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MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) REGULATORY COST OF COMPLIANCE REPORT

(A PILOT STUDY COVERING LAGOS STATE AND THE FEDERAL CAPITAL TERRITORY, ABUJA) | **JANUARY 2021**

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PRESIDENTIAL ENABLING BUSINESS ENVIRONMENT COUNCIL (PEBEC)

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LIST OF ABBREVIATIONS

ACRONYMS	DESCRIPTION
AMAC	Abuja Municipal Area Council
BOI	Bank of Industry
BPP	Bureau for Public Procurement
CAC	Corporate Affairs Commission
CAGR	Compound Annual Growth Rate
CAMA	The Companies and Allied Matters Act
CBN	Central Bank of Nigeria
CIT	Companies Income Tax
CITA	Companies Income Tax Act
CMO	Client Management Office
CPC	The Consumer Protection Council
EoDB	World Bank Ease of Doing Business
ERGP	Economic Recovery and Growth Plan
FCT-IRS	Federal Capital City Internal Revenue Service
FIRS	Federal Inland Revenue Service
FMITI	Federal Ministry of Industry, Trade & Investment
GDP	Gross Domestic Product
KPI	Key Performance Indicator
KRA	Kenya Revenue Authority
LASSAA	Lagos State Signage and Advertisement Agency
LAWMA	Lagos State Waste Management Authority
LIRS	Lagos Internal Revenue Service
MANCAP	Mandatory Conformity Assessment Programme
MDA	Ministries, Departments and Agencies
MRI	Monthly Rental Income
MSME	Micro, Small and Medium-scale Enterprises
MVAA	Motor Vehicle Administration Agency
NAFDAC	National Agency for Food and Drug Administration
NBS	National Bureau of Statistics
NBSSI	National Board for Small Scale Industries
NCC	National Communication Commission
NCS	Nigeria Custom Service
NDLEA	National Drug Law Enforcement Agency
NEPC	Nigerian Export Promotion Council
NIPOST	Nigerian Postal Service
NIRA	Nigeria Internet Registration Association
NIS	Nigerian Industrial Standards
NITDA	National Information Technology Development Agency
OECD	Organisation for Economic Co-operation and Development
OTO	Office of the Tax Ombud
PAYE	Pay As You Earn (personal income tax)
PC	Product Certificate
SARS	South Africa Revenue Services
SBA	Small Business Administration
SERVE	Serviço de Registo e Verificação Empresarial
SME	Small and Medium-scale Enterprises
SMEDAN	Small and Medium Enterprises Development Agency of Nigeria
SON	Standards Organisation of Nigeria
SONCAP	SON Assessment Programme
TCC	Tax Compliance Costs
VAT	Value Added Tax
VIO	Vehicle Inspection Office
WHT	Withholding Tax

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PREFACE

The identification and implementation of various policies and operational levers to unlock the competitiveness of micro, small and medium-sized enterprises (MSMEs) for economic growth has remained an integral part of the economic development agenda, one of the central themes of this Administration. Led from the highest levels of government, this reform agenda is a priority because Nigerian MSMEs are potentially able to deliver transformative impact across a wide range of human development indicators, including job creation, poverty reduction and gender inclusivity. Already, they contribute 49.78% of the country's Gross Domestic Product (GDP) and account for more than 86.3% of Nigeria's workforce.

Since the inauguration of the Presidential Enabling Business Environment Council (PEBEC) by President Muhammadu Buhari in July 2016 with a mandate to remove critical bottlenecks and bureaucratic constraints to doing business in Nigeria, the business climate reform initiative has recorded tangible impact and measurable results. This includes improvements in Nigeria's World Bank Doing Business ranking by 39 places, and being twice recognized as a top 10 global reformer in the last three recorded years of the report. However, despite this notable progress as a result of implemented reforms, there has been a sustained strong indication from our stakeholders that they still face significant bureaucratic constraints in the course of their engagement with ministries, departments and agencies (MDAs) at both federal and state levels.

The PEBEC's regulatory reform program commenced in 2017 as an outcome from the 5th Presidential Quarterly Business Forum hosted by His Excellency, the Vice President at which private sector feedback firmly highlighted some of the regulatory hurdles and the costs associated with regulatory compliance for businesses. On the heels of this, the PEBEC introduced a pilot regulatory reform program focusing on two regulators – National Agency for Food and Drug Administration (NAFDAC) and the National Insurance Commission (NAICOM) from July 2018, with limited success.

Indeed, feedback from the private sector in the form of direct reports to the Enabling Business Environment Secretariat of the PEBEC, submissions to our ReportGov.NG feedback portal, as well as anecdotal commentary on social media and in the pages of the newspapers continued to articulate something more. It appeared that in addition to formal taxes, levies and charges, MSMEs bear multiple unquantified costs (both official and unofficial) associated with regulatory compliance from a number of government agencies, which, when taken cumulatively, significantly impact the business' bottom line, hindering their ability to plough back the said diverted revenue into productive ventures. With the economic headwinds faced globally in 2020 as a result of the Covid-19 pandemic as well as other domestic factors, this regulatory compliance burden has become even more critical for MSMEs as they struggle to survive in the face of social and economic pressures on all sides.

In an attempt to support this demographic, on the heels of our nationwide LITUATION tour targeted at young business owners, which commenced in October 2019, but was truncated early due to the pandemic, the EBES team spoke with over 600 MSMEs during the Covid-19 lockdown to ascertain how best to support them through the unprecedented global crisis. The need for an empirical study around the formal and informal cost of compliance for MSMEs operating in Nigeria became apparent as this information is vital for ensuring successful reforms which will help boost the productivity of these SMEs and foster the creation of jobs for millions of Nigerians.

The knowledge of the specific and general cost of regulatory compliance costs for MSMEs objectively obtained, will, in no small measure, assist the political leadership and policy makers in crafting and effectively implementing appropriate reform interventions necessary for the improvement of the business climate and stimulating MSME growth across Nigeria. The empirical field work and analysis of this pilot regulatory cost of compliance survey was conducted on behalf of the PEBEC by Messers PwC to the highest research standards and in line with global best practices.

> ***“The knowledge of the specific and general cost of regulatory compliance costs for MSMEs objectively obtained, will, in no small measure, assist the political leadership and policy makers in crafting and effectively implementing appropriate reform interventions necessary for the improvement of the business climate and stimulating MSME growth across Nigeria”***

Empirical evidence from the survey confirms earlier anecdotal feedback by showing that 51% of MSMEs paid unofficial fees amounting to an estimated sum of N8.2b over the past three years (2018 – 2020) in the value of cash and productivity to four major MDAs - the Corporate Affairs Commission (CAC), National Agency for Food and Drug Administration and Control (NAFDAC), Standards Organisation of Nigeria (SON) and Federal Inland Revenue Service (FIRS). Furthermore, the study revealed the existence of wide discrepancies between the expected customer journey of an MSME and the actual experience on the field. Actual compliance costs for MSMEs was higher than official stated costs across the four agencies while process timelines overshot timelines published. Likewise, reactions from MSMEs show that there is a huge communication gap between regulators and MSMEs, thereby further widening the trust deficit between the government and the citizenry.

The PEBEC Secretariat looks forward to improved collaboration with the MDAs highlighted in this report as we jointly strive towards the rigorous implementation of the recommended reforms in a bid to reduce the regulatory compliance cost burden on MSMEs in line with the mandate of the PEBEC. This will no doubt better position Nigeria and Nigerian businesses to compete favourably in the newly operational African Continental Free Trade Area (CFTA), which went live on January 1, 2021.

Dr Jumoke Oduwole
Special Adviser to the President on Ease of Doing Business
Secretary, Presidential Enabling Business Environment Council (PEBEC)
Enabling Business Environment Secretariat (EBES)

January, 2021

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Globally, a large percentage of business organisations are categorised as small business, with a corresponding indisputable importance to both developed and developing economies. According to the World Trade Organization, micro, small and medium size enterprises (MSMEs) make up over 95% of all firms, accounting for approximately 50% of value-added and 60% of total employment. Micro enterprises, the smallest component of the MSME sector, are increasingly the largest sources of employment in many developing countries, especially for women and youth.[1]

In Nigeria, MSMEs contribute approximately 48% of the national Gross Domestic Product (GDP), accounting for nearly 96% of businesses and just over 84% of employment. According to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), Nigeria had approximately 41.5 million MSMEs in 2017, split into 99.8% for micro-enterprises and 0.2% for small and medium enterprises. The National Bureau of Statistics (NBS) reported that MSMEs in Nigeria contributed about 48% of the country's GDP between 2014 to 2019 and accounted for about 7.3% of goods and services exported from the country.[2]

As Nigeria continues on its drive for diversification from over-dependence on oil for export =revenues, MSMEs are considered a strategic pillar to actualising industrialisation and inclusive economic development in Nigeria. However, the sector continues to be weighed down by challenges that ultimately impact on economic growth. Limitations experienced by MSMEs include lack of access to finance to finance, difficulty in accessing (wider) markets, poor product quality, inadequate productive capacity, lack of technical know-how and challenges with regulatory compliance. Therefore, it is imperative to identify and implement policies that will unlock MSME competitiveness and growth to the benefit of the economy.

MSMEs are overwhelmed by regulatory demands emanating from multiple operating across the three tiers of government, compounded by scarcity. The scarcity of compliance information required for compliance, a divergence between established procedures, and actual experiences, especially in terms of cost and time. However, the quantum of the cost incurred by MSMEs for compliance is yet unknown. Hence, the Presidential Enabling Business Environment Council (PEBEC) commissioned this pilot study to capture the regulatory burden of MSMEs, which invariably includes tangible, intangible and opportunity costs.

KEY FINDINGS – COST OF COMPLIANCE TO MSMEs

For the purpose of the study, the total cost of compliance refers to the sum of all efforts an enterprise commits to meeting its compliance obligations, including the actual fees and levies paid to the authority. This can be both time and money. This study, which benefited from the participation of over 250 MSME business owners and managers in Lagos and the FCT, provides an overview of the experience of MSMEs and the impact of regulatory burden on businesses. This study offers a new perspective into the obligations affecting MSMEs through qualitative and quantitative feedback and underpins the recommendations herein.

01 Interactions between government authorities and MSMEs in Nigeria is poor, leading to pervasive use of middlemen.

The study revealed an inadequacy in the exchange of information between MDAs and MSMEs, with a majority of MSMEs having no actual contact with agencies. Equally, MSMEs are largely unaware of communication channels in existence, as well as the nature of levies imposed by MDAs.

In addition, most government agencies do not actively engage their customers and where information is provided, the content is generally poor and difficult to navigate. Indeed, 69% of respondents had not been contacted at all by government agencies in the past year. Likewise, the available communication channels do not always serve their purpose as they are either often not monitored in MDAs or poorly manned in others. A few outliers however exist. They include the Nigerian Export Promotion Council (NEPC), Lagos State Signage and Advertisement Agency (LASSAA), Standards Organisation of Nigeria (SON), Federal Inland Revenue Service (FIRS), and Lagos State Internal Revenue Service (LIRS).

The Nigerian Export Promotion Council (NEPC) was identified as the most responsive by respondents. The NEPC was found to answer telephone calls made to its official numbers and equally responded to emails comprehensively. More importantly, the NEPC team was able to provide enquirers with useful information when engaged Similarly, the customer service unit of LASSAA was found to be very helpful; staff members were knowledgeable about the agency's processes and were professional. SON was also noted to have helpful staff who are able to provide useful information. It is noteworthy that for many agencies, telephone lines were not manned and emails were not unattended to. For trademark certificates, overseen by the Federal Ministry of Industry, Trade & Investment (FMITI), there appears to be no tangible information available to MSMEs about its processes. The impact of this is evident from survey findings, with almost all the respondents indicating they used a third party to get approval for a trademark certificate.

02 Total burden of compliance is underscored by six common issues across the key agencies MSMEs identified in the study. They include consultancy costs, staff- related issues and service, unclear processes, bribery, corruption and erratic e-processes.

Out of six (6) core challenges identified in the study, the most burdensome issues for MSMEs appeared to be consultancy costs, staff-related issues and poor service, and unclear processes. In the context of cost-related challenges (which again includes consultancy, direct admin costs, bribery and extortion), the National Agency for Food and Drug Administration (NAFDAC) and Standards Organisation of Nigeria (SON) seem to be top of mind for MSMEs. Respondents in the food and water manufacturing industry demonstrated high compliance, although they described the process of obtaining NAFDAC permits as tedious and expensive. In contrast, MSMEs had lower compliance for SON regulatory processes; the MANCAP[3] certification issued by SON to local manufacturers has a generally low compliance level. One explanation for this is that many MSMEs say they do not see the difference in the roles performed by the agency when compared to NAFDAC.

03 Besides Corporate Income Tax and Personal Income Tax (PAYE) paid to Federal and State Governments, MSMEs consider compliance at the Local Government level to be most burdensome. Mutiple taxes are arbitrarily charged. During collection, business owners. also experience harassment

For tax compliance, PAYE, Corporate Income Tax (CIT), and Witholding Tax (WHT) reconciliations appeared to be the most onerous, followed by local government levies, especially with respect to vehicle permits, premise taxes, shop & kiosks rates, radio and television (TV) taxes. MSMEs reveal that local government taxes are arbitrarily charged and there is little information on what official fees are or what official procedures look like. For example, a creative and retail enterprise in Lagos that manages its own product delivery logistics faced harassment for various vehicular permits, particularly at the local government level. Not knowing the appropriate steps to take, the business employed services of a Vehicle Inspection Office (VIO) staff member who provided consultancy support and completed the compliance process. Similarly, businesses reported that television and radio taxes are forced on them, even when they do not own any of these appliances. Also, shop and kiosks rates were said to be arbitrary, appearing to increase at the whim of the collection officer.

Key issues with PAYE and CIT shared by the MSMEs include arbitrary judgement on tax assessment, extortion and excessive delays with WHT refunds.

04 An average MSME pays additional fees to get a compliance process done 51% of the time. Total cost to businesses is more than twice the official costs and estimated to be up to 113% of the official fees paid to the authority.

The results of this study confirm wide discrepancies between the expected and actual cost of compliance in Nigeria. Lengthy processes and payment of unofficial fees have led to the accumulation of huge costs for enterprises, with resulting negative impact on the economy. From our analysis, the total cost of compliance (over a three year period - 2018 to 2020) was estimated at NGN24bn. This figure consists of compliance costs for Corporate Affairs Commission (CAC), NAFDAC, Mandatory Conformity Assessment Program (MANCAP), FMITI, FIRS, and NEPC, estimated at NGN18.8b, NGN2.6b, NGN1.2bn, NGN660m, NGN591m, and NGN224m respectively, at start up. This is made up of avoidable costs (from delays and unofficial fees) of up to N14bn. In fact, unofficial costs associated with NAFDAC, for example, could go up as high as ten times the official fees, as MSMEs continue to use intermediaries to complete registration processes with the agency. Similarly, post start-up regulatory costs could be up to NGN3bn – based on business regulations under consideration in this study.

While the CAC has successfully introduced an electronic channel for services, with positive feedback from MSMEs, some process aberrations however still exist. From the study, it was gathered that respondents that successfully registered companies through the CAC electronic application channel were delighted by the timeliness and precise processing cost; nevertheless, this experience was not consistent due to the unreliability of the electronic application channel.

05 In addition to high regulatory costs, MSMEs face difficulties meeting up with compliance obligations - this is estimated to be common for approximately 77% of MSMEs.

From the responses received for this study, 77% of Nigerian enterprises, on the average, have faced challenging compliance issues while 75% and 79% of respondents specifically found them to be a hassle in Lagos and Abuja, respectively. The enterprises facing the least the least hassle are those in the creative sector while manufacturers felt the highest hassle, emerging 12% higher than the average.

We can infer the reasons behind the difficulties as correlating with some of the most challenging issues faced by MSMEs, such as high consultancy costs, staff support or competence, and lack of transparency in the compliance processes.
Notably not much of it is impacted by the official fees paid to the government.

A review of how regulatory burdens for MSMEs was surmounted in selected countries across Africa, North America, Europe, and Asia revealed various actions and strategies employed to support a viable MSMEs ecosystem and lighten the regulatory burdens on start-ups and small businesses as follows:

LEADING GLOBAL PRACTICES

SN	Leading Global Practices
1	**Implementing one-stop shops for Business Registration** The 2020 Doing Business report noted that about 80 countries introduced or improved one-stop shops as reforms to lighten the regulatory burden. Timor-Leste one-stop-shop drastically reduced the number of days to start a business which immensely improved the country's ease of business rating. Also, Mexico one-stop-shop portal was an enormous relief for businesses.
2	**Implementing Strong Communication and Complaint Systems** The South Africa Revenue Services (SARS) developed a responsive complaint management system to resolve dissatisfaction in regulatory agencies' services.
3	**Improving Administrative Co-ordination** Many countries have agencies in the multiple tiers of government with which the businesses must interact. Visiting and complying with requirements from individual agencies places an enormous burden on businesses. South Africa's InvestSA demonstrates a productive business-oriented alliance between agencies of the three tiers of government.
4	**Leveraging Information and Communication Technology (ICT) for reduced burden** Government agencies have adopted technology to improve process efficiencies. Belgium developed a 3-stage online business registration process. While Kenya designed a mobile app to augment government services primarily to small businesses.
5	**Rationalising/Aligning Compliance Information** Many small businesses spend already strained resources sourcing for regulatory information, often engaging professional services to get accurate information. The Canadian and United States governments reduced the burden of seeking information by providing a web-based customised (per sector) regulatory requirement list for businesses.

SUGGESTED INTERVENTIONS

Based on the identified issues and gaps, the most impactful interventions to tackle high regulatory burden to MSMEs will include the revision of the definition of MSMEs and applicable tax rates, provision of simplified electronic-based account filing, rationalising information and harmonising local government fees, strengthening e-applications; transforming service delivery and improving communication and access to regulatory information; and finally, improving the single point of contact for MSME regulations.

A long list long list of recommendations to help Nigeria achieve its objectives are discussed below. Detailed recommendations with the rationale behind each recommendation and considerations that influenced the proposed recommendations are further discussed. Detailed recommendations with the rationale behind each recommendation and considerations that influenced the proposed recommendations are further discussed.

SN	Recommendation Scope	Recommendation
1	**Tax rates for MSMEs**	Increase the threshold for small companies to N50m while medium-sized companies should be adjusted to between N50m and N200m. The CIT rate for medium-sized companies should be reduced to 15% (half of the rate for large companies).
2	**Definition of SMEs**[4]	Introduce a clear and consistent definition for SMEs for tax purposes. For example: a. Turnover should be accounting sales or revenue of a company. b. A small company can be classified as those with a turnover not more than N50m, while medium-sized companies could be those with a turnover above N50m up to N200m.
3	**Address the burden of audited financial statements for MSMEs**[5]	The newly re-enacted Companies and Allied Matters Act 2020 (CAMA 2020) exempts small companies from preparing audited financial statements. Small companies should equally be exempted from preparing audited financial returns to harmonise with the requirement of CAMA. A simple template for preparing accounts (which can also be easily made for online use) to accompany returns for both CAC and tax purposes should be introduced.

SN	Recommendation Scope	Recommendation
4	**Rationalise taxes and charges payable by MSMEs**	Review the Taxes and Levies (Approved List for Collection) Act and consolidate many of the taxes applicable to MSMEs such the maximum number of taxes is not more than five (5). Also, a cap should be introduced for regulatory charges. For instance, no regulatory charges for an SME should exceed N10,000. As a medium-term plan, the Constitution should be amended to limit the number of taxes that may be imposed by each level of government to a single digit, and collection of taxes in cash should be prohibited.
5	**Improve/enhance the single point of contact for MSME regulations**	There needs to be the creation of awareness for initiatives such as the MSME Clinics (one-stop-shop being implemented across states in Nigeria). More so, a legal requirement for all agencies of government to connect to such SME one-stop-shop initiatives must be established. This may also serve as a means of obtaining continuous feedback from MSMEs and an avenue for managing complaints. PEBEC could consider an annual award for the most MSME friendly agencies to engender a healthy competition between agencies for promoting MSMEs.
6	**Improve communication and access to regulatory information**	Provide information database or portal containing required documentation, fees, timelines, responsible agency, link to the agency website, etc., such as USA's SBA. Information should be customized according to business needs. For instance, information can be provided according to the tier of government that demand the requirement, industry-specific requirements, size of business regulation is applicable to, etc. With access to information, business owners can choose to perform the processes by themselves without engaging lawyers or agents.

SN	Recommendation Scope	Recommendation
7	**Promote electronic processes – limit manual processes operating alongside digital processes**	Enforce electronic processes and eliminate alternative manual processes. However, electronic processes must be user-friendly, reliable and have electronic guides to help users. Emails, phone numbers and webchats of agencies must be functional so that inquiries can be made virtually. TIN should be stated on CAC certificates of incorporation or business name registration.
8	**Regulators must implement a complaint management system, which will include a whistleblowing system as well**	All agencies should be required to implement effective complaint management systems, with oversight from the supervisory Ministry or an independent body such as the Public Complaints Commission. Complaint management office should facilitate interactions with citizens through several channels, such as call centres, electronic portals, in-office and mobile apps, to make registering complaints convenient and responsive. Complaints should be tracked and resolutions communicated to the citizen so that necessary actions can be taken and confidence in the system can be rebuilt. The complaint management system should include whistleblowing channels where SMEs can share unethical and unprofessional dealings in the agencies as soon as they are encountered. To ensure effective whistleblowing, agencies must publish their processes, timelines and fees so that citizens can benchmark expected experience to the actual. Agency officials should be required to use name tags and Identify cards and have trackable electronic and manual personal stamps. This will enable tracking of transactions to the erring individual for adequate resolution.
9	**Transform agencies exhibiting an anti-business disposition**	Push for reform of service delivery at key agencies to include upskilling staff on digital skills, professionalism etc. This may also require a skills audit to determine competency requirements as well as a system of rewards and penalties for staff members. Set appropriate KPIs for staff of relevant agencies to drive the right behaviours, e.g. percentage of requests attended to, the average time to attend to a case etc.

SN	Recommendation Scope	Recommendation
10	**Harmonise local government fees and collection mechanism**	Group and harmonise all local government tickets or levies and design collection mechanisms to allow more processes to be done at one time and in one place. For example, collection may be enabled with a mobile app for both payments and a similar platform used for checks by the local government officials during visitation.
11	**Restore MSME confidence in the government**	Results of activities such as MSME surveys and outcomes of improvement initiatives should be made public in order to boost confidence in the system.
12	**Duplicate regulatory function of Standards Organisation of Nigeria (SON) and National Agency for Food and Drug Administration (NAFDAC) in the food and drug sector**	Educate MSMEs on the oversight responsibilities of SON and NAFDAC to ensure that there is a fair understanding of the scope and activities of the two agencies, especially for the food manufacturing segment. Explore savings that can be achieved for manufacturers in SON and NAFDAC's certification processes.

1

INTRODUCTION AND PROJECT OVERVIEW

1.0 INTRODUCTION AND PROJECT OVERVIEW

Nigeria, the largest economy in Africa by Gross Domestic Product (GDP), is a mixed economy and an emerging market with growing manufacturing, agriculture, financial, communications, service, technology and entertainment sectors. Though oil is the largest source of government revenue and the highest contributor to foreign exchange (about 80% and 95%, respectively), it however only contributes about 10% of the GDP.

The oil and gas sector, aviation oil and gas sector, aviation, food manufacturing, financial services and telecommunication witness heavy regulation from the government, including price controls, monetary policy and restrictions on investments. Sectors that experience less regulation from the government-agriculture, retail, hospitality, information and communication technology – are driven by supply and demand forces, which ease market entry and create room for innovation to thrive.

The Nigerian economy has a large population of micro, small and medium enterprises (MSMEs). MSMEs play an essential role in any functioning economy. They create employment and sustain the growth of the middle class. The high-risk appetite of small businesses – driven by their flexibility and need to bring new solutions into the market – puts them at the forefront of innovation. For example, innovation in the retail and the banking sector, where payments and e-banking have seen increasing digitalisation, was led largely by MSMEs.

According to the 2007 National Policy on Micro, Small and Medium Enterprises of Small and Medium Enterprise Development Agency of Nigeria (SMEDAN), micro, small and medium enterprises are defined as businesses employing less than 200 people and having assets (excluding land and building) of less than NGN500m[6]

Table 1: Categorisation of MSMEs in Nigeria

SMEDAN - National Policy on Definition for Micro, Small, and Medium-size Enterprises

Indicator/Size of the Enterprise	Micro-Enterprise	Small Enterprise	Medium-size Enterprise
Number of Employees	≤ 10	10 to 49	50 to 199
Total Assets (₦)	≤ 5 million	≥ 5 < 50 million	≥ 50 < 500 million

Additionally, the Bank of Industry (BOI) defines Nigerian MSMEs as businesses with an annual turnover of up to NGN500m (see below).

Bank of Industry's (BOI) Definition for Micro, Small, and Medium-size Enterprises			
Indicator/Size of the Enterprise	Micro-Enterprise	Small Enterprise	Medium-size Enterprise
Number of Employees	≤ 10	>11≤ 50	>51 ≤ 200
Total Assets (₦)	≤ 5 million	> 5 ≤ 100 million	≥ 100 < 500 million
Annual Turnover (₦)	≤ 20 million	≤ 100 million	≤500 million

Source: Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) & Bank of Industry

MSMEs (often referred to as small businesses) contribute significantly to the economy – comprise 99.8% of all enterprises, contribute up to 50% to GDP and employ about 86% of the working population. This is similar to the contribution of small businesses in other economies – developed and developing *(see figure 1 below)*. According to the World Bank, MSMEs represent about 90% of businesses and more than 50% of employment worldwide.

Figure 1: Contribution of MSMEs to the Economy (2019)

Country	% of Business	GDP	Employment
USA	99.9%	44%	48%
UK	99.9%	51%	60%
Germany	99.5%	54%	64%
South Africa	91%	52%	60%
China	98.6%	60%	80%
Nigeria	99.8%	48%	63%

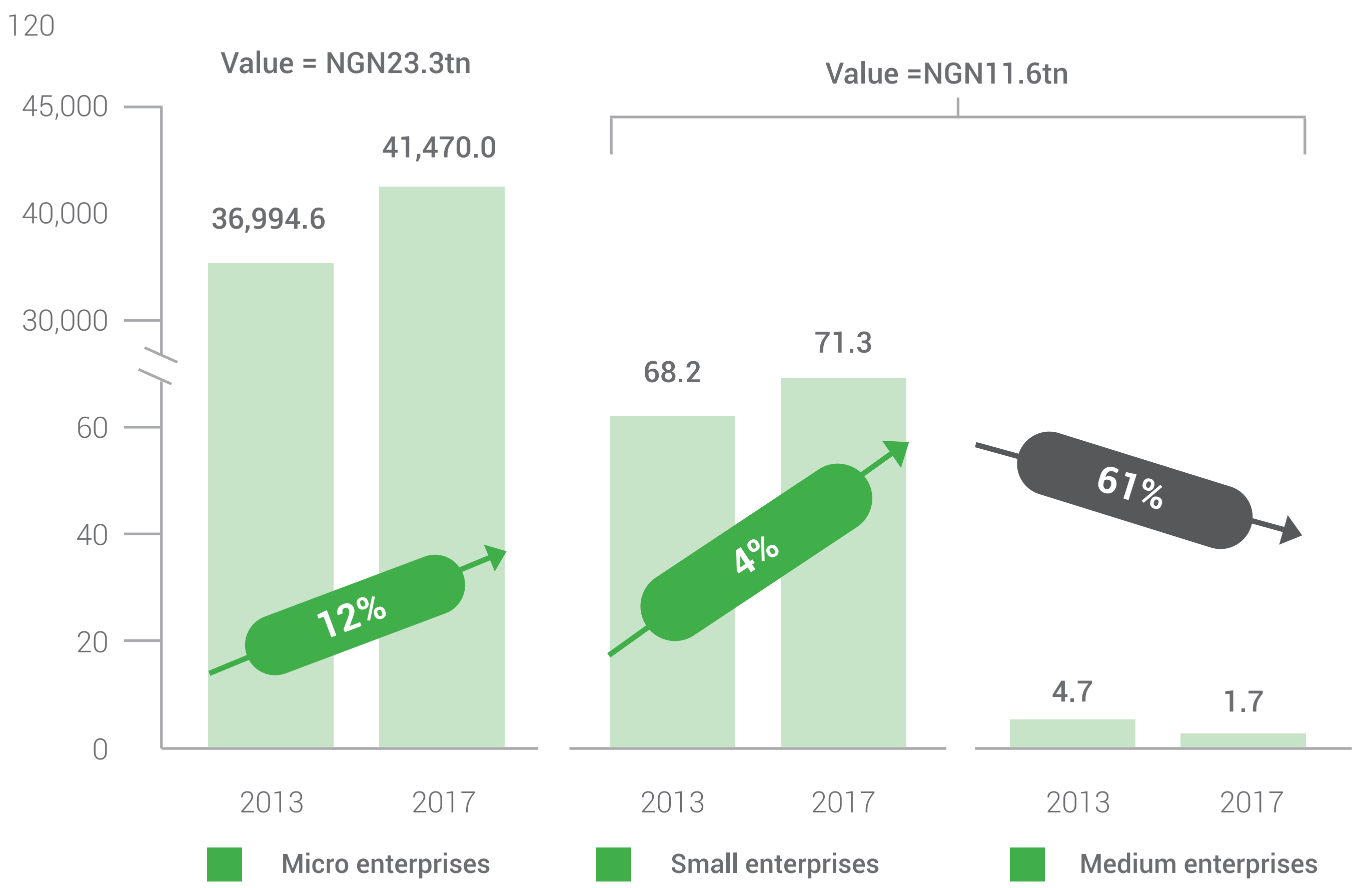
Source: European Commission, U.S. SBA, FMITI, OECD, PwC Analysis

It should be noted, however, that there is no generally accepted definition for MSMEs globally. They are often defined by a specific size of assets, revenues and number of employees. Under any of these parameters, the criteria for determining whether a business can be categorised as an MSME varies from one country to another.

In 2017, Nigeria had 41,543,028 MSMEs, with 99% of these being micro-enterprises. In the same year, SMEDAN reported 59,647,954 jobs were generated by MSMEs - of that number, micro-enterprises contributed about 95%. Between 2013 to 2017, the micro-enterprises segment grew by 12%, increasing from 36,994,578 enterprises to 41,469,947 enterprises. Small enterprises grew by 4% in the same period, from 68,168 to 71,288 in 2017, but medium enterprises declined by 61%, from 4,670 to 1,793.

Based on our analysis, the micro-enterprises segment is estimated to hold a segment value of about NGN23.3trn, while small and medium businesses, about NGN11.6trn (2017) (see figure 2 below).

