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PwC's MSME Survey 2020

Building to Last

Nigeria report



#PwCMSMESurvey

June 2020





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Uyi Akpata

Country and
Regional Senior
Partner
PwC Nigeria



**Taiwo
Oyedele**

Fiscal Policy
Partner and West
Africa Tax Leader
PwC Nigeria

The MSME sector is the growth engine of any economy contributing to its development, job creation and export amongst others. According to the World Bank, MSMEs represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies.

The latest SMEDAN/NBS MSME Survey indicates Nigeria's SMEs contribute nearly 50% of the country's GDP and account for over 80% of employment in the country. No doubt, the sector is pivotal to Nigeria's growth including reducing poverty levels. However, the sector continues to be weighed down with challenges which ultimately impact the nation's growth.

PwC's MSME Survey 2020 is aimed at gauging experiences of sector players, assessing the underlying issues which MSMEs face and providing insights on this strategically important sector. The theme of this publication is "**Building to Last: Navigating MSME growth and sustainability in a New Decade.**" You will find the survey headlines ascertain some persistent problems, shed light on those you never really considered to be issues such as payment policies and the one on one interviews with business CEOs inspiring. One of the findings we found provoking was how payment policies imposed by big corporates severely affect 33% of MSMEs whose payments were delayed for more than a month. The impact on cash flows is worse when you consider the double digit interest rates or inflation. It does not come as a surprise then when about 50% of the SMEs surveyed did not record growths above 20% over the last 3 years.

It is important to note that the survey was conducted prior to the COVID-19 pandemic. In the aftermath of the pandemic and as we enter an age of disruptions to traditional business models, traditional approaches to doing business in Nigeria surely must change. Does the Nigerian environment offer a platform that ensures Nigerian SMEs remain competitive? Will there be a ready workforce that can support the much needed advancement for SMEs? Or will we witness a slow down for decades following the pandemic? It is of uttermost importance that an inclusive approach is embraced to advance MSME growth and Nigeria's competitiveness.

As part of our efforts in this national discourse, PwC Nigeria has established the SME Desk to support the growth, sustainability and development of the SME sector in Nigeria. The SME Desk is our social impact initiative to support small businesses by providing insights, advice and support on a range of areas including Finance and Accounting, Tax and Audit. It is one of the ways we are helping to build a stronger economy by giving small businesses a greater chance to succeed in an often difficult environment.

We hope you find this report invaluable and that the insights within will help SMEs, ministries, agencies and the Government authorities take our SMEs to the next growth phase in the new world.



Esiri Agbeyi

Partner & Head,

Private Wealth Services

According to the National Bureau of Statistics, Small and medium scale enterprises (SMEs) in Nigeria have contributed about 48% - on average - to the national GDP in the last five years. Totalling about 17.4 million enterprises, they account for about 50% of industrial jobs and nearly 90% of activities in the manufacturing sector, in terms of number of enterprises. Despite the significant contribution of SMEs to the Nigerian economy, challenges still persist that hinder the growth and development of the sector. Challenges encountered by the sector include lack of skilled manpower, multiplicity of taxes, high cost of doing business, among others.

PwC surveyed over 1600 business owners across the 6 geopolitical zones in Nigeria to bring more light to reasons why SMEs employ over 80% of the workforce but wealth is not diversified. One key concern for me is why we do not have a lot more of our SMEs being unicorns (i.e. a privately held startup company valued at over \$1 billion). The simple answer is that it is a factor of our economy size. It begs more questions such as why the economy lags behind and there are several factors to consider.

There are 8 chapters in this report that try to fragmentize the issues for SMEs and this is based off their own unique and personal experiences doing business in Nigeria. The survey questions were answered via online surveys and face to face interviews in some zones. The responses and PwC's insights is categorized in different chapters across the broad questions asked under the Nigerian business environment and market conditions, tax issues, access to finance, growth obstacles, payment policies, the role of technology and the impact of women on the MSME sector in Nigeria. I am very passionate about the latter as a female entrepreneur too.

The case studies of successful business owners corroborate some of the challenges they faced starting their businesses, how they navigated them and innovations to walk around them. The last chapter provides insights on the implications of COVID-19 on the MSME segment globally and in Nigeria.

PwC's 2020 SME survey report is the first of its kind in this sector. I hope you will find our insights very useful for other researchers and to kickstart new solutions for this critical sector. Enjoy the read.



01

Background to the MSME Survey

Defining MSMEs...

The definition of MSMEs in terms of number of employees, total assets and annual turnover vary from country to country, and from one organisation to another. Below are a couple of definitions from foremost SME-facing organisations in Nigeria. In this report, the BOI definition/categorisation of MSMEs has been adopted.

Table 1: Bank of Industry's (BOI) Definition for Micro, Small, and Medium-size Enterprises

Enterprise category / Indicator	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: BOI

Table 2: SMEDAN National Policy on MSMEs Definitions

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

Insights on the MSME sector in Nigeria (1 of 3)

Nigeria's MSMEs account for 96% of the total number of businesses in the country and contribute about 50% to the national GDP. In terms of ownership structure, 73% of MSMEs are sole proprietorships while 14% are private limited liability companies. The balance of 13% are Partnerships (6%), Faith based organisations (5%), Cooperatives (1%) and Others (1%).

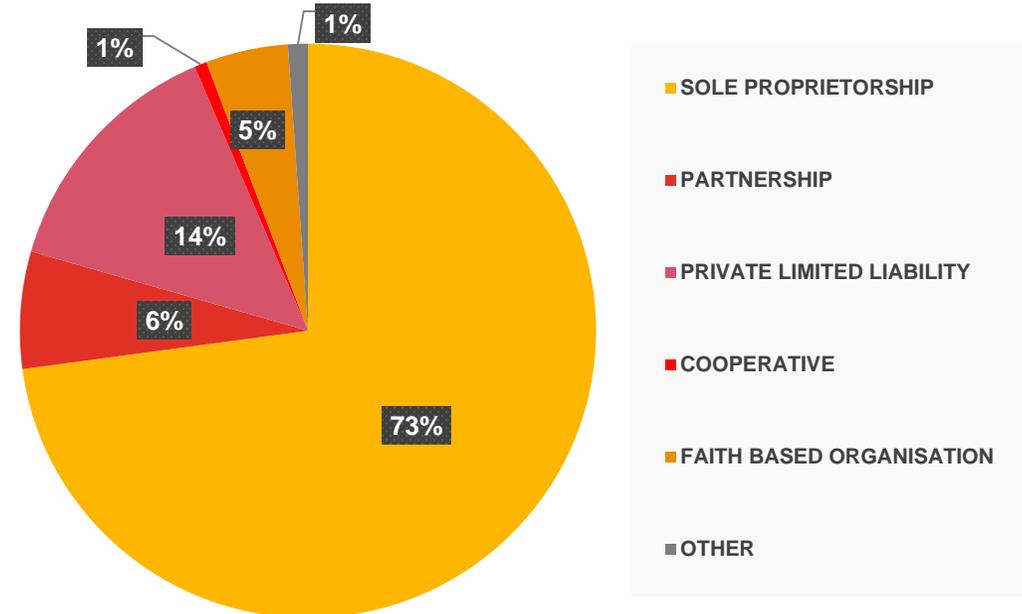
In terms of gender, only 23% of females operate formal SME businesses in Nigeria.

SME owners in Nigeria are typically between the ages of 20 to 60 years old.

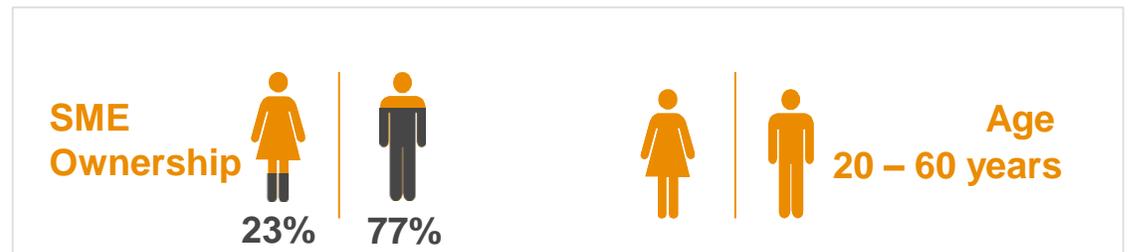
Country	% of businesses	GDP	Employment
South Africa	99%	52%	29%
USA	> 99%	44%	48%
UK	99.7%	51%	54%
Germany	99.5%	54%	63%
Nigeria	99.8%	49%	84%

Source: European Commission, U.S. SBA, FMITI, PwC research

Ownership structure of SMEs



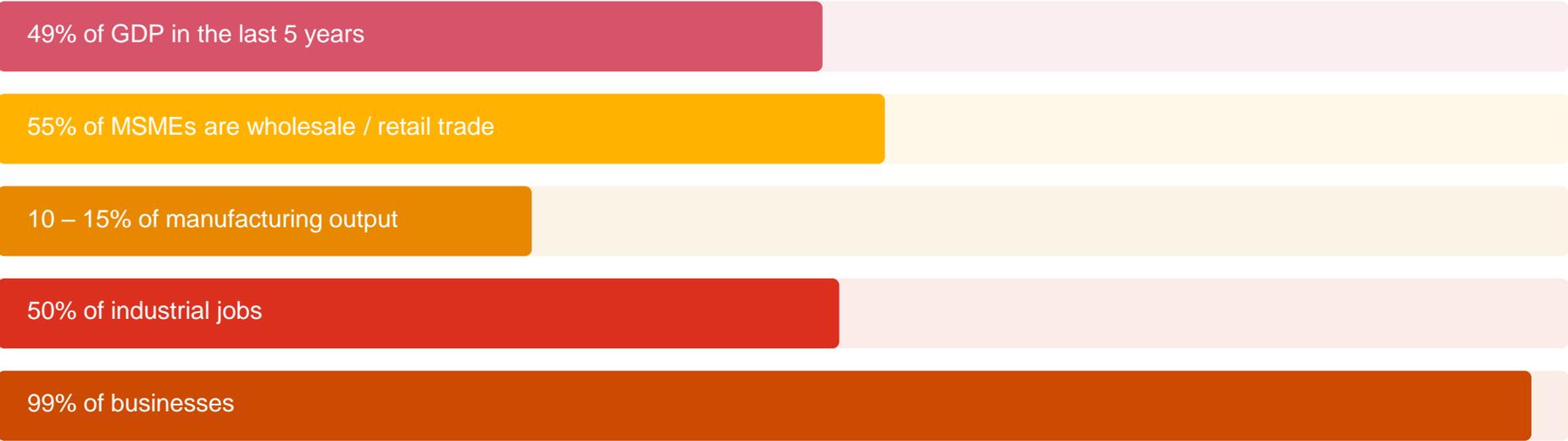
Source: NBS, SMEDAN, PwC analysis



Insights on the MSME sector in Nigeria (2 of 3)



Nigerian MSME sector

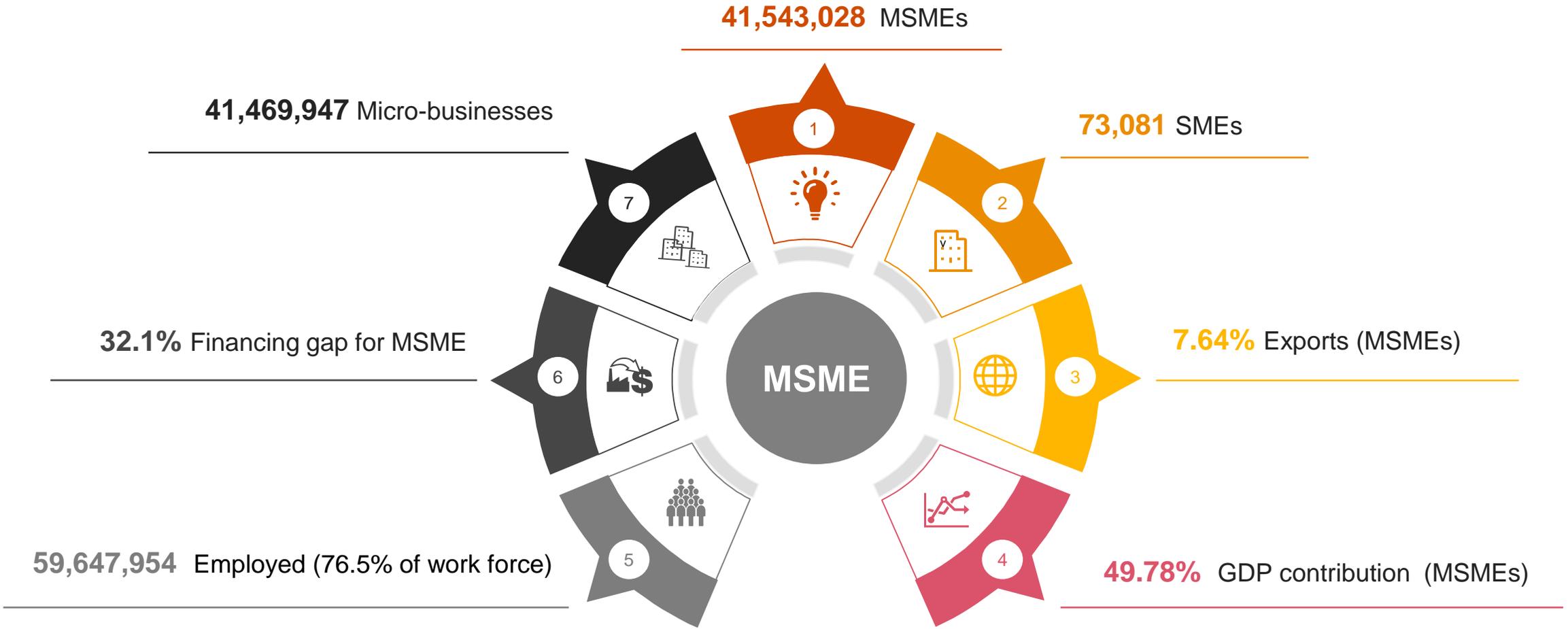


Source: NBS, SMEDAN, CBN, FMITI, PwC analysis

PwC MSME Survey 2020

Insights on the MSME sector in Nigeria (3 of 3)

In Nigeria, over 41.5 million MSME businesses operate in the country, according to a survey conducted by the National Bureau of Statistics and the SME Development Agency of Nigeria (SMEDAN) in 2018. The breakdown of the size of businesses in the sector, as well as other important stats are highlighted in the chart below:



Source: NBS, SMEDAN, IFC, World Bank

About the MSME business survey

PwC



1,629

Key decision makers in the MSME sector surveyed with annual sales turnover ranging from N5 million and above



20+

20+ questions primarily via online survey. Case studies developed/conducted via face-to-face interviews and e-mails



2019

Survey conducted between August and December 2019



29 states

Across the 6 geopolitical zones in the country

The PwC MSME study report is the first in a series of surveys that provide insights into a range of issues concerning SMEs in Nigeria, and the challenges impacting business growth, particularly financing, taxation issues; and other factors - **through the eyes of their CEOs.**

The objective of the study is to capture the challenges the sector faces, identify opportunities to unlock growth and investment, provide solutions, mitigate risks and assess the outlook for MSMEs across industries.

The study also includes case studies with leading SME players across various sectors, as well as interviews with key stakeholders and experts on the sector.



Headline survey findings in Nigeria (1 of 2)

57%

Cited multiple taxes & levies, lack of coordination of federal & state agencies and the absence of technology platform(s) as challenges in paying their taxes.



22%

Say obtaining finance was their most pressing problem. Finding customers (16%), infrastructure deficit (15%) and insufficient cash-flows (14%) followed closely



22%

Say the pressure to reduce prices is the topmost economic issue. Rising inflation (19%), low demand for products and services (16%) High interest rate (14%) High exchange rate (14%) All of the above (10%)



48%

Say family & friends are the most popular financing sources (vs 15% who obtained credit facilities)



46%

Say they would prefer private equity over debt financing (33%) to fund business growth



Headline survey findings in Nigeria (2 of 2)

31%

Experienced positive growth in excess of 20% over the last 3 years



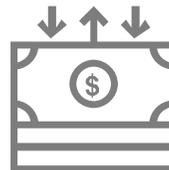
48%

MSMEs reveal that they have experienced delayed payment due to the terms of trade policies of larger corporates.



33%

Cite that the payment delays severely impact their cashflows and revenues.



22%

MSMEs rely on the internet, media and research publications for business insights (vs 16% who rely on professional service providers)



10%

Artificial Intelligence (AI) and the Internet of Things (IoT) will have the most impact on the growth of their businesses in the next 3 years.





Businesses that are able to withstand the economic headwinds are those that have built mechanisms and designed internal strategies to weather the storms that occur in the global and local economic spheres...”



02

Business environment and market conditions



Andrew S. Nevin

Partner & Chief Economist

PwC Nigeria

Nigeria's output growth was expected to be on a recovery path prior to COVID-19. PwC estimated the country's GDP growth to reach 2.6% in 2020 from 2.3% in 2019. With the global pandemic impacting the world's economic trajectory, Nigeria is expected to experience a reversal of its recovery path and re-enter a recession this year.

As a result of the lockdown measures and restrictions to travel, movement and activities in key parts of the country, and across the globe, the IMF projects that Nigeria's economy will contract to -3.4% by the end of 2020. The country's economy is projected to recover to 2.4% by 2021.

Meanwhile, in March 2020, Saudi Arabia's call for a production cut with non-OPEC countries led by Russia, ended in a deadlock. Consequently, this deadlock led to a supply glut of oil. This glut coupled with the coronavirus' impact on global industrial activities, led to declined demand for crude oil, which in turn contributed to a drop in international oil prices to less than US\$40 per barrel.

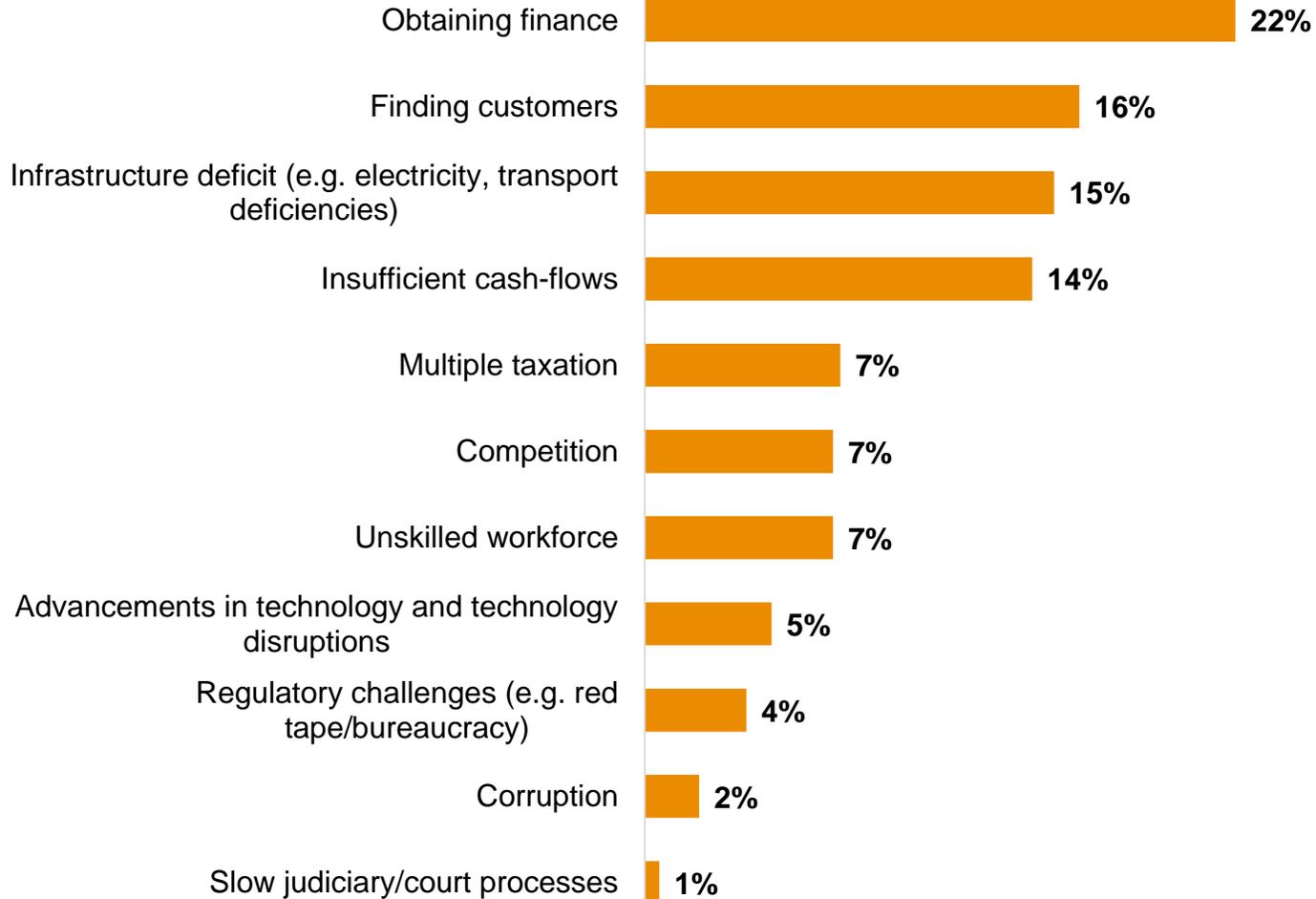
Though the deadlock has ended with the OPEC and non-OPEC bloc of countries agreeing to production cuts, as at May 31, 2020, the OPEC daily basket price stood at approximately US\$36.55 per barrel.

Nigeria's economy is highly susceptible to activities in the global oil market, as the country relies on proceeds from oil sales for fiscal planning, as well as forex supply for imports of inputs.

The effect of COVID-19 and other economic issues have consequent impact on the business environment. Subsequently, businesses that are able to withstand the economic headwinds are those that have built mechanisms and designed internal strategies to weather the storms that occur in the global and local economic spheres.

What is the most pressing problem currently facing your business?

2020



Source: PwC analysis



Obtaining finance is the most pressing problem MSMEs face. Access to finance, in particular credit, is a critical enabler for the growth and development of small and medium enterprises. The SME credit market, however is notoriously characterized by market failures and imperfections. Hence, in emerging markets and developing economies, 55% to 68% of formal SMEs are either unserved or underserved by financial institutions, leading to a total credit gap estimated to be USD5.1 Trillion.

PwC estimates the financing gap for Nigerian MSMEs to be about N617.3 billion annually (pre-COVID-19 pandemic). Based on analysis of data from the CBN annual statistical bulletin, small businesses accounted for less than 1% of total commercial banking credit in 2018.

According to the National Bureau of Statistics (NBS), less than 5% of SMEs have been able to access adequate finance for working capital and for funding business growth/expansion. Yet, SMEs still contribute a staggering c.50% to GDP.

What is the most pressing problem currently facing your business?



