

A Review of the
Nigerian MSME
Policy Environment

FACT SHEET

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FATE Foundation's Policy Dialogue Series on Entrepreneurship

Our Annual Policy Dialogue Series on Entrepreneurship is geared towards initiating conversations around current micro-, small and medium enterprises (MSME) policies and programmes; proffering research-based solutions and recommendations; and advocating for policy reviews that will lead to the development of a conducive business environment for MSMEs in Nigeria.

The theme for the Inaugural Policy Dialogue scheduled for the 3rd of December, 2015 is “Enabling SMEs for Growth: **How to Ensure SMEs Thrive Despite Economic Headwinds**” and it will focus on:

- The impact of the current economic environment on MSME growth and development in Nigeria.
- Current policies that enhance or impede the growth of the

MSME sector and how these can be reviewed to ensure sustainable MSME growth in the mid to long term.

The Report – A Review of the MSME Policy Environment

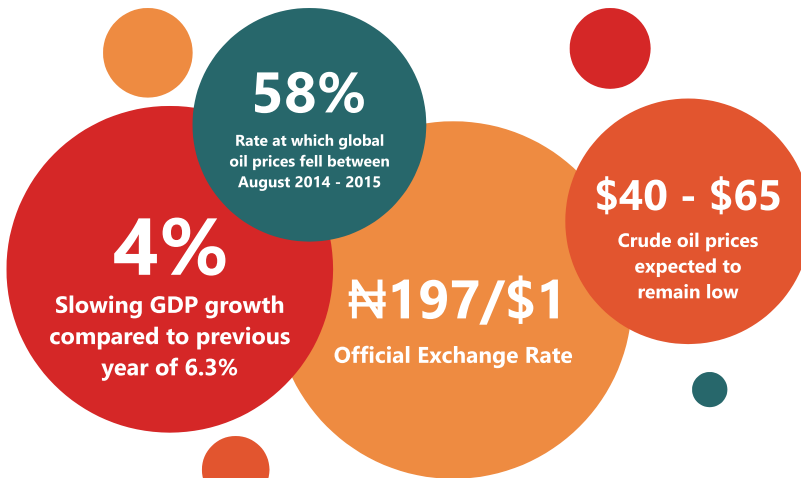
To provide empirical background and factual context for the **Inaugural Policy Dialogue Series on Entrepreneurship**, FATE Foundation commissioned Augusto & Co to produce a research report. The launch of the report, A Review of the Nigerian MSME Policy Environment, is a key part of the proceedings of this Policy Dialogue.

The report reviews key MSME policies and interventions, provides relevant data on their implementation, discusses the impact of the policies and interventions, alongside detailed policy recommendations. A copy of the complete report is available at www.fatefoundation.com

The key themes and highlights from the MSME Policy report are provided in the pages that follow.

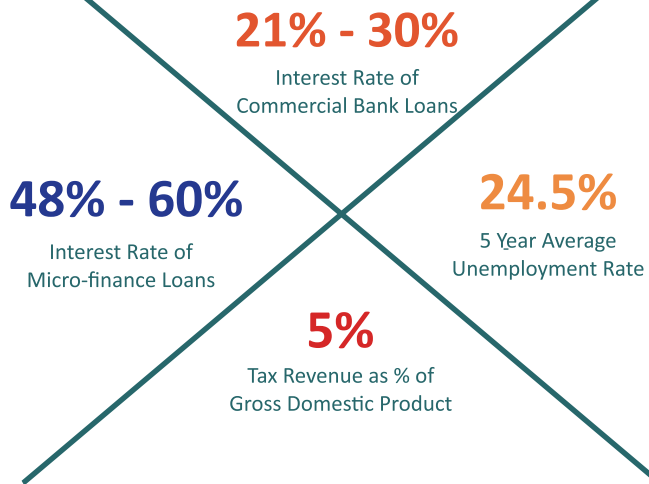
Key Highlights

Overview of the current macroeconomic environment



Potential impact on MSMEs

- Susceptibility to the depreciating value of the Naira
- Products and services may be priced at higher margins in order to cover the high cost of finance
- Expensive loans increase the risks of default and severely limit the growth of MSMEs
- Potential threats to MSME profit margins and overall sustainability
- Need to increase revenue may drive increased taxation for MSMEs



Bold economic reforms will be required to foster growth in the face of the macroeconomic headwinds that MSMEs will have to struggle against to make progress.

The Revised MSME Policy

The emphasis of the revised May 2015 MSME policy is the creation of flourishing MSMEs that will spread the benefits of economic growth more evenly.