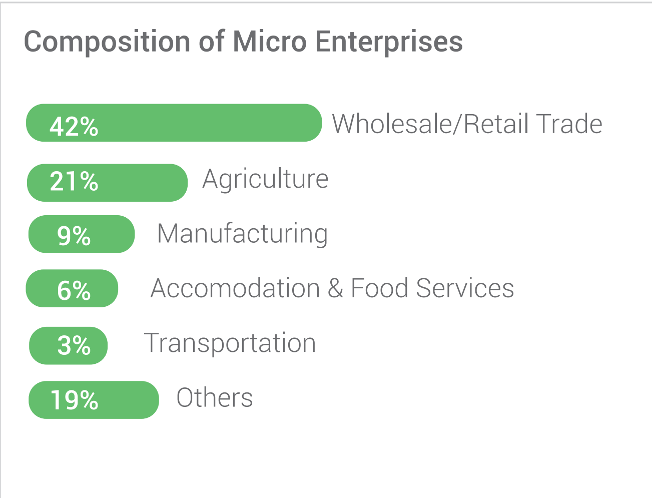
Figure 2: Size of MSME Segment in Nigeria [7]

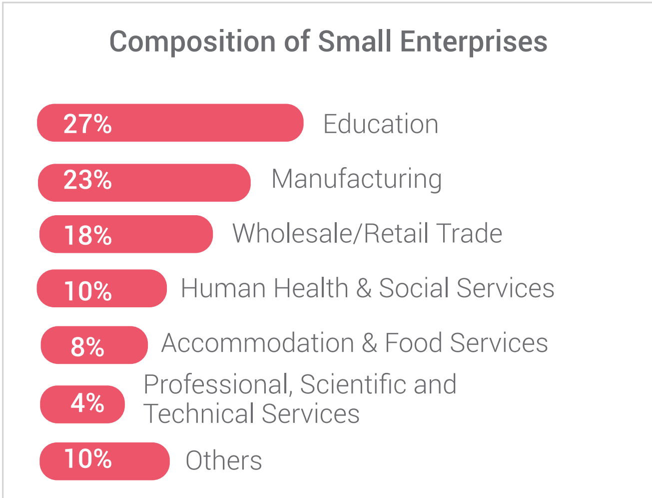


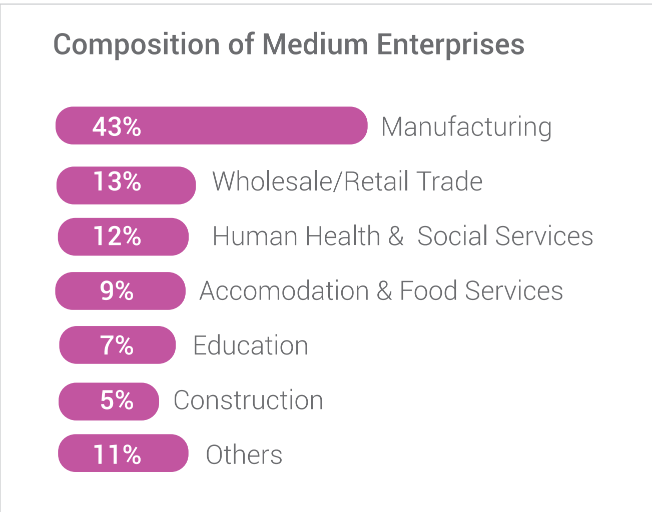
Source: PwC Analysis, Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) & National Bureau of Statistics (NBS) MSME National Survey 2017

Five (5) sectors dominate the small and medium enterprises segment. They include education, manufacturing, retail or wholesale trade, health/social works and food/accommodation sectors, which make up 86% of all small enterprises, and 84% of medium enterprises. On the other hand, the top sectors dominating the micro-enterprise segment includes wholesale/retail trade sector, agriculture, manufacturing, accommodation and food services, accounting for 77% of all micro-enterprises in Nigeria (see figure 3).

Figure 3: **Sectorial Distribution of MSMEs in Nigeria**







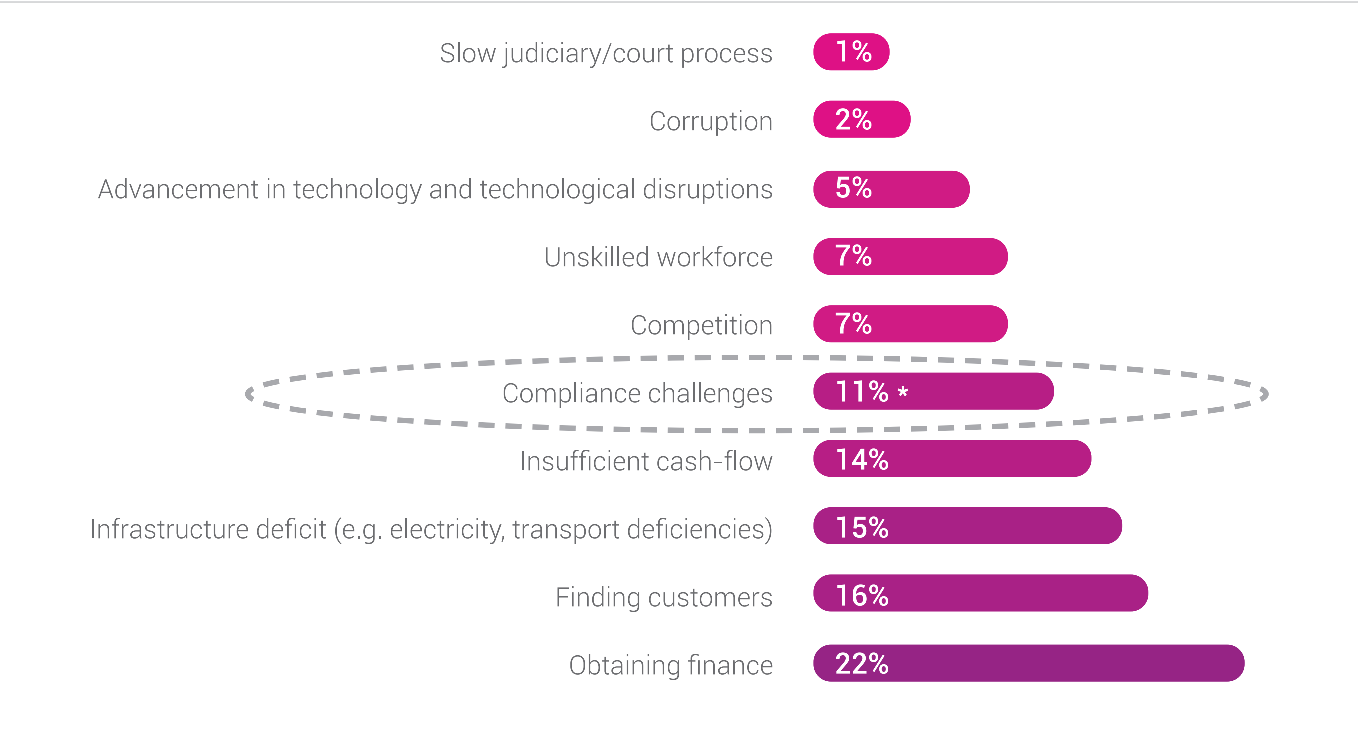
A large number of MSMEs creates competitive market pressure, promotes policies that favour a level playing field[8] and encourages good governance practices. However, due to constraints within the business environment - characterised by poor access to finance, hard-to-navigate regulatory processes, amongst others - this contribution is deemed to be well below its potential.

Source: Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) & National Bureau of Statistics (NBS) MSME National Survey 2017

1.1 PROJECT BACKGROUND

It is estimated that only 20% of MSMEs survive beyond their first five years in Nigeria.[9] Challenges encountered include poor access to finance, access to customers, lack of skilled human resources, infrastructure deficit, compliance-related issues (including multiple taxes and regulatory challenges) and a generally high cost of doing business. (see figure 4)

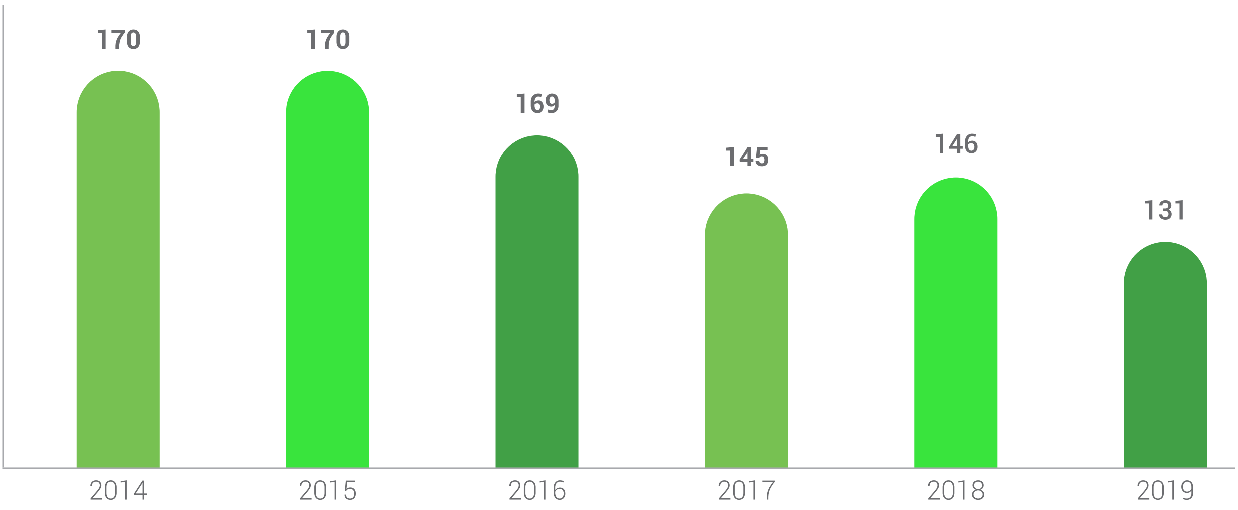
Figure 4: **Top Challenges Faced by MSMEs in Nigeria**



Source: PwC MSME 2020 Survey

Nigeria has consistently ranked in the 100's amongst the 190 economies in the World Bank Ease of Doing Business (EoDB) index. The EoDB index compares business regulation in 190 world economies, using various indicators including paying taxes, getting electricity, getting construction permits, registering property, contracts, resolving insolvency, trading across borders, starting a business, getting credit and protecting minority investors.

Figure 5: **Nigeria's Ease of Doing Business Rank: Nigeria's Ease of Doing Business Rank (1-190)**



Source: World Bank

According to the World Bank, a low EoDB ranking (1 is best business environment and 190 is worst) implies that a country's regulatory environment is more conducive for starting, operating and expanding local businesses. Nigeria's steady progress in the last five (5) years is as a result of improvements in business regulation and the ease of complying with the regulations. For example, improvements have been reported in business registration processes, enforcement of commercial contracts, arrival visas for foreigners and getting construction permits.

The Presidential Enabling Business Environment Council (PEBEC) was established in 2016 to improve the ease of doing business, by minimising regulatory burdens and administrative bottlenecks across government ministries, departments, and agencies (MDAs). This includes addressing identified structural constraints that fundamentally make Nigeria a difficult place to do business. Since the inception of the PEBEC, Nigeria's ease of doing business ranking has improved, owing to direct reform initiatives implemented by the Council. The latest EoDB report sees Nigeria improving 15 places from 2018 ranking of 146 to 131 in 2019, out of 190 countries on the ease of doing business index (see figure 5 above).

Specifically, Nigeria recorded significant improvement in eight out of the ten main indicators (starting a business, dealing with construction permits, getting electricity, registering a property, paying taxes, trading across borders and enforcing contracts). Nigeria recorded little progress in areas like paying taxes and resolving insolvency.

Anecdotal feedback suggests that the realities of doing business in Nigeria h less than favourable. There are claims that the current improvements are not felt by the businesses. Some have cited that there are many hidden costs that increase business overheads. Others have cited several 'off the book' administrative demands, levies and ad-hoc costs. These fees, taxes, levies, auxiliary costs significantly affect the competitiveness of MSMEs, which in turn impacts their survival rate. In recognition of this, the Federal Government included, as one of the the objectives of the ERGP, the removal of obstacles that hinder Nigerian businesses.

In order to further deepen reforms targeted at the removal of obstacles for small businesses, the PEBEC sought to better understand the regulatory burden faced by these businesses. To this end, the PEBEC commissioned the study to capture the regulatory burden borne by MSMEs, which invariably includes tangible, intangible and opportunity costs (time spent pursuing additional information, psychological impacts, and non-compliance implications (including harassments and bribery)); and analyse the impact on their ability to continue to do business. Specifically, this study aims to provide output that will:

- Estimate the cost of regulatory compliance
- Facilitate dialogue with policymakers
- Drive policy-making (evidence-based updates to the 2020 Finance Bill and regulatory cost reduction)
- Ultimately, contribute to improving the ease of doing business and growth of MSMEs

1.2 PROJECT SCOPE

The primary focus of this study was to estimate the compliance costs for small businesses operating in Lagos and Abuja only. It involved the following activities:

- Assessing the financial impact of direct taxes, levies and charges, as well as additional regulatory and administrative costs on small businesses (focusing on companies with a turnover between NGN25m and NGN100m[10]; and in seven (7) key sectors including Agriculture, Light Manufacturing, Technology, Creative Sector, Transport and Logistics, Decentralized Power and Trade[11]).
- Mapping the number of primary regulatory and administrative agencies significantly engaging with MSMEs across the sectors.
- Identifying cost implications on SMEs due to duplications or overlaps in regulatory functions and administrative activities in primary regulatory and administrative agencies engaging SMEs.
- Compiling a list of additional agencies with secondary regulatory footprint and associated costs across the key sectors.
- Analysing the efficacy of communication tools used by government agencies to interact with SMEs.
- Proposing recommendations and evidence-based inputs for the ease of doing components of the 2020 Finance Bill.

1.3 PROJECT APPROACH

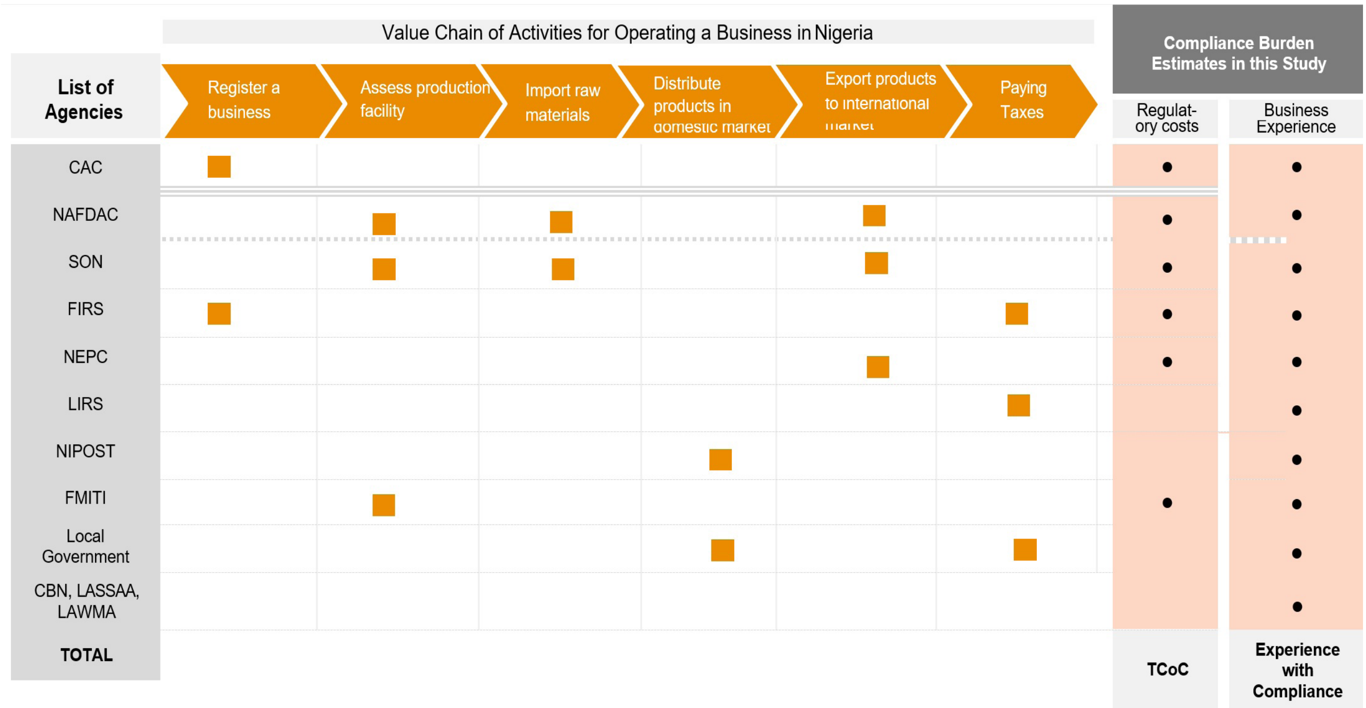
The project adopted a four-phased integrated approach in response to scope requirements. As shown in figure 6 below, the high-level approach covered four project phases, starting with planning for the study. The field survey and data collection phase mainly relied on primary research (using surveys, interviews and focus group discussions), validated through secondary research (a desktop review of existing literature).

Figure 6: **High Level Project Approach**

Source: World Bank

Across phases 2 and 3, a "bottom-up" approach was adopted to capture the multiple aspects of the compliance burden, based on the opinions and experience of small businesses in respect of complying with applicable regulations in the normal course of doing business.

Figure 7: **Mapping of Agencies and Value Chain of Doing Business**



The key steps taken are captured below:

- **Step 1 Identification of compliance obligations**: The approach focused on the most significant regulations to enterprises across their 'doing business' value chain. The study covered areas such as starting up a business, ongoing compliance, using consultants and communicating with regulators (see figure 7). It became apparent that MSMEs identify their obligations by their sources, that is, the agencies they deal with.

- **Step 2 Identification of regulators**: Following the responses from the survey, compliance requirements were sorted by the agencies the MSMEs interacted with. Then, the highest mentioned compliance requirements were considered for further analyses. Based on the available data, we only present sufficiently representative results for each level of the analysis.

- **Step 3 Calculation of the burden of compliance for an average enterprise**: The insights from the survey was used to evaluate enterprise level impact of compliance burden for a business. Here, we assessed the experiences described by the MSMEs and the costs incurred by them.

- **Step 4 Assessment of aggregated burden of compliance viz total cost of compliance (TCoC) and business experience with the agencies**: The burden of compliance is reflected in the sum of the costs of compliance and experience at the enterprise level. This was largely considered at the startup stage of the business. We also considered the overall cost of compliance by evaluating a 'national' level impact using certain weights such as the population of MSMEs and general compliance level with a given regulation. At this level, we consider the ongoing costs (renewals) for a small business. The impact of communication gaps between regulators and MSMEs was also assessed in terms of impact on the compliance process.

The merit of this approach is that it incorporates the perspective of enterprises (rather than the opinions of the regulators or other relevant actors). This is a necessary input to getting the reality of the burden of compliance. Given the limited time and resources for the study, the minimum number of responses was put at 250.[12] This sample size was determined to represent the focus population of MSMEs adequately. The study was conducted mainly through quasi-random sampling statistical technique, with the survey deployed to various databases of MSMEs obtained from PricewaterhouseCoopers SME Desk, the Presidential Enabling Business Council, international development organisations, relevant industry associations and the general public.

The primary research methods employed to elicit feedback directly from MSMEs include:

- **Online surveys** – The online survey covered structured questions designed to capture the qualitative and quantitative perspectives of the businesses. The survey was sent to a database of business owners adjudged to be within the scope of interest.

- **Virtual focus group discussions** – The focus groups were critical to unearthing additional insights behind survey results. They were also invaluable for engaging business owners who were averse to online surveys and were moderated using similar question guides. However, the discussions provided more details (and case examples) on the experience of businesses and encounters with government agencies. Participant selection focused heavily on the focus segments of the study, including the targeted revenue class, sectors and location.

- **One-one-one interviews** – Some surveys were completed through 'assisted' telephone interviews, using direct calls and web applications. Some interviews were also completed to clarify information shared by participants of focus group sessions and involved business owners and managers.

- **Regulators** were also contacted (largely anonymously) to understand compliance procedures under their purview but also to provide clarification on published information and the regulators' communication strategy. Physical interviews were minimal and were employed as a first step to obtaining buy-in for a telephone-assisted survey.

The secondary research methods entailed a desk review of literature on the MSME segment globally and an assessment of useful regulatory practices in countries that have successfully reduced compliance burden for small businesses. Some of the findings obtained from the MSMEs were also validated using secondary data. Sources of data include SMEDAN, National Bureau of Statistics (NBS), World Bank, Organisation for Economic Co-operation and Development (OECD), websites of various government ministries, departments and agencies, news articles and other similar sources.

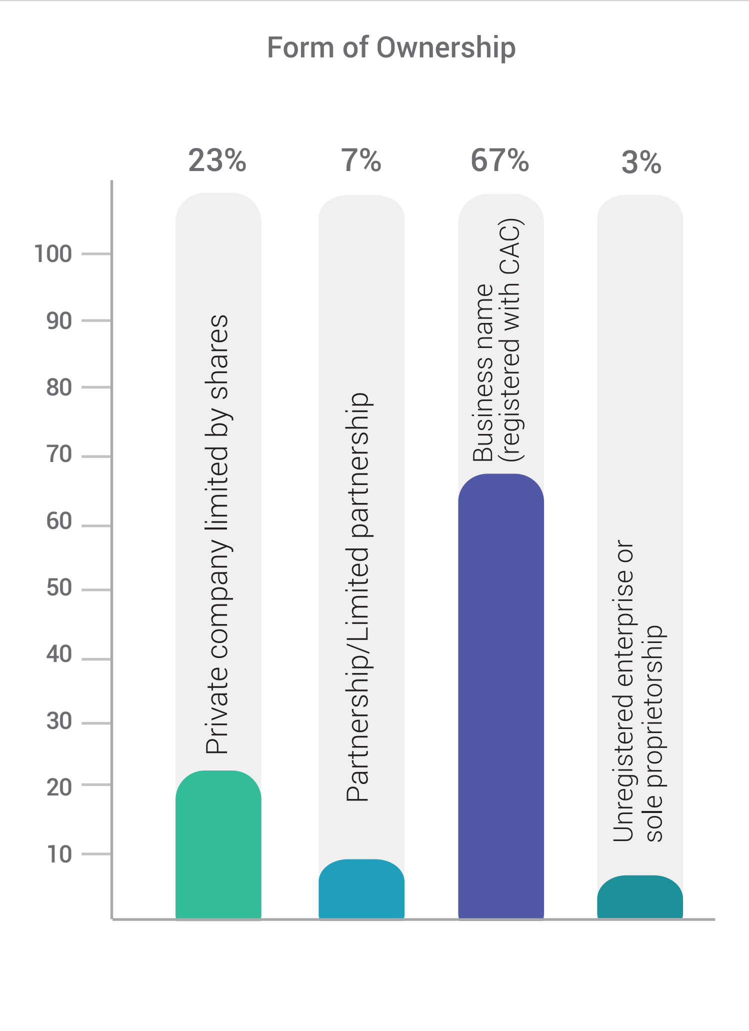
Finally, data from the market study was analysed by distilling common ideas from qualitative responses, highlighted with cases and examples. The qualitative analysis focused on evaluating the questions on difficulties raised by compliance requirements and the open questions on suggestions for improvement included in the survey. This enabled further explanation and clarification of the results of the quantitative analysis and provided another basis for the formulation of recommendations. Simple statistical methods including averages and frequency tables were employed to develop quantitative indicators where they exist. The results presented in this report draw mainly from feedback from the businesses and represents the voice of businesses, and their perception of regulation in Nigeria.

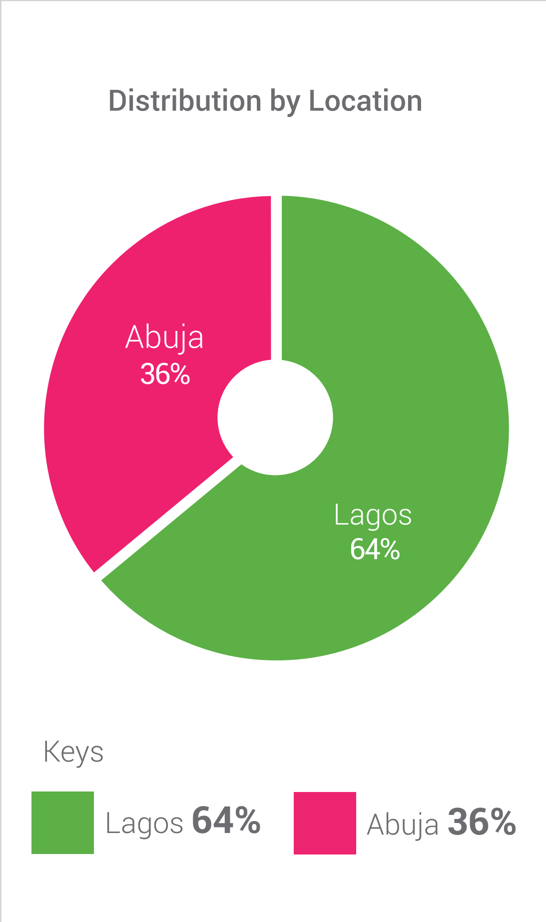
1.4 PROJECT LIMITATIONS

Data collection exercises related to compliance generally have inherent limitations to them, and this study is no exception. Respondents are inclined to overstate issues, make generalisations, and it is often difficult to draw robust quantitative conclusions.[13]

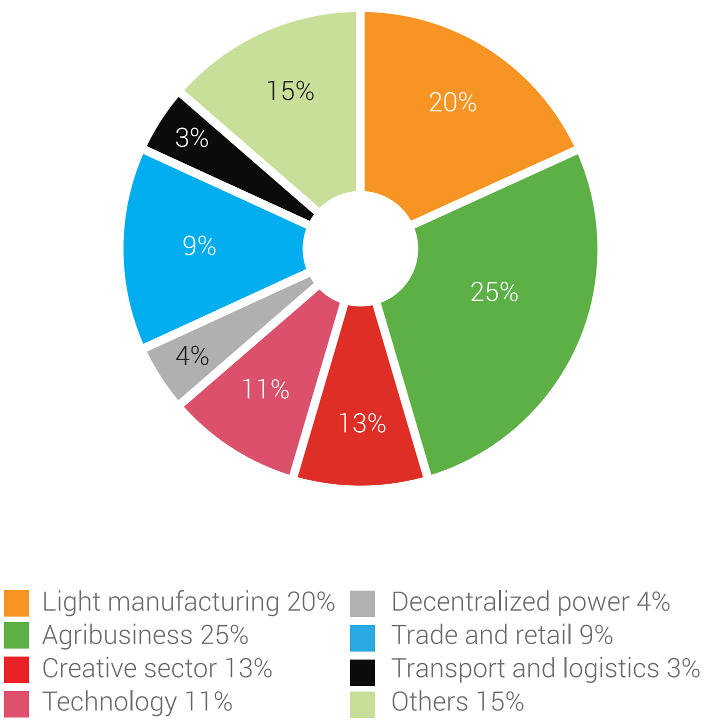
For this project, over 1500 SMEs were contacted for the study, out of which 260 responses were obtained. The poor response was occasioned by a general apathy for research studies, festivities during the time of the study and the unavailability of targets within the project timelines. However, the distribution of respondents covered the core sectors, pilot locations and gender representation adequately (see figure 8).

Figure 8: **Profile of Survey Respondents**

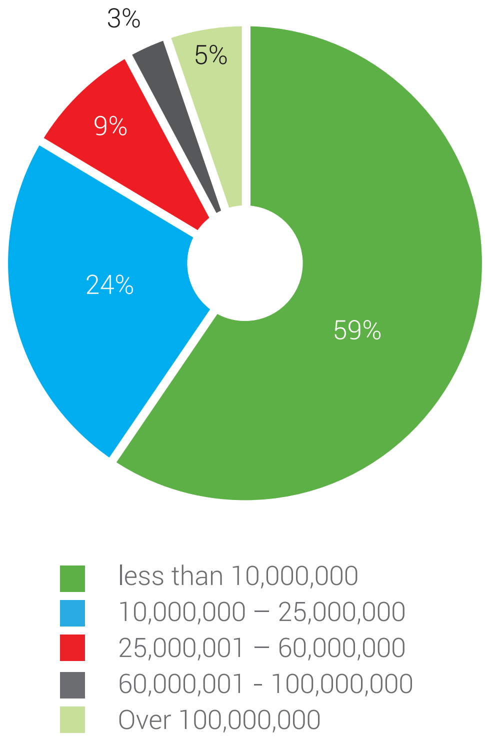




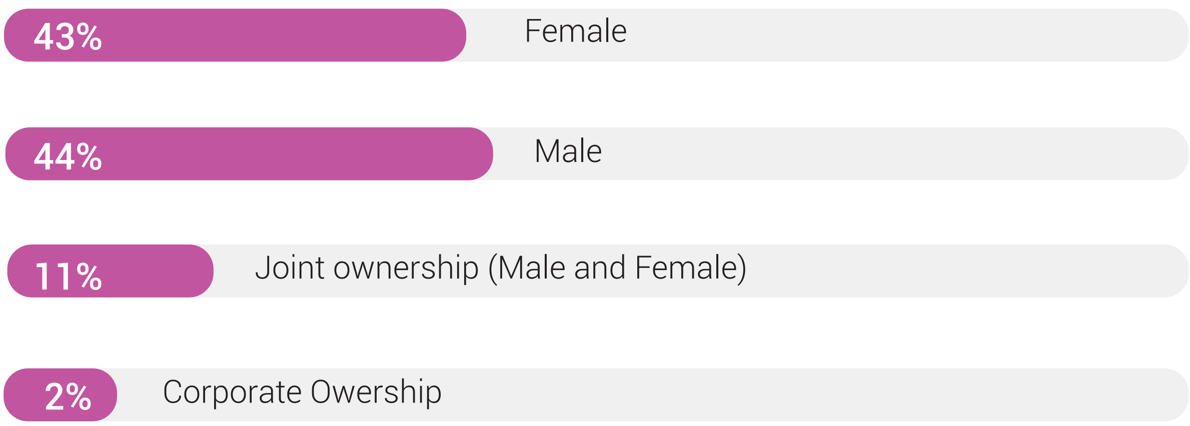
Distribution by Business Sector



Annual Turnover of Respondents (NGN)



Composition of Medium Enterprises



This study was subject to five (5) main limitations:

1. **Poor response from focus segments** (generating annual revenue of over NGN25m).
There was generally poor response from businesses in that category despite engagement via various channels and industry associations. To mitigate the effects of this, focus group sessionss were introduced, as well as one-on-one interviews, one-on-one interviews (in place of the questionnaires) and expanded the focus segment to include businesses outside this revenue band and in the early stage of the business life cycle.
This helped to maintain a representative sample of small businesses and capture fresh perspectives from MSMEs that are at the early stage of navigating regulatory hurdles in their businesses.

