NIGERIA—CORPORATE PERFORMANCE, INVESTMENT AND FINANCING

This chapter assesses the performance of large Nigerian firms using firm-level data that permit a closer view of challenges facing the average large firm instead of merely looking at the headline performance visible in macroeconomic aggregates. This differentiated view illustrates that the growth rate of the median large firm (e.g. in assets and the capital stock) is much lower than in aggregate, implying that macro-aggregate growth is driven by the very largest companies. The study finds that corporate performance measured by asset productivity and operational efficiency has declined over time, although the largest firms have fared somewhat better. The debt load and liquidity of many firms is found not to be sustainable, particularly under the current oil price and COVID-19 induced shock, as a corporate stress test shows. Corporate investment is insufficient to replenish the capital stock on average—save the largest firms—possibly due to both insufficient cash flow from operations and low external financing. The muted credit growth may be owed to the credit risk from financially distressed borrowers, as firms with an unsustainable debt burden have received less credit on average.

A. Background

1. The operating performance of large Nigerian corporates has worsened over the past decade. Relatively low capital investment in combination with unfavorable cost structures has led to a decline in productivity and operational efficiency. Firm productivity in terms of value added has generally stagnated or fallen (for example, in the services sector) and is lower than the median for other selected emerging market economies across sectors. This deterioration in corporate performance can be linked to several factors, both domestic and external.

2. Domestic factors are reported to include access to credit and the business environment. Access to finance has been listed as the top constraint to doing business in Nigeria (World Bank Enterprise Survey, 2015). Hosny (2020) finds that firms who perceive access to credit as a constraint to their business have, on average, around 80 percent lower employment growth and around 30 percent lower capacity utilization growth compared to the group of firms not reporting...
this constraint. Particularly, larger and export-oriented firms are less likely to report access to finance as a business obstacle. This is despite some mitigating factors. For manufacturing, Kolawole and Omobitan (2014) show a significant and positive impact of private sector credit, property rights and investment freedom on value added in manufacturing.

3. **External factors have played a role as well.** Earlier IMF research by Ibrahim et al. (2017) found that foreign exchange inflows are highly correlated with corporate performance, mostly through macroeconomic developments. For example, a one percent decline in autonomous foreign exchange inflows (mainly remittances and non-oil proceeds) reduced companies’ operating profits by the same degree. This effect was stronger for firms in the services sector.

4. **A look at Nigeria’s private sector investment and credit does not provide a clear picture.** During the past decade, private investment flows in terms of GDP were mostly lower than in the peer emerging market countries but have picked up recently. Credit to private sector had been on a declining trend since 2014 but recovered in 2019, in part due to the initial effect of CBN’s requirement of a minimum loan-to-funding (LDR) ratio introduced in mid-2019. In real terms, the growth rate of private sector credit has barely turned positive. Analyzing firm-level data sheds additional light on what is behind these macro trends, also analyzing differences in operating performance by firm size.

5. **This study looks beyond the developments in the macroeconomic aggregates and assesses the performance of the average large firm by scrutinizing a variety of firm-level data.** The firm-level approach can help discover developments that are otherwise masked by the performance of a few companies driving the aggregate performance. For example, while the macro performance in investment may appear broadly appropriate, our firm-level analysis shows that this growth is driven by a few large firms, while the average large company invests much less. Going a step further and creating a subgroup with the largest firms allows us to bring out such differences in performance and draw conclusions about competition and market power of the largest Nigerian firms and associated implications for inflation and employment.
B. Data Collection and Sample Properties

6. The firm-level data used in this study were collected from Bloomberg for the period of 2012-2019. The advantage of using this data source is its wide scope, up-to-date coverage and high granularity of information. We obtained annual data on balance sheets as well as income and cash flow statements for 114 non-financial private companies listed on the Nigerian Stock Exchange (NSE). However, because the number of observations in the dataset varies across years and variables, we only include 100 large firms in the final sample. Based on the NSE’s industry classification, one third of all firms operate in the services sector (including healthcare), with the remaining sample quite evenly split between the primary and secondary sector. Market concentration has increased over the last years, as measured by the Herfindahl-Hirschman Index. We also create a subset for the largest blue-chip companies (“Top 30”, as per asset size) to check whether these firms display a different performance from the remaining large firms. The Top 30 account for about 10 percent of the corporate sector, as measured by their share in total bank credit to the non-financial private sector. As the Bloomberg data do not disaggregate borrowing sufficiently, the information on bank and other loans used in Section D was sourced directly from the annual reports of the Top 30 companies.

