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Regulatory frameworks and small and medium-sized enterprises growth in Sierra Leone: The mediating role of informality

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Abstract

Business environment plays a vital role in enhancing SMEs formalisation and development. Accordingly, heavy regulation due to burdensome procedures and high cost of registration is detrimental for every business, more especially SMEs. This study therefore was undertaken to assess the nexus between regulatory frameworks and SMEs growth, by specifically investigating the mediating role of informality. The specific objectives were to assess the causes of informality among Small and Medium-sized Enterprises in Sierra Leone and to evaluate the effect of informality among small and medium-sized enterprises in Sierra Leone. The study adopted a descriptive research design that collected primary data from a sample of one hundred (100) using questionnaires. Descriptive statistical analysis was done using SPSS v26 and Microsoft Excel. Findings from the study assessed the causes of informality among SMEs and evaluated the effect of informality on SMEs by examining the problems faced by informal SMEs and the benefits of operating a registered business. The results showed that the problems faced by informal SMEs collectively affect their growth. The study concluded that the regulatory framework links SMEs to growth opportunities through the collective benefits derived from operating a registered business. The study further made recommendations on how to promote SMEs formalisation.

Keywords: Informality; Regulatory-Framework; Business-Environment; SMES-Growth

1. Introduction

Business activities such as advertising, marketing and production occur within a particular context known as the business environment. The business environment consists of forces, both controllable and uncontrollable, that do not only encapsulate businesses but also influence their strategies and decisions. Besides, it is within this business environment that the legal and regulatory frameworks establish the rules that influence investment decisions, the opportunities and rewards available to economic actors. These rules divide the economy into formal and informal and also create barriers for the development of businesses.

Regulatory and policy frameworks are crucial to the development of startups and SMEs, so countries pay attention to formulate and adopt regulatory frameworks that provide incentives and encouragement to the creation of startups and SMEs [1]. Focusing on this, governments are required to make laws and regulatory frameworks that can support the creation and development of SMEs. Appropriate regulatory and legal frameworks are vital factors that can facilitate the development of SMEs in the economy. [2], however, opines that SMEs are often constrained by opaque discretion, and overbearing regulations, which have made the business environment appalling for businesses in the SME sector.

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According to [3], the development of private sector requires a legal and regulatory environment that fosters business and that is supported by strong institutions with effective monitoring and enforcement powers. This is because an inappropriate policy and regulatory framework can lead to the distortion of market efficiency, increasing costs for participants and stunting the development of the agricultural sector [4]. Heavy regulations in establishing and operating a business have higher level of informal economic activities since regulatory challenges are perceived to be more severe especially in developing countries and for SMEs.

SMEs account for a large number of firms in many countries especially developing economies. This has made government of every country to focus on the development of the SME sector to promote economic growth [5]. Since SMEs have had the potential to promote economic growth and prosperity and also to reduce the income inequality gap, they have become the key to achieve high development levels and increasing the growth rate of many economies worldwide [6]. [7] maintains that SMEs are the main drivers of an economy because they create most of the jobs and contribute to reducing poverty and inclusive economic growth.

The Office of the Administrator and Registrar General was established through the Business Registration Act of 2007 as a strategic partner to ensure the creation of an enabling environment for doing business. Its mandate is to facilitate an efficient and effective administration of and registration of entities such as business registration, land transactions, industrial property and marriages. OARG is responsible for the registration of SMEs in Sierra Leone and it is the first point of contact in a quest for operating in the formal sector. So it has a huge impact on the number of SMEs that start and operate registered or unregistered businesses in Sierra Leone. Moreover, promoting entrepreneurship highly hinges on an enabling business climate that supports businesses.

