

# Business Environment and Competitiveness across Nigerian States (BECANS)

## AfriHeritage Policy Brief No.3, 2017

The government of a country has the primary responsibility of ensuring a good business environment with respect to governance factors external to individual businesses. Basically, good business environment requires good governance (Khan, 2005). These include adequate supplies of quality infrastructure, stability of property rights, public accountability, and low levels of corruption or rent seeking, efficient service delivery, the rule of law, contract enforcement, and sound regulation.

*A good business environment requires good governance systems*

Rather than going up, productivity in Nigeria's manufacturing sector has been stagnating and, now, lags far behind that of many other countries. A UNIDO study shows that the productivity of Nigerian workers was only 10% of that of Botswana, and 50% of that of Ghanaian and Kenyan workers. This, according to the 2017-2018 Global Competitiveness Index (GCI) report, is attributed to poor business environment and competitiveness like weak institutions, poor infrastructure, poor macroeconomic environment and market efficiency, and low technological readiness.

From 2003 to 2015, the Nigerian economy witnessed a high growth rate that averaged above 6 percent. The precipitous economic weakening over several quarters in 2016 and 2017 resulted in a significant GDP decline. However, even within the period of high economic growth, unemployment and poverty remained very high. Nigeria's social and human development indicators have been generally poor. For instance, it ranked 152 out of 188 countries on the global Human Development Index 2016. Not surprisingly, over 50% of the country's 190 million people live on less than one US dollar per day.

With one in every five Nigerians unemployed and many more underemployed, the country is not maximizing its human resource potentials. The situation is further aggravated by the fact that only about 10% of the 6 million new entrants into the country's job market annually actually find employment (Larossi, et al,

2009). This was attributed to poor business environment within the country and explains why different stakeholders, including the World Bank, are concerned with effective policy interventions to reduce unemployment, and spark growth. One such policy fix was identified as the need to boost economic activities and attract new investments by creating a more enabling business environment in the country through the provision of efficient, transparent, credible and effective supply of public infrastructures, and institutional and regulatory services.

As with international partners and aid agencies, the private sector, and civil society groups have important roles to play in advocating for effective public policymaking and accountability by policymakers. As a corollary, the roles of the private sector and civil society groups are to:

- 1) Partner with government in working toward the creation of good business environment for private enterprises to operate;
- 2) Monitor and report on the business environment to ensure policy design and implementation efficiency;
- 3) Canvass for policy and institutional reforms by the federal, state, or local governments; and
- 4) Initiate independent and objective assessments of the business environment as a tool for advocacy and dialogue with government for good governance.

### **Why BECANS?**

BECANS (Business environment and competitiveness across Nigerian States) III 2016 is the third in the series of business environment assessment reports published by African Heritage Institution (AfriHeritage) since 2007. While existing global investment climate assessments such as the World Bank's 'Doing Business Survey' and World Economic Forum's 'Global Competitiveness Report' benchmark Nigeria against other countries, the assessments do not provide the bases for internal state-level comparisons. For those that do, very few measures/indicators are employed. So, unlike other assessments which are focused narrowly, BECANS has a wider coverage and involves grassroots surveys that focus on SMEs, which are by far

the dominant businesses in Nigerian states. Thus, although BECANS' assessments are broad and relevant for all levels of businesses, they are especially relevant for those that actually operate in Nigerian states.

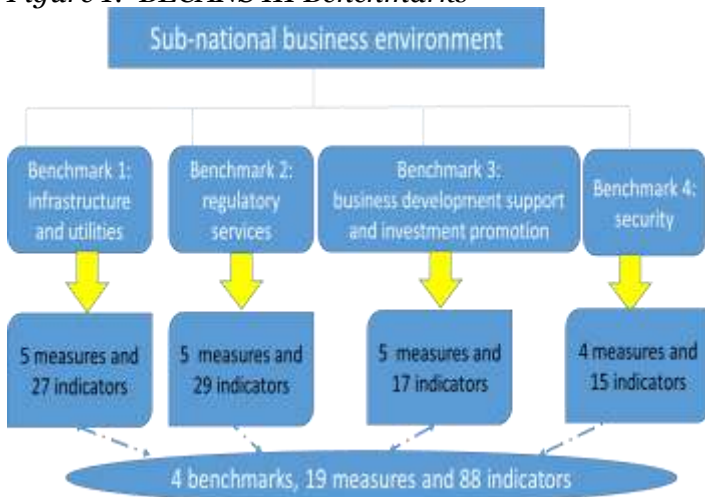
*BECANS has a wider coverage, and involves grassroots surveys that focus on SMEs which, by far, are the dominant businesses in most states.*

