



Unlocking Nigeria's Economic Potential: Leveraging the Informal Sector for Revenue Generation and Sustainable Growth

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Abstract

The informal sector plays a crucial role in Nigeria's economy, contributing significantly to employment and economic activities. However, despite its vast potential, it remains largely untapped as a source of government revenue. This study adopts a literature review approach to examine how Nigeria can enhance revenue generation by integrating the informal sector into formal economic structures. Drawing insights from successful case studies in other economies, the paper explores key themes such as financial inclusion, development finance, economic diversification, and payment systems. It highlights how effective monetary policies, digital financial solutions such as mobile money, and targeted development strategies can bridge the gap between informal businesses and formal financial frameworks. Furthermore, the study discusses regulatory challenges, tax compliance issues, and the role of technology in improving transparency and accountability within the sector. By synthesizing recent trends and empirical findings, this paper provides actionable policy recommendations for leveraging the informal economy to drive economic growth, boost GDP, and ensure long-term national prosperity.

Keywords: Informal Economy, Revenue Generation, Financial Inclusion, Economic Diversification

Introduction

The informal sector plays a critical role in Nigeria's economy, contributing significantly to employment, entrepreneurship, and economic activities outside formal regulatory frameworks. According to the International Monetary Fund (IMF), Nigeria's informal sector accounts for approximately 57.7% of the country's GDP, making it one of the largest in Africa (Nguimkeu, & Okou, 2021) ^[31]. This sector comprises small-scale traders, artisans, transport operators, subsistence farmers, and service providers who operate outside formal tax and regulatory systems. The rapid expansion of the informal economy is driven by factors such as high unemployment, bureaucratic bottlenecks in business registration, and limited access to finance, pushing many Nigerians to seek livelihood opportunities outside the formal structure (Darbi, Hall, & Knott, 2018) ^[11]. Despite its vast contributions, the informal sector remains largely untapped as a source of government revenue, creating a significant gap in Nigeria's fiscal policy.

Currently, Thai Generation Y (Gen Y) represents the largest labor force segment in Thailand (The Government Public Relations Department, 2021) ^[7] and serves as a key driver of the economy. This group is highly adept at using social media, making online platforms a preferred choice for accessing travel services. However, decision-making behaviors among different tourist groups vary based on personal factors, and the significance they place on different decision-making processes also differs. Therefore, studying the decision-making process for selecting online travel agents can provide valuable insights for accommodation businesses and OTAs. These findings can help improve and refine strategies for presenting products and services that align more closely with customer preferences and needs.



Fig 1: Informal Economy in Nigeria

Over the years, Nigeria's informal sector has demonstrated resilience and remarkable growth, absorbing millions of workers who would otherwise be unemployed. According to the National Bureau of Statistics (NBS), informal employment accounts for over 80% of total employment in Nigeria, underscoring its crucial role in sustaining livelihoods (Jegede, 2025) ^[18]. This sector has also been a breeding ground for entrepreneurship, fostering innovation and self-reliance in various industries, from agriculture and manufacturing to retail and transportation (Thiam, 2007) ^[45]. However, the lack of formal integration into the mainstream economy has hindered the sector's full potential, limiting access to credit, social protection, and structured economic support (Ozor, Nwakaire, Nyambane, Muhatiah, & Nwobodo, 2021) ^[36]. Countries such as Indonesia, India, and Kenya have successfully harnessed their informal economies to boost national revenue, enhance financial inclusion, and drive overall economic growth. India, for instance, implemented the Goods and Services Tax (GST) system, which simplified tax compliance for small businesses, thereby increasing government revenue (Meagher, 2018) ^[28]. Kenya has leveraged mobile money platforms such as M-Pesa to facilitate financial transactions within the informal sector, improving tax collection and financial accessibility. Similarly, Indonesia introduced targeted regulatory reforms that incentivized informal businesses to register and contribute to the national economy, leading to increased revenue generation (Bigsten, Kimuyu, & Lundvall, 2004) ^[6]. By implementing progressive policies such as simplified tax structures, digital financial inclusion, and targeted incentives for small businesses, Nigeria could unlock substantial revenue streams. Nigeria has set an ambitious goal of reaching a \$1 trillion economy within the next decade, a target that could be surpassed if the informal sector is effectively harnessed. Given its immense potential, the informal economy could serve as a catalyst for sustainable development, economic diversification, and increased government revenue, positioning Nigeria for accelerated

prosperity in the coming years.