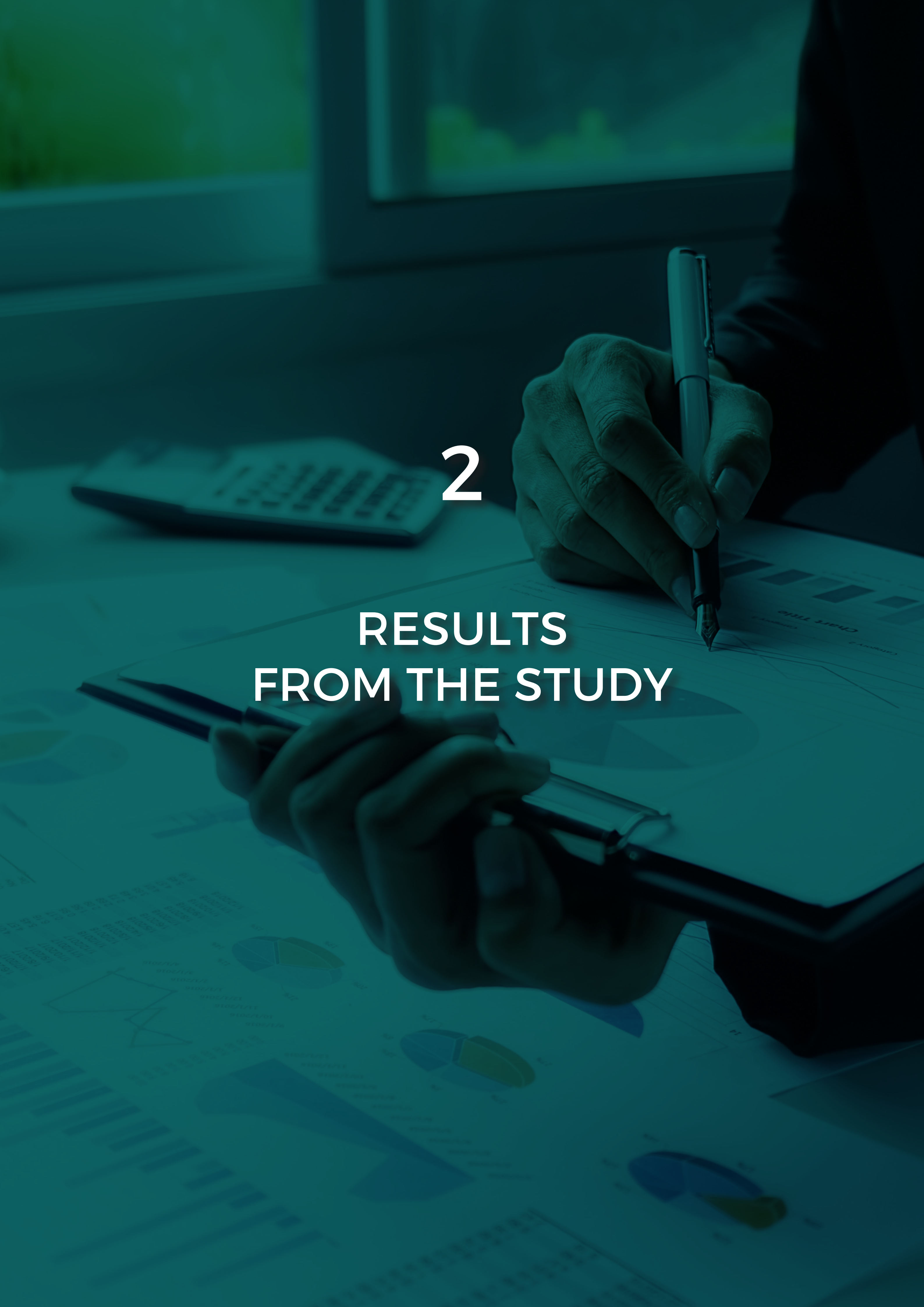
2. **Absence of face-to-face interactions**.
With COVID-19, the survey and most interactions with respondents were facilitated virtually. This delivery method impacted the depth of the study and the ability to get the whole picture occasioned by a reduced ability to pick up on non-verbal cues and corroborate responses.

3. **Novelty of online surveys**.
Some participants expressed a general unease with online surveys and virtual focus groups, others were 'weary' of filling out all questions in the survey questionnaire, and a few interested participants were unable to use the technology. This explains some of the non-responses and low participation in the online survey and focus groups.

4. **Reliance on opinions of small businesses**.
The project methodology is limited to feedback presented by MSMEs and does not include an audit of the responses provided in the study. However, some of the responses received were validated using secondary research and discussions with experts.

5. **Timing of study**
The festivities caused a general slowdown in activities in many of the target businesses. This impacted the overall duration. For example, the survey administration was extended by an additional month.

Please note that these limitations did not impact the quality of the study and recommendations herein because of concerted efforts to mitigate the limitations as they arose.



2

RESULTS FROM THE STUDY

2.0 RESULTS FROM THE STUDY

This section sets out the responses from MSMEs on regulatory compliance and what they consider to be the most burdensome regulations applicable to them. The results presented are responses to open-ended questions covering obligations, approvals, permits and general experience with compliance in areas integral to doing business. The burden of compliance reported is determined by the actual and perceived experience of the MSME. For example, the ability to get information has an impact on intangible costs such as anxiety about compliance (and poor rating of the regulator), and more tangible costs associated with online tracking versus physical visits.

The total cost of compliance (TCoC) is assessed to be the sum of all efforts an enterprise commits to meet its compliance obligations to the authority. TCoC includes official fees paid to the authority, unofficial fees paid out, opportunity costs (cost equivalent of the excess time burden for compliance) and intangible costs associated with compliance (measured by MSME experience in the process of complying).

2.2 GENERAL FINDINGS

The key output of this study includes:

- A mapping of applicable licenses, permits, fees and MDAs, to MSMEs
- An assessment of the ease of accessing information about requirements on various channels
- An estimation of the total cost of compliance covering overall experience and monetary costs

Overall, the respondents almost unanimously reported their experience with compliance tainted by at least one of the following six (6) factors: extortion, bribery, high consultancy costs, erratic e-processes, staff incompetence and finally limited access to information (see figure 9).

Table 1: **Profile of Survey Respondents**

- EXTORTION: MSMEs report having experienced agency officials demanding payment, delays in getting approvals or lockdown of office premises. Agency staff are said to put their personal gains above economic gains.

- BRIBERY: To speed up processes, MSMEs often willingly pay officials to speed up processes and cut through the ambiguity presented by agency officials.

- CONSULTANCY (AND OTHER ASSOCIATED) COSTS: Often, MSMEs do not have the technical knowledge required to prepare the requirements to obtain permits. Since agency officials are either not equipped or unwilling to provide assistance, SMEs must incur high consultation costs. Some procedures may also require preparation or ongoing costs that are only convenient for larger enterprises. This includes standard but unavoidable requirements, such as business and risk plans, costs to transport officials (e.g. NAFDAC), and others.

- ERRATIC E-PROCESSES: A few agencies have adopted electronic processes which should provide respite to MSMEs; however, these electronic application processes are unreliable. Respondents in this study report being unable to complete the electronic application processes (due to upload errors, downtimes etc.) and resorting to the manual processes after several trials.

- INCOMPETENT STAFF/SERVICE ISSUES: MSMEs report difficulty in completing certain processes due to staff incompetence, such as regulators' staff not having enough information about a process, being unprofessional and providing poor services to support MSMEs. This results in processing delays and several visits to the agency.

- LIMITED ACCESS TO INFORMATION: At the start of the entrepreneurship journey, MSMEs want to know what licenses are required, the cost and the processes. However, the information provided to the public by agencies is either limited, outdated or in formats that are not easily understood. SMEs turn to intermediaries such as lawyers to process permits in exchange for time to nurture the companies to solve this challenge. Due to insufficient information, SMEs begin to incur additional unofficial costs from business startup

Source: Market Study

MAPPING OF APPLICABLE LICENSES AND MDAS – KEY FINDINGS

The compliance requirements highlighted by MSMEs encompass general (such as business registration at the Corporate Affairs Commission and compliance with tax authorities) and industry-specific regulations at federal, state and local government levels.

Table 2 presents a mapping of 26 compliance requirements and the relevant authorities overseeing them (up to 21), as identified by the enterprises in the market study. It depicts the agencies that small businesses are aware of and are considered the most critical for regulatory compliance. It does not mention some agencies that play a role in the process; examples include Nigerian Shippers' Council or Nigeria Customs Service.

Table 2: **Government Agencies Presented in Market Study and Relevance to Focus Sectors**

Agency	Compliance Scope	Summary of Feedback	Agribusiness	Light manufacturing	Decentralized power	Technology	Transport and logistics	Creative industry	Retail and Trade
Federal Government Authorities									
Corporate Affairs Commission (CAC)	Company registration	• Commended for introducing online business registration process. However, its reliability is a challenge	✓	✓	✓	✓	✓	✓	✓
	Filing of annual reports								
		• The filing of the annual report was described as laborious	✓	✓	✓	✓	✓	✓	✓
Federal Inland Revenue Service (FIRS)	TIN registration	• Unreliable e-service channels. • Extended processing time for TIN	✓	✓	✓	✓	✓	✓	✓
	Filing of taxes – CIT, WHT, VAT,[14], stamp duties, capital gains (corporates & non-residents)	• Cases of arbitrary best of judgment tax assessment despite documentary evidence	✓	✓	✓	✓	✓	✓	✓
National Agency for Food & Drug Administration & Control (NAFDAC)	Pharmaceutical Product/ Manufacturer and free Sale Certificate; Pharmacist and Premises License; Certificate of Listing for Supermarket	• Need to engage consultant continues to be an issue, as red tapes on requirements persist	✓	✓					✓
	Permits to Import and licenses (for various products such as narcotics, agrochemicals, solvents and other chemicals)		✓	✓					✓
Standard Organization of Nigeria (SON)	Mandatory Conformity Assessment Programme (MANCAP) – local products	• Perceived inadequacies in certifying products • Prevalence of bribes and processing delays		✓					
	SON Assessment Programme (SONCAP) - imported products				✓				✓
Federal Ministry of Industry, Trade & Investment (FMITI)	Trademark & Patents Registration	• Characterise d by information dearth on processes, official fees and timelines	✓	✓	✓	✓	✓	✓	✓

Agency	Compliance Scope	Summary of Feedback	Agribusiness	Light manufacturing	Decentralized power	Technology	Transport and logistics	Creative industry	Retail and Trade
Federal Government Authorities									
Nigerian Export Promotion Council (NEPC)	Export permit	• Adequate awareness of processes, timelines and official cost.	✓	✓					
		• Easy accessibility to the agency							
Nigeria Internet Registration Association – (NIRA)	NG domain license					✓			
National Communication Commission (NCC)	Regulates Fin -Techs that use mobile network					✓			
National Information Technology Development Agency (NITDA)	Data protection					✓			
Nigeria Postal Service (NIPOST)	Logistics	• A high licensing cost which is considered a start-up hindrance					✓		
Central Bank of Nigeria (CBN)	Financial technology	• A stringent policy approach that increases start-up cost				✓			
Nigeria Internet Registration Association – (NIRA)	NG domain license	• General positive disposition; although not enough information was obtained				✓			

Agency	Compliance Scope	Summary of Feedback	Agribusiness	Light manufacturing	Decentralized power	Technology	Transport and logistics	Creative industry	Retail and Trade
State and Local Authorities									
Lagos State Signage and Advertisement Agency (LASSAA)	Advertisement permits	• LASSAA is required for all signages but appears to be most enforced in the transport sector	✓	✓	✓	✓	✓	✓	✓
Motor Vehicle Administration Agency (MVAA) (Lagos State Ministry of Transportation)	Transportation						✓		
Lagos Internal Revenue Service (LIRS)	Taxes – PAYE, WHT[15]; Capital Gains, Stamp Duties (individuals) etc.	• Arbitrary best of judgment tax assessment despite revenue documentation	✓	✓	✓	✓	✓	✓	✓
Lagos State Local Government Office	Trade permit	• Multiple levies, unstandardised collection processes	✓	✓	✓	✓	✓	✓	✓
Lagos State Waste Management Authority (LAWMA)	Environmental permit		✓						
Federal Capital City Internal Revenue Service (FCT- IRS)	Taxes – PAYE (FCT Residents & others), WHT, VAT[16] Capital Gains, Stamp Duties (individuals)		✓	✓	✓	✓	✓	✓	✓
Abuja Municipal Area Council - AMAC	Local government levies	• Lack of standardised processes and collection of local government levies	✓	✓	✓	✓	✓	✓	✓

The mapping in Table 1 above suggests that there may be an upward bias for agencies that small businesses frequently interact with and whose obligations may be considered as most 'irritating' to MSMEs, sometimes estimated as 'irritation costs or burden'[17] in similar studies. This is especially true if the agency is frequently mentioned for onerous procedures and challenges. For example, when compared to a previous survey of awareness of regulatory bodies by SMEDAN (2017), top of mind regulators for MSMEs included the Corporate Affairs Commission (CAC), Federal Inland Revenue Service (FIRS) and National Agency for Food & Drug Administration & Control (NAFDAC), Standards Organisation of Nigeria (SON), National Drug Law Enforcement Agency (NDLEA) amongst others (see Table 3). The first four appear to remain top of mind in this study and are cited as some of the most challenging authorities for MSMEs. The NEPC (which ranked lower in awareness in the SMEDAN 2017 MSME Study) was largely discussed in a good light by the MSMEs.

Table 3: **Regulatory Bodies in this Study vis-à-vis SMEDAN MSME Survey 2017**

Agency Mentioned in MSME Survey 2017 ***(in order of Awareness)***	**Agencies Mentioned by MSMEs in this Study**
Corporate Affairs Commission (CAC)	X
Federal Inland Revenue Service (FIRS)	X
National Agency for Food & Drug Administration & Control (NAFDAC)	X
Standards Organisation of Nigeria (SON)	X
National Drug Law Enforcement Agency (NDLEA)	
Nigeria Custom Service (NCS)	
Nigeria Immigration Service	
Consumer Protection Council	
Bureau for Public Procurement (BPP)	
Nigeria Export Promotion Council (NEPC)	X

Source: SMEDAN & NBS 2017, PwC Analysis
Size of 'x' correlates with the level of awareness in this study

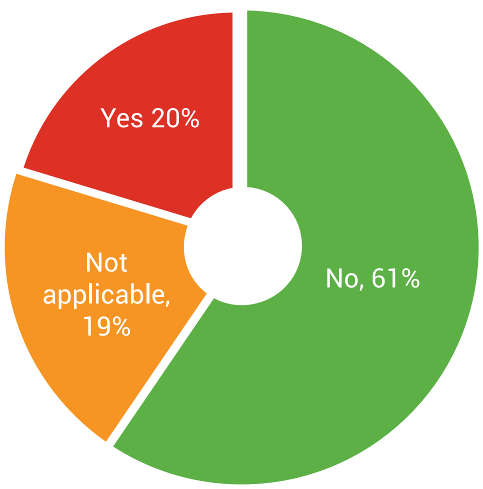
EFFICACY OF COMMUNICATION CHANNELS – KEY FINDINGS

The struggle with compliance usually begins with a lack of information about what licences are there to obtain, expected processes and official cost. This lack of information often creates the need for intermediaries between the businesses and MDAs to preserve the productive use of business hours. The cost for hiring these accessories, however, adds to the total compliance costs for the business. Its inclusion across several compliance processes by MSMEs in Lagos and the FCT is thus a cause for concern.

One of the reasons attributed to this dearth of information is the inadequate information exchange between government agencies and MSMEs. The majority of businesses state that they have no actual contact with agencies, and communication channels are largely non-existent. A summary assessment of communication on government services is represented below.

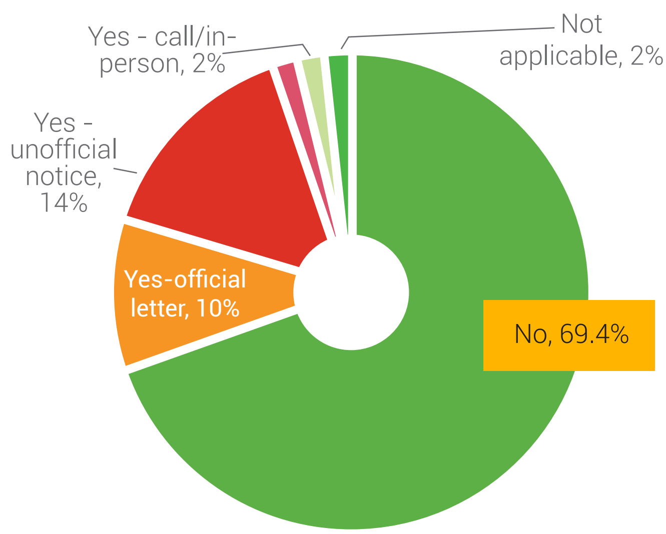
Figure 10: **Assessment of Communication Methods**

QUESTION: Do you know the appropriate channels to contest undue or overcharged fees and levies?



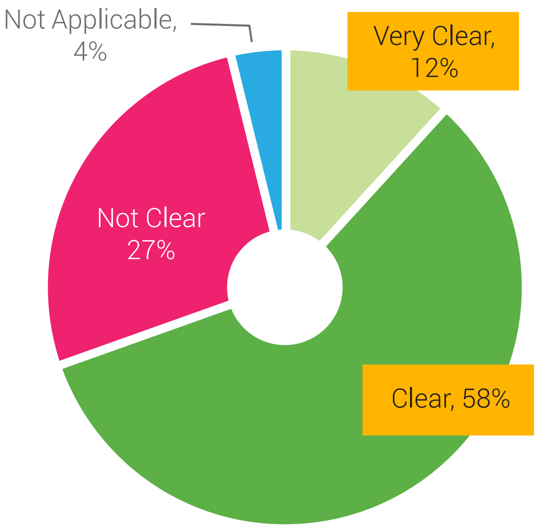
61% do not know which communication channels to contest fees and levies; only 20% know the right channels to do so.

QUESTION: Has any government agency contacted you concerning the status of your levies, licenses, requirements in the past?



69% have not been contacted concerning the status of your payments, levies, licenses, requirements in the past year

29% have been contacted by government agencies. Some agencies most cited include FIRS, LIRS and Lagos State Signage and Advertisement Agency



QUESTION: How clear was the communication (e.g. stating legal basis, the applicable rates, when and how to pay or object etc.)?

70% of those contacted thought the communication to be clear. When communication is done, it appears to be clear to SMEs; thus, the absence of communication is perhaps one reason for the lack of clarity on fees

Source: Market Study, PwC Analysis

From the study, the main communication challenges identified are as follows:

- Insufficient information dissemination: The survey showed low awareness of reforms, compliance standards, and official processes or costs. MSMEs learn about new regulations from business associates, third parties or at the point of need. One of the most frequently mentioned recommendations in the study was the provision of access to a comprehensive and straightforward information repository to aid a proactive approach to regulatory compliance.

LESSONS FROM THE GLOBE[18]

South Africa Revenue Services (SARS) established a client management office (CMO) in 2015 to improve its services and complaints handling. SARS created multiple channels for customers to report service dissatisfaction including calling phone numbers, visiting SARS branches, or via electronic filing.

- Poor direct communication channels with agencies: While some agencies publish contact emails and phone numbers, many are unreliable. Respondents rely on physical visits to agencies or otherwise outsource their compliance obligations to third parties. Respondents suggested that agencies may need to outsource their customer service and communication functions.

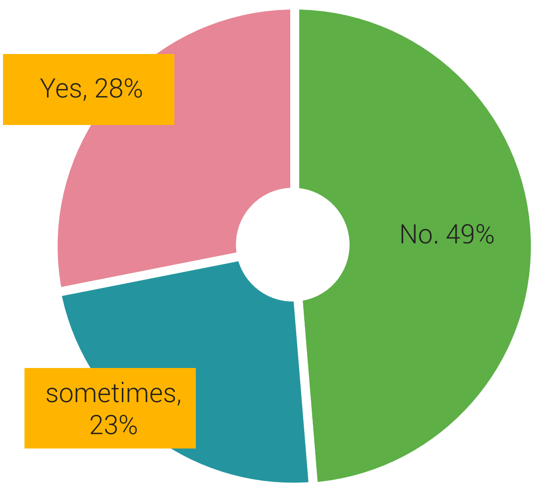
- Poor communication strategies: MSMEs sometimes attempt to navigate regulatory procedures by themselves, but face poor messaging, content, and non-user friendly platforms.

ESTIMATE OF TOTAL COST OF COMPLIANCE FOR MSMEs – KEY FINDINGS

Regulatory compliance is a significant burden for Nigerian enterprises. To operate their businesses, about 51% of Nigerian enterprises have to pay unofficial official fees in addition to fees paid to the government (see figure 11). The unofficial fees are estimated to be sometimes as high as ten times the official fees.

Figure 11: **Prevalence of Unofficial Compliance Costs**

QUESTION: Do you pay unofficial levies or fees (not paid directly to the government agencies)?



21% say yes they pay unofficial fees; only 23.2% say they sometimes pay unofficial fees

At startup, most small businesses pass off unofficial fees as part of regulatory costs, without being able to distinguish the actual compliance fees.[19] At startup, an MSME incurs between NGN35,000 and NGN500,000 (depending on the industry and management disposition) to comply with both general and industry regulations.

Average compliance costs are estimated to be up to NGN127,000 for federal and state government compliance obligations (see figure 14). For sectors such as agribusiness and manufacturing, compliance costs can be as high as NGN1 million, depending on a number of products to be certified.

Ongoing compliance costs such as local government fees, which are higher in Abuja than in Lagos, play an important role in determining the final cost of compliance across the two locations.

It is worthy of note that one of the frequently mentioned local government levies in Abuja is the AMAC business premise levy (MSMEs incur between NGN5,000 and NGN35,000 on this levy).

From responses, MSMEs understate unofficial fees. We also observed disparities between what MSMEs quote as official fees and official fees as published on the website.

Figure 12: **Cost of Obtaining Key Permits to Start a Business in Nigeria**

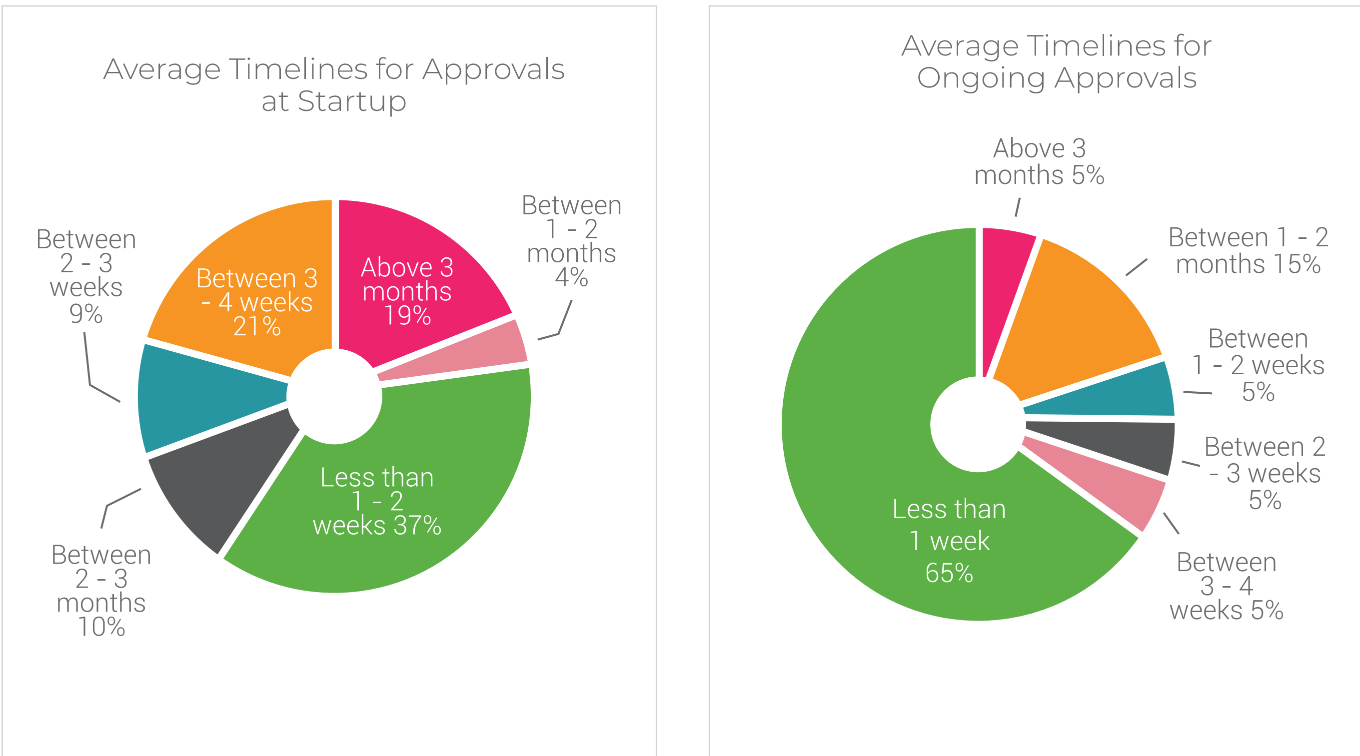
Average cost is estimated at about NGN127,000

Aggregated Costs

Category	Average Cost (₦)
Agribusiness	35,000 – 550,000
Manufacturing	35,000 – 520,000
Trade	15,000 – 90,000
Technology[20]	75,000, 175,000
Creatives	20,000- 50,000

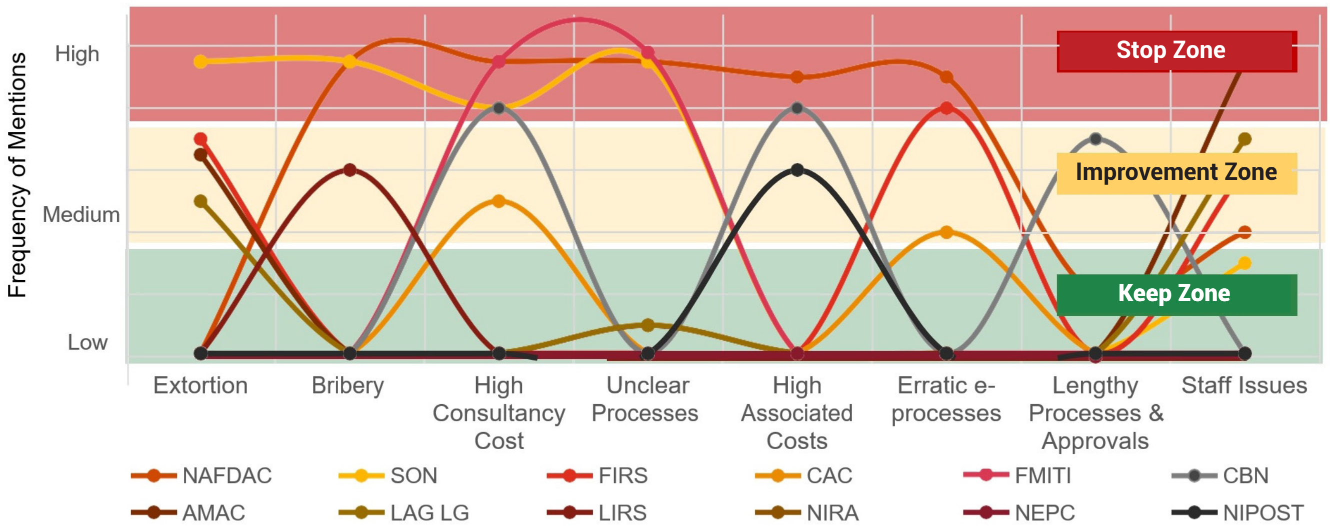
In figure 13, it can be seen that 37% of enterprises are able to get essential approval for the business at two weeks of the startup journey; about 19% of businesses are unable to secure approval in the first three months. In extreme cases, MSMEs have reported waiting up to 9 months or a year, especially in sectors like Agribusiness and Manufacturing. Expectedly, meeting ongoing compliance requirements are less strenuous, with 65% report getting approvals within a week.

Figure 13: **Average Timelines for Compliance Processes for MSMEs**



The diagram below (figure 14) summarises key issues mentioned by the MSMEs, categorised by the agencies affected, and the frequency of mentioning issues. It depicts the different profiles of agencies across the common challenges faced by MSMEs.

Figure 13: **Average Timelines for Compliance Processes for MSMEs**



Source: Market Study, PwC Analysis

KEY

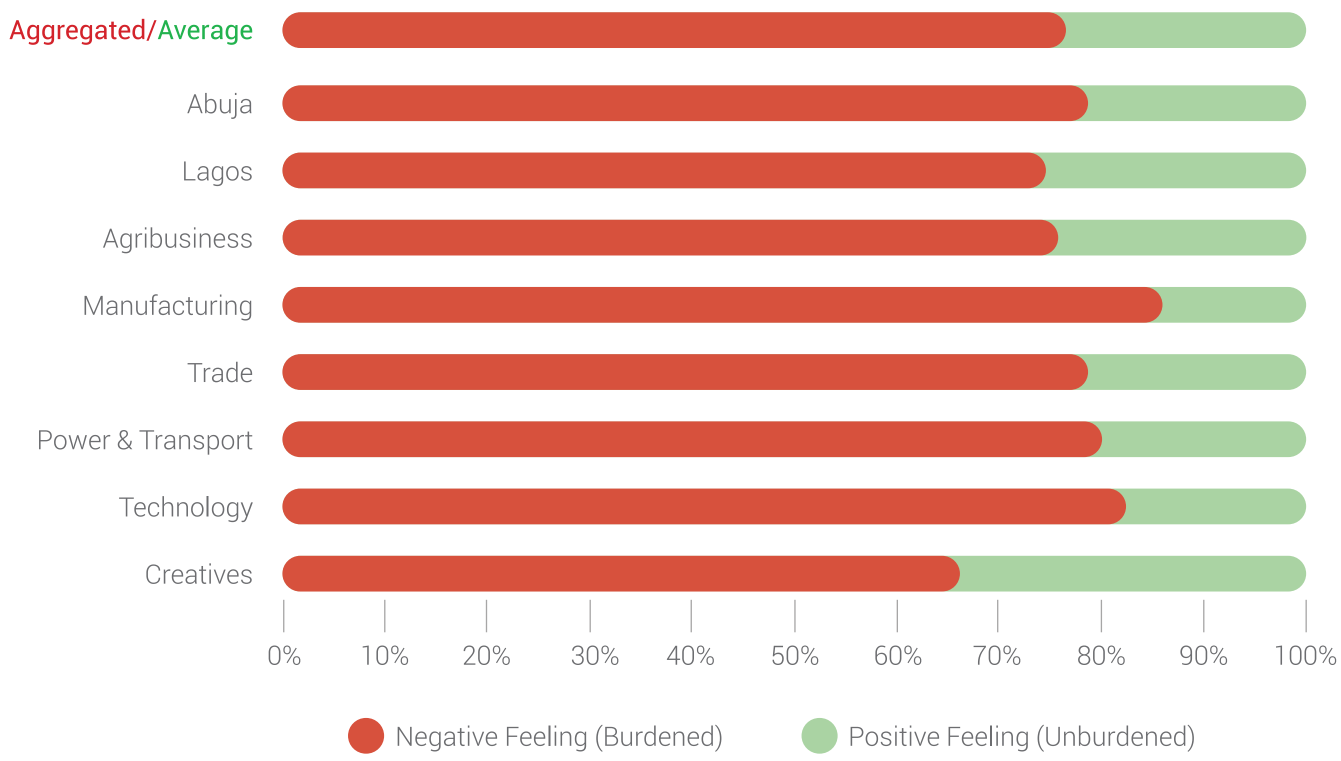
SON - Standard Organization of Nigeria; **CAC** - Corporate Affairs Commission; **FMITI** - Federal Ministry of Industry, Trade & Investment; **NAFDAC** - National Agency for Food & Drug Administration & Control, **CBN**- Central Bank of Nigeria; **AMAC**- Abuja Municipal Area Council; **FIRS** - Federal Inland Revenue Service, **LAG LG** – Lagos State Local Government, **LIRS** - Lagos Internal Revenue Service; **NEPC** - Nigerian Export Promotion Council; **NIRA** - Nigeria Internet Registration Association; **NIPOST** - Nigerian Postal Service

The challenges with the highest prevalence are high consultancy costs, followed by staff issues and unclear processes, with bribery and extortion featured in fourth and fifth place. These issues were observed the most for NAFDAC, SON, FIRS, CBN and FMITI. Cost-related issues were most prevalent in NAFDAC and SON. Expectedly, study participants also perceived that these agencies' processes were unclear. This may contribute to enterprises' willingness to pay unofficial high fees.