This third report in the series of state-level business environment assessments intensifies the existing imperative across each Nigerian state for continuing reforms of business environments. The up-to-date evidence and rankings across a wide range of measures and indicators will guide private sector advocacy for business environment reforms, inform self-assessments, peer matching among states, and stimulate state government actions to improve competitiveness of businesses within their respective jurisdictions.

### BECANS' Benchmarks

The BECANS model defines sub-national business environment along four dimensions: infrastructure and utilities; regulatory services; business development support and investment promotion (BDSIP); and security. Collectively, these benchmarks makeup the Business Environment Index of Nigerian States (BEIONS). As stated earlier, BECANS has a wider coverage, and goes deeper than any other business environment assessment. The BEIONS for BECANS III have four (4) benchmarks, 19 measures, and 88 indicators (see Figure 1 below).

Figure 1: BECANS III Benchmarks



Measures used under Infrastructure and Utilities are: energy use; water supply; access to information and

communication; transportation; and social infrastructure; along with 27 indicators.

For the Regulatory Services benchmark, five (5) measures are used: business registration services; tax and fee administration services; commercial dispute resolution mechanism; land registration and title transfer services; and fiscal management and public expenditure; along with 29 indicators.

For the Business Development Support and Investment Promotion benchmark, five (5) measures are used: promotion of skill acquisition and entrepreneurship; access to finance and credits; investment promotion services; support for industrial parks; and legal and policy framework for PPP; along with 17 indicators.

The last benchmark is Security. Its measures are: major crimes; minor crimes; security resources; and perception of security and safety; along with 15 indicators.

The BECANS data come in two broad categories: hard and soft data sets. Hard data category includes administrative records, documented evidences, and statistics from government ministries, departments, and agencies (MDAs). Soft data category includes information from survey assessments and observations of businesses and company executives.

### Who needs BECANS?

BECANS reveals the opportunities, challenges, and prospects for more business-friendly environment, which state governments, policymakers, private sectors, and foreign investors will find beneficial. Hence, it is needed by every state in Nigeria that wishes to ensure that its ease of doing business environment interventions are targeted appropriately to business communities that dominate their business environment -- the small, medium, and micro-sized enterprises (SMMEs).

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Since its first publication in 2007, *Business Environment in Nigerian States* has given rise to greater stakeholder awareness and understanding of the status and comparative performance of states on

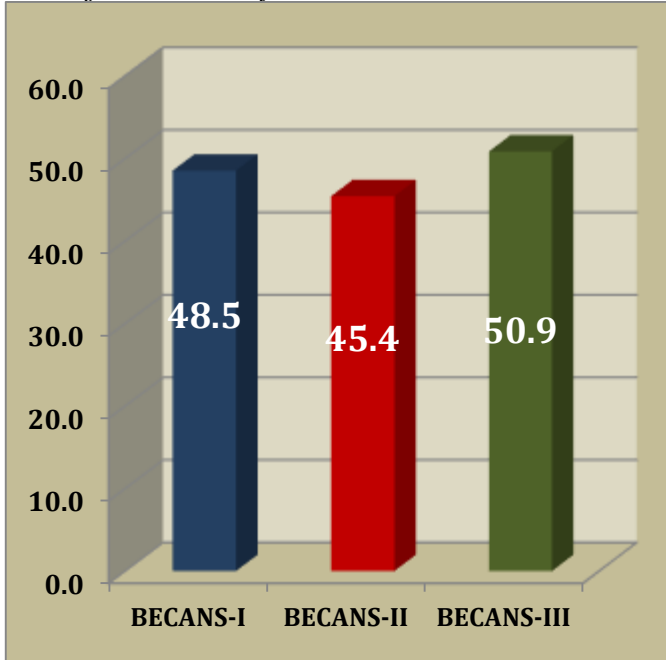
key business environment indicators. Increasingly, private sector organizations and civil society groups are using evidence-based assessment reports, especially for agenda setting in policy advocacy and dialogues. For their part, state governments are becoming increasingly interested in their respective ratings on business environment indicators. It is clear that individual states care about their performance. With each ranking, states gauge their progress from the preceding ranking, compare themselves with other states, and identify key targets for improvements.