Factors that may limit the Impact of the Revised MSME Policy



Limited MSME Awareness of the Policy



Limited appreciation of Entrepreneurship Education



Absence of Technology to Drive Innovation



Falling standards of education leading to entrepreneurs with limited literacy and numeracy skills



Key Policy Recommendations

- ☒ Map the MSME Sector ecosystem to provide a holistic view as the basis for the development of policies and programmes
- ☒ Develop a suitable taxation environment to encourage MSME inclusion
- ☒ Review legal set up and on-going compliance obligations for MSMEs
- ☒ Review the cost of licensing and business premises charges
- ☒ Promote the development finance model to increase financial inclusion by improving access to finance
- ☒ Encourage more inclusion and participation of MSMEs in the policy making process



#1. How does the current macroeconomic backdrop impact MSMEs?

Between June 2014 and August 2015, global oil prices fell by an estimated 58%. This has had a deleterious impact on Government revenue, making it imperative to increase revenue from other sources.

If that imperative becomes translated into an aggressive drive for tax collection, the business climate would become more difficult for MSMEs and some may adopt more informal practices to avoid paying taxes. Also, some of the informal MSMEs will see such a tax regime as a disincentive to formalise their operations.

China's weakened demand for commodities, the United States' contracting monetary policy and Europe's fragile recovery dampen growth prospects for the national economy. These conditions will inform fiscal, monetary, exchange rate and trade policies, which all have direct consequences on the

operations of MSMEs and the perennial national challenge of unemployment.

Fiscal Policy

The new administration has ambitious infrastructure and welfare plans. However, crude oil prices are expected to remain low, in the \$40–\$65 range.

Dwindling revenues accruing from crude oil imply that the new administration would need to seek alternate revenue sources to fund its ambitious infrastructure and welfare plans.

This has led to speculations on tax increases and possible fuel subsidy removal. Only 125,000 companies, representing 27.7% of an estimated 450,000 firms operating in Nigeria, pay any form of tax. Nigeria's tax revenue represents a mere 5% of the Country's GDP (2014).

In response to its revenue position, Government may choose to push through initiatives with the dual aim of plugging leakages and increasing tax revenue. The Federal Inland Revenue Service (FIRS) plans a comprehensive tax audit to identify the 325,000 firms who pay no taxes. A lot of these firms are MSMEs with relatively small businesses and earnings.

In line with its welfare focus, it is unlikely the fuel subsidy will be completely removed in the short term. However, there are planned increases in electricity tariffs. Overall, MSMEs may witness rising energy costs.

Although, the structure of Government expenditure has remained skewed towards recurrent expenditure, it is reasonable to expect a marginal rise of about ₦300 billion in capital expenditure and a slight decline in recurrent expenditure to an estimated ₦2.35 trillion in 2016.

Exchange Rate Policy

The dip in oil prices and the subsequent pressure mounted on the local currency led, in November 2014, to a lowering the official values of the Naira against the dollar from ₦155/\$1 to ₦168/\$1.

Devaluation became inevitable due to the incessant decline in oil revenues. The Central Bank of Nigeria (CBN) also ended its managed float exchange-rate regime and closed down the Dutch Auction System window.

The CBN has put a foreign exchange access restriction on 41 items including rice. The import prohibition, presented as a measure for controlling the depreciating Naira, has contributed to increased dollar demand in the parallel market. The exchange rate in the parallel market remains between ₦220/\$1 and ₦230/\$1, compared to ₦197/\$1 on the official market as at October 2015.

MSMEs in manufacturing, food and beverages, retail, beauty and cosmetics, automobiles, Information Technology (hardware), and trade have been adversely affected by the import prohibition policy and are most susceptible to the depreciating value of the Naira, with serious threats posed to their profit margins and overall sustainability.

Monetary Policy

Despite the continued calls to further devalue the Naira, the CBN has continued its monetary policy stance, by maintaining the monetary policy rate (MPR) at 13% through 2015, with a recent reduction to 11% at the end of November. In addition, the apex bank reduced the cash-reserve ratio from 31% to 25% in September 2015 (also reduced to 20% at the end of November) to ease liquidity within the banking system.

Due to currency depreciation, import restrictions, insecurity in the North East, flooding in the North West (affecting 635,000 hectares of food and cash crop plantations including rice paddies) inflation will rise to between 11% and 12.5%.

With the country largely dependent on the economic activities of MSMEs, the rising inflation rate will have a negative impact on MSMEs, as many would be unable to pass on these rising prices to consumers, leading to lower margins, and possible increase in business failure rates.

Unemployment

Nigeria's unemployment rate, with a five-year average of 24.5%, is chronically high. This is partly due to the neglect of MSMEs, which have the largest proven potential for job creation.

