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Socio-economic influences on the ease of doing business in the Niger Delta: Evidence from small business owners and managers

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Abstract

Doing business with ease depends on many factors. For Nigeria's oil-rich Niger Delta region, the ease of starting and running a small-scale business depends on so many factors. This paper aims to leverage the experiences of 103 small business owners and managers to examine the socio-economic factors influencing the ease of doing business in the Niger Delta region. Data collection was via the structured questionnaire administered via Google Form. Data analysis involved simple percentages, mean and ranking. The findings reveal that lack of power supply, getting credit and resolving insolvency are the major hindrances to the ease of doing business in the region. The study recommends setting up effective policies and programmes in the areas of attracting investment to the energy sector. The government should enlighten the masses about National Collateral Registry and its importance to business owners.

Keywords: Business, National Collateral Registry, Niger Delta region, World Bank indices;

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1. Introduction

Business is a legal economic activity that generates income through the production of goods or rendering of services. The business has the objectives of making a profit, creating job opportunities, contributing to the growth of the economy, improving the standard of living and generating revenue for the government. For a business to achieve these objectives, its environment must be conducive. The environment in which a business operates expends a considerable amount of pressure on how the business is conducted in terms of the demand placed on it by the various environmental factors. According to Soreh (2012), maximum profit can only be made by a business in an environment that is conducive in terms of peace and security. If these factors are absent, the business risks its name, operational efficiency, continuous operations and profit-maximising ability. For small-scale enterprises, doing business in Nigeria and, in particular, the Niger Delta region is mostly affected by socio-economic factors. Small-scale enterprises constitute about 74% of businesses in this region (SMEDA & National Bureau of Statistics, 2013).

To ensure ease of doing business generally, the World Bank Group developed standards for measuring ease of doing business in countries and captioned it 'Doing Business Index' (World Bank, 2018). The doing business index is an aggregation of figures that indicates parameters that define the ease of doing business in a country. It was designed by three World Bank economists, Simeon Djankvo, Michael Klein and Caralee McLiesh. It provides quantitative indicators on the regulations of starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, labour market regulations and resolving insolvency (World Bank, 2018).

1.1. Conceptual background

For the year 2019, Nigeria was ranked 131 out of 190 economies on the World Bank Doing Business Index. This implies that the Nigerian government must continue to formulate friendly economic policies, enact more economic laws and provide a conducive environment for doing business in the country. Because of this, the Presidential Enabling Business Environment Council (PEBEC) was inaugurated by President Buhari in August 2016 and headed by Vice President Yemi Osinbanjo. The council is responsible for driving business reforms in Nigeria. One of the major objectives of the PEBEC is to devise means to simplify the process of setting up and sustaining businesses in Nigeria. This is in conjunction with the Federal Government's Economic Recovery and Growth Plan (2017–2020) whose aim was to remove critical bottlenecks and bureaucratic constraints to doing business in Nigeria and improve Nigeria's rating among the top 70 in the World Bank Doing Business Index by 2023.

Despite all these measures put in place, Nigeria is still faced with so many socio-economic challenges that hinder the ease of doing business in the country. These socio-economic challenges include devaluation of the currency, a slow GDP growth rate and poor saving ability. Others include lack of access to long-term, single-digit loans by businessmen, bribery and corruption, fluctuating exchange rate, high cost of energy, labour mobility, an increased state of insecurity for personnel and properties, multiple taxations, activities of different host community pressure groups, especially in the Niger Delta region, water and air pollution caused by an oil spill and soot.

Vice President Yemi Osinbajo, in October 2017, launched the second National Action Plan on Ease of Doing Business as part of the administration's medium-term Economic Growth and Recovery Plan to build a globally competitive economy. It was expected to further reduce the socio-economic challenges faced by small and medium enterprises (SMEs) when getting credit, paying taxes or moving goods across the country, amongst others. Also, various socio-economic reforms were implemented across the various ministries, departments and agencies to increase productivity, and enhance exports and foreign exchange earnings, while creating jobs and reducing poverty. Some of the reforms implemented are to ease the process of starting a business, eliminate the manual registration process at Corporate Affairs Commission, increase access to credit for SMEs by registering at least 300 microfinance banks on the collateral registry and enforce the elimination of illegal roadblocks on major trading routes across the country (Terhemba, 2017).

