RESEARCH ARTICLE

EASE OF DOING BUSINESS AND CORPORATE GOVERNANCE IN NIGERIA

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Abstract

The objective of this paper is to examine the ease of doing business and corporate governance with particular reference to Nigeria. Survey method was employed in data collection. The study revealed that there is some relationship among the variables considered. The findings provide some policy implications that need urgent attention. First, the increase in cost of capital observed in the long run and short run estimates shows the urgent need to review the existing monetary policy. In particular, the observed negative relationship between bank lending and private investment indicates that access to loanable funds is one major constraint to the ease of doing business in Nigeria. Also, the effect of the regulatory framework reflected in the write-up shows some concern on the need for government incentives such as tax holiday and reduction in legal regulation which affect investment climate negatively.

Keywords: Ease of doing business, Corporate Governance, Investment, Monetary Policy, Fiscal Policy

1 INTRODUCTION

For a long time, researchers have engaged themselves in working on the theories and drivers of private investment. They have presented varied reasons why ease of doing business is necessary for promoting the growth of investment in any economy (Domar, 1946; Solow, 1956; Swam, 1956; Rostow, 1960; Shobande and Olunkwa, 2018). The technicalities in the theories presented vary with attacks from Classical to Neoclassical, Keynesian to Baumol and Rational Expectation to New Economics School of thought. A common pointer among all these theories reveals that they all agreed that higher level of economic growth cannot be attained without higher level of investment. On the contrary, there is incongruity on appropriate policy antidote that complements business environment which can possibly translate into meaningful growth. Additionally, there are two policy disagreements in literature as regard the study; the first is that the possibility that fiscal policy might crowd out or crowd in private investment is an impetus while the second is the possibility that interest rate channel of monetary transmission mechanism might make it difficult for business to survive, since access to loanable
funds can be constrained with the policy initiatives. Burnside and Dollar (2000) in their study provide persuasive evidence that good policy environment is crucial for driving investment and growth, while, some studies have argued that there is no reason to believe that good policy is a necessary condition for growth and investment (Collier and Dehan, 2001; Collier and Dollar, 2001; White, 2004).

In Nigeria, the ease of doing business has not been impressive since the business environment coupled with policy inconsistencies by government have not cushioned the heat of doing business in the country. Often times, it might not be attractive as most investors are double taxed or sometimes the cost of borrowing from the bank might be prohibitive, thus making investment less attractive to both foreign and indigenous investors. For instance, in 2008, Nigeria economy was ranked 120th among 190 economies in the ease of doing business. By 2016, Nigeria recorded 169 rating among its pairs reflecting that the cost of doing business has been constrained by several factors such as excessive tax payment, increase in cost of loanable funds, poor regulatory mechanism accompanied by exogenous shocks. By 2017, Nigeria was ranked 145th among 190 economies in the World Bank rating on the basis of business confidence, leading economic index, competitive ranking, capacity utilisation and cost of doing business.

Several efforts by Central Bank of Nigeria (CBN) to provide explanation to the puzzle behind the high cost of doing business in the country proved unsuccessful. The attempts to defend its position by stressing that it’s unfair to blame the high cost of doing business on the interest channel of monetary transmission mechanism, stressing that interest rate is a combination of components which reflects the cost of capital as well as the cost of doing business (CBN, 2017). This suggests that the inflationary targeting measure has increased the cost of doing business which has negatively affected the potentials of private investors to access loanable funds. The objective of this paper is to examine how the ease of doing business has affected corporate governance in Nigeria. This paper specifically interrogates the inter play of various components of monetary and fiscal policies which can possibly influence the performance of private investors in Nigeria.

2 | METHOD OF DATA COLLECTION

The data for this paper were obtained from the following sources: Central Bank of Nigeria Report, the 1999 Constitution of the Federal Republic of Nigeria, as amended, National Bureau of Statistics, and relevant journals.

3 | CHALLENGES OF DOING BUSINESS IN NIGERIA

Nigeria is supposed to be one of the world’s leading business destinations on the African continent. However, when it comes to doing business in the country, there are several challenges confronting a typical Nigerian business. In 2016, out of 189 countries, Nigeria was ranked 169th in the World Bank’s Ease of Doing Business Report.

80% of new businesses and startups in Nigeria fail within the first 3 years. Doing business in Nigeria could be a pleasant experience when the business venture succeeds, however before success there could be great challenges and difficulties that a new business or startup may face.

