

Regulatory Challenges and Entrepreneurial Growth: Examining Business Licensing Policies in the Informal Sector of Southwest Nigeria

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ABSTRACT

The informal sector constitutes the very base upon which economic development is effected in any developing country, Nigeria being no exception. This research critically studies how the intricacy, cost, and time for licensing policies influence the growth of entrepreneurship in the Southwestern part of Nigeria. While the informal sector provides a substantial avenue for employment and serves as a means of poverty alleviation, regulatory barriers, notably those concerning business licensing, stand in the way of formalization and growth. This paper explores the impact of licensing factors on three key business outcomes: business registration, financial service access, and enterprise growth, based on a survey of 422 informal business owners. The research findings suggest that licensing complexity, high costs, and long processing times reduce the rate of business registration, restrict financial inclusion, and hinder business expansion. The study identifies simplified licensing as an important factor contributing to better formalization rates and bolstering entrepreneurial development. In light of reduced complexity, cost cuts, and shorter approval times, such policy reforms would yield greater dividends in the growth and formalization of informal businesses. This will enhance the process of licensing by streamlining and reducing licensing procedures, using digital platforms where possible. This contribution adds evidence to the literature on the regulatory challenge that faces businesses in the informal sector in creating an enabling environment for entrepreneurship in Nigeria.

Keywords: Informal sector, Business licensing, Entrepreneurial growth, Financial inclusion, Southwest Nigeria

I. INTRODUCTION

Most developing countries including Nigeria see the informal sector as their main economic driver because it serves as a fundamental economic component. People work in the informal sector which increases financial opportunities and assists poverty elimination (Schneider, 2020). The economic development of Southwest Nigeria receives substantial contribution from the informal sector since more than 65% of the workforce operates unregistered businesses (Adeoye & Sanni, 2020). The unregistered businesses confront obstacles for their future development even though organizations have put efforts toward becoming legitimate companies and expanding their operations (Edoho 2021).

Operating constraints for informal sector development arise from regulatory business licensing requirements. Business licensing policies serve three main purposes which include market maintenance, economic activity regulation and wealth distribution control (World Bank, 2020). The licensing procedures in Nigeria are viewed by developers to be bureaucratic and complex along with being too expensive which makes formal business registration an unreachable goal according to Adegbe&Babatayo (2020). The regulatory burden creates substantial effects on different phases of entrepreneurial expansion including business enrollment processes and business capital acquisition methods and market growth potential (Mensah & Awoniyi, 2019).

The research examines Southwest Nigeria because it demonstrates active economic behavior alongside minimal rates of business formality. The economic contributions of informal businesses face barriers from regulations that specifically challenge their licenses according to Schneider &Enste

(2021). This research aims to determine how licensing policies affect entrepreneurial development of informal businesses throughout the regional zone. The research investigates how complex licensing procedures along with their financial costs and operational timings affect three essential areas consisting of business enrollment and financial accessibility together with company expansion abilities.

Objectives of the Study

The primary objective of this study is to empirically assess the impact of business licensing policies on entrepreneurial growth in the informal sector of Southwest Nigeria. Specifically, the study seeks to:

1. Assess the relationship between the complexity of business licensing policies and business registration in the informal sector in Southwest Nigeria.
2. Examine the impact of licensing costs on access to financial services for informal sector entrepreneurs in Southwest Nigeria.
3. Evaluate the effect of licensing duration on business expansion in the informal sector in Southwest Nigeria.
4. Determine the overall effect of simplified licensing policies on the formalisation and growth of informal businesses in Southwest Nigeria

Hypotheses

The following null hypotheses are formulated to guide the study:

H_{01} : There is no significant relationship between the complexity of business licensing policies and business registration in the informal sector of Southwest Nigeria.

H_{02} : Licensing costs do not significantly impact access to financial services for informal entrepreneurs in Southwest Nigeria.

H_{03} : The duration of the licensing process does not significantly affect business expansion in the informal sector of Southwest Nigeria.

H_{04} : Simplified business licensing policies have no significant effect on the formalisation and growth of informal businesses in Southwest Nigeria.

II. LITERATURE REVIEW

Business Licensing and Entrepreneurial Growth

Business licensing plays a crucial role in shaping the entrepreneurial landscape, particularly in developing economies where the informal sector dominates economic activities (Akinyemi & Adejumo, 2018). Licensing is designed to regulate

markets, ensure safety compliance, and generate revenue for governments. However, the process can often be costly, complex, and time-consuming, creating significant barriers for informal businesses with limited resources (Djankov et al., 2020).