Source: PwC analysis

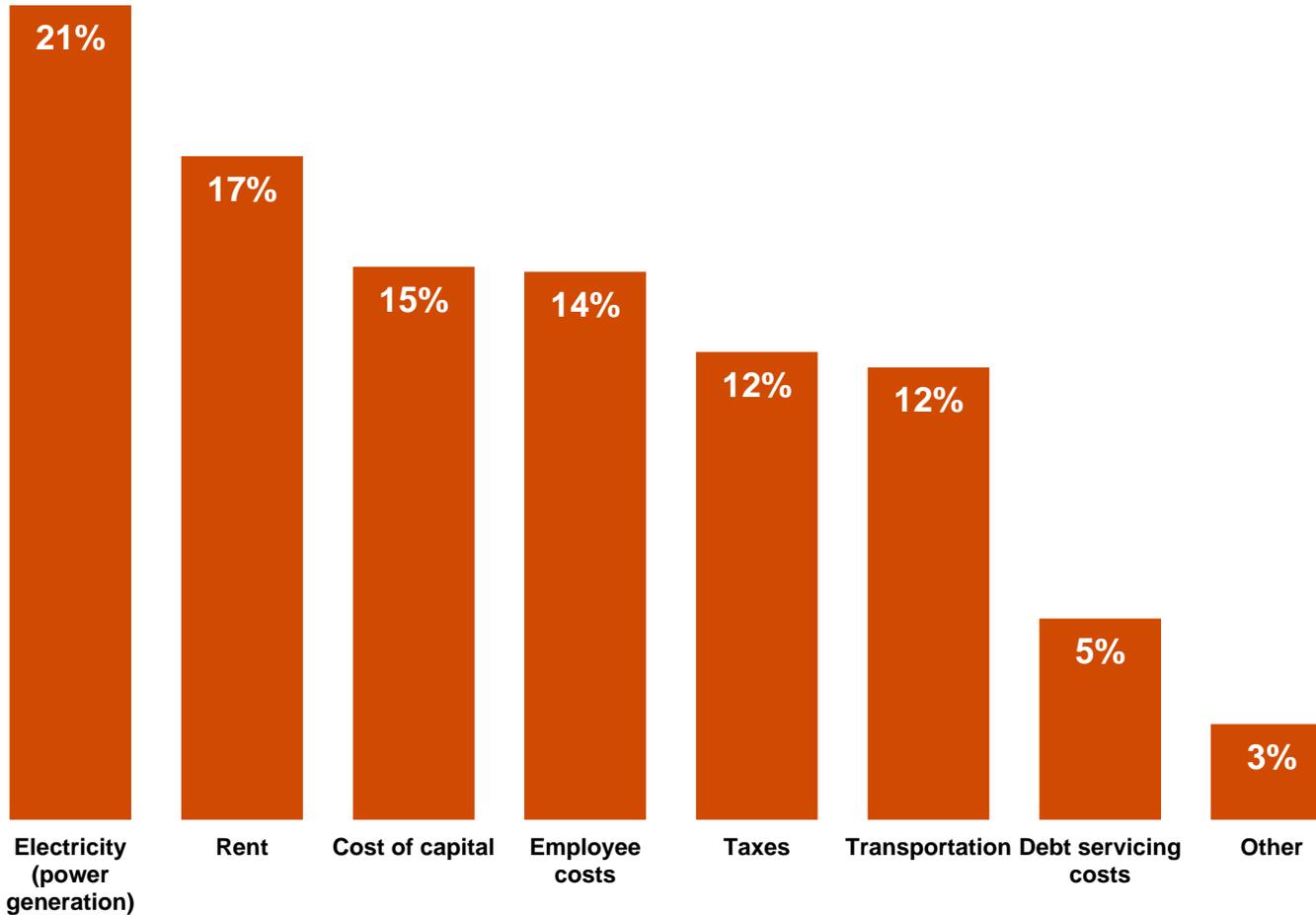
Finding customers, infrastructure deficit and insufficient cashflows follow closely as the most pressing problems for MSMEs. Multiple taxation also continues to remain a huge cause for concern to SMEs amidst outdated tax laws. Many businesses believe that the government needs to do more in streamlining taxes across the different tiers of government.

7 percent of respondents believe their business issues are really from having an unskilled workforce. Although this is a relatively low percentage, it highlights a gap that needs to be filled speedily. Digitisation and advancement in technologies mean that the future of work will rely on an upskilling journey as industry disruptions are inevitable. How ready is Nigeria? It may be that this is not an issue yet because most of the businesses surveyed do not compete on a global scale, with their products only addressing the needs of a rather captive market.

Digitisation of businesses and upskilling of staff will greatly enhance the competitiveness and quality of services rendered by SMEs, as well as globally and regionally position them to compete with their counterparts both within the country and in the export markets. This is particularly more pressing in the light of the AfCFTA regional trade market, expected to take off by January 2021.

What is the biggest cost(s) to your business operations?

PwC



Source: PwC analysis



Electricity accounts for the biggest costs to daily operations. Nigeria's power sector is overwhelmed by myriad of challenges ranging from operational inefficiencies to infrastructure deficiencies.

These challenges have culminated in inadequate electricity supply that has had adverse impact on the business environment in Nigeria; consequently, contributing to significant economic costs to SME and economic growth. The International Monetary Fund (IMF) states that lack of access to reliable electricity costs the Nigerian economy an estimated USD29 billion a year.

A research conducted by the Centre for Democracy Development (CDD) and SOAS University of London, revealed that SMEs in Nigeria get just 1 to 5 hours of electricity in a day, adding that the huge supply shortfall is 'killing' businesses. Analysing the economic factor intensity as a result of the shortfall of low electricity supply, PwC estimates that approximately 1 out of every 7 firm exits the economy because of this.

Key considerations for the power sector

Consumers of electricity comprising households, industries, commercial ventures, among others, have risen significantly. Rising population and improvement in industrial and commercial activities are key factors driving the trend. As a result, demand for electricity has outpaced generation, transmission and distribution capacity.

As at 2018, 5.7million households, about 51,000 industries and over 770,000 commercial ventures were consumers of power in Nigeria (NBS data).

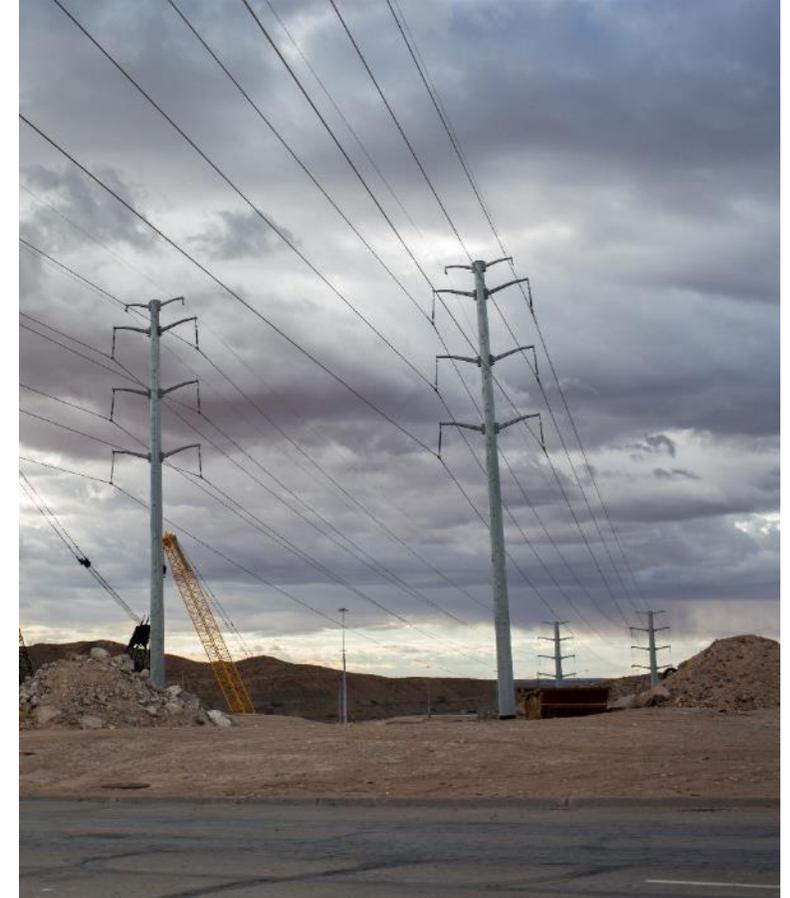
PwC recommended that for the power sector to achieve about 6.5 times increase in annual per capita consumption by 2025, the stakeholders in the sector needed to accelerate growth in power generation capacity and improve utilization; expand the power transmission network and drive better efficiencies; and establish/scale up efficient power distribution capabilities.

PwC maintains that more power needs to be delivered properly and adequately through the electricity value-chain to

the final consumers or end-users. To achieve this, expansion of the on-Grid generation capacity by improving gas supply to eliminate non-operational capacity, replacement of the obsolete equipment at power plants to restore unavailable capacity, investment in the development of new power plants, as well as the expansion of existing plants remains a key piece of the solution.

Liquidity crunch is the biggest challenge of the Nigerian power sector today. Low collection, non-cost reflective tariffs, distribution losses and the inability of Discos to meet their payment obligations to the Nigerian Bulk Electricity Trading Company (NBET) is some of the challenges impacting liquidity in the sector.

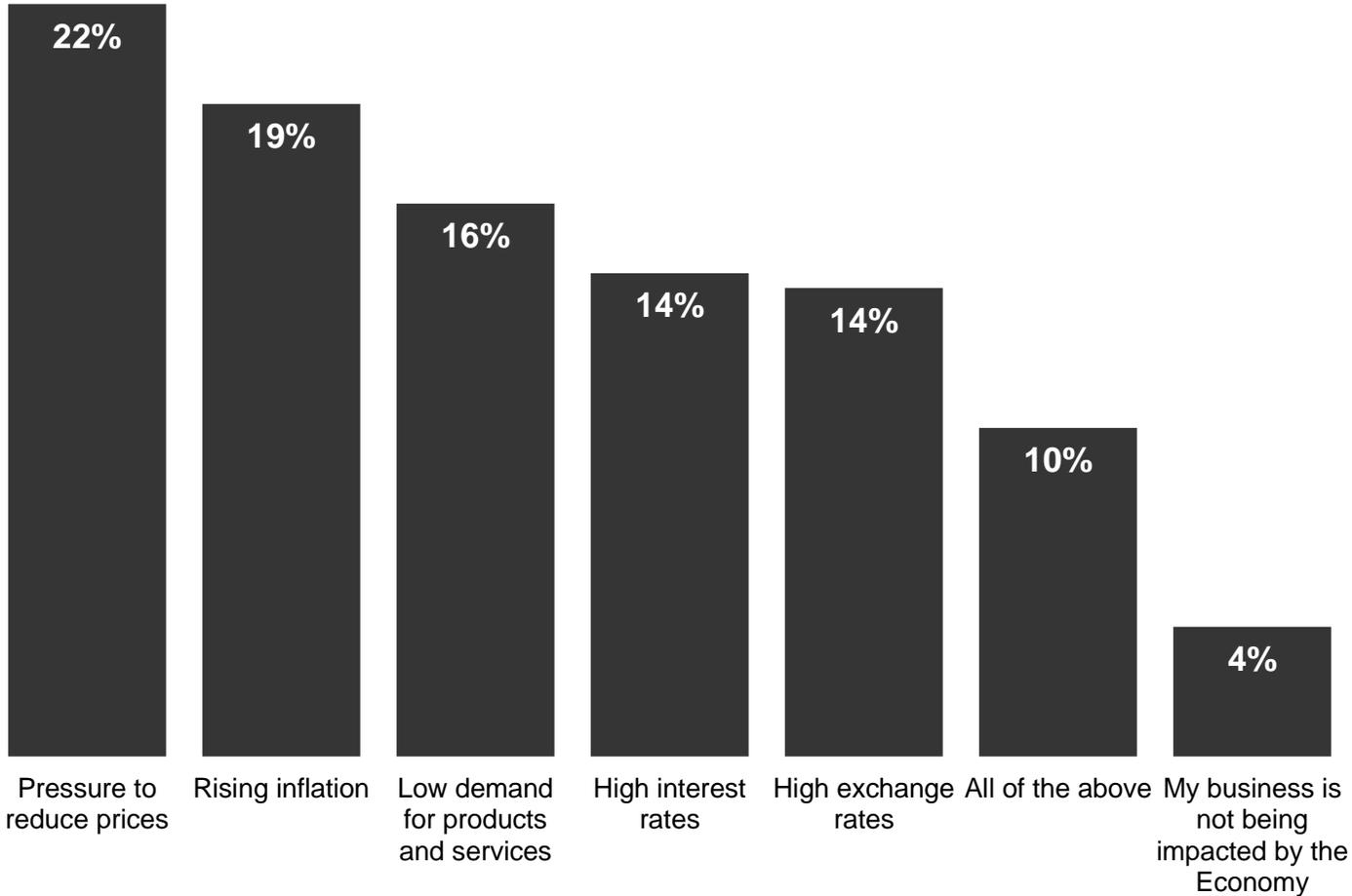
PwC recommends that existing power must be effectively monetized through the value chain. In essence, power generated and delivered through the value chain must be recovered at full monetary value.



Source: <https://www.pwc.com/ng/en/assets/pdf/power-roundtable-report-2017.pdf>; <https://www.pwc.com/gx/en/growth-markets-centre/assets/pdf/powering-nigeria-future.pdf>

What are the economic issues affecting your business?

PwC



Source: PwC analysis



The foremost economic issue affecting businesses is the pressure to reduce prices. This is due to the second and third economic issues faced – rising inflation and low demand for products and services.

The economic recovery in Nigeria has been tepid. Despite positive economic growth in the last 3 years, Nigeria's GDP trajectory still falls short of the projections set in the Economic Recovery and Growth Plan (ERGP) of 4.5% and 7% for 2019 and 2020 respectively.

Nigeria's economy needs to be growing at an average rate of at least 5 to 7% to boost productivity and sustainable growth for businesses. Meanwhile, challenges such as high costs of borrowing and decline in disposable incomes, as well as weak consumer demand continue to dampen performance.

Despite the economic issues, 4% of business owners surveyed revealed that their businesses are not being impacted.



Ada Osakwe



Overview of Business

Nuli (pronounced “Noo-lee”) is coined from ‘Anwuli’, an name from the Igbo ethnic group of Eastern Nigeria that means ‘Happiness’. It is an indigenous food company dedicated to inspiring a happier generation for Africa through the manufacturing of fresh foods & beverages made from locally-grown fruits and vegetables.

Ada Osakwe, the founder of Nuli, was disturbed by the over 60 percent post-harvest losses of fresh agricultural produce, partly due to the lack of large-scale, frequent buyers like food processing companies. Furthermore, she wanted to stem the rising rates of malnutrition due to unbalanced diets containing foods with limited nutrients. These problems inspired her to come up with a solution to add-value to fresh agriculture produce, while also providing a convenient access to healthy, nutritious, locally-grown foods.

Launched in January 2015 with a direct-to-customer online distribution model for fresh juices, Nuli has quickly become Nigeria’s fastest-growing innovative fresh beverage manufacturer and farm-to-table quick service restaurant (QSR) brand, serving a unique and diverse menu that is making it more convenient for Nigerians to live better, healthier lifestyles while creating value-added markets for Nigerian farmers. The Company has ten restaurant outlets across Lagos.

Since the launch of its Quick Service Restaurant (QSR) concept in 2016, Nuli has surpassed early expectations in transforming fast-casual-eating trends in Nigeria through its unique use of only locally-grown agricultural products, as well as its focus on leveraging innovative technology and empowering Nigerian youths.

Through its diverse offering the Company stands to tap into the USD2.5 trillion global restaurant industry and USD3 trillion packaged foods industry, the rising trend in the formalization of shopping outlets and increased consumer spending in developing countries like Nigeria, as well as the organic fresh produce international market. Within 5 years, Ada’s vision is to see Nuli being franchised in global consumer markets in the Europe and the United States.

"The Nuli Juice Company is proudly indigenous and has a 'NO imported products philosophy...'"

Journey so far

- In January 2015, Ada Osakwe conceptualised and launched Nuli strictly as a natural juice company - investing through her principal investment vehicle - Agrolay Agricultural Company ("Agrolay"), a Nigeria-based agribusiness investment company.
- The Company has successfully executed key initiatives, which include: growing its production capacity to meet strong local demand; getting major retailers to stock its products; and opening its own-branded casual restaurant ('Nuli Lounge') in Abuja and Lagos; expanding from a CPG producer to entering the Fast Casual restaurant space with the launch of 11 restaurant outlets since January 2016.
- In its first year of operations, revenues grew by 172%; and in the second year (2016), it grew by 111%, which was an impressive performance at the time considering the economic recession in Nigeria. The Company has since remained on this growth trend, particularly with the tripling of the number of restaurant outlets.
- Business turned a profit after 24 months of operations (FY2016) and broke-even in FY2017, despite the difficult operating environment in Nigeria and the economic recession.
- The Company is proudly indigenous and has a '**NO imported products philosophy**', ensuring that the supply-chain is secure and maintaining consistent, uninterrupted operations in a volatile operating environment like Nigeria.

Recorded Milestones

The growth of our team from only 1 person on the payroll in January 2015 to over 80 people as of November 2019, is a significant milestone for us. Furthermore, the fact that we have been able to set a strong standard of quality in a market that has accepted mediocrity for so long, makes us truly proud. The challenge we face today is ensuring that this remains consistent, even as we scale up our operations.

Issues / Problems

In my opinion, Nigeria is one of the most difficult places to build and sustain the growth of a business. I say this because since Nuli began, we have been faced with drawbacks, that I don't see my fellow entrepreneurs facing in fellow African countries like Ghana, Senegal or Rwanda. My sanity has truly been put to the test, and on so many occasions, I have felt like giving up.

A few of the pains we've experienced are as follows:

Finance: Working capital is not easy to come by. For instance, Nuli is not just in the restaurant business but also deals with fresh produce, so we are constantly in need of cash to make daily purchases of our perishable raw materials. We need to finance this and so must have cash available at all times. If sales is slow, this is not possible. If capital expenditures need to be made, this 'eats' into our available cash, making it impossible to meet daily cash needs.

"How can an SME owner, just starting out in business, who needs a place to rent for her restaurant, be asked to pay rent 5 years up front, cash, to secure this. This is unheard of in developed countries!"

Issues / Problems

Talent: I wish I could get a steady stream of capable and dependable hands to work at all our outlets. People tell me that "You are lucky, your people are good", but I know we need to be GREAT in Nigeria. I fear that Nigerians have grown so used to being served at such low standards, that what is normal or even considered 'not so great' service delivery to me, is really good for them. We cannot grow this way. We are in dire need of a talent pool of smart, educated youngsters that can think critically about situations and propose innovative solutions, all with the right values and integrity.

Real Estate Culture: How can an SME owner, just starting out in business, be asked to pay cash upfront for 5 years' rent to secure the restaurant space. This is unheard of, in developed countries! SMEs cannot grow, if cash is tied down. Yet that same SME knows they need the premises, if they expect to get the business off the ground. Why can't we have situations like in most sensible nations, where long-term leases are signed, but rent is payable on a monthly or quarterly basis. Why do private landlords have to further cripple businesses by this unfair practice?

What has been your responses, or the actions taken to surmount these challenges? We move on. For one, I have had to give up equity in my business early on, to raise the necessary funding to grow.

Have these solutions or actions helped your businesses in any way? Yes. The equity funding helped. But it's not enough. We need so much more. There are systemic changes that need to happen in Nigeria for us to truly thrive and take off the way we should!

It is estimated that 40% of Nigerian entrepreneurs are women (one of the highest rates in the world) but approximately 23% of enterprises in the formal sector. What, in your view, can be done to move or bring in more women-owned businesses out of the informal into the formal sector in Nigeria?

As the saying goes, "*Cash is king*". Indeed, finding capital to start and grow a business is one of the biggest hindrances to female entrepreneurs. In 2018, only 2.2% of the over US\$96bn of Venture Capital (VC) funding in the U.S. went to female founders. In 2016, this share was higher at 2.5%, so we are actually worse-off in our efforts to level the gender playing field. This reflects the same situation in Nigeria, where women-owned businesses struggle to get the necessary backing to soar.

So why does the investment world find it difficult to support our growth as women, in the way they support men? With less than 10% of the decision makers at VC firms being female, and majority of VC firm investors being male or non-black, I can understand why we face the predicament we do. Moreso, in the case of Nigeria, as long as we continue to wait on outside investors to come fund our young female entrepreneurs, we are doomed. So we need to be more deliberate about this. We need to own the capital so we can deploy it our way. This is why I am so passionate about ensuring Nuli is a success so that when I exit, I will have the wealth to give back in a meaningful way to other hard-working female-founders.

Ultimately, as a female founder, I am part of a unique group that has chosen a road less-travelled. A group that gets 6x less capital than men, even though data shows we deliver higher revenues. A group that is frequently shut out of the room due to hidden and not-so-hidden social biases, yet finds ways to keep creating its own room to shine.

I am proud to be a **FEMALE FOUNDER** in Africa and I am going to keep shining!



“

The Finance Act 2020 has provided a fairly soft-landing for SMEs whose performance might have been more impacted negatively in the face of the COVID-19 pandemic and projected recession

”

...

03

Tax Issues



Esiri Agbeyi

Partner & Head,

Private Wealth Services

Nigeria is the largest economy in Africa but the country lags behind South Africa, the second largest, in terms of the tax to GDP ratio. Whereas Nigeria's tax to GDP is estimated at about 6%, South Africa's is 28%, while the average tax to GDP in Sub-Saharan Africa is 17%.

Nigeria probably has more tax authorities than any other country in the World with the exception of the United States. Yet, unlike Nigeria's tax administration system, the United States has a much more robust database of tax payers and payments. Furthermore, the United States' tax to GDP ratio is 26% - over 4 times higher than Nigeria's.

Results from our survey reveal that multiple taxes & levies, lack of coordination of federal & state agencies, and the absence of a central technology platform for the ease of payment of taxes, are some of the challenges faced by MSMEs.

According to the annual PwC report, *Ease of paying taxes 2020*, it took, on average, 343 hours for entities to comply with tax payments. This was the time taken to prepare, file and pay value added or sales tax, profit tax, labour taxes and contributions. Furthermore, most businesses made, on average, 48 tax payments to the tax authorities in a year. An interesting observation over the years is that countries which ranked low in paying taxes, had a direct correlation to the drag in the GDP of the economy.

In 2015, a drive to harmonise taxes at the federal, state and local government levels resulted in a review of the Taxes and Levies Act which lists the approved taxes to be collected. The amendment resulted in a longer list of approved taxes from 39 to a staggering 61, mostly at the state and local government levels confirming the cost of tax compliance especially for SMEs. Without doubt, this is a problem for SMEs.

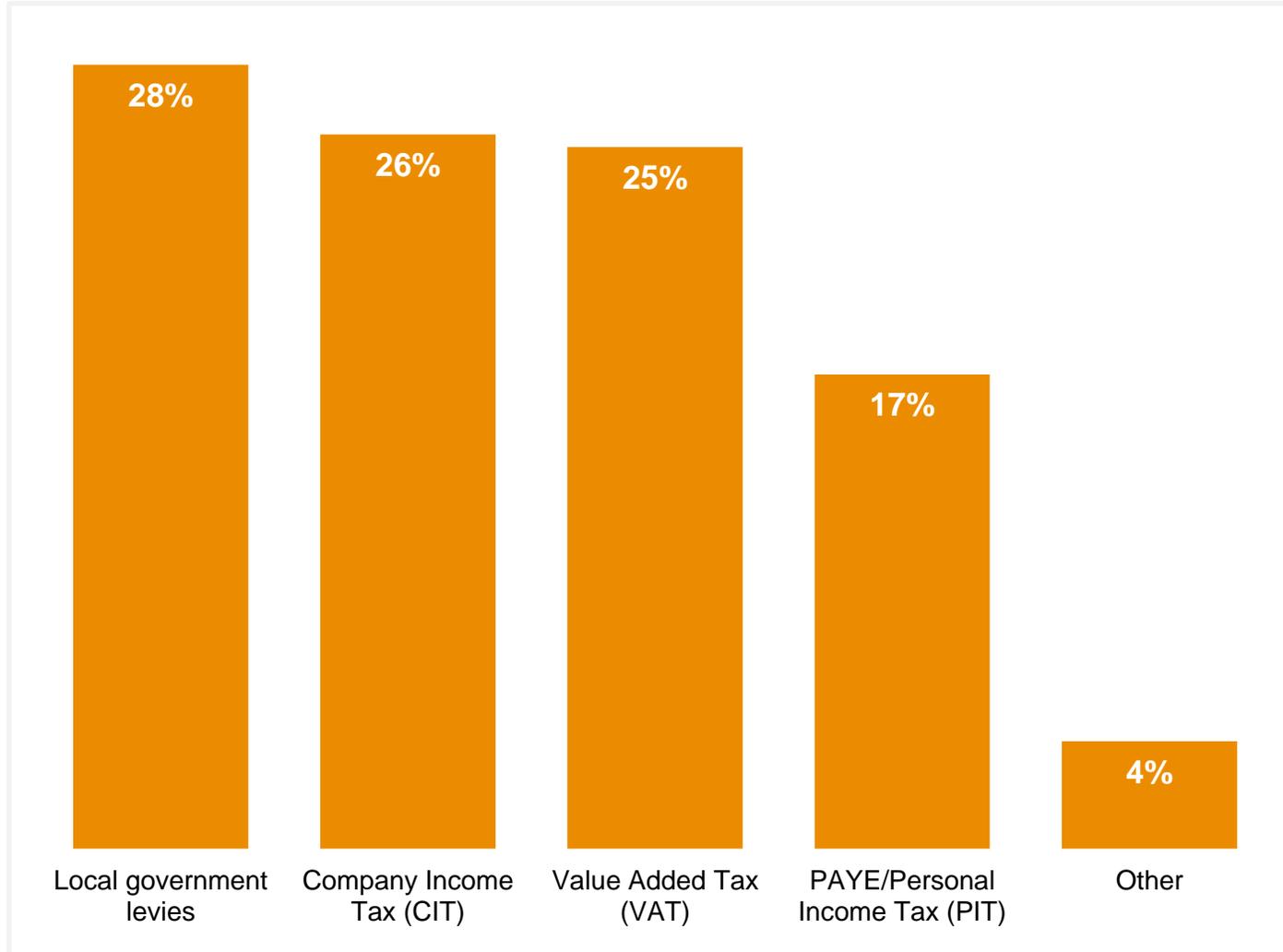
As a nation, we should consider these recommendations for higher tax revenues and more profitable SMEs.

