

**A REVIEW OF THE LEGAL FRAMEWORK FOR SINGLE-MEMBER COMPANIES IN
NIGERIA: PROGRESS AND PITFALLS**

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Abstract

The notion of Single-Member Companies (SMCs) is regarded as a forward looking legal concept that addresses dynamic contemporary imperatives of entrepreneurship, especially in emerging jurisdictions such as Nigeria. This study reviews the historical background, legal recognition and practical significance of SMC in the corporate law of Nigeria and discusses in particular the changes that have been made to accommodate such form of company under the Companies and Allied Matters Act (CAMA) 2020. Drawing on doctrinal legal method, the study critically examines and evaluates the statutory provisions, regulatory norms and judicial discourse on SMCs in multiple jurisdictions, including India, South Africa and the United Kingdom. The core proposition is that despite the advancement of SMCs in Nigeria's lawscape that has brought legitimacy in the business ecosystem and exerted some economic inclusiveness, the legal infrastructure is deficit in clear regulatory regime, judicial protection and corporate governance tenets. The study argues that for the SMC project of change to fully actualize its potentials, Nigerian regulatory authorities have to embrace a more finely nuanced, tactful balance of flexibility and accountability. This study adds to the emerging corpus of legal literature calling for comprehensive but responsible reform of corporate law in Africa.

Keywords: Single-Member Companies, CAMA 2020, Corporate Law Reform, Business Formalization, Comparative Company Law

1.0 Introduction

The emergence and legitimacy of Single-Member Companies (SMCs) in Nigeria, and for that matter, the country's corporate legal regime are indicative of the changing perception of economic participation and the corporate personality. Historically, it was necessary for incorporation that there be at least two natural persons who formed a company, a position chartered on English company law and engrained in previous CAMAs (Companies and Allied Matters Act). However, with the provisions of CAMA 2020, especially under Section 18(2), the hindrance to sole incorporators have been removed and we now have one-person companies². This legislative move is in line with the global trend which acknowledges the commercial realities of sole entrepreneurship and digital businesses. It is also a remarkably clean break from colonial era business regulation, and places Nigeria in a position to eschew more inclusive corporate practices³.

Single-member limited liability companies create a problem for the "formalistic account" of corporate law because generic corporate legal concerns are complicated by the fact that in single-member governance there is no one else to collectively deliberate over action, no one else to act as the agent of the firm, no one else to obligate the entity through the use of particular terms, no one else who the entity should trust with control of discretionary authority, and (in the context of single-member limited liability company law) no one else with whom to share profits. The classic theory of corporate legal personality, voiced in *Salomon v Salomon & Co Ltd*, was based on abstraction of the individual and company, and assumed there was more than one stakeholder and hierarchies of control⁴. Yet in the context of SMCs this kind of separation is less straightforward, and questions of responsibility, governance and transparency need to be re-thought. The Nigerian legal system, through the legal sanction of SMCs, raises the question whether (and if so extent to

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² Companies and Allied Matters Act 2020 (Nigeria), Section 18(2) (Abuja: Government Printer, 2020).

³ A Keay, *Company Directors' Responsibilities to Creditors* (London: Routledge, 2007) 12.

⁴ [1897] AC 22 at 30.

which) notions like fiduciary duty and the corporate veil apply where the company becomes, in reality, the alter ego of one person⁵.”

The literature on the practical and legal aspects of SMCs in Nigeria, especially from Business Facilitation (Miscellaneous Provisions) Act 2023 is scanty. Although the purpose behind SMCs was to lower formal hurdles to doing business, there are many ambiguities concerning their governance, their accountability and their liability. In addressing these lacunae, this paper does so through reading relevant statutory provisions alongside case law and comparative legal systems, deploying a legal doctrinal approach. It also highlights risk of regulatory misuse or avoidance, especially where SMCs are employed to cover fraud or avoid taxes⁶. On the policy front, the emergence of SMCs brings important questions concerning wider economic inclusion, the formalization of the informal sector, and the tradeoffs between ease of doing business and regulatory supervision. The Nigerian government, through CAMA 2020 and the Business Facilitation Act 2023, intends to improve the country’s business climate rankings by simplifying the process of incorporating businesses⁷. But the practical implications of these changes for the protection of creditor rights, dispute resolution, and internal compliance in SMCs have not yet been studied. For both legal scholars and regulators, the question should be asked of whether the legal landscape has, in fact, kept up with the actual challenges these bodies present⁸.