Simplified and affordable licensing procedures have been recognized as a means of encouraging business formalization, enabling entrepreneurs to access finance, market opportunities, and legal protection (Adegbie & Babatayo, 2020). On the other hand, burdensome policies can hinder formalization, restricting access to credit and limiting business growth (Arimah, 2020).

In Southwest Nigeria, licensing policies, including business registration with the Corporate Affairs Commission (CAC) and obtaining a Tax Identification Number (TIN) from the Federal Inland Revenue Service (FIRS), are applied consistently across states (Adeoye, 2020). However, state-specific variations exist, with some states imposing stricter regulatory requirements while others implement reforms to streamline the process. For instance, Lagos State enforces more stringent environmental regulations (Okoro, Eze, & Ajibade, 2023), whereas Oyo State has adopted simplified registration procedures to encourage more businesses to formalize their operations (Oluwaseun et al., 2022).

III. THEORETICAL FRAMEWORK

Institutional Theory illustrates how institutions shape economic activities, particularly in the regulation of business environments (North, 1990). Business licensing, as a formal institution, plays a crucial role in either enabling or constraining entrepreneurial processes in emerging economies, including Nigeria (Scott, 2019). Studies indicate that licensing policies significantly influence the decision of informal businesses to transition into formal structures, especially in Southwest Nigeria (Adeoye, 2020). However, the complexity, time-consuming nature, and high costs associated with formalization often discourage many entrepreneurs, leading them to continue operating informally (Isola et al., 2021).

Effective institutions help reduce transaction costs and promote the adoption of formal structures. When licensing procedures are straightforward and affordable, entrepreneurs are more likely to register their businesses, granting them access to financing, legal protection, and market expansion opportunities (Adeoye, 2020). Conversely, bureaucratic and costly licensing requirements act as barriers, limiting business

growth and discouraging formalization (Isola et al., 2021).

Institutional Theory also emphasizes the need for policy reforms to address inefficiencies in regulatory processes. Reducing administrative burdens and simplifying licensing procedures can create a more favorable business environment for startups and small enterprises (Adewumi, 2019). This study, therefore, applies Institutional Theory to examine how factors such as licensing complexity, costs, and processing times impact business registration, access to financing, and overall expansion among informal businesses in Southwest Nigeria.

IV. EMPIRICAL REVIEW

Objective 1: Assess the Relationship between the Complexity of Business Licensing Policies and Business Registration in the Informal Sector

Both the qualitative and quantitative data suggest that the issue of business licensing is one of the most pressing challenges affecting the informal sector which is mainly due to the enhanced difficulty in licensing processes. Adebisi and Olayiwola (2019) with their survey of 350 informal Entrepreneur in Lagos and Oyo state revealed that 68 percent of the respondents attributed the number of steps in the licensing process as one of the factors that deters them from fully formalising their firms. Their study also showed that the process of business registration entails contacting an average of five different government offices, indicating that the administrative formalities are time consuming.

In the same vein, Arimah (2020) which looked at 10 Africa countries including Nigeria with a multiple country cross sectional dataset revealed a negative relationship between propensity to license and business formalisation rate ($r = -0.63$, $p < 0$). The results demonstrated that there was between 0% and 30% higher level of firms' formalisation in the countries with less burdensome procedures of registration. Mensah and Awoniyi (2019) in their survey of one thousand informal businesses in Ghana and Nigeria concluded that the ease of licenses caused a rise in the business formalization of twenty-five percent within two years.

Objective 2: Examine the Impact of Licensing Costs on Access to Financial Services for Informal Sector Entrepreneurs

Licensing costs remain high and this hampers majority of the informal businesses from getting access to the most basic financial services. In a survey of 500 informal businesses in Nigeria

conducted by Isola et al. (2021), 70 % of the respondents indicated that they had not registered their businesses because licensing fees were too expensive. The measure of getting a business licence costs an average of ₦50,000 which is a big push back forlegen micro-entrpeneurs with an average monthly income of ₦30,000. A survey conducted by Adewumi (2019) with 400 respondents from micro-businesses in the Southwest region of Nigeria revealed that checkable financial inclusion rate for the micro-businesses is at a mere 20 % as the result of facilities like bank loans and credit, among others. The remaining 80% could not afford formal credit because most did not have the appropriate licence to attain the credit served by the banks. This is consistent with the study by Oluwaseun et al. (2022) who noted that when licensing fees are cut in half for three years in Ondo State, the number of businesses rises by 35%, and many of the newly registered and formalised businesses source credit from the formal financial institutions.