- 1. Review the Constitution and tax laws:** Multiple taxes remain a problem as the Constitution gives the 3 government tiers distinct taxing powers. Businesses will continue to struggle with this problem unless something more concrete is done about excluding overlapping powers e.g. with consumption taxes. The tax laws should be reviewed and amended annually through Finance Acts. Over time, Nigeria can lean towards a lower direct tax on income and more indirect tax on spend as we find in developed economies.
- 2. Centralised administrative system:** Deploying a single centralised technology platform for tax administration in the country will help to improve tax collection, enhance ease of payment, reduce the cost of tax collection, as well as plug or eliminate the leakages in the system. The time saved in paying taxes could be put to more productive use by businesses and the nation as a whole.
- 3. Single Tax Authority:** Most countries adopt the model of a single tax authority for tax administration of both corporates and individuals. This is the case with the UK's HMRC and South Africa's SARS. Both countries have significantly higher tax to GDP ratios than Nigeria. Companies are run by individuals. Linking both provides much gain in closing gaps on non taxation or evasion. The reverse is the case when information is disaggregated across several tax authorities.
- 4. Formalise the informal sector:** Multiple taxes may be an issue but what is worse is when tax is paid by a few and the tax net is not widened. Some say the missing piece has been the informal sector. However, players in the informal sector cry that they pay taxes too. The problem is there is no data and some of the taxes collected may only find their way into private pockets. Evening the playing field for all taxpayers would involve relaxing the entry rules and easing the barriers for informal businesses to get into the formal sector.

Whichever strategy Nigeria adopts, ensuring the SME sector is free of the burden of multiple taxes is very critical.

Which of the following taxes/fees do you find most difficult to comply with?

PwC



MSMEs find local government levies the most difficult tax to comply with. This is closely followed by Company Income Tax (CIT) and Value Added Tax (VAT).

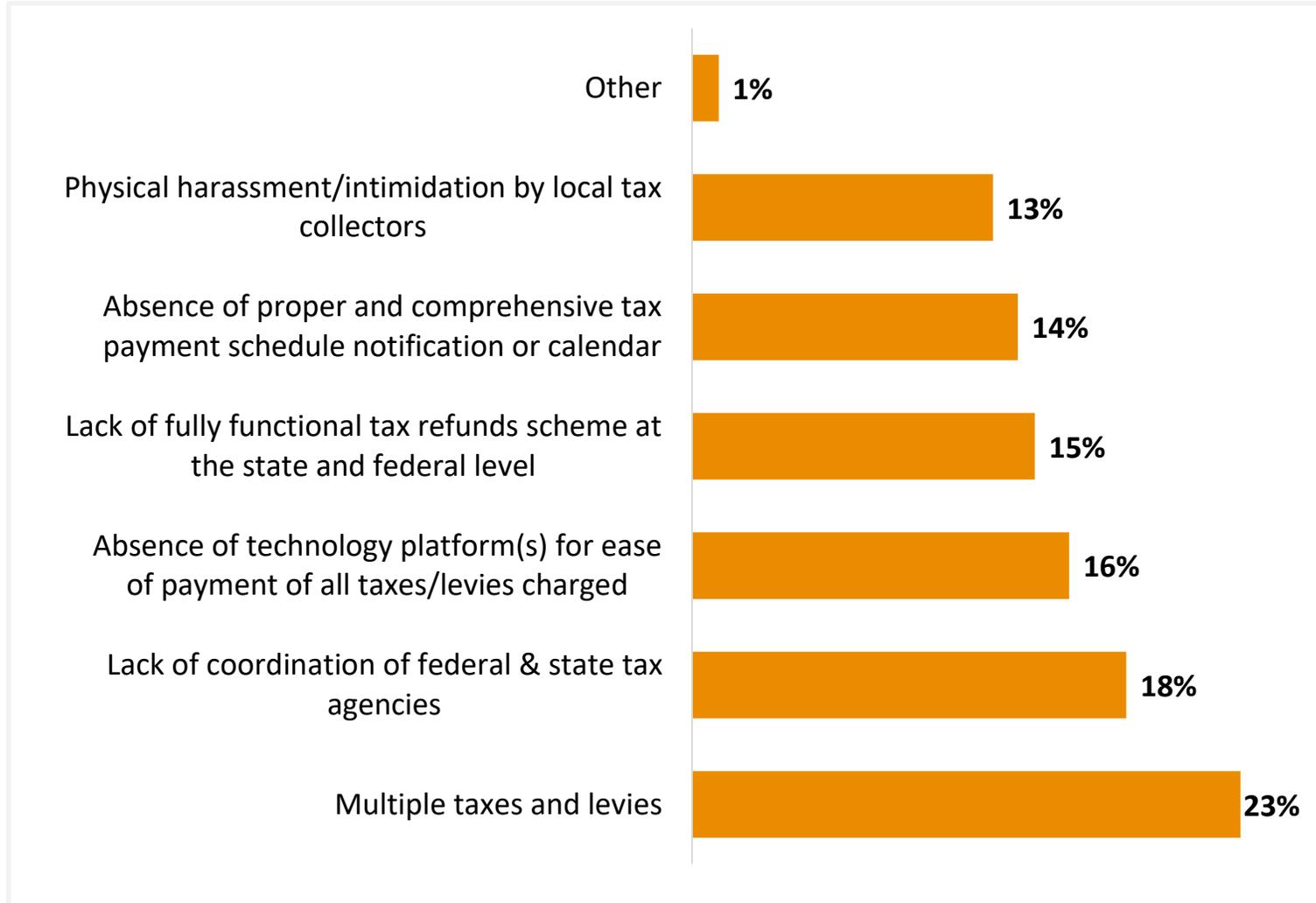
Reasons for the difficulty in compliance comprised: the multiplicity of taxes and levies; lack of coordination between federal & state tax agencies, absence of technology platform(s) for ease of payment of all taxes and levies, as well as lack of fully functional tax refunds schemes at the state & federal level.

Others included the absence of comprehensive tax payment schedule notification or calendar, and physical harassment/intimidation by local tax collectors.

Source: PwC analysis

What specific challenges do you encounter with respect to paying your taxes?

PwC

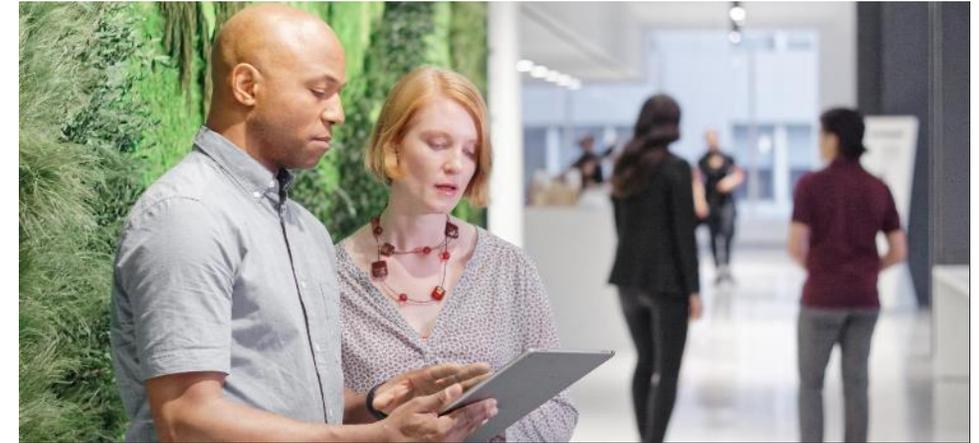
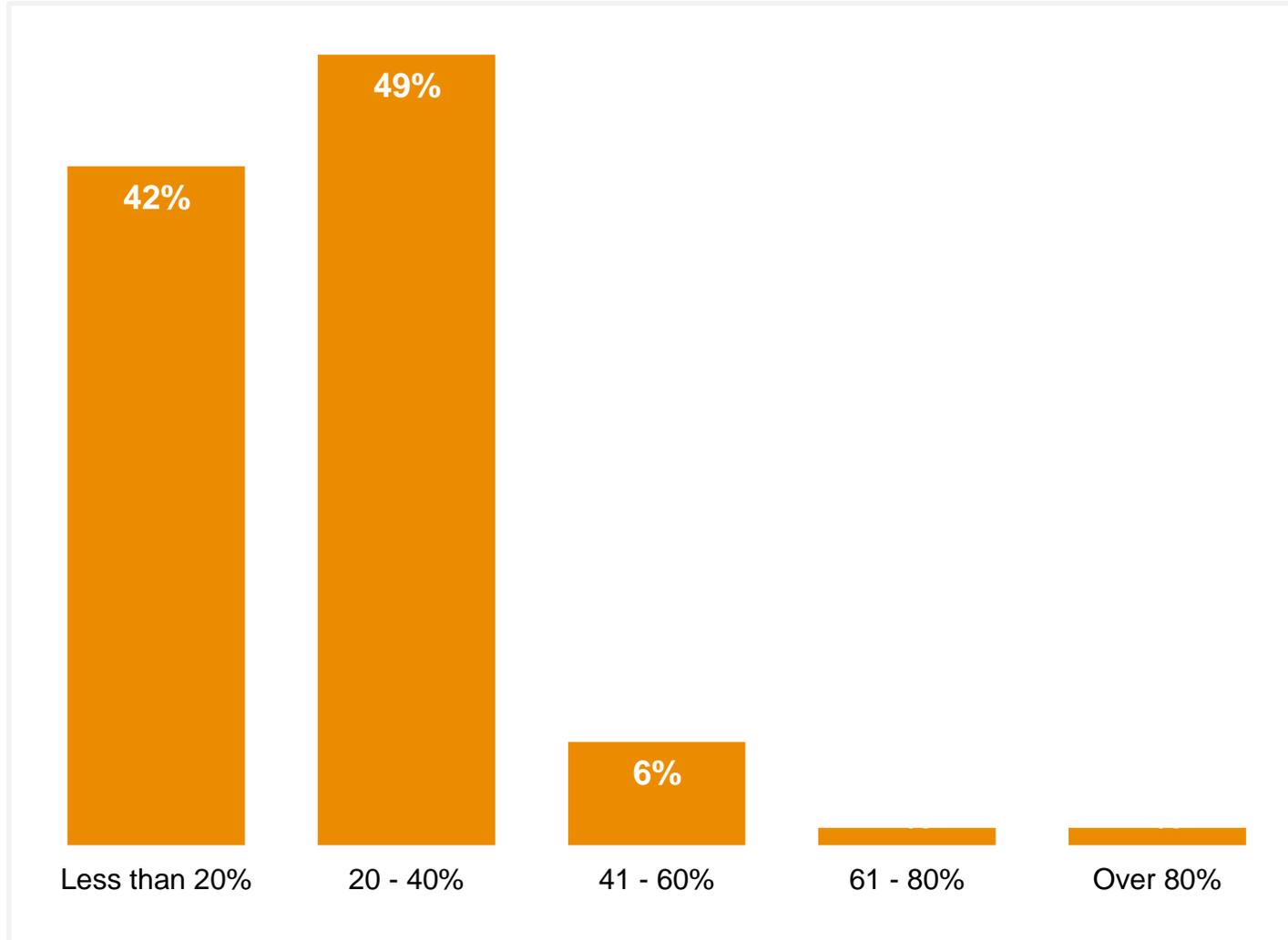


Multiple taxes and levies remains a bane for tax-paying businesses in Nigeria, especially MSMEs. Furthermore, the lack of coordination between the federal and state tax agencies is also an issue. There are 36 state tax authorities in Nigeria, in addition to the Federal Inland Revenue Service (FIRS) and the local governments. Each of these entities have constitutional rights to raise taxes and this has given rise to increased tax burden and complaints from businesses. Nigeria ranked 159th out of 190 economies on PwC's ease of paying taxes index 2020.

Source: PwC analysis

What percentage of your company's income or profits does taxes/levies account for?

PwC



49 percent of SMEs revealed that they pay 20% to 40% of their income or profits on taxes and levies. 28 percent of businesses pointed out that the Local government charges, taxes and levies were the most difficult to comply with. The average income tax rate for companies is about 32% and for non-incorporated entities 19.2%. This may mean that the local government actually accounts for the remaining 10% to 20% of tax contribution from SMEs. The percentages are significant when compared to actual contributions by LGAs to tax collection in 2019. Unlike data on Federal and State tax revenues, Local government tax revenues are relatively difficult to ascertain or obtain. There is need for consensus and collaborative dialogue from all public and private sector stakeholders in dealing with the data gaps, issues and challenges at the LG level.

Source: PwC analysis

Companies Income Tax:

A Exemption for small companies, agriculture companies and lower rates

The Law now sets a minimum threshold for applicability of Companies Income Tax ("CIT"). Companies that have an annual turnover of N25 million are totally exempt from companies income tax while companies that have an annual turnover of N25million-N100million have a reduced tax rate of 20%. Agricultural companies are also tax exempt subject to qualifying conditions

Prior to the enactment of the Act, all companies (except agricultural, mining, export or manufacturing businesses with an annual turnover of N1m and below had a rate of 20%) doing business for profit were required to pay tax on their profit without consideration to the value of their turnover.

B Tax Losses

In 2007, CITA was amended to delete the previous 4 year restriction of losses. However, some wordings were not deleted which did not allow the carry forward of tax losses beyond the fourth year of commencement of business. The Federal Inland Revenue Service ("FIRS") did not enforce this provision in practice but it created some uncertainty for new investors.

The Law is now clear on the restriction of carry forward of tax losses such that tax losses can be carried forward indefinitely. This is especially useful as startups who incur significant losses in the first few years of business can now carry forward tax losses against future taxable profits.

C Early payment incentive

There is an incentive for companies that pay CIT on or before 90 days from the due date for filing. Such companies will be entitled to a bonus credit of 1% (for large companies with turnover greater than N100m) or 2% (for medium-sized companies with turnover between N25m and N100m). The higher threshold for medium sized companies acknowledges that SMEs face challenges when seeking faced by SMEs

D TIN

The Law mandates banks to ask for Tax Identification Number (TIN) before opening business bank accounts, while existing account holders must provide their TIN to continue operating their accounts. This is important to capture as it will capture more small businesses into the tax net.

E Double taxation eliminated on commencement

Before the enactment of the Finance Law, companies just commencing business were expected to prepare companies income tax for the first three years using the 'commencement rules'.

Commencement rules subject the profit for a period of at least 12 months within that period to double taxation. The rules have now been modified to eliminate overlaps and gaps that created double taxation and complication during commencement.



Value Added Tax:

A Registration threshold

The Law sets a VAT registration threshold of N25 million turnover in a calendar year. This implies that SMEs that do not meet the threshold would not need to register for VAT and as a result would not be able to recover input VAT on their purchases.

B Cash basis

Remittance of VAT now to be on a cash basis, that is, the difference between output VAT collected and input VAT paid in the preceding month.

C Exempt basic food items and definitions

The meaning of supply and the definition of goods and services have been expanded to cover intangible items while basic food items have been specifically defined. These include bread, cereals, live meat or poultry.

D Increased penalties

Penalties for failing to register has increased from N10,000 to N25,000 for the first month of default and N5,000 to N20,000 for each subsequent month. It is important for MSMEs to take note of the increase in penalties as payments for default will significantly affect their profit where their returns are not filed in time.

The Stamp Duties Act:

The Stamp Duties Act has been amended to include payment of N50 duty on electronic bank transfers of N10,000 between accounts except same accounts of an individual in the same bank. Before the amendment to the SDA, the Central Bank of Nigeria (“CBN”) had mandated banks to charge N50 as stamp duty on all electronic transfers between accounts although the SDA did not have this provision.

This amendment has provided the legal backing for the charge and a minimum threshold for the applicability of stamp duty. It is important for SMEs to be aware of this provision.

Key tax Considerations for SMEs

The Finance Act 2020 has provided a fairly soft-landing for SMEs whose performance might have been more impacted negatively in the face of the pandemic and recession. Here are ways to leverage the provisions made, to further propel business performance and stay afloat:



Embrace tax technology

SMEs and companies should leverage technologies to compute their tax and prepare their returns online. This would help simplify tax processes and prevent extra costs of late documentation and payment. Some state tax authorities now have digital platforms for filing taxes. Choose these over negotiations with unscrupulous tax officials who do not represent the intent of the government,



Exemptions and restructuring

Companies totally exempt from Companies Income Tax (CIT) could divert funds to strengthen their technology base and invest in research and development. Companies not entitled to CIT exemptions may choose to leverage exemptions from research and development. They can also disintegrate substantially different businesses where it is commercial to do so.



Deductible tax costs

The free carry forward of tax losses against future taxable profits is especially beneficial for startups who made substantial losses in the first few years of business. They may also request tax deduction for bad debts if possible. VAT registration is not mandatory for SMEs but there could still be irrecoverable VAT costs from procurement that hit your margins so voluntary registration may be considered. For the most part the VAT law will still need amendment to expand recoverable VAT especially now that the VAT rate has increased and to ensure Nigeria's VAT laws compare to other countries with higher rates. Ultimately, do not lose sight of VAT recoveries. Documentation is key to support tax deductions.



Avoid penalties

MSMEs should pay attention to the increase in penalties of failure or late VAT registration as this may pose a threat to their profit where their returns are not filed on time. However, they may leverage extended payment period during the COVID-19 pandemic.



Stay informed

There is a new wave of energy from the legislators and tax authorities to review the tax laws and increase revenues. Staying informed is critical. Take advantage of free seminars and fee paying business sessions that address business growth and provide updates on tax laws. The information gained can save you tax costs that could reduce margins and hamper growth.



Olatunji Adenuga
Vestar Coffee

"These major challenges have restricted our ability to accelerate our growth with the unorthodox approach of government officials in demanding for official/unofficial levies as a business risk..."

Overview of Business

Historical background: Vestar Beverage Company Limited, the parent company of Vestar Coffee, was incorporated on 5th April 2016 and started operations on 14th May, 2017 with the Vestar Coffee flagship store in Victoria Island.

Inspiration: Simply the Love for Coffee... Over the last decade, the coffee culture in Nigeria was rather primitive with more emphasis on instant coffee, which was extended to the established hotel brands. The coffee industry is a US\$100 billion industry globally, with Nigeria having the potential to have a US\$300 million chunk of the industry in the short term. The Specialty coffee industry, which we operate in, is a global phenomenon which has developed since the 1980s and culminated in a cultural shift to create a sense of community, shared work spaces and a premium coffee experience.

The belief that what we are doing will provide these experiences is what inspired me to start Vestar Coffee.

Products & Services: Vestar Coffee offers a variety of Espresso based coffee drinks, Hot Chocolate beverages, Teas and Spices, Cold beverage combinations, Juices, Pastry, Salads and Parfaits. We also offer coffee merchandise to our guests who are coffee connoisseurs.

Other Information: The specialty coffee industry in Nigeria is still a niche industry with the capacity to leapfrog established industries across Africa. The transformation of the industry in the UK during the 1990s from predominantly Tea culture is evidence of this potential with similar parameters to measure growth.

Journey so far

Size of the business: In the course of the 2018 fiscal year, we grew revenue YoY (annualized 2017) by 72% and are also grew revenue in 2019 by high single to double-digit percentages. The slowdown in revenue growth in 2019 was due to the state of the economy and decimation of disposable incomes. We are still a loss making business with 2 years to break-even.

We have 12 employees and total registered customer base of 2,900.

Location: We are located in Victoria Island (Flagship Store), Lekki Phase 1 and Ikoyi (Contract location).

Recorded Milestones

We had set a target of opening 5 stores in our first 5 years as an operating company, 20 locations in 10 years and 100 locations in 20 years. In our first full year of operation, we successfully opened 2 additional locations (totalling 3 locations) and we believe that we are still on course to exceed our store targets, despite the halt in expansion in 2019 due to the economic slowdown. We were recognized at a Google Event as the best reviewed restaurant/café in Nigeria, and have gone on to be invited by a number of corporates and event managers to provide our products and services, due to our strong brand.

"We have had to enhance our relationship with government agencies by engaging consultants or by direct engagement with regulatory representatives..."

Major Setbacks

Multiplicity of taxes and Regulatory Agencies, Employee Turnover or Competence and Access to Funding. These major challenges have restricted our ability to accelerate our growth with the unorthodox approach of government officials in demanding for official/unofficial levies as a business risk.

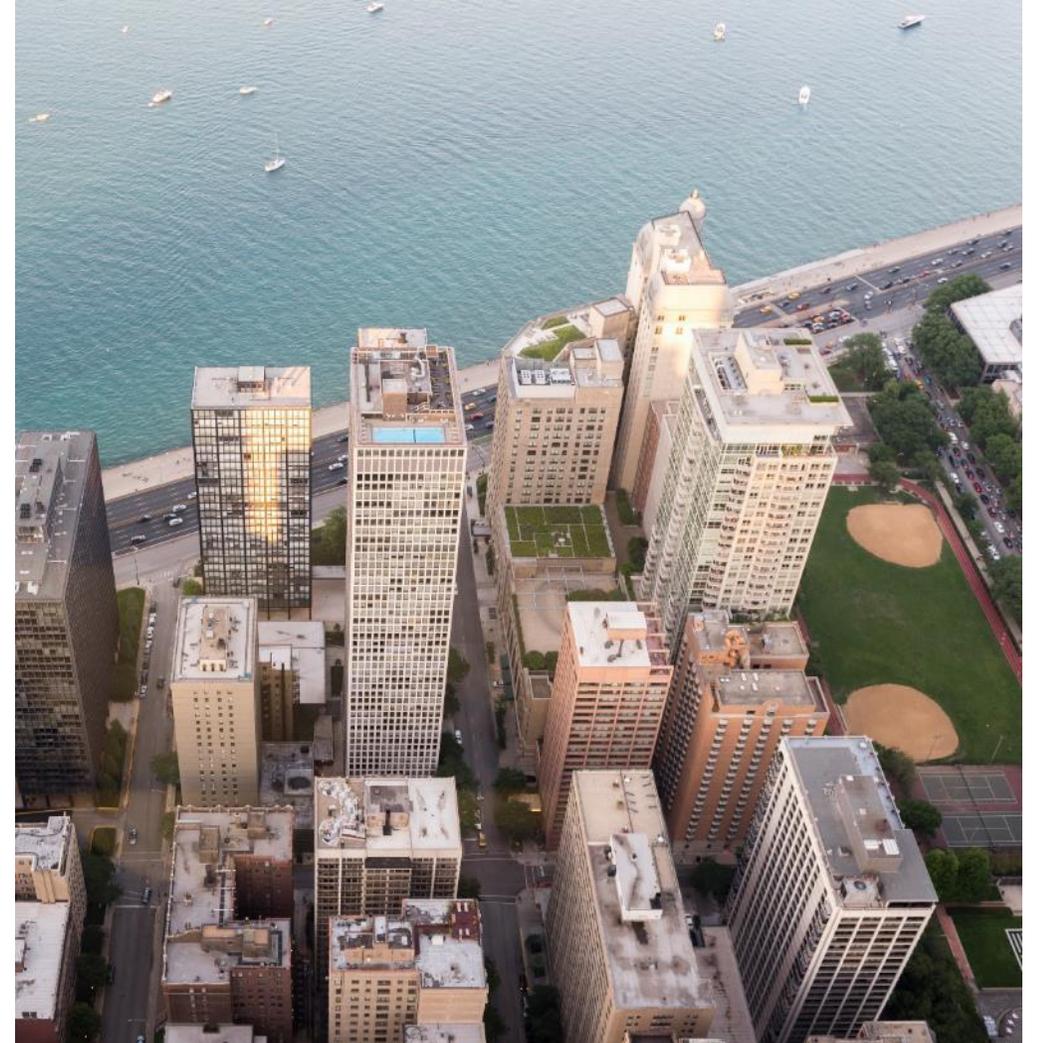
Also, our continuous need to train/retrain personnel due to quality concerns, and the high rate of staff turnover, are limiting factors in opening additional stores.

