

# LCCI BUSINESS ENVIRONMENT REPORT

December 26

# 2011

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This report is an evidence based review of the business environment in Lagos area in 2011. It reflects the views and experiences of stakeholders in the private sector many of whom are in the SME category. It is a valuable feedback for public policy and would form a basis for LCCI public policy advocacy engagement in 2012.

**BUSINESS  
ENVIRONMENT  
REVIEW**

# **LAGOS CHAMBER OF COMMERCE AND INDUSTRY**

## **BUSINESS ENVIRONMENT REPORT 2011**

The transformation of the Nigerian economy is critically dependent on the quality of investment climate. In pursuance of its policy advocacy mandate, the Lagos Chamber undertook an evidenced based assessment of the business environment with inputs from its members and stakeholders in the Nigerian economy. The purpose of this exercise is to identify key issues for advocacy and engagement geared towards the improvement of the business environment.

### **BUSINESS ENVIRONMENT CHALLENGES IN 2011**

The evidenced based review of the business environment revealed two major categories of challenges. The first are the cross-cutting or macro issues which impacted on all sectors of the economy. The second are sector-specific issues.

#### **Cross-Cutting issues**

1. Power supply: firms reported that the most critical problem faced in 2011 was the unbearable energy cost which was a consequence of the appalling state of the power sector. The escalating cost of diesel (AGO), LPFO, aviation fuel and gas reflects this reality. The outcome was that profit margins of many firms were considerably eroded and the survival of many businesses put at risk.
2. Access to credit: the second most critical problem reported by firms during the year was access to credit and the high cost of funds. Many firms could not access credit due to the impossible conditions given by the banks.

Collateral requirements were far beyond the capacity of many borrowers. The few firms that were able to get credit did so at intolerable rates. The CBN monetary policy tightening in the second half of the year worsened the situation. Firms also lamented the recurrent upward review of lending rates even on existing facilities. This created planning and costing problems for the firms. There were reports that some banks set a minimum credit to corporate bodies at between N20m to N25m, which meant an exclusion of many small businesses from accessing credit in such banks. Dearth of long term funds in the banking system was also an issue for concern.

The beneficiaries of the CBN intervention fund in the manufacturing sector applauded the initiative as it brought significant relief to them in reducing their cost of fund and easing their cash flow. But the concern was that the beneficiaries were very few and the facility was only for those firms that had existing facilities with the banks.

### **Exchange rate depreciation**

Many firms noted with concern the sharp depreciation of the naira exchange rate in 2011 with its attendant implications for business operating costs. The rate depreciated from N151 in January to N162 to the dollar in December. The implications for investors were as follows:

- High cost of inputs, especially imported raw materials, machineries and equipment.
- High import duty, VAT and Ports charges all of which are percentages of cost of imports.

Some firms complained about the volatility of the exchange rate and the challenges it posed for business operations, especially planning.

### **Cargo Clearance at the Ports**

Firms that had ports related transactions during year expressed profound discontent with the excruciating processes of clearing cargo at the ports. All respondents complained of an awful and frustrating experience in the course of cargo clearance. Prevalent issues were the multiplicity of agencies at the ports, tedious bureaucracy in documentation and rampant extortion. It takes an average of 2 – 4weeks to clear cargo at the ports. This had implications for the cost of borrowed funds which were used for the importation; demurrage charges etc.

### **Weak Consumer demand**

Most firms experienced weak consumer demand which manifested in low patronage for many sectors and high consumer resistance. There were indications of significant contraction in aggregate demand and a deceleration in the tempo of economic activities during the year. This adversely affected investors.

## **SECTOR SPECIFIC ISSUES**

### **Manpower challenges**

Firms in professional services and construction industry reported declining quality of skills in the economy. Concerns were expressed about the quality of graduates and the cost of retraining them before they can be of value to

employers. Firms in the construction and cottage industries lamented the loss of skilled workers to the commercial motorcyclists sector (Okada business) because of compensation relativity issues.

### **Smuggling**

Many formal sector businesses in the distributive trade sector lamented the rampant smuggling by informal sector operatives which created competitiveness challenges. This problem was pronounced in the tyre industry.

### **Oil and Gas Sector**

#### ***Upstream Oil Sector***

The delay in the passage of the Petroleum Industry Bill remains the greatest inhibition to investment in the sector. Operators in the sector observed that the situation presents a profound uncertainty challenge which makes investment in the sector very difficult. They therefore urged the National Assembly and the Executive arm of government to ensure the expeditious passage of the bill in the interest of the economy and the growth of the oil and gas sector.

Investors in the sector also lamented the phenomenon of multiplicity of taxes which undermines profitability in the sector: Corporate tax (petroleum profit tax) of 85%; Education Tax of 2%; NNDC Levy of 3% of each company's budget; 0.2% levy on oil export for the Export Supervision and Inspection; and a Cabotage Levy collected by NIMASA. Put together, the operators in the sector are paying a tax in excess of 90%. This scenario could discourage investment in the sector.

To promote the realization of the objectives of the national Content Policy, players in the sector suggested the provision of appropriate incentives to stimulate investment domestically in the segments covered by the policy. They

observed that currently there is a weak domestic capacity to facilitate the realization of the objectives of the policy.

### ***Downstream Oil Sector***

Investors in the downstream oil sector expressed concern over excessive regulation of the sector. This was identified as a major problem inhibiting investment in this segment of the oil and gas sector. They also called for urgent deregulation of the sector and the passage of the Petroleum Industry Bill (PIB).

### **Business Registration**

Professionals in the Consulting businesses expressed concern over the bureaucracy and resultant delays in the process of business incorporation. They lamented the over centralization of the processes by the Corporate Affairs Commission (CAC). They called for immediate decentralization of the activities of the Commission so that the processes can be started and completed without recourse to the Corporation Headquarters in Abuja. They contended that a more intensive use of information technology (IT) would facilitate rapid decentralization of the processes.

### **Logistics Business**

Operators in the logistics sector expressed concern over the state of roads and the attendant cost in terms of time and vehicle maintenance. There were also complaints of multiplicity of permits and harassment by government operatives such as the Police, the VIO, LASTMA and the FRSC and local council officials.

## **CONCLUSION**

For the government to realize its aspiration of economic transformation, it would be useful to address the varied concerns and challenges that have been highlighted by the private sector players in this report. The report presents a valuable feedback on the effectiveness of public policy. Lagos Chamber is requesting the authorities to address the constraints and concerns in 2012 in the interest of the economy and the welfare of the Nigeria people.

Nigerian economy has tremendous potentials that could be harnessed to advance the frontiers of the economy and impact on the lives of the citizens. But for this to happen, the process of structural reforms to unleash these potential must be accelerated. Policy choices should be made to boost investors' confidence; drastically reduce infrastructure deficit; ensure macroeconomic stability; promote policy consistency; guarantee a level playing field for all investors and deal firmly with corruption.

**MUDA YUSUF**

**DIRECTOR GENERAL**

**LAGOS CHAMBER OF COMMERCE AND INDUSTRY**

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