For tax compliance amongst MSMEs, PAYE and CIT (and WHT reconciliations) appeared to be most onerous followed by local government levies, especially concerning vehicle permits, premise taxes and, radio and TV taxes. This contrasts with a 2018 study on tax compliance for MSMEs across the European Union, which found that VAT and CIT were the most burdensome taxes, followed by wage-related taxes, while both vehicle-related taxes and local and regional taxes came in third place.

Key issues shared include arbitrary judgement on tax assessment, extortion and excessive delays with WHT refunds. There are non-monetary costs (irritation or hassle factors) associated with the burden of compliance that may not be clearly linked to a single regulatory obligation; this is found to be true in studies on tax compliance and applies to this study

Figure 15: **The Hassle or Irritation Burden of Compliance in Nigeria**



Source: Market Study, PwC Analysis

The poor experience MSMEs have with key regulators (identified above) is expressed as a general irritation of regulation in Nigeria. The irritation factor is important to note as it may be even more important to the well-being of MSMEs and business owners than monetary costs.[21]

From the responses received in this study, the average proportion of Nigerian enterprises that finds compliance to be a hassle is estimated at 77%, with 75% and 79% finding them to be a hassle in Lagos and Abuja, respectively. The enterprises expressing the least hassle are situated in the creative sector while manufacturers feel the highest hassle, at 12% higher than the average.

The reasons behind irritation appear to correlate with some of the most difficult issues MSMEs face, such as high consultancy costs, staff support/competence, and lack of transparency in the compliance processes. These have birthed a negative outlook by MSMEs on compliance, as they often perceive their regulatory obligations negatively. Some MSMEs indicate that there is a mental impact in trying to meet requirements as business owners, others speak about frustration and a fear of the unknown, and reduced interest in starting new businesses – induced by these issues. It is worthy of note that the comments from the MSMEs on why they have negative views of compliance processes were many times not based on the magnitude of official fees paid.

2.2 REVIEW OF COMMUNICATION CHANNELS – DETAILED FINDINGS

Interactions between government agencies and MSMEs in Nigeria are best defined as paltry, given that most small businesses report having insufficient information and/or poor engagement with the very agencies established to support their businesses. Many report having a poor understanding of the agencies' functions, the appropriate channels for each request and the levies associated with running a business in Nigeria. We assessed the communication strategy (information dissemination, channels and content) adopted by agencies in focus. The findings are detailed below.

Table 4: **Assessing Key Agencies' Communication Channels**

Agency	Available information (Website)	Communication Channels		
		Phone Numbers	Emails	E-application
Corporate Affairs Commission (CAC)	• Online application • Processing timelines • Fees per business type • Contact information • General information	• Phone number answered 1 in 3 times • Staff was unaware of the process to file a statement of account	• No response	• The E-application channel works but has some downtime
National Agency for Food & Drug Administration & Control (NAFDAC)	• Guides, regulations, procedures, policies • Fees per business size • Online application	• No response from NAFDAC. • Response received from NAFDAC automation support company	• NAFDAC mailbox is full, mail returned • Response received from NAPAMS support	• NAFDAC website is complicated and not user-friendly • No business owner referred to the online application channel
Federal Ministry of Industry Trade and Investment	• Incomplete website – lacks information • Inactive online application	• Incomplete number	• Mailbox is full, email returned	• The inactive online application system
Federal Inland Revenue Service (FIRS)	• Guides and calendars for different types of tax • General information about tax • Contact information provided	• One of three numbers was active • Professional response to a request for information	• Same day acknowledgement, to receive further information from the team within 48 hours • Further information was not sent	• Unreliable e- applications channels (sometimes inactive or freezes)

Agency	Available information (Website)	Communication Channels		
		Phone Numbers	Emails	E-application
Nigeria Export Promotion Council (NEPC)	• Application process and cost • Export guides and supports • Online application	• One of two numbers answered	• NEPC responded to the inquiry on the process of exporting shea butter with detailed information within 24 hours	• NEPC website active, with online application portal
Abuja Municipal Area Council (AMAC)	• No website	• None	• None	• None
Standards Organisation of Nigeria (SON)	• Official website son.gov.ng • Has an SME Desk	• Phone number provided; support staff helpful	•	•
Lagos State Signage and Advertisement Agency (LASSAA)	• Payment information • Monthly general landfill psp performance report • Advocacy, monitoring and evaluation report • Contact, background	• Strong customer service, support staff offered to send a letter of introduction, tariff plan and provided guidelines • info@lawma.gov.ng	• None	• None
Nigeria Internet Registration Association (NIRA)	Legal information • "Join us" – membership information	• Phone number is available but not active	• None	• None

CORPORATE AFFAIRS COMMISSION (CAC)

Respondents to this survey indicated that they often required a physical visit to be able to communicate with the CAC, except in cases where personal relationships with CAC staff exist.

In assessing the CAC's communication channels, it can be deduced that the phone-in channel is largely left unattended to. Calls to the phone numbers advertised on the CAC website went unanswered. The few times that the calls were answered, the CAC staff had little knowledge of CAC processes. For example, staff members were unable to walk through the process of filing statements of accounts. The CAC website is well equipped with all the necessary information companies require for company registration. It details the application process step-by-step in a user-friendly manner. The information available includes details on the online application, processing timelines, fees per business type, contact information and other general information.

Messages to the official CAC email address went unanswered with no automated messages about the agency's standardised response times. CAC online application portal was commended by users as very useful. It was, however, gathered that the portal sometimes has downtimes, and applications are not easily traceable.

NATIONAL AGENCY FOR FOOD & DRUG ADMINISTRATION & CONTROL (NAFDAC)

Based on responses to our survey, NAFDAC performed poorly when assessed against the efficiency of communication channels. For example, respondents report that while business consultants are allowed easy access to NAFDAC premises, business owners are not.

Although the agency provides substantial information on its website, it fell short in the reliability of emails and e-application. Despite having a fully operational website, respondents revealed that the NAFDAC website is complicated to navigate and not user-friendly. Information provided on the NAFDAC website include:

- guides on compliance process
- relevant regulations
- procedures and policies
- fees per business category
- explanations on online application, and
- the 90 days process period according to NAPAMS (NAFDAC Automated Product Administration and Monitoring System).

> "Agencies should improve their customer service office, for instance, use online chat box for communication... to reduce repeated visits to their offices."

Furthermore, responses to mystery calls suggest that NAFDAC was unreachable primarily via phone and email and that the website operates at a low level of efficiency. The official phone numbers listed on the NAFDAC website were also largely unreachable. Also, no email response was received from the agency, although response was received from the NAFDAC automation support company. Respondents struggled to reach NAFDAC via email as the agency's mailbox was full and returned emails. However, they did receive a response from NAPAMS support.

FEDERAL MINISTRY OF INDUSTRY TRADE AND INVESTMENT

Results from mystery calls and surveys have led to the conclusion that the Federal Ministry of Industry Trade and Investment is not not performing optimally in terms of its communication with the public. The Ministry's official website lacks important information, while the online application portal is inactive. An incomplete phone number was provided on the website, and the mailbox belonging to the agency returned emails because it was full. This indicates huge room for improvement as the Ministry's online channels are currently not serving MSMEs.

FEDERAL INLAND REVENUE SERVICE (FIRS)

Findings from MSME surveys and mystery calls reveal Federal Inland Revenue Service (FIRS) to be in the top quartile of Nigerian agencies in terms of efficient communication with SMEs. Mystery site visitors confirmed that the Federal Inland Revenue Service (FIRS) website houses guides and calendars for different tax categories, general information about tax, and contact information of the agency.

In the mystery call exercise designed to test the effectiveness of communications channels, one of the three numbers displayed on the agency's website was confirmed to be active (33% success rate). This is a poor response by global standards, but this 33% places FIRS firmly in the top half of agencies surveyed in Nigeria. When respondents were able to reach the agencies, they reported receiving professional and helpful responses to inquiries. With regards to emails, respondents reported same day acknowledgement, with promises for further information from the FIRS team within 48 hours. However, even after 96 hours, respondents received no follow up emails. Further, respondents noted the unreliability of FIRS e- applications as technical issues and hang-ups occurred frequently.

> "The Central Bank's Act is very difficult to understand, regulation is complex... I needed to engage lawyers to interpret some part of the document."

NIGERIA EXPORT PROMOTION COUNCIL (NEPC)

Responses to mystery calls and surveys suggest NEPC to be one of the analysed agencies with a better approach to communication than its peers. Mystery website visitors reported that the agency runs a functional website with the details of the application process and associated costs, export guides and support resources, and an online application portal displayed prominently.

Of the two phone numbers provided on the website, the mystery caller found one to be reachable while the other to be unreachable. In terms of the effectiveness of NEPC's email communication and response, surveyors confirmed that NEPC responded to an inquiry about the process of exporting shea butter within 24 hours with detailed information about the exportation process. In addition, they reported the NEPC website to be fully functional with a functional online application portal as well.

NIGERIA INTERNET REGISTRATION ASSOCIATION (NIRA)

Survey respondents and mystery callers reported that NIRA runs a functional website that details essential information about the agency, including vision, team, affiliations, structure, media information, legal information, and membership information. Phone numbers were reportedly displayed on the website, but when dialled, they appeared to be non-existent. MSME mystery caller found no email address or e-application portal listed on the website. This data implies a need for NIRA to revaluate their approach to communication as they are barely reaching MSMEs through the current channels.

ABUJA MUNICIPAL AREA COUNCIL (AMAC)

MSMEs reported a lack of an AMAC website, listed phone numbers, email or application portal. Without these, MSME mystery reviewers struggled to connect with the agency, and the agency was unable to serve the very population it was created to support. AMAC could consider developing a digital communications strategy to build a bridge between itself and the MSME community

> "Local government does not have published information on fee expectations, they knock on doors and bring outrageous fees."

STANDARDS ORGANIZATION OF NIGERIA (SON)

responded suggest that SON operates a robust website with detailed information about its services, certification process and its various locations across the country. SON representatives were reachable via phone, and the receiver was helpful, providing MSMEs with all requested information and referring them to other professionals as necessary. It should be noted that the 'SME Desk' or SME portal of the website had very little information about specialised services for MSMEs. However, reviewers reported easy availability of contact details, which were provided on the website and included request forms, toll-free phone numbers, email addresses, and other useful government websites.

LAGOS STATE SIGNAGE AND ADVERTISEMENT AGENCY (LASSAA)

Our findings revealed, and mystery reviewers corroborated that the LASAA website contains necessary information on payment information, monthly general landfill performance reports, advocacy, monitoring and evaluation. It also contained contact information and background information on the agency. The agency provided MSMEs with solid customer service. In one call, the LASAAA responder offered to send a letter of introduction, tariff plan and provided guidelines, and the responder stayed true to these words.

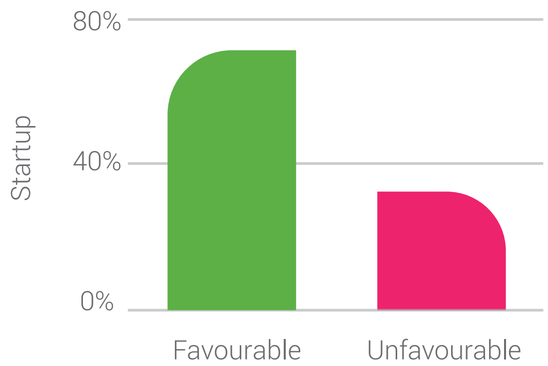
2.3 EXPERIENCE OF MSMES WITH KEY AGENCIES IN NIGERIA

CORPORATE AFFAIRS COMMISSION (CAC)

Following our analysis of results from the market study, it can be deduced that all study participants who registered their business in the last three years got their registration document in about a month. About 31% got their registration document within the time frame of 7 - 9 days published by the agency, and about 50% of participants indicated paying the official fees - largely those who successfully processed their company registration online. However, some respondents reported reprocessing offline after paying and uploading documents online due to technical issues.

Figure 16: **Experience with CAC Online System**

Majority of the startup businesses who used the electronic channel had a favourable experience



70% of the participants that processed company registration document through CAC electronic channel had favourable user experience However, this was not consistent for all participants, as 30% of the participants that tried to use the electronic channel expressed the following one or more of the following issues:

- Multiple requests to upload documents online
- Delayed timeline resulted in at least two visits to CAC

20% the survey respondent did not receive their Tax Identification Number (TIN) alongside their company registration document as published by the CAC. These respondents had to request for their TIN from the FIRS on their own time.

Source: PwC Analysis – Market Study

The CAC, however, appeared not to be able to replicate its good performance in the filing of annual returns by MSMEs. Many businesses describe the experience as "difficult." Although the CAC published a timeline of 3 days for this process, stamped copies of e-filings are received in about two months. MSMEs also suggested that administrative bottlenecks were being created by CAC officials who insist that businesses provide past financial statements before proceeding with new fillings, even when not available due to a break in operations.

"CAC is getting it right with its online channels, but room remains for user experience improvement and annual returns filing."

NATIONAL AGENCY FOR FOOD & DRUG ADMINISTRATION & CONTROL (NAFDAC)

Many enterprises in agribusiness and light manufacturing industries consider obtaining NAFDAC permit as "tedious and expensive" due to several factors, such as the additional cost of consultants, excessive samples request, and gratification demanded by officials.

Table 5: **Case Study of a Sachet Water Manufacturer in Operating in Lagos, Nigeria vs Accra, Ghana**

Parameters	Nigeria	Ghana
Number of permits	1	2
Authorities	National Agency for Food & Drug Administration & Control	Food and Drugs Authority of Ghana
Official cost (USD)	47.5 (NGN19,000)	59.5 (GHS 350)
Unofficial cost (USD	625 (NGN250,000)	204 (GHS 1,200)
Total cost of permit (USD)	**672.5 (NGN269,000)**	**263.5 (GHS 1,550)**
Permit Validity	3 years	2 years
Official Renewal Cost	40 (NGN16,000)	119. (GHS 700)
Unofficial cost	375 (NGN150,000)	204 (GHS 1,200)
Total cost of renewal (USD)	415 (NGN 166,000)	323 (GHS1,900)
Other unofficial costs	Transportation and feeding of inspection staff	Transportation and feeding of inspection staff
Staff disposition to certification	Kickbacks play a significant factor	Quality plays a major factor
Time to obtain permit	2 - 3 months	1 month
Application channel	In-office/ Through a consultant	In-office

Source: PwC analysis, interviews with players

While the official cost of obtaining a NAFDAC permit for a small to medium-size manufacturing plant cost approximately NGN50,0000, participants spent at least NGN100,000 to get a NAFDAC permit. Reasons for this difference include:

1. CONSULTANCY COST
To obtain permits, business owners either engage a consultant to set up the facility or to prepare the business owner for NAFDAC inspection or engage NAFDAC staff unofficially for assistance.

Consultancy fees paid by respondents range between NGN100,000 and NGN 250,000 for micro to mid-size facility. The consultancy service usually includes writing and interpreting the standard operating procedures for setting the production facility, inviting NAFDAC staff once the business has been prepared for inspection, and ensuring the business gets certified. While MSMEs appreciate the support obtained to support the approval process, they decry the high cost and the perceived red tapes in navigating the approval process on their own.

Using case examples in table 4, it can be seen that unofficial costs (largely costs paid to consultants and bribes to NAFDAC staff to pass off any errors identified) are comparatively high in Nigeria. They were over ten times the actual cost of the permit for the average water manufacturer in Nigeria, and when compared with Ghana, the impact is about 2 – 3.5 times the actual cost.

2. INSPECTION DAY - TRANSPORTATION AND ENTERTAINMENT COST
In addition to the official cost of permits and consultancy fees, business owners are expected to incur the cost of transporting and feeding NAFDAC staff on the day appointed for inspection of the production facility.
Request to be transported to, and back from the business production facility is an expectation from NAFDAC staff and an additional cost to business owners.

3. REQUEST FOR MULTIPLE SAMPLES PER SKU[22]
NAFDAC request for multiple samples of the same product to perform laboratory test. The number of samples requested by NAFDAC amounts to high cost to small businesses. Survey respondents report that this large sample request is defended by NAFDAC as standard procedures hence must be complied with. Examples of these requests are below:

- A honey manufacturer was asked to provide 6 bottles of 50cl honey, 6 bottles of 75cl honey (same content) and 12 bottles of flavoured honey which cost approximately NGN82,000

- A local rice manufacturer was asked to provide 3 bags of 5kg ofada[23] and 6 bags of 800g of the same rice, which cost ~NGN50,000

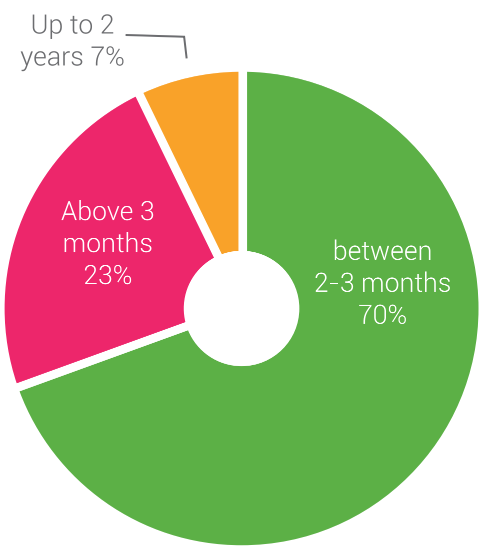
4. LENGTHY AND AMBIGUOUS PROCESSES
Survey respondents revealed that the major driver for engaging consultants is to navigate NAFDAC obscure processes and inaccessibility of the staff for guidance. For instance, respondents experienced lengthy delays for official pre-inspection applications. Also, respondents reported difficulty in getting into the NAFDAC office to make inquiries.

Although engaging consultants significantly increases the cost of obtaining NAFDAC permit, it reduces time spent in the process and eliminates the cost of making mistakes. MSMEs applying to NAFDAC without consultants experience processing timelines running into one year. For example, an enterprise in the manufacturing sector revealed that he had spent 11 months on the online application, awaiting NAFDAC approval for his business. The reason behind this was not clear from the enterprise, who only cited a lack of support from NAFDAC officials.

Also, staff do not also seem to 'support' applying online without consultants. Another possible explanation is the unavailability of staff due to the COVID-19 pandemic, given the period of the survey.

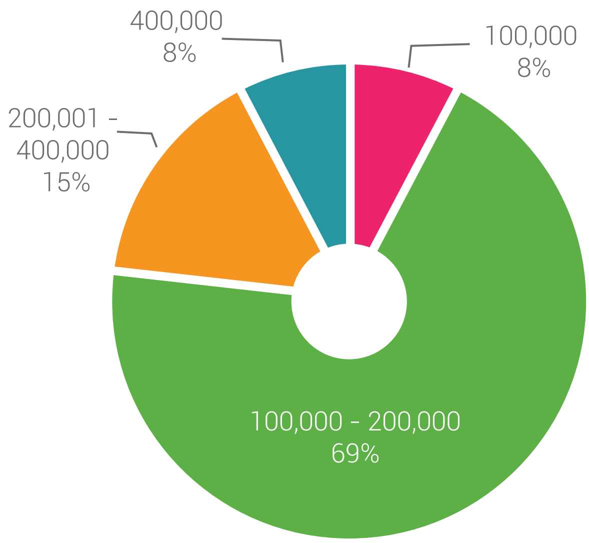
Figure 17: **Obtaining a NAFDAC Permit**

QUESTION: How much did it cost to obtain your NAFDAC permit



70% received approvals and obtained permits within 3 months which is within the timeline specified by NAFDAC

QUESTION: How long did it take to obtain your NAFDAC permit



90% paid far beyond the official cost, estimated to be between N35,000 to N100,000 for MSMEs in agribusiness and manufacturing

In figure 17, it can be seen that 70% of participants confirmed that they received approvals and obtained permits within 3 months, which is within the timeline specified by NAFDAC. 92% of respondents mentioned they paid above NGN100,000, the official cost estimated to average N50,000 (that is, the official cost is between N35,000 to N100,000 for MSMEs in agribusiness and manufacturing - official cost for NAFDAC permit varies with the size of facility and type of products).

STANDARDS ORGANISATION OF NIGERIA (SON)

Feedback from respondents about SON include the following:

1. Lack of a national standard in assessing and certifying imported products. The quality of products are often assessed by comparing a product to another which may not have the same composition.
2. Similarly, MSMEs perceive SON demonstrates slow responsiveness to innovation and pioneer products. They believe this could be quite limiting to the market for "made in Nigeria" goods, which enter the market later due to compliance. For example, one of the businesses surveyed, who manufactures wax crayon, has been unable to certify her product due to SON's inability to evaluate the constituents and process of manufacturing the product.
3. Excessive inspection of imported products despite SONCAP documents from the country of origin, is sometimes counter-productive for MSMEs and results in port delays. SON officials also obtain samples of the imported products for further inspection, which is costly to the business.
4. MSMEs believe that SON has shown some lax in defining standards for new products. This is because requests for the development of new standards (in NIS - Nigerian Industrial Standards) for many MSME's pioneer products have not been actioned. Meanwhile, without the SON permit and logo (MANCAP), local manufacturers experience difficulty with introducing new products into the market.
5. SON processes are considered unclear and ambiguous. Businesses are forced to incentivise officials with bribes or meet their demands for bribes to avoid the lengthy processes and unwarranted reason for products to be considered inferior. Ethical business owners are
6. subjected to harsher processes such as incessant inspection of goods and delayed approvals

> "NAFDAC registration is very prominent among food and water manufacturers, even though industry regulation requires both NAFDAC and SON. Some MSMEs described SON and NAFDAC's roles as confusing."

According to an official of SON, MANCAP compliance in Nigeria is still very low (less than 10%). This is because majority of Nigerian SMEs cannot afford the equipment and expertise for quality assurance processes. In fact, it is believed that the agency is hesitant to enforce all MANCAP procedures due to the economic and financial implications to MSMEs in the food manufacturing segment (as this group covers 90% of food manufacturers). SON has instead adopted the approach of encouraging SON compliance instead. NAFDAC registration on the other hand, is very prominent among food and water manufacturers, even though industry regulation requires both approvals. It is worthy of note that a number of MSMEs mentioned a lack of clarity about the difference between the roles of the two agencies. In this context, lack of understanding of the agency's role could be expected to be playing a role in low level of compliance.

FEDERAL MINISTRY OF INDUSTRY, TRADE & INVESTMENT (FMITI)

The FMITI issues trademark permit to manufacturers of branded products. The permit authorises manufacturers to use a brand name on their product. Obtaining a trademark certificate from the FMITI is a prior requirement to obtaining a NAFDAC or SON approval.

From the survey, it was observed that participants had scant information about the operations of the Ministry. All the respondents got permits through middlemen, hence paid the extra fees for facilitation. At the time of this survey, the agency's website did not include information to guide MSMEs about the costs or processes for the trademark permit.

Responses from the survey show that 50% of the respondents paid just over N50,000 to obtain a trademark certificate, although the official fee is speculated between N15,000 to N 20,000. Also, timelines to obtain the certificate is dependent on the processing speed of the consultant engaged by the business owner. Processing duration ranged between one week to a month.

Due to scant information about the operations of the agency, official fees and processing time could not be validated. However, MSMEs consider the process of obtaining a trademark certificate from the FMITI stress-free (as it is usually outsourced to intermediaries).

Figure 18: **Obtaining a Trademark Certificate**

Key experiences shared from survey

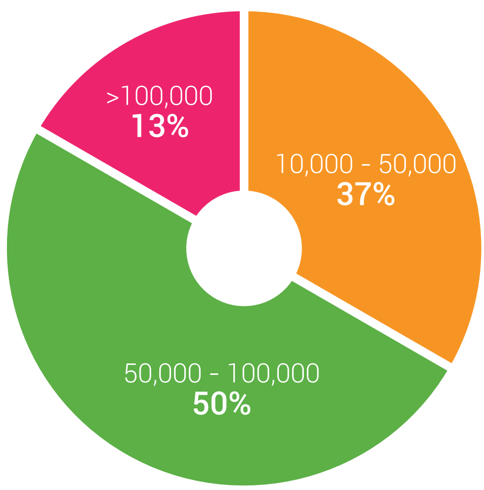
100% Processed certificate through middlemen

100% Paid additional unofficial fees to obtain certificate

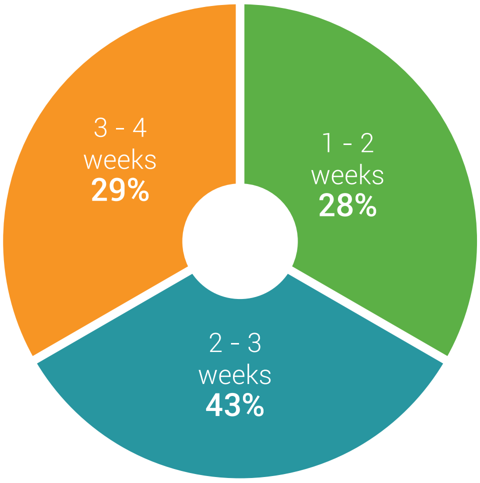
100% Have had no direct contact with the agency

8% Believe that only those that have relationships with agency staff can pay the official fees

QUESTION: How much did it cost to obtain your trademark certificate?



63% paid over N50,000 to obtain a trademark certificate.



QUESTION: How long did it take to obtain you trademark certificate?

43% paid over N50,000 to obtain a trademark certificate.

CENTRAL BANK OF NIGERIA (CBN)

The Central Bank of Nigeria issues licenses to financial technology (fintech) businesses that provide electronic payment solutions. CBN licenses are issued upon satisfactory assessment of the business model, business plan and risk management requirements.

Fintech solution providers that participated in the survey considered the CBN licensing process quite burdensome and especially believe the size and scope of business offerings are not being considered individually by the apex bank. According to study participants, the misunderstanding of the risk level for their products or solutions' is the major cause of stringent licensing procedures.

KEY EXPERIENCES SHARED FROM SURVEY

1. Multiple visits to CBN head office in Abuja (based on the invite of the bank) to present the business idea and discuss the associated risk for different levels of approvals. Since most operators are in Lagos, the logistics cost of obtaining licenses is a major burden to these businesses.

2. High consultant cost to assist with preparing business plans and risk management plans in line with CBN guidelines. Due to the technicalities of CBN requirements for licensing, operators must incur the cost of consultants to interpret and prepare documents to present to CBN.

3. Difficulty in building alliances with banks due to complicated finance industry regulations. Financial technology solutions are developed on existing banking systems, hence they must attain alliance with the banks to deploy payment solutions. This process is cited as tedious for the MSME financial technology operators.

4. Lengthy approval processes based on misconception of risk.

5. Difficulty with raising statutory deposits required as bonds during license processing period which is about 3 months.

6. Frequently changing regulations that businesses believe puts them at the risk of regulatory default and stifle start-ups.
7. New licenses or updates are required for product or service extension, and any new partnerships associated with the expansion.

CBN's bureaucratic regulatory processes are considered an impediment to the developing financial technology industry. MSMEs believe there is inadequate knowledge of the emerging fintech industry by the CBN, which underpins the complicated regulatory landscape created by the Bank.

NIGERIA EXPORT PROMOTION COUNCIL (NEPC)

The NEPC issues export permits for local manufacturing companies to export products to other countries. The agency also provides information to businesses on areas such as quality standardisation and product packaging to aid exports.

Requirements for obtaining an export permit vary by type of entity but generally would include company registration documents. The Council asserts that the permits can be obtained in a day if an applicant conforms to the requirement. The agency encourages applicants to apply through the electronic channel. MSMEs covered in this survey that interact with the NEPC operate in the agribusiness and light manufacturing industries.

Respondents from the survey shared positive experience about their interactions with the agency. Obtaining an export permit was cited to be seamless. The major feedback is as follow:

- The process is swift and easy. The agency is accessible through emails and phone call and information on requirement can easily be obtained.
- Payment for permits is done through the bank and exact official amount was spent in obtaining the permit. Also, the documents were processed and received within the specified timeline.
- NEPC also supports businesses with information through trainings and on request.

FEDERAL INLAND REVENUE SERVICE (FIRS)

The FIRS manages the registration of Tax Identification Number (TIN), collection and filing of taxes including the corporate income tax (CIT), withholding tax (WHT), value-added tax (VAT), Stamp Duties, Capital Gains (corporates & FCT residents), Pay As You Earn (Personal Income Tax) for the FCT, the Armed Forces, and the like.

Due to inconsistency in obtaining TIN alongside new company registration documents, new businesses are to apply for TIN from the FIRS at no cost. In the market study, it was found that over 80% of respondents did not receive TIN with business registration and had to go to FIRS to process TIN separately.

Information published on the FIRS website states that TIN can be remotely obtained from electronic platforms on their website. However, MSMEs reported having to visit the FIRS offices to fill application forms and wait for about a week before getting TIN. Due to lack of awareness, 6% of the respondents paid unofficial fees to middlemen to obtain TIN.

KEY CHALLENGES WITH TAX COMPLIANCE

1. **Slow WHT Refunds**: 95% of taxpayers experience slow WHT refunds. FIRS shows a preference for using WHT to offset future tax rather than a refund.

Even though WHT are termed advanced tax payment, businesses struggle with getting the benefits of complying with the law. The market study revealed that FIRS is often unable to generate WHT credit notes due to technological challenges. Hence, agency staff advise business owners to pay income tax, including deductible WHT and expect a refund when the WHT paid on their behalf is identified and reconciled. However, business owners have low confidence in the process.

2. **Extortion**: Respondent shared experiences of tax officials requesting for taxes to be paid to staff personal accounts in return for reduced taxes from the government. Ethical business owners who choose to resolve the situation officially are subjected to frustrating processes.

3. **Arbitrary Best of Judgment Assessment**:
Respondents revealed experiences of FIRS officials insisting on higher tax assessments based on arbitrary values despite records filed by the businesses. Sometimes, FIRS base their best judgment assessment on earnings from previous years if the current tax filing is less than the previous year's filing without consideration for the current business year's performance.

NIGERIAN POSTAL SERVICE (NIPOST), STATE AND LOCAL GOVERNMENT AGENCIES AND THE LOGISTICS SECTOR

Feedback from MSMEs in the logistics sector show a heavy burden from multiple regulators across the three tiers of government. The federal government regulates the sector through the Nigerian Postal Service (NIPOST) while the state governments regulate same through the individual state authorities, and the local governments through the individual local government representatives (see figure 19).

