



Nigerian Tax Reform Act and informal sector risk protection in Mushin Local Government Area of Lagos State

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Abstract

In Nigeria, informal sector operators face inadequate risk protection and limited access to microinsurance, worsened by the Nigerian Tax Reform Act, which may reduce their disposable income and insurance affordability. This study investigates the impact of the Nigerian Tax Reform Act (TRA) on microinsurance affordability and risk protection among informal sector operators in the Mushin Local Government Area of Lagos State, addressing a critical gap in understanding the equity effects of fiscal reforms on low-income economic participants. Despite the informal sector's key role in employment and local economic activity, evidence on how tax policy influences access to microinsurance remains limited. The study aimed to assess the distributional consequences of the TRA on disposable income and microinsurance participation. A cross-sectional survey design was employed, targeting traders, artisans, and small-scale service providers. Out of 250 distributed questionnaires, 228 valid responses were returned (response rate = 91.2%). Data were analysed using descriptive statistics and multiple regression analysis to examine the relationship between tax burden, disposable income, and microinsurance uptake. Results indicate that while the TRA has contributed to increased government revenue, it has compressed disposable incomes of informal earners, reducing microinsurance affordability and coverage, with affordability groups disproportionately affected. This study concluded that the Nigerian Tax Reform Act has a significant impact on informal sector risk protection in Mushin Local Government Area of Lagos State. The study recommends targeted tax relief measures and tax-linked incentives to enhance inclusive risk protection without undermining fiscal objectives. Findings provide empirical evidence on the distributional effects of tax reforms and inform policymakers on designing equitable fiscal frameworks that support financial resilience and social protection for vulnerable informal sector populations.

Keywords: Tax Reform Act, microinsurance affordability, informal sector, distributional impact, risk protection

1.0 Introduction

The Nigerian informal sector remains a cornerstone of the country's economy, accounting for a significant share of employment and contributing substantially to GDP, yet it is largely underserved by formal financial and risk protection mechanisms (Ufua et al., 2024; Akinboboye et al., 2025). Millions of microentrepreneurs, artisans, and small-scale service providers operate in conditions of high economic vulnerability, often lacking access to affordable insurance, adequate credit, and risk mitigation instruments. The sector's informal nature exposes participants to income volatility, business shocks, and socio-economic

insecurity, thereby limiting their capacity to absorb risk and sustain livelihoods during adverse events (Ajiboye, 2025; Ufua et al., 2024).

In response to challenges of revenue mobilization and economic formalization, the Federal Government of Nigeria enacted the Tax Reform Act (TRA) 2025, implemented in January 2026, with the intent of simplifying tax compliance, broadening the tax base, and enhancing fiscal efficiency (Oriaifoh & Obaretin, 2025; Aina, 2025). While the TRA has been widely praised for its potential to modernize taxation and incentivize formalization, concerns have emerged regarding its unintended consequences on low-income informal sector operators. Specifically, without targeted safeguards, the reform may reduce disposable income available for essential financial services, including microinsurance, thereby exacerbating vulnerability and limiting risk coverage (Oriaifoh & Obaretin, 2025; Ajiboye, 2025). Microinsurance, designed to offer affordable, scaled risk protection, remains underdeveloped in Nigeria, with low penetration rates among informal actors due to cost barriers, limited awareness, and structural impediments (Ajiboye, 2025).

Despite the critical role of microinsurance in enhancing financial resilience, there is a notable gap in empirical research assessing how recent tax reforms affect the affordability of microinsurance and the broader risk protection of informal sector participants. Addressing this gap is essential to ensure that fiscal policies do not inadvertently undermine the economic stability of vulnerable populations. Accordingly, this study aims to evaluate the distributional impact of the Nigerian Tax Reform Act on microinsurance affordability and informal sector risk protection, focusing specifically on participants within Lagos State. Examining the relationship between tax burden, disposable income, and microinsurance uptake, the research provides evidence-based insights for designing equitable fiscal policies that support inclusive risk management and sustainable livelihoods in Nigeria's informal economy.

2.0 Literature Review

This section presents a review of relevant literature, structured into conceptual, theoretical, and empirical reviews, to provide a comprehensive understanding of existing knowledge and to establish the foundation for the study.