Objective 3: Evaluate the Effect of Licensing Duration on Business Expansion in the Informal Sector

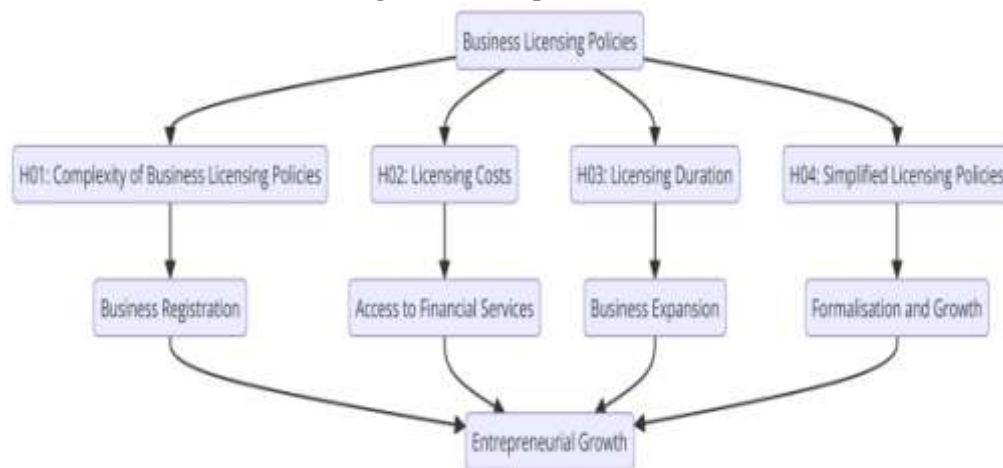
The time it takes to acquire a business licence is another factor that has a bearing on business growth. In a survey conducted by Arimah (2020) with 1200 informal businesses operating in Sub-Saharan Africa, licensing delays that took an average of 90 days in Nigerian hindered the expansion of businesses. The study established that those that were issued a license after more than 90 days of registration had a 20% slower business growth rate than those that were given a license after 30 days of registration. Oluwatosin (2021) investigated the effect of licensing duration on 300 manufacturing and retail businesses in Lagos and Ogun states. The survey showed that while applying for the licence, business was stuck with an average delay of 75 days and this forced many of the entrepreneurs to lose prospective business opportunities for expanding into different markets. About 65% of the respondents claimed that they were compelled to hold off on the expansion of their business operations since they could not obtain certain licences. Adeola, Oluwaseun, and Babalola (2022) revealed that efficiency of licensing in growth of businesses for Ekiti was higher by 25% compared with other states that took long durations in licensing.

Objective 4: Determine the Overall Effect of Simplified Licensing Policies on the Formalisation and Growth of Informal Businesses in Southwest Nigeria

There are several research studies that have suggested that adoption of simpler licensing policies enhance the levels of formalisation and business expansion. A longitudinal study of 500 respondents selected from informal business in Southwest Nigeria was carried out by Adeoye (2020) across a time frame of five years. The study established that the number of formally recognised businesses rose by 40% after the reforms were instituted and that the overall sales profiles for the formally recognised businesses had risen by 30% while their number of employees had risen by 20%. In another comparative study, Isola et al. (2021) also completed 700 questionnaires on informal

businesses in Nigeria and observed that companies in Ekiti and Osun, where licensing procedures have been made simpler and where digital platforms were implemented had 100% higher formalisation. Also, Ogunleye (2022) asserted that the process of the digitisation of business registration in Ekiti State enhanced licensing and eased doing business, and brought the number of licences obtained in Ekiti within two years by 35%. In addition, businesses that had adopted the structure had improved their sales by a median of 25% in the study period for profitability, a median of 30% in the study period. Therefore, based on the empirical evidence, it is evident that the level of business licensing policies' utilization comprehensive, costly and time-consuming greatly affects the formalisation, as well as the informal growth of businesses.