While the federal and the state government have a standardised license and permit cost, the local government levies are unpredictable and not easily verifiable. Hence, businesses are often at crossfire with local government representatives.

MSMEs also report that local government representatives have withheld their delivery vehicles and bikes in the past. In addition, MSMEs consider the cost of licensing and the multiple licensing requirements to be financially burdensome, given the size of their businesses.

Figure 19: **Key Regulators of Transport and Logistics Segment in Lagos**

Federal Body	Cost	Impact
Nigerian Postal Service (NIPOST), key roles: • Provision of application form and regulatory guidelines • Issuance of license based on categories (from special SME category to international category) **Vehicle Inspection Office (VIO)** • Auto VIN registration	NGN20,000 NGN250,000 (for 2 – 5 bikes – minimum cost) NGN 33,000	Low compliance levels due to high cost and low business turnovers
State Agencies (Lagos State)		
Ministry of Transportation • Bike clearance permit, issued upon obtaining NIPOST license **Lagos State Signage and Advertisement Agency (LASSAA)** • Branding of delivery box (cost depends on size of signage)	NGN 7,000 NGN1,900- NGN39,500	Higher compliance with state licenses because price is considered reasonable and there is stern enforcement
Local Government (Lagos State)		
• Annual flat rate for local governments across Lagos • Sporadic levies demanded by local government representatives (touts) such as mid year papers	NGN10,000 Amount may depends on ability to negotiate or avoid them	High compliance to avoid harassment and distortion of business activities

LAGOS INTERNAL REVENUE SERVICE (LIRS)

The LIRS is the tax collection agency of the Lagos State government. LIRS collects taxes from sole proprietors and business owners that pay personal taxes.

The survey noted that small businesses often prefer to retain a small or semi-formal structure, such as remaining as sole proprietors. This is mainly to avoid the burden of filling audited statements of account and relating with the FIRS until business growth and opportunities demand making the changes.

"...the platform is often unavailable, in fact the bankers don't like processing LIRS because it is time consuming."

KEY EXPERIENCE WITH LIRS SHARED BY MSMEs

- MSMEs experienced unjustifiable disagreement from agency staff about income and tax filing. Even when financial documents are presented, LIRS staff are reported to insist that the companies pay higher taxes.
- MSMEs usually require the services of a consultant who has the skills to navigate the process easily.
- Respondents report that they have to provide bribes to agency staff to bypass undue regulatory bureaucracy
- MSMEs had trouble with paying taxes in the banks due to connectivity challenges
- A rather positive feedback from the agency was that tax notices in the form of formal letters were sent to businesses as reminders.

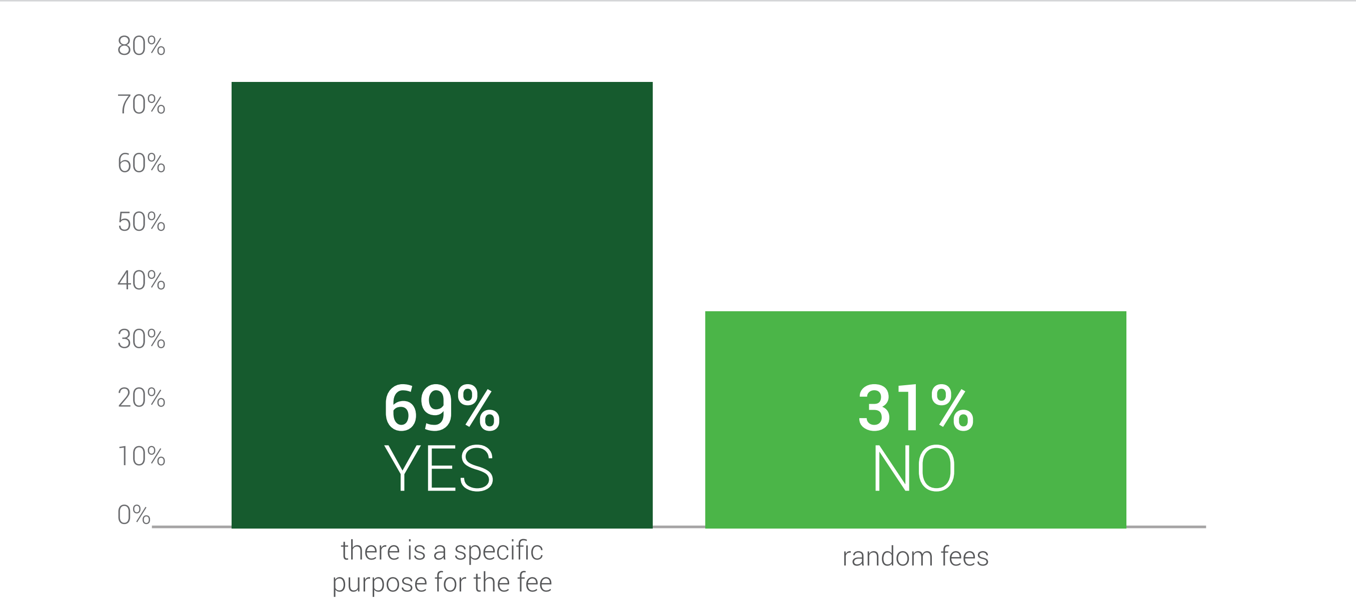
LAGOS STATE LOCAL GOVERNMENTS

Major challenges shared by MSMEs about local government levies are:

- Multiple and unstructured taxes and levies
- Multiple sources of collections
- Physical harassment and intimidation by local tax collectors
- Absence of technology platform(s) for ease of payment of all taxes/levies charged
- Absence of proper and comprehensive tax payment schedule notification or calendar

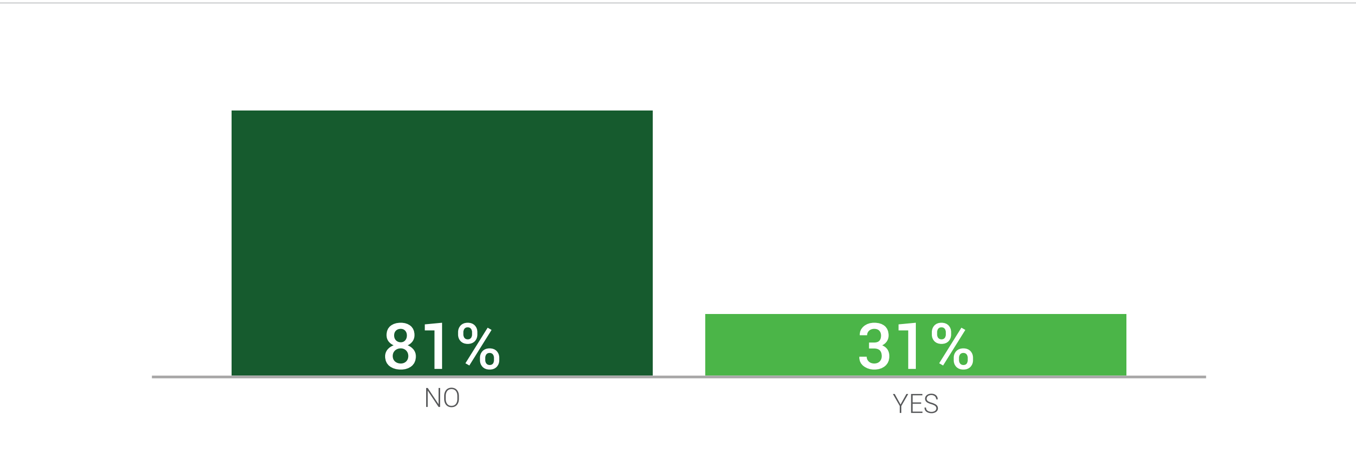
Many small businesses have devised strategies to minimize the challenges arising from the inefficiencies of local government agencies. Although the MSME experience varies from one local government to another, business owners have adopted a proactive approach to address interruptions from most local government representatives and also avoid paying levies to impostors. Business owners mention visiting the local government offices directly to inquire about the levies and get official receipts for payment.

Figure 20: **Key Regulators of Transport and Logistics Segment in Lagos**



Respondents considered the frequency and size of fees when citing businesses in local government areas. Unfortunately, businesses that transport goods from one locality to the other between local governments, report regular harassment from local government representatives who demand arbitrary fees while threatening to seize the goods or the vehicle. Respondents also expressed displeasure with paying radio and television levies despite not using such appliances in their business premises.

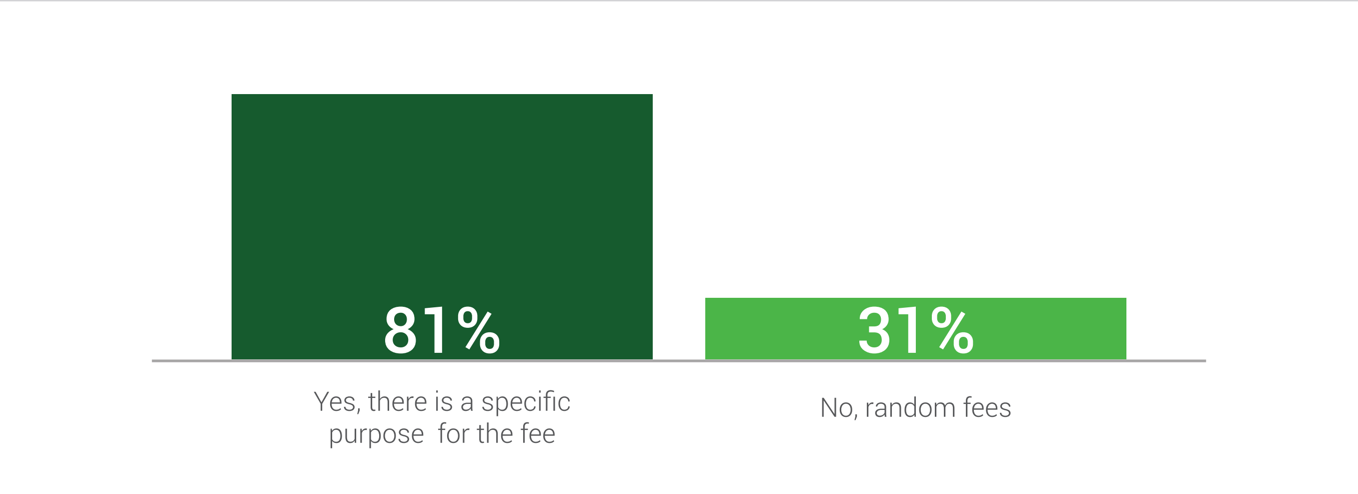
Figure 21: **"Has your business been shut down or hampered while contesting a levy?"**



On a more positive note, most businesses reported experiencing a slight hindrance when contesting levies. Most of the businesses report that they can exercise their rights to question levies imposed on them with little interruption from the government. 89% of respondents reported no shutdown while 11% reported having experienced issues contesting levies.

ABUJA MUNICIPAL AREA COUNCIL

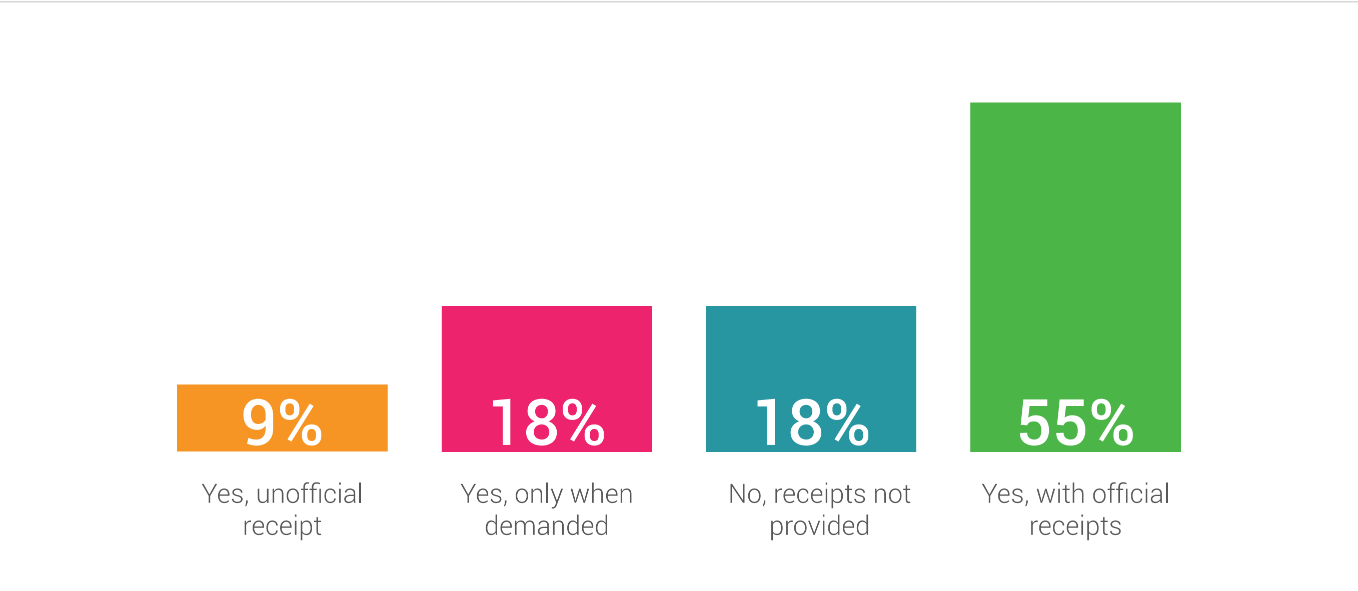
Figure 22: **"Do you know what the local government fees you pay are for?"**



In Abuja, most respondents (about 71%) understand the purpose of local government fees. Abuja Municipal Area Council (AMAC) fees are quite diverse. They include advertising, inspection, building tax and local government levies.

55% of survey respondents reported being issued official receipts without demanding it, showing some efficiency level with receipt generation procedure with the Abuja Municipal Area Council. Another 18% of respondents reported receiving the receipts after demanding for it, and 9% reported receiving unofficial receipts. 18% of respondents received no receipts at all, highlighting room for improvement in the receipt issuance process at AMAC.

Figure 23: **"Are the payments receipted?"**



2.4 ESTIMATING TOTAL COSTS OF COMPLIANCE (TCOC)

In addition to official costs paid to the authority, enterprises incur additional costs to meet regulatory obligations, including hiring additional staff, material and IT investments, time spent seeking approvals, and other administrative costs (documentation and preparation of information). The total cost of compliance (TCoC) considers the official cost paid to the government body, the unofficial costs and time spent pursuing the obligation (opportunity cost) incurred by an MSME to adhere to business and industry regulations. The analysis of total compliance costs in this study put together results from the quantitative findings from market responses and some secondary data. It follows a few assumptions:

- Regulatory compliance costs require efforts that cost both time and money.
- For the purpose of this study, the time requirements are translated to monetary value and calculated based on the average processing timeline. With this approach, the study only considers the effort of the staff of the MSMEs from preparation to getting actual approval.
  It was also necessary determine the time spent over the officially stated time provided by the relevant authority. This entails calculating the effort required in tracking an ongoing application, following deviation from the standard processing time. The monetary equivalent is estimated based on the salary of a junior to a mid-level employee at a small enterprise and that only 10% of the additional time is spent tracking results (from results of the market study). The average monthly wage of a junior – mid-MSME employee was estimated at N80,000. MSMEs lose productive time to processing delays, resulting in repeated follow-ups and visits to the regulator to see outcomes of ongoing applications or requests.
- The monetary costs are actual pay-outs, including official payments intended to the government authority and additional payments made. The additional could be in the form of consultancy costs, facilitation costs or bribes, amongst others. These two dimensions are assessed to be well-distinguished from business as usual costs (costs that would have been incurred by MSMEs anyway), reflecting theactual financial impact of compliance costs.

We analyse the true costs of regulatory compliance per agency in the following sub-sections.

TCOC - CORPORATE AFFAIRS COMMISSION

The CAC oversees the registration of all businesses in the Federation – a basic compliance requirement for enterprises. Companies are also required to file annual financial returns with the CAC. The CAC launched its online system in February 2015. By 2017, the platform was able to take online unique name reservations and business registration.

Registration of a new entity takes between 7 to 9 days, and the high-level processes for applying the CAC online channel is shown in figure 24 below.

Figure 24: **Procedures for Registering a Company with the CAC**

Requirements	Process	Time	Cost
	Check for availability of the business name	1 - 2 days	NGN500
Registration Form CAC 1.1 – details on company, shareholders, Statutory Declaration of compliance with the requirements of CAMA	Complete pre-registration form	1 day	
	Upload relevant registration documents/ get signed the declaration of compliance	1 - 2 days	NGN500
Incorporation fees Stamp Duty to the Federal Inland Revenue Service Fees (FIRS)	Pay filing fee	1 day	NGN1,000
Stamped CAC Form 1.1 Identification of the directors and shareholders Memorandum and articles of association of the company	Submit business registration/ incorporation document and receive TIN	3 days	NGN10,000
	Obtain Certified True Copies		

Source: CAC website, news articles, World Bank

Figure 25 below shows an analysis of the official fees vis- à-vis actual costs of CAC registration for an enterprise. It is estimated that MSMEs paid an average of NGN43,763 for business registration, spending an additional NGN21,513 (a 97% mark-up on official fees) above the official fee.

Figure 25: **Estimate of Official Cost of Registering a Company with the CAC**

Official Cost of CAC Registration

Step 1 - Business/ Company Name Registration

- Name Search[1] ₦1,000
- Name Reservation[1] ₦ 500
- Application Form[1] ₦ 250
- Name Registration[1] ₦10,000

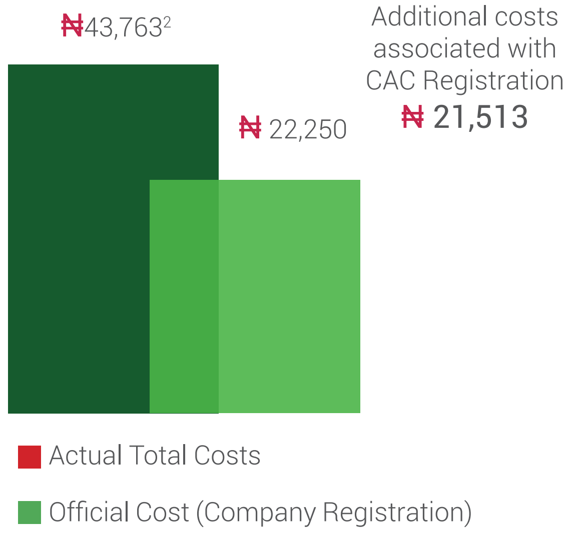
₦ 11,750

Step 2 -

- Declaration of compliance[1] ₦ 500
- Cert True Copies[1] ₦10,000

₦ 10,500

Comparison of Actual CAC Costs vs Official Costs

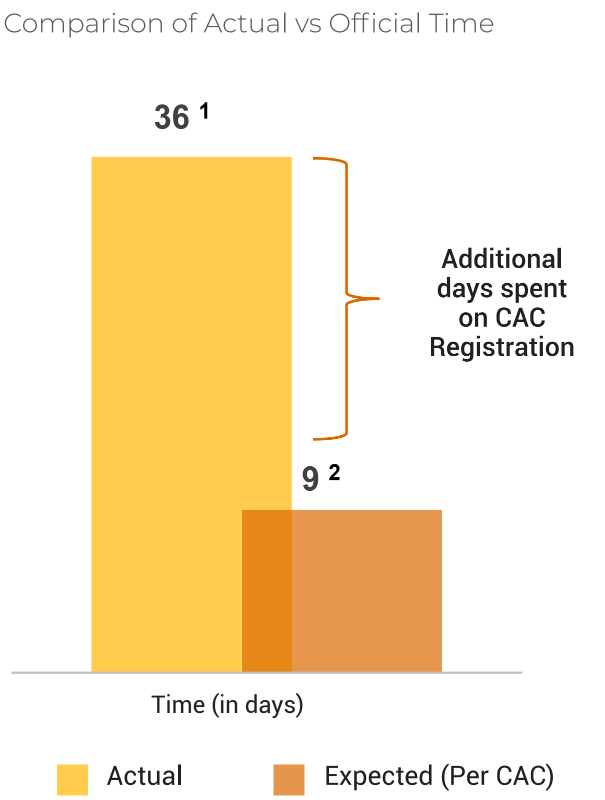


MSMEs are paying an average of **₦21,513** in additional costs for CAC registration, **97%** mark up on official stated costs.[3]

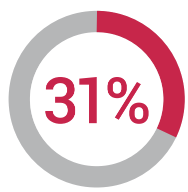
Only **50%** of respondents paid official fees to get their business name registration done [2]

1- CAC Website, 2- Market Study, 3- PwC Analysis

Figure 26: **Estimated Opportunity Cost of CAC Registration**

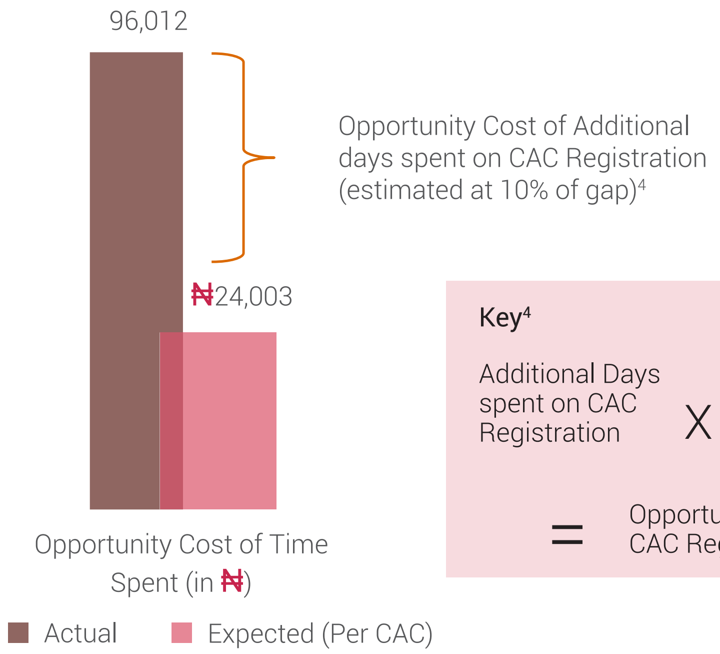


MSMEs lose an average of 27 additional days to CAC registration, **300%** mark up on official estimated days.



Only 31% of respondents got their business name registration done within a week[1]

MSMEs lose an average of ₦ 7,200 delays associated with CAC compliance, which could have been spent building the business.



Key[4]

Additional Days spent on CAC Registration X % of the time actually spent on CAC follow up[3] X Average Daily Salary of a Junior Employee[3]

= Opportunity Cost of Additional days spent on CAC Registration

1- Market Study, 2- CAC Website, 3- Average monthly wage of a junior – mid-level employee was estimated at N80,000, leading to a daily wage of N2,667. Assuming following up takes 10% of additional days spent. (sourced from market study and from secondary research) 4- PwC Analysis

Figure 26 shows that, on average, it took 36 days for respondents to get their business registration document. Using the below assumptions, it can be deduced that the additional time spent results in an opportunity cost of NGN7,200 on the average, provided that:

- Following-up with CAC for the registration document is delegated to a junior to a mid-level employee who earns about N80,000.
- 10% of the time is spent on following up with CAC during the additional waiting time (sourced from market study)
- This means a small business spends an average of NGN50,963 on the CAC registration process, incurring an additional cost of NGN28,713 - this is about 56% of the total (see figure 27). At the country level, it is estimated that MSMEs incurred a total of NGN18.8bn in compliance costs in 3 years (see figure 28 below), given that 369,351 companies registered in Nigeria between 2018 to 2020. Avoidable costs due to delays and unofficial fees (such as consultancy fees) associated with the process are estimated to be about NGN10.6bn.

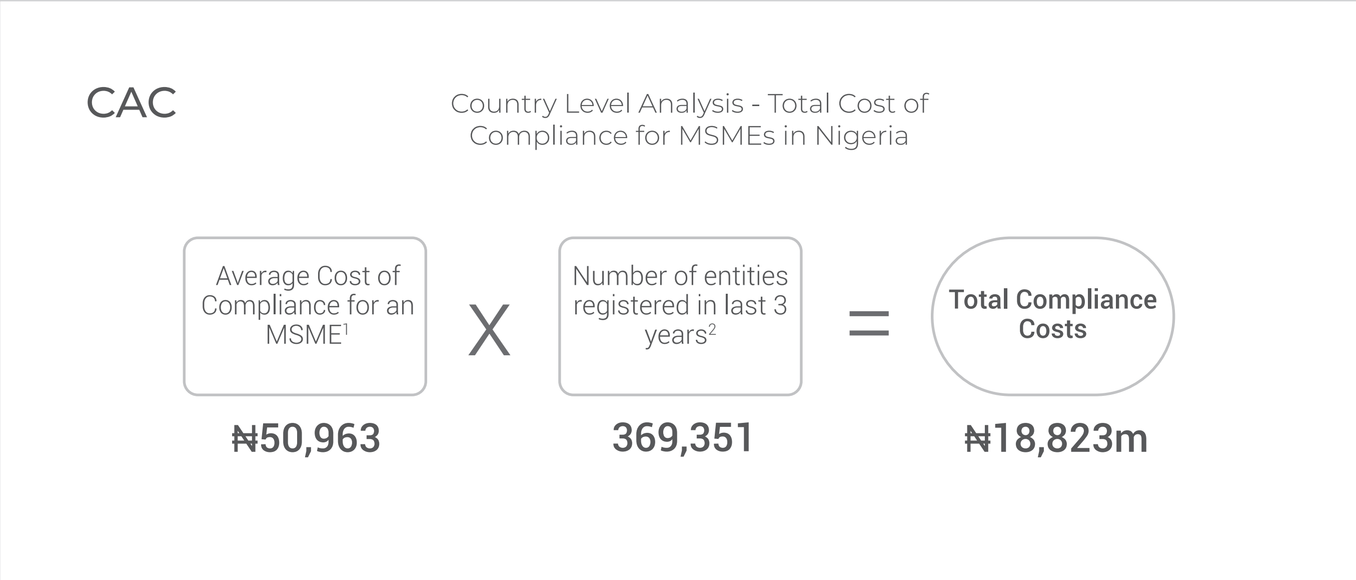
Figure 27: **Average Cost of Compliance Associated with the CAC Business Registration Process**

CAC

Estimated Average Cost of Compliance for an MSME in Nigeria

Official Cost of CAC Registration[1]	+	Unofficial Cost of CAC Registration[2]	+	Average Opportunity Cost of Processing Time[2]	=	Average Cost of Compliance for an MSME
₦22,250		**₦21,513**		**₦7,200**		**₦50,963**
(44%)		**(42%)**		**(14%)**		**(100%)**

Figure 28: **Estimated Total Cost of Compliance Associated with the CAC Business Registration ProcessProcess**



TCOC - NATIONAL AGENCY FOR FOOD & DRUG ADMINISTRATION & CONTROL (NAFDAC)

NAFDAC's regulatory functions cover the issuance of permits to manufacturers and importers of pharmaceuticals, chemicals, food products including water, drinks and certain agrochemicals.

Figure 30: **Procedures for Applying for a NAFDAC Certificate**

Process	Requirements		Time	Cost
Document Verification	Formal written application for product registration directed to the Director	Evidence of payment of prescribed fees	10 days	
Facility inspection	Operating facility built according to NAFDAC SOP		10 days	Processing = 30,000 Certification = 20,000 (average cost for small food manufacturer)
Product quality analysis	Operating facility built according to NAFDAC SOP	Comprehensive Certificate of Analysis	10 days	
Approval Meeting/ Issuance of NAFDAC registration Number	Final vetting		30 days	

Source: NAFDAC website, news articles

To obtain a NAFDAC product certification, businesses must present a CAC certificate, an application letter, description of production facility, and product samples. Before issuing a permit, NAFDAC will verify documents, test samples of products in NAFDAC laboratories and inspect the manufacturing facility (see figure 30). The official cost of a NAFDAC permit varies with the size of the manufacturing facility and the type of product. For a production facility to be certified, it must be built according to NAFDAC standards.

According to the NAFDAC, the certification process can be concluded within 1 month to 3 months, depending on how swift the company seeking registration is able to prepare for the application.

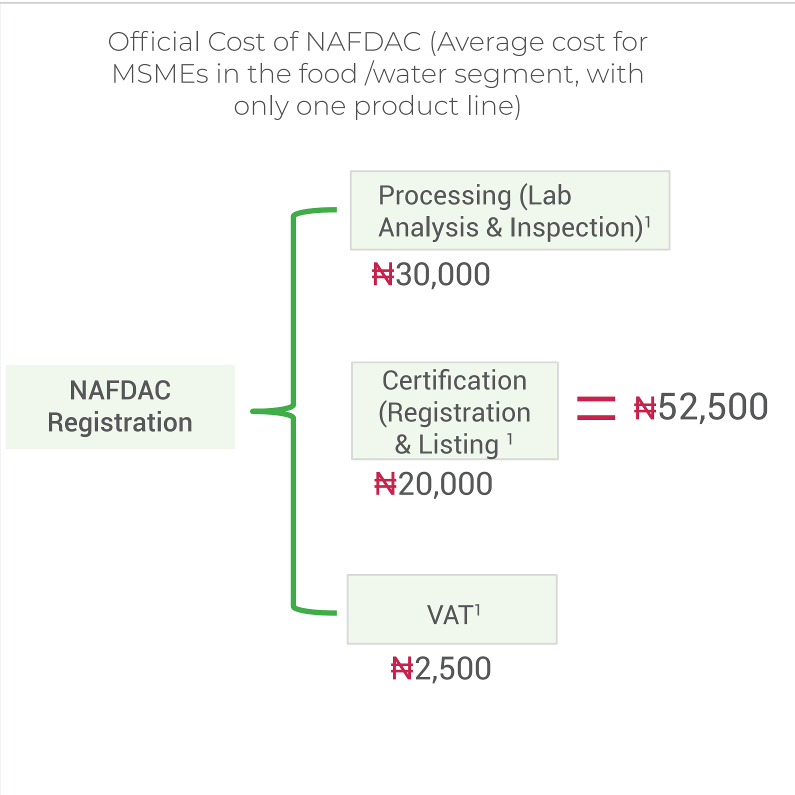
Figure 31, below, presents an analysis of average fees incurred to obtain NAFDAC approval for products. The actual fees paid by MSMEs include official fees and additional fees (paid to consultants, NAFDAC staff etc.). The analysis below suggests that an average enterprise pays N83,125 more to meet NAFDAC compliance obligations (a 158% mark-up on official costs).