MSMEs already create the most jobs in Nigeria, especially in the informal segment of the economy. According to the National Bureau of Statistics (NBS), the informal segment of the economy created over 70% of the total jobs created in Q1, 2015 and over 60% in the second quarter.

Also, a Government report on job creation claims the growth of MSMEs in Nigeria could unlock up to 12.6 million jobs if a progressive transformation strategy is put in place for micro firms to grow into

small firms, and small firms grow into medium firms, within two to three years.

It is rational to expect that the new administration, given its stated commitment to reducing unemployment, will revisit the national MSME policy in its search for solutions to the perennial high levels of unemployment.

Conclusion

Bold economic reform will be required to foster growth in the face of the macroeconomic headwinds that MSMEs will have to struggle against to make progress.

Given the complexity of the challenges and in order for Government activity in other areas of the economy not to generate undue, adverse conditions in the MSME sector, it is important that Government make MSMEs front and centre of its economic reforms. Activities in other areas of the economy would then be directed towards enhancing and reinforcing the MSME-led reforms.



#2. What are the key elements of the National MSME Policy and its impact on the MSME Sector in Nigeria?

Overview

Nigeria has about 37 million MSMEs. MSMEs are dominant in the agriculture, manufacturing, wholesale and retail sectors of the national economy. In other sectors dominated by multinationals and large businesses, MSMEs still provide the base on which those sectors are built.

MSMEs can add significant value to Nigeria's economic development through their significant potential for job creation and innovation. **Furthermore, Nigeria offers a large market to its MSMEs, with its population of over 170 million.**

However, Nigeria is a difficult operating environment for MSMEs. Reasons for this include complex, structural bottlenecks, such as the burden of multiple taxes and excessive regulatory hostility.

The lack of adequate infrastructure, from electricity and water supply to roads, rails and telecommunications, also increase the costs of doing business. Corruption as well as weak legal and security institutions all compound the problems MSMEs face.

In addition to structural bottlenecks, infrastructural deficiencies and corruption, MSMEs have to contend with poor access to finance. Lending rates are punishingly high. Interest rates on commercial bank loans range as high as 21%–30% per annum. Microfinance loans range even higher, from 48%–60%.

Expensive loans merely increase the risks of default and severely limit the growth of MSMEs. Products and services have to be priced at higher

margins in order to cover the high cost of finance.

The bulk of Nigerian MSMEs therefore rely on personal savings and contributions from family and friends for capital, further limiting the growth of MSMEs as well as the national economy.

MSMEs are unlike large corporations which can fund

capital projects and self-provide for the deficiencies in the operating environment. MSMEs are highly vulnerable to the conditions of the operating environment. **Over the years, policies and interventions targeting some of the challenges MSMEs face have been launched.**



Revised National MSME Policy

The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) developed the first National Policy on Micro, Small and Medium Enterprises (MSMEs) in 2007.

The policy was launched in July of that year, and its implementation commenced with the inauguration of the National Consultative Committee (NCC) in October 2007.

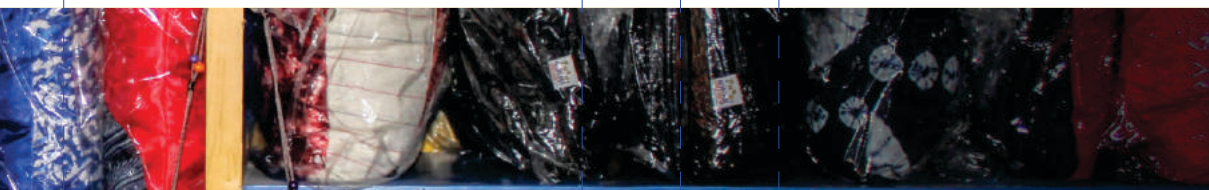
After five years of implementation, the Federal Government revised the policy, based on feedback and lessons learnt. The Government also sensed a need to update its policy in light of current challenges.

The revised policy was launched in May 2015, and incorporates inputs from various stakeholders. The emphasis of the revised policy is the creation of flourishing MSMEs that will spread the benefits of economic growth more

evenly. The strengths and constraints of this Revised National MSME Policy are discussed below.

Strengths of the Revised National MSME Policy

- 1.** The overall objective of the Revised National Policy on MSME is to create, nurture and promote the necessary conditions for the growth and development of MSMEs.
- 2.** The policy is based on close partnership and cooperation between the various levels of government and community organisations, on the one hand, and the organised private sector, on the other.
- 3.** Its framework and action plan pay attention to the objective of entrepreneurship creation.
- 4.** It outlines the general parameters, benchmarks and directions within which MSME programmes, interventions and initiatives will be designed, implemented, monitored and evaluated.