Globally, an ideal economic structure is one where all sectors—formal and informal—are effectively integrated into national development strategies, contributing to sustainable economic growth, increased government revenue, and improved social welfare (Rezk, Piccinetti, Salem, Omoruyi, & Santoro, 2024)^[38]. In developed economies, governments have successfully implemented financial inclusion policies, simplified tax structures, and digital payment systems to incorporate informal businesses into the mainstream economy. Countries like India, Indonesia, and Kenya have demonstrated how strategic policy interventions can formalize the informal sector, leading to enhanced tax compliance, increased public revenue, and a broader economic base (Korwatanasakul, 2024) ^[23]. When properly integrated, the informal sector fosters entrepreneurship, creates jobs, and supports national economic diversification, ultimately contributing to higher GDP growth and economic resilience. However, in many developing nations, particularly in Nigeria, the informal sector remains largely untapped as a source of government revenue and economic expansion. Despite accounting for an estimated 57.7% of Nigeria's GDP and employing over 80% of the workforce, the informal sector operates with minimal regulation, limited access to finance, and little to no tax contribution. The absence of a structured framework for integrating informal businesses into the formal economy has led to widespread revenue losses, reduced financial inclusion, and persistent economic inefficiencies. Unlike countries that have successfully reaped the benefits of incorporating the informal sector, Nigeria has struggled with policy inconsistency, weak enforcement mechanisms, and inadequate digital infrastructure to support financial transactions within this sector. If this challenge remains unaddressed, Nigeria risks continued fiscal instability, widening income inequality, and stunted economic growth. The lack of integration means the government will continue to lose billions in potential tax revenue, which could

otherwise be invested in critical sectors such as infrastructure, education, and healthcare (Kuyoro & Olanrewaju, 2020) ^[24]. Additionally, informal businesses will remain vulnerable to economic shocks, with limited access to financial support and social protection. Without targeted interventions, Nigeria may struggle to achieve its economic diversification and revenue growth objectives, jeopardizing its ambitious goal of reaching a \$1 trillion economy within the next decade. Addressing this problem is crucial to ensuring sustainable economic growth, increased government revenue, and enhanced financial security for millions of Nigerians operating in the informal sector. This review aims to critically examine the role of Nigeria's informal sector in driving revenue generation and sustainable economic growth.

2. Methodology

Although this study is presented as a literature review, it follows a structured review protocol to ensure transparency, rigor, and verifiability. A combination of keywords and Boolean operators was applied. The review drew evidence from reputable academic and policy databases, including Scopus, Web of Science, JSTOR, Google Scholar, ResearchGate, and SSRN. In addition, key institutional and policy sources were consulted such as the World Bank, IMF, African Development Bank, National Bureau of Statistics (Nigeria), and relevant federal ministry publications. Reputable think-tank reports and high-quality grey literature were also considered. The search focused primarily on publications between 2009 and 2025, reflecting contemporary developments in informal sector dynamics, taxation, financial inclusion, and economic policy in Nigeria and comparable developing economies.

3. Literature Review

The Nigerian economy, like many developing economies, is characterized by a significant informal sector that plays a crucial role in employment generation, entrepreneurship development, and overall economic activities. Despite the informal sector's contribution to economic growth, it remains largely untapped in terms of government revenue generation, taxation, and financial inclusion (Benjamin, Beegle, Recanatini, & Santini, 2014; Dolan & Roll, 2013; Gerxhani, 2004) ^{[5][12][14]}. Many countries have successfully leveraged their informal economies to boost national revenue, improve financial inclusion, and create sustainable economic growth. Nigeria has the potential to achieve similar success by adopting best practices and implementing effective policies that facilitate the transition of informal businesses into the formal sector.

