CHALLENGES OF INFORMALIZATION OF BUSINESS SECTOR ACTIVITIES FOR WOMEN IN NIGERIA AND PROSPECTS AND OPPORTUNITIES FOR FORMALIZATION

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Introduction

The Micro, Small, Medium Enterprise (MSMEs) sector is the growth engine of any economy contributing to its development, job creation, export, poverty alleviation amongst others. The latest SMEDAN/NBS MSMEs Survey indicates Nigeria's MSMEs contributed 46.31 percent of national GDP [1]and account for over 80% of employment in the country[2]. No doubt, the sector is pivotal to Nigeria's growth including reducing poverty levels.

Despite the fact that men own about 61 per cent of businesses in Nigeria, women entrepreneurs have emerged as significant players in Nigeria's entrepreneurial landscape. Women's independent business activities have become a source of livelihood, income, employment, community cohesion, and have laid the groundwork for women to achieve self-worth[3].

However, many challenges remain for many women seeking to formalized their businesses in Nigeria. It is estimated that 40 per cent of Nigerian entrepreneurs are women (one of the highest rates in the world)[4] but owns approximately 23 per cent of enterprises in the formal sector which ultimately impact their economic development[5]. This research aims to capture the challenges women-owner of informal businesses face, and identify prospects and opportunities to unlock women-owned enterprise formalization and growth.

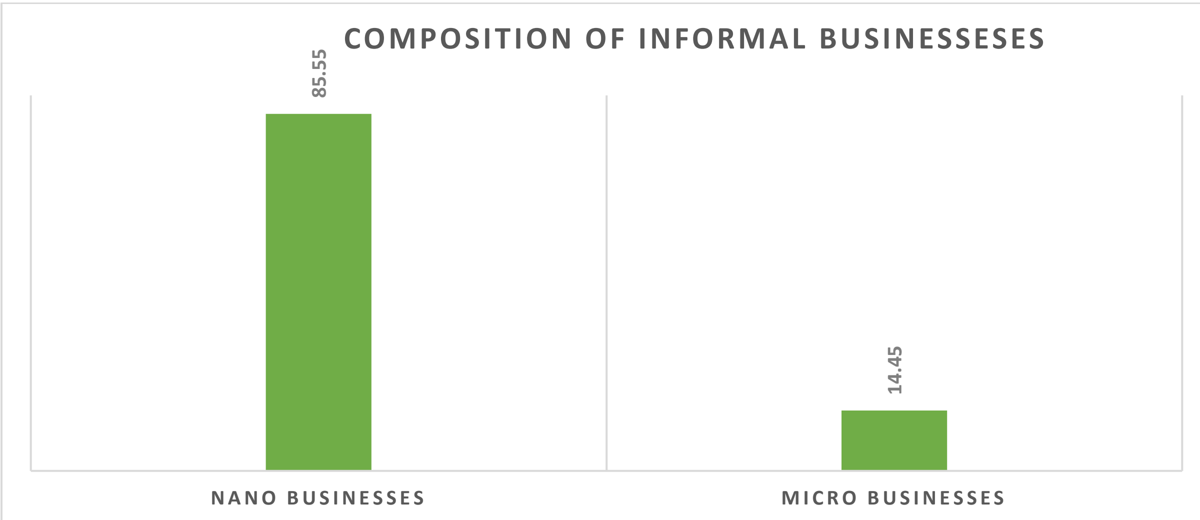
The MSMEs sector in Nigeria

In Nigeria, businesses are classified as either Nano (1 to 2 persons), Micro (less than 10 employees), Small (10 to 45 employees), Medium (50 to 199 employees) or Large enterprise (200 above employees)[6]. It is estimated that 90-95 per cent of all enterprises in Nigeria are within the Nano, Micro, Small and Medium (NMSMEs) category. According to the 2020 MSMEs Survey report [7], the number of MSMEs in Nigeria as at December, 2020 stood at 39,654,385 a decrease from the 41,543,028 recorded in 2017**.** Micro enterprises (MEs) accounted for 96.9 per cent of these businesses and 87.9 per cent of employment, while small and medium enterprises (SMEs) accounted for only 3.1 percent. Despite their combined numeric dominance, Nigerian NMSMEs contribute less than 10 per cent to non-agricultural GDP partly because of their unstructured and highly individualistic tendencies, high level of informality, uncompetitive products and their inability to access business support services and so on.