Over the years, OARG has taken steps to create an enabling business climate. Evidence has been shown in the establishment of the One-Stop Shop that houses the NRA, FCC and OARG and also the establishment of branches in the provinces. As a result of these reforms to eradicate delays in registration processes and shorten the time of business registration, it has been expected that this should have increased the number of businesses that operate as registered ones. However, informality is still rising, which implies that delays in registration processes are just one element that retards business registration. It was noted in several studies that delays in registration or licensing processes, high cost of registration and licensing as well as too many procedures in registration and licensing processes affect the operation of SMEs.

Such situation discourages SMEs registration and encourages informality among them. Step must be taken to address this situation, as evidence has shown that informality affects SMEs growth. So it was on this basis that the study was conducted. The aim of this study was to assess the nexus between the regulatory framework and the growth of small and medium-sized enterprises in Sierra Leone. Specifically, the study sought to assess the causes of informality among Small and Medium-sized Enterprises in Sierra Leone and evaluate the effects of informality among small and medium-sized enterprises in Sierra Leone

2. Literature Review

2.1. Theories of Informality

The theories of informality explain why a firm operates in the informal sector. Besides, it provides an overview of why informality arises.

- **The Exclusion View:** This theory explains that it is because of high entry costs that businesses 'dismiss' themselves from the formal sector. According to [8], if the costs of entry in the formal economy are high, businesses decide to remain in the informal sector. This is because to enter in the informal sector is easy and unregulated.
- **Exit View:** This theory explains that informality is voluntarily practised among businesses. According to this view, businesses 'leave' the formal economy after assessing costs and benefits of formalization. [9] refers to this as the voluntarist view. As a subset of 'parasite view', businesses decide to stay small and informal to avoid detections by authorities [10].
- **Dualist View:** Also termed as dual economy, this theory explains that due to lack of jobs in the formal economy, the need for informal economy is highly felt. Authors have referred to this as the 'survivalist' or 'subsistence view'. [10] explain that to host the overflow workers and their small businesses due to lack of jobs in the formal economy, having an informal economy is necessary.

- **Structuralist View:** Informality is perceived as a subordinate complement of the formal economy. This implies that the informal economy provides the formal economy low-cost inputs and flexibility from operating unregulated [11].

2.2. The Concept of Informality among Small and Medium Enterprises (SMEs)

According to [12], many SMEs tend to operate in the informal economy, thus reducing their potential for growth and access to productive assets and limiting the benefits of social protection for their employees. Since the 1970s, debate and interest regarding informality have waxed and waned but as a concept its relevance continues to appeal to many activists, researchers and policy makers [13, p. 19]. The concept of informality is difficult to define [14].

The definition of informal sector provided in the United Nations System of National Account, cited by [12], refers to informal sector as a group of economic units engaged in the production of goods and services which are not registered under national legislation and which do not constitute a separate legal entity independent of the household owner or of its members that own them, and for which no complete sets of accounts (including balance sheets of assets and liabilities) are available. The informal economy encompasses businesses, workers and economic activities operating outside the legal and regulatory systems [15]

The concept of informality is associated with that part of the economy that does not operate in accordance with stated regulations. Informal entrepreneurs, therefore, are those starting a business or are the owner/manager of a business who engages in monetary transactions not declared to the state for tax, benefit and/or labor law purposes when they should be declared but which are legal in all other respects [16]. [17] points out that actors in an informal economy could be individuals; SMEs; as well as legally operating MNCs that perform unregulated transactions. Their operations are legitimized, but their businesses are unregulated by institutions of the society.

However, there has been a stream of literature considering informality as an illegal or underground activity with a crime-related conception [18, p. 104]. Macro-economic factors, especially during the period of economic slowdown further increase informality, even though high taxation, burdensome business regulations and lack of deterrence are also driving factors [19]. Informal economy condones “off the book” activities that are mostly done to ensure personal survival, and not necessarily to make profit. [14] revealed that women are more likely to participate in the informal sector as compared to men, while the tendency of not paying tax among SMEs in the informal sector is found to be high.