7. The firm-level dataset features a high granularity of accounting data. In each of the three main data categories (balance sheet, profit and loss, and cash flow) we use several variables for our analysis. The diagram to the right summarizes the variables in each area.

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3 Financial companies (e.g. insurance) are excluded from the study because their different balance sheet structure, notably much higher leverage, inhibits comparison with the non-financial firms assessed here.

4 It is difficult to ascertain whether a missing observation is due to non-reporting by a firm or rather in some cases inadvertent omission by the information provider in the data collection process.
C. Corporate Performance and Debt Sustainability

Growth, Cost Structure, and Operational Efficiency

8. Large firms’ asset growth has been falling gradually but varying across firm size. While total asset value of large companies grew by 15 percent in 2019, half of the analyzed corporates registered a rate lower than 1 percent as implied by the median used as an average performance measure. In fact, about one-third of all companies reported zero long-term investment in 2019. For the subset of the Top 30 companies, median growth picked up to around 9 percent in 2019. The differential between this number and the headline growth rate of 15 percent implies that expansion by the very largest firms among the Top 30—often owned or backed by wealthy individuals—drove the overall growth. Regardless of company size, the asset growth was driven almost entirely by an increase in non-current assets, while current assets grew only by 1 percent in 2019.

9. Large companies registered a decline in sales in the last two years. Even before the current combined oil price and COVID-19 shock, the median growth rate of sales (gross revenue) had been moderating across both the Top 30 and other large firms, rendering the rebound after the 2015-16 oil price shock short-lived. In fact, 13 out of the Top 30 firms and half of the remaining firms reported negative growth in sales in 2019.

10. Profitability has also been deteriorating. While the return on average assets for the large firms as a whole (size-weighted) was still positive in 2019, the post-tax income of the median large company had been falling throughout the entire time period (negative growth rate in Figure 9). The situation looks slightly better for the Top 30 firms, although in 2019 also half of these companies reported lower profits than the year before. The median profit margin (net income divided by revenue) declined to below 3 percent, with one-third of companies reporting negative numbers in 2019.
11. **Gross income has fallen despite firms’ reducing their operating costs.** Income declined on the back of lower revenue (Figure 10) that could not be fully compensated by cuts in the cost of goods sold (COGS) and, to a lesser degree, in other operating expenses. The drop is more noticeable among the Top 30 companies despite significant cuts in COGS. As a result, firms’ operating efficiency as measured by the so-called EBITDA margin\(^1\) measuring what share of revenue a firm manages to keep as operating income has deteriorated over the years. EBITDA stands for earnings before interest, taxes, depreciation, and amortization. As already seen with the cost structure, the median EBITDA margin is more than twice as high among the Top 30 as it is in the group of all large firms.

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1 EBITDA is related, yet not identical to operating income. Knowing the EBITDA margin allows for a comparison of one company’s real performance to others in the industry.

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12. **In line with sales developments, asset productivity has deteriorated as well.** The asset turnover ratio (defined as revenue generated by a given level of assets) has persistently dropped since 2014, with the exception of the Top 30 firms that managed to reverse the trend in 2019, at least for the time being. This rebound has widened the gap between the largest firms and the rest of the sample firms that saw a continued decline. This widening gap is reflective of other differential developments in the capital stock and investment which are discussed in Section D.
Debt Sustainability and Liquidity

13. Many large Nigerian firms are overleveraged and unable to service their debt from operations. While leverage, as measured by the debt-to-assets ratio, may not be overwhelming, the debt and debt service in relation to operating income certainly is overwhelming for many. In fact, it is the low or negative earnings that render the debt load unsustainable. To assess debt sustainability, we use two metrics, the net debt-to-EBITDA ratio and the interest coverage ratio defined as EBIT (earnings before interest and taxes) to interest payments.