A total of 38,413,420 business enterprises was recorded nationwide in the informal sector with Nano accounting for the highest number (32,862,245) of businesses representing 85.55

[1] The 2020 National Survey of MSMEs. Executive Summary
[2] The 2020 National Survey of MSMEs. Executive Summary
[3] PwC's MSMEs Survey 2020. Page 54. https://www.pwc.com/ng/en/assets/pdf/pwc-msme-survey-2020-final.pdf
[4] PwC's MSMEs Survey 2020. Page 22. https://www.pwc.com/ng/en/assets/pdf/pwc-msme-survey-2020-final.pdf
[5] PwC's MSMEs Survey 2020. Page 7. https://www.pwc.com/ng/en/assets/pdf/pwc-msme-survey-2020-final.pdf
[6] The 2020 National Survey of MSMEs. Page 24
[7] The 2020 National Survey of MSMEs. Executive Summary

percent while 5,551,175 businesses (14.45percent) are micro enterprises. Women own approximately 23% of formal businesses activities[8].



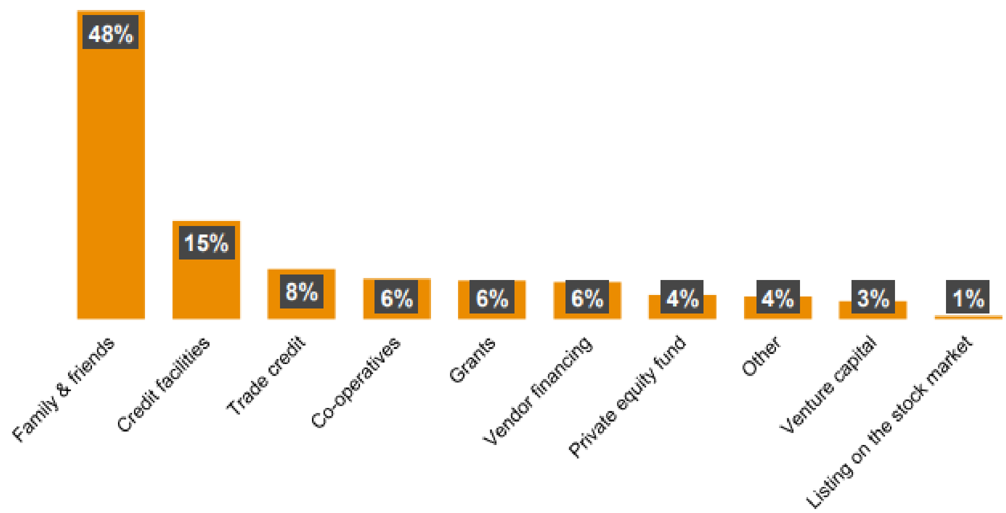
Challenges that women entrepreneur faces as a result of business informalization

Women in Nigeria face challenges as a result of the informalization of business sector activities.

Limited Access to Finance

Finding capital to start and grow a formal business is one of the most significant challenges for female entrepreneurs in Nigeria. Findings from the 2020 MSMEs survey reveals limited financial capacity of microenterprise owners has highlighted by the fact that the majority of businesses (46.2 percent) had an initial start-up capital of less than N100, 000.00, which was complicated by their limited access to credit. According to the survey, only 55.9 percent of sole proprietorship-owned small and medium-sized enterprises (SMEs)in Nigeria had access to bank financing, while 59.0 percent used personal savings as a source of capital. Family & friends were the most used financing for 48% of businesses in Nigeria[9].

[8] PwC's MSMEs Survey 2020. Page 7. https://www.pwc.com/ng/en/assets/pdf/pwc-msme-survey-2020-final.pdf
[9] PwC's MSMEs Survey 2020. Page 34. https://www.pwc.com/ng/en/assets/pdf/pwc-msme-survey-2020-final.pdf



(Source: PwC Analysis, 2020)

For NMSMEs to be eligible to get a loan via one of SMEDAN's many initiatives, the main requirement is usually to have a registered business. However, since many women-owned business are usually informal, this poses a great challenge to them accessing such loans and grants. Likewise, most commercial financial providers require business to have proper documentations and be registered in addition to more stringent lending criteria and high interest costs[10]. The collateral requirements by most financial providers play a significant role in excluding women from formal credit market. Women entrepreneurs in Nigeria may have less access to loans than their male counterparts due to limited personal financial assets. Women farmers, for example, are ten times less likely to own their own land than men. As a result, many informal women entrepreneurs and farmers rely on internal sources of capital, such as personal savings and informal capital from family and friends[11]. This slows the pace of their business's formalization and growth opportunities.

