DIVESTMENT & EXIT OF MULTINATIONAL COMPANIES IN NIGERIA: IMPLICATIONS AND RECOMMENDATIONS

www.strenandblan.com

Introduction

From 2023 to 2024, businesses in Nigeria have experienced a rather neck-twisting and challenging landscape marked by a sequence of divestment and exit of multinational companies across various sectors. These multinationals have left Nigeria by either scaling down operations, transferring ownership or selling their stakes. The most recent exit is Diageo's sale of its 58.02% stake in Guinness Nigeria to Tolaram for about N103 billion ($70 million).[1]

Within the past year, Jumia, the continent's leading online retailer exited their food delivery services Company, known as "JUMIA FOOD" which sent shockwaves through the African e-commerce spine.[2] Heineken B. V. sold its majority stake in Champion Breweries PLC to EnjoyCorp Limited. Proctor & Gamble announced that it would close its manufacturing operations in Nigeria and focus solely on imports. Unilever ceased the production of its homecare and skin-cleansing products, and PZ Cussons is considering exiting the Nigerian market after 140 years of business.

All these and more have raised eyebrows and concerns among many Nigerians as the exit of these multinationals does not only tell on our economy but also demonstrates the challenges of doing business in Nigeria. Therefore, this article seeks to expose the rationale behind the divestment and exit of multinationals, its implications and impact on the economy, and the solutions and opportunities for fast-moving consumer goods companies in Nigeria.

[1] I. Ajah, "The Acquisition of Champion Breweries: What is in it for Majority Shareholders?" https://nairametrics.com/2024/06/21/the-acquisition-of-champion-breweries-what-is-in-it-for-minority-shareholders/?amp=1 Accessed on 27th June, 2024.

[2] "Jumia Food Exits Nigeria, Other African Markets Over Profitability Concerns" https://leadership.ng/jumia-food-exits-nigeria-other-african-markets-over-profitability-concerns/#:~:text=In%20a%20move%20that%20sent,the%20end%20of%20December%202023 Accessed on 27th June, 2024.

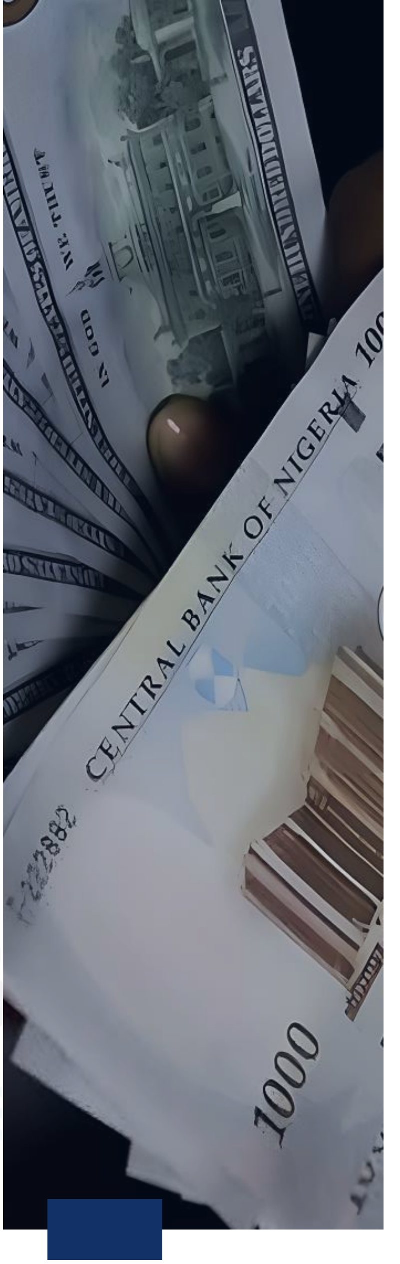
The Rationale Behind the Divestment and Exit of Multinational Companies in Nigeria

According to Vincent Nwani, an economist and former Director of Research and Advocacy at the Lagos Chamber of Commerce and Industry, the top reasons for the exit of multinationals from Nigeria were the foreign exchange scarcity, naira decline, poor infrastructure, power supply issues, and exorbitant energy costs.[3] In addition to this, some other challenges include unstable government policies, insecurity and increasing interest rates.

a. **Foreign Exchange Crisis:** Between 2014 to 2023, the Central Bank of Nigeria employed the managed float rate which allowed exporters and foreign companies to access dollars from the CBN at an official rate lower than the market price of the dollars. This created room for significant profits for foreign exchange businesses (Bureau de Change) from arbitrage as the gap between the official rate and the market prices increased. In mid-2023, the Federal Government announced the unification of the foreign exchange rate and introduced the Willing-Buyer and Willing-Seller Exchange rate regime. While the unification was intended to reduce government spending and increase foreign exchange supply and transparency, it has had negative effects on multinationals in Nigeria who often import goods and raw materials into Nigeria as the cost of purchasing these materials went up to about 200%. Additionally, the volatility in the exchange and the depreciation of the Naira against