[20] investigated formalization process of small and medium enterprises in Vietnam using data from SME surveys in 2009 and 2011 and found evidence that informal status is the matter of no choice for small and vulnerable businesses. Furthermore, they found out that firms moving from formal to informal conditions are either weak businesses that have no potential to expand or strong enterprises which want to escape from government regulations, while formal firms and those moving from informal to formal status are strong and younger businesses that achieve the highest technical and scale efficiencies.

The factors that drive enterprises to the informal sector are regulations and the business environment, taxation, the credibility and quality of institutions, corruption and trust in government service delivery, and lack of deterrence mechanisms, such as inspection [11]. A large informal economy limits the tax base and for governments, makes it harder to provide support to the most vulnerable workers and limits availability of legal protections and access to credit, which restrict business productivity and growth [21].

2.3. Small and Medium Sized Enterprises (SMEs) Growth

The definition or classification of small and medium enterprises differs from country to country [22], because different scholars and authors define SMEs differently. For this reason, there is no universally accepted definition for SMEs. Defining SMEs is extremely based on using either qualitative or quantitative parameters such as number of employees, total investment, sales turnover, capital outlay, market share, structure of operations, available plant and machinery [23]. [6] refers to SMEs as companies/entities whose characteristics satisfy certain qualitative criteria and/or do not exceed certain quantitative limits.

Unfortunately, the SME sector in West Africa is a mixture of self-employment outlets and dynamic enterprises that are involved in an array of activities mainly concentrated in urban areas [24]. So available statistics on SMEs are inconsistent and fragmented due to lack of a unified database on SMEs [7]. European Union defined SMEs as companies with less than 250 employees and revenues not over 50M euros [25]. With all the various definitions that exist for SMEs depending on the country and sector, SMEs sector is characterized by three elements: labor intensive, gender-based and efficiency.

[26] reveal that Small and Medium Enterprises (SMEs) are the backbone of all economies and are also globally considered as the stepping stone for industrialization. The growth of SMEs requires good performance from the entrepreneurs who with an entrepreneurial spirit make small and medium enterprises dynamic in facing the adaptability of their business environment [27].

2.4. Impact of Regulatory Framework on SMEs Growth

[28] argues that the relationship between regulations and business activity has been under investigation in many academic circles in many articles over the last twenty years. The regulatory frameworks provide an avenue for firms to conduct their activities, so it has a critical role in influencing the potential growth and survival of these firms. Government creates institutions that regulate or control the actions and activities of firms and entrepreneurs. [29] classified these regulations as bureaucracy; unstable policy environment; tax regime, corruption, monetary and credit policies; customs and trade regulations; and control over labor contracts and employer–employee relationship. Government institutions have a clear influence on the rate of entrepreneurship [30].

To comply with polices, rules and procedures that government sets up, businesses spend a lot of time and money. Sometimes, these regulations are unnecessary and ineffective for profit-making, job creation and economic efficiency. This discloses that government plays a leading role in creating enabling legal and regulatory environments that encourage SMEs find opportunities to grow in different sectors of the economy [31]. [32] recommended that to promote SMEs development, it is particularly important to improve the regulatory environment and to remove bureaucratic obstacles for entrepreneurship.

[33] examined how government regulations have affected the establishment of new businesses in the beverage industry (Pure Water Firms) in Owerri metropolis. The outcome of the study revealed that high statutory fees and bureaucratic bottlenecks have a significant effect on the formation and managing of new businesses in Imo state. Also, [29] carried out a study to explore the effect of legal and regulatory frameworks on small and medium enterprises (SMEs) growth in Ghana and concluded that sound legal and regulatory systems are needed if ever SMEs growth is to thrive. The outcome of the study revealed that bureaucracy, unstable policy climate, unfriendly customs and trade regulations, tight monetary and credit policies, corruption, and excessive tax regimes, workforce and labor regulations have negative effect on SMEs growth in Ghana.