Methodologically, this study is a framework rooted in the doctrinal method that considers the manner in which judges interpret principles through the lens of statutes, precedents, and secondary academic commentaries. It also draws on comparative legal experiences from countries including the UK, India and South Africa, in which SMCs have evolved, and have been entrenched, under alternative regulatory rationales. By comparing Nigerian reforms with international models, this paper seeks to highlight structural strengths and weaknesses of SMCs. Doctrinal examination is assisted by the internationalist interpretation of the purpose of a legal regulation and the inspired interpretative reasoning⁹ to resolve ambiguities and anticipate potential difficulties of application. For the ebb and flow of this discourse, the study is organized in seven sections. Following this introduction, the second section traces the legal development of company personality in Nigeria, to set the scene for the emergence of the single member paradigm. The third section evaluates the SMC in CAMA 2020 and the Business Facilitation Act 2023, providing comments and suggesting possible areas for reform. The fourth and fifth sections reflect theoretical implications and practical challenges of SMCs respectively, and the sixth is comparative. The last part offers some concluding remarks and suggestions for the law and policy change in Nigeria.

The original contribution of this paper is in its critical engagement of Nigeria’s SMC approach and its relation to current discussions concerning business reform, legal identity and economic democratization. It contends that although the purpose behind SMCs is laudable, necessary legal bulwarks must be put in place against abuse and continue to make accountability meaningful. A review of how the Nigerian courts and regulators will perceive SMCs will be crucial and it would determine the success of SMCs in future. In the end, the paper illustrates the synchrony required between law, policy and practice in encouraging the sustainable corporate form for micro-enterprise in an emerging commercial terrain of Nigeria.

⁵ P Davies and S Worthington, Gower: *Principles of Modern Company Law* (London: Sweet & Maxwell, 2016) 67.

⁶ I O Smith, *Legal Framework for Business in Nigeria* (Lagos: Ecowatch Publications, 2020) 102.

⁷ CAMA 2020. s. 21(1). To simplify businesses in Nigeria, Section 21(1) of the Companies and Allied Matters Act (CAMA) 2020 provides that a company may be formed by one or more persons for any lawful purpose. This provision introduces the legal possibility of forming single-member companies in Nigeria. It marks a departure from the earlier requirement under CAMA 1990, which mandated at least two persons to form a company.

⁸ U E Ofodile, "Legal Reform and Business Facilitation in Nigeria" (2023) 8(1) *Nigerian Journal of Commercial Law* 45.

⁹ R K Suri, *Corporate Law in India: A Comparative Approach* (New Delhi: LexisNexis, 2018) 54.

2.0. Conceptual and Theoretical Foundations of Single-Member Companies

2.1. Single-Member Companies: The Legal and Practical Implications

The concept of Single-Member Companies (SMCs) is implied in its duality of diction coupled with its operation in the politics of economic system. As a matter of law, an SMC is a corporate body that is established as a limited liability company despite all her shares being owned by a single person and as such it possesses distinct legal personality from its owner¹⁰. The practical importance lies in their capacity to promote formal business activity among sole entrepreneurs, particularly in developing economies where informality dominates the business landscape. Davies and Worthington are of the opinion that this promotes ready access to legal safeguards and limits the barriers to entry to corporate life. SMCs, therefore, serve as a span between legal abstraction and entrepreneurial reality¹¹.

