



**DIY**law

Legal, Simplified

**Regulatory Challenges faced by African SMEs -  
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- Compliance regulations are needed in order to achieve communal, economic and social benefits including protecting consumers, managing an efficient market and raising revenue for the government for social benefits.
  - As essential as these regulations are, for small businesses, often times, these regulations become a burden.
  - Regulatory Burdens are the regulatory, compliance and administrative costs, disincentives, inconveniences and other factors that may negatively affect the productivity of an SME and frustrate its overall performance.
  - The fixed-cost nature of regulations is more likely to hamper the effectiveness and efficiency of SMEs than larger firms because the strength of SMEs stem from their flexibility.
  - An equitable balance therefore needs to be achieved to balance the need for regulations and creating an enabling environment for businesses to thrive
  - The continuous debate therefore is whether regulatory treatments should vary based on the size of a business, (i.e. tiering) and the fairness of such tiering.

*Whilst most regulators offer a flat regulatory regime, a few agencies offer a tiered structure*

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## Non- Tiered

### **Taxes**

Taxes are a flat rate across board irrespective of size, e.g. VAT 5% for all vatiable companies and 30% company's income tax

Pioneer Status, i.e. tax exemption only attainable by large companies with SMEs who need it not being able to meet with the minimum asset requirement to get tax exemption

## Tiered

### **Food and Drug Regulation**

SMEs (cottage industries) pay less regulatory fees with less hurdles to cross.

Requirements to meet for SMEs also less stringent than larger companies, however bureaucracy and corruption still make the process burdensome for SMEs

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- **Exemptions:** SMEs may be exempted from certain regulations where compliance will be onerous and negatively impact the productivity of the SME and its overall performance.
  - **Flexibility:** SMEs may be given less stringent regulation requirements and given some flexibility in complying with the regulation requirements.
  - **Cost reduction:** Government can ensure that the SME costs for compliance with regulations is reduced
  - **Set up a One-stop shop for SMEs to ease compliance with regulations and ensure efficiency of business;** for example, the Nigerian Government plans to launch a series of one-stop shops to interface with entrepreneurs and agencies in order to ease business.\*
  - **Set up a regulatory body specifically for SMEs;** for example, Small & Medium Enterprise Development Agency of Nigeria.

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- Strategic Relationships with regulatory bodies.
  - Create an association of SMEs that will focus on information and process dissemination to SMEs. Association can also serve as a pressure group for interfacing with government agencies
  - Participate in existing business and trade associations
  - Facilitate availability of resources
  - Support programs and information networks.