In another study, [34] examined how the regulatory environment may act as a hindrance to the growth of this sector and their ability to stay in business. Results indicate that to a certain extent, the regulatory environment influences the small business sector negatively. Moreover, [35] identified regulatory environment and related legislation and compliance as primary inhibitors of business start-up and growth. [36] analyzed the influence of the institutional environment on firms' capital structure in the European Union (EU) and found that a high-quality regulatory environment negatively affects firms' leverage, whereas social corruption has the opposite effect.

3. Materials and Method

Research design means the general plan or roadmap of how one goes about answering the research questions [37]. According to [38], research design is the structure adopted to provide answers to research questions. In this study, a descriptive research design was adopted because design permits the investigation of issues of what, where, and when and it is appropriate for collecting data about people's attitudes and opinions on informality.

Table 1 Distribution of the Sample Size

Sample	Size
SMEs	90
OARG Staff	10
Total	100

Source: Authors' Calculation of Sample Size (2023)

[39] refers to a research population as a collection of elements from which a particular researcher wishes to make deductions. The population of the study covered employees of OARG and SMEs. However, a sample of the population was obtained to participate in the study due to the resources available. Sampling is related with the selection of a subset

of individuals from within a population to estimate the characteristics of whole population [40]. The sampling technique adopted to obtain participants was simple sampling technique and convenience sampling.

In this study, both primary data and secondary were collected through the administration of questionnaires to the participants and documentary review respectively. Data collected were analysed using Statistical Product and Service Solution version 26 (SPSS v26) and Microsoft Excel and presented in tabular form. Descriptive statistics revealed the mean and standard deviation of each response.

4. Results

4.1. Response Rate

From the sample above, sixty-four (64) members participated in the study. This included fifty-seven (57) SMEs and seven (7) OARG staff. The study obtained a response rate of 64% and it was sufficient for data analysis. According to [41], the average and also reasonably acceptable response rate is 60% +/-20 meaning that anything below 40% is not reasonably acceptable and would generate validity issues.

4.2. Presentation of Results

Table 2 Causes of Informality among SMEs

Options	Frequency		Percentage	
	Yes	No	Yes	No
Don't know how to register	1	63	2%	98%
Don't know where to register	0	64	0%	100%
The costs of registering a business is high	13	51	20%	80%
Have not had the time	2	62	3%	97%
The procedures involved are burdensome	17	47	27%	73%
Don't see benefit in doing so	5	59	8%	92%
Cannot afford to do so	8	56	13%	87%
To avoid paying taxes	5	59	8%	92%
Size of the business	35	29	55%	45%
Income of the owner	44	20	69%	31%

Source: Field Data (2023)

Table 2 shows causes of informality among SMEs in Sierra Leone. Ten (10) causes were investigated. Based on the results presented in the said table, 2% of the participants believed that SMEs operate in the informal sector because they don't know how to register; 0% of the participants believed that SMEs don't know where to register; 20% believed that the costs of registered a business is high; 3% believed that SMEs have had no time to register; 27% believed that the procedures involved are burdensome; 8% believed that they are no benefit in registering a business; 13% believed that SMEs cannot afford to register their businesses; 8% believed that SMEs operate in the informal sector because they want to avoid paying taxes; 55% believed that the size of their businesses influenced them to operate in the informal sector; 69% believed that the income of the owner was a cause for the business to operate in the informal sector.

Table 3 shows the means and standard deviations of the elements considered as causes of informality among SMEs in Sierra Leone. Don't know how to register had a mean of 0.02 (SD = 0.125); don't know where to register had a mean of 0.00 (SD = 0.000); the cost of registering a business is high had a mean of 0.20 (SD = 0.406); have not had the time had a mean of 0.03 (SD = 0.175); the procedures involved are burdensome, had a mean of 0.27 (SD = 0.445); don't see benefit in doing so, had a mean of 0.08 (SD = 0.270); cannot afford to do so, had a mean of 0.13 (SD = 0.333); to avoid paying taxes had a mean of 0.08 (SD = 0.270); size of the business had a mean of 0.55 (0.502); income of the owner had a mean of 0.69 (SD = 0.467).