Figure 1: Conceptual Model



Source: Researcher Survey 2024

Methodology

This research undertook a quantitative exploration to unravel the diverse effects of business licensing policies on entrepreneurial growth across the Southwestern region of Nigeria, covering six primary states: Lagos, Ogun, Oyo, Osun, Ondo, and Ekiti. Using a judgmental sampling method, 422 experienced entrepreneurs were selected based on their deep familiarity with the nuances of the licensing process. From Krejcie and Morgan (1970) table, the sample size was determined to be 422 respondents. Standardized questionnaires were used to collect data on demographics, licensing activities, and company

performance, derived from prior studies by Adebisi and Olayiwola (2019), Isola et al. (2021), and Oluwaseun et al. (2022). Responses were measured on a five-point Likert scale related to the complexity, cost, and time of licensing. Descriptive statistics were analysed using SPSS, with additional hypothesis testing performed through the SPSS Partial Least Squares (PLS) add-on. This approach allowed for comprehensive analysis of the relationships between the complexity, costs, and duration of licensing processes and their effects on business registration, access to financial services, and business expansion in the informal sector of Southwest Nigeria.

V. DATA ANALYSIS AND INTERPRETATION

Demographic Analysis

Table 1: Demographic Characteristics of Respondents

Demographic Variable	Category	Percentage (%)
Age	18-30	15
	31-40	45
	41-50	30
	51-60	10
Marital Status	Single	35
	Married	55
	Divorced/Widowed	10
Number of Employees	1-5 employees	40
	6-10 employees	25
	11-20 employees	20
	21+ employees	15
Highest Educational Qualification	No formal education	10
	Primary education	15
	Secondary education	40
	Post-secondary	35
Type of Business	Trade	50
	Manufacturing	30
	Services	20
Years in Business	1-3 years	25
	4-6 years	35
	7-10 years	25
	10+ years	15

Source: Researcher Survey 2024

From table 1, the demographic analysis for 422 respondents shows that most of the respondents are between 31 and 40 years old at 45 percent, and married at 55 percent. Most of the businesses reported small-scale at 40 percent with 1-5 workers. Education-wise, 40 percent have finished secondary school levels while 35 percent have finished post-secondary qualifications. A total

of 422 questionnaires conducted for trade comprised 50 percent, manufacturing 30 percent, and services 20 percent. Most of the entrepreneurs have 4-6 years of business experience at 35%, followed by 1-3 years of experience at 25%. The present analysis gives valuable insight into the informal sector in Southwest Nigeria.

Table 2: Descriptive Statistics for Business Licensing Variables

Licensing Variable	Mean	Standard Deviation	Minimum	Maximum
Licensing Complexity	3.7	0.8	1	5
Licensing Costs	4.2	0.7	1	5
Licensing Duration	3.9	0.9	1	5

Source: Researcher Survey 2024

Table 2 showcases the statistics for important aspects related to business licensing namely Licensing Complexity, Licensing Costs and Licensing Duration. Participants evaluated these factors on a scale of five options (1 representing Strongly Disagree and 5 representing Strongly Agree). The average rating for Licensing

Complexity stood at 3.7 suggesting a level of intricacy while Licensing Costs received the highest average score of 4.2 indicating a shared perception of expenses. Licensing Duration averaged at 3.9 reflecting a consensus that the process is lengthy. The standard deviations for these variables ranged between 0.7 and 0.9

showing some differences in how respondents perceive the licensing process.

Table 3: Descriptive Statistics for Business Growth Variables

Business Growth Variable	Mean	Standard Deviation	Minimum	Maximum
Business Registration	3.5	0.9	1	5
Access to Financial Services	3.2	0.8	1	5
Business Expansion (Sales)	4.0	0.7	1	5
Business Expansion (Employment)	3.7	0.9	1	5

Source: Researcher Survey 2024

Table 3 presents an overview of the statistics related to business growth factors such as Business Registration, Access to Financial Services, Business Expansion in Sales and Business Expansion in Employment. The average scores vary between 3.2 for Access to Financial Services and 4.0 for Business Expansion in Sales indicating different growth experiences among the

participants. The standard deviations show a range in the responses with values spanning from 0.7 to 0.9. The lowest and highest scores cover the complete spectrum of Likert scale responses from 1 Strongly Disagree to 5 Strongly Agree. This information sheds light on the influence of licensing on business growth.