The statutory recognition of SMCs in CAMA 2020, particularly under Section 18(2), can be said to be a ‘game-changer under Nigerian company law. Previously, the stipulation that a corporation must have a minimum of two shareholders would not allow for many sole proprietors to work through a formal corporation. It is now possible for an entrepreneur to form and operate a corporation legally, while still preserving limited liability, easing regulatory compliance and organizing capital. In his advanced foundational analysis, Gower stressed that this should be the case, providing statutory formalities are followed. In this way, the legal structure of the law matches modern business realities¹².

2.2. Theoretical Justifications: Corporate Personality

Theoretical underpinning of SMCs is found in a further examination of the concept of corporate personality. This principle, which was authoritatively stated in *Salomon v Salomon & Co. Ltd*, emphasized that a properly incorporated company is a separate identity from its owner(s), singly or collectively. This judicial decision established the modern concept of ownership in a corporate veil which was bound to fail as a result of insufficient consideration. Hannigan takes this a step further arguing that corporate personality is the primary rather than the multiplicity of members legal construct around which the SMC is built. The single member variety may be seen, then, as a natural corollary of the Salomon rule¹³. Agency theory offers yet another solid theoretical basis for the single-member corporation. According to this theory, there are agency costs in typical firms when ownership and control are separated because managers don't always act in the best interests of their shareholders. Since the owner of SMCs typically serves as the manager, this dichotomy is frequently collapsed in SMCs, which also reduces internal conflicts¹⁴. According to Easterbrook and Fischel, one of the uses of corporate form is to solve such agency problems in a cost-effective manner, and SMCs help to do this. However, they warn that such internal coherence can create external risks, which is the reason for statutory checks and balances¹⁵.

Risk theory also supports the SMC framework by emphasizing that limitation of liability is central to promoting business innovation. Small business owners and sole proprietors in particular, are inherently exposed to financial risk with few assets with which to spread their risk. SMCs offer a legal means to compartmentalize exposure, so that people can pursue economic activities without putting personal assets at risk. Armour and Hansmann argue that the function of the law is to promote risk-taking within bounded limits

¹⁰ P L Davies and S Worthington, Gower. (n 5)112

¹¹ A Michael, “Incorporating Informality: The Future of Single-Member Companies in Nigeria,” *Nigerian Journal of Commercial Law* 9.1 (2021). 48.

¹² *ibid.*, 114; see also L.C.B. Gower, *Modern Company Law* (London: Stevens & Sons, 1979). 67.

¹³ Brenda Hannigan, *Company Law* (Oxford: Oxford University Press, 2021). 45; see also *Salomon v Salomon & Co Ltd* [1897] AC 22.

¹⁴ Frank Easterbrook and Daniel Fischel, *The Economic Structure of Corporate Law* (Cambridge, MA: Harvard University Press, 1991). 35

¹⁵ Margaret Blair, “Firm-Specific Human Capital and Theories of the Firm,” in *Corporate Governance: Theoretical and Empirical Perspectives*, edited by Xavier Vives (Cambridge: Cambridge University Press, 2000). 93

by providing a protective legal shield. This legal feature is exactly what makes SMCs attractive for microenterprises¹⁶.

2.3. Evolution of the SMC Concept in Company Law Literature

Traditionally, company law distrusted the legitimization of one person companies, due to the potential for fraud, undercapitalization and the potential to abuse the various advantages to limited liability which companies are able to provide. However, contemporary corporate law scholarship has adapted to embrace economic pluralism through use of a more functional and empirical approach. Kraakman *et al.* argue that legal doctrine should not ignore real world business practices, but rather control them in a satisfactory manner¹⁷. The SMC appears in this metanarrative as an entrepreneurial lever, rather than a legal glitch, to the extent that one of its chief sponsors only learns of the SMC when a local Dubai Marxist attempted to patent the mass-produced copying concept he purportedly invented. Modern research replaces attention on structural stability with attention on structural adequacy.