3.1. The Informal Sector

The informal sector consists of economic activities that are not regulated by the government, lack formal recognition, and often operate outside tax and labor laws (Bonnet, Vanek, & Chen, 2019) ^[7]. According to the International Labour Organization (ILO), the informal economy includes self-employed individuals, micro and small enterprises, unregistered businesses, and workers who are not covered by formal employment arrangements (Meagher, 2013; Comminos, Esselaar, Ndiwalana, & Stork, 2009) ^{[10][27]}. The informal sector in Nigeria encompasses a wide range of activities, including street vending, artisan and craftwork, small-scale manufacturing, agriculture, transportation, and domestic work. Over the years, the informal economy in

Nigeria has expanded significantly due to factors such as high unemployment rates, bureaucratic bottlenecks in business registration, limited access to finance, and the ease of entry into informal trade (Omowole, Olufemi-Phillips, Ofodile, Eyo-Udo, & Ewim, 2024). Nigeria's informal economy plays a crucial role in employment creation and economic activity, driven largely by a youthful demographic, with 43% of business owners aged 25-34 and 51.6% starting businesses due to unemployment. Despite generating significant revenue—over 72.3% of businesses earning more than ₦1,000,000 monthly—profitability remains constrained, with 90% reporting earnings below ₦500,000. A major challenge is access to credit, as 70.7% rely on friends and family for loans, while only 12.2% secure financing from traditional banks, highlighting financial exclusion. Tax compliance is relatively high, with 89% of informal businesses paying levies ranging from ₦3,500 to ₦15,000 annually, yet these payments often remain outside formal tax structures, limiting their contribution to national revenue (Agwaibor, 2024) ^[1]. The sector is also witnessing a transition in financial transactions, with 80.2% of payments made via card transactions, though cash remains dominant at 52%. For many Nigerians, the informal sector is not only a means of survival but also a breeding ground for entrepreneurship, fostering innovation and self-reliance in the absence of formal employment opportunities (Kehinde, 2025) ^{[19][21]}. According to the National Bureau of Statistics (NBS), the informal sector contributes approximately 65% of Nigeria's GDP and employs over 80% of the country's workforce. This highlights the sector's immense role in economic sustenance and job creation. However, despite its size and contribution, the informal sector remains largely excluded from formal financial services and government taxation mechanisms.

Entrepreneurship thrives in the informal sector due to its relatively low barriers to entry (Tanyanyiwa, 2023) ^[44]. Unlike the formal economy, where stringent regulations, high taxation, and bureaucratic hurdles can impede business growth, the informal sector allows individuals to start businesses with minimal capital and regulatory requirements (Islam, 2024) ^[17]. This flexibility has enabled millions of Nigerians to create their own employment opportunities, contributing to economic dynamism. The informal sector in Nigeria has witnessed remarkable growth over the past decades (Chima, Babajide, Adegboye, Kehinde, & Fasheyitan, 2021). As formal employment opportunities have become increasingly scarce, more Nigerians have turned to self-employment and small-scale enterprises as a means of livelihood. The explosion of digital technology, mobile banking, and e-commerce has further expanded the scope of informal economic activities (Elgin, & Erturk, 2019) ^[13]. Many traders, artisans, and service providers now use mobile money platforms, online marketplaces, and social media to conduct their businesses. The potential of the informal sector in Nigeria is vast. With the right policies, the government can unlock billions of dollars in revenue through formalization, taxation, and financial inclusion. A World Bank report estimates that developing countries lose approximately \$1 trillion annually in uncollected taxes from the informal economy (Umar, Mukhtar, & Aziz, 2025) ^[46]. Nigeria, with its large informal sector, is missing out on a significant portion of this untapped revenue. By providing incentives for informal businesses to register, access credit, and comply with tax regulations, the government can significantly

increase its revenue base while fostering economic development.