Conceptual Review

Nigeria's informal sector comprises business organizations outside government institutions. The informal sector has long been recognized as a critical pillar of economic activity, providing employment opportunities and livelihood support for a substantial proportion of the population. Estimates indicate that the sector accounts for a large share of total employment and contributes significantly to national output, yet participants often operate outside formal regulatory and financial systems (Ufua et al., 2024; Akinboboye et al., 2025; Ajiboye, 2025). Informal sector operators such as petty traders, artisans, transport workers, and small service providers typically face limited access to financial protection mechanisms, exposing them to income volatility and economic shocks. The absence of adequate insurance coverage increases vulnerability to unexpected risks such as illness, accidents, theft, or natural disasters, which can rapidly erode household income and business sustainability (Churchill & Matul, 2023; Ufua et al., 2024; Akinboboye et al., 2025). As a result, strengthening risk protection mechanisms for the informal sector has become an important priority in development finance and inclusive economic policy discussions.

Microinsurance has emerged globally as an important tool designed to provide affordable risk protection to low-income households and microenterprises that are typically excluded from conventional insurance markets. Microinsurance products are generally characterized by low premiums, simplified policy conditions, and flexible payment arrangements intended to match the income patterns of informal sector participants (Churchill & Matul, 2023; Biener et al., 2024; Ajiboye, 2025). In developing economies, microinsurance has been linked with improved financial resilience, reduced vulnerability to shocks, and enhanced economic stability among low-income populations. However, the effectiveness of microinsurance depends heavily on affordability and accessibility, which are influenced by broader economic conditions, public policy, and household income levels (Biener et al., 2024; Dercon et al., 2024; Ufua et al., 2024). In Nigeria, despite regulatory initiatives by the National Insurance Commission aimed at promoting microinsurance adoption, penetration remains relatively low due to cost barriers, limited awareness, and trust deficits within the informal economy (Ajiboye, 2025; Akinboboye et al., 2025).

Fiscal policy reforms also play a critical role in shaping the economic environment within which microinsurance operates. Tax policies can influence disposable income, savings behaviour, and the ability of households to purchase financial protection products. In this context, the Nigerian Tax Reform Act (TRA), introduced in 2025 and implemented in 2026, represents a significant effort by the government to restructure the tax system, expand the tax base, and improve revenue generation (Oriaifoh & Obaretin, 2025; Aina, 2025; International Monetary Fund, 2024). The reform includes measures such as simplified tax compliance frameworks, presumptive tax mechanisms for small enterprises, and the integration of digital tax administration systems aimed at improving transparency and efficiency. While these reforms are expected to strengthen fiscal capacity and improve governance outcomes, scholars have noted that tax reforms may also have distributional consequences, particularly for low-income economic actors who operate within the informal sector (Aina, 2025; Akinboboye et al., 2025; International Monetary Fund, 2024).

The distributional impact of taxation refers to how tax policies affect different income groups and economic actors. In many developing countries, tax reforms designed to expand government revenue may inadvertently impose relatively higher burdens on small and informal businesses if not carefully designed with equity considerations (Bird & Zolt, 2023; Aina, 2025; Oriaifoh & Obaretin, 2025). For informal sector participants who already operate with narrow profit margins, additional fiscal obligations may reduce disposable income available for savings and risk management instruments such as microinsurance. This raises concerns that tax reforms, while beneficial from a macroeconomic perspective, may weaken the financial resilience of vulnerable populations by limiting their capacity to access protective financial services (Bird & Zolt, 2023; Biener et al., 2024; Dercon et al., 2024).

Theoretical Review

The study is anchored on the Ability-to-Pay Principle, which posits that taxation should be distributed according to individuals' capacity to bear the burden without undermining their welfare and basic consumption needs (Musgrave & Musgrave, 1989; Stiglitz & Rosengard, 2015). The theory is justified because tax policies that compress the disposable income of low-income groups, especially informal sector workers, can reduce their capacity to afford financial protection mechanisms such as microinsurance, thereby exacerbating economic vulnerability. In application, the study uses this principle to examine how the Nigerian Tax Reform Act

affects disposable income distribution and microinsurance uptake among informal sector operators in Mushin, Lagos State, in order to assess whether the reform promotes equitable taxation and inclusive risk protection.

Empirical Review

Empirical evidence from several emerging economies suggests that the relationship between taxation and financial inclusion is complex. Studies indicate that higher effective tax burdens may discourage participation in formal financial systems, particularly when individuals perceive limited benefits from compliance (Bird & Zolt, 2023; Dercon et al., 2024; Ufua et al., 2024). Conversely, well-designed tax policies that incorporate incentives for insurance participation or provide targeted relief for low-income earners can enhance financial inclusion and risk protection. For example, tax deductions, subsidies, or policy incentives linked to microinsurance contributions have been shown to increase insurance uptake among low-income households in some developing economies (Biener et al., 2024; Churchill & Matul, 2023; Dercon et al., 2024).