- 5.** It builds on international best practices by classifying MSMEs based on the dual criteria of employment and assets (excluding land and buildings).
- 6.** The policy promotes a decentralised institutional framework that leverages synergies between the public and private sector for the development of MSMEs.
- 7.** It promotes the cluster approach for the development of MSMEs.
- 8.** It recognises the use of Information and Communications Technology (ICT) in improving Government's efficiency, effectiveness and service delivery to MSMEs.
- 9.** The MSME policy also adopts a measurement and evaluation framework with credible baseline to evaluate its

impact.

10. The key performance indicators of the proposed evaluation index will be adapted from indicators of various countries' MSME indices as well as local experience.

11. The policy incorporates specified actions for priority targets groups: women, youth and physically challenged people.

Factors Limiting the Impact of the MSME Policy

1. Basic Education: Youth with limited literacy and numeracy skills continue to swell the ranks of the workforce. Consequently, the pool of potentially successful entrepreneurs as well as productive, potential employees of MSMEs shrinks.

2. Entrepreneurship Education: The Revised MSME Policy emphasises the incorporation of entrepreneurship education into formal education. It then becomes necessary to have teachers who are capable of delivering entrepreneurial training of good quality and in sufficient numbers.



3. Technology: Although the implementation of the Revised MSME Policy seeks to leverage information technology (IT), many MSME owners and employees are not IT savvy.

4. Cluster Development: The emphasis of the Revised MSME Policy on the adoption of a cluster

approach in supporting MSMEs will benefit from and should incorporate international best practice for cluster development. This requires further Government investment in cross-country studies.

5. Publicity: The 'broad-based awareness and appreciation' categorised as the Revised MSME Policy's first priority has to be backed by research into identifying the industries where opportunities exist for MSMEs to key into in the Nigerian economy.

Other factors that will make or mar the Revised MSME Policy include Business Registration, Nigerian Regulatory Agencies and Taxation, viz:

Business Registration

Business registration transforms MSMEs into legal entities, ushering them into the formal sector. Nonetheless, some unregistered MSMEs do not see the need for business registrations.

Other unregistered MSMEs are not willing to register their businesses due to perceived high registration fees, long business registration processes and lack of knowledge of the registration process.

The body charged with business registrations in Nigeria is the Corporate Affairs Commission (CAC). The CAC has decentralised its registration process. The CAC has also upgraded its registration software, enabling online payment for name reservations.

The CAC plans to collaborate with the Federal Inland Revenue Service (FIRS) to automate the payment of stamp duties and the stamping of the incorporation documents. All these have and will significantly shorten the time it takes to register a business.

The CAC is also currently reviewing the provisions of the Companies and Allied Matters Act (CAMA) with a view to securing its amendment. The main objective of the review is to strengthen the regulatory and enforcement

capacities of the commission.

A more empowered CAC will actively penalise infractions of the amended Act. If the proposed amendment passes, it is likely MSMEs make the bulk of those penalised by the CAC. A large number of MSMEs are unstructured, have no offices or do not display their registration numbers visibly on their premises.

Nigerian Regulatory Agencies

MSMEs who are importers rank the Nigerian Customs Service (NCS) as the key impediment to their businesses. MSMEs who are local manufacturers believe that the Standards Organisation of Nigeria (SON) and the National Agency for Food and Drug Administration Control (NAFDAC) are amongst the top ranking obstacles to their businesses.

A significant number of importers profiled by the Agosto survey believe the NCS applies exorbitant clearing charges and confiscates goods for fraudulent reasons. The local manufacturers surveyed feel the SON and NAFDAC take excessive amounts of products as test samples, deliberately delay document processing in order to apply late registration fee penalties and issue negative reports on companies that refuse to pay bribes. Other complaints included the levy of prohibitive charges for product registration and import permits.

Taxation

Tax evasion thrives in Nigeria because many MSMEs are unregistered. However, the top five taxes paid by MSMEs in Nigeria include the Value Added Tax (VAT), companies income tax, personal income tax, tenement rate, and the radio/television license rates.

Many registered MSMEs in Nigeria largely pay only VAT. VAT payment is more popular because most MSMEs see VAT collected from their clients as a form of spontaneous financing for their businesses before they have to remit to the Federal Inland Revenue Service.

Low oil prices, which reduce Government's revenues, will impel a drive by Government to ensure compliance with the payment of taxes in the short term.

Should an aggressive drive for tax payments be implemented amidst MSMEs' complaints of high tax rates, multiple taxation, complex tax regulations and lack of proper enlightenment or education about tax related issues, the business climate would become more difficult for MSMEs.

Multiple taxes constrain small business cash flows. Nonetheless, some small business owners are of the view that while the multiple taxes exist, some fraudulent officials of supervisory government agencies also hike the prices of legal taxes and levies. In some cases, MSMEs are forced to pay taxes unrelated to their kind of businesses.