Nigeria can learn from Rwanda how to improve the ease of doing business in the country by applying some of its reforms in the areas of curbing corruption, implementing free-market reforms and ensuring political stability. Rwanda has made effort in the past to improve its business environment by using these reforms to create a more conducive environment for doing business in the country (Bernatzki et al., 2020). Table 1 shows the ranking by the World Bank indices of doing business of three countries in Africa from 2006 to 2020. Looking at Table 1, it can be seen that Rwanda was ranked 139 out of 190 countries in 2006 and 38 out of 190 countries in 2020, which is a drastic improvement.

Table 1. Ranking of three African countries on ease of doing business

Years	Rwanda	Botswana	Nigeria
2006	139	40	94
2007	158	48	108
2008	150	51	108
2009	139	38	118
2010	67	45	125
2011	58	52	137
2012	45	54	133
2013	52	59	131
2014	32	56	147
2015	46	74	170
2016	62	72	169
2017	56	71	169
2018	41	81	145
2019	29	86	146
2020	38	87	131

Source: World Bank's (2020) ease of doing business index.

The Government of Rwanda has worked intensively to create incentives for doing business and a modern setting for domestic and international companies (Bernatzki et al., 2020). It extensively cut the levels of corruption and promoted financial inclusion to encourage citizens to build an entrepreneurial mindset and thus shift labour from informal sectors to formal sectors (Finscope, 2020; Honeyman, 2016). It has put in mandatory entrepreneur courses in secondary schools for 6 years and frequently creates incentives to formally register companies (Honeyman, 2016; Olagunju & Ikeolumba, 2019). Over the years, Rwanda has implemented regulations that eased bureautic processes, for instance, online services for property and business registrations, filing, paying of taxes and reducing barriers to accessing electricity and Internet connectivity (World Bank, 2021).

Newly formed small and medium-sized enterprises are exempted from paying the trading license tax for the first 2 years of operation and suspend further tax payments for ICT companies (Republic of Rwanda, 2019; World Bank, 2019). In 2008, the Government of Rwanda followed the Asian examples of the Development Board and its main task is to streamline and facilitate investment in the country and to increase the private sector share of GDP (Akamanzi, 2017). Nigeria can learn from Rwanda and gradually implement some of its reforms that will be favourable and enhance the ease of doing business in the country. This study empirically examines the socio-economic factors affecting the ease of doing business in the Niger Delta. It is structured as follows: Section 2 is a review of various literature. Section 3 is the methodology. Sections 4 and 5 entail the recommendations and conclusion, respectively.

1.2. Literature review

Several empirical and theoretical studies abound on the ease of doing business. For instance, Ogbaga et al. (2021) conducted empirical research on business owners' perception of the extent of the government's implementation of selected World Bank Doing Business Indicators in Ebonyi state. The descriptive survey approach was adopted for the study. The findings showed that, in the perception of business owners, the Ebonyi state government's implementation of doing business policy reforms on registration of business, access to credit, payment of taxes and protection of minority investors were to a low extent (LE). The findings also revealed that there is no significant difference in the mean response of males and females on the issues of access to credit. There were significant differences in the responses of males and females on the issues of protection of minority investors, business start-up and payment of taxes. It was therefore concluded that the Ebonyi state government had implemented doing business reform policies in the areas indicated, however, to a LE. It was recommended that government should invigorate reforms to reduce the cost of business registration, increase access to credit, reduce and prevent multiple taxations and provide adequate protection for minority investors in the state to improve the ease of doing business in the area.

Gylych et al. (2018) conducted empirical research on the effect of insecurity on investment in Nigeria from 2007 to 2017. Three variables were used as input: Nigeria Terrorism Index, Foreign Direct Investment (Inflow) and oil prices. The study employed correlation and regression techniques to analyse the collected data, using Nigeria Terrorism Index as a proxy for insecurity and foreign direct investment (inflows) as a proxy for investment. It recommends that government must be pre-emptive in dealing with security issues and threats because of managing security challenges. Achumba et al. (2013) reported that the effects of insecurity in Nigeria are complex and will continue to negatively affect the ease of doing business in Nigeria if the circumstance stays unabated.