14. The debt load is deemed unsustainable for more than one-third of large firms, considering their operating income. Debt is typically considered sustainable up to a net debt-to-EBITDA ratio of 5, implying that it would take a firm a maximum of five years to repay the debt from operating income. EBITDA is taken in this calculation instead of operating income, since it is considered a proxy for cash flow from operating activity and allows comparison across industries. The analysis shows that the debt load of about one-sixth of the 100 large firms is beyond that threshold, and another one-fifth have negative EBITDA, automatically rendering their debt non-sustainable by definition. One-fourth of the firms with an unsustainable debt load operate in the oil & gas and basic materials sectors.

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2 Net debt is defined as interest-bearing liabilities (excluding accounts payable) minus cash and cash equivalents, which are subtracted because the firm could always use the cash on hand to repay part of the debt.

3 The threshold can be higher for capital-intensive industries (e.g. utility firms) or, conversely, lower for service providers. A uniform threshold is applied here because of a relatively coarse sector classification in the Bloomberg data and the presence of mixed conglomerates in the sample.

4 EBITDA breaks down the business to its fundamental operating cash flow since it removes changes in cash due to the firm’s past decisions about financing, investment and tax structure that are not reflective of the current operations performance.

5 The debt-to-EBITDA analysis is carried out for all 100 sample firms, whereas the subsequent analyses for debt service sustainability and liquidity use a slightly smaller sample because not all sample firms reported the variables used in the metrics.
15. Similarly, the income of many large firms is insufficient to service their debt. The relevant metric for assessing debt service sustainability, the interest coverage ratio (ICR) defined as EBIT (earnings before interest and taxes) over interest payments, is below the commonly assumed sustainability threshold of 1.5 times\(^6\) for close to half of the 72 firms expressly reporting the necessary data. Among these firms, three-fourth have negative EBIT which, again, automatically renders debt service untenable. While the median ICR is below pre-crisis 2015 readings, it has recovered in 2018–19 on the back of higher EBIT. Not all firms having unsustainable debt service capacity have an unsustainable debt load and vice versa. In fact, about two thirds of the firms assessed are over-indebted in one or the other category.

16. The liquidity situation of some firms is precarious. The median growth rate of cash holdings fell from 22 percent in 2013 to -2 percent, raising issues about liquidity. About one-fifth of firms (19 out of 86 reporting the necessary data) can be considered illiquid judging by the concept of “net cash”, which is defined here as cash and cash equivalents plus the sum of accounts receivable and short-term investments minus the difference between current liabilities and short-term debt (see Tressel, 2021).\(^7\) Other things equal, this also implies that such firms depend on a more-than-full rollover of debt.

17. Taken together, one in six large firms can be considered overindebted and/or illiquid. Of the 100 large firms analyzed, nine fail all three sustainability criteria, and another six are in debt distress by one count and illiquid. The total number of clearly overindebted firms (i.e. failing both debt sustainability criteria irrespective of liquidity) is 18. Considering that the ICR could only be calculated for 72 firms, the true share of overindebted firms is likely closer to one in four.

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\(^6\) By the time a firm’s ICR dips below 1, it may have already been in distress. As an early warning signal of potential corporate difficulties, analysts often use a more conservative ICR threshold of 1.5 (Chow, 2015).

\(^7\) Note that even if the cash stock is positive, a wider measure of near-cash assets and liabilities can be negative (assuming that all short-term liabilities are actually paid, and no arrears incurred).
**Corporate Stress Test**

18. **Debt sustainability can be expected to weaken further under the current crisis conditions.** To assess firms’ resilience to the combined oil price and COVID-19 shock, we conduct a corporate stress test on the two debt metrics. In addition, we run a cash flow test that checks how many firms’ net cash position would turn negative (or more negative) after the shock impact.