MSME Intervention Funds

Many policies initiated by successive governments over the years have been detrimental to MSMEs or have had mixed results. However, Government has made commendable strides over the years in the area of improving access to finance.

Over the years, Government has invested heavily in MSME intervention funds. These intervention funds have been quite limited in their impact on the growth of MSMEs and the national economy.

One of the biggest drawbacks of the government's approach to these MSME intervention funds and other initiatives is the absence of parameters for measuring their success.

It is important to have appropriate performance monitoring and evaluation tools to assess the performance and impact of the disbursed funds in the mid to long term. This would serve as a guide to future designs of intervention fund programs.

#3. What are some of the lessons Nigeria can learn from other countries?

Nigeria is not alone in having a large MSME sector or being beset by challenges such as corruption, an inefficient public sector, and significant levels of poverty. However, some of the countries that are similar to Nigeria in a number of ways have designed and implemented MSME policies that have had significant success in vitalising their MSME sectors.

Table 1 compares three peer countries to Nigeria in order to provide some context for their different MSME policy models.

As is evident from Table 1, the Indonesian and Indian economies are similar to Nigeria in terms of huge population size and GDP per capita. South Africa is an example of an African country that has recorded success in implementing SME policies, and is similar to Nigeria in terms of their unemployment rates and the percentage of total employment accounted for by MSMEs.

Table 1: Cross-Country Comparison

Indicator	India	Indonesia	South Africa	Nigeria
Population	1.3 billion	249.9 million	53 million	173.6 million
GDP Per Capita	\$1,595.70	\$3,491.90	\$6477.90	\$3,203.30
Unemployment Rate	6.3%	13.2%	24.9%	24.5%
Percentage of Total Number of Existing Businesses that Are MSMEs	Not available	99%	91%	~72% of registered firms
Percentage of Total Employment Accounted for by MSMEs	Not available	95%	61%	~70%
Total Government Expenditure on Education (Percentage of GDP)	3.9%	3.6%	6.0%	11.2%
Literacy Level	71.2%	93.9%	94.3%	59.5%

Source: Agosto & Co (2015)



#4. What are the key take-aways from the cross-country comparison exercise?

There are useful lessons in the MSME policy design and implementation experiences of the peer countries. Relevant lessons from the three countries are captured as follows:.

India

1. Credit Ratings: A bottleneck of access to finance for MSMEs in Nigeria is the lack of information on the creditworthiness of most MSMEs. This makes lenders reluctant to extend credit.

The Indian Government and private sector, together, maintain an institution that provides rigorous credit ratings of MSMEs. The benefits of that system to lenders include: reduced bad debts, lower exposure to risky accounts, faster loan approvals. For their part, MSMEs with good ratings enjoy a reduced credit sanctions, increased loan sizes, and reduced interest rates.

Indonesia

2. MSME Definition: A loophole in the qualitative definition of MSMEs by Nigeria's national MSME policy allows subsidiaries of large corporations identify as small businesses, crowding out genuine small businesses.

The Nigerian policy also lacks revenue benchmarks, and companies with large revenues but small staff sizes may be adjudged MSMEs.



Indonesia's qualitative definition of MSMEs has a clause on non-affiliation to large companies that, combined with quantitative revenue benchmarks, helps ring-fence genuine MSMEs.

3. Business Development Service Providers (BDSPs):

Nigeria, through the Bank of Industry, has set up BDSPs to provide technical assistance to MSMEs. However, lack of awareness about the existence and functions of BDSPs among MSMEs and the inability of MSMEs to afford the services of BDSPs have created bottlenecks.

In the Indonesian model, Government provides paid-up capital to BDSPs, which they repay by servicing nearby clusters. This approach can be targeted at micro-enterprises, which have high financial constraints.

South Africa

4. Supplier Development Programme:

In Nigeria, agricultural inputs for manufacturing and finished goods for sale, which can be produced locally, are imported by large enterprises operating in manufacturing and general commerce.

South Africa's Supplier Development Programme encourages large corporations to invest in backward linkages and help MSMEs in their supply chains. Those investments create synergies that are mutually beneficial to the two types of stakeholders and to the larger economy.

It is necessary for the Nigerian Government to undertake a cross-country study in a bid to adopt international best practises for cluster development. Cluster development should be executed in phases for Government to gain on the learning curve

#5. What are some of the critical factors required for MSMEs to succeed?