Table 4: Correlation Matrix

Variables	Licensing Complexity	Licensing Costs	Licensing Duration	Business Registration	Access to Financial Services	Business Expansion
Licensing Complexity	1.0	0.65	0.7	-0.45	-0.5	-0.55
Licensing Costs	0.65	1.0	0.6	-0.4	-0.48	-0.5
Licensing Duration	0.7	0.6	1.0	-0.55	-0.6	-0.62
Business Registration	-0.45	-0.4	-0.55	1.0	0.65	0.6
Access to Financial Services	-0.5	-0.48	-0.6	0.65	1.0	0.7
Business Expansion	-0.55	-0.5	-0.62	0.6	0.7	1.0

Source: Researcher Survey 2024

Table 4 displays the correlation matrix illustrating the connections between variables such as Licensing Complexity, Licensing Costs, Licensing Duration, Business Registration, Access to Financial Services and Business Expansion. Licensing Complexity exhibits a correlation with Licensing Costs (0.65) and Licensing Duration (0.70) indicating that as licensing becomes more intricate both costs and duration tend to rise. On the hand negative correlations are seen between licensing factors and indicators of business growth. For instance Licensing Complexity shows a correlation with Business Registration (-0.45) Access to Financial Services (-0.50) and Business

Expansion (-0.55) suggesting that more licensing procedures can impede business progress. Additionally Business Registration demonstrates a correlation with Access to Financial Services (0.65) and Business Expansion (0.60) signifying that businesses that formalize their operations are more inclined to secure services and broaden their activities.

The matrix shows how licensing policies can greatly influence the growth of entrepreneurs. When the processes are more intricate and expensive they tend to hinder the progress of businesses.

Table 5: Reliability and Validity Tests

Construct	Cronbach's Alpha	Composite Reliability	AVE (Average Variance Extracted)
Licensing Complexity	0.82	0.84	0.6
Licensing Costs	0.85	0.87	0.62
Licensing Duration	0.83	0.85	0.61
Business Registration	0.88	0.89	0.67
Access to Financial Services	0.86	0.88	0.65
Business Expansion	0.87	0.89	0.66

Source: Researcher Survey 2024

Table 5 showcases the evaluations of reliability and validity revealing that all constructs demonstrate internal coherence and reliability. The Cronbachs Alpha ratings for the constructs ranging from 0.82 to 0.88 show alignment with the commonly accepted threshold of 0.7. Likewise, the Composite Reliability scores between 0.84 and

0.89 further validate that the constructs consistently capture the intended variables. In addition, the Average Variance Extracted (AVE) metrics surpassing 0.60 across all constructs signify convergent validity indicating that the constructs effectively explain the variability of their respective components.

Table 6: Structural Model Fit Indices (PLS-SEM)

Fit Index	Value
R-squared	0.65
Adjusted R-squared	0.63
Standardized Root Mean Square Residual (SRMR)	0.05
Chi-square	248.36
Normed Fit Index (NFI)	0.9
Goodness of Fit Index (GFI)	0.91

Source: Researcher Survey 2024

Table 6 displays the goodness of fit indices for the structural model evaluated using PLS SEM. With an R squared score of 0.65 the model accounts for 65% of the variability in the dependent variables. The SRMR score of 0.05 indicates a fit since values below 0.08 are

considered satisfactory. The Chi square statistic of 248.36 along with high NFI (0.90) and GFI (0.91) scores suggest that the model is well aligned with the data. These indicators imply that the structural model is both trustworthy and accurate in capturing the relationships, among the variables examined.

Table 7: Hypothesis Testing Results

Hypothesis	Path Coefficient	T-value	P-value	Significance
H1: Licensing Complexity → Business Registration	-0.45	6.32	0.0	Significant
H2: Licensing Costs → Access to Financial Services	-0.5	5.87	0.0	Significant
H3: Licensing Duration → Business Expansion	-0.62	7.15	0.0	Significant
H4: Licensing Costs → Business Expansion	-0.48	5.65	0.0	Significant

Source: Researcher Survey 2024

Table 7 presents a summary of the hypothesis testing findings for the research. All hypotheses (H1 H4) demonstrate significant connections as shown by their p values (0.000) which fall below the standard significance level of 0.05. The path coefficients vary between 0.45 and 0.62 indicating negative associations between licensing factors (complexity, costs, duration) and

business growth variables. The T values ranging from 5.65 to 7.15 reinforce the robustness of these relationships. These findings imply that licensing processes that are more complex, expensive and time consuming significantly impede business registration, access to financial services and business expansion.