Table 3 Descriptive Statistics for the Causes of informality

Causes of Informality	Descriptive Statistics	
	Mean	Standard Deviation
Don't know how to register	0.02	0.125
Don't know where to register	0.00	0.000
The cost of registering a business is high	0.20	0.406
Have not had the time	0.03	0.175
The procedures involved are burdensome	0.27	0.445
Don't see benefit in doing so	0.08	0.270
Cannot afford to do so	0.13	0.333
To avoid paying taxes	0.08	0.270
Size of the business	0.55	0.502
Income of the owner	0.69	0.467

Source: Field Data (2023)

4.3. Decision Rule Using the Mean Value

0.00 to 0.49 unacceptable

0.50 to 1.00 acceptable

Based on this rule, only the size of the business and the income of the owner were considered as causes of informality among SMEs. This was because their mean values were 0.55 and 0.69 respectively.

Table 4 Problems Faced by SMEs in the Informal Sector

Options	Frequency		Percentage	
	Yes	No	Yes	No
Lack of access to credit and financial services, partly due to limited credit history.	19	45	30%	70%
Difficulty in expanding a business which cannot be openly advertised.	15	49	23%	77%
Lack of legal protection as formal businesses	18	46	28%	72%
Inability to secure formal intellectual property rights to their products and processes	3	61	5%	95%

Source: Field Data (2023)

Table 4 shows that 30% of the participants believed that lack of access to credit and financial services, partly due to limited credit history, was a problem that informal SMEs face; 23% believed that difficulty in expanding a business which cannot be openly advertised was a problem; 28% believed that lack of legal protection as formal businesses was a problem; 5% believed that inability to secure formal intellectual property rights to their products and processes was a problem faced by informal SMEs.

Table 5 presents the means and standard deviations for the problem faced by informal SMEs. The means and standard deviations of lack of access to credit and financial services, partly due to limited credit history, difficulty in expanding a business which cannot be openly advertised, lack of legal protection as formal businesses and inability to secure formal intellectual property rights to their products and processes were 0.30 (SD = 0.460), 0.23 (SD = 0.427), 0.28 (SD = 0.453) and 0.05 (SD = 0.213) respectively.

Table 5 Descriptive Statistics for the Problem faced by informal SMEs

Problems Faced by SMEs in the Informal Sector	Descriptive Statistics	
	Mean	Standard Deviation
Lack of access to credit and financial services, partly due to limited credit history.	0.30	0.460
Difficulty in expanding a business which cannot be openly advertised.	0.23	0.427
Lack of legal protection as formal businesses	0.28	0.453
Inability to secure formal intellectual property rights to their products and processes	0.05	0.213

Source: Field Data (2023)

4.4. Decision Rule Using the Mean Value

0.00 to 0.49 unacceptable

0.50 to 1.00 acceptable

Based on this rule, none of these problems singlehandedly proved to be problems that informal SMEs face. This was because their mean values were all below 0.50.

Table 6 Benefits of operating a registered business

Options	Frequency		Percentage	
	Yes	No	Yes	No
Increased possibilities of greater market positioning without legal problems	15	49	23%	77%
Increased credibility and trust of customers	6	58	9%	91%
Greater opportunities to access new markets and expand into international markets through exports.	12	52	19%	81%
Access to loans from different financial institutions both public and private.	24	40	38%	62%
Participation in public tenders and become a client of the state.	2	62	3%	97%
Options to associate with other people or enterprises to become more competitive.	1	63	2%	98%

Source: Field Data (2023)

Table 6 shows that 23% of the respondents believed that increased possibilities of greater market positioning without legal problems was a benefit of operating a registered business; 9% believed that increased credibility and trust of customers was a benefit; 19% believed that greater opportunities to access new markets and expand into international markets through exports was a benefit; 38% believed that access to loans from different financial institutions was a benefit; 3% believed that participation in public tenders and become a client of the state was a benefit; 2% believed that options to associate with other people or enterprises to become more competitive was a benefit.