3.2. Employment Generation and Entrepreneurship in the Informal Sector

One of the most crucial roles of the informal sector in Nigeria is employment creation. With a population exceeding 220 million people and an unemployment rate of 33.3% as of 2021, the formal sector has struggled to absorb the growing labor force. The informal sector, on the other hand, has served as a refuge for millions of Nigerians, providing them with income-generating opportunities and reducing the burden on the formal job market. The sector has also been instrumental in promoting entrepreneurship. Many successful businesses in Nigeria today started as informal enterprises before transitioning into formal, large-scale operations (Mustapha, Petersen, Jegede, Bortagaray, & Kruss, 2022) ^{[18][30]}. Notable examples include the Nollywood film industry, which began as a largely informal sector and has now grown into a multi-billion-dollar industry, contributing significantly to Nigeria's GDP. Similarly, the Lagos transport sector, initially dominated by informal operators, has witnessed some level of formalization through government interventions such as the Bus Rapid Transit (BRT) system, and the blue line rail. Beyond employment and entrepreneurship, the informal sector holds immense revenue potential for the Nigerian government. Currently, due to its largely unregulated nature, the sector operates outside the formal tax system, leading to significant revenue losses. The International Monetary Fund (IMF) estimates that Nigeria loses billions of dollars annually in potential tax revenue from the informal sector (Osei-Boateng & Ampratwum, 2011). By implementing policies aimed at integrating informal businesses into the formal economy, the government could unlock substantial financial resources to fund infrastructure, education, healthcare, and other critical sectors (Kehinde, 2025) ^{[19][21]}. However, despite its potential, the informal sector in Nigeria faces numerous challenges that hinder its integration into the formal economy. One major obstacle is the lack of financial inclusion (Odeyemi, 2023) ^[32]. Many informal businesses operate without access to formal banking services, making it difficult for them to secure loans or expand their operations. According to the World Bank, only about 40% of Nigerian adults have access to financial services, a situation that limits the growth of informal enterprises. Addressing this challenge requires strengthening financial inclusion policies, promoting mobile banking, and encouraging microfinance institutions to support small-scale entrepreneurs. Another significant challenge is the absence of regulatory frameworks that accommodate the informal sector's unique characteristics. Many small businesses avoid formalization due to complex registration processes, high compliance costs, and fears of over-taxation. A more inclusive regulatory approach, such as simplified business registration procedures and lower tax rates for small enterprises, could encourage informal businesses to transition into the formal economy. Rwanda's business reform initiatives serve as an example of how streamlined registration processes can boost formalization and economic growth. Infrastructure deficits also pose a major challenge to the integration of the informal sector. Poor road networks, unreliable electricity, and inadequate market spaces hinder productivity and increase operational costs for informal businesses (Mead & Morrisson, 1996) ^[26].

Addressing these infrastructural gaps is essential to creating an enabling environment for informal enterprises to thrive. Investments in transport systems, stable power supply, and designated trading zones could significantly enhance the efficiency and profitability of small-scale businesses. Furthermore, social protection measures for workers in the informal sector remain insufficient (Kehinde, Simon-Ilogho, Kehinde, & Kehinde, 2024) ^[20]. Unlike formal employees who benefit from pensions, health insurance, and other welfare programs, informal workers often lack job security and social safety nets. Establishing tailored social protection schemes for informal workers, such as contributory pension schemes and health insurance programs, would improve their economic stability and incentivize formalization.

3.3. Global Best Practices: How Other Countries Have Successfully Integrated the Informal Sector

The informal sector, despite its challenges, plays a crucial role in economies worldwide, contributing significantly to employment, GDP, and overall economic resilience. Many developing economies have successfully integrated informal businesses into the formal economy through strategic policy interventions. Countries such as India, Indonesia, Kenya, and South Africa offer valuable case studies that illustrate how Nigeria can leverage best practices to formalize its vast informal sector, enhance revenue generation, and foster sustainable economic growth.