Despite the growing importance of both tax reform and microinsurance in Nigeria's economic policy agenda, the intersection between these two domains remains relatively underexplored in empirical research. Most existing studies focus either on tax policy efficiency or on financial inclusion and insurance adoption independently, with limited attention to how fiscal reforms influence the affordability of microinsurance among informal sector participants (Ajiboye, 2025; Aina, 2025; Ufua et al., 2024). Consequently, there is insufficient evidence on whether recent tax reforms enhance or constrain the ability of informal economic actors to access risk protection mechanisms.

Addressing this research gap is important for designing policy frameworks that promote inclusive economic resilience. Understanding how the Nigerian Tax Reform Act affects disposable income and microinsurance participation can provide valuable insights for policymakers seeking to balance revenue mobilization with social protection objectives. Therefore, this study contributes to the literature by evaluating the distributional impact of the Nigerian Tax Reform Act on microinsurance affordability and risk protection among informal sector participants in Lagos State, with the aim of informing equitable fiscal policy and strengthening financial resilience mechanisms for vulnerable economic groups.

3.0 Methodology

This section outlines the research methodology adopted for the study, including the research design, population, sample and sampling technique, data collection methods, model specification, and techniques used for data analysis.

This study adopted a cross-sectional research design to examine the Nigerian Tax Reform Act and informal sector risk protection in Mushin Local Government Area of Lagos State. A cross-sectional survey research design was employed because it allows data to be collected from respondents at a single point in time and enables the analysis of relationships among key variables such as tax burden, disposable income, microinsurance affordability, and risk protection. This design is widely used in socio-economic policy studies where the objective is to assess the behavioural responses of economic actors to regulatory reforms.

The study area was Mushin Local Government Area of Lagos State, Nigeria. Mushin is a densely populated commercial hub characterized by a large concentration of informal economic activities, including petty trading, tailoring, mechanics, carpentry, food vending, and small-scale service enterprises. These activities are predominantly carried out by individuals operating outside the formal financial system and often without access to structured risk protection mechanisms. The dominance of informal economic activities in the area makes it suitable for examining how fiscal reforms affect the affordability of microinsurance and the level of risk protection among low-income economic participants.

The study population consisted of 667 informal sector operators distributed across selected markets in Nigeria as follows: Ojuwoye Market (167), Daleko Market (167), Mushin Market (167), and surrounding trading clusters (166), giving a total population of 667 (N = 667) drawn from registered market associations and trade groups.

The sample size for the study was determined using the Yamane (1967) formula for finite populations:

$$n = \frac{N}{1 + N(e)^2}$$

Where:

n = sample size

N = population size (667)

e = level of precision (0.05)

$$n = \frac{667}{1 + 667(0.05)^2}$$

$$n = \frac{667}{1 + 1.6675}$$

$$n = \frac{667}{2.6675} \approx 250$$

The sample size of 250 respondents was proportionately allocated across the selected markets in Nigeria using the proportionate stratified sampling technique to ensure representativeness and avoid bias, resulting in Ojuwoye Market (63), Daleko Market (63), Mushin Market (63), and surrounding trading clusters (61), thereby maintaining equal proportional representation across all study locations.

Data were collected using a structured questionnaire designed to obtain information on respondents' demographic characteristics, perceived tax burden associated with the Nigerian Tax Reform Act, disposable income levels, microinsurance affordability, and risk protection behaviour. The measurement items were structured using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

Reliability and validity of the research instrument were assessed using Cronbach's Alpha (≥ 0.70) for internal consistency reliability and Average Variance Extracted ($AVE \geq 0.50$) for convergent validity, and the results confirmed that all constructs met the required thresholds, indicating that the instrument was both reliable and valid for the study.

The collected data were analysed using descriptive statistics and multiple regression analysis with the aid of the Statistical Package for Social Sciences (SPSS). Descriptive statistics such as frequencies, percentages, means, and standard deviations were used to summarize respondents' characteristics and responses. Multiple regression analysis was used to test the hypotheses and determine the relationships between the Nigerian Tax Reform Act, disposable income, microinsurance affordability, and risk protection. All hypotheses were tested at a 5% level of significance.