Table 5 presents the means and standard deviations for the benefits of operating a registered business. The mean values and standard deviations of increased possibilities of greater market positioning without legal problems, increased credibility and trust of customers is a benefit, greater opportunities to access new markets and expand into international markets through exports, access to loans from different financial institutions, participation in public tenders and become a client of the state and options to associate with other people or enterprises to become more competitive is a benefit were 0.23 (SD = 0.427), 0.09 (SD = 0.294), 0.19 (SD = 0.393), 0.38 (0.488), 0.03 (SD = 0.175), 0.02 (SD = 0.125) respectively.

Table 7 Descriptive Statistics for the benefits of operating a registered business

Benefits of Operating a registered business	Descriptive Statistics	
	Mean	Standard Deviation
Increased possibilities of greater market positioning without legal problems	0.23	0.427
Increased credibility and trust of customers	0.09	0.294
Greater opportunities to access new markets and expand into international markets through exports.	0.19	0.393
Access to loans from different financial institutions both public and private.	0.38	0.488
Participation in public tenders and become a client of the state.	0.03	0.175
Options to associate with other people or enterprises to become more competitive.	0.02	0.125

Source: Field Data (2023)

4.5. Decision Rule Using the Mean Value

0.00 to 0.49 unacceptable

0.50 to 1.00 acceptable

Based on this rule, none of these benefits individually proved to the benefits of operating a registered business. This was because their mean values were all below 0.50.

Table 8 Factors for promoting SMEs formalisation

Options	Frequency		Percentage	
	Yes	No	Yes	No
Stamping out public sector corruption	6	58	9%	91%
Simplifying business registration procedures	20	44	31%	69%
Provision of advice and support on how to formalize	5	59	8%	92%
Simplifying tax returns by developing direct and indirect tax incentives	6	58	9%	91%
Increasing the benefits of operating in the formal sector	20	44	31%	69%

Source: Field Data (2023)

Table 8 shows that 9% believed that stamping out public sector corruption can promote SMEs formalisation; 31% believed that simplifying business registration procedures can promote SMEs formalisation; 8% believed that provision of advice and support on how to formalise can promote SMEs formalisation; 9% believed that simplifying tax returns by developing direct and indirect tax incentives can promote SMEs formalisation; 31% believed that increasing the benefits of operating in the formal sector can promote SMEs formalisation.

Table 9 presents the means and standard deviations for the benefits of operating a registered business. The mean values and standard deviations of stamping out public sector corruption can promote SMEs formalisation, simplifying business registration procedures, provision of advice and support on how to formalise, tax returns by developing direct and indirect tax incentives and increasing the benefits of operating in the formal sector can promote SMEs formalisation were 0.09 (SD = 0.294), 0.31 (SD = 0.467), 0.08 (SD = 0.270), 0.09 (SD = 0.294) and 0.31 (SD = 0.467) respectively.

Table 9 Descriptive Statistics for the Factors that promote SMEs formalisation

Factors for promoting SMEs formalisation	Descriptive Statistics	
	Mean	Standard Deviation
Stamping out public sector corruption	0.09	0.294
Simplifying business registration procedures	0.31	0.467
Provision of advice and support on how to formalize	0.08	0.270
Simplifying tax returns by developing direct and indirect tax incentives	0.09	0.294
Increasing the benefits of operating in the formal sector	0.31	0.467

Source: Field Data (2023)

4.6. Decision Rule Using the Mean Value

0.00 to 0.49 unacceptable

0.50 to 1.00 acceptable

Based on this rule, none of these factors individually could promote SMEs formalisation. This was because their mean values were all below 0.50.