India: Digital Financial Inclusion and Simplified Registration

India has successfully integrated a large portion of its informal sector through financial inclusion and simplified business registration. The introduction of the Jan Dhan Yojana (PMJDY) scheme in 2014 helped provide banking access to over 462 million previously unbanked individuals, significantly improving financial inclusion. Additionally, the implementation of the Goods and Services Tax (GST) streamlined taxation for small businesses, reducing bureaucratic red tape and encouraging compliance. The Unified Payments Interface (UPI) has further facilitated digital transactions, making it easier for informal businesses to engage in formal financial activities (Sherwani, Shaikh, Behal, & Siddiqui, 2024) ^[42]. The combination of these measures has boosted tax revenues, with GST collections exceeding ₹1.5 trillion (\$18 billion) per month in 2023. Nigeria can adopt similar digital payment solutions and simplify tax compliance to integrate its informal sector.

Indonesia: Leveraging Technology for MSME Growth

Indonesia has embraced digitalization and financial technology (fintech) to integrate its informal sector. The government partnered with fintech firms and e-commerce platforms like Tokopedia and Gojek to provide small businesses with financial tools, digital payment solutions, and low-cost loans. As a result, the country's Micro, Small, and Medium Enterprises (MSMEs), which make up 99% of all businesses and 60% of GDP, have been able to transition into the formal economy (Sengupta, Ilankoon, Kang, & Chong, 2022) ^[39]. The government also introduced e-Samsat, an online tax payment system, to facilitate easier tax compliance for small businesses. Nigeria can adopt similar fintech partnerships and digital tax platforms to ensure smoother integration of informal businesses.

Kenya: Mobile Money and Government Incentives

Kenya's informal sector accounts for over 80% of total employment, making it a critical economic pillar. The country has successfully integrated many informal businesses through mobile money platforms like M-Pesa, which allows small businesses to conduct cashless transactions, build credit histories, and access formal financial services. Additionally, the government introduced the Ajira Digital Program, which provides skills training and funding for informal entrepreneurs. As a result, Kenya has significantly improved its domestic revenue mobilization, reducing reliance on foreign aid (Simpasa, 2024) ^[41]. Nigeria can replicate Kenya's mobile money success by strengthening platforms like Paga and Opay while expanding financial literacy programs.

South Africa: Tax Incentives and Business Support Services

South Africa has focused on tax incentives and business support programs to encourage the formalization of its informal sector. The Turnover Tax system was introduced to

simplify taxation for small businesses with revenues below a certain threshold, significantly reducing compliance burdens. Additionally, the government provides free business development services, training, and grants to informal businesses willing to register formally (Majorano, DI, & Gorgerino, 2024) ^[25]. This has helped integrate a significant portion of the informal workforce into the mainstream economy. Nigeria can adopt a similar turnover-based taxation system to encourage voluntary compliance while providing business training and financial support

3.4. Contribution of the Informal Sector to the Economy in Selected Countries

The table below presents key statistics on the contribution of the informal sector to GDP, employment, tax revenue potential, and financial inclusion rates across selected countries, including Nigeria. These figures illustrate the economic significance of informal businesses and highlight how integrating them into the formal economy has benefited other nations

Table 1: Contribution of the informal sector to GDP

Country	Informal Sector contribution to GDP (%)	Employment in Informal Sector (%)	Estimated Tax Revenue Loss (USD Billion)	Financial Inclusion Rate (%)	Key Policy Measures for Integration
Nigeria	57.7%	80	\$15 billion	64%	Mobile money, tax incentives, microloans
India	50%	75	\$30 billion	80%	Aadhaar-linked banking, GST reforms
Indonesia	58%	83	\$10 billion	76%	Simplified taxation, MSME incentives
Kenya	35%	82	\$6 billion	85%	M-Pesa mobile banking, digital taxation
South Africa	18%	30	\$5 billion	89%	SME financing, turnover tax system