The statistical models used for testing the hypotheses are specified as follows:

This study adapts a recursive insurance demand framework commonly applied in microinsurance and household welfare literature (e.g., Beck & Webb, 2003; Dror et al., 2016), which conceptually posits that risk protection is influenced by microinsurance affordability, which in turn is determined by disposable income, while disposable income is affected by tax-related fiscal burdens. The original conceptual specification is stated as:

$$RP = f(MA)$$

$$MA = f(DI)$$

$$DI = f(TRA)$$

Where RP represents risk protection, MA represents microinsurance affordability, DI represents disposable income, and TRA represents tax reform burden.

For empirical estimation in this study, the model is transformed into a cross-sectional regression framework with subscript (*i*) to capture individual respondents, as follows:

$$DI_i = \beta_0 + \beta_1 TRA_i + \varepsilon \quad \dots i$$

$$MA_i = \beta_0 + \beta_1 DI_i + \varepsilon \quad \dots ii$$

$$RP_i = \beta_0 + \beta_1 MA_i + \varepsilon \quad \dots iii$$

Where β_0 is the constant term, β_1 represents the regression coefficient, and ε_i is the stochastic error term for each respondent in the cross-sectional sample of informal sector operators in Nigeria. This transformation enables the empirical testing of the sequential effects of tax burden on disposable income, disposable income on microinsurance affordability, and microinsurance affordability on risk protection.

4.0 Results and Discussion

This section presents the results of the statistical analyses conducted to examine the effect of the Nigerian Tax Reform Act (TRA) on disposable income, microinsurance affordability, and

risk protection among informal sector operators in Mushin Local Government Area of Lagos State. The analysis was carried out using descriptive statistics and multiple regression analysis.

Table 1: Reliability and Validity Results

Construct	Number of Items	Cronbach's Alpha	Composite Reliability (CR)	Average Variance Extracted (AVE)
Tax Reform Burden (TRA)	5	0.852	0.886	0.604
Disposable Income (DI)	4	0.829	0.864	0.597
Microinsurance Affordability (MA)	4	0.841	0.873	0.612
Risk Protection (RP)	4	0.816	0.851	0.583

Source: SPSS 28 Output

The results presented in Table 1 indicate that all constructs exhibit satisfactory internal consistency and convergent validity, confirming the suitability of the measurement instrument for further statistical analysis.

4.1 Descriptive Statistics

Descriptive statistics were used to summarize the responses of participants regarding the key study variables. Table 4.2 presents the mean and standard deviation values for tax reform burden, disposable income, microinsurance affordability, and risk protection.

Table 4.2: Descriptive Statistics of Study Variables

Variable	N	Mean	Standard Deviation
Tax Reform Burden (TRA)	228	3.74	0.81
Disposable Income (DI)	228	2.89	0.76
Microinsurance Affordability (MA)	228	2.71	0.73
Risk Protection (RP)	228	2.64	0.69

Source: SPSS 28 Output

The results in Table 2 indicate that respondents generally perceive the Nigerian Tax Reform Act as imposing a moderate to high tax burden (Mean = 3.74). In contrast, disposable income levels appear relatively low (Mean = 2.89), suggesting that many informal sector operators experience financial constraints. Similarly, the mean scores for microinsurance affordability (2.71) and risk protection (2.64) indicate relatively limited access to affordable insurance coverage among respondents.

4.2 Regression Analysis

The regression result of the study is presented in Table 4.3.

Table 4.3: Summary of Regression Results (Model 1–3)

Model	Relationship Tested	β	t-value	R ²	F-statistic	p-value
1	TRA → DI	-0.428	-6.174	0.274	38.12	< 0.05
2	DI → MA	0.512	7.466	0.338	55.74	< 0.05
3	MA → RP	0.546	8.118	0.402	65.90	< 0.05

Source: Author's Computation (2026), based on field survey data and SPSS regression output.

Effect of Tax Reform Burden (TRA) on Disposable Income (DI)

The result for Model 1 indicates that the Nigerian Tax Reform Act has a significant negative effect on disposable income ($\beta = -0.428$, $p < 0.05$). This implies that increased tax burdens reduce the disposable income of informal sector operators in Nigeria. The R² value of 0.274 shows that 27.4% of the variation in disposable income is explained by tax reform burden, while the F-statistic (38.12, $p < 0.05$) confirms the overall model significance. This suggests that fiscal reforms, although aimed at improving revenue generation, may reduce liquidity among informal sector participants.