[3] https://leadership.ng/jumia-food-exits-nigeria-other-african-markets-over-profitability-concerns/#:~:text=In%20a%20move%20that%20sent,the%20end%20of%20December%202023

major currencies like the US Dollar further create untold hardship for businesses. This makes it hard for them to repatriate profits in dollars or euros, impacting their global bottom line.



b. Naira Decline: As a result of the foreign exchange unification policy and the exponential increase in inflation in Nigeria, the Naira has witnessed a severe decline in its monetary value. The Naira has lost about 70% of its value since June 2023 when the foreign exchange unification policy was adopted. In May 2024, a Bloomberg Report ranked the Naira as the worst-performing currency in the world. The Naira fell from about 750/$1 in June 2023 to about 1500/$1 in June 2024. The devaluation of the Naira has negatively affected the bottom line of foreign businesses that price their goods sold in Nigeria in Naira. Upon converting the Naira profits to dollars for repatriation, the value of the investment in importing and manufacturing the products when compared to the Naira profit is often misaligned, resulting in losses to the multinational.

c. Poor Infrastructure: In Nigeria, goods are largely transported across States by road. Unlike other countries in Europe and the Americas, Nigeria has not prioritised rail over road transport for the movement of goods. Multinationals have expressed their dissatisfaction with the lack of proper infrastructure, particularly as the roads are often neglected, and in poor condition. Fragile goods are often damaged while being transported on Nigerian roads. The increased insecurity in the country has also led to losses as trucks conveying these goods are susceptible to theft. In addition, the lack of cold storage units for raw materials requiring certain temperatures for preservation during transportation causes losses to companies. According to a report by the African Development Bank in 2023, poor transport infrastructure adds 25-30% to the cost of goods in Nigeria.

d. **Power Supply Issues:** Nigeria is not generating up to half of the power required by Nigerians and businesses in Nigeria, especially the power needs of manufacturing companies in Nigeria. As of 2020, Nigeria generated about 35.7 thousand gigawatt hours while the electricity demand for the same period was about 29 terawatt hours. Frequent power outages often result in lost materials and damaged products. Companies often rely on power backups such as diesel and fuel generators to complement the power supply. This results in increased production costs that culminate in increased product prices and negatively affects the competitiveness of businesses operating out of Nigeria.

e. **Energy Costs:** Flowing from the lack of adequate power supply to businesses in Nigeria and the need to rely on alternative sources of power such as diesel and fuel-powered generators, businesses often need to purchase fuel and diesel to power the generators. In May 2023, the fuel subsidy paid by the Government to maintain a stable fuel price was removed. As a result of this, fuel prices went up over 400% and diesel prices followed. This added an extra burden on the overhead costs of businesses in Nigeria. Likewise, in April 2024, the Nigerian Electricity Regulatory Commission (NERC) raised the tariff from 68 Naira/kWh to 225 Naira/kWh, representing a 240% increase in the price paid for electricity. The increased fuel and diesel prices and increased electricity tariff have eroded the profit of FMCG businesses that already have a low profit margin.

f. **Unstable Government Policies:** The Nigerian Government have introduced policies that are either helpful to businesses in Nigeria or harmful to them. Either way, most policies are often withdrawn or replaced with policies that are at odds with them. For instance, the Corporate Affairs Commission (CAC) increased the minimum required capital for foreign businesses from 10 Million Naira to 100 Million Naira and rescinded the policy when it was pointed out that it would undermine the ease of doing business in Nigeria. In like manner, the Expatriate Employment Levy was introduced in February and withdrawn in March. The Levy had mandated Nigerian

entities employing expatriates to pay an annual fee for directors and other categories of foreign workers. Unstable Government policies hinder long-term planning for businesses.

g. **Interest Rates**: The interest rates in Nigeria increased from 16.5% in January 2023 to 26.25% in May 2024. The increase in interest rates, in addition to increasing the borrowing costs for businesses while discouraging businesses from taking loans to expand their business, affects the purchasing power of consumers thereby leading to a fall in business sales.