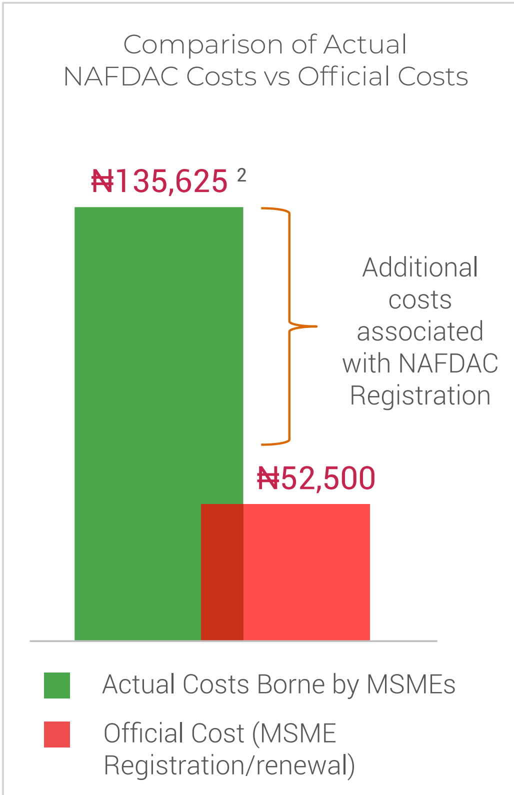
Interestingly, the study reveals that an MSME receives NAFDAC permit within the 90 days advertised. In fact, the average time reported by MSMEs was 3 days earlier than the official time (see figure 32). While this is laudable, it appears attributable to extensive use of consultancy services (given that about 92% of respondents paid unofficial fees) and as such, comes at too high a price to MSMEs.

In any case, our analysis does not cover the opportunity cost savings relating to this as an absence of opportunity cost in a regulatory process is not an actual savings on total costs (see figure 33).

With 92% of respondents paying unofficial fees to consultants (as high as ₦83,000), the perceived gains from faster processing of NAFDAC approvals comes at too high a price to MSMEs.

Figure 31: **Estimate of Official Cost of Obtaining a NAFDAC Certificate vs Actual Costs**

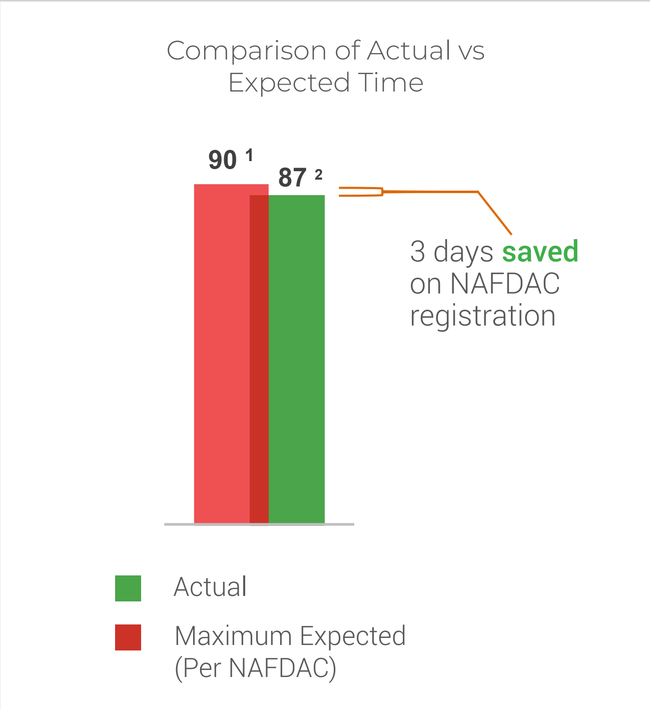




MSMEs are paying an average of **₦83,125** in additional costs for NAFDAC registration, **158%** mark up on official stated costs [3]

NAFDAC consultant fee cost upwards of **₦80,000 – ₦100,000**

Figure 32: **Estimate of Opportunity Costs of Obtaining NAFDAC Certificate**



NAFDAC processes registration requests on time, albeit unofficial fees very high(**with 92% paying unofficial fees**) indicating use of consultants/ middlemen. SMEs report processing time was on average 3 days shorter than the 90 days advertised*

It is apparent that MSMEs seeking to comply with NAFDAC are incurring additional significant costs. At the country level, it is estimated that MSMEs incurred an aggregate of NGN2.6bn in total compliance costs over a 3 year period (see figure 34 below), given that 19,513 companies registered in Nigeria between 2018 to 2020. Avoidable costs due to delays and unofficial fees associated with the product certification process are estimated to be about NGN 1.6 bn.[24] This is equivalent to 61% of total compliance.

Costs for NAFDAC compliance. The aggregated value considers:
- Estimated number of NAFDAC approvals in the food and water segment for the past 3 years
- Additional costs incurred on official fees

Figure 33: **Estimate of Opportunity Costs of Obtaining NAFDAC Certificate**

NAFDAC

Estimated Average Cost of NAFDAC Processing for an MSME in Nigeria

Official Cost Processing[1]	+	Unofficial Registration	X	Average Opportunity Processing Time[2]	=	**Average Cost of processing for an MSME**
₦52,500		**₦83,125**		**0**		**₦135,625m**
(39%)		(61%)				

Figure 34: **Estimated Total Cost of Compliance – NAFDAC Certificate Processing**

NAFDAC

Country Level Analysis - Estimated Total Cost of Processing for MSMEs in Nigeria

Average Cost of NAFDAC Processing for an MSME [1]	X	Number of NAFDAC Approvals in the Food/Water Sector for the past 3 years [2]	=	**Total Cost of Compliance**
₦135,625		**19,513**		**₦135,625m**

Figure 35: **Estimated Avoidable Costs - NAFDAC Certificate Processing**

NAFDAC

Country Level Analysis - Avoidable Cost of Compliance for MSMEs in Nigeria

Average Cost of Compliance for an MSME [1]	X	Number of NAFDAC Approvals in the Food/Water Sector for the past 3 years [2]	=	**Total Avoidable Compliance Costs**
₦83,125 (39%)		**19,513**		**₦1,622m**

TCOC - STANDARDS ORGANIZATION OF NIGERIA (SON)

Under the SON Conformity Assessment Programme (SONCAP), the Federal Government of Nigeria requires importers to procure a Product Certificate (PC) and a Certificate of Conformity (COC), SONCAP Certificate (SC) for all consignment of regulated products cleared in Nigeria.

Also, all products manufactured in Nigeria must be certified under the Mandatory Conformity Assessment Programme (MANCAP) before being introduced to the market. SON ensures that all locally manufactured products in the country conform to the relevant Nigerian Industrial. Standards (NIS) before such products are allowed to be presented for sale in the market or exported.[25]

Requirements to obtain a MANCAP NIS Quality Certificate and MANCAP logo include:

- Duly completed application form for MANCAP Certification.
- Payment of the filing and assessment fee
- Businesses are expected to have in-house test facilities (laboratory) or have an alliance with a recognised external laboratory

Figure 36: **Procedures for Applying for a MANCAP Certificate**

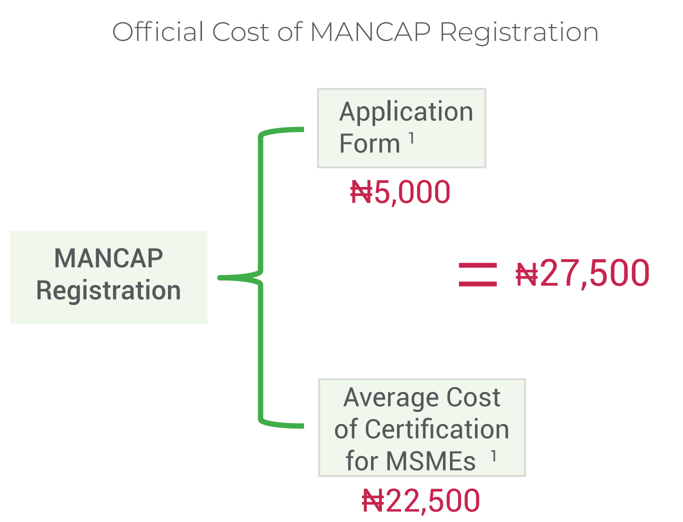
Process	Requirements			Time	Cost
Confirm payment and process application	Complete MANCAP certification form	↔	Pay assessment and filing fees	1 day	Form - 5,000 Average certification cost– 22,500
	↓				
First Inspection	In-house test facilities (laboratory) or alliance with a Laboratory		Records of product test results confirming consistent compliance with Standards	On day 21 of application	
	↓				
3 months interval testing	Records of product test results confirming consistent compliance with Standards				
	↓				
Approval	Successfully screened products are presented to the SON Council for approval			3 – 6 months	

Source: SON Website, News Articles, PwC analysis

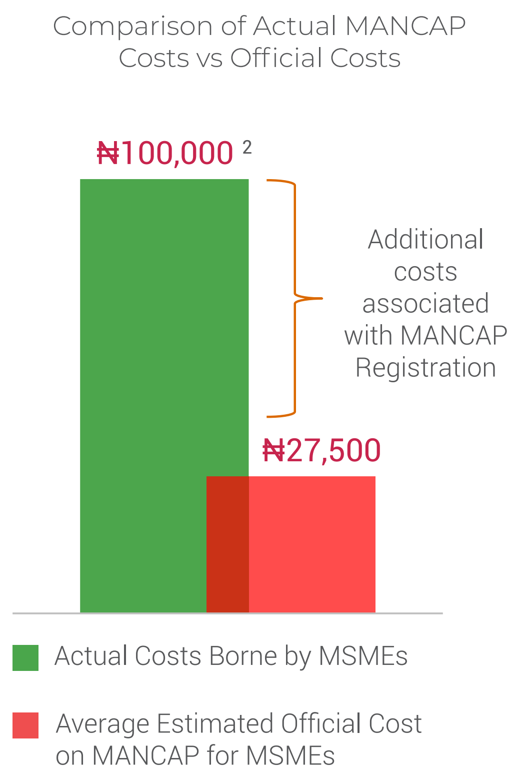
The first factory inspection is done by the State Office Coordinator within twenty-one (21) days of application.[26] Results of product tests are inspected to confirm consistent compliance with the relevant Standards. Once approved, MANCAP Certificate and logo to be affixed to products are issued to the company.
Industries under SON oversight covered in this pilot study include the Retail and Trade, Decentralized Power and Light Manufacturing. MSMEs operating in Decentralized Power, Retail and Trade that import components or finished products are required to obtain SONCAP certificate and Product Certificate (PC) from the country of export. When goods arrive at Nigerian ports, SON officials verify the documents and inspects the shipments for quality conformity.

Likewise, MSMEs that manufacture products locally must obtain the MANCAP permit – this process involves an inspection of the production facility and testing of the finished products for quality conformity. Companies that have successfully obtained a MANCAP permit are then authorized to use the MANCAP logo on product packages. Notwithstanding the low compliance, dealing with SON is quite expensive for MSMEs adhering to MANCAP regulation. The estimated fees incurred by MSMEs amounts to about NGN100,000. When compared with official fees of about NGN27,250, it suggests an average MSME pays a 264% mark-up on official fees (see figure 37).

Figure 37: **Official Cost of MANCAP Processing vs Actual Costs**



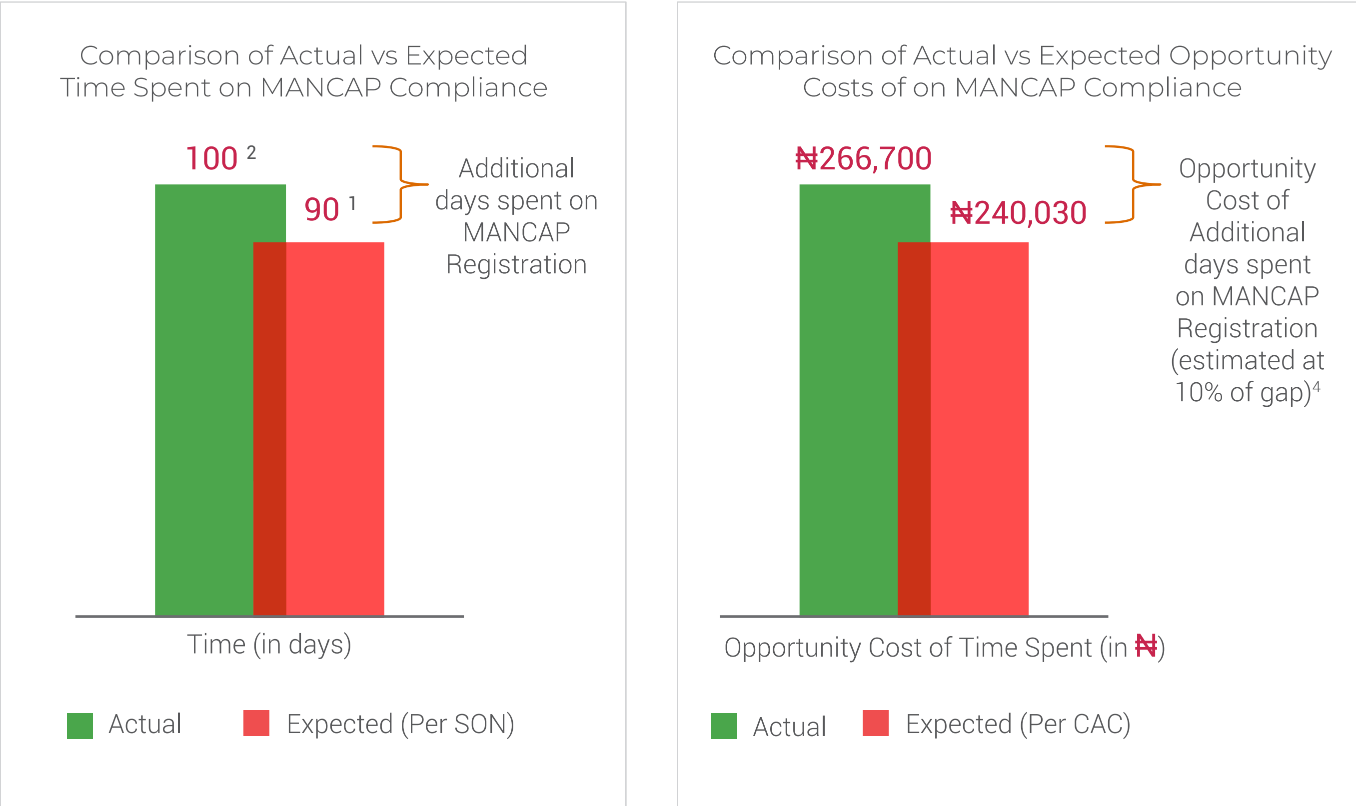
MSMEs are paying an average of **₦72,500** in additional costs for MANCAP (SON) registration, a **264%** mark up on official stated costs.



Additional costs can be largely attributed to 'unofficial payments' to SON staff and consultancy fees.

In addition, as shown in figure 32 below, an MSME experiences about 10 days delay in getting SON's approval for MANCAP certification, when compared to the processing time of about 3 months

Figure 38: **Estimated Opportunity Costs of MANCAP Processing**



Key[4]

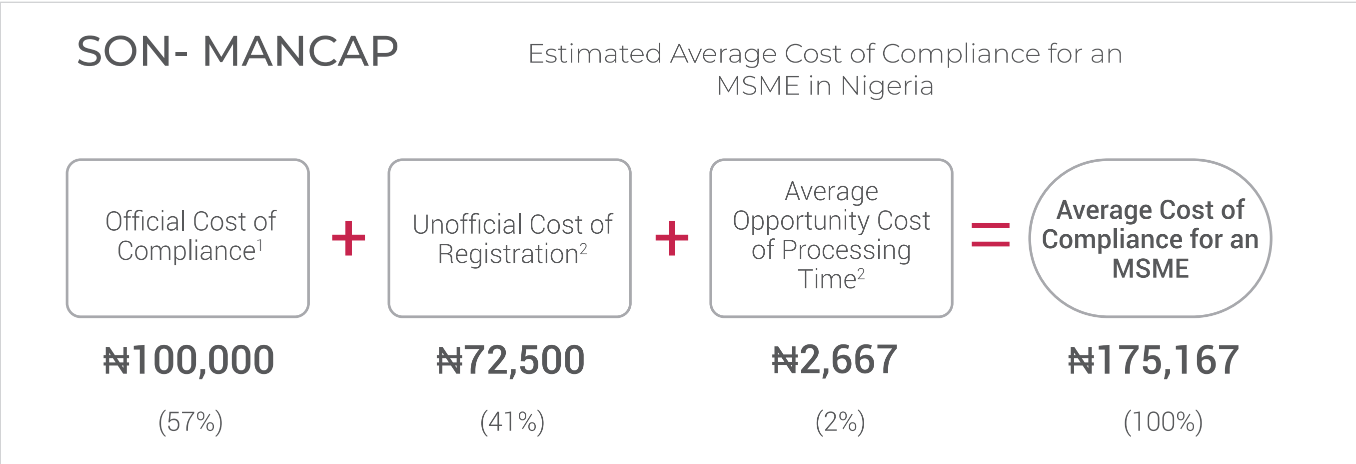
Additional Days spent on MANCAP Registration[2] X Average Daily Salary of a Junior-Mid Employee[3] = **Opportunity Cost of Additional days spent on MANCAP Registration**

MSMEs are losing **an average of over 10 additional days** to MANCAP registration, **11% more** than official estimated days

MSMEs are losing an average of **₦2,667** in additional labour hours to MANCAP compliance, which could have been spent building the business.

At the enterprise level, MANCAP obligations may cost an MSME an average of NGN175,167. This is the sum of the official cost, the unofficial cost to an individual MSME and the opportunity cost of attending to delays (see figure 39).

Figure 39: **Average Cost of Compliance - MANCAP Approval**

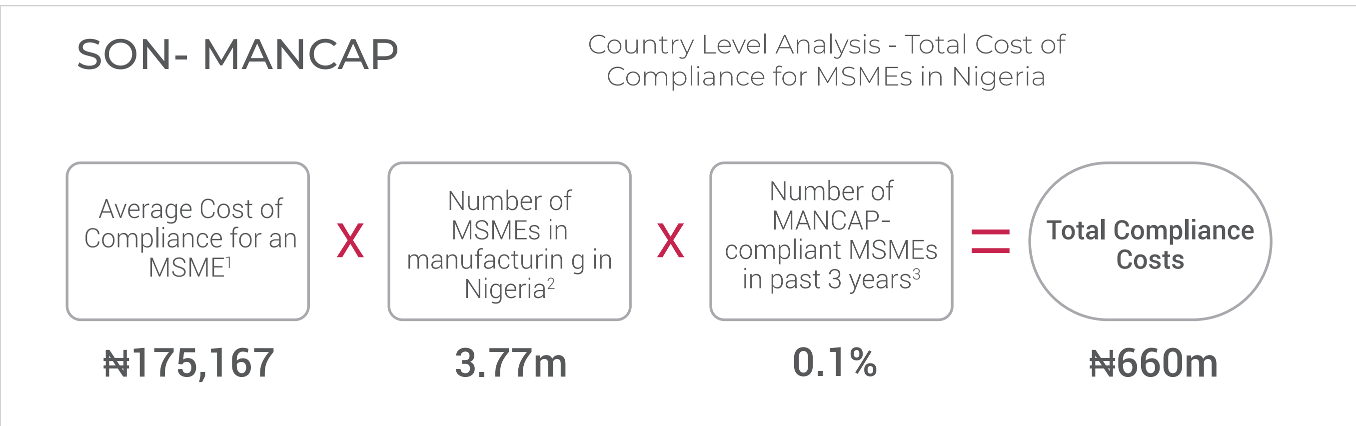


1- SON Website, 2- Market Study

To estimate national-level costs in processing a MANCAP permit, the aggregate value takes into consideration:

- Additional costs incurred on official fees
- Population-weight for the number of businesses in the manufacturing sector
- Low compliance with MANCAP requirements

Figure 40: **Estimated Total Cost of Compliance - MANCAP Approval**



1- PwC Analysis, SON, Market Study, 2- 2017 SMEDAN [41.7 SMES in Nigeria * 9% of SMEs in Manufacturing], 3- Expert Interview

Therefore, the estimated national cost of compliance for MANCAP certification is N660m in 3 years (see figure 39 above), given that about 0.1% of MSMEs in manufacturing in Nigeria were MANCAP compliant between 2018 to 2020. Avoidable costs due to delays and unofficial fees (such as consultancy fees) associated with the process are estimated to be about NGN 283m. This amounts to 43% of total compliance costs for MANCAP certification being avoidable.

Figure 40: **Estimated Avoidable Costs - MANCAP Processing**

SON- MANCAP

Country Level Analysis - Avoidable Cost of Compliance for MSMEs in Nigeria

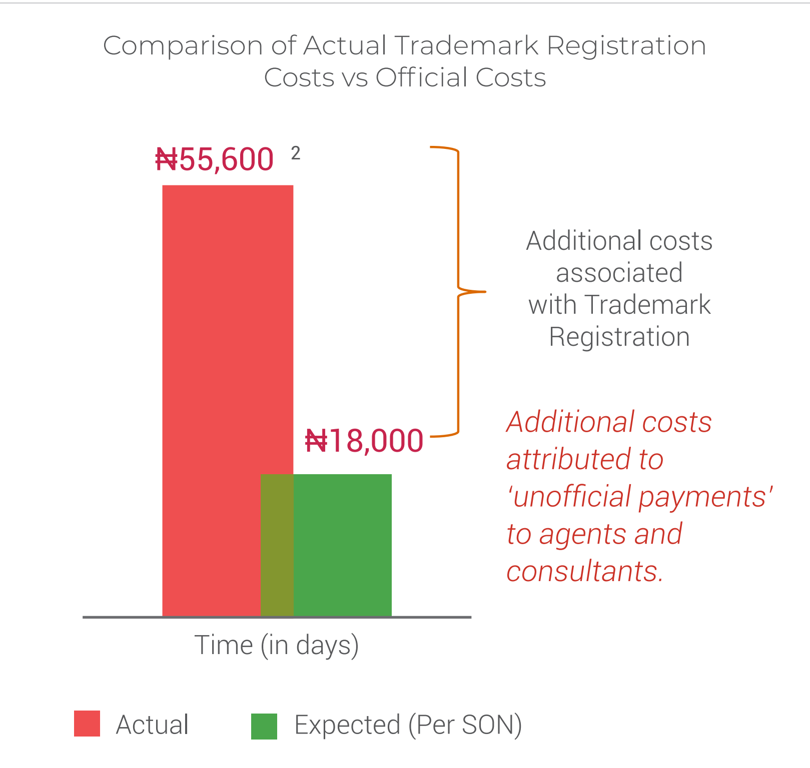
Unofficial Cost of Registration[1]	+	Average Opportunity Cost of Processing Time[1]	×	Number of MSMEs in manufacturing in Nigeria[2]	×	Number of MANCAP-compliant MSMEs in past 3 years[3]	=	**Total Avoidable Compliance Costs**
₦72,500		**₦2,667**		**3.77 m**		**0.1%**		**₦283m**
(41%)		(2%)						

1- PwC Analysis, SON, Market Study, 2- 2017 SMEDAN [41.7 SMES in Nigeria * 9% of SMEs in Manufacturing], 3- Expert Interview

TCOC - FEDERAL MINISTRY OF INDUSTRY TRADE AND INVESTMENT (FMITI)

MSMEs paid between NGN25,000 to over NGN100,000 for trademark registration with the FMITI. About 60% of MSMEs paid just over NGN50,000 to obtain the certificate; the official fee is speculated to be about NGN18,000.

Figure 41: **Official Cost of Trademark Certification vs Actual Costs**



MSMEs are paying an average of **₦37,600** in additional costs for Trademark, a 209% mark up on official stated costs.

There is little or no information on the operations of the Trademark Office, leaving no opportunity for the validation of the official cost of a trademark. This explains the need for the use of middlemen in the process. As shown in figure 36 above, an enterprise spends NGN55,600 on the average to get a trademark certification. This implies that NGN37,600 (about 68% of total) is borne by MSMEs in additional unofficial costs. There is not enough information about the standard processing time for trademark certificate processing; as such, our analysis does not cover delays (opportunity cost) in this process (see figure 42).

Based on the forgoing, the estimated country-cost of compliance for trademark registration is about N1.2bn, estimated using number of NAFDAC applications in the past 3 years (as proxy for demand for trademark registration by businesses – trademark certificate is a prerequisite for NAFDAC applications). Avoidable costs in this process amounts to about NGN827m over a 3 year period.

Figure 42: **Estimated Total Cost of Compliance – Trademark Certificate Processing**

FMITI

Country Level Analysis - Total Cost of Compliance for MSMEs in Nigeria

Average Cost of Compliance for an MSME[1]	X	Estimated number of NAFDAC Approvals in for the past 3 years[2]	=	**Total Compliance Costs**
₦55,600		**21,989**		**₦1,222m**

Figure 43: **Estimated Avoidable Costs - Trademark Certificate Processing**

FMITI

Country Level Analysis - Avoidable Cost of Compliance for MSMEs in Nigeria

Unofficial Cost of Trademark Certificate Processing[1]	X	Estimated number of NAFDAC Approvals in for the past 3 years[2]	=	**Total Avoidable Compliance Costs**
₦37,600 (68%)		**21,989**		**₦827m**

TCOC - FEDERAL INLAND REVENUE SERVICE (FIRS)

Taxes administered by the FIRS are multilayered and vary by business type. The FIRS collects Companies Income Tax, Petroleum Profits Tax (PPT), Value Added Tax (VAT), etc. For the purpose of this study, we focus on the CIT and VAT as these were discussed by MSMEs.

Businesses with less than NGN25m in taxable income pay little to nothing for FIRS compliance. For companies above this taxable income threshold, FIRS compliance involves tax identification via a Tax Identification Number (TIN), which now covers both CIT and VAT registration and are processes free of charge to businesses. Tax Identification Number registration in Nigeria is currently free of charge and is easily obtainable. The structure was intentionally designed by the government to ease tax

collection by incentivising MSME tax registration. Income for companies earning less than N25m in taxable income is subject to no corporate tax at all, and most Nigerian MSMEs fall into this category.
For companies earning above NGN25m in taxable income, the Companies Income Tax Act (CITA) of Nigeria imposes Company Income Tax (CIT) on profits accruing in, derived from, brought into or received in Nigeria. It is payable by companies that are registered in Nigeria and non-resident entities carrying on business in Nigeria and is the minimum required tax for every business in Nigeria. For companies with over N25m in taxable corporate income report having to pay unofficial dues to FIRS officials. An analysis of FIRS compliance items is detailed below:

Table 6: **Snapshot of Income Tax Requirements**

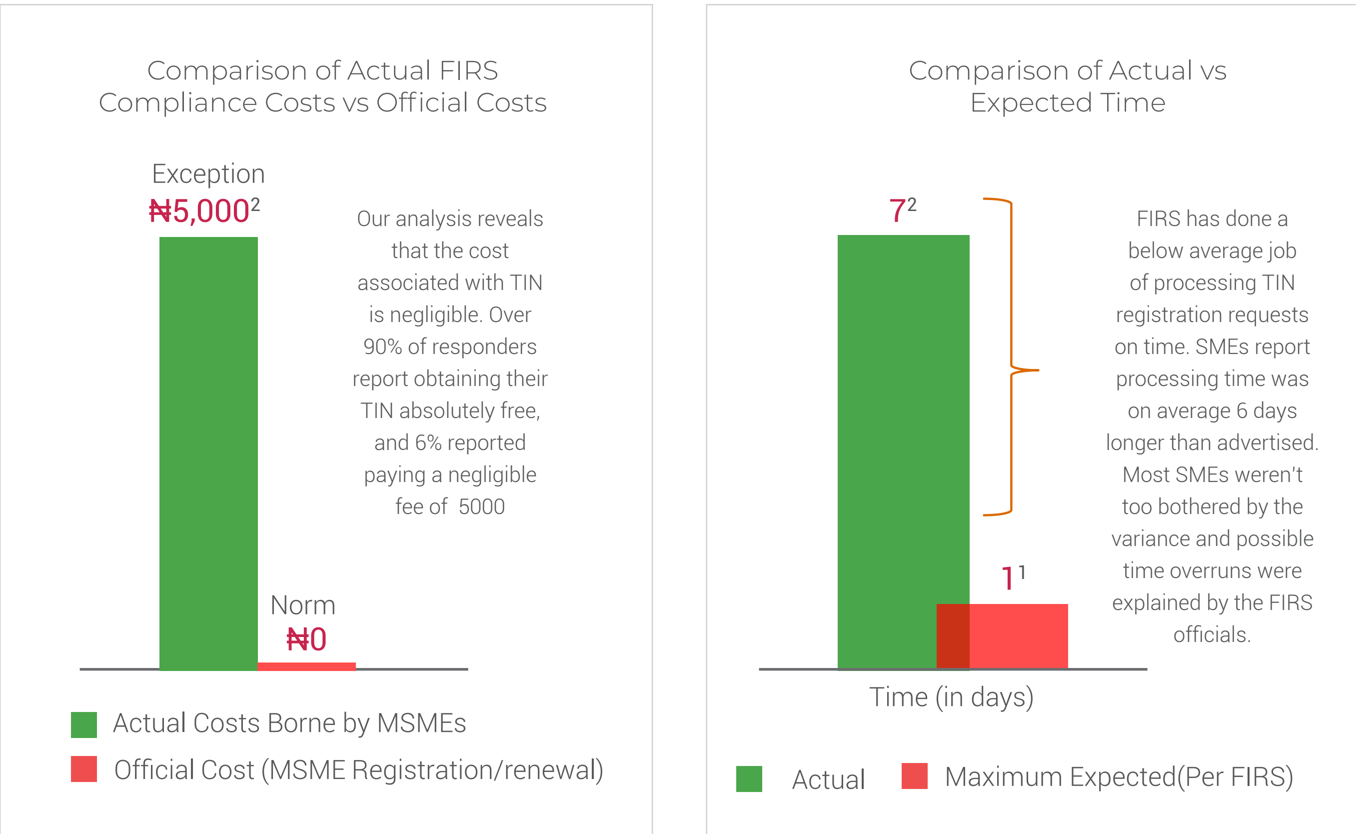
Tax Item	Rate and Summary of Requirements
Standard tax rate	30%
Small Company tax rate [S 40(6)]	20% Applicable to companies engaged in Agriculture, manufacturing, mining and those engaged wholly in exports within the first five years of operation and where the annual turnover is less than N1 million.
Taxation of Companies	Any company doing business in Nigeria, whether resident (registered in Nigeria) or non-resident (a company registered outside Nigeria). Non-resident companies are liable to tax on the profit or income derived from Nigeria. Where actual profits cannot be determined, the Federal Inland Revenue Service (FIRS) may apply a deemed profit rate on turnover derived from Nigeria. In practice, profit is deemed at 20%, which is then taxed at the income tax rate of 30%, resulting in an effective tax of 6% of turnover. The FIRS issued a notice for non-resident companies to commence filing their tax returns on an actual basis effective 1 January 2015. Detailed guidelines have not been provided.
Taxable Income	A resident company is liable to tax on its worldwide income, being its profits accruing in, derived from, brought into, and received in Nigeria. A non-resident company is liable to tax on its income derived from Nigeria, that is, income attributable to its Nigerian operation.

