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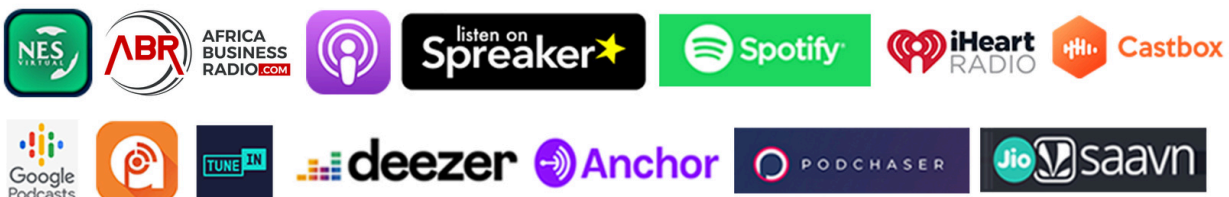
Achieving fair market competition in Nigeria



In February 2021, the Group launched the NESG Podcast services. The NESG Radio is a weekly, syndicated podcast that keeps Nigerians informed through curated localised content on economic policies and issues across sectors of the Nigerian economy. The NESG podcast will help effectively communicate the activities of the Group to a younger audience and extend research-based advocacy in a distillable localised format to all Nigerians. The radio has had guests from the private sector, public sector, civil societies and donor communities speak on issues of national interest. Thus far, NESG Radio has recorded **77 episodes** with several episodes translated to local languages for the mass audience. To listen please visit www.nesgroup.org/podcast

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Introduction

There is robust evidence supporting the economic advantages of fair competition. According to economic theory, most commercial enterprises prioritise profit maximisation. However, in a fair market, businesses attempt to achieve this goal through efficient operations, innovation, and meeting consumer demands[1]. This ensures that profits are earned through legitimate and competitive means which supports a thriving business environment and dynamic economy.

Fair market competition fosters efficient market functioning, business incentives for innovation and increased productivity, which is pivotal for sustained economic growth. It also promotes consumer protection while guarding against anti-competitive behaviour[2]. In a competitive market, consumers benefit from increased choices and product quality, enhancing their welfare. On the other hand, an unfair competitive environment hampers resource allocation, entrepreneurship, innovative investment and hinders economic transformation[3].

Due to intertwined and multi-faceted macroeconomic and structural challenges, Nigeria has yet to realise its full economic potential. Chief amongst these challenges are substantial infrastructural deficits underlined by declining foreign investment. Data from the National Bureau of Statistics (NBS) reveals that foreign capital inflows stood at US\$3.91 billion in 2023, a significant drop from US\$5.33 billion in 2022 and US\$20.75 billion in 2014.

Nigeria also ranks low globally in innovation. According to the World Intellectual Property Organisation, Nigeria was ranked 109th out of 132 countries in the 2023 Global Innovation Index (GII). The GI measures innovation performance across countries based on indicators such as institutions, human capital and research, infrastructure, market sophistication, business sophistication, knowledge and technology outputs, and creative outputs.

Despite its potential benefits, Nigeria has faced persistent challenges in establishing competitive markets due to pervasive difficulties in the business environment. Also, corruption, policy inconsistency, regulatory bottlenecks, and infrastructure deficits have impeded the country's competitive environment. Such challenges breed unfair market conditions because more established businesses or those that can take advantage of market power and loopholes, for example, would be in a more favourable position to new entrants[3]. This report delves into the significance and challenges to fair market competition in Nigeria, proposing a framework to foster a competitive market economy.

[1] See Qaqaya, H. (2008). The effects of anti-competitive business practices on developing countries and their development prospects.

[2] See Crampton, P. (2003). Competition and efficiency as organising principles for all economic and regulatory policymaking. <https://www.oecd.org/daf/competition/prosecutionandlawenforcement/2490195.pdf>

[3] See Brandenburger and Nalebuff (1996). The Economics of Unfair Competition: A Conceptual Framework.

Importance of fair market competition

As highlighted previously, enhancing fair market competition is critical for various reasons, including attracting investment, fostering efficiency and innovation, promoting competitive pricing, stimulating economic growth, and improving consumer welfare. The importance of a competitive economy is discussed in further detail below.