Table 1. highlights the significant role the informal sector plays in economic activities across various developing nations. Nigeria's informal sector contributes 57.7% of GDP and employs 80% of the workforce, demonstrating its dominance in the economy. However, the country loses an estimated \$15 billion annually in tax revenue due to the lack of formalization. Comparatively, India and Indonesia also have large informal economies, but they have implemented successful integration policies such as digital banking, microfinance schemes, and tax reforms (Harfadli, Ramadan, Rachman, & Matsumoto, 2024). India's Aadhaar-linked banking system has increased financial inclusion to 80%, while Indonesia's simplified tax regime for small businesses has enhanced compliance (Peter, 2021) ^[37]. Kenya provides a notable example of leveraging financial technology to integrate informal businesses, with M-Pesa playing a crucial role in financial inclusion (85%). This approach has helped Kenya reduce tax revenue losses and increase small business participation in the formal economy (Cama, Emara, & Trabelsi, 2024) ^[8]. On the other hand, South Africa has a more structured economy with only 18% informal sector contribution to GDP and 30% employment in the informal sector. This is due to its aggressive SME financing programs, structured taxation system, and business development initiatives (Williams, & Kedir 2019) ^[47]. Nigeria can learn from South Africa by adopting similar fiscal measures to encourage formalization

3.5. Strategies for Formalizing the Informal Sector in Nigeria

For Nigeria to successfully integrate its informal sector into the formal economy, a multi-pronged approach is required. The following strategies can facilitate this transition:

1. Simplifying Business Registration and Tax Processes

One major barrier preventing informal businesses from formalizing is the cumbersome registration and tax processes. The Corporate Affairs Commission (CAC) should streamline business registration by:

- Reducing registration fees and eliminating bureaucratic bottlenecks.
- Implementing an online one-stop-shop for business registration, tax registration, and licensing, similar to India's GST portal.
- Introducing a simplified tax system, such as a turnover tax for micro-enterprises, to encourage compliance without overburdening small businesses.

2. Strengthening Financial Inclusion Through Mobile Money and Digital Banking

Many informal businesses operate in cash, making financial tracking and taxation difficult. Expanding financial inclusion can be achieved by:

- Encouraging mobile money adoption through government incentives and partnerships with fintech

firms.

- Creating special business bank accounts with zero maintenance fees for micro-businesses.
- Launching a National Digital Wallet Program to help informal businesses access financial services.

3. Leveraging Technology and Fintech for Seamless Tax Collection

Countries like Indonesia and Kenya have demonstrated the effectiveness of technology in improving tax compliance. Nigeria can:

- Develop an e-tax platform integrated with mobile banking for seamless tax payments.
- Partner with fintech firms like Flutterwave and Paystack to create digital tax payment solutions tailored to MSMEs.
- Use AI-driven tax monitoring systems to detect businesses operating informally and encourage compliance.

4. Developing Policies to Incentivize Formalization

Providing incentives for informal businesses to transition into the formal economy can increase voluntary compliance. Key incentives include:

- Micro-loans and grants for registered small businesses.
- Business training and mentorship programs for informal entrepreneurs.
- Government-backed insurance and pension schemes for registered businesses to improve social security.
- Tax holidays for newly registered MSMEs to ease their transition into the formal economy.

5. Government Partnerships with the Private Sector to Support Small Businesses

Public-private partnerships (PPPs) can enhance efforts to integrate the informal sector. Strategies include:

- Collaborating with telecom firms to expand mobile money penetration.
- Engaging e-commerce platforms to onboard informal businesses into the formal financial system.
- Partnering with microfinance banks to provide tailored financial products for informal traders.

3.6. The Role of Monetary and Fiscal Policies in Informal Sector Integration

Monetary and fiscal policies play a critical role in shaping economic activities, including the integration of the informal sector into the formal economy. In Nigeria, where the informal sector contributes nearly 57.7% of GDP and employs over 80% of the workforce, tailored policies can encourage participation, improve revenue collection, and foster economic stability (Ajeniwani, Bangbowu, & Obasi, 2024) ^[2]. However, ineffective or poorly structured policies can push informal businesses further into the shadows, making integration efforts more difficult. Monetary policies, which influence money supply, interest rates, and inflation, have a profound impact on informal businesses. Many informal sector operators rely on cash transactions, lack access to formal banking, and depend on microloans for their daily operations (Mpofu & Sibindi, 2022) ^[29]. When inflation is high, purchasing power declines, making it harder for small businesses to sustain operations. In Nigeria, inflation stood at

28.92% in December 2023, causing increased costs of goods and services, which disproportionately affects informal traders (Soetan, & Mogaji, 2024) ^[43].