**BECANS III 2016: What is new?**

**1. Overall Performance on Business Environment Index**

Nigeria’s average score on BECANs III business environment index is 50.9%, which is higher when compared to BECANs II (2010) and BECANs I (2007) (See figure 2 below).

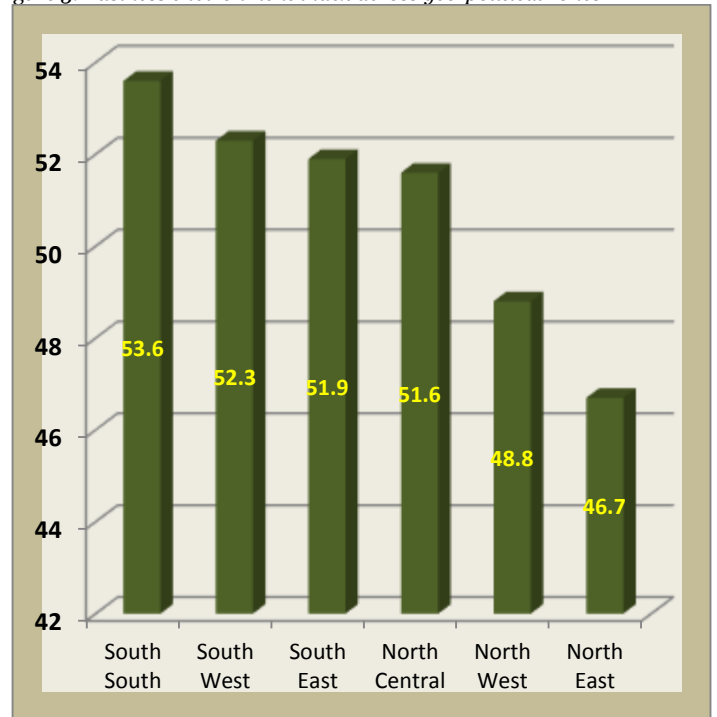
Figure 2: Nigeria’s Overall Performance on Business Environment Index



**2. Business Environment Index across Geo-Political Zones**

In BECANs III, the all-states average business environment index for the South-South zone was the highest while that for the North-East was the lowest (see figure 3 below). In BECANs I, the South-South zone had the highest performance while the South-East zone had the lowest. In BECANs II, the South West had the highest score while the North-East had the lowest. (See BECANs reports for more details).