According to Bamkole (2007), the challenges of entrepreneurs in Niger Delta and Nigeria are what he called the 'MISFIT Factor'. It is a six-pronged factor that tends to weigh down entrepreneurs. These include market (M), infrastructure (I), support service(s) (S), information (I) and technology (T), while Onuoha (2008) also lent his support to these identified factors with an emphasis on education and illiteracy.

Efi and Akpan (2012) examined the issues and challenges to the growth of entrepreneurship in the Niger Delta region of Nigeria. They employed a survey research design and gathered data from both primary and secondary sources. With the use of correlation statistics, it was found that lack of access to finance and poor infrastructural facilities (power supply) ranked first among other challenges that impede the growth of entrepreneurship in the Niger Delta region. Based on this, he recommended that a rural development programme such as entrepreneurial skills development and institutions such as small business development centres should be established to educate the people in the Niger Delta region on the need for and advantages of innovations in their economic productive activities while government should shift its efforts and economic policies toward addressing these impediments, especially the inadequate and deteriorated state of infrastructure in the region which is the mainstay of any meaningful advancement in entrepreneurship. This will enhance the growth of entrepreneurship and economic development of the region.

Nnabuife et al. (2018) investigated the specific factors militating against the ease of doing business in Nigeria and compared them with those of selected leading nations. The findings of the study revealed that procedures for starting a business, getting electricity, registering property and paying taxes were the most problematic areas encountered by Nigeria's businesses. It was therefore recommended that procedures and requirements for ease of doing business should be made easily accessible and multiple taxations should be checked through more stringent economic laws.

1.3. Purpose of the study

This study examines the socio-economic factors influencing the ease of doing business in the Niger Delta region of Nigeria: evidence from small business owners and managers using the 11 indices of the World Bank ease of doing business. Other studies (Ogbaga et al., 2021) adopted some of these indices. This study also focuses on the Niger Delta region, while others (Ogbaga et al., 2021) focused on Ebonyi state. Sunday (2012) focused on Niger Delta but adopted few indices of the World Bank's ease of doing business.

2. Materials and methods

2.1. Data collection instrument

A primary source of data collection was adopted in this study. By this method, the researcher was able to group the businesses in the Niger Delta regions into different sectors which include agriculture, construction, finance and business sector, oil and gas, information technology and others. Questions asked in the questionnaire were drawn from the World Bank Indices of ease of doing business. This method was considered appropriate as it is objective and collected directly from the original source. 213 copies of questionnaires were administered via Google Form and the snowball sampling approach. Google Form is a free online tool from Google which allows users to create forms and surveys, as well as share the forms with other people via WhatsApp, Facebook, emails and other social platforms. It was considered suitable for this research because it makes the collection of information easy and efficient, and it stores the feedback received so one can analyse it in detail.

2.2. Participants

The Snowball sampling approach or chain-referral sampling, on the other hand, is a sampling technique in which existing subjects provide referrals to recruit samples required for a research study. The link created from the Google form was sent to people in various business activities via WhatsApp, email and Facebook. Those who received the link went further to send it to others. The entire process generated responses from 103 respondents. Table 2 shows the industrial sectors in which respondents were drawn for the study.

Table 2. Industry coverage of sample

Sectors	No. of respondents	Percentage (%)
Agriculture	11	11
Construction	8	8
Finance	21	21
Oil and gas	8	8

Information technology	16	16
Others	39	39

2.3. Data analysis

The 5-point Likert type scale was employed, ranging from strongly agree (SA) with the highest score (5) to strongly disagree (SD) with the lowest score (1). Mean score and ranking were used to analyse the results.

3. Results

All responses were evaluated using the mean score. The choice of these options as the base for ranking was that these options provide a superior argument from respondents' perspectives on the socio-economic factors influencing the ease of doing business. A factor whose mean has the highest score was therefore ranked first. A ranking of one signifies the worst of all the challenges affecting the ease of doing business in the Niger Delta region, a ranking of 2 represents the next problem and continues in that reducing order till rank 11. Table 3 demonstrates the mean ratings and raking of socio-economic factors affecting the ease of doing business in Nigeria's Niger Delta region.