The Implications of the Divestment and Exit of Multinationals in Nigeria

The after-effects of the departure of these multinationals either through absolute exit or divestment are multifaceted. They are as follows:

a. **Displacement of Jobs:** The more multinationals leave the country; the more people lose their jobs. The exit of Jumia Food, the food delivery services company, for example, cost a lot of dispatch riders their job.

b. **Detrimental to the Nigerian Economy:** According to an economist and former Director of Research and Advocacy at the Lagos Chamber of Commerce and Industry in Nigeria, Dr Vincent Nwani, the exodus of multinationals from the Nigerian economy has cost the country a 94 trillion Naira loss of output in five years.[4]

c. **Nation's Reputational Damage:** The pattern of multinationals leaving the country sends a cautionary signal to foreign direct investors and prospective ones. Every businessperson or investor aims to make a profit, so when most of these multinationals exit or divest majorly for lack of profitability, it discourages others from coming to invest in Nigeria, and for the other existing

[4] 'Multinationals exit costs Nigeria N94tn in Five Years' https://punchng.com/multinationals-exit-costs-nigeria-n94tn-in-five-years/#:~:text=The%20economist%20stated%20the%20top,led%20to%20exorbitant%20energy%20costs. Accessed June 27, 2024.

foreign investors, it encourages them to take a similar step as they most likely are encountering similar problems. For instance, Champion Breweries Plc sold off their stake to Enjoycorp a week after Diageo sold off their 58.02 shareholding in Guinness to Tolaram Group.

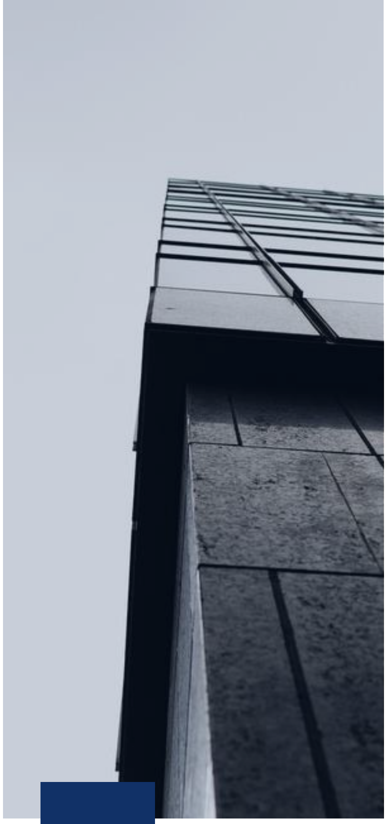
d. **Emergence of Local and Indigenous Companies:** The exit and/or divestment of most multinationals has paved the way for the emergence of local and indigenous companies to step up and provide the market with alternative products like the ones produced by the multinationals. This, in a way, has helped to boost indigenous manufacturers' confidence to fill in the gaps and attempt to succeed where the multinationals could not sustain.

Steps to Fostering a more Favourable Environment to encourage Multinationals to invest and stay in Nigeria

The economy of the Nation has been jeopardized by the incessant exit of multinationals. It has therefore become a matter of urgency which requires prompt implementation of the recommendations below to curb.

a. **Provide a more Conducive Business Environment:** This can be done by addressing unfriendly regulatory, administrative and legislative policies.

b. **Security and Stability:** Ensuring security and political stability is essential for business growth and investment. It is pertinent that the Government addresses security challenges that will ensure a peaceful environment for businesses to thrive and blossom in Nigeria.



c. **Anti-corruption and Transparency:** Another crucial measure for creating a level playing field for businesses is through fighting corruption and promoting transparency in governance. The implementation of anti-corruption measures and enforcement of accountability among the stakeholders concerned can improve the business environment.

d. **Infrastructural Development:** Revenue derived from taxes should be used to create critical infrastructure like stable electricity, roads, train stations, standard airports and others, especially in the productive sectors for investors to have a reduction in overhead costs.

Conclusion

The exit of multinational companies in a country contributes to the reduction of the inflow of Foreign Direct Investment in that country. This is detrimental to the development of an economy particularly in emerging economies such as Nigeria which relies mainly on the proceeds from crude oil sales in the international market. This simply shows the need for the Government to assiduously work towards creating a business-favourable environment that will not only attract foreign investors but will afford the existing businesses every reason to remain in Nigeria and invest more.

ABOUT STREN & BLAN PARTNERS

Stren & Blan Partners is a full-service commercial Law Firm that provides legal services to diverse local and multinational Co-operations. We have developed a clear vision for anticipating our clients' business needs and surpassing their expectations, and we do this with an uncompromising commitment to client service and legal excellence.

THE AUTHORS

Marvis Oduogu
Team Lead

Marvisoduogu@strenandblan.com

Chibudike Anene
Associate

Chibudikeanene @strenandblan.com

Cynthia Ekeka
Associate

Cynthiaekeka@strenandblan.com

Stren & Blan Partners

+234 (0)702 558 0053
3 Theophilus Orji Street, Off Fola Osibo
Road, Lekki Phase 1, Lagos, Nigeria

www.strenandblan.com
contact@strenandblan.com
@strenandblan

STREN & BLAN
PARTNERS