The Central Bank of Nigeria (CBN) has taken measures such as increasing the Monetary Policy Rate (MPR) to control inflation. However, higher interest rates make borrowing more expensive, limiting the ability of informal businesses to access capital. To support the informal sector, Nigeria can adopt pro-small business monetary policies such as:

- Lower interest rates for microfinance banks and cooperative societies to make credit more accessible.
- Expanding financial literacy programs to encourage informal business owners to utilize banking services.
- Strengthening mobile banking initiatives to enhance access to credit and savings platforms.

Kenya's M-Pesa model, which integrates mobile money into the banking sector, has enabled millions of informal traders to access credit and build financial records. Nigeria can enhance its own mobile banking systems, such as Opay, Paga, and PalmPay, to bring more informal businesses into the formal economy.

3.7. How Fiscal Policies Can Be Structured to Encourage Formalization

Fiscal policies, including taxation and government spending, are key to integrating the informal sector. Currently, Nigeria's tax-to-GDP ratio is only 6.3%, one of the lowest in the world, indicating massive untapped tax revenue (Kolade, Oyinlola, Ogunde, Ilo, & Ajala, 2024) ^[22]. Most informal businesses avoid taxation due to complicated processes, lack of trust in government institutions, and the fear of high tax burdens (Grimm, Grimm, Lay, & Van der Hoeven, 2011) ^[15]. To encourage formalization, the Nigerian government can implement progressive tax policies that make compliance easier and more beneficial for small businesses. Possible solutions include:

- Simplified tax structures, such as a turnover tax for businesses earning below ₦5 million (\$6,500) annually, similar to South Africa's Turnover Tax System.
- Tax holidays for newly registered informal businesses to incentivize formalization.
- Reduced business registration fees and one-stop digital platforms for registration and taxation.

Indonesia has successfully implemented a single tax filing system that integrates business registration with tax compliance. Nigeria can adopt a similar approach to streamline processes and encourage participation. Additionally, government-backed grants and subsidies for newly registered businesses can offset initial tax burdens, making formalization attractive.

3.8. The Importance of a Stable Foreign Exchange System for Informal Businesses

Foreign exchange (FX) volatility poses a significant challenge for informal businesses, particularly those engaged in cross-border trade. In 2023, Nigeria's naira depreciated by over 40% against the dollar, making imports more expensive and reducing profit margins for informal traders who rely on foreign goods (Akpuokwe, Chikwe, & Eneh, 2024) ^[3]. A stable FX system is essential to support informal businesses by:

- Ensuring predictable exchange rates to facilitate cross-border trade.
- Reducing dependence on the black market, where most informal traders source forex at high premiums.
- Expanding access to government-backed FX programs for small businesses, allowing them to obtain foreign currency at official rates.

South Africa's Foreign Exchange Control Policy has helped stabilize the rand, making trade easier for small businesses. Nigeria can implement a similar framework by enhancing access to FX for small-scale importers and exporters, ensuring they can operate within the formal financial system.

3.9. Potential for Nigeria to Reach a \$1 Trillion Economy Through Informal Sector Integration

Nigeria aims to reach a \$1 trillion economy over the next decade, and formalizing the informal sector is key to achieving this goal. The World Bank estimates that over 60% of Nigeria's workforce operates informally, yet much of this economic activity remains untaxed. If even half of the informal sector were integrated into the formal economy, Nigeria's GDP could grow by an additional \$200 billion per year (Aluko, Odewale, Taiwo, & Adefeso, 2024) ^[4]. Countries like India, Indonesia, and Kenya have demonstrated how financial inclusion, taxation reforms, and digital transformation can drive economic growth. Nigeria can replicate these strategies to:

- Increase tax revenues by widening the tax base.
- Boost employment and entrepreneurship by providing financial support and business incentives.
- Enhance economic stability by reducing reliance on volatile oil revenues.