Table 3. Mean scores and ranking of socio-economic factors affecting the ease of doing business in the Niger Delta region

Socio-economic factors	SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	Rank
Starting a business	24.6	45.9	18.9	13.5	-	3.79	3
Dealing with construction permit	8.4	51.4	35.1	8.1	-	3.58	6
Getting electricity	46.2	40.5	8.2	8.1	-	4.21	1
Registering property	13.3	34.2	18.9	21.1	15.5	3.08	11
Getting credit	37.2	39.5	26.3	-	-	4.11	2
Protecting minority investors	19.2	40.5	29.7	5.5	8.1	3.56	7
Paying taxes	18.5	34.8	28.9	21.1	-	3.50	9
Trading across borders	19.2	48.6	18.9	16.2	-	3.68	5
Enforcing contracts	13.8	51.4	16.2	16.2	5.4	3.51	8
Labour market regulations	2.7	60.5	18.4	18.4	-	3.37	10
Resolving insolvency	7.9	71.1	18.8	2.2	-	3.74	4

Source: Field Survey (2022).

Table 3 shows that respondents rank the unavailability of constant electricity as the highest factor that affects the ease of doing business (mean: 4.21). The unavailability of stable electrical energy makes businesses resort to self-help by generating their power. This comes with a high cost and also impacts negatively on business profitability. The second highest factor (mean: 4.11) relates to inaccessibility to low-interest rates and long-term loans. This can cripple the formation and expansion of small businesses and general community development. In the same vein, starting a business is considered the third-worst factor with a mean of 3.79. When it becomes difficult for people to start up a business, it limits the opportunity of creating employment and contributing to the growth of the economy. Resolving insolvency is considered fourth with a mean of 3.735.

When a business cannot find ways of resolving insolvency, it is likely to go into liquidation and stop trading. Trading across borders and dealing with construction permits are considered the fifth and sixth factors affecting the ease of doing business. The practical implication of trading across borders is that it discourages foreign competition and reduces inflows in the economy. Protecting minority investors (3.555), enforcing contracts (3.505), paying tax (3.501), labour market regulations (3.374) and registering property (3.084) are considered the least factors affecting the ease of doing business in the region.

4. Discussion

When contracts are not efficiently enforced, economic and social progress cannot be achieved. The other indices imply exploitation of workers, loss of productivity and people will be discouraged from investing in the region. The works of Ogbaga et al. (2021) corroborate the findings in this study in the areas of getting electricity, starting a business, protecting minority investors, multiple taxations and accessing credit. These factors were considered the major challenges in the ease of doing business.

Other indices that were not fully captured include dealing with construction permits, registering property, trading across borders, enforcing contracts, labour market regulations and resolving insolvency (Iweama et al., 2021; Topper, 2020). This study, however, refutes others on the issue of resolving insolvency as it was captured in this study as the second factor that affects the ease of doing business. The main purpose of this paper was to examine the socio-economic factors influencing the ease of doing business in the Niger Delta region of Nigeria. Based on the findings made, it is concluded that lack of power supply, resolving insolvency and getting credit are the major hindrances to the ease of doing business in the region.

5. Conclusion

Government should make policies and programmes in the areas of attracting investment to the energy sector, plan for renewable energy integration, boost revenue allocated to the sector, eliminate barriers in the gas-to-power value chain and urgently upgrade infrastructure for electric power generation. In addition, there should be a programme geared towards training existing small business owners in ways to resolve debt issues. Specialised agencies should be established and saddled with the responsibility of resolving insolvency as a way of avoiding the debt trap. The government should create awareness and enlighten the public about National Collateral Registry and its importance to business growth.

Moreover, streamlined corporate governance structures should be in place to regulate the practices and processes in the various business sectors in the region. Also, the rights and interests of minority investors must be protected. There is also the need for policies that safeguard and guarantee transparency to reduce the risk of abuse of minority investors. And the government should embark on reforms targeted at addressing the various indicators on ease of doing business.

Besides the socio-economic factors, it is suggested that future studies could capture other influences on ease of doing business, such as contracting with the government, property rights and rule of law. Studies of influences on the ease of doing business in other regions of Nigeria are also encouraged.

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