In addition, the lack of debt funding from local financial institutions for SMEs/sophistication of local investors are limiting funds for investments to achieve growth objectives.

We have had to enhance our relationship with government agencies by engaging consultants or by direct engagement with regulatory representatives.

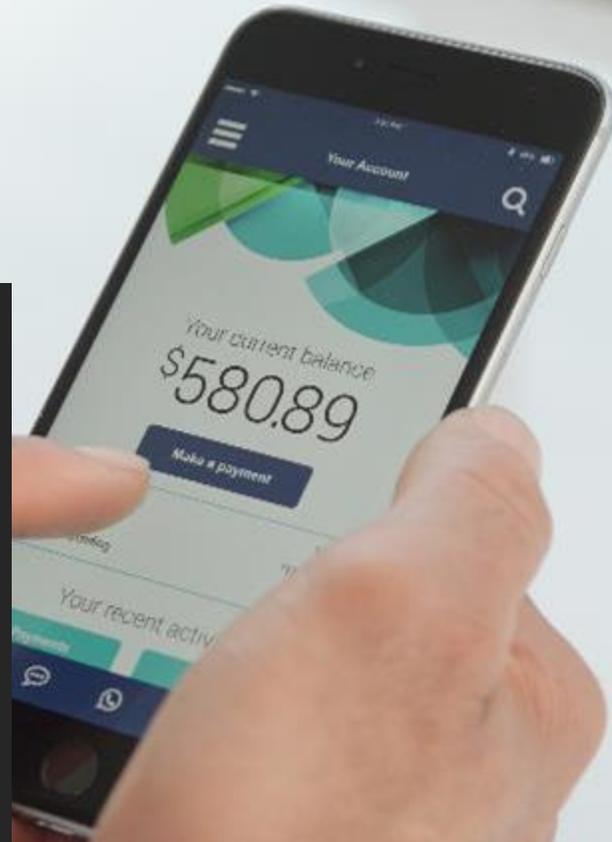
On employee welfare, we have introduced incentives, in terms of bonuses and growth opportunities to reduce turnover of employees and to attract funding.

We are also working to become a more visible brand to enable us tell a more compelling story to investors and the investing public.





Financial statements are major requirements when looking to secure a loan, this makes it paramount for firms to keep proper and standard documentation of their transactions.



04

Access to finance

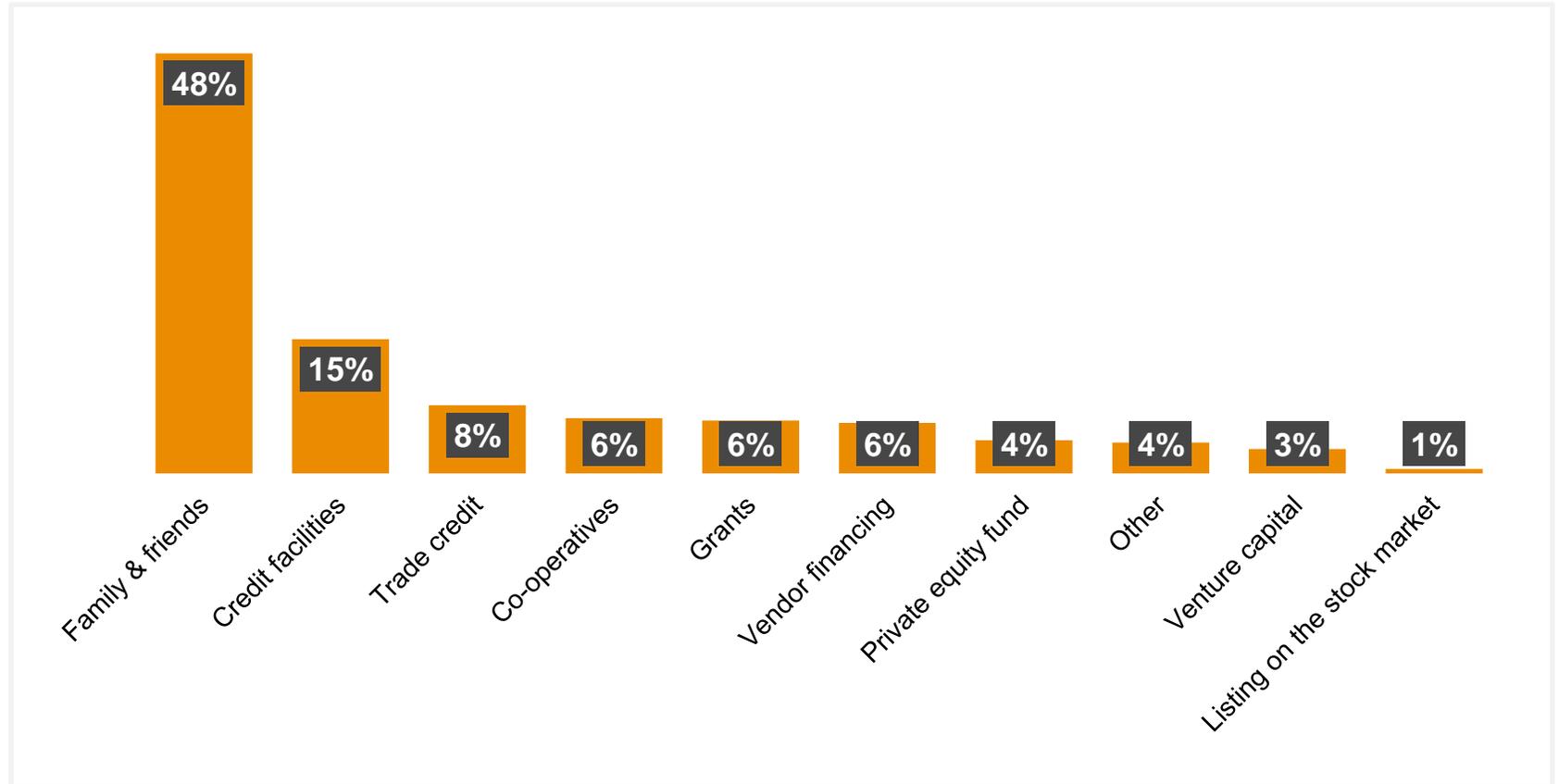
Which of the following sources of financing have you used in the last 12 months?

2020

Family & friends were the most used financing for 48% of businesses in Nigeria in the last 12 months. Findings from the NBS SMEDAN MSME survey 2019 reveal that for most enterprises – both Micro and SMEs – personal savings was the most common source of capital. Nationally, only 49.5% of SMEs (that are sole proprietorships) reported having access to bank credit.

Majority of Micro-businesses started with less than N50,000 in initial startup costs. Only 4.7% start with more than N300,000. 75% of SMEs start up with less than N10 million in capital. 6% of MSMEs however start with over N40m in capital.

We recommend the establishment of an anchor scheme that will bring together SMEs and provide capacity development and training programmes on topics such as corporate governance and having proper documentation in place to access finance. With this anchor scheme, SMEs could gain insights on global best practices and strategies for accessing finance for business growth.



Source: PwC analysis

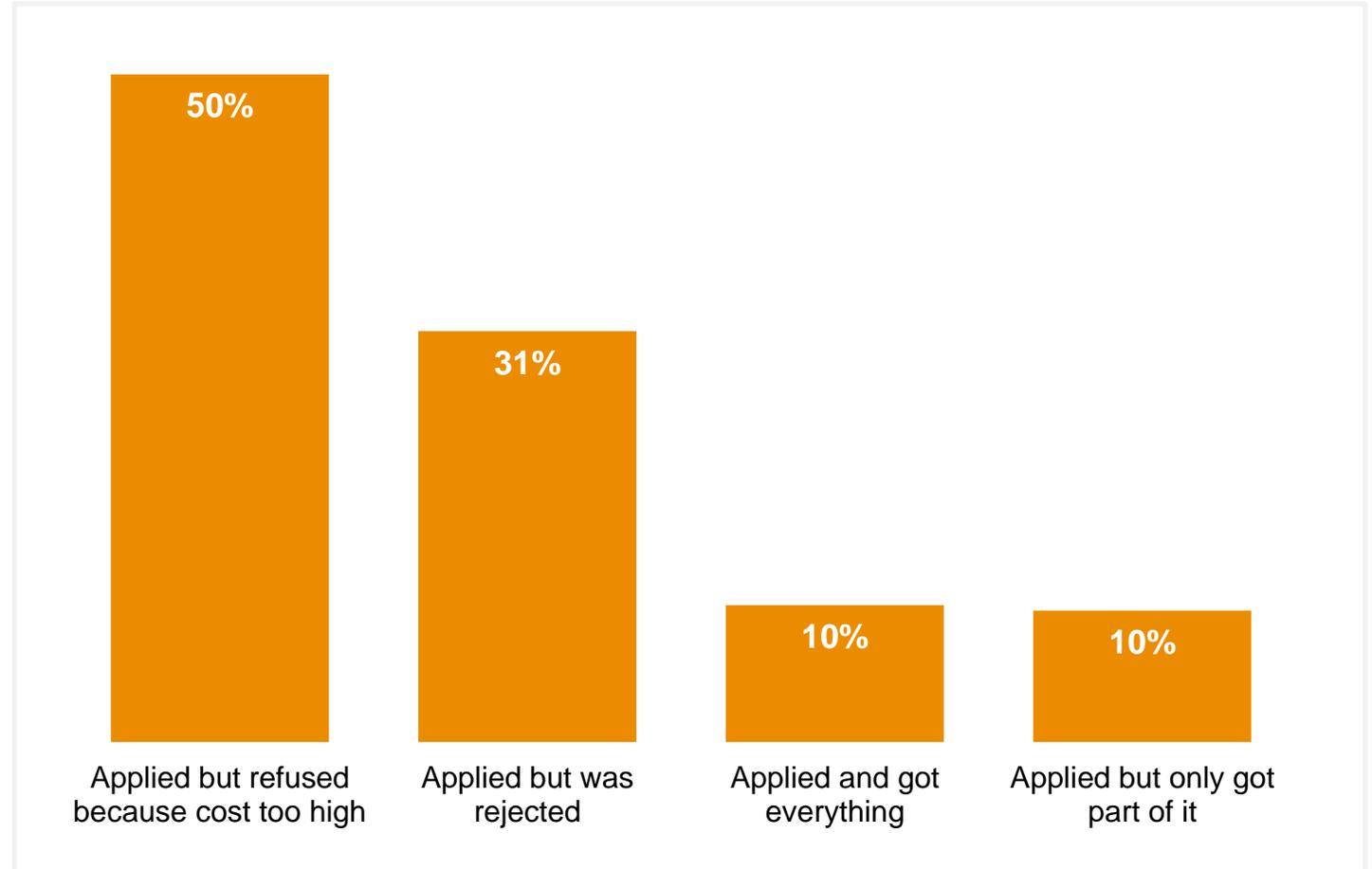
If you applied and tried to negotiate for a bank loan over the last 12 months, what was the outcome?

Half of the businesses revealed that they had applied for, and tried to negotiate for a bank loan over the last 12 months, but turned it down because the cost was too high. High cost of capital is one of the biggest costs to business operations in Nigeria.

For SMEs who had access to bank credit, commercial banks were the main source of these funds (91.9%), while 4.7% accessed credit from microfinance institutions, and 1% from development institutions.

In 2019, the CBN mandated all deposit money banks (DMBs) to maintain a loan to deposit ratio of 65%, in its bid to improve lending to the real sector of the Nigerian economy. According to the CBN, the policy has resulted in loans and advances rising by over N1.1trillion between June to October 2019. The regulator also posits that the initiative has led to a 4% drop in interest rates in the same period. Going forward, if the perceived risks in real sector are high, banks may settle for the CBN's punitive measure than embarking on significant increase in loan and advances.

Credit bureaus have a significant role to play in providing support to the banks in terms of providing information and assessment of the creditworthiness of SMEs for loan applications and disbursement. Credit bureau operations in Nigeria began in 2003. Today, there are only three national credit bureaus licensed by the Central Bank of Nigeria.



Source: PwC analysis

If you applied and tried to negotiate for a bank loan over the last 12 months, what was the outcome?

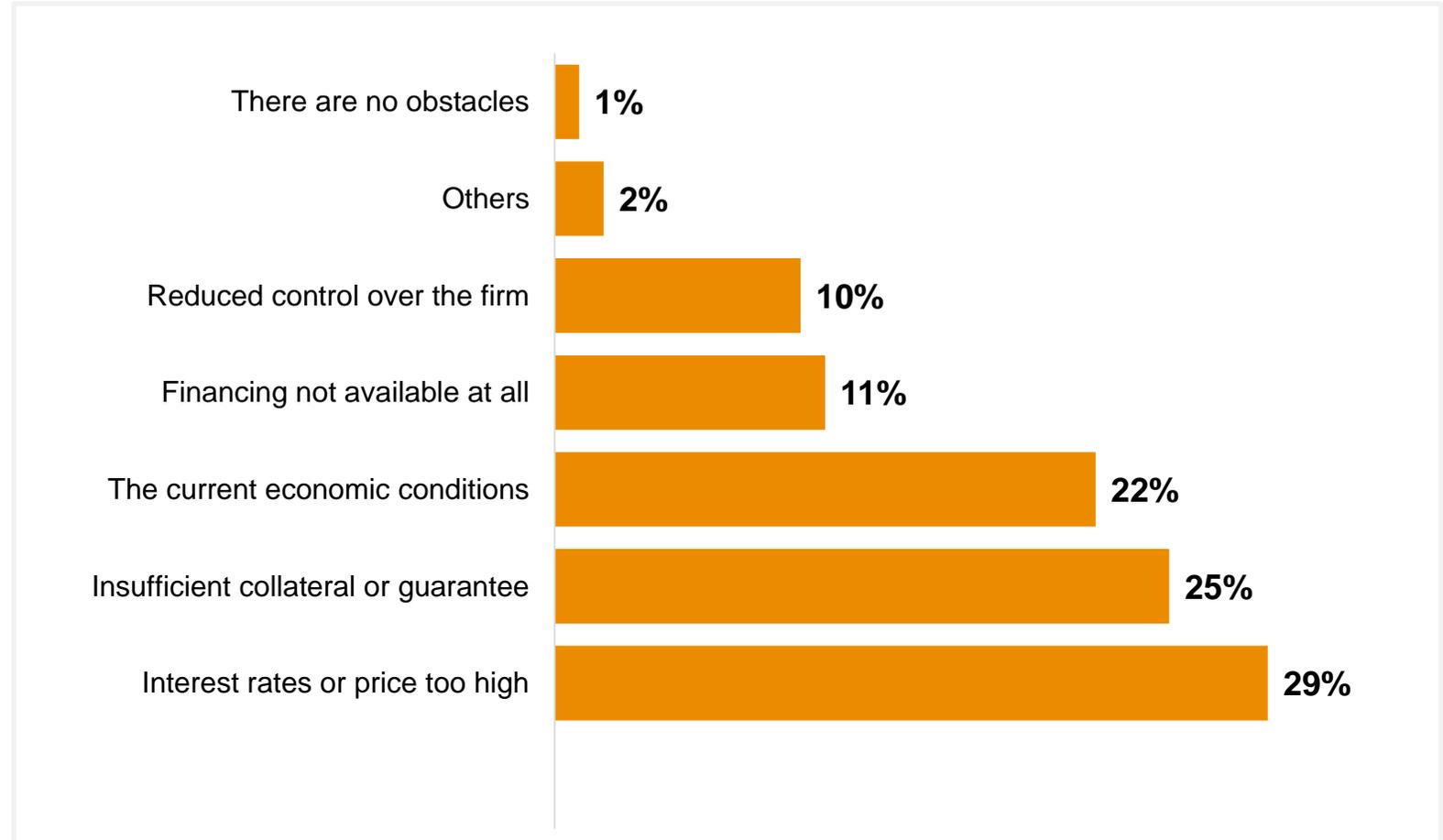
29% of businesses see the high interest rates on loan as the most important limiting factor to getting funding for working capital and expansionary activities. 25 percent cite insufficient collateral or guarantees for funding, while 22% point to the current economic conditions as the most important limiting factor.

Providing credit guarantees to SMEs will help mitigate credit risk and serve as a means to encourage MSMEs to grow. With reduced financing risks, MSMEs will be better positioned to access more loans to expand their concerns, thus stimulating business growth of small businesses, which currently consist of about 0.2% of the MSME sector.

SME Loan Guarantee Schemes (SGS) provide loan guarantee to small and medium enterprises (SMEs) to help them secure loans for working capital needs of general business uses.

The credit guarantee scheme industry is still at its nascent stage in Nigeria. The volume of guarantees and the size of the industry's contributions to the SME remain low compared to peers in other economies. Yet, the quantum of SME financing needs across the country remain high.

According to the NBS, less than 5% of SMEs have been able to access adequate finance for working capital and for funding business growth/expansion.



Source: PwC analysis



Olusegun Awolowo

"The Council's recent Zero-to-export programme won the International Trade Centre's 2018 World Trade Promotion Organization Award for "best initiative to ensure that trade is inclusive and sustainable."

What are the most important challenges to SMEs that the NEPC have noticed over time?

There are a number of challenges that SMEs face in Nigeria. Firstly, access to finance is the major challenge we witness. At interest rates of upwards of 20%, it is very hard for SMEs to access finance. They cannot get the necessary loans to scale up production. This makes it hard for them to meet local demand, let alone international demand.

Secondly, the issue of certification is another challenge. Getting the necessary certification to break into the European and North American markets is challenging and costly for SMEs. Buyers, particularly in agro-processing, will not do business unless you have the HACCP certification. NEPC is working with many SMEs to ensure their processes meet the HACCP standards with the ultimate aim of gaining the certification.

Finally, infrastructure is a key challenge for SMEs. Generators are expensive and power outages can really hurt SMEs. On top of this, regarding export, moving your goods to the port can be incredibly time consuming and costly. The Apapa port gridlock was an example of this.

How is the Council using the Export Development Fund (EDF) to help the growth of SMEs in the country?

The Council has been helping SMEs in the country in a number of ways. Our recent Zero-to-export programme, which trained SMEs all the way to the point of export, won the International Trade Centre's 2018 World Trade Promotion Organization Award for "best initiative to ensure that trade is inclusive and sustainable".

We have also sponsored SMEs to participate in trade fairs in SIAL (Paris), Gulfood (Dubai), the inaugural Intra-African trade fair (Cairo), amongst many others. We have been working with SMEs on training them on the necessary international certifications. We have an upcoming training session with the British Standards Institute, who following partnership between the NEPC and the British High Commission, are training SMEs on the necessary steps to get the HACCP certification and on entering the UK market.

Have SMEs been able to access the training, capacity building and access to finance benefits of the EDF?

Yes, many SMEs have benefitted. I have mentioned already how we are helping to train our SMEs on certification. On top of this, we have our Human Capital Development Centre in our regional office in Lagos. This facility is training many SMEs in the apparel and garment sector. This is just one of many examples, of how we are building the capacity of our SMEs.

Regarding access to finance, I delivered a presentation to the Bankers' Committee on non-oil exports in December 2018. Following discussions, the CBN governor formed a sub-committee to look at non-oil exports. Out of this has come the Export Facilitation Initiative. This gives companies access to low interest loans in five sectors: cashew, cocoa, palm oil, shea and sesame. In this way, access to finance has been improved for SMEs in these areas.

"At interest rates of upwards of 20%, it is very hard for SMEs to access finance. They cannot get the necessary loans to scale up production. This makes it hard for them to meet local demand, let alone international demand. "

How have SMEs been benefiting from pre-shipment incentives offered by NEPC?

All the activities I have described above, from sponsoring trade fair participation to training on certification, are examples of how SMEs are benefitting from the pre-shipment incentives offered by NEPC. We will continue these activities, whilst looking at others, to ensure that our SMEs are as prepared as possible to participate in the international market.

Are there any other aspects of Exports NEPC is seeking SMEs to explore and why?

We are talking to SMEs about promoting value addition in our economy. Of course, that is not to say that we want to stop exporting raw materials. But, a balancing act needs to be found. It is only through processing that we can generate higher foreign exchange. One example I often use is a cashew processing company, called FoodPro. They were previously exporting raw cashew but NEPC helped to facilitate the company with access to a Bank of Industry Loan.

Now, FoodPro produces roasted cashews that are exported to the likes of the UK and South Africa.

What other benefits and partnerships should SMEs look forward to in the near future?

We are constantly looking to improve the services we offer at NEPC. We are now using the International Trade Centre's trade tools to make more informed strategic decisions on sectors and markets. SMEs can look forward to reaping the benefits from NEPC staff using these tools. We are also continuing to form strategic partnerships with International Organizations to help promote made in Nigeria goods and services. The partnership with the British High Commission mentioned earlier is an example of this.

Olusegun Awolowo is Chief Executive Officer/Executive Director of the Nigerian Export Promotion Council (NEPC). NEPC is Nigeria's apex organisation for the promotion of non-oil exports as a key driver for the diversification of the nation's economy. He leads a team of nearly 400 staff spread across over 20 offices with the Headquarters in Abuja. Nigeria's non-oil sector is a major contributor to the nation's GDP and has even greater potential, which is the reason Mr Awolowo is driving an ambitious Zero Oil Plan as an economic blueprint for Nigeria.

Under Mr Awolowo's leadership, NEPC won the ITC's prestigious World Trade Promotion Organisation (WTPO) 2018 Award, for the Best Initiative to Ensure Trade is Inclusive and Sustainable.

Case study: DO.II Designs Limited (1/2)



Ifeyinwa Ighodalo



Overview of Business

Historical background: I started business with the founding of Design Options Ltd in 1987, an indigenous furniture manufacturing company. Twenty five years later, the company was reinvented and re-branded as DO.II Designs Ltd.

Other Information: I have flair for creativity and longstanding passion for beautiful interiors, which is what inspired me to start my business, it is the force that drives me ,and that has kept me going over the years. I discovered a gap in the market for aesthetically appealing and high-quality furniture produced to global standards.

Products & Services: We are a Nigerian based interior solutions, furniture manufacturing and retail company. We provide exquisite Furniture, Project Management, Space Planning and Complete Interior Design Services and Solutions for the corporate, hospitality and residential markets.

Other Information: We are a one-stop shop for all your space design and interior needs.

Journey so far

Size of the business:

In 2012, following the reorganization and rebranding, DO.II DESIGNS commenced operations in our 1,500-square metre factory located at Ojota, Lagos. In February 2013, we resumed operations at the 400-square metre showroom in which Design Options previously operated.

We opened our Flagship Store, The DO.II Place, 7 years later in April 2019, a 1,30-square metre, four-storey building strategically located on the leading commercial high street in Victoria Island, Lagos. The showroom is spacious, well-lit, filled with furniture and accessories and arranged in a way that inspires the clients on how the pieces can be combined and replicated in their homes.

We employ over 140 committed staff and cater to over 4,500 customers.

Recorded Milestones

- Pioneer in furniture manufacturing in Nigeria
- Recipient of the 2010 IWEC (International Women's Entrepreneurial Challenge) Award in 2010.
- The unprecedented expansion of the business with the opening of the furniture flagship store in 2019.

Major Setbacks

The sudden dissolution of Design Options Ltd, after 25 years of business, was quite a major setback for myself and my team. We immediately set to work establishing DO.II Designs, building on our collective and extensive experience in Design Options.



Issues / Problems

Production: Access to regular supply of good quality raw materials; Full maximization of the supply-chain; Standardization and seamless flow of operations; Providing low-cost power for the operation of the entire company.

Finance: Very high interest rates, and very stringent requirements make the access to funding needed to acquire modern machines, as well as the technology required to build capacity necessary for growth, quite difficult.

The Economy: The unease of doing business in an uncertain and unpredictable environment; Lack of support from regulatory bodies, insecurity and instability of the exchange rate; Unpredictable government policies.

Regulations: The issue of multiple government agencies performing similar roles, yet not providing the necessary support we require.