Certain issues need to be the targets of policymakers and other stakeholders who want to unlock the positive potential of the MSME sector. The factors that will determine MSME success in the near term are:

Education and Manpower

The poor standards of education in Nigeria have the consequence of producing graduates ill equipped to be entrepreneurs or who hardly qualify as employable in MSMEs. Some small business owners cannot read and understand business registration procedures, bank account opening procedures or loan requirements.

The standards of basic education need to be raised. Steps also need to be taken to make entrepreneurial, managerial and financial training opportunities for MSMEs more pervasive.

Tax Collection

Dwindling oil revenues will shift the burden of Government income to non-oil taxation. Nevertheless, Government has to strive for a balance in its taxation drive in order to pre-empt tax evasion by MSMEs.

To achieve that, the tax system should neither be complex nor punitive. The first step in this direction would be to centralise the collection of all mandatory levies, establishing a single agency with all encompassing jurisdiction. Additionally, filing procedures should be simplified.

Bookkeeping

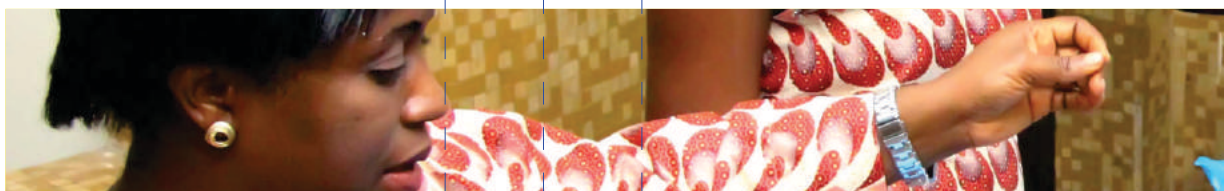
Many MSMEs have poor bookkeeping processes. Many owners do not understand accounting fundamentals. The use of accounting software is also uncommon among micro- and small businesses. Due to tight finances,

majority of the MSMEs can neither employ qualified personnel nor purchase accounting software.

Poor bookkeeping undermines the basis for strategic planning, reinforces the reluctance of investors and banks to provide finance. MSMEs should prioritise increasing their accounting capacities. Government and MSME advisory organisations should step up financial training activities. Advantage should be taken of increasingly available, cheap accounting software.

Business Intelligence and Strategic Planning

To improve operations and profitability, MSMEs need adequate and timely information about their business environment, consumer trends and latest innovations in the industries in which they operate. MSMEs also need realistic, clear and measurable strategies.



Strategic planning will inform better investment decisions and improve the ability of entrepreneurs to achieve set objectives. In addition, the availability of good market intelligence would enable business owners to efficiently maximise capital invested in business, enhance market share and profitability.

Mentorship

Mentors provide advice to entrepreneurs on avoidable mistakes and achieving business objectives. Some entrepreneurs are unaware of the benefits of having a mentor and do not actively seek out mentorship opportunities.

There is some evidence that would indicate that businesses are twice

as likely to surpass five years of being in business when entrepreneurs-in-charge are mentored.

Mentorship programmes should be implemented in schools and colleges. MSME advisory organisations should regularly organise forums and other relevant platforms to create networking opportunities for MSMEs.

Entrepreneurs should actively seek opportunities to build relationships with mentors by registering with associations, networking and attending training programmes and seminars.

Industrial Linkages

It is evident from the Nigerian printing and packaging industry and the South-African MSME



experience that linkages between large companies and MSMEs lead to lower import costs, resilient supply chains, standardised products and processes, improved distribution, and more effective marketing.

A way of achieving this is to develop a model where academic curriculum in tertiary institutions is formed with a view to addressing existing gaps in industries and sectors.

Conducive Environment

For the business environment to foster the growth of MSMEs, structural reform in property registration, land acquisition, business registration, customs and taxation is necessary. Equally important is investment in power, security, good transportation networks and water supply – critical infrastructure.

Thorough reforms and effective investment will result in lower operating

costs for SMEs. Lower costs lead to higher reinvestment in businesses. Reinvestment in businesses leads to lower funding needs, which results in higher profitability and growth in business size.

Information and Communications Technology

ICT reduces the cost of operations, and ICT skills are required for the seamless running of modern businesses of any scale. Good and affordable access to the Internet and other communication facilities is also vital.



An ICT skills gap has been noted in a significant proportion of the workforce employed by MSMEs. Particularly, low and middle managers lack sufficient exposure to ICT services.

One emergent and potentially disruptive offshoot of ICT is E-commerce, which creates a level playing field for small businesses competing with larger firms.

Patents and Intellectual Property Protection

The Government needs to put in place a proper system for patents and intellectual property rights that will give entrepreneurs rights to deliverables. This will encourage innovation and ingenuity among SMEs. Innovation requires substantial investments in research and development. In the absence of a proper patent system, companies that invest in research and development may fail to recoup investments as the product would be copied by other players operating in their space.