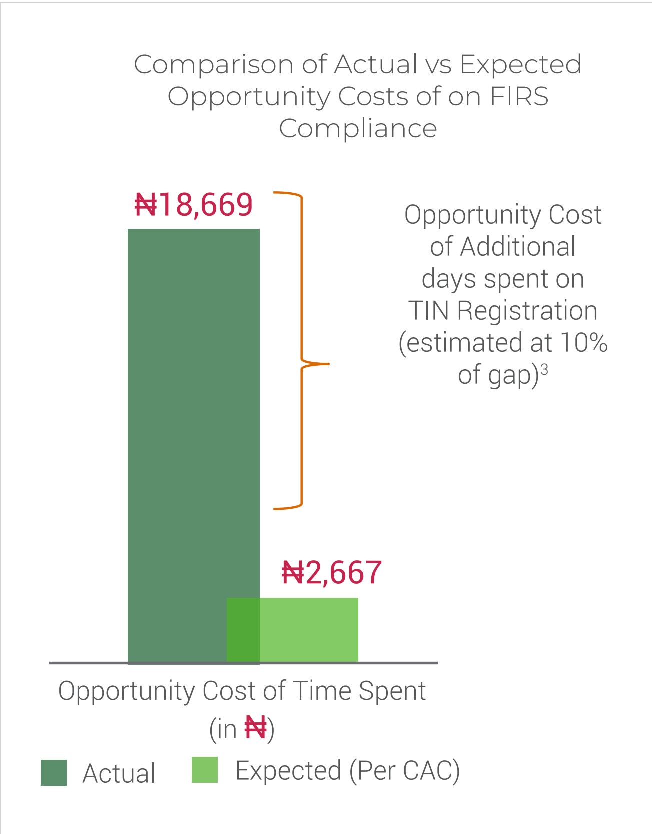
Tax Item	Rate and Summary of Requirements
Minimum tax	This is imposed where a company has no taxable profit, or the tax payable is less than the minimum tax computed as the highest of: 0.5%of gross profit, 0.5% of net assets, 0.25% of paid-up share capital, 0.25% of turnover up to N500,000, including a 0.125% of turnover in excess of N500,000
Exemption from minimum tax	A company is exempted from minimum tax if it meets any of the following conditions: • It is within its first four calendar years of business. • It has at least 25% of its paid-up capital as imported equity. • It carries on Agricultural trade or business.

In figure 44, we present our analysis of compliance costs to MSMEs on the basis of delays in TIN processing, given that majority did not receive the TIN on the same day as published (from the results of this study). Since the majority did not actually pay a fee for TIN, there are no unofficial costs associated with the process.

Therefore, the average cost of TIN registration caused by delays in processing costs an enterprise about N1,600.(see figure 45)

Figure 44: **Estimated Costs Associated with TIN Registration (Actual, Opportunity & Official Costs)**





In essence, the total cost of compliance for TIN registration is entirely avoidable if TIN is processed immediately as stated by the authorities.

At the country level, this can be estimated to amount to about N507m in the total cost of compliance (all of which is avoidable costs) to MSMEs in the past 3 years. (see figure 45)

Figure 45: **Average Cost of Compliance - TIN Registration**

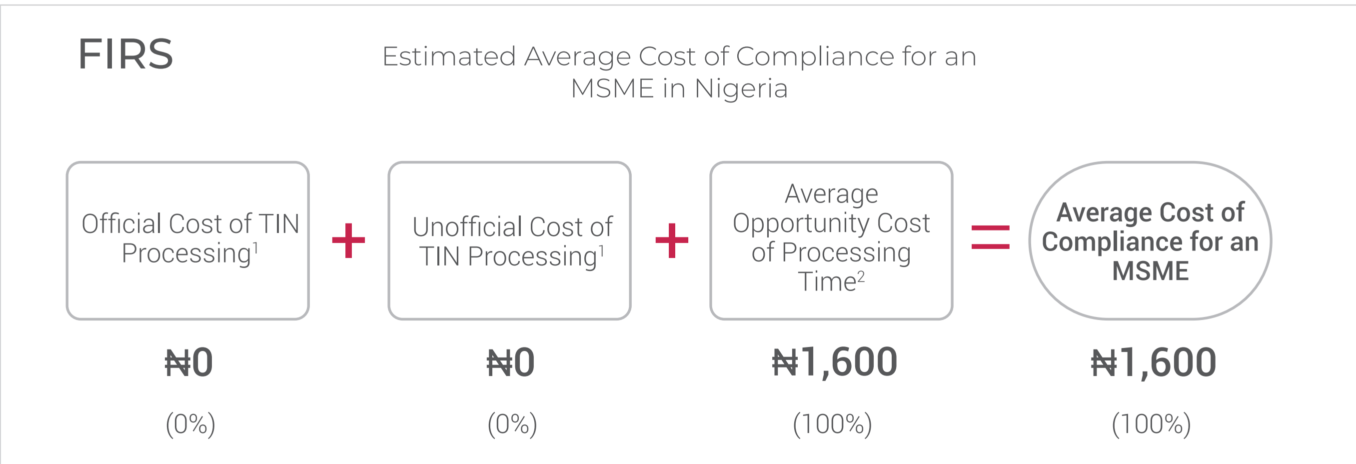


Figure 46: **Estimated Total Cost of Compliance - TIN Registration**

FIRS

Country Level Analysis - Total Cost of Compliance for MSMEs in Nigeria

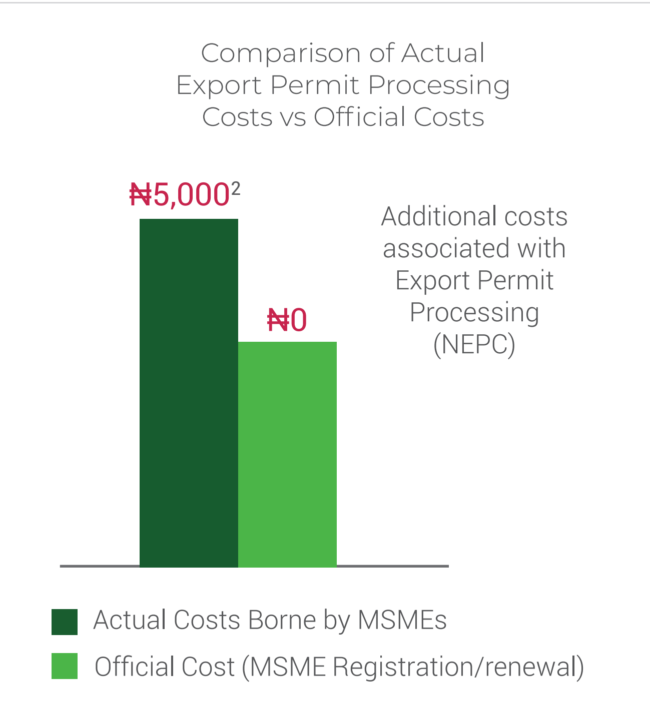
Average Cost of Compliance for an MSME[1]	X	Number of entities Registered in last 3 years[2]	=	Total Compliance Costs (Avoidable)
₦1,600		**369,351**		**₦591m**

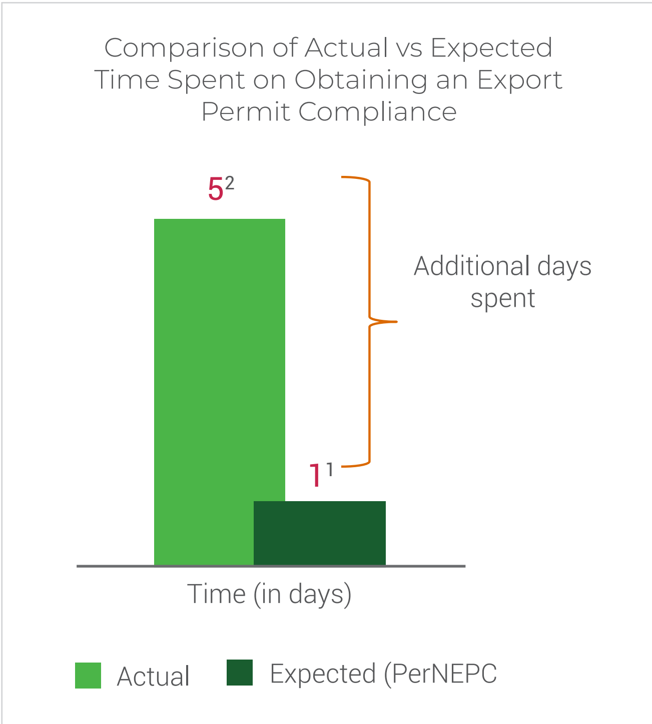
TCOC- NIGERIA EXPORT PROMOTION COUNCIL (NEPC)

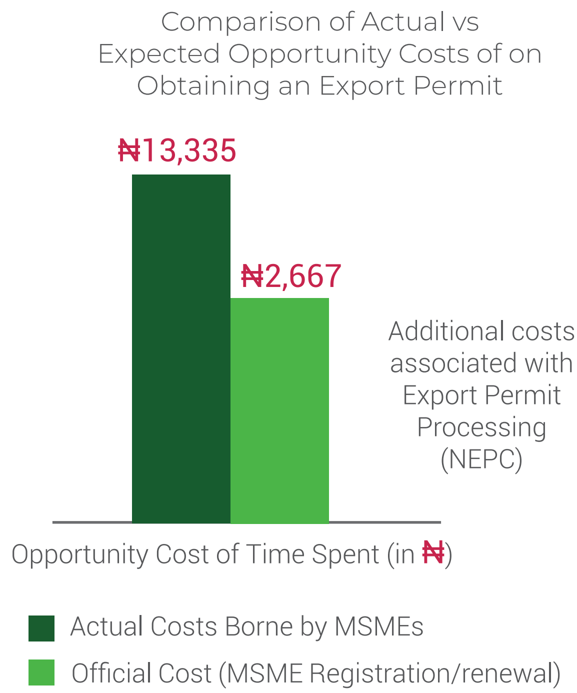
Getting an export permit from the NEPC costs MSMEs N20,000 on the average. The process was generally described as smooth, with many MSMEs reporting limited issues with processing timelines. Figure 46 shows our analysis of average actual costs and processing timelines for an enterprise.

When compared with official fees of about NGN13,500, survey results suggest an average MSME pays a 48% mark-up on official fees. In addition, MSMEs experience about 4 days of delay when compared against official timelines of 1 day (from the day of payment confirmation) stated by NEPC (see figure 47)

Figure 44: **Estimated Costs Associated with TIN Registration (Actual, Opportunity & Official Costs)**







MSMEs are paying **₦6,500 more** in unofficial fees while processing an export permit, about 48% mark up on official costs

MSMEs spend an **average of over 5 days** to get an export permit processing, 4 days more than official estimated days.

This means that at the enterprise level, a business spends an average of NGN21,067 in getting the approval for an export permit. This is the sum of the official cost, the unofficial cost to an individual MSME and opportunity costs of attending to delays (see figure 48).

Figure 48: **Average Cost of Compliance – Processing of an Export Permit**

NEPC

Estimated Average Cost of Compliance for an MSME in Nigeria

Official Cost of TIN Processing[1]	+	Unofficial Cost of TIN Processing[2]	+	Average Opportunity Cost of Processing Time[2]	=	**Average Cost of Compliance for an MSME**
₦13,500		**₦6,500**		**₦1,067**		**₦21,067**
(64%)		(31%)		(5%)		(100%)

At the country level, our analysis suggests that MSMEs incurred an aggregate of NGN224m in total compliance costs while obtaining an export permit in Nigeria (see figure 48 below); estimated using size of newly registered entities involved in export of products and services, in the past 3 years (as proxy for demand for export registration for MSMEs).

In addition, it can be determined that about NGN80m accounted for avoidable costs from delays in the process. It is noteworthy that this amount is the lowest across all agencies observed in this study.

Figure 48: **Estimated Total Cost of Compliance – Export Permit Processing**

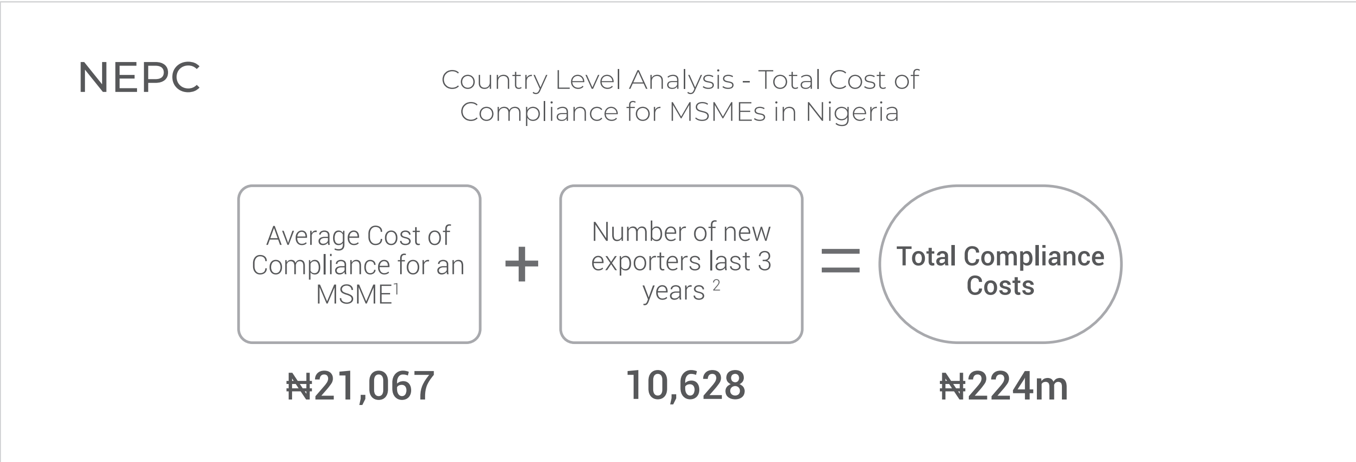
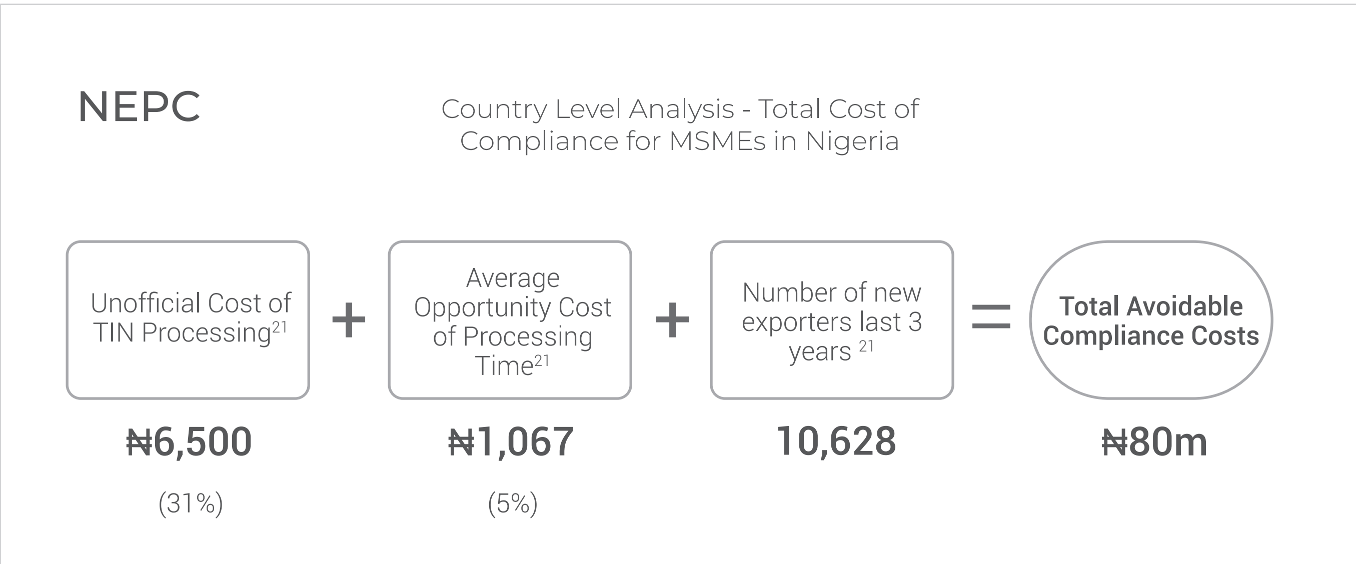


Figure 49: **Estimated Avoidable Costs - Export Permit Processing**



TCOC - LAGOS STATE LOCAL GOVERNMENTS

According the LIRS website,[27] local governments are authorised to collect 21 taxes and levies, including shops and kiosks rates, markets taxes and levies. This ,however, excludes any market where State finance is involved, signboard and advertisement permit fees, and vehicle radio license.

Figure 50: **Breakdown of Levies by Local Government Paid by Businesses**

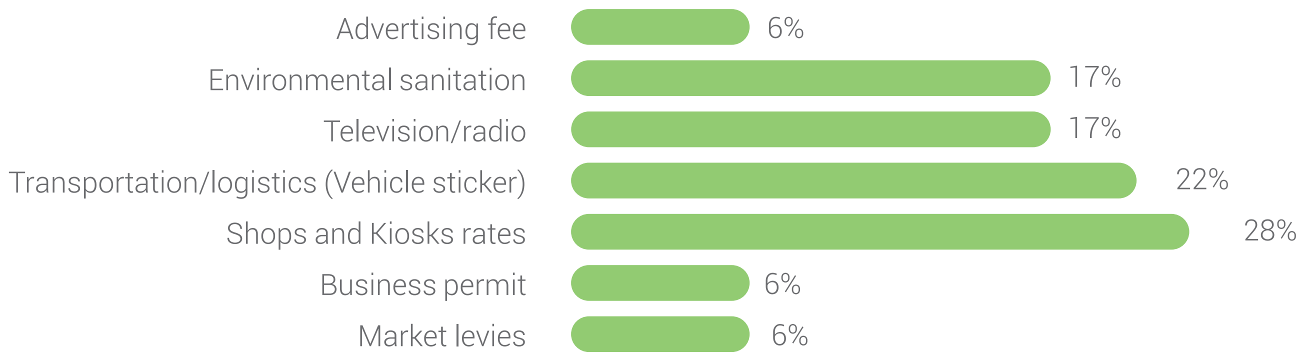


Figure 51: **"How much do you pay in total to the local government annually?"**

Based on the local government spend data above collected from our survey, MSMEs in Lagos state spend a weighted average of N 16,335 on Lagos State local government levies annually.[28] While this is applicable in any given year, at inception of business, MSMEs are required to register their business premise and pay a premise levy of N10,000 (N2,000 in rural areas).

From the market study results, about 60% of MSMEs pay between N10,000 and N30,000 to Lagos State Local Government agents annually. These amounts were reported to be unstandardised and applied based on factors such as size of business premises, perception of business revenue or negotiation skills of business owners. However, 80% of the respondents received official receipts, as levies were paid directly to local government offices. Businesses also report having to pay various unofficial fees described as land use, 'mobility,' association charges and other unnamed fees ranging NGN5000 to NGN20,000; which are collected on an ad hoc basis by collectors MSMEs described as 'government agents' and street urchins.

CASE STUDY

MULTIPLE LOGISTICS LEVIES ACROSS LOCAL GOVERNMENT

Businesses with a delivery arm to transport goods across local governments and states are required to pay various fees across local governments. Often, these businesses only learn about the fees when delivery vehicles are accosted by representatives of the local government. Representatives who are usually combative threaten to impound delivery vehicles if bills are not paid immediately. Local government stickers are placed on the vehicles when payments are made.

To lighten the burden and reduce harassment by local government representatives, one business owner visited the Local Government offices to gain clarity on the official transportation fees, and discovered a simpler method of acquiring local government permits (through personal relationship with a Vehicle Inspection Office (VIO) staff. A batch payment (covers 6 months) for 7 -11 transit permits cost 20,000 - 30,000.

TCOC- ABUJA MUNICIPAL AREA COUNCIL

Based on our survey responses, the weighted average amount spent on Abuja local government levies is N 50,923. In comparison to Lagos, the Abuja Municipal Area Council fees appear more expensive, with over 50% of respondents reportedly paying above NGN30,000 local government levies annually (see figure 52).[29]

This depicts there may be a significant burden from local government fees on enterprises in Abuja.

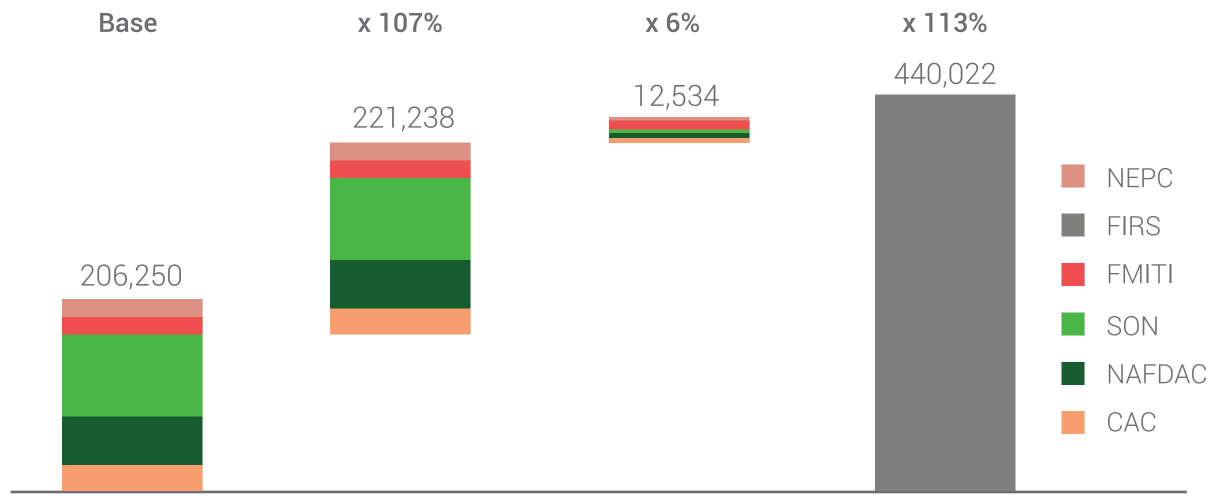
Figure 52: **"How much do you pay in total to the local government annually?"**

ESTIMATING AGGREGATED COST OF COMPLIANCE

Using the business value chain mapped in chapter 1, the aggregated cost of compliance at the national level can be measured as the sum of results from various agencies.
Following analysis, we infer that the total costs MSMEs pay for compliance can be seen to be as high as 113% of the official costs stated by government authorities.

This can be estimated to happen more often than not, since more than half of MSMEs paying unofficial fees to comply with various business and industry regulations within their sectors

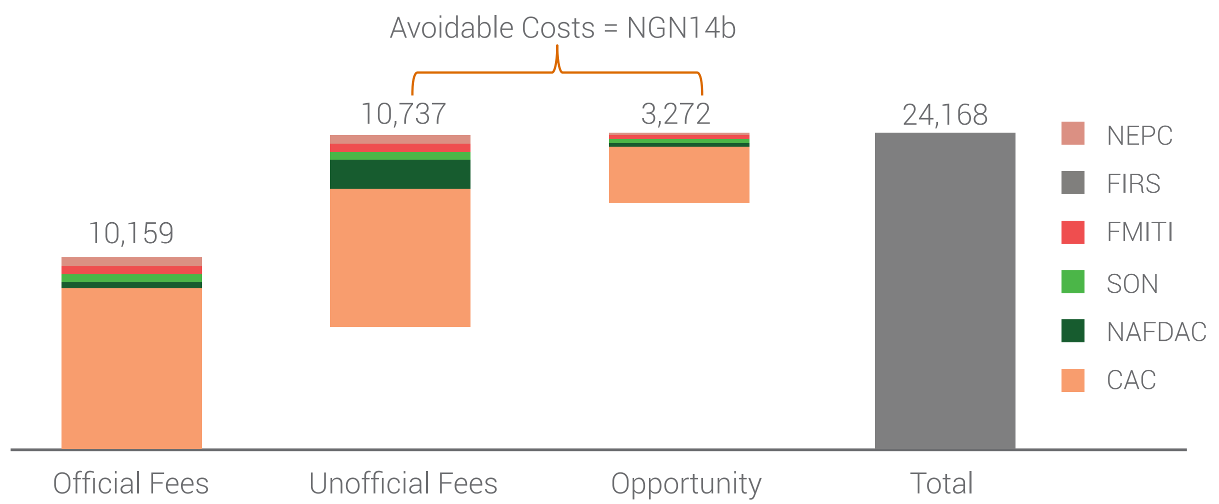
Figure 53: **Aggregated Startup Cost of Compliance per MSME in Nigeria (NGN)**



Source: PwC Analysis – Market Study

When considering impact to MSMEs at an aggregate level, the total costs of all compliance processes to businesses over the past three years is quite significant, put at about NGN 24.2bn. Of this figure, about 58% is accounted for by avoidable costs throughout the process.

Figure 54: **Aggregated Startup Cost of Compliance in Nigeria – National Impact (NGN m)**



Source: PwC Analysis – Market Study

It should be noted that across any of the agencies surveyed, MSMEs are required to pay renewal costs either periodically, which is roughly about 50% of initial approval fees. As one would expect, this could amount to similar magnitudes of unofficial costs in the compliance costs; although as noted earlier, processing times are shorter for renewals and thus, opportunity costs may be lower (see table 6 below).

Amongst the agencies considered in the estimation of cost of regulatory compliance, a subset of that is taken into the estimation of the ongoing costs/renewals, with renewals under 3 years, aligning with the estimation approach of using a 3- year frame.[30] They are:

- NAFDAC Certification – The listing certificate for NAFDAC is renewed after 2 years; while product licensing after 5 years
- NEPC Export Permit Processing – The permit must be renewed after 2 years
- CAC Filing of annual returns – Filing of audited financials is required each year.

Key findings are summarised in the table below.

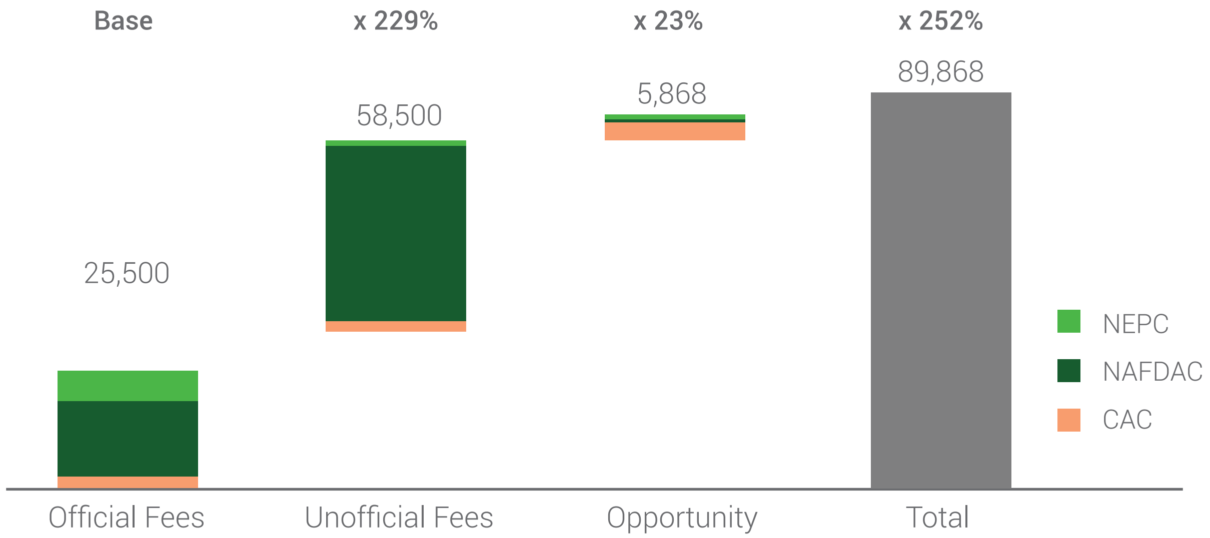
Table 7: **Analysis of Renewals or Ongoing Compliance Costs**

Category	Official Cost (NGN) – 'A'	Actual Average Cost (NGN) – 'B'	Unofficial Costs (NGN) C= B- A	Official (expected) Time - 'D'	Actual Average Time – 'E'	Additional Time F= E - D	Opportunity Cost (NGN) = F*10%* NGN2667
NAFDAC Certification	16,000	71,000	55,000	60 days	20 days	- 40 days	0*
NEPC Export Permit	7,500	8,000	500	1 day	5 days	4 days	1067
CAC – Filing of Annual Returns	2,000	5,000	3,000	2 days	20 days	18 days	4,801
TOTAL	25,500		58,500			18 days	5,868

Source: Market Study, PwC Analysis

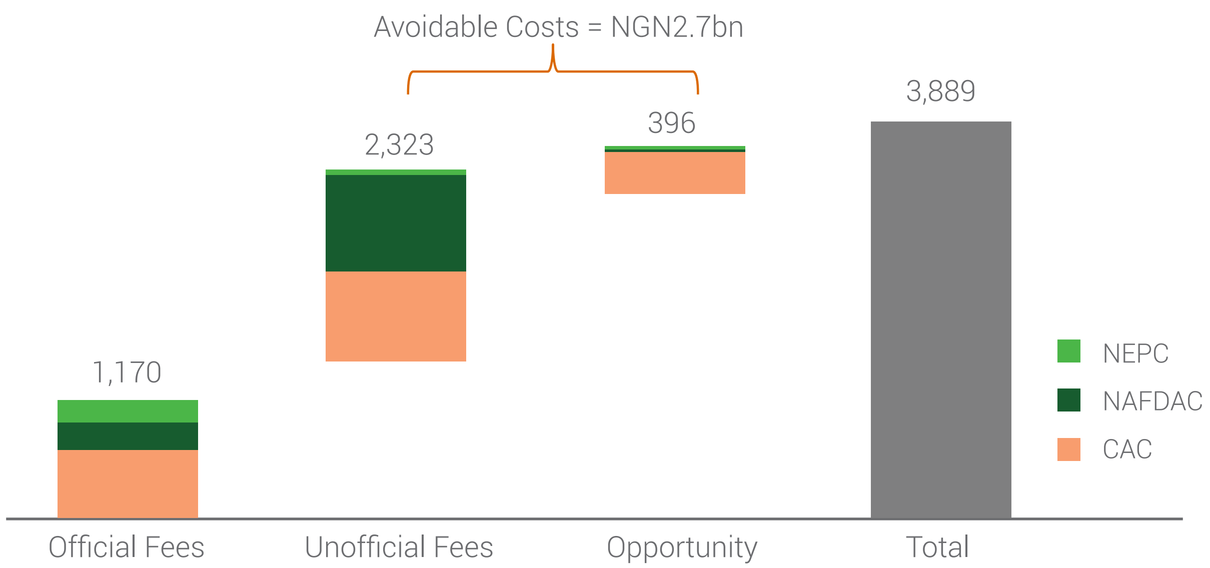
It can be estimated (based on similar parameters as previous analyses) that the total costs MSMEs pay for ongoing costs of compliance can be seen to be as high as 252% of official fees required by the government authority (see figure 50).