Taxes and other fees/charges: Multiple taxation and lack of empathy on the part of government officials in enforcing the tax laws.

Talent: High labour turnover; Inappropriately trained and inadequately qualified staff who do not really want to work; Difficulty in acquiring suitable talent for the various roles, which in turn contributes to difficulty in talent management and retention.

Technology: We need to fully automate all our processes, especially production.

What has been your responses, or the actions taken to surmount these challenges?

- 1) Use of facilities and partnering with friendly financial institution for the acquisition of the new showroom and the development of a new modern factory
- 2) Creating new products, a constant review of bill of materials to eliminate wastages, and constant improvement of quality
- 3) Adoption of practicable marketing strategies to drive revenue and growth, constant review of selling prices and effective capital budgeting approach
- 4) Adhering to regulations, constant monitoring and enforcement of Quality Control and Internal Control processes
- 5) Prompt payment and filing of all taxes
- 6) Ensuring effective talent acquisition, training and retraining of staff, regular performance and salary review, employee benefits, compensation and commendations, annual retreats and team bonding exercises.
- 7) Investment in automatic machines and the deployment of an ERP solution and CRM software.

As an SME business owner, what solutions or recommendations could you provide to overcome the peculiar challenges of operating in this environment?

Be proactive. Be knowledgeable about the business and markets. Enhance networking. Be smarter and more creative. Be professional. Provide unique quality products and services. Provide efficient customer service and after sales services. Be innovative. Ensure staff management and retention.

Key Insights and Considerations for SMEs

SMEs usually do not have access to bank loans unlike firms; they mostly rely on their own savings or cash from friends and family. According to The International Finance Corporation (IFC), 40% of formal MSMEs in developing countries, experience a finance shortage of USD5.2 trillion every year. Lending is usually dependent on the stance of the borrower's financial position, and analyzed historical data about the business.

Resources SMEs need to secure funding;

Proper documentation:

Most funding institutions request the cashflow history of businesses being considered for funding. SMEs seeking funding should produce audited financial statements that reveal credible financial information.

Financial statements and projections for the business;

Financial statements are major requirements when looking to secure a loan, this makes it paramount for firms to keep a proper and standard documentation of their transactions.

Collateral to secure loan;

It is important to have a secured, valuable (as valuable as loan requested) property for use as collateral, with the value of the property remaining valid through the loan period.

Use of technology for documentation

Companies may use tools such as excel sheets, Power BI, cash flow budget worksheet and other technologies to make cashflow projections easier and faster ,this provides readily available documentation at any given opportunity .

Good reputation:

A borrowing firm should ensure that they have good reputation in the business environment, prior relationship with the lender if possible, good historical records, and show of commitment to social responsibilities.

Some alternative financing instruments are:

- Debt securities
- Peer-to peer lending
- Equity
- Bank overdraft
- Asset-based lending
- Leasing
- Corporate Bonds
- Securitized Debt
- Factoring
- Crowdfunding (debt or equity)

Some financing institutions are;

- Bank of Industry (BOI)
- Nigerian Bank for Commerce and Industry (NBCI)
- Nigerian Industrial Development Bank (NIDB)
- Nigerian Agricultural and Co-operative Bank (NACB)
- World Bank Loan Scheme for SMEs managed by CBN and the African Development Bank (ADB)
- Development Bank of Nigeria

Source: World Bank, OECD, PwC research



PwC's SME Desk

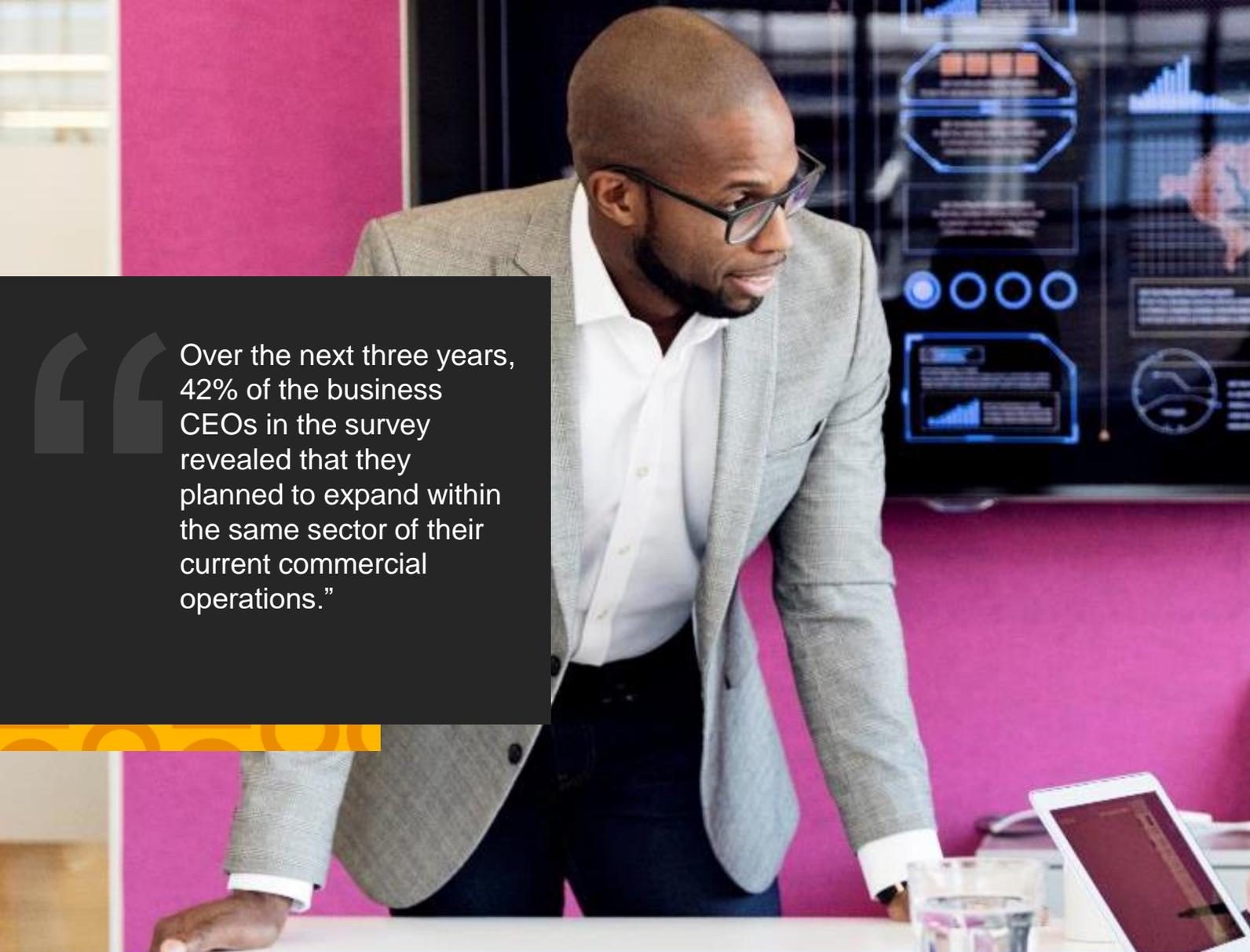
Helping small businesses grow



For more information, click



<https://www.pwc.com/ng/en/services/sme-helpdesk.html>

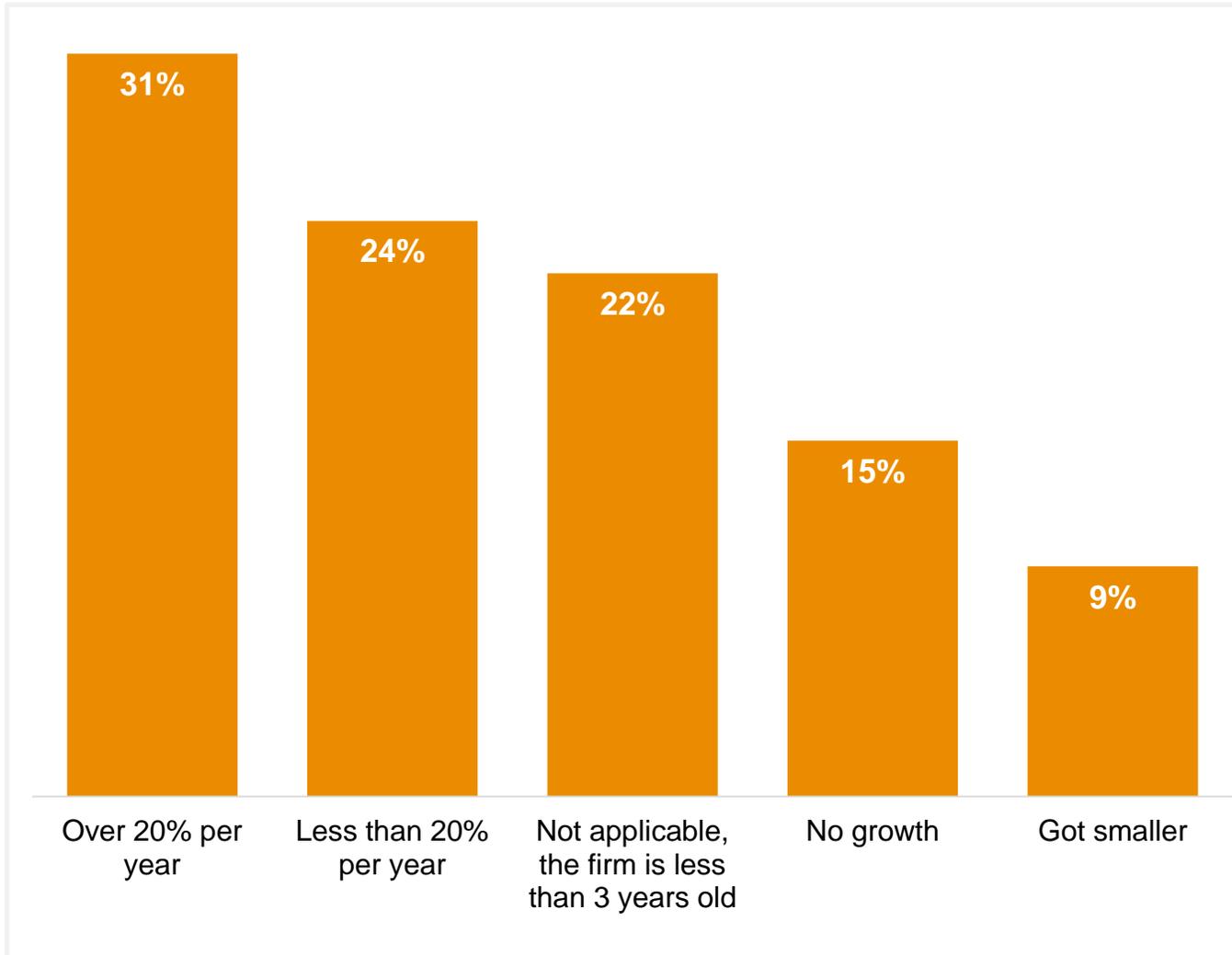


Over the next three years, 42% of the business CEOs in the survey revealed that they planned to expand within the same sector of their current commercial operations.”

05

Growth and obstacles to growth

Over the last three years, how much did your firm grow on average per year?



Source: PwC analysis

PwC MSME Survey 2020

PwC

31% of the businesses revealed that their firm had grown by over 20% per year over the last three years. The findings are interesting given that Nigeria was coming out of the 2016 recession. 15% posited that they had experienced no growth during the three years with 9% claiming their businesses had gotten smaller.

The Nigerian economy exited an economic recession in the second quarter of 2017. Since then, the country's quarterly growth has hovered between 1 to 3%. The low growth of the economy could be responsible for the low percentage of businesses that experienced average business growth of over 20% in the last three years.

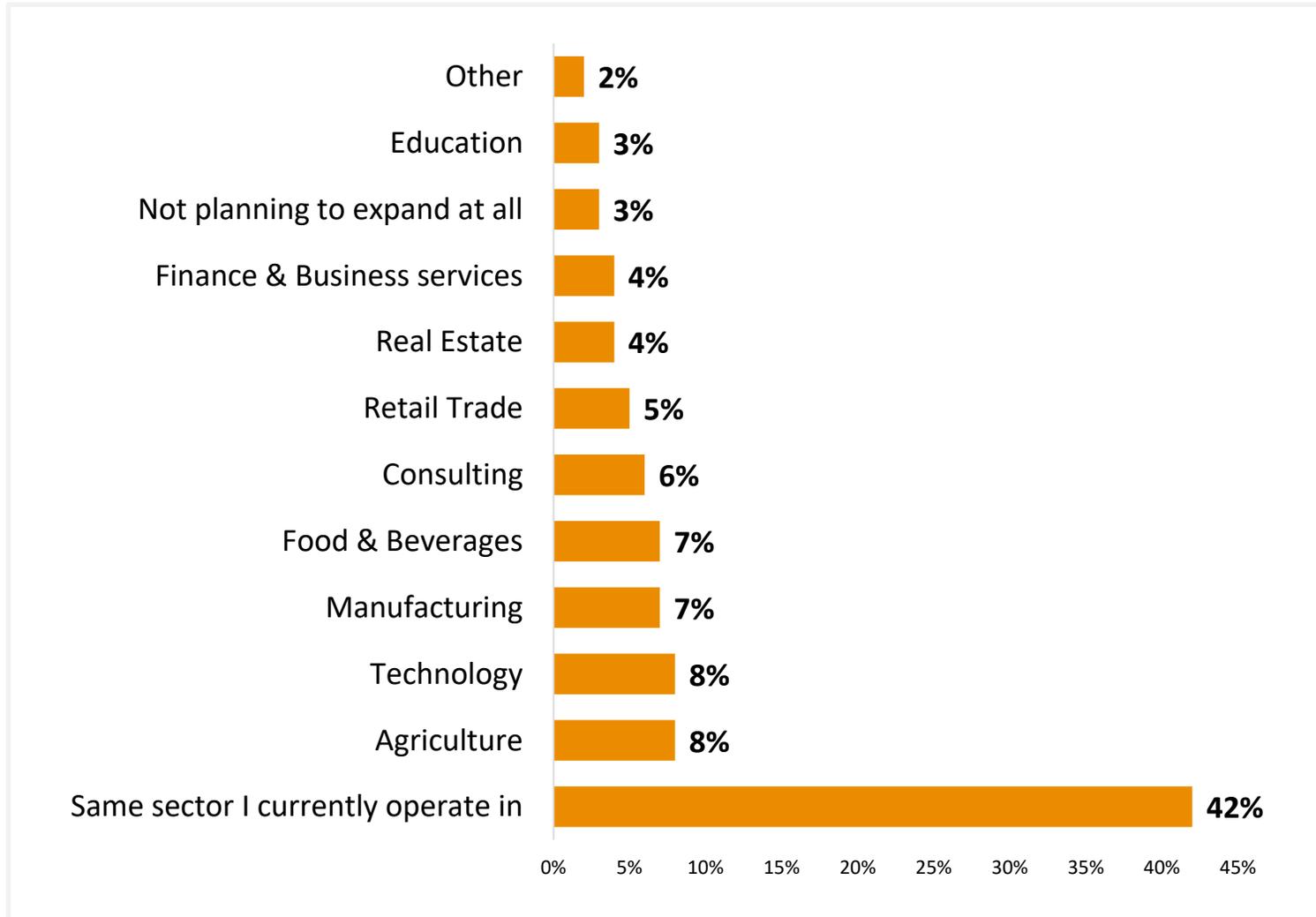
The challenging business environment could also be attributed for this growth trend. According to an SME report by the NBS and SMEDAN, high electricity tariff, high taxes, and high interest rates are top unfavourable policies for SMEs.

These challenges combined coupled with the double-digit inflation rate impacting prices of inputs and products, has impacted the growth of businesses in the economy.

Nigeria now ranks 131 on the World Bank's Doing Business 2020 index, released Wednesday. The country moved up 15 places from its 2019 spot and has been adjudged as one of the most improved economies in the world. Despite this improvement, there is more work to be done to improve the business environment and remove structural barriers to growth for the MSME sector.

If you're planning to expand, what sector would you like to expand into (over the next 3 years)?

2020



Businesses continue to explore backward and forward integration opportunities within their industry value-chain, as well as research on strategies for widening their product and service portfolio going forward. When asked about growth plans for the next three years, a lot more respondents (42%) revealed that they planned to grow by expanding within the same sector of their current commercial operations. The SMEs willing to expand within their sector reflect their belief in the potential for growth within their core operations and capabilities.

The remaining 56% revealed that they were planning to expand across other sectors that comprised: Agriculture (8%), Technology (8%), Manufacturing (7%), Food & Beverages (7%), Consulting (6%), Retail trade (5%), Real estate (4%), Finance & business services (4%), Education (3%).

About 2% of businesses surveyed stated that they weren't planning on expanding at all in the period under review.

Source: PwC analysis

PwC MSME Survey 2020

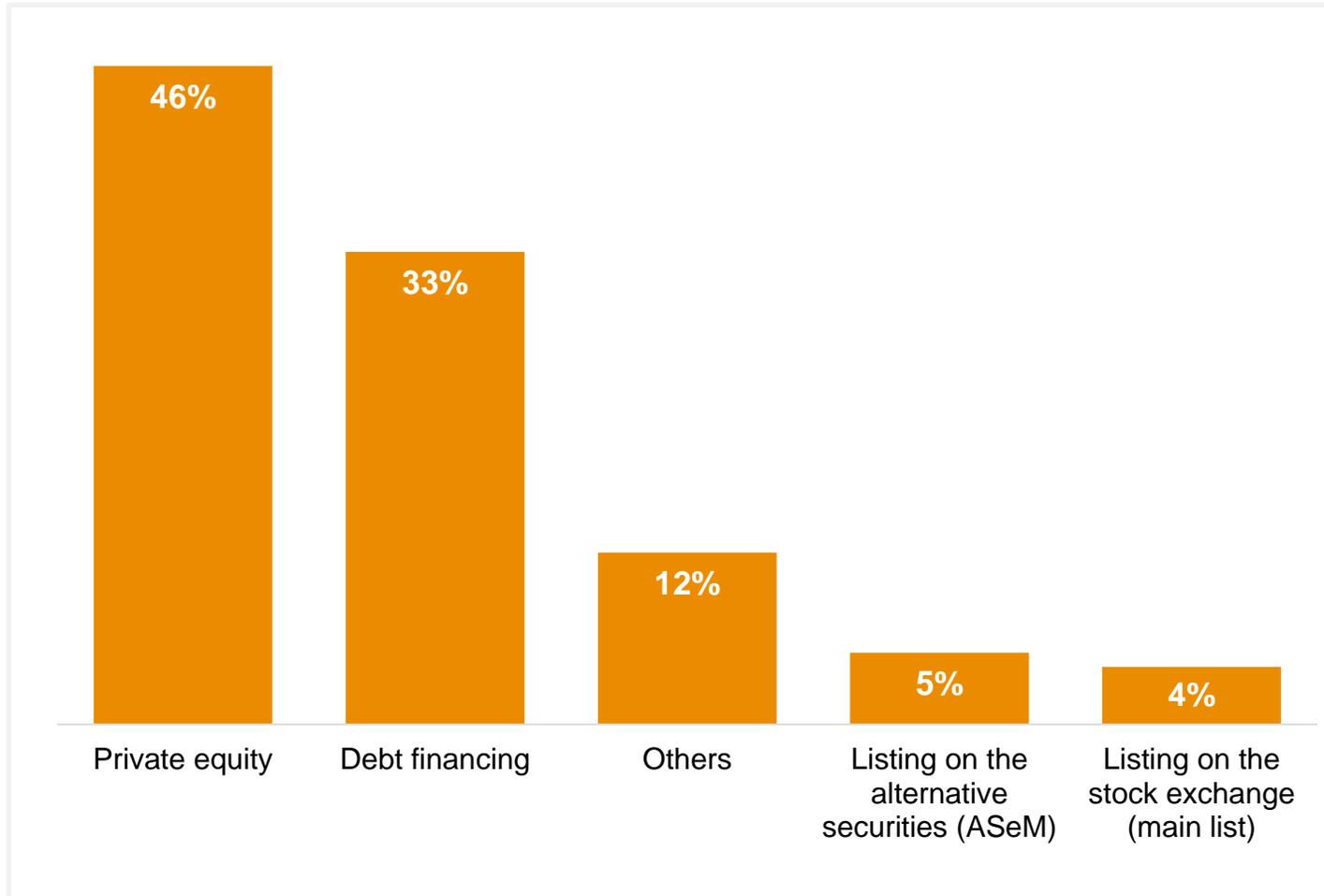
PwC

June 2020

45

If you need funding to realise your growth ambitions, what type of funding would you prefer most?

PwC



Source: PwC analysis

46% of the businesses surveyed pointed to private equity (PE) as the type of funding they would need the most to realise their growth ambitions. This finding corresponds with PwC's family business survey conducted in 2018, where 39% of family business owners revealed that they were considering PE investments, within the next 1 to 2 years.

PwC has over 160 years' experience in advising businesses and PE firms across regions. Research from PwC in 2018 estimated that traditional assets under management (AuM) in 12 markets across Africa was likely to be quintuple their value by 2020, from a 2008 total of USD293 billion. This represents a compound annual growth rate (CAGR) of nearly 9.6%.





Adeyemi Folorunsho

"SMEs would be able to enjoy economies of scale when they conduct business within clusters. There would be an interlinkage of business activities and moving goods from one stage of production to the next would be more connected."

What are the top three challenges you face dealing with SME's in the Manufacturing sector?

- Funding (especially for procurement of technology)
- Structure governance / succession
- Interwoven problem of expansion (Internal & External Challenges)

What current policy do you envisage could have a negative impact on SMEs in the Manufacturing sector?

- Multiplicity of regulation: Currently, there are too many regulations for SMEs to handle
- The government is expanding tax burden instead of the tax net. It is difficult for SMEs to survive without support from the state.

What current policy do you envisage could have a positive impact on SMEs in the Manufacturing sector?

Liberalisation of the financial market like DBN, BOI to accommodate easy access to funds by providing lower interest rates. Also, venture capitalists are coming in to provide loans with single digit interest rates. This would have a positive impact on SMEs

Establishment of Industrial clusters or zones. SMEs would be able to enjoy economies of scale when they conduct business within clusters. There would be an interlinkage of business activities and moving goods from one stage of production to the next would be more connected.

What area of research is needed to support the SMEs in the manufacturing sector?

- Product Quality
- Packaging raw materials for innovation especially in the Food and Agricultural processing sector
- Process manufacturing: It would add value, create employment and increase turnover
- Quality Assurance

What benefits and partnerships should SMEs in the manufacturing sector look forward to in the near future?

- Area of marketing research
- Partnership of Technology: SMEs would benefit from improved product quality and there would be technology transfer and acquisition
- Partnerships with organizations that will expose them to international markets

Case study: IBBA 36 Global Concept



Engineer Ibrahim Balami

Overview of Business

Historical background: IBBA 36 Global Concept was established in September 2001, when I finished my secondary education. I officially registered the company on March 23rd, 2013, after realizing that I would not make much progress running an unregistered business.

Inspiration: My Inspiration for starting my business was the need I saw around me then. I was always going to the small kiosk to buy sugar for home use and I see the shop owner struggling to tie the sugar in plastic bags and still trying to attend to his customers. I also noticed the unhygienic conditions in which the sugar was being packaged, so I decided to start my sugar packaging business. I have not looked back since then.

Products & Services: I currently run a flour mill where we produce semolina and wheat grits, provide engineering Services and machine fabrication for food processing as well, and also operate a corporate cleaning and janitorial service.

"The Insurgency that ravaged the North-east adversely affected the business."