6. What are our Key Policy Recommendations?

In addition to the recommendations in the complete report, FATE Foundation also consulted experts and some of its partners about policy recommendations for the MSME sector. That process led to the development of many useful recommendations that will create a better policy and operating environment for MSMEs in Nigeria.

Key policy recommendations are outlined below.

Generate awareness for the current MSME policy: There is a national MSME policy in Nigeria, but business owners are largely unaware of it. An awareness drive for the policy, by the Ministry of Industry, Trade and Investment, should serve as the pivot for collaborative efforts between Government and business owners.

Promote the development finance model: Most banks in Nigeria operate the commercial banking model, which is currently not so favorable to MSMEs. To increase financial inclusion by improving access to finance, the need for development finance models that specifically cater to the needs of MSMEs is quite critical.

Government Contract Guarantee : Government can encourage the growth of MSMEs by designating a certain percentage of government contracts to be allotted to MSMEs as long as they fulfill certain minimum requirements. This will encourage more of them to formalize their structures and operating models while at the same time contributing to the Nigerian Economy.

An understudy of the Collateral Registry model for effective implementation in Nigeria:

In developing a Collateral Registry model that suits the Nigerian environment, Government should study the Collateral Registry models in other countries, the implementation and the related policies that have enabled its success in those countries.

An inclusive and participatory policymaking process:

Entrepreneurs should be actively involved in the development of MSME focused programmes. Entrepreneurs will bring a vital perspective to the decision-making process and proffer solutions drawn from experience.

Mapping the Nigerian MSME ecosystem:

Government should map the MSME sector in Nigeria. Such a map will provide Government with a holistic view of the MSME sector, its stakeholders, and provide a proper basis for the development of MSME policies, initiatives and programmes which link directly into Nigeria's economic growth plans and strategies.

Suitable taxation environment to encourage MSMEs inclusion:



As has been noted, a lot of businesses in Nigeria operate under the radar and avoid paying taxes. Some of the recommendations that KPMG outlined to make the payment of taxes attractive to small businesses are set out below.

1. Develop and implement tax policies that protect MSMEs:

Specific tax policies that protect small businesses and nurture their growth need to be developed and implemented.

2. A lower qualification threshold for the Pioneer Status Industries tax incentive should

be set: The threshold that allows businesses with share capital of N10 million to enjoy the Pioneer Status tax incentive be lowered.

The Pioneer Status incentive currently applies to businesses in agriculture, cattle ranching etc. and such businesses enjoy tax



holidays for five years: three years in the first instance, renewable for one year and then for another year. To enjoy this incentive, businesses must have a minimum share capital of N10 million.

3. Include e-commerce businesses in Pioneer Status Industries: The e-commerce industry be included in the Pioneer Status Industries to encourage its growth. The advancement of technology has led to the rise of a formidable industry in Nigeria, the e-commerce industry.

4. Increase the turnover threshold for businesses liable to pay 20% Corporate Income Tax: The turnover threshold for paying the 20% tax rate for Companies Income Tax be increased so that payment of tax is attractive to small businesses.

Companies Income Tax typically is 30% but stands at 20% for companies with a turnover of N1million or less. While this exemplifies Government's effort to protect small businesses, more can be done to encourage small businesses.



5. Strengthen the Joint Tax Board to eliminate multiple taxes:

Strengthening of the Joint Tax Board will enable better collaboration between Federal and State Tax boards and eliminate multiple taxes at Federal and State levels.

Agusto & Co made other recommendations on taxation in their report:

- Collection of all mandatory taxes and levies should be centralised and a single tax agency with all-encompassing jurisdiction established.
- Tax filing procedures should be simplified
- MSMEs should be encouraged to seek information in order to reduce the incidence of illegal multiple levies.

Encourage a Suitable legal environment that Promotes MSMEs inclusion:

MSMEs in Nigeria also face challenges from a legal perspective. A Senior Consultant at Banwo & Ighodalo made the following recommendations to enhance the existing legal framework:

1. Review legal set up and on-going compliance obligations: A graduated scale of fees, which allows MSMEs pay proportionally less for

business registration, be introduced. That would reduce the capital needed to establish a business.

The cost of establishing companies in Nigeria is one of the challenges MSMEs face. By virtue of the Stamp Duties Act (SDA) and the Companies and Allied Matters Act (CAMA), the stamp duties and registration fees payable for the establishment of a company is ad valorem, and the payment of 1% of the proposed share capital of a company, regardless of the size, is a statutory requirement.