The Single Member Company (SMC) has risen to respectability in recent decades, largely as a result of European Union legislation and common law reform. The 12th Company Law Directive (89/667/EEC) represented a fundamental change in directing member states to allow for the establishment of private limited liability companies with a single member, finally recognising that legal personality and limited liability not necessarily require multiple members. Gower and Davies stress that the development in the law it represents is the continuation of a broader trend toward functional realism in company law, in which economic utility trumps outmoded formalisms¹⁸. The likes of Dignam and Lowry also emphasize that the law should tally with the reality of close corporation, which are *de facto* ruled by one individual, even if on paper the firm does have more than one member. The theoretical basis of an SMC, therefore, is drawing on wider moves in law towards deregulation, flexibility and legal pragmatism¹⁹.

The legal academy, too, has come to regard the SMC less as a threat to traditional corporate doctrines and more as a sensible form of organization for the conduct of business in contemporary commerce. According to Hannigan, ‘SMC reflects corporate laws’ evolving response to technological innovation, digital entrepreneurship and informal economic participation²⁰. This flexible attitude can be observed in countries such as the United Kingdom, Nigeria and India as they are reforming their companies’ regimes and recognizing the one-man company as a formal entity with less onerous compliance conditions. In addition, the literature argues that agency problems are lower in micro-enterprises, which: "implies that simpler legal forms are sufficient²¹." This reconceptualization has enabled the SMC become the rule, rather than the exception, to the norm of business regulation today. The single-member company is generally nested within the legal framework of private limited liability companies, sharing their basic attributes but diverging in shareholder structure²². While private companies may have multiple shareholders, SMCs operate with only one, yet both enjoy limited liability, flexible governance, and reduced public reporting obligations. Legal systems such as Nigeria’s CAMA 2020 and the UK Companies Act 2006 have had to adapt rules concerning board meetings, resolutions, and corporate documentation to fit one-member scenarios. Sealy and Worthington note that these adjustments ensure that the SMC retains its corporate character despite its simplified structure. Thus, the relationship is one of adaptation, not contradiction²³.

¹⁶ John Armour and Henry Hansmann, “The Essential Role of Organizational Law,” *Yale Law Journal* 110.3 (2001).395

¹⁷ Kraakman, Reinier, *et al.* *The Anatomy of Corporate Law: A Comparative and Functional Approach*. (Oxford: Oxford University Press, 2009)

¹⁸ Gower, L.C.B. and Davies P. L., *Principles of Modern Company Law*. (London: Sweet & Maxwell, 2008), p. 132.

¹⁹ Dignam, Alan and Lowry, John. *Company Law*. (Oxford: Oxford University Press, 2014) 65.

²⁰ B Hannigan, *Company Law*. (Oxford: Oxford University Press, 2016) 98.

²¹ *ibid.* 99.

²² This also emphasizes the relationship with Private and Limited Liability Companies.

²³ Sealy, Len, and Sarah Worthington, *Cases and Materials in Company Law*, 11th ed. (Oxford: Oxford University Press, 2016) 102; CAMA 2020, s. 18(2).

2.4 Governance and Compliance Challenges

The distinct governance challenges posed by SMCs arise primarily from the lack of internal accountability mechanisms typical in multi-member companies. With the same individual acting as shareholder and director, opportunities for abuse increase, and oversight must be externally imposed through statutory obligations. These include obligations to record decisions, maintain financial transparency, and comply with disclosure rules. According to Lowry and Reisberg, proper regulatory design ensures that SMCs do not become tools of fraud or tax evasion but remain vehicles for legitimate business organization. Legal accountability thus complements economic efficiency²⁴. The absence of internal accountability systems that are common in multi-member companies is the main cause of the unique governance issues that SMCs present. Opportunities for abuse rise when the same person serves as both a director and a shareholder, necessitating external oversight through legal requirements. These include duties to adhere to disclosure regulations, preserve financial transparency, and document decisions. According to Lowry and Reisberg, appropriate regulatory design guarantees that SMCs continue to be vehicles for lawful business organization rather than turning into instruments of fraud or tax evasion²⁵. Thus, legal accountability enhances economic effectiveness²⁶.