Figure 55: **Estimated Cost of Compliance per MSME in Nigeria – for Ongoing Compliance (NGN)**



Source: PwC Analysis – Market Study

Figure 56: **Aggregated 'Ongoing' Cost of Compliance in Nigeria - National Impact (NGN m)**



Source: PwC Analysis – Market Study

3

SUGGESTED INTERVENTIONS AND CONCLUSIONS

3.1 CASE STUDIES

The goal of the case studies is to learn from how other countries have dealt with regulatory issues in order to alleviate the regulatory hurdles for small business owners.
All countries are mapped based on the relevance of their experience to interventions being considered for Nigeria

S/N	Leading Global Practices	The Case Studies
1	**Implementing one stop shops for Business Registration** The 2020 Doing Business report noted that about 80 countries introduced or improved one-stop shops as reforms to lighten regulatory burden. Timor-Leste one-stop shop drastically reduced the number of days to start a business which immensely improved the country's ease of business rating. Also, Mexico one-stop shop portal was an enormous relief for businesses	1. Timor-Leste - Serviço de Registo e Verificação Empresarial (SERVE) 2. Mexico's Registration One-Stop Shop
2	**Implementing Strong Communication and Complaint Systems** The South Africa Revenue Services (SARS) developed a responsive complaint management system to resolve dissatisfactions in services rendered by regulatory agencies	3. South Africa - South Africa Revenue Services (SARS)
3	**Improving Administrative Co-ordination** Many countries have agencies in the multiple tiers of government which the businesses must interact with. Visiting and complying with requirements from individual agency places enormous burden on businesses. South Africa's InvestSA demonstrates a productive business-oriented alliance between agencies of the 3 tiers of government	4. South Africa - InvestSA
4	**Leveraging ICT for reduced burden** Government agencies have adopted technology to improve process efficiencies. Belgium developed a 3-stage online business registration process. While Kenya designed a mobile app to augment government services especially to small businesses	5. Belgium - Reduction of Business Registration Burden through E-depot Business Registration 6. Kenya - Reduction of Tax Payment Burden through KRA M-service App
5	**Rationalising/Aligning Compliance Information** Many small businesses spend already strained resources sourcing for regulatory information, often engaging professional services to get accurate information. The Canadian and United States government reduced the burden of seeking information by providing a web-based customised (per sector) regulatory requirement list for businesses	7. Canada -BizPal 8. United States - Small Business Administration (SBA)

1. COUNTRY | TIMOR-LESTE
Serviço de Registo e Verificação Empresarial (SERVE)

Timor-Leste is a Southeast Asian developing country occupying half the island of Timor with a complicated blend of laws drawing from Colonial Portuguese law, Indonesian law, and post-independence legislation.

In 2013, Timor-Lester was ranked the worse among Asian nations in ease of doing business ranking. Stating a business took as long as 94 days in 2013 due to overly complicated procedures. Registering a business required about 17 visits to 3 different government ministries.

Working with the IFC, Timor-Leste instituted a one-stop shop business registration in 2016. In the one stop shop named Serviço de Registo e Verificação Empresarial or SERVE. The steps to registering a company are as follows:

1. Open a bank account and deposit money – applicants
are free to decide on the company's amount of capital
2. Register the company – Company registration is free and required documents must be submitted

Once registration is complete, applicants can collect their incorporation and registration certificate (Certificado de Registo Comercial, CRC) which has the company's registration number and TIN. An information summary of company's registration will also be published by SERVE on their online website.

3. Register with the Ministry of Finance – once procedure is complete, a certificate of debts ("certidao de dividas) will be issued
4. Register employees with the ministry of social solidarity for social security
5. Make a company seal

Timor–Leste one-stop shop reform made the greatest leap to its "doing business" ranking, reducing the number of days to start a business to 13 days, 5 procedures and at minimal cost.

This improvement has encouraged economic growth and create jobs in the country.

2. COUNTRY | MEXICO
Business Registration One-stop Shop

The 2020 Doing Business report noted that about 80 countries introduced or improved one-stop shops as reforms to lighten regulatory burden.

Mexico one-stop shop portal, tuempresa.gob.mx, was an enormous relief for businesses. Prior to its invention, Individuals in Mexico who wanted to start a business had to deal with complex procedures that often resulted in delays and additional costs. Entrepreneurs had to submit the same information to the government at least seven times, and in some cases 18 times or more and were also forced to pay fees, charges, and taxes. Due to these strenuous processes, many individuals gave up or abandoned their business projects. Others decided to forego the necessary paperwork and set up their businesses in the informal sector, however, that created insecurity for businesses and workers and further meant that there would be lack of government support.

The Mexican government decided that it would be necessary to adjust regulations with the goal of fostering economic growth and development; this lead to the creation of the one-stop shop tuempresa.gob.mx which was a decisive step in the strategy to simplify administrative procedures and facilitate better interaction between individuals and government. The one-stop shop integrates state-of-the-art information technologies that significantly reduce the level of administrative hurdles and minimize the cost of starting up a business. Entrepreneurs are guided through the formalities required to create a company, and if needed, can access support through various helping tools. Users only need to provide their information once and the one-stop submits their information electronically to the relevant agencies. The final step is to formalize the creation of the legal business entity before a public notary or other authorized agent.

Everything being done electronically ultimately makes it significantly easier to set up a company and access any documents relating to the company.

3. COUNTRY | SOUTH AFRICA
Responsive Complaint Management System - South Africa Revenue Services

The South Africa Revenue Services (SARS), which was established in 1997, developed a responsive complaint management system to resolve dissatisfactions and grievances in services rendered by tax collecting authorities. Its vision is to be an innovative revenue and customs agency that enhances economic growth and social development and supports South Africa's integration into the global economy in a way that benefits all citizens.

SARS established a client management office (CMO) in 2015 to improve the inefficiencies in its services and complaints handling. SARS created multiple channels for customers to report service dissatisfaction including calling phone numbers, visiting SARS branches, or via electronic filing.

The e-filing system was designed to facilitate how entrepreneurs' complaints are lodged, tracked and resolved through electronic channels. The goal of the system is to provide clients with a high standard of service whether they are dealing with company's income tax, import or export activities, or any of the other taxes or duties that are administered. The following complaint categories exist:

- Legal/Policy (e.g. debit cards not accepted for payments)
- Employee behavior/Competence (e.g. agent X was rude, or agent did not know how to assist me)
- Channel experience/environmental/technical issues (e.g. contact centre is very slow to answer, or there is not parking at branch X)
- Quality and speed of service (e.g. incorrect resolution of request, or it took 6 months to process my banking detail change)
- Unresolved service/operational matter (e.g. turn- around-time exceeded, and my return has not yet been processed)
- Missing or lost documentation (e.g. I have submitted my return, but SARS cannot find it)

A time limit of 21 days was established to resolve lodged complaints. This time is communicated through SARS channels and to customers at the point of lodging a complaint. Customers receive same day complaint acknowledgment SMS or email and are provided updates until the complains are resolved. Complaints unresolved by SARS can be forwarded to Tax Ombud. The Office of the Tax Ombud (OTO) was established as an independent redress channel for taxpayers that have exhausted SARS complaint mechanism.

The redesign of eFiling has given SARS an opportunity to enhance the customer experience by improving platform design, navigation and accessibility to electronic users. By SARS undertaking this redesign, taxpayers can be assured that their taxpayer information is protected and taxpayer confidence in SARS will also be enhanced.

4. CCCollaborative Investment One-stop Shop – InvestSA

Many countries have agencies in the multiple tiers of government which the businesses must interact with. Visiting and complying with requirements from individual agencies places enormous burden on businesses.

InvestSA is South Africa's investment promotion agency which is part of the Department of Trade, Industry and Competition. It was set up in 2015 to support domestic and foreign investors exploring opportunities in South Africa by providing strategic guidance and offering streamlined processes to setting up a business.

InvestSA's collaborative effort between the National, Provincial and local government to co-ordinate and incorporate special economic zones, provincial investment agencies, local authorities and the relevant government departments involved in regulation, registration, permits and licensing matters. InvestSA clusters key government departments and agencies under one roof, creating the convenience of providing investors with a single point of service. Agencies represented at InvestSA include, SARS, Department of Trade and Industry, Department of Labour, Department of Home Affairs, City of Cape Town, the Red Tape Reduction Unit amongst others. Prior to this, both local and foreign businesspeople have outlined the difficulties and hassles they face to establish new businesses as a major deterrent to business growth.

Businesspeople had to visit many departments to obtain various licenses.

InvestSA is there to guide the business owner through all stages of the investment process in South Africa. InvestSA will provide entrepreneurs with practical information, specialized assistance and the right connections to facilitate the establishment and expansion plans. All business services are free of charge with the goal of improving the time-to-market of an investment. InvestSA works in partnership with the South Africa's 9 regions to match investment needs with the vast and diverse business opportunities that South Africa has to offer.
InvestSA also has a focus on investor facilitation and aftercare for both foreign and local investors. InvestorSA assists by:

- Creating awareness on South Africa's diverse industry and sector specific investment opportunities
- Generating and sharing relevant, credible and up to date general and industry specific information and content
- Providing specialized and tailored assistance to both potential and established investors during all the stages of the investment journey
- Connecting potential investors with local stakeholders, business organizations and service providers
- Improving South Africa's business climate by initiating or supporting advocacy initiatives

InvestSA has gained regional and global recognition for success in attracting large scale investments. InvestSA has also received public recognition for its just-walk-up- and-chat reception desk located in several provinces, expediting regulatory approvals, influencing policy at national level, as well as assisting with the overall ease of doing business.

5. COUNTRY | BELGIUM
Reduction of Business Registration Burden through E-depot Business Registration

Government agencies have adopted technology to improve process efficiencies. The number of days to process company registration took 56 days in 2003 and 24 days in 2004. With the implementation of E-Depot in 2016, an IT tool deployed by the government and Federation of Notaries, the process was collapsed to 3 days with less paperwork requirements.

With this tool, business registration documents are deposited electronically with the same legal force as paper documents. Also, the process of requesting initially for VAT number from the VAT office which required several visits was replaced with an electronically generated unique enterprise number for a newly created business

With the E-depot solution, company registration required 3 main steps, each taking about 1 day:

Step 1: Deposit of required capital at the bank.
Step 2: Electronic transition of the registration documents to the Justice Department and Crossroad Bank for Enterprises. The process automatically returns the unique enterprise number of the newly created business
Step 3: Activation of the enterprise number by the one stop shop.

Due to E-Depot, there has been increased convenience and less documents required to register a business and increased number of local and forging business registration which supports the diversified economy and free market strategy of the country.

6. COUNTRY | KENYA
Reduction of Tax Payment Burden through KRA M- service App

Kenya Revenue Authority (KRA) which was established in 1995, is charged with collecting revenue on behalf of the government of Kenya. The core functions of the authority are:

- To assess, collect and account for all revenues in accordance with the written laws and the specified provisions of the written laws
- To advise on matters relating to the administration of, and collection of revenue under the written laws or the specified provisions of the written laws
- To perform such other functions in relation-to revenue as the Minister may direct

As such, KRA introduced a mobile phone application branded KRA M-Service App to simplify access to its services. Through the app, the government reduced the cost of compliance and eliminates intermediaries in the system. In turn the government increases its reach to taxpayers and increases revenue collection through enhanced compliance.

Kenyan and alien taxpayers can download the app on their smartphones to register, pay and file tax returns for Monthly Rental Income (MRI) and for Turnover Tax (TOT) obligations, register for Personal Identification Number (PIN), Tax Compliance Certificate (TCC), among others.
Through the app, taxpayers can also validate the identity of KRA staff to avoid dealing with imposters and fraudsters.

The app enhances governments reach to the informal and micro businesses who do not have or cannot use computers thus expanding the tax base of the country.

Overall, through KRA, there is reduced tax compliance burden by eliminating cost of middlemen and consultants, elimination of harassment and fraud from tax collection imposters. There has been over 100k app downloads.

7. COUNTRY | KCANADA
Canadian BizPal

Canada BizPal is an online service provided to businesses by the federal government in collaboration with participating provinces or territories and municipal governments. While the service was initiated by the federal government, the respective jurisdictions are responsible for maintaining data provided in the system.

Through BizPal, businesses can generate a customized list of permits and licenses required by the 3 tiers of governments for their business type. The service is available to new business and already established businesses. For already operating businesses, BizPal can be used to verify that the correct permits and licenses have been obtained. Other transactions include:

- Reserving a business name
- Signing up for notification of tenders
- Applying for individual licenses and permits
- Requesting Workers' compensation Board Clearance letters

Business owners provide information with which the system generates a personalized list of permits, licenses and documents based on industry, location or business situation.

BizPal has significant benefits including saving time by getting information from a single source. Business owners can make better plans for their business and can comply at the right time following the right processes. There are also cost savings from adopting a do-it-yourself approach.

8. COUNTRY | KCANADA
USA's Small Business Administration (SBA)

The US Small Business Administration (SBA) is a federal agency that serves as a one-stop -shop for all small business-related information in the US. The agency provides business counselling, capital and contracting expertise as the nation's only go-to resource and voice for small businesses.

The SBA provides detailed guides on planning, launching, managing and growing a small business. The SBA provides an array of financing for small businesses ranging from the smallest needs in microlending to the substantial debt and equity investment capital. It details the tax and regulatory compliance procedures and requirements, hereby eliminating the burden of seeking accurate information on small business compliance. SBA also provides business counsellors to help small businesses navigate the complexity of building a business, including compliance. The SBA also sets goals with other federal departments and agencies to award 23 percent in prime contract dollars to small businesses. The SBA also reviews congressional legislation, testifies on behalf of small businesses, and assesses the impact of regulatory burden on small businesses.

Due to the SBA, businesses are able to save consulting costs by using to SBA's complimentary business advisory, save time by getting information from a single source, and Business owners make better plans for their business and can comply at the right time following the right processes.

3.2 SUGGESTED INTERVENTIONS

Some of the challenges faced by MSMEs in complying with regulatory requirements as identified in the previous sections are caused by both systemic inherent factors and man-made issues.

It is imperative to consider enhancing existing initiatives such as one-stop shops for business compliance, digitisation of regulatory process/applications and implementation of strong complaints management; as well as introduction of more novel solutions such as revising definition of SMEs and applicable tax rates, transforming service delivery through training and setting of key performance indicators for agency staff, provision of simplified electronic-based account filing, rationalising regulatory information and improving communication and access to regulatory information. The proposals provided input to the now-concluded Finance Bill 2020 and may provide basis for other business policy reform drive.

The initiatives cover learnings from stakeholder engagements and case studies from other climes on innovative address regulatory issues. To this end, the following long list of initiative are proposed to be considered:

S/N	Recommendation Scope	Current Situation	Recommendation	Rationale	Potential Impact
1	Tax rates for SMEs	The current tax rates for SMEs under the extant Companies Income Tax Act (CITA) is 0% for companies with turnover less than N25million and 20% for companies with turnover of between N25m and N100m. The thresholds are too low making many small companies being classified as medium- sized and taxed at 20%.	Increase the threshold for small companies to N50m while medium sized companies should be adjusted to between N50m and N200m. The CIT rate for medium-size companies should be reduced to 15% (half of the rate for large companies).	Due to high cost of business and rising inflation, resulting in low margins, many MSMEs are either loss making or generating insignificant profits. The recommended changes will ensure that the CIT concession makes a meaningful impact and better support MSMEs.	The reduced tax burden should have a double impact of saving MSMEs 5% of what would have been paid in taxes and allowing smaller businesses thrive
2	Definition of MSMEs	There is no clear and consistent definition of SMEs for tax purposes. For instance, the definition of turnover for the N25m CIT exemption	Introduce a clear and consistent definition for SMEs for tax purposes. For example: (a) Turnover should simply be accounting sales or revenue of a	A clear and consistent definition of turnover for tax purposes will reduce complexity for SMEs and therefore improve ease of doing business.	While savings cannot be quantified, streamlining of categorisation of MSMEs should ease the process of tax compliance.

S/N	Recommendation Scope	Current Situation	Recommendation	Rationale	Potential Impact
		threshold is different from the definition of the N25m VAT exemption threshold such that a company may be classified as small for CIT and not small for VAT and vice-versa. This creates unnecessary complications contrary to the policy objective of simplification and ease of doing business.	company (b) A small company can be classified as those with turnover not more than N50m while medium-size companies could be those with turnover above N50m up to N200m.		
3	Address the burden of audited financial statement s for MSMEs	CITA mandates the preparation of audited financial statements by all companies including small companies exempted from CIT. It is a significant cost for small companies to appoint auditors. By contrast, small businesses registered as enterprises do not have a similar burden hence it also serves as disincentive for informal businesses to formalize.	The new CAMA exempts small companies from preparing audited financial statements. Small companies should equally be exempted from preparing audited financial returns to harmonise with the requirement of CAMA. A simple template for preparing accounts (which can also be easily made for online use) to accompany returns for both CAC and tax purposes should be introduced.	This will reduce the compliance burden on MSMEs, harmonise the laws in relation to MSMEs and encourage informal businesses to formalise.	MSMEs will save an aggregate N600bn* on exemptions from preparing audited financial statements. *(N150,000 on audited financial statements per MSME x 4million compliant MSMEs in Nigeria = N 600,000,000,000)

S/N	Recommendation Scope	Current Situation	Recommendation	Rationale	Potential Impact
4	Rationalis e taxes and charges payable by MSMEs	There is multiplicity of taxes payable by MSMEs as well as a myriad of charges. These taxes and charges negatively impact the viability of MSMEs.	Review the Taxes and Levies (Approved List for Collection) Act and consolidate many of the taxes applicable to MSMEs such the maximum number of taxes is not more than 5. Also, a cap should be introduced for regulatory charges. For instance, no regulatory charges for an MSME should exceed N10,000. As a medium-term plan, the Constitution should be amended to limit the number of taxes that may be imposed by each level of government to a single digit, and collection of taxes in cash should be prohibited.	To reduce compliance burden, promote MSMEs and improve transparency in the administration of taxes and charges.	Assuming that the average MSME spends upwards of N 5,000 more than the proposed cap of N10,000 in regulatory fees per MSME, MSMEs stand to save an aggregate of N 205 billion.* *(N5000 in excess of the proposed N10,000 regulatory cap x 41 million MSMEs in Nigeria)
5	Improve/en hance the single point of contact for MSME regulations	Currently, the government has established MSME clinics since late 2018 in several states – most recently in Oyo and Ebonyi. However, MSMEs continue to deal with many regulations and a long list of regulatory agencies. The	There needs to be creation of awareness for initiatives such as the MSME Clinics (one- stop shop being implemented across states in Nigeria). More so, a legal requirement for all agencies of government to connect to such MSME one-stop shop	This will address the cost of regulatory compliance especially lengthy processing. PEBEC could consider an annual award for the most MSME friendly agencies to engender a heathy competition between agencies for promoting MSMEs.	Cost savings cannot be properly quantified, but ease of accessing data will ease the process of regulatory compliance for Nigerian MSMEs.

S/N	Recommendation Scope	Current Situation	Recommendation	Rationale	Potential Impact
		requirements for many of the regulatory obligations including official fees, documentation, timelines, objection procedures etc to process permits, approvals, or licenses are mostly unclear.	initiatives must be established. This may also serve as a means of obtaining continuous feedback from MSMEs and an avenue for managing complaints. PEBEC could consider an annual award for the most MSME friendly agencies to engender a heathy competition between agencies for promoting MSMEs.		
6	Improve communica tion and access to regulatory information	Although some agencies have provided information on their websites, the information is often generalized and difficult to align to specific business needs. Some agencies have inadequate information on the website or nonfunctioning website In these situations, business owners typically rely on agents and lawyers to inform and process the regulatory requirements or risk contravening regulations	Provide information database or portal, containing required documentation, fees, timelines, responsible agency, link to agency website, etc. such as USA's SBA. Information should be customized according to business needs. For instance, information can be provided according to the tier of government that demand the requirement, industry-specific requirements, size of business regulation is applicable to, etc. With access	Cost of getting information is significant for start- ups and small businesses. With more access to information business owners can choose to process permits conveniently by themselves, thus reducing additional cost or time burden. For instance, while an official fee may cost approximately 20,000, getting information and processing documents may cost 3 times more. A central, up-to-date and easily accessible information	Poor access to regulatory information has led MSMEs to incur additional third party costs . Assuming average consultant spend of N100,000 per MSME, MSMEs stand to save an aggregate of 60 billion* in saved consultation. *(100,000 average cost spent on consultants per MSME x 4million compliant SMEs in Nigeria 60,000,000,000 spend on consultants)

S/N	Recommendation Scope	Current Situation	Recommendation	Rationale	Potential Impact
			to information business owners can choose to perform the processes by themselves without engaging lawyers or agents	repository empowers citizens to self- manage regulatory processes, minimize exploitation from agency staff and reliance on third parties.	
7	Promote electronic processes – limit manual processes operating alongside digital processes	Some agencies (CAC, NAFDAC, SON, FIRS, NEPC) have enabled e-application on the websites, however they do not work optimally. MSMEs believe that the electronic processes are circumvented by staff of the agencies due to lack of knowledge or to continue situations that encourage personal gratification.	Enforce electronic processes and eliminate alternative manual processes. However, electronic processes must be user-friendly, reliable and have electronic guides to help users. Emails and phone numbers and webchats of agencies must be functional so that inquiries can be made virtually TIN should also be stated on CAC certificates of incorporation or business name registration.	From the survey, respondents that were able to process permits electronically did not have to pay unofficial fees. Electronic applications which reduces personal interactions with agency staff will eliminate demands for kickbacks. Electronic applications can also be tracked and audited by independent oversight agencies to evaluate performance of agencies.	The time MSMEs save by physically going to the regulatory offices could be better channeled towards other parts of the business. According to the World Bank, online processes transform, a 2-3 day process to one that lasts for 0.5 days. This creates a huge time savings potential.
8	Regulators must implement complaint managem ent system, which should also include a whistleblo wing system	Only 20% of the survey respondents knew appropriate channels to contest undue or overcharged fees and levies. Generally, dissatisfaction with agencies	All agencies must be required to implement effective complaint management systems, with oversight from the supervisory Ministry or an independent body such as the Public Complaints	Compliance level will increase as citizen confidence in the system increases. Direct complaints from citizens will also serve as corrective and improvement initiatives for the	While the cost savings from effective compliant management systems are not readily quantifiable, productive hours lost to ineffective complaint management systems will be saved

S/N	Recommendation Scope	Current Situation	Recommendation	Rationale	Potential Impact
		are unreported because people do not know who, how and where to report. Drawing public attention to an unfortunate situation on social media has become one of the fastest ways to get a response. Survey respondents express frustration at their inability to report extreme experiences with agencies to a superior authority thus creating a situation of highhandedness among staff of the agencies	Commission. Complaint management office should facilitate interactions with citizens through several channels, for example, call center, electronic portals, in- office and mobile apps to make the process of registering complaints convenient and responsive. Complaints should be tracked, and resolutions communicated to the citizen so that necessary actions can be taken and confidence in the system can be rebuilt. The complaint management system should include whistle blowing channels where MSMEs can share unethical and unprofessional dealings in the agencies as soon as they are encountered. To ensure effective whistle-blowing, agencies must publish their processes, timelines and fees so that citizens can benchmark expected experience to the actual.	agencies A proper whistleblowing will empower citizens to contribute to the processes of sanitizing the public sector	

S/N	Recommendation Scope	Current Situation	Recommendation	Rationale	Potential Impact
			Agency officials will be required to use name tags and Identify cards as well as have trackable electronic and manual personal stamps. This will enable tracking of transactions to the erring individual for adequate resolution		
9	Transform agencies exhibiting anti- business disposition	The survey revealed low competence level of agency staff, such as knowledge gap in established processes and use of digital platform, indifference in the impact of timeliness on business operations as well as effect of financial demands on business profitability. The general consensus of respondents is that agency staff (government) obstruct business growth rather than encourage them to thrive with anti-business demands and behaviour	Push for reform of service delivery at key agencies to include upskilling staff on digital skills, professionalism etc. This may also require a skills audit to determine competency requirements as well as a system of rewards and penalties for staff members. Appropriate KPIs should also be set for staff of relevant agencies to drive right behaviours e.g. percentage of requests attended to, average time to attend to a case etc.	Strong support for online processes. Better support provided to MSMEs.	While the cost savings to MSME from regulatory service delivery excellence are not readily quantifiable, quality service delivery improves the ease of doing business.

S/N	Recommendation Scope	Current Situation	Recommendation	Rationale	Potential Impact
10	Harmonise local government fees and collection mechanism	Survey respondents cite local government levies as the most challenging levies to comply with. Challenges include, levies being unrelated to the business, confrontational staff often demanding immediate payment and unknown basis for amount demanded. Because most local government offices lack structure and staff cannot be properly identified, survey respondents have encountered impersonations. Businesses that transport goods across local governments face harassment from local government representatives on their journeys demanding for unexpected mobility fees.	Group and harmonise all local government tickets or levies and design collection mechanisms to allow more processes to be done at one time and in one place. For example, collection may be enabled with a mobile app for both payments and similar platform used for checks by the local government officials during visitation.	Eliminate impersonations, and reduce efforts with processing multiple local government permits, such as experienced in the transport and logistics sector	Harmonised taxes will help MSMEs comply with local government tax requirements more easily; avoid harassment and promote general well-being of business owners.
11	Restore MSME confidence in government	MSMEs display lack of confidence in public service, are highly doubtful of efforts of government and initiatives addressing improvement of business	Results of activities such as MSME surveys and outcomes of improvement initiatives should be made public, in order to boost the confidence in the system.	This would boost positive bearing of MSMEs about doing business in Nigeria. And enhance participation in the process of improving the business	Improved engagement, feedback and continuous improvement of government services

S/N	Recommendation Scope	Current Situation	Recommendation	Rationale	Potential Impact
		environment. Many respondents to the Cost of Compliance required convincing, and usage of several channels to ensure respondents share their experiences.		environment as participation of MSMEs is required	
12	Duplicate regulatory function of Standards Organisation of Nigeria (SON) and National Agency for Food and Drug Administration (NAFDAC) in the food and drug sector	Both NAFDAC and SON certify the manufacturing process and final products of food manufacturing company resulting in double compliance burden for food manufactures. While NAFDAC is focused on food and drug segment, SON also provide some regulatory oversight in the segment (and manufacturing in general) though not fully enforced by SON	Educate MSMEs on the oversight responsibilities of SON and NAFDAC to ensure that there is fair understanding of scope and activities of the two agencies especially for the food manufacturing segment Explore savings that can be achieved for manufacturers in SON and NAFDAC's certification processes	This ensures clarity of responsibilities of the agencies at all levels including MSME, agencies and other stakeholders This will help to eliminate the duplicity of levies in the relevant sector	Streamlining duplicated functions can help boost compliance and improve the ease of doing business for MSMEs.

3.3 CONCLUSION

Better regulation is necessary for economic growth, diversification and business competitiveness. Regulatory inefficiencies result in high compliance burdens, which can stifle incentives for firms to innovate, invest and grow. This study has shown the shown that the high compliance cost incurred by MSMEs comprise actual payout actual payout, extended processing time, negative experiences, information inaccessibility, and agency officials' autocratic disposition.

Several countries are implementing policies countries are making policies to reduce administrative burdens and cutting red tape a political priority. Red tape has been identified as particularly burdensome for smaller companies and may inhibit entrepreneurship. Inefficiency in the domestic regulatory environment not only affects competitiveness in the local market but even more costly for the export market.

As Nigeria positions itself for economic growth, diversification and job creation, urgent attention must be given by political leaders and policy makers to appropriate reforms for the improvement of the business climate and propel entrepreneurship and help MSMEs grown sustainably.

However, the success of proposed reforms lies majorly in the increased collaboration and cooperation among government ministries, departments and agencies (MDAs). It is worthy of mention that swift action on the proposals and continuous engagement of MSMEs to track progress and impact of the initiatives, would contribute to long term success.

APPENDIX

APPENDIX 1 – END NOTES

1. World Trade Organisation - Enhancing the participation of Micro, Small and Medium Enterprises (MS-MESMSMEs) in international trade
2. PwC MSME Study 2020
3. Mandatory Conformity Assessment Programme (MANCAP) – programme for locally locally-made products
4. Addressed in the Finance Act 202
5. Addressed in the Finance Act 2020
6. According to SMEDAN, where a conflict of classification arises, the employment-based classifications takes precedence
7. Segment value (2017), has been estimated by multiplying number of enterprises in the category by average annual income of the category. Assumption for average annual income: Microenterprises-NGN563,000; small and medium – N158.5m). Number of enterprises is used as Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) & National Bureau of Statistics (NBS) MSME National Survey 2017. Average annual income calculated as weighted average (of three largest most significant segments) using monthly turnover data of micro micro-segment, and small and medium businesses segment, presented in the MSME National Survey 2017
8. European Bank for Reconstruction and Development (EBRD)
9. United Nations Industrial Development Organisation (UNIDO's) Investment and Technology Promotion Office (ITPO)
10. Study The study still captured businesses that generate revenue less than NGN25m as they are typically in the early stage and provide a fresher perspective on business regulation
11. Trade was included during the project, as one of the target sectors given its dominance of MSME activity in Nigeria
12. This is based on estimates of a total population of MSMEs in Lagos and FCT and weighted by the size of the sectors of interest, totalling about 3,000,000. Out of the 7 seven focus sectors, there was no data to estimate the size of Decentralised Power in Lagos and Abuja (Source: Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) & National Bureau of Statistics (NBS) MSME Survey 2017 & PwC Analysis). The sample size of 250, gives a confidence level of about 95% and a margin of error of about 6.2%.
13. European Commission (2018) - Study on tax compliance costs for SMEs
14. VAT- Value Added Tax; CIT -Companies Income Tax; WHT- Withholding Tax; PAYE – Pay As You Earn (personal income tax)
15. WHT- Withholding Tax; PAYE – Pay as you earn (personal income tax)
16. VAT- Value Added Tax
17. Measures an individual's sense of hassle or irritation about a srvice, reform or regulation. Hassle costs can include costs related to administrative delays, or burdens associated of with overlaps, redundancies or even worse inconsistencies between legislative provisions Procedures - OECD
18. See appendix for further details
19. From responses, MSMEs understate unofficial fees. We also observed disparities between what MSMEs quote as official fees vs official fees as published on the website.

20. For fintech companies, average regulatory costs at start up is reported to be N6m -N7m, with 30% -45% was spent on consultants Technology is made up of ICT-based businesses
21. Assessing the Costs and Benefits of Regulation" A Ceps – Economisti Associati Study for the European Commission
22. Stock Keeping Unit
23. Ofada refers to local rice cultivated in Nigeria
24. NGN 83,125 unofficial fee per MSME * 19,513 * 92% of SMEs paying unofficial fees = N 1,622m
25. Although NAFDAC is charged with certifying food and drug products by verifying the quality of the products, and SON(MANCAP) is charged with verifying the manufacturing standards, the functions of both agencies have overlapped over the years, with both NADFAC and SON now involved in the verification of both the quality of the product and the manufacturing process, especially for food and drug makers.
26. Inspection and testing to ascertain quality, are doe quarterly and annually; although MANCAP is valid for 3 years
27. This study does not estimate aggregate cost of compliance from obligations imposed at the local government level, as it was d ete rmined to be unstandardised
28. This study does not estimate aggregate cost of compliance from obligations imposed at the local government level, as it was d ete rmined to be unstandardised
29. This study does not estimate aggregate cost of compliance from obligations imposed at the local government level, as it was d ete rmined to be unstandardised
30. For example, renewals for Trademark Certification and MANCAP are valid for 7 and 3 years respectively

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