Stimulates Economic Growth

An environment that fosters a level playing field is pivotal to stimulating and sustaining economic growth over time, as alluded to earlier. When consumers can select from various producers, both they and the economy reap the rewards. The necessity to choose compels companies to compete with each other. While customer choice is inherently advantageous, competition among firms also drives heightened productivity and economic expansion[1].

Furthermore, competition fosters allocative efficiency and innovation. It promotes the survival of efficient businesses and the exit of inefficient ones, which increases productivity. In addition, innovation encourages the creation of new goods, services and processes, leading to economic growth. This is consistent with the conclusions of Cherif and Hasanov (2021) that competition and innovation-led growth are essential for achieving productivity gains and supporting broad-based growth.

The positive effect of competition on industry performance is evidenced by the significant growth of Nigeria's ICT industry following liberalisation and deregulation. The country's digital and start-up economy also experienced rapid growth due to the competition-enhancing effects of these measures[2].

Attract Investment

Cultivating fair market competition is essential for attracting domestic and foreign investments and promoting sustainable economic growth. Fair market competition fosters a favourable business environment by encouraging regulatory adherence, transparency, and certainty, which are critical to attracting investment. Recent investor surveys in Nigeria have highlighted challenges such as difficult operating conditions, policy inconsistencies, and regulatory bottlenecks hindering investment growth (see Figure 1). Conversely, improving the competitive environment by addressing practices that lower business confidence and create an uneven playing field associated with unfair market practices will promote private capital inflow into domestic businesses.

Foster Efficiency and Innovation

In a competitive market, firms are incentivised to pursue efficiency and innovation to achieve lower prices and improve product quality. Businesses are driven to innovate by developing new products, enhancing processes, and advancing technologies to attract customers and promote operational efficiency. These actions ultimately benefit consumers by providing them with better products at competitive prices.

[1] See OECD (2014). Factsheet on how competition policy affects macro-economic outcomes. <https://www.oecd.org/daf/competition/2014-competition-factsheet-iv-en.pdf>

[2] See NESG (2024). 2024 Macroeconomic Outlook. Economic Transformation Roadmap: Medium Term Policy Priorities.

Enhance Competitive Pricing

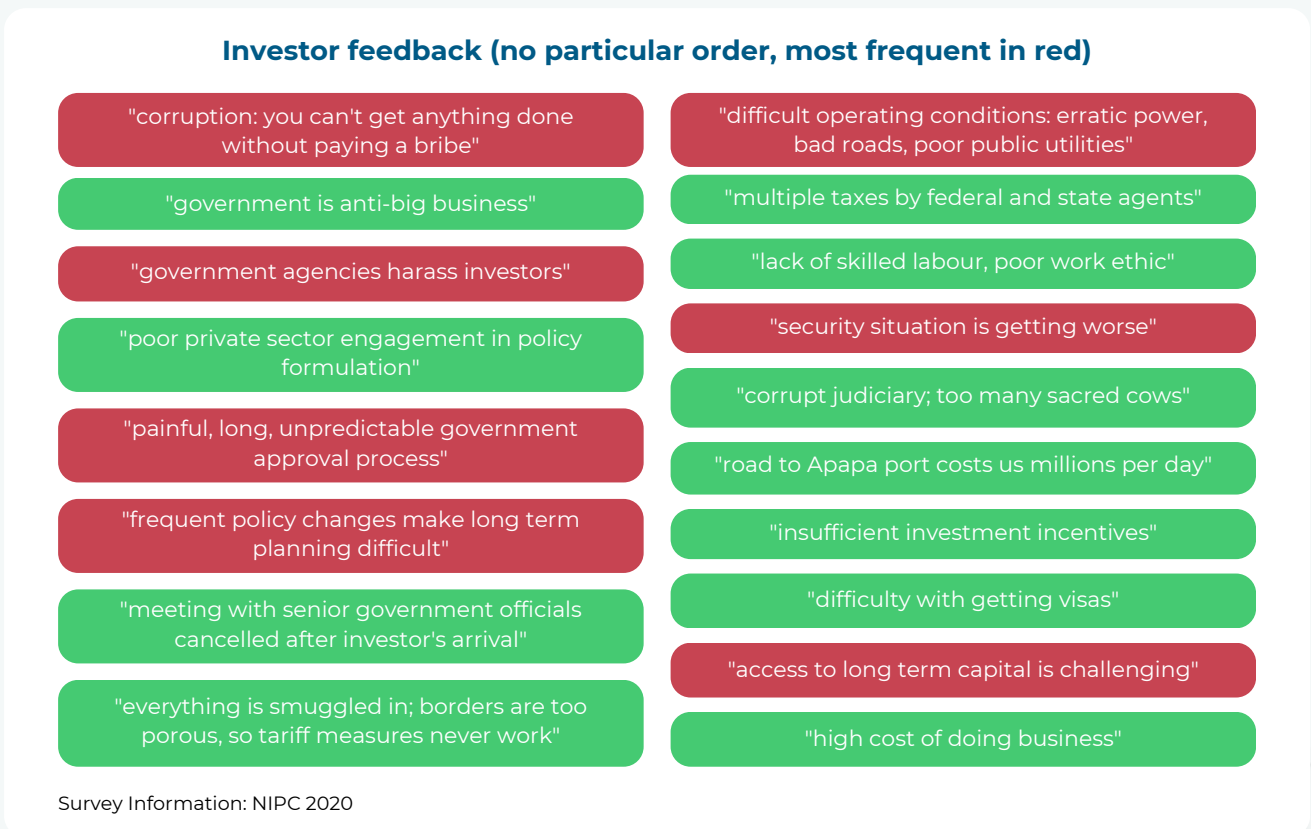
Fair market competition promotes competitive pricing. In competitive markets, businesses are incentivised to offer their customers the best value for money by pursuing efficiency and innovation. Additionally, charging high prices would prompt customers to switch to more affordable products, which could harm profits and market share. As a result, businesses in competitive markets often adjust their pricing strategies to remain attractive to consumers, ultimately benefiting consumers through competitive pricing.