From a philosophical standpoint, the SMC structure represents a change in corporate theory from regulated individualism to collective enterprise. It recognizes how economic agency is changing in a digitalized and globalized world where people are driving innovation and trade more and more. Therefore, under the rule of law, SMCs are a legal acknowledgement of the ability of the individual entrepreneur to make a significant economic contribution. Hannigan notes that this is a redefining of corporate identity, based on ethical behaviour and regulatory competence rather than numbers²⁷. This is a conceptual extension of the democratic reach of incorporation.

3.0. Legal Recognition of Single-Member Companies in Nigeria under CAMA 2020

3.1 Historical Exclusion of SMCs under Previous CAMA Regime

Prior to the introduction of the Companies and Allied Matters Act (CAMA) 2020, there was no single-member company under Nigerian company law. Under the repealed CAMA 1990, a private company had to have at least two members, thereby making it difficult if not impossible to incorporate and run a company as a solo or individual entrepreneur. That was the last remaining hardcore structural constraint to formalization for sole traders and micro-enterprises. Due to lack of statutory recognition, the one-man business was carried on either informally or by devices of legal fictions such as the nominee shareholding²⁸. The inflexibility of the old regime was widely condemned as inhibitive of innovation and damaging to companies' ability to access corporate protections²⁹. This was out of step with global trends such as the UK and India which have adopted single member companies. Academics and advocates had long advocated for a reform that would synchronize Nigerian law in line with global best practices. The situation was only exacerbated by the advent of the digital and gig economies. The Act of 2020 brought about fundamental changes in company law by introducing the concept of single-member companies for the first time³⁰. The reform was perceived as an essential response to the economic conditions and to the formalization of the underground economy³¹.

²⁴ John Lowry and Arad Reisberg, *Pettet's Company Law: Company Law and Corporate Governance*, 4th ed. (Harlow: Pearson Education, 2012) 154

²⁵ *ibid.* 154

²⁶ Wole Adetunji, "Governance of One-Person Companies: Nigerian Challenges," *African Journal of Business Law* 4.3 (2020) 38.

²⁷ Hannigan, (n 20). 52; Kraakman *et al.*, (n 17). 79.

²⁸ Companies and Allied Matters Act (Repealed) Cap C20 LFN 2004. s. 18.

²⁹ Olatunji, "Reforming Company Law in Nigeria: The Case for One-Man Company." *Nigerian Journal of Commercial Law*, vol. 8, no. 2, (2015). 55–59.

³⁰ J O Abugu, *Company Law under the Nigerian Legal System*. (Lagos: MIJ Publishers, 2014), pp. 71–72.

³¹ A Adewopo, "Formalization of Informal Enterprises through CAMA 2020." *Nigerian Bar Journal*, vol. 9, no. 1, (2021). 12–14.

3.2 Salient Provisions of CAMA 2020: Section 18(2), Section 18(3)

By virtue of CAMA 2020 as amended by the Business Facilitation (Miscellaneous Provisions) Act 2023, the formation of a private company now allows for one man to be the founder of the company and the sole shareholder. Section 18(2) states that “one person may form and incorporate a private company” which is a departure from the earlier requirement of a minimum of two persons³². This is supplemented by Section 18(3), which provides that all the legal effects that are appropriate for stock corporations also apply to single-member companies, unless explicitly ruled out. In such a way the law confers upon SMCs full legal status, powers and protection of liability. This clause provides one-person companies the same status as private companies under law³³. In effect, it means that a sole trader can now register a limited liability company without having to fulfill the requirements of nominee directors and shareholders. It also points out that the presence of a single shareholder does not alter the company's separate legal personality. This statutory recognition is in line with international best practice and removes existing legal bottlenecks³⁴. The section simply legitimates the increasing trend of sole proprietorship in Nigeria. It also paves the way for more dynamic tech-based micro-businesses to formalize as registered corporations³⁵.