Journey so far	Recorded Milestones	Major Setbacks	Issues / Problems
<p>Size of the business: my business has grown from just one business in my house to 4 branches in various locations</p> <p>Number of employees: we have a total of 18 staff members</p> <p>Location: we are located in Maiduguri, the Borno State Capital</p>	<ul style="list-style-type: none"> I was able to expand my business from my house to a head office building from where we run our affairs. I was able to expand my flour mill from less than 500kg-capacity a day to 4.6-tonne capacity per day. 	<ul style="list-style-type: none"> The Insurgency that ravaged the North-east adversely affected the business. A failed contract I did for a state government agency here, where I lost a huge amount of money. 	<p>Production: Unstable prices of raw materials is one of the major problems we have. There is no price control on raw materials.</p> <p>Finance: it is difficult to access finance from the financial houses,.</p> <p>The Economy: the unstable economy has had serious effect on our business, especially in the engineering section, as we have to import some of the materials we use, and it is impossible to get the official exchange rate.</p> <p>Talent: it is actually difficult to get the right human resources to work with, most of the time you have to train them and when they become skillful, they leave.</p>
			<p>What solutions or recommendations could you provide to overcome the peculiar challenges of operating in this environment? They solution is for all business owners to be resilient, and find a way around their challenges.</p> <p>What stakeholders needed to act upon, or provide these solutions, and what they need to do: We need the government as critical stakeholders to improve the economic policies so that it can favour small businesses, and CBN should make the financial institutions give a certain percentage of loans to SME.</p>

Potential obstacles to growth for SMEs and solutions



Lack of access to finance and credit sources

- ✓ Seek cheaper low-cost funds such as grants, low-interest loans, micro-credit, etc.
- ✓ Partner or collaborate with larger firms for support and growth
- ✓ Seek solutions from business advisory experts

Technology disruption

- ✓ Stay up to date with recent technology developments
- ✓ Always incorporate new technology into business systems
- ✓ Be quick-thinking and innovative

Multiple taxes and levies

- ✓ Seek advice from tax experts
- ✓ Disintegrate units of business to reduce taxation
- ✓ Accurate financial records of operating losses to claim tax credit

Inadequate record keeping

- ✓ Use technology tools for data entry and storage
- ✓ Follow standard financial reporting procedures
- ✓ Seek help from audit and financial professionals
- ✓ Train staff on proper financial reporting skills

Instability of raw material prices

- ✓ Buy materials in larger quantities to cut costs
- ✓ Maintain relationship with suppliers for discounted prices
- ✓ Make adequate research on cheaper sources of quality materials

Small customer base

- ✓ Expand business scope to increase customer base
- ✓ Strengthen digital presence and enhance social media footprint
- ✓ Engage the help of business advisers to increase market share.
- ✓ Give incentives to customers

PwC analysis



Women's economic empowerment boosts productivity, increases economic diversification and income equality in addition to other positive development outcomes."

06

Women in business



Olubunmi Aboderin-Talabi

"The stress of trying to get compliant and stay compliant, plus the constant bombardment of tax officials is a significant deterrent to moving from the informal to the formal sector."

Please enlighten us on the role of WIMBIZ?

WIMBIZ is an organisation that recognises the vital role that women play in society and inspires them to do better as professionals whether they are in careers or running their own businesses. At WIMBIZ we implement programs that seek to inspire, empower, connect, and advocate for greater representation of women in leadership positions both in the public and private sector. WIMBIZ now has a contributory associate pool of 679 accomplished women and more than 9,500 women on its database. We regularly collaborate with credible local and multinational organisations to deliver programs, which have, on aggregate, directly influenced over 107,465 women since inception. WIMBIZ has 18 programs and events, mostly annual, that train or support women on boards, women in public service and women in business.

What are the issues and challenges faced by female-owned businesses in WIMBIZ?

Female-owned businesses face issues such as limited access to funding; hidden fees; a narrower pool for mentorship; lack of sponsorship; challenges with family support and in some cases, undue intimidation; threats of violence; or social stigma.

Women also carry the larger chunk of the burden of care, irrespective of their comparative income-earning power. These are all in addition to the general challenges of doing business in this environment, such as unstable power supply; fragile infrastructure and multiple taxation and so on, which all entrepreneurs, irrespective of gender, have to tackle.

It is estimated that 40% of Nigerian entrepreneurs are women (one of the highest rates in the world) but approximately 23% of enterprises are in the formal sector. What, in your view, can be done to move or bring in more women-owned businesses out of the informal into the formal sector in Nigeria?

To encourage more women-owned businesses to migrate into the formal sector, we would need to improve on the ease of doing business and make it attractive for small businesses to register and operate formally. As it is now, some entrepreneurs who try to do things the right way justifiably feel as though they are being unduly penalised for their probity. There are no less than nine different types of taxes and levies that registered businesses have to contend with every year. It is not unknown for companies, (even those with a strong track record of paying the correct amount of taxes when due), to be visited repeatedly by tax representatives of local, state and federal authorities. Sometimes staff from multiple or clashing departments of these agencies show up. The stress of trying to get compliant and stay compliant, plus the constant bombardment of tax officials is a significant deterrent to moving from the informal to the formal sector.

Olubunmi Aboderin Talabi is an author; the publisher of Clever Clogs Books; and the convener of the Akada Children's Book Festival. She is passionate about creating visually-engaging, culturally-relevant content for children, and has a desire to see steadily increasing literacy rates across the world.

She started her publishing career working in a family newspaper business, Punch Nigeria Limited. She has served on the board of Punch for over 24 years and worked in an executive capacity for 8 years as the Executive Director, Business Development and New Projects. Olubunmi is currently a Non-Executive Director at Punch (www.punchng.com)

Benefits of women to economic empowerment...

- **Empowering women in the economy and closing gender gaps in the world of work are key to achieving the 2030 Agenda for Sustainable Development** and achieving the Sustainable Development Goals, particularly Goal 5, to achieve gender equality, and Goal 8, to promote full and productive employment and decent work for all; also Goal 1 on ending poverty, Goal 2 on food security, Goal 3 on ensuring health and Goal 10 on reducing inequalities.
- **When more women work, economies grow.** Women's economic empowerment boosts productivity, increases economic diversification and income equality in addition to other positive development outcomes. For example, increasing the

female employment rates in OECD countries to match that of Sweden, could boost GDP by over USUSD6 trillion, recognizing, however, that growth does not automatically lead to a reduction in gender-based inequality. Conversely, it is estimated that gender gaps cost the economy some 15% of GDP.

- **Increasing women's and girls' educational attainment contributes to women's economic empowerment and more inclusive economic growth.** Increased educational attainment accounts for about 50% of the economic growth in OECD countries over the past 50 years. But, for the majority of women, significant gains in education have not translated into better labour market outcomes.

- **Assessment of Nigeria on the World Bank's gender gap index.** Nigeria has remained within the 100th and 130th position out of 153 countries, over the last 10 years (2010 – 2019), reflecting low level of gender equality compared to peers. By 2019, the country ranked 128th in the world and 27th in Africa out of 153 countries (and 53 in Africa) surveyed. It is expected that the overall global gender gap will close in 99.5 years.
- **On average, the country has not improved in closing the gender equality gap** and has remained within the 60 to 63% score-line for the last decade. Furthermore, the country ranked below peers such as Brazil (69%), India (66%), China (67%) and Mexico (75%).



<https://www.unwomen.org/en/what-we-do/economic-empowerment/facts-and-figures#notes>

Gender parity in the corporate sector is a global challenge and Nigeria is not an exception to this...

PwC

Women make up about 49% of the Nigerian population and nearly one out of four women in sub-Saharan Africa is a Nigerian.

Nigerian women account for about 41% ownership of micro-businesses in the country, placing Nigeria among the highest entrepreneurship rates globally

There are 23 million female entrepreneurs operating in the micro-business segment in the country

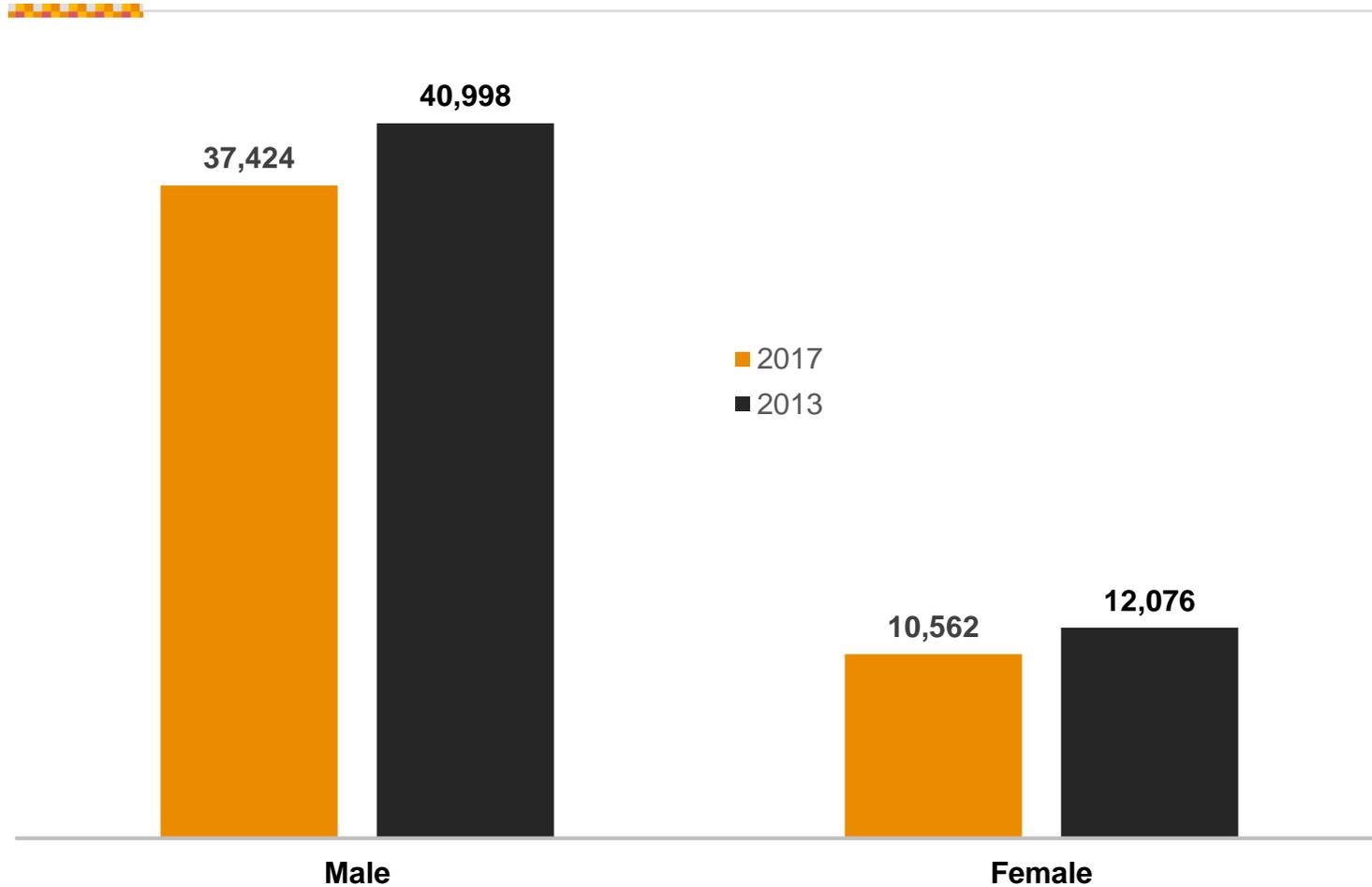
Women own 20% of enterprises in the formal sector, and about 12% of the Directors on corporate boards of directors are women

Nigeria ranked 128th out of 153 countries and 27th out of 53 countries in Africa, on the World Bank's Global Gender Gap Index 2020

Source: PwC research

Women participate in the economy primarily through entrepreneurial businesses.

SME Ownership (Sole Proprietorship) by Gender 2017 and 2013 by Sex and Economic Sector



Source: SMEDAN-NBS MSME report

Nigeria's population estimates is almost evenly split between the male and female members of society. Yet, Nigeria ranked 128th out of 153 countries and 27th out of 53 countries in Africa, on the World Bank's Global Gender Gap Index 2020 – which implies that the country still has a way to go to attaining gender equality and equal representation for women.

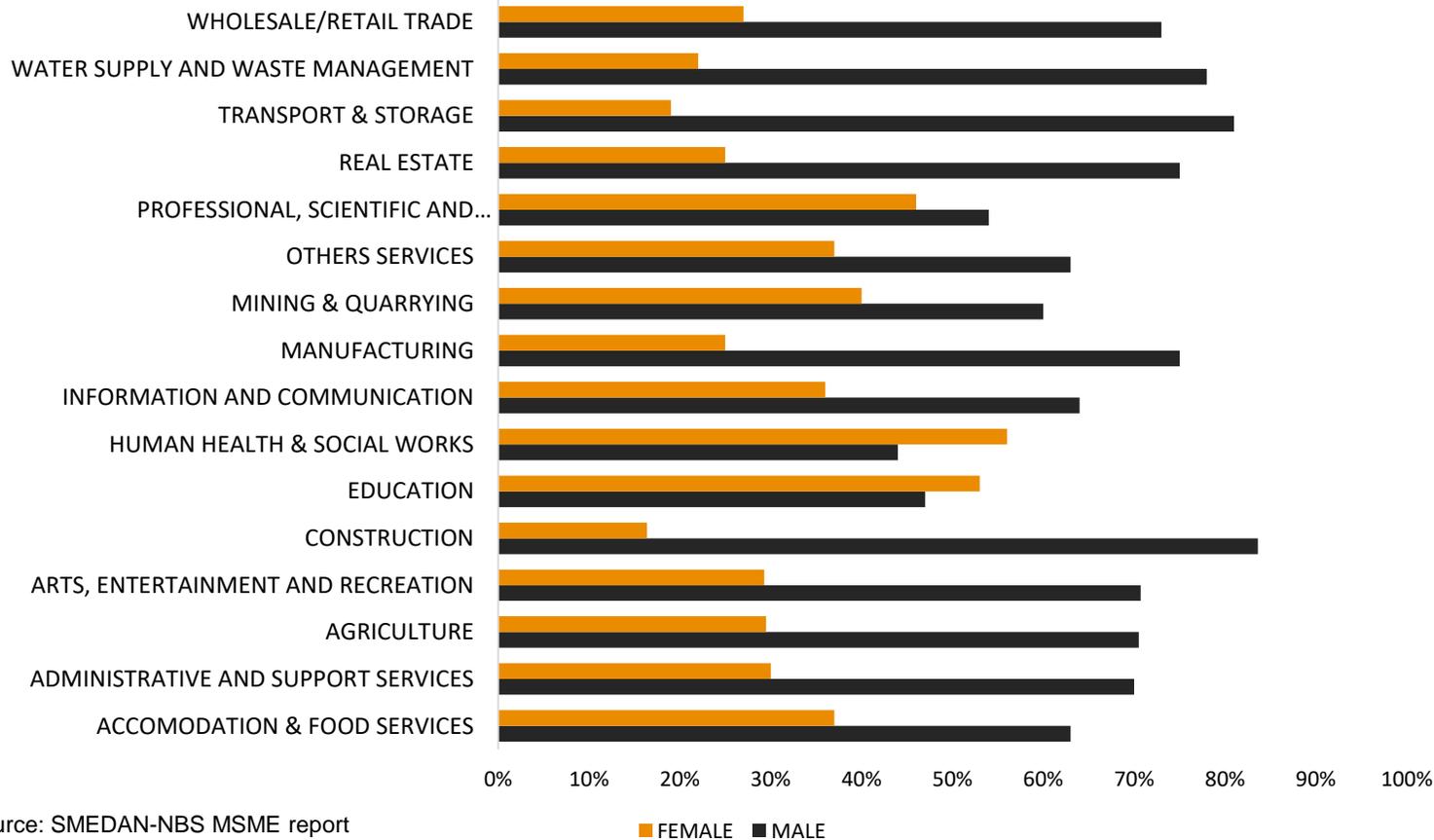
The chart here shows the representation of male and female ownership of SMEs in Nigeria in 2013 and 2017. From the chart, we can see that the male SME owners outnumber their female counterparts at a ratio of 3:1.

Also, the female-owned SMEs declined by 13% between 2013 and 2017 (the male-owned SMEs dropped too by 9%).

The drop in SMEs could be attributed to the economic challenges brought on by the recession and the consequent slow economic recovery.

The only sectors where women in Nigeria have almost equal or marginally higher representation than their male counterparts, in terms of employment, are the Education (53%) and Health & Social work (56%) sectors.

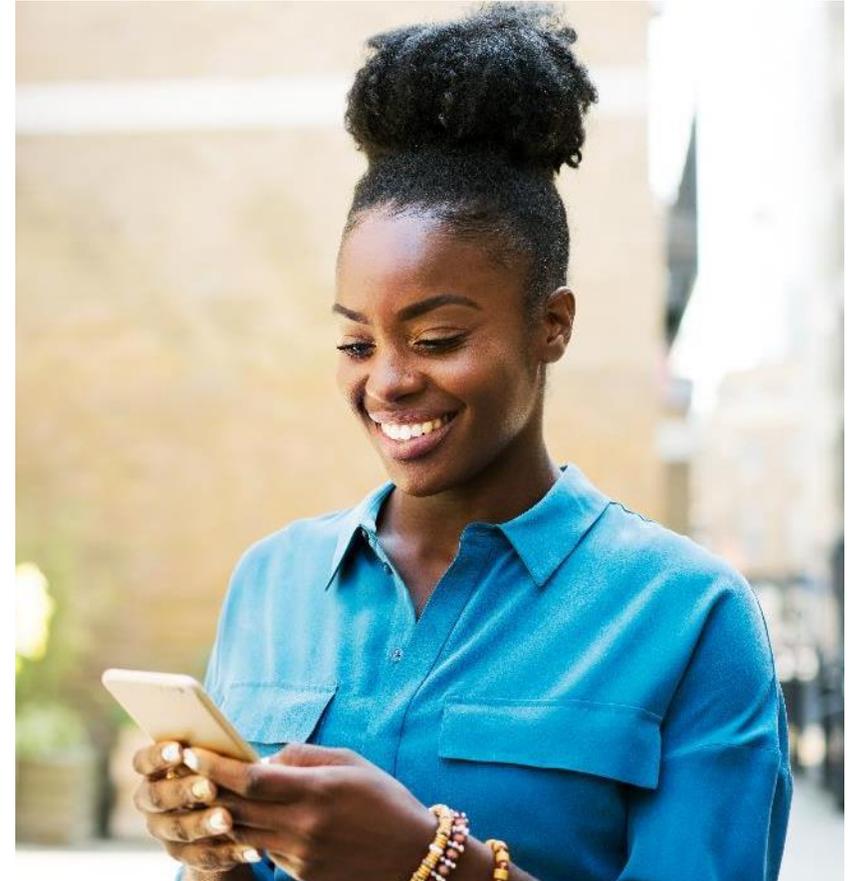
EMPLOYMENT BY SECTOR



Source: SMEDAN-NBS MSME report

PwC MSME Survey 2020

PwC



June 2020

Key Insights and Considerations for SMEs



Studies show that women entrepreneurs are more likely to face challenges in upscaling businesses than their male counterparts. Globally, studies show that 65% of men have an account at a formal financial institution compared to 58% of women. Women business owners in male dominated industries also have to defy social expectations and work very hard to be taken seriously. This makes it challenging for women to access the financial support they need to sustain their businesses.

In order to help tackle financial inclusion of women, organizations like the Bank of Industry have special funds targeted at women. In addition, some commercial banks also have special credit programmes and initiatives aimed at providing support, capacity development and funding to women-owned businesses.

The Ninety Million Naira Business Development Fund for Women (BUDFOW) is another special fund by the Federal Ministry of Women Affairs and Social Development (FMWASD), the goal of this fund is to provide soft loans to women entrepreneurs. Globally, Goldman Sachs 10,000 Women is an initiative that fosters economic growth by providing women entrepreneurs around the world with a business and management education, mentoring and networking, and access to capital.

Support networks like Women in Management, Business and Public Service (WIMBIZ) can be a powerful tool in empowering women through these challenges and connecting women with one another for knowledge sharing and support.

<https://www.pwc.com/ng/en/assets/pdf/impact-of-women-nigeria-economy.pdf>





“

Factoring is a viable solution to the financing challenge caused by payment delays. PwC estimates that factoring could unlock USUSD1 to USUSD2 billion per annum in financing to MSMEs”

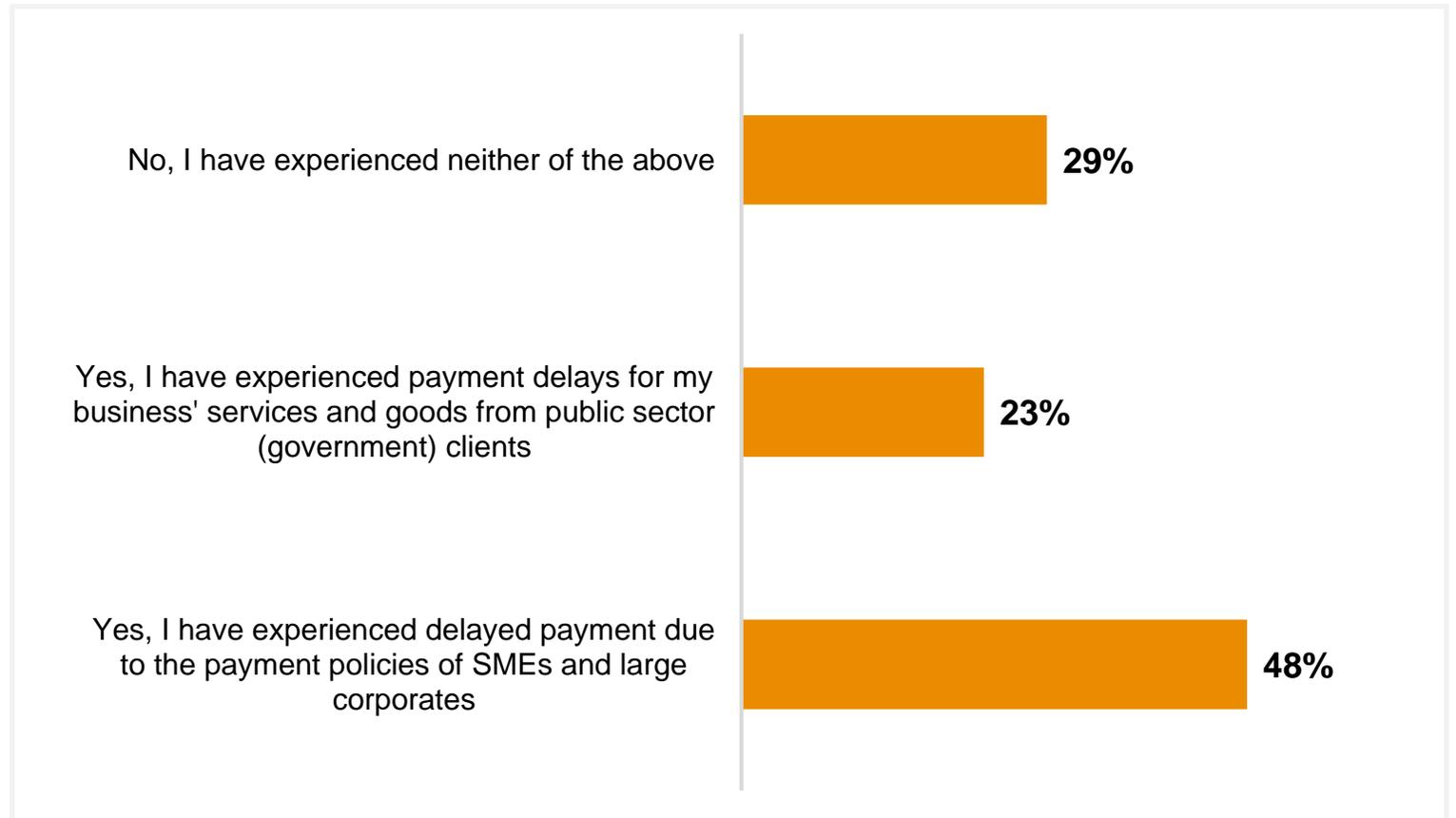
07

Payment policies

Have you experienced payment delays on contract delivered to public sector clients/larger corporates?

In terms of payment policies, nearly 50% of businesses state that they have experienced delay in payment for services rendered or goods delivered to public sector clients/well-established SMEs and large corporates. Though 43% of these businesses state that these payment delays last for less than 30 days, 33% reveal that it still has a severe impact on their cash-flows and revenues.