Promote Consumers' Welfare

Fair market competition promotes lower prices, a wider variety of goods and services, and improved product quality, all of which contribute to enhancing consumer welfare. When businesses compete fairly, consumers benefit from competitive pricing, increased choices, and higher-quality products and services. This fosters an environment where consumers can access a range of goods and services at affordable prices, ultimately improving their overall welfare.

Overall, fair market competition is essential for promoting economic development, innovation, and consumer welfare in Nigeria.

Figure 1: Challenges to doing business in Nigeria



Barriers to fair market competition in Nigeria

Several factors distort Nigeria's competitive environment or hinder its emergence, contributing to high prices and negatively affecting investment, innovation, and consumer welfare. The challenges in the Nigerian context are discussed in further detail below.

Policy inconsistencies

A competitive environment is defined by predictability, consistent business requirements, and certainty. Conversely, an environment marked by policy inconsistency breeds uncertainty and stifles long-term planning. Frequent policy changes that make long-term planning difficult were among the most frequently reported challenges to doing business in Nigeria (see Figure 1). Policy inconsistencies, a lack of accountability and transparency, and the absence of the rule of law hamper investor confidence, which is critical to investment. Furthermore, businesses can exploit policy inconsistency to obtain unfair market advantage.

Regulatory bottlenecks

Painful, prolonged, unpredictable government approval processes were another major obstacle for investors surveyed on challenges to doing business in Nigeria. Excessive regulations, bureaucratic red tape, and complex legal requirements can increase compliance costs and administrative burdens for businesses. This can stifle entrepreneurship, discourage investment, and hinder business growth.

Harsh business environment

Businesses face a challenging operating environment, as reported in Figure 1. For instance, Nigeria's infrastructure development needs are immense. According to a report by Moody's Investors Service in 2020, Nigeria needs an estimated US\$3 trillion over the next three decades to address its infrastructure deficits. Businesses experience infrastructure bottlenecks such as inadequate road, rail and port infrastructure. These challenges lead to logistics bottlenecks, which raise operating costs. Businesses also have to contend with multiple taxes, high import duties and tariffs which increase production costs and consumer prices.

According to the Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN), 80 percent of Small and Medium Enterprises in Nigeria fail before reaching their fifth anniversary[1]. This failure is attributed to harsh economic conditions, limited access to capital, and suboptimal business practices. Given that 96 percent of businesses in Nigeria are SMEs[2], many firms are disadvantaged in the Nigerian economic landscape.