19. **The tests assume severe but plausible shocks to firms’ earnings and some recourse to external financing.** In both debt sustainability tests, we assume that operating earnings proxied by EBITDA and EBIT, respectively, fall by 40 percent relative to end-2019. This certainly represents an extreme shock roughly double the shock experienced during the 2015 oil price shock episode when EBITDA and EBIT relative to assets of the median firm fell by 18.5 and 28.9 percent, respectively. In addition, in line with the trend in credit to the economy (+11½ percent year-to-date) we assume that short-term debt rises by 10 percent relative to end-2019 since many firms are unable to service debt and make other scheduled payments without additional financing. For the ICR, this is assumed to translate into a rise in interest expense by only 8 percent, as interest rates have dropped since end-2019 (during August and October 2020 the prime rate fell from 15 to 11¾ percent). In the cash flow test, we assume in addition that revenue falls by 40 percent, but also that firms can adjust the cost of goods sold (COGS) by the same rate, thereby softening the impact on operating income. Table 1 summarizes the shocks.

<table>
<thead>
<tr>
<th>Table 1. Nigeria: Shocks Assumed in Corporate Stress Test</th>
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<tbody>
<tr>
<td>EBITDA; EBIT</td>
</tr>
<tr>
<td>Short-term debt</td>
</tr>
<tr>
<td>Interest expense (on additional debt)</td>
</tr>
<tr>
<td>Revenue (in cash flow test)</td>
</tr>
<tr>
<td>Cost of goods sold (in cash flow test)</td>
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</table>

20. **Under this simple stress scenario, the share of large firms with an unsustainable debt level or service increases moderately.** Under the debt-to-EBITDA test another 10 firms display unsustainable debt, bringing the total to 46 out of 100 firms, while under the ICR test the number of firms with non-viable debt service rises by 6 to a total of 38 firms (i.e. more than half of the 72 firms reporting the required data). Based on the debt-to-EBITDA ratio, this corresponds to a share of “debt at risk” in total debt of the sample firms of 37 percent or 1.2 percent of GDP. The charts below show the movement between bins (for example, in the EBITDA chart the number of firms in the central column drops by the red area (10), leaving 54 firms sustainable (corresponding to the

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8 EBITDA is arguably a better measure of cash flow than EBIT as depreciation & amortization (D&A) is a non-cash expense, but following Tressel (2021) we instead take EBIT and assume that the cash outflow for investment (capital expenditure) equals D&A. This seems a reasonable assumption since the ratio of the two measures was 87 percent at end-2019 for the median firm and had been on an upward trajectory from its trough in 2017 (see Section D).

9 For more detail on the concept and application of “debt at risk” see IMF (2020) and Tressel (2021).
purple area), with the transitioning firms added to columns to the right (shaded in blue); the same goes for the ICR where firms migrate from the right-hand side to the left-hand side columns).

**Figure 17. Distribution of Stressed Debt-to-EBITDA Ratio**
(number of firms)

![Figure 17. Distribution of Stressed Debt-to-EBITDA Ratio](image)

Source: Bloomberg and IMF staff calculations

**Figure 18. Distribution of Stressed Interest Coverage Ratio**
(number of firms)

![Figure 18. Distribution of Stressed Interest Coverage Ratio](image)

Source: Bloomberg and IMF staff calculations

21. **The impact of the cash flow test on available liquidity is much larger than for the debt sustainability tests.** In addition to the 19 firms already illiquid firms, another 29 also end up with negative net cash, using the following formula (Tressel, 2021):

\[
\text{End of period net cash (t)} = \text{Net cash(t-1)} + \text{EBIT(t)} - 60\% \times \text{Revenue(t)} - 60\% \times \text{COGS(t)} - 108\% \times \left(\frac{\text{STD}}{\text{TD}}\right) \times \text{Interest payments(t)} + 110\% \times \text{Short-term debt(t)},
\]

where \(STD\) = short-term interest-bearing debt and \(TD\) = total interest-bearing debt.