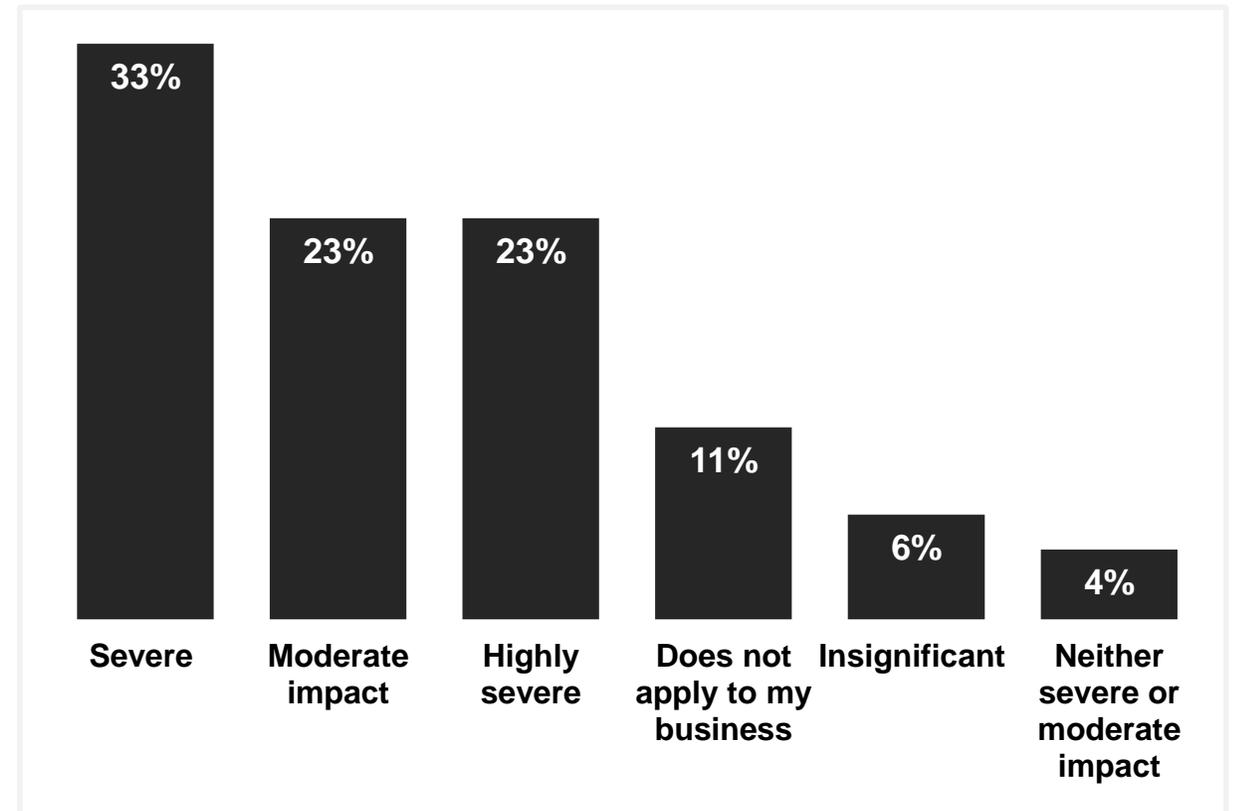
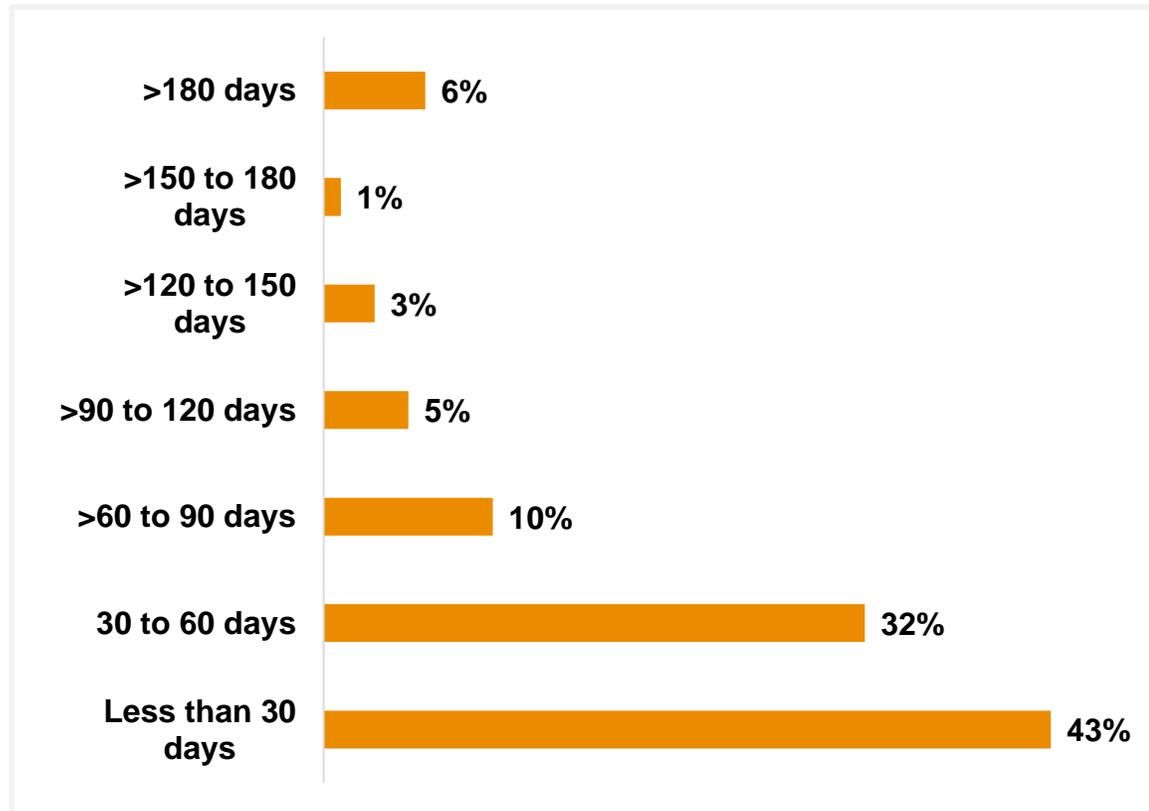
According to PwC's paper titled: "*Factoring*" the Gap: *Improving access to Working Capital for SMEs*", factoring is a viable solution to the financing challenge caused by payment delays. Factoring eliminates the 30 to 60-day period lost to waiting for customers to pay their debts or payables. Furthermore, it removes the costs to MSMEs and eliminates the risks of bad debt. In Nigeria, factoring is still in its infancy, but PwC estimates that factoring could unlock USD1 to 2 billion per annum in financing to MSMEs.



Payment policies

By how many days (on average) are these delay(s) in payment for products/services by private sector clients and customers?

What has been the level of impact on your cash-flows and revenues as a result of the payment delays?



Source: PwC analysis

Key Insights and Considerations for SMEs

75 percent of the businesses revealed that they experienced <30 to 60 days of payment delays from private clients and customers for products and services they rendered. As a result, 33% of businesses revealed that the impact on their cash flows was severe; while 23% stated that the impact was highly severe. One major challenge SMEs face is maintaining a healthy cashflow. Many SMEs offer flexible payment policies to encourage sales. However, some of these policies are not always in favour of these businesses. For example, it is not uncommon for SMEs to wait months to receive payment for products or services rendered. Grants, funds, loans and credit guarantee schemes can help SMEs maintain cash liquidity while they wait for payments.



Grants / Funds

Lagos State Entrepreneurs Trust Fund, The GroFin Fund, the Bank of Industry, YouWin Connect Nigeria and Tony Elumelu Entrepreneurship Programme are just a few avenues for SMEs to access funding for working capital and cashflow needs.



Low Interest Rate Loans

There are some low-interest rate loans that are also available for SMEs. For instance, the Federal Government of Nigeria launched an initiative to provide subsidised loans to MSMEs at a single-digit all-inclusive interest rate. These loans caters to applications received from SMEDAN under the National Enterprise Development Programme (NEDEP) Scheme.



Credit Guarantee Schemes

Credit Guarantee Schemes make it easier for medium-sized and small firms to borrow substantial amount of money. As an example, the Central Bank of Nigeria has established a Two Hundred Billion Naira Small and Medium Enterprises Credit Guarantee Scheme (SMECGS) to promote access to credit by SMEs in Nigeria.



Strategy

SMEs can also to be strategic with their purchase orders by ensuring that payments from customers are provided as soon as they are due; and that these payments come in at different times or scheduling periods to ensure cash liquidity. SMEs can also insist on receiving a deposit before delivery of products and services.



Engr. Auwal Ibrahim Bununu

"There are some policies which contradict the development of SMEs. An example is the local content policy which calls for patronage of local products and services, but public procurement laws set rules to make it difficult for SMEs to be eligible."

What are the top three challenges you face dealing with SMEs generally?

- SMEs are largely informal. This accounts for their lack of compliance with regulatory requirements while making it difficult for regulatory agencies to monitor their activities. SMEs are also unable to get licenses when required or have systems in place for adequate keeping of financial and audit records etc.
- Lack of Technical and Managerial skills, Technology and Innovation.
- Poor Quality of Products and Services: Some products and services are below market requirements. This has made it difficult for SMEs to access finance and large markets within and outside Nigeria.

What current policy do you envisage could have a negative impact on SMEs?

Some economic policies do not provide enabling environment for the growth of SMEs. There are some policies which contradict the development of SMEs. An example is the local content policy which calls for patronage of local products and services, but public procurement laws set rules (such as turnover, previous works executed) to make it difficult for SMEs to be eligible. Even an SME which has the turnover and experience may not be eligible for the big projects because of the nature of the current procurement laws

What current policy do you envisage could have positive impact on SMEs?

Open Government Policy: It is good to see that the Government operates an open policy (government processes and payments for procurement of regulatory licenses are now more open). This has a positive impact by encouraging transparency and eliminating corruption.

What area of research is needed to support the SMEs in Nigeria

There are three areas of research that will assist the growth of SMEs

- Financial Research: This will assist in identifying the causes of lack of finance and models that would ease the problem of access to finance.
- Reverse Engineering Research and Product Development: This will assist to develop and process local raw materials in order to make them available for SMEs.
- Market Integration Research: It also important to know how to Integrate MSMEs into production lines and international trade. This will help MSMEs utilise Foreign Direct Investment which will create jobs and diversify the economy

What benefits and partnerships should SMEs and NASME look forward to in the near future?

There is the need for strategic and sustainable public private partnerships in the implementation of plans towards economic diversification, sustainable job creation, poverty alleviation, infrastructure, trade and industrial development, youth and women empowerment policies and programs.

NASME is strongly engaging with the public sector on Public Private Dialogue on the above, in order to build a necessary framework for the Public private partnerships to address the above mentioned.

Engr. Anuwal Ibrahim Bununu is the National Vice president, North Central, NASME. He has been with NASME since its inception in 1996. He was born in 1964 and holds a Bachelor of Engineering degree. He has worked at both State and Federal levels and held the office of Special Adviser to the Bauchi State Governor on Rural Development from 2001-2007.

He is involved in advocacy, policy formulation and implementation on Rural Development, Small and Medium Enterprises, Infrastructure like water Road, Power, Environment and Solid Minerals and Agricultural commodity processing.



Case study: The Pottersland School (1 of 2)



Oyebusola Olanubi
The Pottersland School

Overview of Business

Historical background: The Pottersland School was incorporated on September 7, 2015 and commenced operations on January 4, 2016 with 2 primary pupils and 3 teachers.

Inspiration: As a child of educators, I grew up in a school environment. Having always been around children, I wanted to do something that would convert my passion for the moulding of children into adults with strong moral character and social responsibility values into a constructive outlet – that was how the idea of The Pottersland School was born.

Other Information: My vision for The Pottersland School was two-fold; firstly, I wanted to establish a unique school for discerning parents who

are interested in the character development of their children as well as their academic excellence. It is my belief that the true value of education is not in its cost but its outcomes; for education without character is a waste.

I wanted a place which would inspire awe, wonderment and curiosity in children- a space where children could let their imaginations run wild! In line with this aim, a lot of thought and effort went into making TPS a fabulous environment, where children could make new and exciting discoveries each day.

Secondly, I want our children to have a sense of purpose in life and grow up to be confident and responsible adults who will provide solutions for future generations' problems.

"For the nation to compete globally, we must develop critical thinkers and innovators who are committed to the development of the nation."

Journey so far

Size of the business: The school has increased in the last three and half years from 2 pupils to almost 300 pupils.

Number of employees: The number of employees has increased to 54 from 30 teaching staff.

Customer base: Being the first school in the area, our unique value offering of child-centeredness has made us the school of choice for new residents. We currently have about 150 families in the school.

Recorded Milestones

In the last 3 years, we have become a force to be reckoned within our industry. Under my leadership, the school received Nigeria's leading safety organization 'Safe 9ja award', for school safety.

Our pupils have also gained admission to leading secondary schools.

We have been able to expand the school by leasing an adjoining property.

Major Setbacks

The main challenges were the abrupt resignation of the pioneer head teacher in 2017 and the resignation of four staff members in 2019.

However, due to my prior experience in HR, we have a business continuity plan for this kind of eventualities. We immediately appointed one of the senior tutors as acting head teacher, and confirmed her appointment after she satisfactorily handled the job.

The four staff members who resigned meant that we had to merge some classes and recruit 2 new teachers.

Case study: The Pottersland School (2 of 2)

The Pottersland School

Issues / Problems

Production: Power is a challenge because of epileptic supply and high diesel cost. Sourcing of uniforms is costly and cumbersome because local suppliers cannot meet the quality requirements in a timely manner. Also, provision of potable water is a challenge. Due to the terrain of our location, we currently buy water, as the cost of building a water system is beyond our reach.

Finance: Getting funding from banks is a major challenge and funding cost is quite high. The issue of collateral is also a challenge for female-owned businesses. I once sought a loan from the bank and my husband was invited by the bank's credit department for interview before the loan could be disbursed. The loan approval process is quite long, and I have had to resort to borrowing short term loans from microfinance companies and cooperatives at a high interest rate.

The Economy: The unstable economy has negatively impacted our business. Parents are unable to meet the school fees obligations, and many have relocated out of the country. We also cannot afford to pay salaries commensurate to the inflation rate and this affects the staff's motivation. Furthermore, budgeting has been difficult due to increasing cost of goods.

Taxes and other fees/charges: We are burdened with multiple taxes, especially at the local government level. We have been asked to pay for parking permit for the school in a residential area.

Talent: Recruiting and retaining quality teachers is a challenge. The curriculum of Nigeria's education faculties does not equip education graduates with the necessary skills and competences to function effectively as class teachers. We must train and re-train staff often. Support staff such as nannies and caregivers also have high occupational mobility.

Technology: Technology is important in the delivery of high-quality education. Internet supply is expensive and connectivity is sometimes a challenge.

Interactive boards and projectors are used in the classrooms and they are quite costly to purchase and maintain.

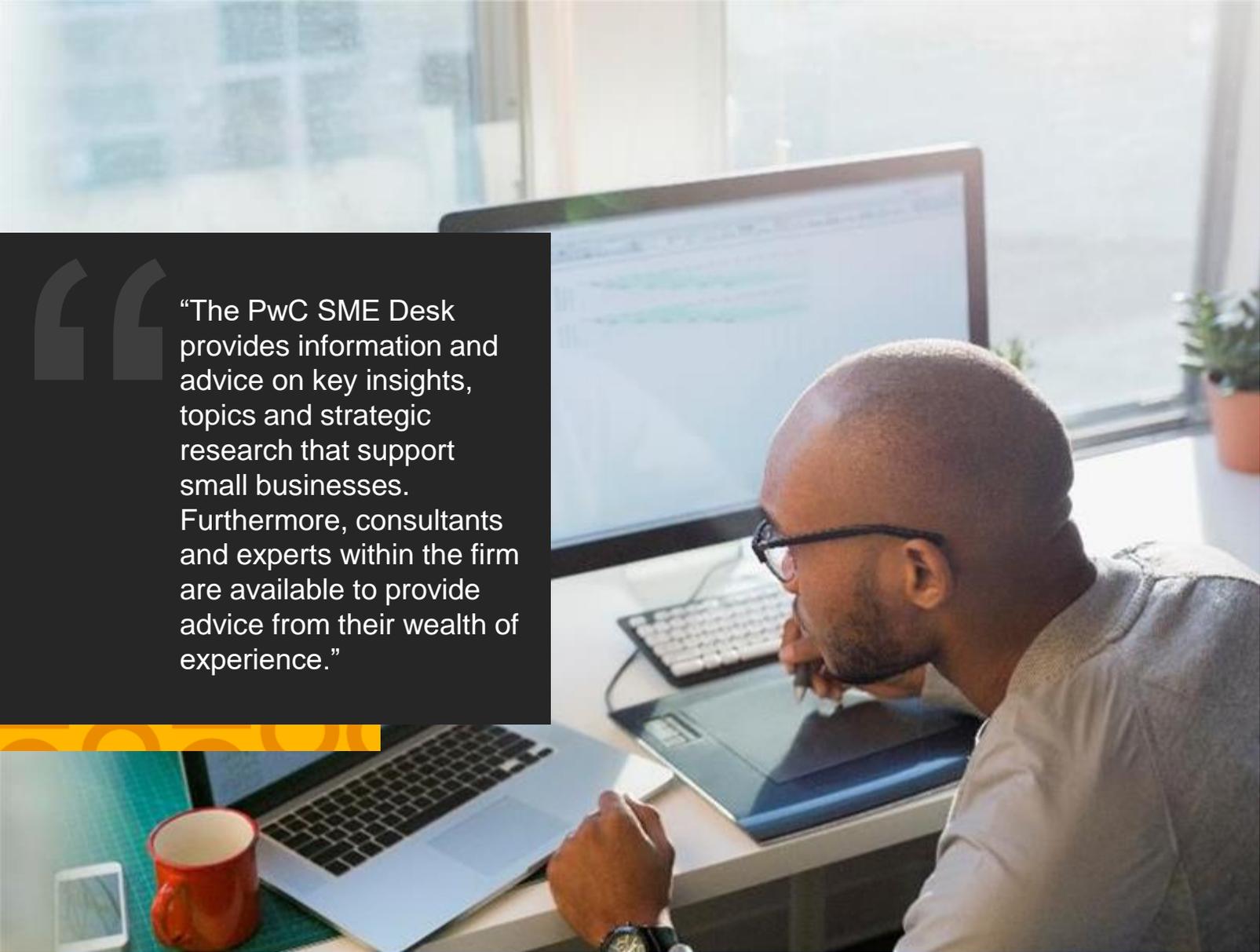
Others: Transportation of pupils is a big challenge. Due to the peculiar nature of Lagos, many parents prefer their children to use the school bus. The cost of purchasing and maintaining the buses is rather high. Moreover, because of the economy, the school cannot charge for transportation to make money to cover replacement cost.

What has been the impact of each of these challenges on your business? The impact of these challenges is that the business has not been able to break-even, as the cost of operations is about 50% of the turnover.

As an SME business owner, what solutions or recommendations could you provide to overcome the peculiar challenges of operating in this environment?

The business of education is a social enterprise, which the government needs to support for the benefit of the larger society. The success of a nation is largely dependent on its education system. For the nation to compete globally, we must develop critical thinkers and innovators who are committed to the development of the nation. Schools should be given grants and access to single-digit loans, thereby making quality education affordable and accessible. Furthermore, government should consider the societal impact of its policies. For example, nobody uses buses for luxury rather they are used for mass transit. Government should reduce the import duty on buses for the benefit of the poor and vulnerable members of our society, including school children and workers.

What stakeholders are needed to act upon, or provide these solutions, and what will they need to do? The education ministry and the National Assembly should declare a state of emergency on education. They should provide the enabling environment for private schools to thrive. The government should recognise that SMEs are the backbone of any nation. Support should be given to genuine entrepreneurs in terms of intervention funds and make access to bank funding easier.



“

“The PwC SME Desk provides information and advice on key insights, topics and strategic research that support small businesses. Furthermore, consultants and experts within the firm are available to provide advice from their wealth of experience.”

08

Access to information or advice

Where did you seek information or advice for your business in the last 12 months?

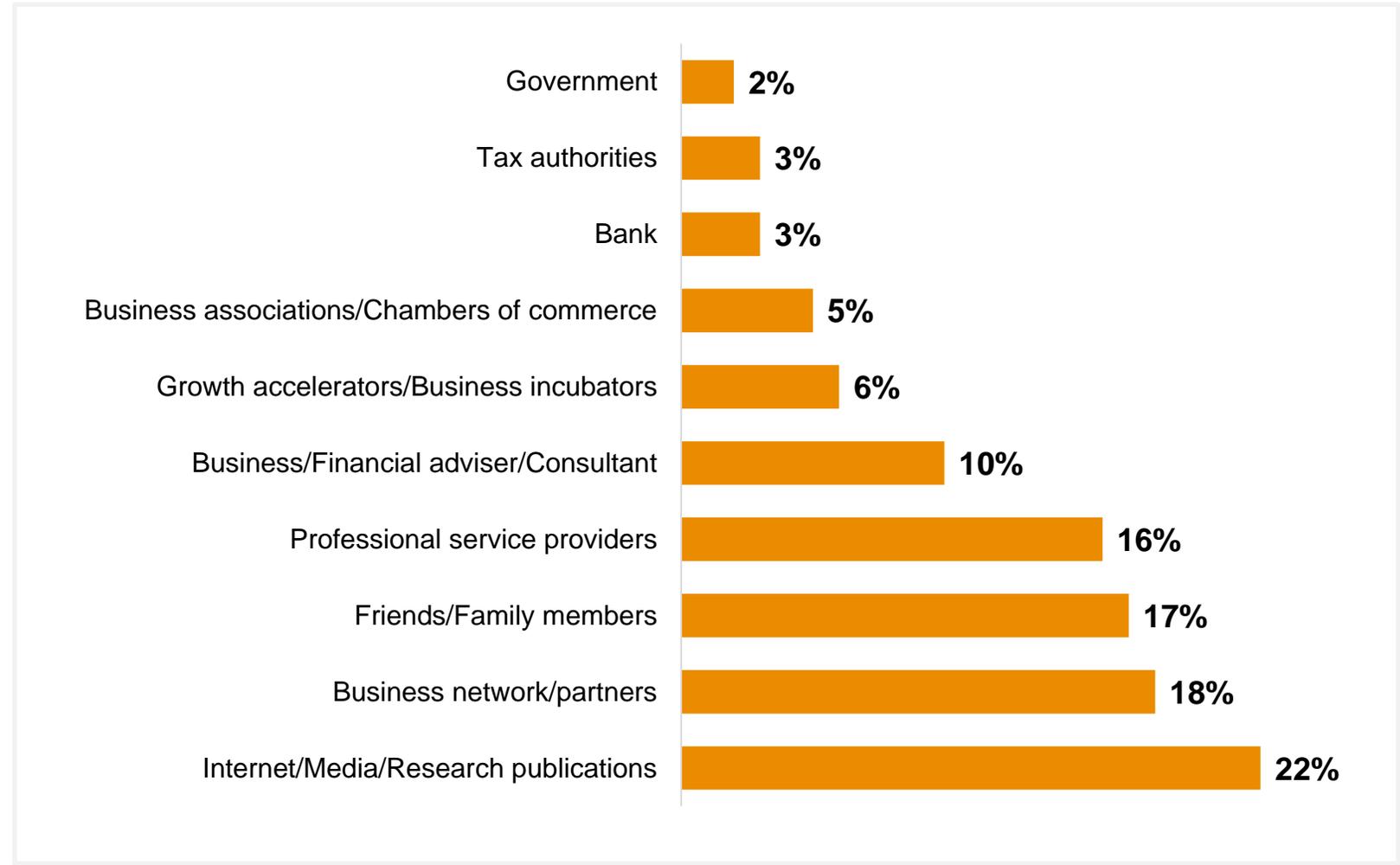


The internet, media and research publications are the go-to sources for information or advice for 22% of the surveyed business leaders. Thought leadership is of strategic value to business owners and experts in the contemporary age.

The primary tools of deploying thought leadership include the internet, the media, as well as via capacity building workshops, seminars and conferences. PwC's thought leaders are people who combine warmth, humanity and passion with technical expertise - bringing the head and the heart together as one. They set direction and provide guidance from years of combined experience in professional services.

18% of the respondents looked to their business network/partners for direction, while friends & family, professional service providers, as well as business consultants/financial advisers were the second, third and fourth options respectively.

The most sought after advice by the CEOs surveyed was on business growth and efficiency.