5. Discussion

5.1. Causes of Informality among SMEs in Sierra Leone

In this study, it was revealed that only the size of the business and the income of the owner were considered as causes of informality among SMEs. Although respondents selected all the ten causes, not all of them were genuine reasons for SMEs to operate in the informal sector. The descriptive statistics done proved the genuineness of each of these causes.

5.2. Problems that informal SMEs face

The analysis of findings indicated that none of the problems individually affected SMEs growth; however, collectively they could affect the growth of SMEs. Respondents believed that lack of access to credit and financial services, partly due to limited credit history, difficulty in expanding a business which cannot be openly advertised, lack of legal protection as formal businesses and inability to secure formal intellectual property rights to their products and processes were all problems that informal SMEs face.

5.3. Benefits of operating a registered business

In this study, it was found that the benefits of operating a registered business could not individually impact SMEs growth; collectively, however, they can contribute to the growth of SMEs. Respondents admitted that increased possibilities of greater market positioning without legal problems, increased credibility and trust of customers is a benefit, greater opportunities to access new markets and expand into international markets through exports, access to loans from different financial institutions, participation in public tenders and become a client of the state and options to associate with other people or enterprises to become more competitive were all benefits of operating a registered business.

5.4. Ways of promoting SMEs formalisation

The study disclosed that, singlehandedly, all the factors examined cannot promote SMEs formalisation. Yet, they can collectively promote SMEs formalisation. They can enforce one another to ensure that the formalisation of SMEs is promoted. The belief is that, stamping out public sector corruption can promote SMEs formalisation, simplifying business registration procedures, provision of advice and support on how to formalise, tax returns by developing direct and indirect tax incentives and increasing the benefits of operating in the formal sector can promote SMEs formalisation are all together relevant and required for promoting SMEs formalisation.

6. Conclusion

The study assessed the nexus between regulatory framework and SMEs growth in Sierra Leone. It can be concluded that most SMEs decide to operate in the informal sector due to the size of the business and income of the owner. The research findings confirm that the role of regulatory framework toward SMEs growth is very vital. Heavy regulations in establishing and operating a business have higher level of informal economic activities since regulatory challenges are perceived to be more severe especially in developing countries and for SMEs. The low growth rate of SMEs in Sierra Leone is linked to informality. The study also reveals that unregistered SMEs struggle to grow because of the group of problems that they experience. Although the benefits of operating a registered business as a unit have no influence on SMEs growth, the benefits are vital for SME growth. As a group, they can influence the growth of SMEs. So, it is imperative to promote SMEs formalisation. This can link them to more access to growth opportunities and minimise the problems that they are facing.

Recommendations

To ensure that unregistered SMEs move to the formal sector, the following recommendations are hereby proffered. OARG should create a division that provides advice on how SMEs should register their business. Majority of SMEs do not know how to register, so by providing advice on registration via public platforms can encourage them to formalize their businesses. Moreover, OARG should automate their registration system. Online registration should be operated for SMEs and other businesses. This can help to save the time and other administrative costs involved in registering SMEs. Also, OARG should put in place a harmonized business registry. This will ensure the operation of a reliable, legally valid and easily accessible system that is the same for all enterprises throughout the country. Further, corruption among public officials in charge of SMEs regulation should be stamped out. This can be done by maintaining accountability and transparency. Finally, OARG should collaborate with NRA to provide tax incentives, exemptions and other benefits to registered SMEs. This can be a strategy to increase the benefits of operating in the formal sector, as unregistered businesses compare the costs involved in and the benefits of operating in the formal sector before they can decide to formalize their enterprises.

Compliance with ethical standards

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Disclosure of conflict of interest

The authors declare no potential conflicts of interest with regards to the research, authorship and or publication of this article. The authors whose name are listed on this article certify that they have No affiliations with or involvement in any organisation or entity with any financial or non-financial interest in the subject matter or materials discussed in this manuscript.

Statement of informed consent

Informed consent was obtained from all individual participants included in the study.

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