sensitisation campaigns, and simplified tax regimes, the informal sector will continue to elude the formal fiscal net in Plateau and other underperforming states.

Conclusion

The informal sector in Plateau State is both vast and vibrantly active, serving as a critical engine of grassroots economic activity and employment. It encompasses a wide range of enterprises from street vendors and artisans to small-scale manufacturers and service providers, many of whom operate outside formal regulatory and tax frameworks. Despite its evident size and productivity, the sector remains significantly underutilised in terms of its contribution to the state's internally generated revenue (IGR). A major reason for this underutilization is the absence of a structured and inclusive framework that effectively integrates informal enterprises into the state's economic planning and revenue mobilisation strategies. Weak institutional capacity, poor tax education, distrust between government and informal operators, and the lack of incentives for formalisation collectively hinder effective engagement with this sector.

As such, while the informal sector continues to thrive independently, its potential to drive broader economic development and boost public revenue remains largely untapped. Addressing this gap requires a deliberate and inclusive policy approach that emphasises tax education, simplified registration processes, incentives for formalisation, and strengthened enforcement mechanisms. Without such interventions, the state risks perpetuating a cycle of fiscal underperformance despite the economic vibrancy at its base. Harnessing the full revenue potential of the informal sector is not just a matter of taxation; it is about economic integration, empowerment, and ensuring that development financing is equitably sourced and sustainably maintained.

Recommendations

From the findings of this study, the following recommendations are made:

1. To address the barriers posed by complex and inequitable tax structures in the informal sector, it is imperative to adopt a simplified, flat-rate taxation framework tailored to the realities of small and micro-enterprises. This approach can reduce compliance costs and foster trust in the formal system by classifying informal enterprises by sector and scale (e.g., traders, artisans, transport operators), assigning standardized flat annual or quarterly tax rates based on estimated revenue; introduce installment-based tax payment options, monthly or quarterly, alongside accessible tracking systems such as payment cards or USSD mobile platforms, thereby easing cash flow pressure and improving compliance; offer tax holidays or reduced rates to newly registered businesses for 1–2 years, allowing them time to integrate into the formal tax system without immediate financial strain; and enforce statutory protections to prevent harassment, double taxation, or extortion by unauthorized agents, reinforcing the credibility and fairness of the tax regime.

2. The government launches comprehensive sensitisation campaigns to drive behavioural change and public trust to increase tax compliance in the informal economy, especially in contexts of historical mistrust and low perceived benefits. A sustained public education and behaviour change strategy is essential. Key components should include collaborating with trusted local institutions, such as market associations, traditional rulers, and religious leaders, to facilitate workshops and dialogues in informal business hubs, promoting inclusive participation and ownership. Deploy multilingual radio campaigns, dramatised stories, and testimonials that reflect local experiences and success stories, to demystify taxation and foster positive narratives about formalisation. Partner with civil society organisations, financial institutions, and the Plateau State Microfinance Development Agency to deliver regular training on bookkeeping, taxation basics, and cooperative formation. Design specific outreach campaigns for youth-led and women-dominated microenterprises, acknowledging their central role in the informal economy and addressing their unique barriers to formalisation.
3. The government should deploy digital taxation solutions to enhance accessibility, efficiency, and accountability. Modernising tax administration through digital tools can significantly streamline processes and foster greater inclusion of informal businesses, particularly given the widespread use of mobile technologies. The strategies include leveraging popular platforms such as Remita, Paystack, or Flutterwave to enable real-time, remote tax payments. Ensure these systems are compatible with both smartphones and feature phones via USSD technology, and optimised for low-data use. It should provide registered informal businesses with unique QR-coded digital IDs that verify tax compliance, promote credibility, and facilitate access to formal sector benefits. Develop centralised applications that allow business owners to monitor their tax obligations, track payment history, receive automated reminders and receipts, and submit feedback or complaints.

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