Source: PwC analysis

What technology will have the most impact on your business in the next 3 years?

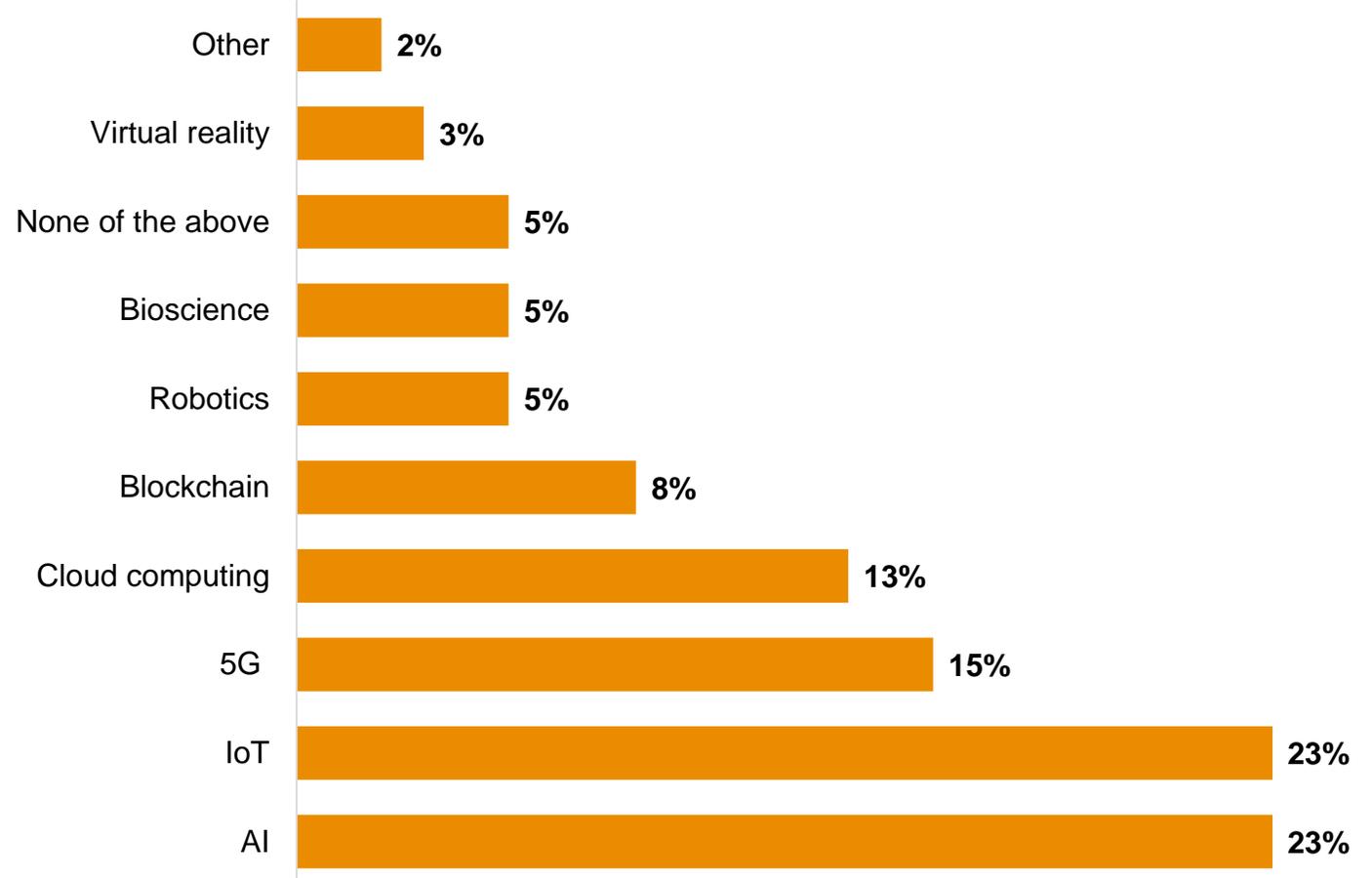
insights

Business CEOs believe that Artificial Intelligence, the Internet of Things, 5G, Cloud Computing and Blockchain will have the most impact on their businesses in the next three years.

Artificial Intelligence (AI) can be defined as the theory and development of systems that can continuously sense its environment, think, make decisions, and take actions that influence the environment to achieve its goals.

The world is fast becoming a global village due to innovations underpinned principally by technological advancements.

Technology has brought about changes in consumer perceptions, tastes and preferences. The pace and transformative power of technology means that Nigerian businesses cannot afford to ignore the trend.



Source: PwC analysis

Key Insights and Considerations for SMEs

PwC

Access to information is important. However, access to the right kind of information and at the right time is what truly makes a positive difference.

Finance and Accounting, Tax Compliance and Audit, Strategy and Technology are some of the crucial topics that SMEs need to seek advice on, to effectively grow and scale their businesses.

The PwC SME Desk provides information and advice on key insights, topics and strategic research that support small businesses. Furthermore, consultants and experts within the firm are available to provide advice from their wealth of experience.

The Desk grants SMEs a higher chance of survival as they help to navigate through the challenges and pitfalls that businesses face operating in a peculiar business climate and critical period such as the one we are in. The goal is to provide SMEs with advice and information that adds value.



The Essential Eight technologies that matter most for business today

future



Artificial
intelligence



Augmented
reality



Blockchain



Drones



Internet
of things



Robotics



Virtual
reality



3-D
printing

The Essential Eight are the core technologies that PwC believes will matter most for businesses globally, across every industry, over the next three to five years.

Role of technology for SMEs in boosting productivity and growth

The role of technology in the 21st century cannot be overemphasized. Many aspect of our lives are going digital, including the way we do business. SMEs need to take advantage of the increased productivity and growth technology can bring. SMEs can enjoy increased brand exposure, more efficient business processes, better customer experience and increased sales through technology.

01

Brand Exposure

Technology makes it possible through social media to increase brand exposure. SMEs can promote their products and services, as well as target and engage new customers via social media platforms. They can also take advantage of the services that social media platforms offer to identify target market audiences with promotional ads and videos.

02

Business Processes

Automating business processes can help save time and energy ultimately leading to increased productivity. Automated recorded-keeping processes for example makes information more accessible when needed to make quick business decisions. The goal of technology in this case is to make business processes seamless.

03

Customer Experience

Technology can be used to gain a better understanding of the customer. With data analytics, SMEs can get an impression of their customers' perceptions of their brand. SMEs can also improve their customer experience with a strong and engaging social media presence.

04

Sales

Technology has made it possible for a wide variety of payment options to exist. SMEs need to take advantage of these opportunities. More payment options increases the chances of customers purchasing products or services especially when a customer's payment preference is included in the available options.

Appendices





A

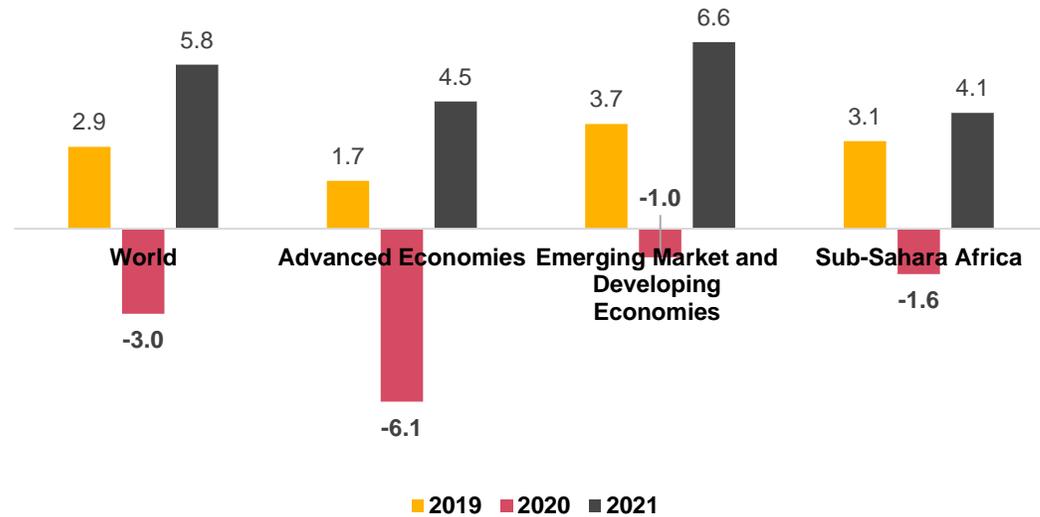
Appendices: COVID-19 and SMEs: Implications



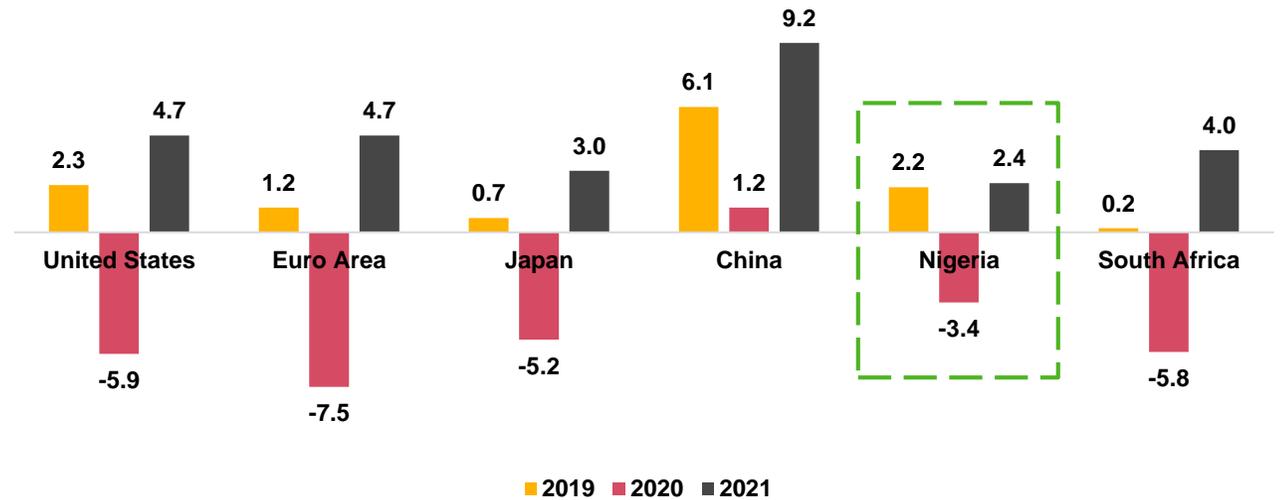
Impact of COVID-19 on the global economy

The Great Lockdown: A synchronized contraction in economic growth across countries and territories in 2020

Economic outlook by region, percent



Economic outlook by selected countries/territories, percent



Source: IMF, PwC analysis

- The impact of COVID-19 is broad-based and phenomenal. All countries are exposed to the uncertainties that have grappled the global economies, and contagion risk is significantly high.
- Even though V-recovery is predicted for 2021, in the next decade, most developing economies are going to face a new challenge of debt trap while leading economies in Europe and Asia will contend with debt overhang

Impact of COVID-19 on small and medium businesses globally

As at January 2020, the IMF projected that global growth will improve from 2.9 % in 2019 to 3.3% in 2020. Following the COVID-19 pandemic and its impact on human health, business activities, jobs and livelihoods, and the overall economy, the IMF in April 2020 revised its global growth projections downward to -3%. This implies that the world will enter into a recession this year, with the outlook much lower than the financial recession in 2008. The IMF forecasts the global economy to bounce back and out of the recession in 2021 with significant 5.8% growth, as business activities return to normal levels aided by supportive policy measures from countries.

Effect on Supply Chain

Travel restrictions and lockdown measures across countries have impacted supply-chains across countries. This has led to shortages in materials, in addition to labour supply for industrial and non-industrial activities.



Effect on labour market

The global pandemic has exposed the world's labour markets to vulnerabilities, as enterprises halt operations, reduce work-hours and reduce staff strength. ILO predicts unemployment to reach over 25 million with loss from workers' income to reach an estimated USD 3.4 trillion



Globally, countries have spent over USD8 trillion so far on fiscal policy to buffer the effect of COVID-19 on their respective economies, and fiscal deficits are on the rise.

Effect on productivity

Movement and work disruptions have disrupted business activities, as impacted the liquidity and profitability of firms.



Effect on value chain

There has been interruptions and slowdown in the value-chain of sectors such as transportation, non-food retail businesses, aviation, education, hospitality, automobile, tourism, sports, among others.



Source: ILO, WEF, IMF, PwC analysis

Impact of COVID-19 on MSMEs in Nigeria



Workforce

- Disruption to the supply of labour, especially daily wage-workers as lockdown persist
- Inability to pay remuneration and other contractual obligations could lead to loss of skilled workforce to drive vision
- Emotional and psychological strain due to current uncertainties could impede innovation and efficiency



Finance and liquidity

- Cash inflow constraints which will impact ability to meet due obligations could lead to risks of credit default and bankruptcy
- Revenue shortfall due to declined demand is a constraint to operations and execution of short to medium-term strategies



Operations

- Loss of inputs to supply-chain challenges, as well as major customers to more adaptive and efficient large-scale competitors
- MSMEs are prone to higher burden from increased costs of factor underutilization
- Lack of access to adequate information on government support and strategies to mitigate impact on business



Business sentiment

- Uncertainty may dampen positive business sentiment and impede the commitment of resources to drive growth
- Lingered negative sentiment could make MSMEs to totally jettison vision and business idea

Key Insights and Considerations for SMEs; COVID-19 response

The recent oil prices shocks and pandemic have anchored the plunge of global economic performance, particularly in externally-dependent economies. As an economy dependent on oil-earnings and forex supply, Nigeria assumes a vulnerable position to the dwindling effect of these major externalities. Some fiscal policies have been put in place to ease the effect of the pressures, however, here are some key strategies which SMEs can adopt to reposition themselves for resilience:

Key Strategies

- Take actionable steps to ensure health, safety and well-being of workforce to sustain productivity and ensure innovative feedback.
- Strengthen cybersecurity platforms to minimize fraud and enhance information security and privacy of documents and internal resources.
- Ensure high-level prudence of corporate spending and reduce unnecessary recurrent costs.
- Adopt local quality materials as substitutes for imports in the short-term
- Organize virtual training on technology tools and usage to upskill and improve staff skills
- Strategize to meet current customer needs and enhance customer satisfaction via alternative and efficient communication channels
- Stay informed and abreast of industry insights and related information that could enhance and improve strategies to mitigate risks and access new opportunities
- Take up low-risk investments if necessary

Key Strategies

- Review workforce locations and travel; Know exactly where staff are and how many workers are in affected areas
- Build resilience through investment in technology to propel business activities and serve clients better
- Intentionally enhance systems and processes for resilience, and to weather any further unprecedented occurrences.
- Make clear policies to address absence due to sickness or caring for relatives, and protocol for visitors to company sites
- Revisit the business's crisis and continuity plans. Generic plans may be tailored to cope with specific challenges from the pandemic.
- Make adequate plans for resources and communications with employees
- Use scenario analysis; identify weaknesses, best- and worst-case scenarios, and proper coping mechanisms .
- Evaluate supply chain and create alternative supply sources.



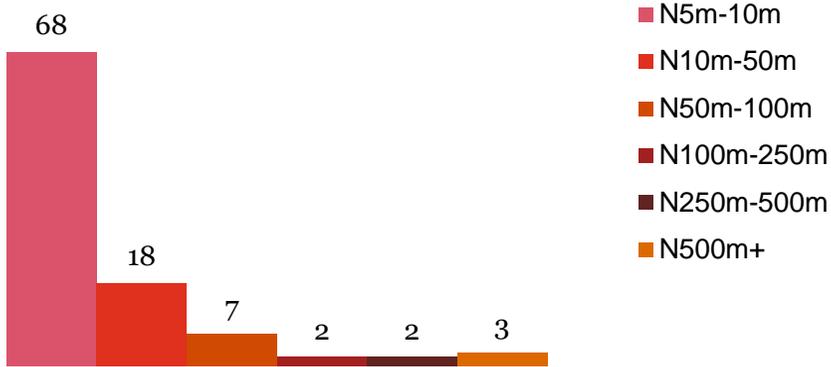
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Appendices: Profiles of Businesses Surveyed

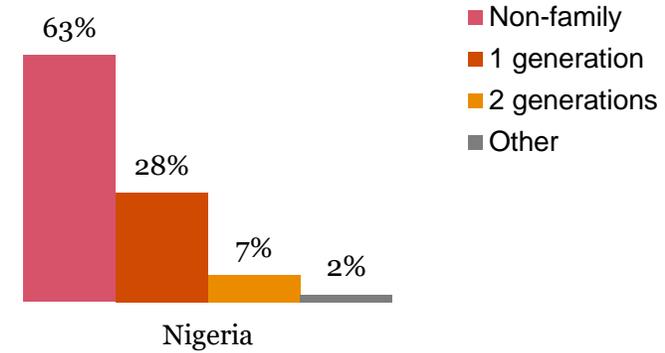


Nigeria MSME profile – what companies were included? (1 of 2)

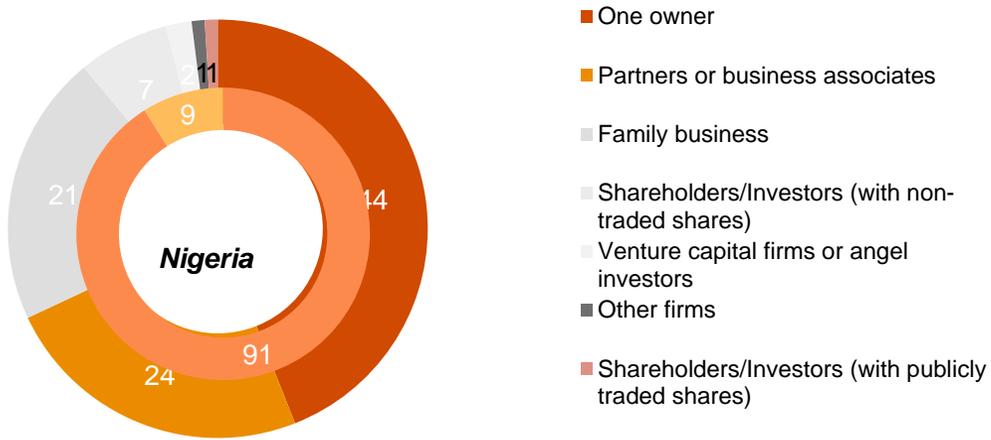
Turnover (sales) (NGN) (%)



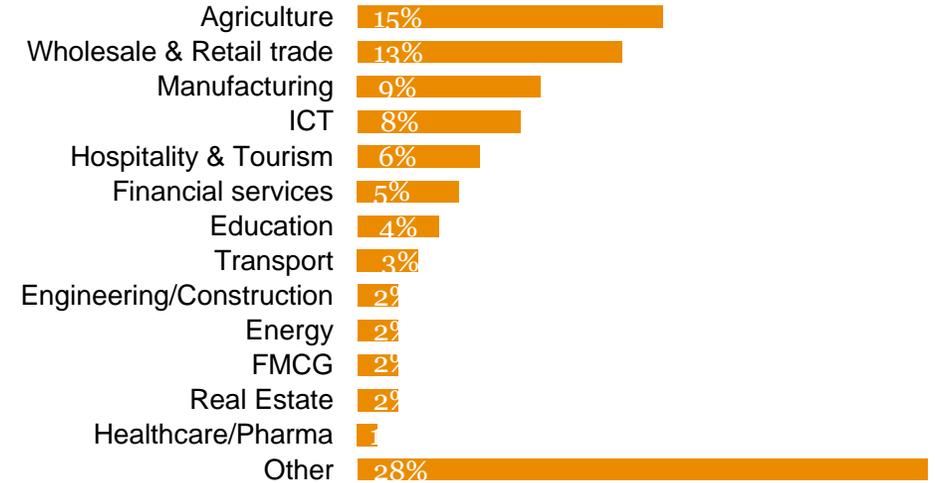
Number of Generations (%)



Owners of the business (%)



Sector (%)

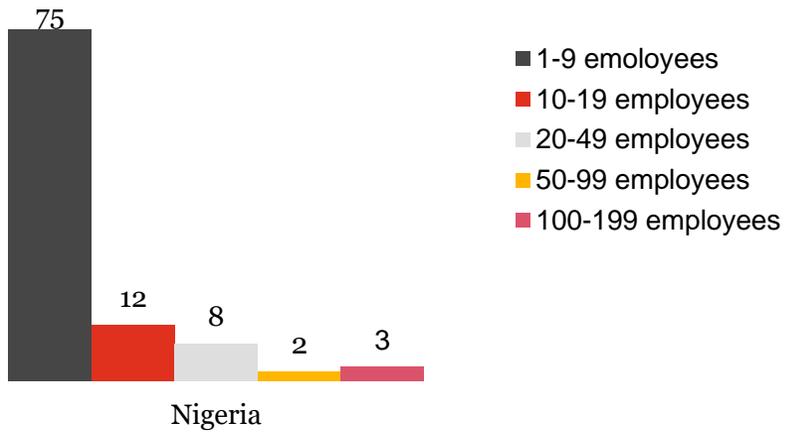


Nigeria MSME profile – what companies were included? (2 of 2)

Number of years in operation (%)



Staff strength (%)



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2. Women in Management and Business and Public Service (WIMBIZ)
3. The Nigerian Association of Small and Medium Enterprises (NASME)
4. The Manufacturers Association of Nigeria (MAN)
5. The Nuli Juice Company
6. DO.II Designs Limited
7. Vestar Coffee
8. IBBA 36 Global Concept
9. The Pottersland School
10. Olusegun Awolowo – CEO/Executive Director of NEPC
11. Hansatu Adegbite – Executive Director, WIMBIZ
12. Olubunmi Aboderin-Talabi – former Executive Vice-Chairman, WIMBIZ
13. Engr. Auwal Ibrahim Bununu – National Vice-President, NASME
14. Adeyemi Folorunsho – Assistant Director, Sectoral Matters Department, MAN
15. Ada Osakwe – Founder & Managing Director, The Nuli Juice Company
16. Ifeyinwa Ighodalo - CEO, DO.II Designs and Chairman, Board of Trustees WIMBIZ
17. Olatunji Adenuga – Founder & CEO, Vestar Coffee
18. Engineer Ibrahim Balami – Managing Director/CEO, IBBA 36 Global Concept
19. Oyebusola Olanubi – School Director, the Pottersland School

Key Contacts



Esiri Agbeyi
Partner & Head Private Wealth
Services
emuesiri.agbeyi@pwc.com



Andrew S. Nevin, Ph.D.
Partner - Financial Services
Leader & Chief Economist
andrew.x.nevin@pwc.com



Taiwo Oyedele
Fiscal Policy Partner and West
Africa Tax Leader
taiwo.oyedele@pwc.com



Marilyn Obaisa-Osula
Manager, Assurance
marilyn.obaisa-osula@pwc.com



Omomia Omosomi
Economist/Manager
omomia.omosomi@pwc.com



Oladipupo Ayodele
Senior Associate, Tax
oladipupo.ayodele@pwc.com



Olajumoke Oyebode
Senior Associate, Tax
olajumoke.oyebode@pwc.com

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Helping small businesses grow

We know running your small business is challenging and sometimes frustrating, so having an adviser who is on your side is invaluable. Whether you have a background in business or simply a passion for what you do, we can support you to grow your business and make it successful.

SME Desk is a PwC Nigeria societal impact initiative to support small businesses and the role they play in the economy. It is one of the ways we are helping to build trust in society and solve important problems by giving small businesses a greater chance to succeed under an often difficult environment.

Our dedicated SME Desk advisers are on hand to provide insights, advice and support on a range of areas including:

Finance and Accounting

- General ledger clean-up
- Bank reconciliation
- Book-keeping using accounting software
- Management reporting
- Statutory reporting

Tax compliance

- Tax registration
- Tax computation
- Income tax filing
- VAT & PAYE returns
- Tax Clearance Certificate
- Discounted Tax academy training

Assurance

- Statutory Audit
- Other Assurance Services

General Business advisory

Access to a dedicated PwC advisor to meet with you and work through your plans, such as budgets, forecasts, interpretation of your financial statements and attracting investment

We look forward to each opportunity to help businesses as they try to change the world or at least leave their mark on it.



Contacts



ng_smedesk@pwc.com



www.pwc.com/ng



012719830

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