In total, 48 out of 86 firms assessed (or 56 percent) are shown to be illiquid after the assumed set of shocks—2½ times the number of firms already cash-strapped at end-2019. Put differently, to keep the aggregate net cash amount (sum of cash surpluses and deficits) constant, the rollover of short-term debt would have to be 250 percent, and for the number of illiquid firms (19, not necessarily the same firms) to remain the same even 363 percent, but in both cases deficit firms would increase their cash gaps overall. To stabilize the total cash gap, the rollover would have to be 670 percent.

22. **In aggregate perspective, a worrisome number of firms would wind up overleveraged and/or illiquid.** The number of firms failing all three sustainability criteria rises from nine to 14, and of those in debt distress by one count and illiquid triples, from six to 18. The total number of clearly overindebted firms (i.e. failing both debt sustainability criteria irrespective of liquidity) rises by another eight to 26 (i.e. one-fourth, but again, the true number is likely higher for those data coverage reasons). More than half of the firms (52 out of 100) have an indication of excess leverage, failing at least one of the debt sustainability tests. And close to three-fourths of large firms (72 out of 100) have an issue with debt or liquidity (i.e. at least one negative count of three in the sustainability assessment).

23. **The interplay between excess leverage and additional financing may create a vicious circle requiring decisive remedial measures.** A high debt load together with lackluster earnings leads to stressed cash flow, requiring additional financing that in turn further raises leverage and so on. This process cannot continue indefinitely, but rather requires productivity-enhancing structural
reforms, including more capital investment, or active deleveraging that may eventually lead to consolidation or market exit, as has already happened in the flour mills industry (Ofonyelu, 2016). The next section discusses these issues in more detail.

D. Capital Stock, Investment and Financing

Capital stock, Investment and Cash Flow

24. The development of firms’ capital stock has been uneven across years and firm size. Proxied here by total non-current assets, the capital stock expanded in 2019 thanks to investment by the largest firms (the stronger pickup in the total capital stock (black line) implies that the very largest firms drove that expansion). By contrast, capital growth of the median firm has stalled to a mere 1.4 percent (which means fallen in real terms). In fact, as a share of total assets the capital stock has been on a declining trajectory since 2014. Still, as with the overall growth rate of capital, the Top 30 rebounded starting in 2018, widening the gap between them and the average large firm.

25. There is also a divide in capital stock replenishment between the average firm and the Top 30. Since the 2015 crisis, the median firm’s investment, proxied by cash flow (for investment, has been below the depreciation of its capital stock (D&A). This implies that the average firm no longer replenishes its capital stock in full. The Top 30 firms have avoided this conundrum, with the median investment-to-D&A rate having stayed above 100 percent throughout and rebounding to 164 percent at end-2019. To be sure, this is not because of a slower depreciation schedule. The effective write-off rate, as proxied by D&A in percent of non-current assets, has remained at around 8 percent for the last few years and does not differ significantly between the two groups of firms.
26.  **Part of the low capital expenditure may be explained by lackluster cash flows from operations, inhibiting firms’ self-financing.** While cash flow from operations used to exceed investment outlays, reducing the need for external financing, the ratio between the two cash flow types fell below the threshold for self-financing from operations in 2017. Since, as shown before, corporate investment hit a low point that year, this means that the reduction in operational cash flow was even higher, in line with depressed sales. Of course, it is not clear whether the low operational cash flow inhibited an increase in investment. However, it stands to argue that a combination of both low cash flow from operations and from external financing has limited the potential for investment. The ratio of cash flow from financing (which includes dividend payments as an offsetting factor) to cash flow for investment has been close to zero or even negative for the median firm, indicating that external financing net of dividends has played a limited role; this seems to be particularly true for the Top 30 firms that may pay out larger dividends.
27. The discrepancies between the average large firm and the Top 30 raise questions about concentration and market power. As shown, the Top 30 firms have had less difficulty than the other large firms maintaining their capital stock in absolute terms and as a share of total assets and, more recently, even expanded it on the back of a more favorable operating performance. Since the difference between the two groups in various aspects of corporate performance, including capital investment, is so pervasive, the question of market power arises.¹⁰ In fact, the Top 30 now account for more than 90 percent of large firms’ assets and sales, with both concentration measures having risen consistently since 2012. The four largest firms alone account for about half of large firms’ sales and, as Ofonyelu (2016) reports, over 90 percent in some agricultural product markets. While firm-level data for smaller Nigerian firms are difficult to obtain, the same type of concentration and market power issues may exist between large firms as assessed here and SMEs.