Starting a business venture generally comes with its own business risks that may impede the growth of such business. Some challenges are however, very common to all businesses in the country. In this paper, some of these challenges confronting the ease of doing business are highlighted and how to overcome them in order to make sure they don’t kill the business. Some of these challenges are:

Supplementary information The online version of this article (https://doi.org/xx.xxx/xxx.xx) contains supplementary material, which is available to authorized users.
3.1 | Access to capital & credit.

One difficult task for any business entrepreneur who wants to start up his own small business, is to raise capital for it. Simply put, capital is the amount of money the business has available to spend on various business activities. Unless one is a rich man, raising capital is never an easy task and often requires a lot of determination and patience.

Lack of financial capital is the single most significant challenge when it comes to doing business in Nigeria. Even with the conceptualisation and implementation of financial programmes meant to support businesses, the government has always been in a struggling position to ensure that financial capital is easily made accessible to entrepreneurs. In most cases, entrepreneurs have to turn to personal savings, business loans, families and friends, or government grants to get financial capital for business.

3.2 | Electricity / Power Supply.

Getting access to constant electricity and power supply is a major concern for business entrepreneurs in Nigeria. As of June 2018, an average household in Nigeria could only have access to 6 hours of uninterrupted power supply out of the 24 hours that exist in a given day. This is why the use of generators as an alternative power source is very common in Nigeria. According to President Obasanjo in 1999:

*It is conservatively estimated that the nation may have lost about $800 million due to unreliable power supply by National Electric Power Authority... That is not to mention the frustration and debilitation of the informal sector where business centres, repair workshops, hair dressing salons etcetera depend on steady supply of electricity to function (Anyebe, 2012).*

Over the past decades, successive governments have unsuccessfully tried to tackle Nigeria’s energy deficit challenge. The Ministry of Power has blamed inadequate electricity supply to consumers on lack of sufficient financial investments in the power sector, even though, the Federal Government of Nigeria has invested billions of dollars in the sector.

3.3 | Government regulations.

The government plays a major role in the decision of how business gets done in Nigeria. No government or economic system leaves all decisions about doing business to the market. These regulations are meant to keep businesses in-check and ensure that they follow a common rule. The law that guides doing business in Nigeria is known as Companies & Allied Matters Act (CAMA).

Fiscal Policy Partner and West Africa Tax Leader at PwC, Mr. Taiwo Oyedele says the new CAMA is the most significant business legislation in Nigeria, which would impact on the ease of doing business and also attract investment and economic growth (Oyedele, 2020). However, CAMA is being opposed by some organisations especially religious organisations as an attempt to cage them.

Nonetheless, the expert insisted that a clear implementation of the CAMA guidelines would be needed to bridge the lack of trust between the Federal Government and the masses, the new CAMA is not an amendment but a re-enactment of the older law.

He said the new CAMA has over 8000 sections which is over 200 more than the old one as the government made more measures for administrative roles, including arrangements to rescue a company which gives the government the means to rescue a failing business.

For private businesses, Oyedele (2020) cite the reduction of fees and charges as commendable; the same goes for the introduction of limited liability partnerships. Nigeria needs to repeal the multiplicity of taxes and levies charged, seeing as 95% of taxes come from 5 major tax sources. Also needed would be capacity and management skills for small business owners, infrastructure to enable a better business environment and more institutional reforms.

He urged that CAMA should be in line with authentication acts, adding that complementary reforms were needed to harmonise the inconsistent regulations. Oyedele (2020) goes further to say that continuous improvement would be needed on the CAMA, considering global best practices instead of waiting for another 30 years for the next review.
Some other government policies include cutting down the time it takes to register a business. Previously, it could take between 2 weeks and 1 month to set up a business which always involved jumping through a number of regulatory hurdles. In August 2019, Buhari administration closed Nigeria’s land borders to goods traded with Chad, Niger, Cameroon and Benin, in an attempt to protect the country’s economy from frequent smuggling. It also introduced Visa on Arrival Policy. In my opinion, visa on arrival policy of government has helped increase revenue accruing to government and improved ease of doing business.

African countries rank low on the World Bank’s Doing Business ratings. This is mostly due to the difficulty involved with setting up a business. The government is becoming more supportive of local start-up ecosystems, but generally, the Nigerian government needs to do more to make doing business easier and more attractive.

3.4 | Corruption & Bribery.