3.3 Role of the Corporate Affairs Commission (CAC) in Registration and Regulation

The Corporate Affairs Commission (CAC) plays a central role in the incorporation, regulation, and oversight of single-member companies in Nigeria. It occupies a pride of place in the formation, control, and supervision of single-member companies in Nigeria. As empowered by Section 8 of CAMA 2020, the CAC is responsible for setting procedural rules, validating incorporation documents, and ensuring that SMCs comply with statutory requirements and established procedural regulations³⁶. The CAC can register a company having only one member when the required documents are submitted and fees is paid. It also registers electronic companies so as to allow for transparency and verification. The Commission’s E-registration reforms are also making registration a lot easier, as applicants can now register their SMCs online, at the click of a mouse³⁷. The CAC has also released special measures to facilitate the work of SMCs, including the dispensing with holding annual general meeting for one-person firm. This is premised on the authority of Section 237(1) of CAMA 2020 which exempts single-member companies from AGMs and enables them to operate with lesser administrative bottlenecks³⁸. The CAC can also make law, ensuring that these companies are actually filing annual returns and statutory communications - these are necessary in order for a company to retain good corporate standing. CAC equally has residual powers to apply sanctions or commence striking-off process in a situation of non-compliance. These features highlight how the Commission's regulatory oversight strikes the difficult balance between the ease of doing business and the statutory accountability³⁹.

4.4 Applicable Regulatory Requirements and Conditions of Compliance

Besides statutory requirements, the CAC has issued regulatory instruments and pragmatic directions which elucidate the application of compliance requirements to single-member companies. These involve the simplification of filing procedure under CAMA 2020, acceptance of digital signature and waiver of mandatory company secretary where applicable under Section 330(1) of CAMA 2020⁴⁰. Directors are still subject to fiduciary duties but SMCs are permitted a lighter governance touch. The CAC’s regulations are drafted to make it easier for small businesses, particularly start-ups and digital companies, to fulfill all regulatory obligations. These are part of broader initiatives by Nigeria to improve the proximity for doing

³²Companies and Allied Matters Act 2020 (as amended). s.18(2).

³³ *ibid.* s 18(3).

³⁴ N Oji, "Implications of CAMA 2020 for SMEs in Nigeria." *Business Law Review*, Vol. 3, No. 2, 2021. 33–35.

³⁵ *ibid.* ss. 18(2) and 18(3).

³⁶ Companies and Allied Matters Act 2020. s. 8.

³⁷ CAC, “User Guide on Company Registration Portal,” 2023. 3–4.

³⁸ Companies and Allied Matters Act 2020. s. 237(1).

³⁹ *ibid.* s. 417; see also CAC Regulations 2021

⁴⁰ *ibid.* s. 330(1).

business, through the process of institutional actions⁴¹. However, single member companies do not escape the requirement to follow certain legal compliances like maintaining records and other books of account, filing annual returns under Section 417, and filing of tax returns. They are also required to make appropriate disclosure of beneficial ownership in accordance with the anti-money laundering legislation and the Companies Regulations 2021. Non-compliance may result in regulatory penalties or revocation of corporate status. While SMCs have operational autonomy, the regulatory framework is designed so as to prevent SMCs from being vehicles for malfeasance. This flexibility as well as accountability shapes the evolving compliance context for SMC in Nigeria⁴².

5.0. Advantages and Economic Justifications for SMCs in Nigeria

i. Supporting MSMEs and Entrepreneurs seeking to establish businesses of their own

The Single-Member Companies (SMCs) would provide lone businessmen with a legal means of conducting their activities with a corporate soul. This will spur formalisation and expansion of the Micro, Small and Medium Enterprises (MSME) sector. The simpler nature of the Single Member Companies (SMCs) enable more Nigerians to legally own and run a business. This stimulates new business ingenuity and healthy competition.

ii. Formalising informal businesses and easing the path to credit

SMCs help nudge informal businesses to become more formalized, which allows them to access institutional financing and regulatory assistance. Having been formalized, these businesses can keep records, build their credit and attract investors. In addition, the simplified registration process by the Corporate Affairs Commission (CAC) under CAMA 2020 will improve access to formal incorporation.