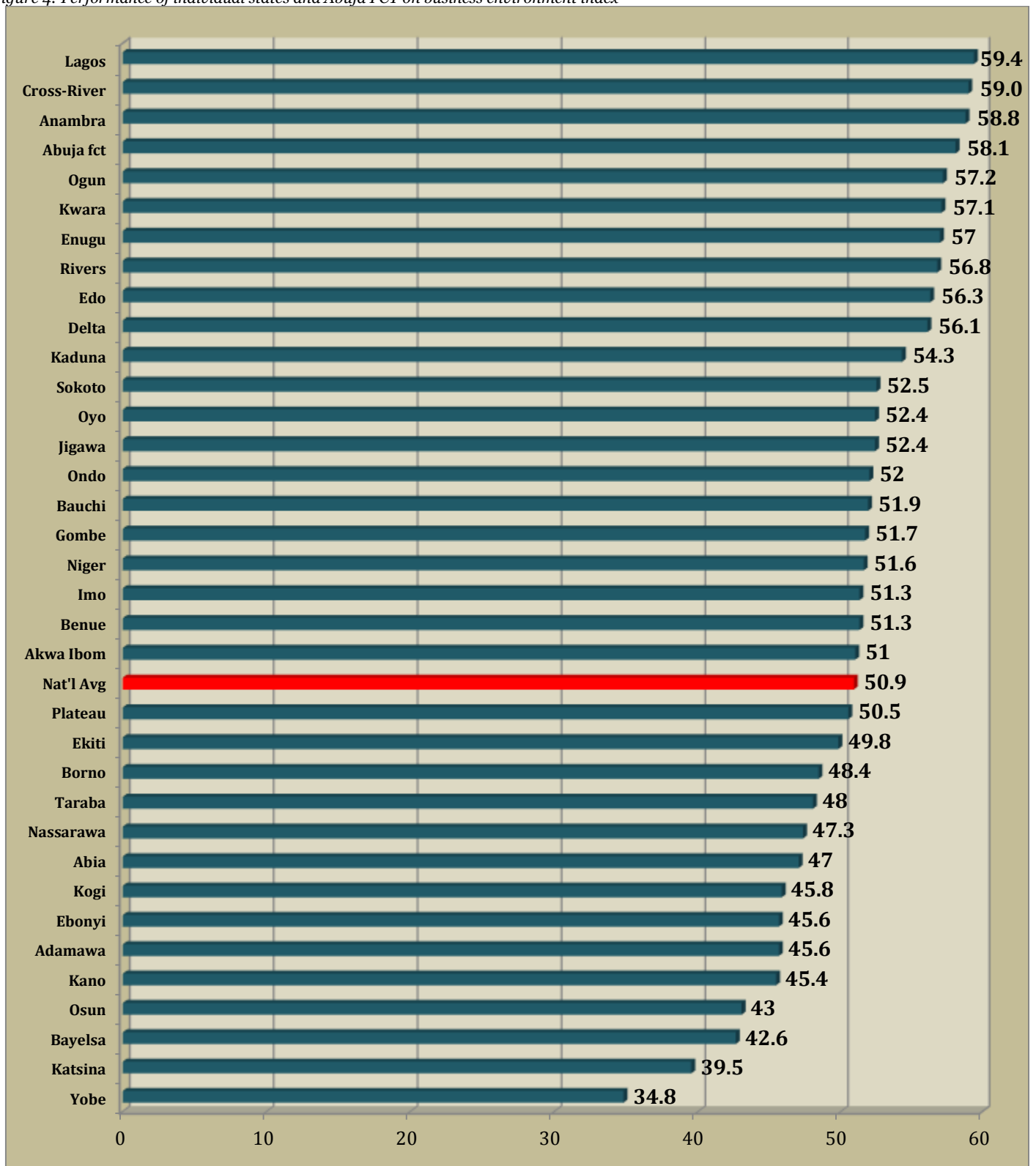
Figure 3: Business environment index across geo-political zones



**3. Business Environment Index across States and Abuja FCT**

In BECANs III, Lagos State has the highest score on the business environment index, followed by Cross River, Anambra, and the FCT while Yobe State had the lowest score. About 40.0% of the 36 states and Abuja FCT had less than 50% on the business environment index, which compares favourably to the 81.08% in BECANs II. (See the BECANs reports for further details)

Figure 4: Performance of individual states and Abuja FCT on business environment index



#### 4. All-States Business Environment Index across Benchmarks

BECANS III all-states average score on the four benchmarks that make up the business environment index are as follows: Infrastructure and Utilities 58.3%, Regulatory Services 53.48%, BDSIP 41.2%, and Security 45.5%. The all-states average score improved slightly on infrastructure and utilities, and regulatory services compared to BECANS I (2007) and II (2010). It increased for BDSIP compared to BECANS II and declined slightly compared to BECANS I. On Security, it decreased slightly when compared to both BECANS I and II.

Figure 5: All-states average score on the business environment benchmarks