[1] See Small and Medium Enterprises Development Agency of Nigeria. 2021 MSME Survey Report. https://smedan.gov.ng/wp-content/uploads/2022/03/2021-MSME-Survey-Report_1.pdf

[2] See Oyelaran-Oyeyinka, B. (2020). FSS 2020 International Conference. SME: Issues, Challenges and Prospects. https://www.cbn.gov.ng/fss/wed/sme_issues,%20challenges%20and%20prospects_oyeyinka%20banji.pdf

The business freedom component of the Index of Economic Freedom measures the extent to which a country's regulatory and infrastructure environments constrain the efficient operation of businesses. The business freedom score for each country ranges from 0 to 100, with 100 representing the freest business environment. A value below 50 points on the scale indicates a "repressed" economy. The other categories include "mostly unfree" (50-59.9), "moderately free" (60 - 69.9), "mostly free" (70 - 79.9), and a "free" economy (80 - 100).

Figure 2 shows Nigeria's score over time for this subcomponent. It shows that Nigeria is currently classified as repressed in terms of business freedom. Furthermore, since 1994, the country has spent most of its time as either mostly unfree or repressed.

Corruption

Nigeria ranked 145th out of 180 countries in the 2023 corruption perception index. Although this is an improvement from the previous year, when the country ranked 150th, corruption remains pervasive in society. Investors identified corruption as a major challenge, conveying that nothing can be done without paying a bribe. Businesses have also reported that government agencies harass investors. The judiciary is also perceived to be corrupt, which can hinder the fair resolution of competition cases and foster anti-competitive practices.

Informality

According to World Economics, Nigeria has a large informal sector accounting for 58.2 percent of its GDP. These businesses, operating outside formal rules and regulations, often avoid paying taxes and adhering to established regulations and quality standards, which can confer undue competitive advantage on informal businesses[1], creating challenges for fair competition within the economy.