While Nigeria is among the world’s leading investment destinations and is formally a well-functioning business environment, corruption and bribery are still serious obstacles. The federal structure of the political system means there is a wide range of regulatory agencies, which can lead to demands for bribes from public officials.

The Udoji Commission for example, met a civil service ridden with corruption and it made the following indictment that we live in a society in which corruption is generally believed to be, and no doubt is widespread... it is unrealistic...for Nigeria to say that government will eliminate corruption completely from its public service, but it must make it one of its prime objectives to control corruption... (Udoji Report, 1974).

President Obasanjo in 2000 was so disturbed by the level of official corruption during his administration that he made the following declaration:

The impact of official corruption is so rampant and has earned Nigeria a very bad image at home and abroad. Besides, it has distorted and retrogressed development. President Obasanjo declared in 1999 that corruption will be tackled head-on. There will be no sacred cows. Nobody no matter who and where, will be allowed to get away with the breach of the law or perpetration of corruption and evil (Obasanjo, 2000).

In fact the Transparency International, a non-governmental organisation that is reputed for measuring countries’ corruption perception index, ranked Nigeria as the most corrupt among the 52 countries’ ranked in 1996 and 1997, and for the three consecutive years, 2000, 2001 and 2003, as the second most corrupt country in the world. However, the latest report of the Transparency International Corruption Perception index (CPI) placed Nigeria in a more favourable position. This improvement could be attributed to the efforts of the anti-corruption institutions in Nigeria, particularly the Economic and Financial Crimes Commission (EFCC), the Independent Corrupt Practices and other related Offences Commission (ICPC), and the National Extractive Industries Transparency Initiative (NEITI) under the Buhari administration. It is important to note however that in spite of these efforts, the level of corruption is still of serious concern and has remained one of the greatest challenges in the country.

Corruption, unarguably, has been one of the most current issues in the discourse of the unending crises and contradictions in the country and it has been defined by various authorities mostly in line with the prescribed social life of the people.

3.5 | Market developments.

The main thing we are talking about here is disruption, such as digital or technological disruption. It is something that is affecting businesses of all industries in Nigeria. There is also market risk around the fact that there is global uncertainty around economic growth. When you are unsure of the direction that the entire economy is going to take, it makes business planning and strategy development a great deal more difficult and risky.

In a bid to prepare for this risks, many corporate organisations (such as banks) are now supporting start-ups, so that they are developing smaller, more agile
and very independent parts of their own organisation to look to the future and be aware of new trends in the market that can affect how business is done.

The World Bank recently released its Ease of Doing Business 2020 Report. Each year, the Bank releases this report that compares business regulation for local firms in 190 economies. Nigeria’s ranking jumped from 146 to 131; representing its second-highest annual progress of 11.45% in a decade. The World Bank also recognised Nigeria as one of the ten most improved economies, thanks to 6 distinct reforms from the Presidential Enabling Business Environment Council (PEBEC).

However, a 5-year historical review of distance to frontier (DTF) score shows that business regulations were tough from 2016 to 2017. The year 2018 marked a new cycle of better policies for businesses as the DTF score rose from 52.33 to 56.9 (Oyedele, 2020).

A 10-year review of ranking also shows how the country was an unfriendly business destination from 137 (2011) to an all-time high of 170 (2015). Thereafter, the Federal Government of Nigeria took practical steps to make the country more appealing to businesses. Since 2011, Nigeria has reached its highest position as 131st twice.

The country’s rank was however, far lower than its fellow MINT countries (Mexico, Indonesia, Nigeria, and Turkey). MINTs are classified using the population size, favourable demographics, and emerging economies. Turkey (33) topped the MINT, followed by Mexico (60) and Indonesia (73). Meanwhile, eight Sub-Saharan African countries rank in the top 100 positions. For instance, Mauritius (13), Rwanda (38), Kenya (56), South Africa (82) created friendlier regulations than Nigeria. Lower-middle-income economies like Malawi (109), Uganda (116), Ghana (118), and Lesotho (122) also offer a more attractive environment.

4 | CONCLUSION AND RECOMMENDATIONS

Based on the 2020 report, Nigeria only regained its earlier position in 2013 of 131st. In order to rank among the top 50 economies in the future, Federal Government of Nigeria needs to give more incentives such as tax holiday, and further reduction in legal restriction to make the country more appealing to business entrepreneurs.

5 | REFERENCES

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