There are other, ongoing, compliance obligations that MSMEs are required to comply with regardless of size. For example, all companies are required to file audited accounts every year regardless of whether changes have occurred in the company's corporate structure or not. It is recommended that such filings be reviewed as they have major cost implications for MSMEs.

2. Review the cost of licensing and business premises charges:

A streamlining of permits and

licenses is recommended to enable MSMEs stabilise in their early stages of growth. MSMEs involved in businesses that require permits and licenses have to deal with the high costs of procuring permits and licenses and other payment obligations, which prove prohibitive.

3. Foreign investment drives and incentives:

Incentives and waivers granted to foreign investors should be monitored so as not to put MSMEs at a disadvantage and make them unable to compete with the big, foreign firms. Policies protecting MSMEs from big, foreign firms should also be put in place.

Policies that encourage value-chain partnerships between big-foreign firms and MSMEs should be promoted.

4. Reduce cost of legal documentation on credit facilities:

The high costs of perfection of security that MSMEs seeking credit facilities pay should be reduced. The registration fees at the Lands Registries and the Corporate Affairs Commission (CAC) should also be reviewed.

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 - **M. K. Ahmad**, Fmr. Director General,, National Pension Commission
 - **Niyi Yusuf**, Country Manager, Accenture Nigeria
- **Amaka Nwaokolo**, YALI Graduate Intern, FATE Foundation
- **Adebiyi Olusolape**
- **Chinedu Abili-Mordi**
- **Ebrahim Durosimi**

Institutional Support to FATE Foundation

- **Banwo & Ighodalo**
- **KPMG Nigeria**
- **Main One Cable**

FATE Foundation Board of Directors

- **Mr. Fola Adeola**, Founder & Chairman, FATE Foundation
- **Engr. Bayo Adeola**, Managing Director, CPMS Limited
- **Mrs. Bola Adesola**, MD/CEO, Standard Chartered Bank, Nigeria
- **Mr. M. K. Ahmad**, Fmr. Director General, National Pension Commission
- **Mr. Kalada Apiafi**, CEO, Wider Perspectives Limited
- **Mrs. Habiba Balogun**, Principal Consultant, Habiba Balogun Consulting
- **Mr. Dipo Davies**, Publisher/CEO, Realhouse Communications Limited
- **Mr. Asue Ighodalo**, Partner, Banwo & Ighodalo
- **Mr. Tokunbo Talabi**, Chairman, Superflux Group
- **Mrs. Adenike Adeyemi**, Executive Director, FATE Foundation

FATE Alumni Pictures used in the Report

- **Mr. Titus Igwe**, Co-Founder, Speedmeals Mobile Kitchen (AEP 38)
- **Mr. Tobias Igwe**, Co-Founder, Speedmeals Mobile Kitchen (AEP 38)
- **Mrs. Aderonke Adeyemo**, CEO, House of Treasures Comics (AEP 32)
- **Ms. Celestina Utoro**, CEO, Catyna Designs (AEP 26)
- **Mr. Babangida Dauda**, CEO, GEMIA Leather Works (AEP 39)
- **Mr. Ralph Atere**, CEO, RaphGate Chemicals Limited (AEP 6, EEP 13)
- **Mrs. Abimbola Azeh**, CEO, Mona Mathews (AEP 5)

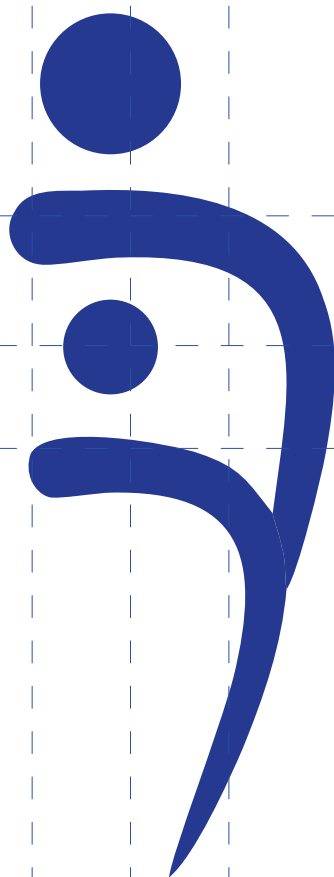
About FATE Foundation

FATE Foundation (FATE) is a non-profit organisation founded in March 2000 by Mr Fola Adeola (Co-founder and pioneer Managing Director of GTBank) in response to the challenges of young people, job creation and the development of small and medium scale enterprises within the Nigerian environment.

Our mission is to foster wealth creation and entrepreneurial development among Nigerians.



Our key programs and initiatives are focused on ensuring that aspiring entrepreneurs transition their business ideas into growing business ventures while emerging entrepreneurs are able to develop their brand, improve their turnover, create jobs and positively impact their society.



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