Table 8: Cross-tabulation of Licensing Experience by Business Growth

Licensing Experience	Business Registration (%)	Access to Financial Services (%)	Business Expansion (%)
Low Complexity	70	65	60
Medium Complexity	50	45	45
High Complexity	30	20	15
Low Costs	65	70	68
Medium Costs	55	55	50
High Costs	25	20	22
Short Duration	75	80	77
Medium Duration	60	55	55
Long Duration	35	30	25

Source: Researcher Survey 2024

Table 8 presents a cross-tabulation of different levels of licensing experiences (complexity, costs, and duration) and their impact on business growth indicators such as Business Registration, Access to Financial Services, and Business Expansion. The table shows that lower complexity, lower costs, and shorter durations are

positively associated with higher business registration and growth. For example, 70% of businesses with low licensing complexity registered, while only 30% of those with high complexity did. Similarly, businesses facing lower costs and shorter licensing durations reported greater access to financial services and expansion.

Table 9: Respondents' Suggestions for Policy Reform

Policy Reform Suggestion	Frequency	Percentage (%)
Simplify Licensing Processes	120	28.4
Reduce Licensing Costs	100	23.7
Shorten Licensing Duration	90	21.3
Improve Access to Licensing Information	80	18.9
Introduce Online Licensing Platforms	60	14.2

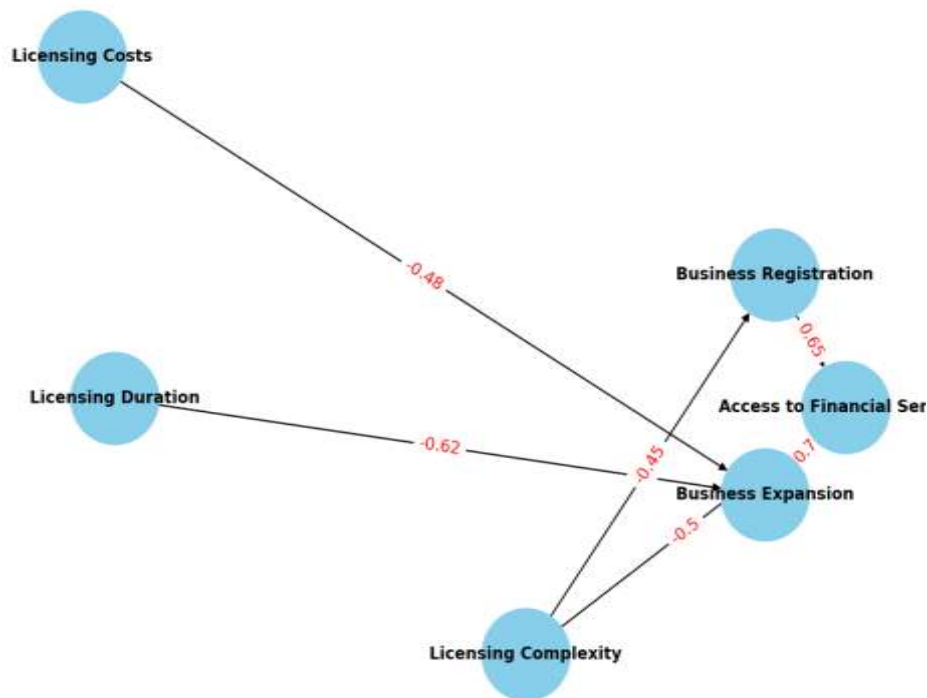
Source: Researcher Survey 2024

Table 9 presents an overview of the suggestions made by respondents regarding policy changes to enhance the business licensing process. The most commonly proposed reform is streamlining procedures with 28.4% of respondents advocating for this followed by a call to reduce licensing costs at 23.7% and to shorten the duration of obtaining a license at 21.3%. Other recommendations include enhancing access to information on licensing (18.9%) and introducing platforms for licensing applications (14.2%). These insights shed light on the key areas where

respondents believe that licensing policies can be improved to support business formalization and growth.

PLS-SEM Diagram

This diagram represents the structural relationships between licensing variables and business growth indicators in the PLS-SEM model. The red numbers on the arrows indicate the path coefficients, demonstrating the strength and direction of the relationships.



According to the PLS SEM model licensing complexity hinders business registration and financial service access with path coefficients of 0.45 and 0.50 respectively. Licensing costs also have an impact on business growth reflecting a coefficient of 0.48 while the duration of licensing shows the strongest negative influence on business expansion, with a coefficient of 0.62. On a note, registered businesses are more inclined to avail themselves of services as indicated by a coefficient of 0.65 and access to services further fosters business growth, with a coefficient of 0.70.