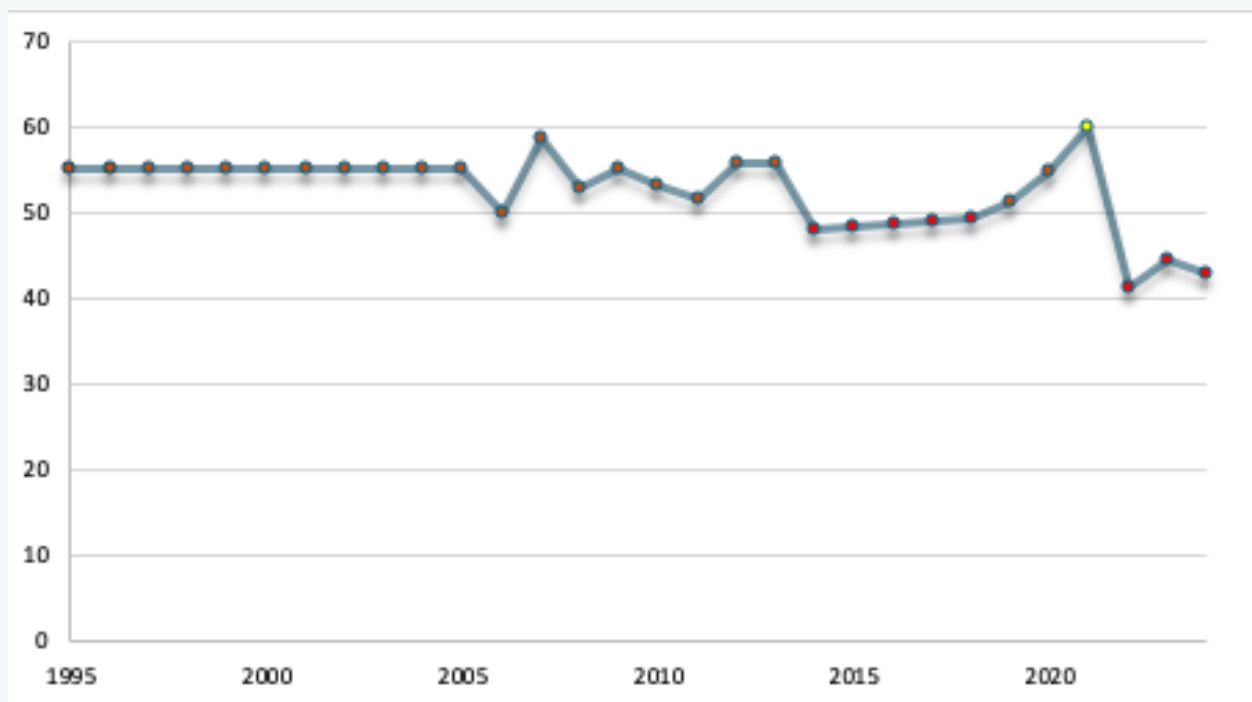
Monopolistic Practices

High market concentration and monopoly power can lead to anti-competitive practices, such as setting high prices and predatory pricing, diminishing consumer welfare. Dominant businesses can erect barriers to entry, making it difficult for small businesses to enter the market and compete effectively. This consolidation of market power by dominant firms limits competition, disadvantages smaller competitors, and harms fair competition and consumer welfare. Notably, 45 percent of SMEs surveyed in a poll of SMEs in selected states in Nigeria proposed that addressing their business challenges would involve the enforcement of laws against unfair competition[2].

[1] See Kenyon, T. (2007). A Framework for Thinking about Enterprise Formalization Policies in Developing Countries.

[2] See The Lagos Chamber of Commerce and Industry (LCCI). Perception Study: Efficiency and Impact of Regulatory Activities of Standards Organisation of Nigeria (SON) on SMEs.

Figure 2: Index of Economic Freedom: Business Freedom Component Score for Nigeria



■ Repressed
 ■ Mostly Unfree
 ■ Moderately Free
 ■ Mostly Free
 ■ Free

Data: The Heritage Foundation; Chart: NESG Research



A framework for a thriving competitive landscape in Nigeria

To fortify Nigeria's competitive landscape, it is imperative to eliminate existing barriers to a fair business environment.

Figure 3 depicts the proposed framework for an enhanced competitive landscape in Nigeria[1]. This framework focused on competition policy, whereas the framework developed here takes a broader perspective.

The framework identifies prominent obstacles to a competitive environment in Nigeria. It also illuminates *enablers*, which are measures and reforms necessary to foster a competitive landscape and actualise the desired outcomes.

Foster Policy Consistency

Achieving policy consistency demands a robust infrastructure supporting developing, implementing, and maintaining coherent and enduring policies. This infrastructure includes a clear vision and objectives, active stakeholder engagement, an institutional framework of resilience, evidence-based decision-making processes, and a culture of transparency and accountability.

Remove Regulatory Bottlenecks

Pursuing regulatory facilitation measures necessitate regulatory reforms and deregulation. Such measures streamline processes, enhancing efficiency while fostering transparency and accountability in regulatory practices. Equally vital is capacity building within regulatory agencies to bolster efficiency and effectiveness.

Promote an Enabling Business Environment

Creating an enabling environment for businesses is pivotal to unlocking the latent potential across all sectors of the economy. This empowerment drives the attraction of investments, spurs job creation, and cultivates lower prices. Therefore, it is imperative to nurture a business-friendly environment, including prioritising infrastructure development and improving access to finance for Small and Medium Enterprises (SMEs). Additionally, addressing the skills gap, particularly for SMEs, requires investments in human capital development to ensure businesses can access adequately trained professionals.

Address Corruption and Unhealthy Governance Practices

Drawing from investor experiences, combating corruption and inefficiency within government agencies is paramount to fostering an environment conducive to investment and competitive growth. Achieving this involves civil service reforms which foster improved ethical standards, for example, and the enhancement of digital tools that minimise human interference, ensuring a level playing field.