iii. Limiting Personal Liability and Promoting Ease of Doing Business

SMCs serve as a form of protection for business owners against unforeseen circumstances such as business failures, enabling them secure their personal assets. This is because personal debts and business debts are kept separate. This cap on liability spurs people to take risks, which are so critically beneficial for a dynamic economy. The single-member format also aligns with international reforms that are simplifying businesses by reducing corporate bureaucracies.

iv. Promoting youth's and women's participation in business

SMCs provide women and young people who do not have enough money or business partners with the wherewithal to launch and operate their own businesses. The flexibility and low entry barriers make it easier for these demographics to participate in the formal economy. This contributes to the achievement of Nigeria's objectives of gender equality and youth empowerment and to a development that is fully inclusive.

v. Reducing corporate governance cost and bureaucracies

An SMC does not need to have board of directors or shareholders' meetings, which reduces administrative costs and simplifies the decision-making process in the company. Entrepreneurs can make swift business decisions without delay or extensive corporate procedures. That reduces operational expenses and makes managers more efficient.

vi. Improving Revenue Collection and Compliance efforts

Registering small companies as SMCs makes them taxable and allows for greater enforcement of tax laws. This results in higher government revenues without the need to add to their tax burden. It also enables companies to take advantage of tax planning opportunities and incentives for corporations.

⁴¹ CAC Guidelines on One-Person Companies, 2021.

⁴² Companies Regulations 2021, Part 3; see also Financial Reporting Council of Nigeria (FRCN) Guidelines 2022.

vii. Supporting new technology and innovation in businesses

SMCs are very appealing to tech entrepreneurs and startups that want to start a business with just one person. The organization allows them to experiment, prototype and scale without always needing co-founders or complex governance models from the start. This hopefully will make Nigeria's digital economy and startup ecosystem thrive.

viii. Assisting in continuity and succession planning for business

By having a legal identity separate from the owner, an SMC can outlive its founder through proper succession or transfer of shares. This stability provides a greater degree of confidence to investors and allows them to plan ahead in the long term. It also protects the economic value of the business from being lost if its owner dies or becomes unable to work.

6.0. Pitfalls, Risks and Unresolved Legal Challenges

i. Weaknesses in Corporate Single-Member Companies (SMCs)

By their very nature, lack Single Member Companies (SMCs) lack internal oversight since the roles of shareholder and director are often vested in one person. This lack of oversight can result in bad decisions, misuse, or violations of corporate rules. There are no checks and balances of the sort found at multi-member companies, where board debate and shareholder oversight exist. Hence, regulators need to implement the focused surveillance systems which can control the structural weakness of governance⁴³.

ii. Abusing the corporate veil and regulatory arbitrage

The flexibility granted to SMCs under CAMA 2020 can be exploited for regulatory avoidance, tax evasion, or to perpetrate fraud under the guise of limited liability. Nigerian courts have the authority to pierce the veil in instances of fraud, but divergent judicial precedents have rendered the application of the law unpredictable⁴⁴. This gap calls for higher legislative thresholds for piercing the corporate veil in the SMCs context.

iii. Risking of insolvency and dispute resolution inefficiencies

Small and Medium Enterprises (SMEs) are usually capital constrained and exposed to financial risk because of monopolization of a single promoter. It will become challenging for the creditors to recover dues in the case of insolvency as the assets are scarce and there are no co-guarantors. Secondly, there is no standardized legal insolvency regime for SMCs in Nigeria. The existing tools are too generic, with no fast paths or alternative simplified debt restructuring frameworks to safeguard both the creditors and SMCs⁴⁵.

iv. Tax Obligation and Financial Disclosure Ambiguities

SMCs are supposed to pay corporate tax, but enforcement and SMCs' compliance are generally low due to lack of coordination in regulation. Most sole proprietorships do not keep proper books of account and there is also a lack of clarity on what a microsize company is required to report from a financial point of view. There are no detailed guidelines for SMC structures under the Financial Reporting Council of Nigeria (FRCN). This ambiguity leads to reliefs and inefficiency in the corporate tax system⁴⁶.

