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Chapter 3: On the solvency of firms: Can government's intervention reduce external financing of firms' working capital in Nigeria?

(2016) *Advanced Series in Management*, 15, pp. 47-75.

Abstract

Purpose - This chapter intends to examine the relationship between government incentives and the mode of firms' finance of their operation in Nigeria. Specifically, it does relate the solvency of the firm with the quality of their financing decisions and observed if government incentives such as creation of export processing zones and industrial parks will affect the firm's decision of depending on external versus internal financing. **Methodology/approach** - The results presented in this chapter are based on analysis of a firm-level data taken from the 2014 firm-level survey of the World Bank's Enterprise Survey project for Nigeria. Different estimation techniques are applied for robustness and sensitivity. They include both the parametric and nonparametric regression approach. **Findings** - The robust estimations show that firms that benefit from the government incentives tend to use more of internal funding to finance their operation unlike firms that are non-beneficiaries. In addition smaller firms are going to benefit more from the incentives than older firms, and less profitable firms are also going to use more of internal financing if they benefit from government incentives. **Practical implications** - This chapter will be helpful for both research and teaching for undergraduate and post-graduate students. Importantly, its analysis and result will be useful for policy makers and their allies. **Originality/value** - This chapter discusses solvency issues by considering the financing decision of firms, which is an important aspect in the going concern of firms. Copyright © 2016 by Emerald Group Publishing Limited.

Author Keywords

Export processing zones; Firm analysis; Government incentives; Industrial parks; Solvency; Working capital

2-s2.0-84976561296

Document Type: Book Chapter

Publication Stage: Final

Source: Scopus