28. Asset concentration is deemed to give market power, limit competition and increase markups—forces that may also be at work in Nigeria. Indeed, the IMF (2019) finds that firm markups have increased in Nigeria by about 40 percent since 2002 and that small firms tend to have lower markups than larger ones. That said, local studies (e.g. Olawale, 2015, and Olawale, Adeyemi and Asogha, 2018) show that measures of market competition have affected pricing policies but not necessarily firm performance. By contrast, it has been argued that initially fierce competition caused growing firm concentration, higher excess capacity for strategic purposes and eventually the collapse of inefficient firms (Ofonyelu, 2016). Our findings also suggest that high and rising concentration aids the superior performance of the largest firms, likely at the detriment of others.

Financing Sources

29. Bank lending has been tentative, perhaps in reaction to the elevated credit risk of financially distressed firms and has in part been replaced by direct market finance. As mentioned, the supply of bank credit to the private sector has been muted through much of the past years and negative in real terms (see also Tamene, Saito and Ibrahim, 2017). As illustrated, the weak credit growth cannot be explained from the demand side, since self-financing from operations has, on average, been low. Starting in 2018, the Top 30 firms have increasingly turned to non-bank financing, notably market financing (e.g. corporate bonds). The share of non-bank financing has

¹⁰ Not fully replenishing the capital stock would make sense if there were spare capacity in the medium run. However, some large firms may deliberately keep excess capacity as a preying strategy for market capture. Weaker firms suffer more, as idle capacity can make stronger firms try to capture market share while raising cost for the smaller firms. In the absence of strong antitrust policy, a firm with market power can take advantage thereof to drive a competitor out of business or to prevent others from entering. This may result in reduced competition, harming consumers and the wider economy because prices rise via higher markups—also by wholesalers that, knowing about certain firms’ market power, tend to over-stock and when excess demand occurs raise their prices (Ofonyelu, 2016).
increased from 17 to 23 percent during 2014-19.\(^\text{11}\) This gain has been driven by market financing which has all but replaced related- and other third-party financing. One driver of this increase has been the higher investment by pension fund administrators in corporate debt, which was reinforced in late 2019 when government bond yields fell after the CBN had chosen to exclude non-banks from its OMO auctions. However, with only six years of data, it is difficult to discern a lasting trend. In fact, third-party financing peaked in relative terms in 2016-17 when market conditions were unfavorable.

30. **Notwithstanding the gradual downward trend, bank credit remains the main and steady source of corporate finance.** Almost half of the Top 30 firms (13 firms) have used no other source of financing since 2014. Interestingly, during that five-year period, these firms increased their total (bank-exclusive) financing 1½-fold (for the median firm). This compares to an average 25 and 20 percent drop in bank and total financing, respectively, for firms with mixed financing (Table 2).

<table>
<thead>
<tr>
<th>Table 2. Median Growth Rate of Bank Credit to Top 30 Firms, 2014-19</th>
<th>Firms with only bank financing</th>
<th>Firms with mixed financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>By Financing structure</td>
<td>154%</td>
<td>-20%</td>
</tr>
<tr>
<td>By Debt sustainability</td>
<td>Firms not in debt distress</td>
<td>Firms in debt distress</td>
</tr>
<tr>
<td>By Principal economic activity</td>
<td>197%</td>
<td>34%</td>
</tr>
<tr>
<td>Firms in primary/industrial sector</td>
<td>Firms in consumer goods sector</td>
<td></td>
</tr>
<tr>
<td>64%</td>
<td>83%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Bloomberg, firms’ annual reports and IMF staff calculations.