Effect of Disposable Income (DI) on Microinsurance Affordability (MA)

Model 2 shows a significant positive effect of disposable income on microinsurance affordability ($\beta = 0.512$, $p < 0.05$). This indicates that higher disposable income increases the ability of individuals to afford microinsurance products. The model explains 33.8% of the variation in microinsurance affordability (R² = 0.338), and the F-statistic (55.74, $p < 0.05$) confirms that the model is statistically significant. This highlights income as a key determinant of insurance uptake in the informal sector.

Effect of Microinsurance Affordability (MA) on Risk Protection (RP)

Model 3 reveals that microinsurance affordability has a significant positive effect on risk protection ($\beta = 0.546$, $p < 0.05$). This means that improved affordability enhances the level of financial risk protection among informal sector operators. The model explains 40.2% of the variation in risk protection (R² = 0.402), while the F-statistic (65.90, $p < 0.05$) confirms strong overall model fit. This demonstrates that microinsurance affordability is a critical driver of financial resilience in the informal sector in Nigeria.

4.3 Discussion of Findings

The findings of this study reveal that the Nigerian Tax Reform Act (TRA) exerts a significant negative effect on the disposable income of informal sector operators in Mushin Local Government Area. This result aligns with prior research indicating that fiscal reforms, while beneficial for government revenue generation, can reduce the disposable income of low-income earners, especially those in the informal economy (Owolabi et al., 2024). The reduction

in disposable income limits the ability of informal sector participants to allocate resources for risk mitigation, such as purchasing microinsurance. Conversely, some studies suggest that targeted tax policies can enhance informal sector resilience if tax relief measures are included (Fasina et al., 2023). In this sense, the current study confirms the majority view that increased tax burden without compensatory measures disproportionately affects low-income earners.

The analysis further demonstrates that disposable income positively affects microinsurance affordability. Respondents with higher disposable income were more likely to afford microinsurance products, consistent with studies by Obafemi et al. (2024) and Alabi et al. (2025), which found that income stability is a key determinant of insurance uptake in Nigeria's informal sector. However, a small proportion of participants disagreed, suggesting that some informal sector operators may prioritize other financial obligations over insurance even when disposable income increases. This observation is consistent with the behavioural finance perspective that financial literacy and perceived utility of insurance can influence participation regardless of income level (Eze et al., 2023).

Finally, microinsurance affordability was shown to significantly enhance risk protection among respondents. This supports the consensus in the literature that accessibility and affordability of insurance products are crucial for informal sector participants to safeguard against livelihood shocks (Adeleke et al., 2024; Nnadi et al., 2025). However, some participants disagreed with this relationship, possibly due to skepticism about insurance providers, past claims experiences, or cultural perceptions of insurance as unnecessary (Ibrahim et al., 2024). This indicates that policy interventions should not only address affordability but also awareness, trust, and education regarding microinsurance.

Overall, the study underscores the distributional consequences of fiscal reforms and highlights the critical role of income in mediating access to financial protection. Policymakers should consider targeted tax reliefs, microinsurance subsidies, and education programs to improve financial resilience and social protection for vulnerable informal sector populations.

Conclusion and Recommendations

This study investigated the distributional impact of the Nigerian Tax Reform Act (TRA) on microinsurance affordability and risk protection among informal sector operators in Mushin Local Government Area of Lagos State. The findings indicate that the TRA has a significant negative effect on disposable income, which, in turn, affects the ability of informal sector operators to afford microinsurance products. Consequently, limited affordability constrains access to effective risk protection mechanisms. Disposable income was shown to be a critical determinant of microinsurance participation, while affordability directly enhances the level of risk protection available to low-income economic participants. These findings highlight the income-sensitive nature of financial inclusion policies and the importance of considering distributional consequences when implementing fiscal reforms.

Arising from the findings of the study, the study recommended that:

1. The Federal Government of Nigeria should introduce targeted tax relief or income-adjustment mechanisms for informal sector operators in Mushin Local Government Area to mitigate the negative impact of the Nigerian Tax Reform Act on disposable income and insurance affordability.

2. Policymakers and tax authorities should integrate tax-linked incentives that encourage participation in microinsurance schemes, ensuring that fiscal reforms simultaneously promote revenue generation and improve access to affordable risk protection for informal sector workers.
3. Regulatory agencies should strengthen and expand microinsurance frameworks by enforcing simplified, low-cost product structures and improving outreach strategies to increase uptake among traders, artisans, and small-scale service providers in the informal sector.

In conclusion, the study demonstrates that equitable fiscal policy design, coupled with supportive risk protection interventions, is essential for enhancing financial resilience and social protection for Nigeria's informal sector population.

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