

Business Environment in Nigerian States 2010

Tackling the Security Challenge



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Prof. Eric C. Eboh

For: African Institute for Applied Economics

Executive Summary

Despite macroeconomic and growth improvements in the past six years, poor business environment has remained the principal drag on employment creation, poverty reduction and the accelerated achievement of the MDGs. The harsh business environment in Nigeria adversely affects everyone – people, businesses, investors (domestic and foreign), managers, communities and groups. To reduce the cost of doing business and establish Nigeria on the path to becoming one of the top 20 economies by the year 2020 requires cogent measures to unlock the business environment.

A good business environment entails efficient and effective supply of public infrastructure, institutional and regulatory services. This is a primary responsibility of the government. Nevertheless, the private sector and civil society have important role to advocate for public accountability in the provision of these services. Working with stakeholders to benchmark and monitor the business environment is the motive behind the Business Environment and Competitiveness across Nigerian states (BECANS) programme. Monitoring and reporting the business environment is important for designing and implementing policy and institutional reforms by the federal, state and local governments. An independent and objective assessment of the business environment is a useful tool for private sector and civil society to advocate and dialogue with government.

The overall goal of the BECANS is to promote evidence-based reforms of the business environment in Nigeria, with focus on the subnational jurisdictions. The initiative is designed to supply independent research-based evidence on the business environment across Nigerian states, in an ongoing manner. Such evidence is essential to improve the quality of dialogue and advocacy. Also, BECANS provides benchmarking tools for business managers, investors and policymakers to identify specific competitiveness obstacles, thus stimulating critical thinking about strategies to overcome them. This business environment scorecard of Nigerian states is the second in the BECANS publication series. BECANS runs in successive cycles of research, surveys, dissemination and policy dialogue.

Like every federation, the responsibility for shaping the business environment in Nigeria is shared between the federal, state and local. The logic of BECANS is that state and local governments are crucial in ensuring good business environment and enhancing Nigeria's global economic competitiveness. State and local governments have foremost responsibility in providing and managing basic public services and utilities such as roads and public transportation systems, water and sanitation and social welfare. State governments are also responsible for the bulk of business regulatory services including property registration, tax administration, industrial and enterprise zones, contract enforcement, justice administration, business and construction licensing. So, without commensurate business environment reforms by state and local governments, the macroeconomic and institutional

reforms of the federal government cannot produce the desired impact on employment and poverty.

The BECANS model defines subnational business environment along four dimensions. They are Infrastructure and Utilities; Regulatory Services; Business Development Support and Investment Promotion; and Security. These dimensions are called BECANS benchmarks. The overall measure of the quality of business environment is the business environment index of Nigerian States (BEIONS). The BEIONS uses a continuous scale from 0-100, where a score of 100 represents the maximum score. The business environment index is a weighted aggregate of scores on the four benchmarks. The weights are as follows: Infrastructure and Utilities (28%); regulatory services (30%); business development support and investment promotion (20%) and security (20%). Every benchmark is divided into measures which are further subdivided into evaluative indicators. Infrastructure and utilities has 5 measures and 22 indicators. Regulatory services benchmark has 5 measures and 27 indicators. Business development support and investment promotion has 5 measures and 14 indicators. Security benchmark 4 measures and 12 indicators. Altogether, the Business Environment Index of Nigerian States (BEIONS) is based on 19 measures and 75 indicators.

The general Business Environment Index is lower in BECANS-II than for BECANS-I. While this might suggest that the business environment across the states has not generally improved since 2007, the performance across individual benchmarks and across states is rather mixed. The general performances on the two benchmarks - Infrastructure and Utilities and Regulatory Services - are higher than those for Business Development Support and Investment Promotion and Security. In fact, the relatively lower all-states average Business Environment Index is accounted for by the lower performance on the two benchmarks – Security and Business Development Support and Investment Promotion. This finding implies that since BECANS I (that is, 2007), there has been general improvement in Infrastructure and Utilities and Regulatory Services, but the situation of Business Development Support and Investment Promotion and Security has weakened. South-West zone has the highest general performance on the Business Environment Index while the North-East zone has the lowest. Abuja FCT has the highest overall performance on the Business Environment Index, followed by Lagos State, while Zamfara State has the lowest.

On Infrastructure and Utilities, the South-West zone has the highest performance on Infrastructure and Utilities, while the North-West zone has the lowest. Among the states and Abuja FCT, The general performance on Energy is higher in BECANS-II compared to BECANS-I. The South-West zone has the highest performance on Energy, while the North-West zone has the lowest. The general performance on Water Supply is lower in BECANS-II compared to BECANS-I. The South-West zone has the highest performance on Water Supply, while the South-East-Zone has the lowest. The all-states average performance on Access to Information is lower in BECANS-II compared to BECANS-I. The South-West zone has the highest performance on Access to Information, while the North-West zone has the lowest. Abuja FCT and Anambra State tie as highest performers on Access to Information, while Yobe State has the lowest performance. The all-States average



performance on Transportation is lower in BECANS-II compared to BECANS-I. The North-East zone has the highest performance on Transportation, while the North-West zone has the lowest. The general performance on Social Infrastructure is higher in BECANS-II compared to BECANS-I. The South-West zone has the highest performance on Social Infrastructure, while the North-West Zone has the lowest. Oyo State has the highest performance on Social Infrastructure, while Zamfara State has the lowest.