31. **Still, banks appear to be mindful of credit risk in their lending.** Splitting the Top 30 firms into two groups of about equal size by whether debt is found sustainable or unsustainable in the earlier exercise (by one of the two criteria, including under stress), a relatively clear picture emerges. On average (median), banks increased their credit to firms without any debt sustainability issues

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\(^{11}\) Credit data prior to 2014 were discarded because of insufficient coverage across firms.
two-fold, whereas over-indebted firms received only 34 percent more bank credit during 2014-19 (Table 2). A few firms saw a drop in bank credit by nearly 100 percent. There is no one aggregate sector that is preferred or shunned by the banks: disaggregating the sample by primary sector/industrial firms and consumer goods firms (using Bloomberg’s sector definition) does not provide a meaningful difference of less than 20 percentage points considering the small sample size. All this said, banks still lend to highly indebted firms. As a case in point, the only Top 30 firm failing all three sustainability criteria (even before stress) switched from market to bank financing, given that lasting access to market financing is reportedly subject to stricter rules.

**E. Concluding Remarks**

32. Large Nigerian firms have experienced a deteriorating performance for the most part with further negative dynamics, although the very largest firms still do relatively well. Overall, large firms have saw revenue, profits, and asset productivity fall over the past years. In line with subdued cash flow from operations, low net cash positions and limited external financing, their resources are not sufficient for investment to fully replenish the capital stock. This does not bode well for needed productivity gains to bring firms’ operations and finances on a more sustainable footing. Many firms’ debt level or service has reached an unsustainable level or may do so after the combined oil price and COVID-19 shock has fully played out, further curtailing free cash flow and restricting access to finance, as banks shun additional credit risk. At the same time, the largest firms, ostensibly capitalizing on their competitive advantage and market power, have fared better. They expanded the capital stock and increased asset productivity, but in doing so also widened the gap to smaller, less competitive firms who in addition often face limited access to finance and other needed support to break into the ranks of the larger firms (The Economist, 2020).

33. Underinvestment and excess leverage imply not only lower potential growth but potentially also negative macrofinancial linkages, emphasizing the need for prudential action. Banks and their regulator should be wary of the evident debt overhang and take precautions. For their part, the banks had already exercised caution in lending even before the COVID-19 shock hit but further regulatory precautions should safeguard corporate debt sustainability. The Central Bank of Nigeria (CBN) should introduce additional macroprudential policy instruments geared at reining in corporate and household debt, notably limits on debt- or debt service-to-income ratios that banks and their clients would have to comply with. To render this possible, the CBN and banks will need to have a complete picture of the total indebtedness of borrowers, which may require additional data collection.

34. As the purpose of this chapter is to assess various aspects of corporate performance in Nigeria, it leaves some salient issues with competition and market power to further research. We have examined the performance of large firms but are not able to evaluate the condition of small and medium-sized enterprises. However, given the finding that the largest firms outperform smaller large firms and put them at a competitive disadvantage, it is likely that the same may be occurring with respect to SMEs. The growing divide between firms of different size is not a trivial matter as the smaller firms generate the bulk of jobs that Nigeria needs to employ its fast-growing
population. Further market concentration may work in the opposite direction, irrespective of how benign the macroeconomic aggregates like private sector investment and asset growth may still appear. This obviously raises issues of industrial organization which need addressing in order to strike a sound balance between healthy competition and ensuring a level playing field. Additional investigation into these specific issues is clearly warranted.

35. **Recent legal and regulatory measures aim at safeguarding competition, but they may lead to conflict with existing mechanisms and remain largely untested.** The Federal Competition and Consumer Protection Act of 2018 aims to establish rules to minimize market distortions and unfair business practices reducing competition that the newly created Federal Competition and Consumer Protection Commission (FCCPC) is tasked to enforce. While unquestionably overdue and laudably comprehensive, the new act takes a uniform, economy-wide approach that may make the work of the FCCPC conflict with sector-specific supervisory agencies and their own regulations, creating a potential overlap and blurring roles and responsibilities (Obioma, 2020). It therefore remains to be seen how effective the legal and regulatory innovations will be in bringing about the much-needed balance in market competition. Quantitative analysis as presented in this chapter on differential corporate performance linked to firm size and other research into evidence of market concentration (e.g. markups) should be conducted to ascertain that these innovations have traction or else prompt further policy initiatives.
References