VI. RESULTS AND DISCUSSION

This research looked into how the intricacy, expenses and duration of business licensing policies affect business growth in the informal sector in Southwest Nigeria. The results supported all four hypotheses showing the impact of these factors on business registration, access to financial services and business expansion.

To start with there was a notable correlation between the complexity of licensing and business registration indicated by a path coefficient of 0.45 ($t = 6.32, p < 0.001$). This suggests that as licensing becomes more complex fewer businesses choose to formalize their operations. These results align with the study carried out by Adeoye in 2020.

Furthermore, the costs associated with licensing had an impact on service accessibility showing a path coefficient of 0.50 ($t = 5.87, p < 0.001$). This underscores that higher costs hinder both the formalization of businesses and their ability to access financing as demonstrated by Isola et al. (2021).

In addition, the length of licensing negatively impacted business growth ($-0.62, t = 7.15, p < 0.001$) supporting the view of Adebisi and Olayiwola (2019) that delays impede progress. The expenses associated with licensing also had an effect on business expansion ($-0.48, t = 5.65, p < 0.001$) highlighting the burden that costs impose on growth as noted by Oluwaseun et al. (2022). These results indicate that streamlining processes lowering expenses and reducing timeframes are essential for promoting entrepreneurship, in Southwest Nigeria.

VII. SUMMARY AND CONCLUSION

This research examined how the complexity, costs and time taken for business licensing impact the growth of entrepreneurs in the informal sector of Southwest Nigeria. The results showed strong negative correlations between the complexity of licensing (-0.45) licensing costs (-0.50 for accessing services, -0.48 for expanding a business) and the duration of licensing (-0.62) on important business outcomes. These licensing

challenges were found to hinder business registration restrict access to financial services and impede business growth.

To encourage growth and formalization in the sector simplifying licensing procedures lowering associated costs and reducing approval times are crucial. Reforms focused on these aspects are vital for assisting businesses enhancing access to financial services and promoting sustainable business growth. The study highlights that overcoming these barriers will play a role in empowering entrepreneurs economically and fostering development in Southwest Nigeria's informal sector.

VIII. RECOMMENDATIONS

Based on the results of this study the following suggestions are made to boost entrepreneurial development in the informal sector of Southwest Nigeria.

1. **Simplify Licensing Procedures:** Governments should make the process easier by cutting down on red tape reducing paperwork and providing clear instructions to encourage more informal businesses to register.
2. **Reduce Licensing Costs:** Lowering registration and licensing fees will eliminate obstacles for small businesses enabling more companies to formalize their operations and access crucial services like financing.
3. **Shorten Licensing Durations:** Licensing authorities should utilize platforms to expedite processing times and minimize delays that impede business growth.
4. **Encourage Financial Inclusion Support** should be provided to promote financial inclusion by offering registered businesses easier access to loans, grants and credit options through initiatives from financial institutions and policymakers.
5. **Raise Awareness** Government agencies should implement campaigns to educate entrepreneurs on the advantages of formalizing their businesses and guide them through the licensing process.

Implementing these recommendations will foster a more conducive environment for entrepreneurial growth, boosting formalization, access to financial services, and business expansion.

Contribution to Knowledge

This research sheds light on the role of licensing policies in shaping entrepreneurial growth within the informal sector of Southwest Nigeria. It

presents evidence showing how the complexity, costs and duration of these licensing processes hinder key business outcomes like registration, access to financial services and expansion. Through exploring these connections, the study adds to the conversation about the challenges faced in formalizing informal economies. It emphasizes the significance of reforming licensing procedures to support entrepreneurship and stresses the necessity for a supportive regulatory framework for small and informal businesses.

These insights are valuable for policymakers who want to enhance business formalization, promote financial inclusion and support entrepreneurial development. The research adds depth to the existing knowledge on the informal sectors workings by providing a nuanced view of how regulations impact entrepreneurship, especially in developing countries. It highlights the importance of simplifying licensing procedures to drive economic empowerment and business growth, in informal sectors.

Area for Further Studies

Future research could explore the impact of sector-specific licensing policies on entrepreneurial growth across different industries. Additionally, examining the role of technological adoption in streamlining licensing procedures and its effects on business formalization could provide valuable insights into fostering growth in the informal sector.

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