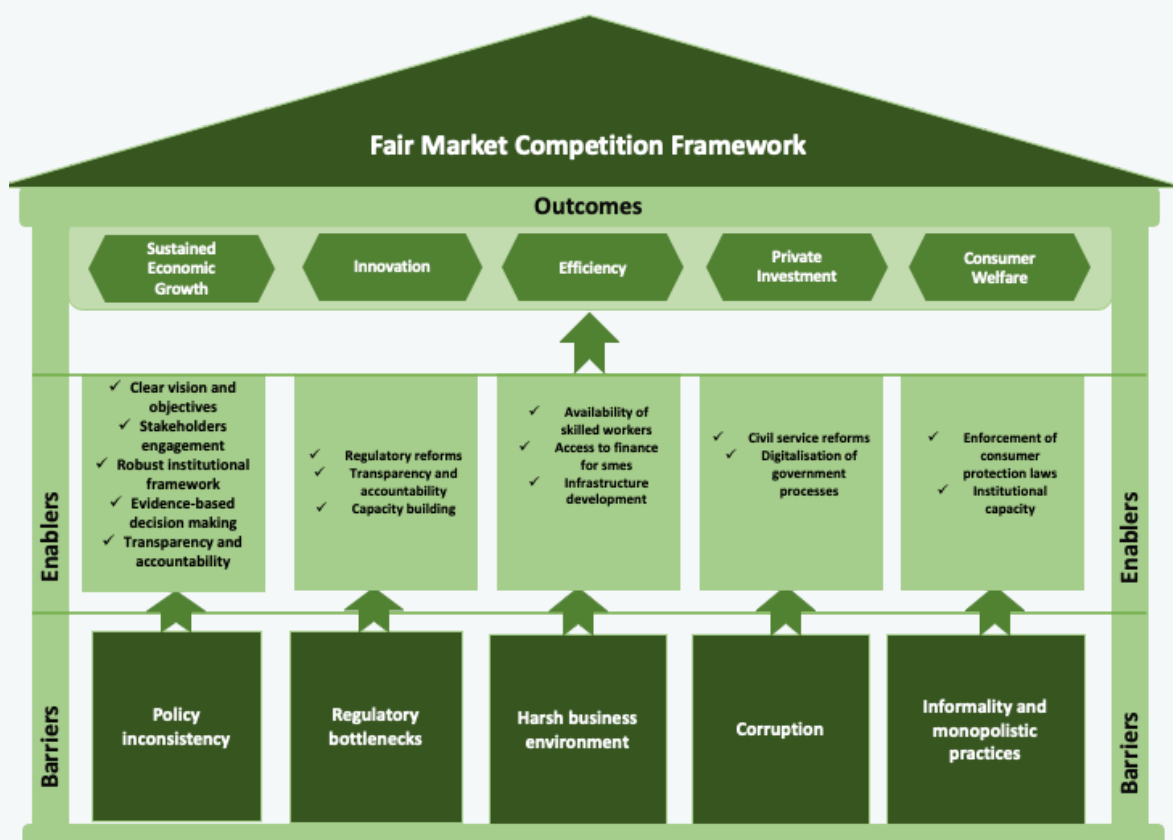
[1] The framework borrows from similar analyses on market competition developed by the World Bank and the Organisation for Economic Co-operation and Development (2017).

Address Informal and Monopolistic Practices

In contemporary economies, robust competition policies and regulatory frameworks are pillars of equitable competition. These mechanisms ensure fair play among businesses, fostering healthy competition[1]. Strengthening consumer protection laws and institutional capacity to enforce existing policies is imperative to tackling the anti-competitive effects of informality and monopolistic practices. This ensures that consumers are shielded from anti-competitive practices, safeguarding their rights and choices in the marketplace.

By dismantling these barriers to fair market competition, Nigeria can chart a course towards sustainable economic growth and prosperity.

Figure 3: Fair market competition framework



[1]See European Commission. Why is competition policy important for consumers? https://competition-policy.ec.europa.eu/about/why-competition-policy-important-consumers_en#:~:text=Competition%20policy%20is%20about%20applying,reduce%20prices%20and%20improve%20quality.

Conclusion

This report delves into the significance of fair market competition, exploring the challenges encountered in Nigeria and proposing a framework to foster a competitive environment. Enhancing competitiveness in Nigeria holds immense benefits for the economy. Fair market competition is crucial and pivotal for sustained economic growth and development in Nigeria. It catalyses innovation, entrepreneurship, and the creation of job opportunities.

However, conditions that breed unfair market practices, such as policy inconsistency, regulatory bottlenecks, and a hostile business environment, must be urgently addressed. These factors not only dampen consumer welfare but also hinder entrepreneurship, innovation, and, ultimately, economic progress.

Addressing these challenges requires strengthening the country's regulatory capacity, ensuring policies enables a competitive landscape, and consolidating efforts to improve the business environment. Notably, special attention should be given to businesses vulnerable to changes in the operating environment. There is need for proper reform sequencing and ex-ante impact assessment of policies.

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The NESG is an independent, non-partisan, non-sectarian organisation committed to fostering open and continuous dialogue on Nigeria's economic development. The NESG strives to forge a mutual understanding between leaders of thought to explore, discover and support initiatives to improve Nigeria's economic policies, institutions and management.

Our views and positions on issues are disseminated through electronic and print media, seminars, public lectures, policy dialogues, workshops, specific high-level interactive public-private sessions and special presentations to the executive and legislative arms of government.

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