Helping young entrepreneurs to formalize their businesses in Nigeria

Insights from a business formalization coach

This document is part of a broader series of success stories of men and women entrepreneurs engaged in formalization. Based on interviews with entrepreneurs from different parts of the world, the series highlights entrepreneurs' pathways to formalization and its impact on decent work for businesses and the workers they employ.
Ayodeji Adeyemo, a 26-year-old lawyer and entrepreneur from Nigeria, recently participated in an ILO training programme to become a coach in business formalization. Encouraged by her mother who is a lawyer, she has always taken a keen interest in youth and community development. After studying law, she went on to obtain a postgraduate diploma in international public policy and a master’s degree in business administration. She began her career working in her mother’s law firm in Ilorin, about a five-hour drive from Lagos. During her early days practising law, Ayodeji mainly worked on drafting contracts and helping entrepreneurs to register their companies. Her passion for helping young people to start their own enterprises led her to volunteer with another law firm, where she exclusively supported young entrepreneurs throughout the process of business registration.

While working with micro and small enterprises across Nigeria, she often came face to face with the challenges of business formalization, particularly for those living in rural areas. “Many people don’t see the need for formalization, especially those in rural areas with a family business who are often satisfied with what they have. When you get closer to the cities, people are trying to compete with one another and grow their business.” Ayodeji emphasizes that productivity and competitiveness are important factors prompting entrepreneurs to seek formalization. However, even after registering their enterprises, business owners often continue using their personal bank accounts for transactions, which prevents them from tracking business growth. “They will always hit a wall”, Ayodeji explains. “For instance, a customer may refuse to make a payment to a personal account, or the entrepreneur may have trouble getting a loan from a bank.”

Her volunteer work helping young entrepreneurs inspired her to start her own business to assist others with drafting contracts and registering their enterprises. Thanks to her considerable experience in this field, she already knew the do’s and don’ts of business registration, tax registration and opening of a bank account. However, Ayodeji also encountered certain obstacles, such as having to deal with sometimes lengthy administrative procedures. She therefore understands clearly what young entrepreneurs are up against when trying to make their businesses formal.

While helping other entrepreneurs, she came into contact with JR Farms Africa, an Africa-based youth-led agribusiness, and eventually became a coach in its Green Agribusiness Fund (GAF) Academy, which supports young agricultural entrepreneurs throughout Africa. Although she is currently based in Canada, Ayodeji is remotely coaching seven entrepreneurs across Nigeria. This includes informing them of the procedures involved in formalizing a business so that they can do it themselves without hiring a lawyer or other professionals. She also provides them with contacts in the tax office or the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) to point them in the right direction and facilitate the registration process. She notes that those who are motivated usually have already taken steps to register their businesses, but that it is harder to persuade them to maintain books of accounts, especially in the case of entrepreneurs with employees. “They don’t want to go through the rigorous process of formal bookkeeping. Most of the people working for them get paid on a daily basis, and even they do not have bank accounts. So the business owners pay them in cash and everybody carries on in that way”, she notes. In addition, many entrepreneurs are still afraid of registering their businesses with the tax authorities, even if they may be exempt from income tax payments because their turnover is below a certain threshold. Ayodeji believes that a change in business mindset is required, and that training can help to achieve that. One strategy she uses to encourage entrepreneurs to adopt a
Stories like Ayodeji Adeyemo’s demonstrate the need for countries to develop integrated policies that make it easier and more attractive for small entrepreneurs to set up and grow their businesses in the formal economy.

bookkeeping system and register with the tax authorities is to explain how proper financial management and tax compliance can help them to access finance by attracting investors.

Ayodeji points out that the Government has introduced reforms in recent years to make it easier to register one’s enterprise and to foster business growth, notably under the framework of the Presidential Enabling Business Environment Council. Established in 2016, this intergovernmental body, which also includes private sector representatives, aims to remove critical bottlenecks and constraints faced by micro-, small- and medium-sized enterprises operating in Nigeria. In addition, the Government provides incentives for formal small-scale businesses, such as state-backed loans. Moreover, registration with SMEDAN can open up access to training and investment opportunities. Ayodeji encourages the entrepreneurs she coaches to take advantage of all these reforms and incentives aimed at helping small enterprises.

Although business formalization is a long-term process, Ayodeji is hopeful in her conclusion: “The ILO coaching programme is about empowerment. So far, a lot of these entrepreneurs are acting on the advice provided and their businesses are growing.”