Sometimes, it is not the absence of finance but it is accessibility that is difficult. Maybe we can reduce some of the bottlenecks with these meetings

(Dikko Radda, Director-General of Small and Medium Enterprise Development Agency of Nigeria (SMEDAN))

Limited Access to Markets

Limited access to markets is a key challenge facing women-owned MSMEs in Nigeria, particularly nano and micro enterprises. The Informalization of women-owned businesses mean women entrepreneurs are unable to access key markets. The issue of certification is a

[10] https://www.forafinancial.com/blog/working-capital/8-bank-loan-requirements/
[11] Umar, R.A., Mohammed, Y.I., & Audu, A.A. (2019). Effect of Entrepreneurial Orientation and Financial Resources on the Performance of Women-Owned Enterprises in Northern Nigeria. Lafia Journal of Economics and Management Sciences, 4(1), 180-195

key challenge, because of the difficulties and cost associated with getting the necessary certification to break into markets.

Buyers, particularly in agro-processing, will not do business unless you have the HACCP certification. NEPC is working with many SMEs to ensure their processes meet the HACCP standards with the ultimate aim of gaining the certification.

(Olusegun Arowolo, Chief Executive Officer/Executive Director of The Nigerian Export Promotion Council (NEPC)

Restrictive Tax Laws and Multiple Taxes

THE FINANCE ACT 2019 Law mandates banks to ask for Tax Identification Number (TIN) before opening business bank accounts, while existing account holders must provide their TIN to continue operating their accounts[12]. However, Women in Nigeria are already disadvantage in terms of financial inclusion and access to financial services. According to the 2019 Assessment of Women's Financial Inclusion Survey, financial exclusion stands at 36% for women and 24% for men[13]. Imposing the TIN restriction makes it further difficult for women running informal business to own bank account that will facilitate access to government and formal financial services to grow their businesses[14].

Multiple taxation also continues to remain a huge cause for concern to SMEs amidst outdated tax laws. Many businesses believe that the government needs to do more in streamlining taxes across the different tiers of government

(PwC's MSMEs 2020 Survey Report, Page 16)

Does the Nigerian environment offer a platform that ensures Nigerian MSMES are formalized?

Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)[15] was founded in 2003 with the primary mission of facilitating and promoting the efficient and sustainable development of the micro, small, and medium enterprises (MSMEs) sub-sector. In 2019, SMEDAN began registering micro, small, and medium-sized enterprises (MSMEs) across the country in order to transition them from the informal businesses to the formal businesses[16]. The registration process, which reportedly aims to integrate over 40 million micro, small, and medium-sized businesses in the country, is expected to help registered MSMEs access finance, market, workspace, business, insurance, and technology, among other things, in its first phase. The registration is also expected to encourage capacity building and post-

[12] Page 28. https://www.pwc.com/ng/en/assets/pdf/pwc-msme-survey-2020-final.pdf
[13] https://www.cbn.gov.ng/out/2020/dfd/assessment%20of%20womens%20financial%20inclusion%20-%20exec%20summary.pdf
[14] https://www.boi.ng/loan-application-checklist/
[15] https://smedan.gov.ng/
[16] https://nairametrics.com/2019/12/23/smedan-to-move-40-million-informal-businesses-to-formal-sector-registers-msmes/

intervention assistance for micro-businesses. The agency continues to operate a portal at *https://smedanregister.ng/* for businesses to register in order to receive government and private sector benefits that can help them grow their businesses faster.

Through the Export Development Fund (EDF), the National Export Promotion Council (NEPC) is sponsoring SMEs to participate in trade fairs in SIAL (Paris), Gulfood (Dubai), the inaugural Intra-African trade fair (Cairo), amongst many others[17]. They are also working with SMEs on training them on the necessary international certifications such as the HACCP certification. However, the constant use of SMEs as opposed to NMSMEs signals that the NEPC is mainly focused on small and medium businesses, and not the women-dominated nano and micro businesses.

Another project is the $300 million Affirmative Finance Action for Women in Africa (AFAWA) initiative, which is being carried out by the Bank of Industry with assistance from the African Development Bank (AfDB). The project's goal, according to the bank's Managing Director, Olukayode Pitan, is to "grant women access to finance as well as spearhead legal policy and regulatory reforms to support women-led enterprises[18].

There is evidence that the Nigeria for Women Project allocated a sum of US$20 million to support livelihood collectives through "the provision of grants to support livelihood collectives' business plans, either startup activities such as training and exposure visits, incorporation, office setup; some initial operational costs; and/or business promotion to support collective livelihoods directly."[19]

Furthermore, there is evidence that a subcomponent of the Livelihood Improvement Family Enterprises Project in the Niger Delta of Nigeria (LIFE-ND) implemented by the Federal Ministry of Agriculture and Rural Development with support from the International Fund for Agricultural Development (IFAD) will promote financial services for rural agribusiness by promoting savings, payment systems, and cashless credit in off-taker pre-financing. The project's impact was to make it easier for beneficiaries to do agribusiness, to strengthen market-driven-rural business incubators, and to improve agro-entrepreneurs' production, productivity, and marketing through public-private producer partnership (PPP) models[20].