Compared to BECANS-I (2007), Regulatory Services improved slightly with respect to Business Registration, Administering Taxes and Fees and Commercial Dispute Resolution but went down on Land Registration. The North-Central zone has the highest overall performance on Regulatory Services, while the North-East zone has the lowest. The North-East zone has the highest performance on Administering Taxes and Fees, while the South-West zone has the lowest. Benue and Adamawa States have the first and second highest performance on Administering Taxes and Fees, respectively while Anambra State has the lowest.

The All-States performance on Commercial Dispute Resolution is higher in BECANS-II compared to BECANS-I. The South-West zone has the highest performance on CDR, while the North-East zone has the lowest. Abuja FCT has the highest score on Commercial Dispute Resolution, followed by Lagos States, while Edo State has the lowest. The general performance on Land Registration is lower in BECANS-II compared to BECANS-I. The North-Central zone has the highest performance on Land Registration while the South-South zone has the lowest. Abuja FCT has the highest performance on Land Registration, while Zamfara and Rivers States tie as lowest. The performance on fiscal management and public procurement is 31.08%, indicating that the states are generally weak in fiscal management and public procurement.

The all-States average score on Business Development Support and Investment Promotion is lower in BECANS-II compared to BECANS-I. This shows that institutional support for business and investments has generally weakened since 2007. While the performance on entrepreneurship promotion and access to finance has improved, those for investment promotion and support for industrial parks has weakened. The South-South zone has the highest performance on Business Development Support and Investment Promotion, while the North-East zone has the lowest. Lagos State has the highest performance on Business Development Support and Investment Promotion while Kebbi State had the lowest performance.

The South-West zone has the highest performance on Entrepreneurship Promotion, while the North-West zone has the lowest. The South-West zone has the highest performance on Access to Finance, while the North-East zone has the lowest. Lagos State has the highest performance on Access to Finance, followed by Abuja FCT. Ebonyi and Bayelsa States had the lowest performance. The South-West zone has the highest performance on Investment Promotion, while the North-East zone has the lowest. Cross River State has the highest performance on Investment Promotion, followed by Abuja FCT. The other relatively high

performers on Investment Promotion are Oyo, Ondo, Niger and Lagos States. The all-States performance on Support for Industrial Parks is lower in BECANS-II compared to BECANS-I. This shows the poor condition of industrial parks throughout the states. Lagos State has the highest score on Support for Industrial Parks, followed by Kano and Cross River States. The general performance on Public-Private Partnership is lower in BECANS-II compared to BECANS-I. This generally poor performance is underpinned by the lack of distinct legal and policy frameworks for public-private partnership across the states.

The all-States average performance on Security is lower in BECANS-II compared to BECANS-I. This shows that there has been a general deterioration in security since 2007. The North-West zone has the highest performance on Security, while the South-South and South-East are the least performing. The North-East zone has the best performance with respect to Perception on Security, while the South-East Zone has the lowest.

Like BECANS-I, evidence shows that the states differ considerably in regard to the quality of the business environment. Though the aggregate business environment index did not improve since 2007, many states have witnessed some improvements. Ten (10) states recorded improvement on the overall business environment. Thirty two (32) states and Abuja FCT recorded improved performances on at least one out of the four benchmarks. Similarly, seventeen (17) states show improved performance in Infrastructure and Utilities, twenty two (22) on Regulatory Services, nine (9) on Business Development Support and Investment Promotion and only six (6) on Security.

The asymmetry in performance of states and Abuja FCT across the three levels of measurement - benchmarks, measures and indicators – implies that states have varying strengths and weaknesses. No State or zone is the best-performing all-round (that is across all benchmarks, measures and indicators); neither is any State or zone the least-performing all-round. Also, the results reveal those business environment spheres where individual states are improving since 2007 and where they are not. Whichever situation any State is mirrored by this business environment scorecard, there is an important lesson to be gained. Whether the purpose of the State is for own-monitoring and peer review with others, there is a large scope for the scorecard to serve as the basis of mutual learning and self-improvements among the states. Among the common challenges across the states are energy, transportation, land registration, fiscal transparency and public procurement, support for industrial parks and public-private partnership. The wide disparity between states in performance across the benchmarks and measures indicate a large scope mutual learning, particularly in the areas of land registration, commercial dispute resolution and entrepreneurship promotion.

If the good performances observed in some states were to be replicated other states, the business environment will be significantly brightened. The evidence is clear. Hypothetically, if all states were to perform at the level indicated by the best performing state across all the benchmarks, the all-States average performance on the business environment index would jump from 45.43% to 68.45%. In the same vein, if every state performed at the



level of the highest scoring state across the respective measures under Infrastructure and Utilities, the all-States average score would jump from 51.06% to 88.64%. Furthermore, if every state performed at the level of the highest scoring state across the respective measures under Regulatory Services, the all-States average score would jump from 45.48% to 79.17%. Applying the same logic to Business Development Support and Investment Promotion, the all-States average score would jump from 33.48% to 80.67%; and then from 49.43% to 94.17% for Security. This analogy reveals the extent to which the business environment could be transformed if all the 36 states were to implement needed reforms.

This publication should become the basis for business environment reforms in the respective states and Abuja FCT. On the one hand, private sector and civil society organizations should utilize the evidence to dialogue and advocate for a better business environment. On the other hand, state governments should see the performance assessments in terms of opportunities and challenges to make their jurisdictions more business-friendly.

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