3.10. Risks of Non-Integration: Revenue Loss, Increased Poverty, and Economic Stagnation

If Nigeria fails to integrate its informal sector, several risks could emerge:

- **Revenue Loss:** The government continues to lose billions in potential tax revenue, increasing reliance on borrowing and foreign aid.
- **Increased Poverty:** Informal workers lack social security, insurance, and access to credit, making them vulnerable to economic shocks.
- **Economic Stagnation:** Without formalization, informal businesses remain trapped in low productivity cycles, limiting Nigeria's economic growth potential.

According to the International Labour Organization (ILO), economies with large informal sectors tend to experience slower growth and weaker institutional development (Signé, 2020) ^[40]. Nigeria must prioritize integration efforts to avoid falling into this cycle.

3.11. The Role of Government, Financial Institutions, and Private Stakeholders

Successfully integrating Nigeria's informal sector requires a collaborative effort between the government, financial institutions, and private stakeholders.

- **Government:** The Nigerian government must implement pro-business policies, simplify regulations, and provide incentives for formalization.
- **Financial Institutions:** Banks and fintech companies

should develop tailored financial products to support informal entrepreneurs.

- **Private Sector:** Large corporations can partner with the government to provide training, digital tools, and microfinance solutions for small businesses.

Kenya's Ajira Digital Program, which offers digital skills training and access to financing for informal workers, is a model Nigeria can adopt to empower its informal workforce.

4. Conclusion

This review demonstrates that Nigeria's informal sector constitutes a critical component of national economic activity, contributing significantly to employment generation, livelihood sustenance, and local economic circulation, particularly among populations excluded from the formal labor market. Evidence from comparative economies indicates that when appropriately supported, the informal sector can transition from being merely a survivalist domain to a productive contributor to national revenue, formal financial participation, and inclusive development. Experiences from countries such as India, Kenya, South Africa, and Indonesia suggest that policy frameworks integrating financial inclusion, simplified taxation, institutional support mechanisms, and technology-enabled platforms can facilitate progressive formalization, enhance productivity, and strengthen state revenue capacity.

Findings from this review further indicate that Nigeria's current fiscal, regulatory, and institutional environment remains insufficiently aligned with the realities of informal economic actors. Weak access to credit, regulatory complexity, fragmented documentation systems, low trust in government institutions, and limited technological integration constrain the sector's potential contribution to sustainable economic growth. Strengthening institutional structures, reforming fiscal policy to reduce compliance barriers, expanding financial access through digital platforms, and improving social protection mechanisms emerge as practical pathways toward unlocking value in the sector. These measures are not solely revenue-driven; they are essential for improving enterprise stability, enhancing labor conditions, and broadening the economic base required for long-term development.

However, the synthesis also highlights notable limitations. Much of the existing literature remains uneven, with varying methodological rigor and limited longitudinal evidence tracking the outcomes of formalization initiatives in comparable contexts. Data constraints persist, particularly regarding accurate measurement of informal activities and sector segmentation within Nigeria. Furthermore, the review is bounded by its time frame and reliance on predominantly English-language and accessible digital publications, which may exclude relevant local or unpublished sources. Future research would benefit from more empirical, context-specific studies, including sectoral disaggregation, evaluation of policy interventions over time, and deeper exploration of regional variations within Nigeria.

Overall, the evidence suggests that leveraging the informal sector for revenue generation and sustainable growth requires a balanced approach that simultaneously addresses regulation, institutional trust, financial inclusion, and enterprise development. A coordinated framework that recognizes the informal sector as a strategic economic partner—rather than a marginal or peripheral entity—

remains essential for Nigeria's economic transformation ambitions.

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