Nonetheless, these endeavours have yielded mixed results, and formalization of businesses has not always been a guaranteed outcome. Findings from the 2020 MSMEs survey report reveal that a total of 1,480,519 (3.9%) of the 38,413,420 Micro enterprises in 2020 were registered with the Corporate Affairs Commission (CAC). This indicates that the majority of the businesses (96.1 percent) were not registered.

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[17] PwC's MSMEs Survey 2020. Page 34. https://www.pwc.com/ng/en/assets/pdf/pwc-msme-survey-2020-final.pdf
[18] https://www.thecable.ng/boi-partners-afdb-to-finance-female-owned-businesses
[19] The World Bank (2018): Nigeria For Women Project (P161364). *Washington D.C.* Page 24
[20] IFAD 2017: Livelihood Improvement Family Enterprises Project in the Niger Delta of Nigeria (LIFE-ND). Project design report. *Pages x*

Prospects and opportunities for formalization of women-owned businesses in Nigeria

As shown above, the Nigeria government have made important leaps forward in formalizing businesses in Nigeria financial inclusion but have not done enough to address the barriers that prevent women's businesses to formalize from accessing and using financial services. These persistent issues present an opportunity for the government and non-state actors to step in and promote women's economic empowerment by supporting the formalization of women's owned businesses.

Nigerian policymakers should, can, and must do more to address demand-side factors such as women's and girls' financial literacy. This is critical in today's rapidly changing and complex credit market. This could take the form of an anchor scheme that brings together NMSMEs and offers capacity development and training programs on topics such as having proper documentation in place to access finance. Entrepreneurs who are financially literate make better financial decisions and assess their creditworthiness more objectively. As a result, providing women entrepreneurs with the necessary financial knowledge and skills will increase their access to financial services to facilitate their business growth and economic development.

Another way to foster formalization of women's owned businesses is to introduce a wide range of innovative financial products for women who traditionally use informal systems of finance—for example, collateral-free loans, loans that accept smaller and more movable assets and traditional wealth storage mediums such as livestock as collateral. Governments can help develop such new products—for instance, by putting in place the necessary legal and regulatory framework. These loans should be accompanied by financial literacy programs and online business toolkits and advisory services to help micro enterprises and women entrepreneurs manage and grow their businesses.

Efficient tax administration can help encourage more women-owned businesses to become formally registered. The amount of the tax cost for businesses matters for growth, and where taxes are high, businesses are more inclined to opt out of the formal sector. Most of the business owners surveyed in the 2020 MSMEs report mentioned high taxes as the most unfavourable government policies hindering their business growth. To encourage more women-owned businesses to migrate into the formal sector, there is need to improve on the ease of doing business and make it attractive for small businesses to register and operate formally[21].

[21] PwC's MSMEs Survey 2020. Page 51. https://www.pwc.com/ng/en/assets/pdf/pwc-msme-survey-2020-final.pdf

There are no less than nine different types of taxes and levies that registered businesses have to contend with every year. It is not unknown for companies, (even those with a strong track record of paying the correct amount of taxes when due), to be visited repeatedly by tax representatives of local, state and federal authorities. Sometimes staff from multiple or clashing departments of these agencies show up. The stress of trying to get compliant and stay compliant, plus the constant bombardment of tax officials is a significant deterrent to moving from the informal to the formal sector.

(Olubunmi Aboderin-Talabi, Author & Publisher/Former Executive Vice-Chairman, Wimbiz)

In conclusion, formalization of women-owned businesses is about more than just the formal registration of businesses. It is about empowering women to gain financial independence, bargaining power, and self-esteem while increasing their exposure to local and international markets. It is about improving women's livelihoods and creating a more equitable and sustainable future for all.

Profile

PAWED Profile Partnership for Advancing women Empowerment in Development (PAWED) is two years project with funding from the Bill and Melinda Gates foundation (BMGF). It is aims at building a Nigerian CSO advocacy and communications coalition to advance evidence, policies and programs that further women's economic empowerment vanguard organizations such as Women's Empowerment Collectives. The project is being implemented by development Research and Project Centre (dRPC). The three primary objectives for the PAWED project are: ·

- Increase the salience of women's economic empowerment with national and state government ministries, writ large
- Increase the salience of effective policies and programs to advance women's economic empowerment with donors and national and state government ministries, with a primary focus on women's empowerment collectives
- Increase the salience of women's economic empowerment amongst civil society and influential leaders and their appetite to support change that might be in opposition to cultural and social norms

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