7.0. Conclusion and Recommendations

From the foregoing analysis, it is crystal clear that Nigeria's adoption of single-member companies (SMCs) under CAMA 2020 reflects a meaningful stride toward aligning corporate law with modern entrepreneurial realities. The paper notes that the framework has promoted formal business registration, reduced corporate barrier of entry, and facilitates a more inclusive economy. Yet the regime is characterized by uncertain

⁴³ C. Okonkwo, Chidi. *Corporate Governance and Small-Scale Enterprises in Nigeria*. (Lagos: NIALS Press, 2022) 88.

⁴⁴ T Adeola, *Nigerian Company Law: Issues as to CAMA 2020*. (Ibadan: Spectrum Books, 2023) 133.

⁴⁵ B Aminat. *Nigerian Bankruptcy Law and Corporate Reorganization*. (Abuja: Legal Impact Publishers, 2021) 152.

⁴⁶ J Onyekachi, *Corporate Taxation in Nigeria: Challenges and Reforms*. (Enugu: Gracefield Press, 2022) 97

regulations, poor governance, and weak judicial expression. To ensure that SMCs are meaningful and effective, a conscious recalibration of law, policy and institutional practice is essential. Hence, the paper recommends as follows:

i. Enshrine SMC-specific Governance Standards

The Companies and Allied Matters Act should be amended to include specific governance provisions applicable to SMCs, such as mandatory financial reporting thresholds and conflict-of-interest declarations. This would fill the present gap in internal control and bring about discipline in corporate behaviour. These criteria have to be context-sensitive and retain the structural simplicity for which SMCs are appealing. Incorporating those rules into CAC regulations would facilitate enforcement and compliance monitoring.

ii. Strengthen Regulatory Capacity: Training and Digital Monitoring

Regulatory bodies such as Corporate Affairs Commission (CAC) and Financial Reporting Council of Nigeria (FRCN) need consistent capacity building to ensure timely supervision of increasing population of SMCs. This includes training of staff, deployment of automated tools to analyze data, cross-referrals and coordination among agencies to identify abuse or non-compliance. Enhancement of these capacities will aid in closing the existing implementation deficit in financial disclosure and compliance enforcement. Investing in technology-based regulation will make such oversights scalable.

iii. Formulating Judicial Parameters on Lifting the Corporate Veil for SMCs

Because single-person control is abusable by its very nature, Nigerian courts must be provided with judicial yardstick for the lifting of the veil in instances of fraudulent use or abuse of the SMC concept. This may be done by training of judges, appellate precedent, or Practice Directions made decreed by the Chief Justice. Clear doctrinal rules will promote legal certainty and deter opportunistic exploitation of corporate personality. These will increase confidence in the system of law protecting creditors and third parties".

iv Clarifying Tax and Financial Reporting Obligations

The Federal Inland Revenue Service (FIRS) in collaboration with the CAC and FRCN should issue detailed, unified directives on the tax and financial obligations of SMCs. These standards should be system-based to correspond to a tiered reporting model based on the company's size and income to avoid duplicative compliance requests. Simplicity of operation will increase tax compliance at higher rates and enlarge tax base in the formal economy without adding to the burden of small entrepreneurs. It will also reduce the allure to illicit operations

v. Promote Academic Inquiry and Legislative Action on SMCs.

It is, therefore, imperative that there should be continued scholarly discourse on the evolving dynamics of SMCs within Nigeria's legal economy. Legal scholars and universities should be incentivized to research the success rates, issues and implications on the economy of SMCs through grants and collaborations. These findings should also engage legislative houses for better amendments of CAMA in future. A conversational/dialogue-informed law reform process will keep the law responsive and sensitive to the realities of business operations.

If these suggestions are adopted, it would give more clarity and accountability for single-member companies operating in Nigeria. The benefits of the reforms will enhance greater regulatory efficiency, judicial clarity and tax compliance, and ensure decreasing abuse along with increasing investor confidence. They will further promote inclusive economic growth through fostering entrepreneurship in the formal sector. In the end, those policies will make SMCs significant vehicles of sustainable development and confidence in law and in the corporate world of Nigeria.