The Cost of Doing Business in Nigeria

Amidst the huge opportunity for growth, high returns on investment and positive socio-economic trends, one can scarcely forget the high cost associated with running businesses in Nigeria. Physical infrastructure is being improved around the country, but still remains inadequate for businesses to fully rely upon. Business protection is abysmal, the regulatory framework is uncertain and the risks of doing business are compounded by factors I will enumerate below. In the World Bank's Ease of Doing Business Report of June 2013, Nigeria ranked 147th of 189 countries globally. Compare this to South Africa which ranked 41st and Ghana which ranked 67th over the same period.

In my article of 17 August 2014, I made the case for catalysing economic development through Small and Medium Enterprises (SME). SMEs have the potential to contribute significantly to job creation, the production of goods and the provision of services. However, most of the 17 million of the SMEs in Nigeria, have largely been ignored and their impact is hardly felt. One reason for this is the high cost of operating businesses in the country. Likewise, larger enterprises, which obtain credit at more modest rates and forge affiliations with multinationals, also experience high operating costs, which make them unable to compete favourably with their counterparts in other emerging markets.

The implications of such high costs of doing business are far reaching. Enterprises find their growth from small to medium or medium to large, very difficult without government intervention. These costs limit the potential longevity of businesses as changing trends make innovation key and high operating costs reduce the firm's ability to keep pace with innovation. Businesses try to survive and attempt to grow by passing on extra costs of doing business, in the form of higher prices or substandard outputs to the common man who inadvertently is saddled with the burden. The 'avoidable' cost of doing business is evident in the overpricing of substandard products, the limited choice of goods and services available and poor quality of life that the masses endure.

To expand this discussion on the cost of doing business in Nigeria from the perspective of enterprises, we can review three broad strands:

Firstly, Financial Cost: This includes high operating costs from a dependence on generators and alternative water supply, difficult transportation access and considerably high accommodation prices. The financial cost burden also encompasses the near absence of affordable credit to genuine businesses and the unwillingness of financial institutions to provide venture capital to start-up firms. In addition, the limited talent pool makes the cost of attracting and retaining top-performers significant and often times costly. Financial costs result in thinner margins for fairly priced goods and services or the overpricing of sub-standard products. The financial cost of doing business squeezes both the producer and the consumer and over the long term leaves both parties ravaged and in many cases, extinct.

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Secondly, Social Cost: This includes limited mentorship for smaller and/or newer companies, poor practices by more established firms who evade taxes or cut corners and thereby show very little leadership and social concern. In the bid to keep cost low firms no longer depend on research or contribute to research and development and so continue to face the same challenges without learning from experience. There is no bankruptcy protection and entrepreneurs hardly have any shield in times of difficulty. Social costs also include the motivational hurdles which firms face due to the difficulty in keeping staff motivated outside of money. In addition, the extended family influence to provide employment to relatives or client contacts and the resultant inability to effectively discipline such staff when erring, contributes to social costs of doing business. Social costs are usually responsible for the inactivity and slow pace of growth of many firms that may have effectively weathered the storm of financial cost.

Thirdly, Regulatory Cost: A main thrust of this is frequently changing regulation, especially without adequate planning and warning. An example of this type of regulatory cost is depicted in ATM operations. Within the last five years, we have witnessed regulatory zigzag that allowed banks to have offsite ATMs, then prohibited them having offsite ATMs with the introduction of Independent ATM Deployers, then regulation reverted to allowing banks to deploy offsite ATMs. Regulation in this period also allowed N100 to be charged per withdrawal, then moved to a cancellation of all charges and now a reintroduction of N65 on the third cross-bank withdrawal. Furthermore, there are multiple regulators and various regulatory bodies that enterprises are obliged to affiliate and comply with. For example, firms are required to adhere to regulation to pay taxes (including but not limited to value added tax, withholding tax, income tax, capital gains tax, education tax,. petroleum profit tax) to the Federal Inland Revenue Service (FIRS), pay pension deductions to pension fund administrators as stipulated by the National Pension Commission (PenCom), remit funds to the National Social Insurance Trust Fund (NSTIF), pay dues to the Industrial Training Fund (ITF) and other professional associations.

What can be done?

There are costs and risks to doing business but our government should play its part to reduce both, in order to limit the dependence of society on government for job creation. In other words, policy direction must be clear, people-friendly and less frequently changed to boost confidence and encourage entrepreneurs to pursue their ideas. This will consequently increase commerce and spur socio-economic development.

In addition, infrastructure development must be carried out to the highest standards in order for these to serve their purpose and for their lifespans. We have heard that the rot in the power sector is so huge that it would take some time to fix and we therefore call on the owners of privatized power assets to ensure that long-term investments are made to fix the sector in order to deliver the required power for industries and businesses to thrive.

Furthermore, funds provided for lending to small enterprises should be apportioned as such. The N220 billion Micro, Small and Medium Enterprises (MSME) Development Fund recently launched by the Central Bank of Nigeria aims to provide wholesale funding at 3% to financial institutions for on-lending to beneficiaries at 9% over a maximum period of five years. While I am not privy to how the incentive spread of 6% to financial institutions was computed or if this is fair to the sector, we can only call upon the financial institutions to actually lend this money to the MSME sector to alleviate the plight of industries and shepherd them towards growth and employment generation.

We often speak about developing non-oil sectors and generating income from these and I dare to say that businesses (small, medium and large) are best positioned to contribute this income through the payment of taxes to the government. However, one can only expect a company to pay its taxes if it is a 'going concern' so let us all work hard at reducing the cost to businesses in order for enterprises to survive, thrive and indeed grow. We seek long-lasting institutions that will have an impact on domestic growth, compete internationally and outlive generations.

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