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Policyweekly

Explaining Exodus of Multinational Companies from Nigeria:

Going Beyond the Single Story

Policy Recommendations

1. There is a need for urgent, intentional, and locally-led solutions to the country's political and social issues affecting businesses.
2. The Nigerian state must deepen support for indigenous industries, firms and start-ups in various sectors.
3. There is a need to reform institutions critical for creating an enabling environment for businesses to thrive in all sectors.
4. The government should partner with credible advisory organisations to deepen conflict early warning and response.
5. The Nigerian Customs should consider applying concessionary duties on imported essential medical products following the exit of MNCs like GSK.

Background

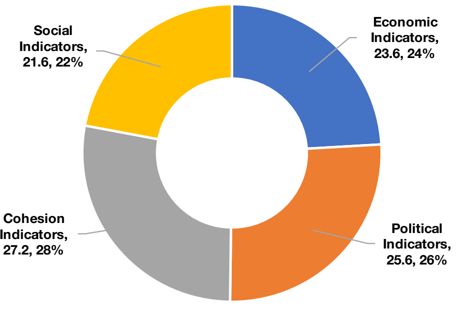
As we welcome 2024, Nigerians are counting the number of multinational companies (MNCs) exiting the country in 2023. Within the last ten months, at least five MNCs, including household names in Fast Moving Consumer Goods (FMCG) like GlaxoSmithKline Nigeria, Procter & Gamble, Unilever and Sanofi-Aventis Nigeria Limited, have decided to exit Nigeria by ending manufacturing operations in the country. The major reason cited by these MNCs for exiting the country borders on the harsh business environment. Available statistics on Nigeria's business environment support this claim by the MNCs. The 2019 World Economic Forum (WEF) global competitiveness index scored Nigeria 48.3% and ranked her 116 out of 141. Nigeria ranked 131 out of 190 countries in the 2020 World Bank Ease of Doing Business report. In 2021, Rand Merchant Bank (RMB) scored Nigeria 5 on a scale of 1 (poor) to 10 (good), and she ranked 14th out of 54 African countries in terms of investment attractiveness. In terms of operating environment, the RMB scored Nigeria 4.4 on a scale of 1 (poor) to 10 (good) and ranked her 30th out of 54 African countries. These poor scores attest to the difficult business environment in Nigeria.

Analysts have further explained how the difficult business environment extinguishes businesses in Nigeria and accounts for the exit of MNCs from the country. But what accounts for Nigeria's challenging business environment? Relying solely on the difficult macroeconomic environment as the explanatory variable for the exodus of MNCs presents a single story and ignores the critical roles of the political environment and underlying unequal power relations in engendering and reinforcing a difficult business environment. As rightly noted by Acemoglu and Robinson (2013, p. 68), "Traditionally, economics has ignored politics…." This always leads to the tragedy of a single story, which undermines effective policy response. Thus, the exit of MNCs from Nigeria is better appreciated within the broader fragile context, which captures the dynamics of power relations and the political environment, all of which interact with the economic environment in which business entities operate in Nigeria. The Funds for Peace (FFP) identified the attributes of a fragile state to include but not limited to: the loss of physical control of the state's territory or monopoly over legitimate use of force; the attrition of legitimate authority to make collective decisions; and weak state capacity to provide reasonable public services. The 2023 Fragile States Index (FSI) report by the FFP placed Nigeria as the 15th most fragile state in the world with a total FSI score of 98.0, indicating a deterioration from the previous year (2022) when Nigeria was ranked 16th most fragile state and with a total FSI score of 97.2. Explaining the exit from the broader context of fragility enables appreciation of how political and economic variables interact to undermine the operating business environment, leading to the exit of MNCs from Nigeria. This first edition of Nextier SPD Policy Weekly for 2024 provides a broader explanation for the exodus of MNCs from Nigeria from the lens of political economy analysis to advance actionable policy recommendations for halting the exodus of more firms out of the country.

Explaining MNCs Exodus from the Broader Fragility of the Nigerian State

At the root of MNCs' exodus is the increasing fragility of the Nigerian state. In 2011, when Nigeria ranked 14th in the Fragile States Index, a publication by Air War College alluded to the possibilities of Nigeria becoming a failed state by 2030. Even though such an apocalypse was strongly rebuffed by the Nigerian government, within the past five years, Nigeria has remained among the 15 most fragile states in the world except for 2022, when it ranked the 16th most fragile state in the world. A deconstruction of the 2023 FFP's fragile state index shows that out of the four broad indicators used to measure the fragility of a state, even though economic indicators are significant contributors to the fragility index, political indicators (public service, human rights, state legitimacy) and cohesion (factionalised elites, group grievances, security apparatus) are the top drivers of Nigeria's fragility Nigeria in 2023.

Figure 1: Contribution of various indicators to Nigeria's fragility index



Data in Figure 1 show that political indicators of states' fragility accounted for 25.6 or 26% of Nigeria's total fragility index of 98.0 in 2023, while cohesion indicators accounted for 27.2 or 28% of the total fragility. Evidently, Nigeria manifests all features of fragility, and the state has lost its monopoly over the legitimate use of force as various non-state armed groups in parts of the country have continued to cause mayhem in parts of the country. The weak capacity of the state to provide security for lives and properties has seen the rise of outlawed groups taking the law into their hands in an attempt to protect their communities from other non-state armed groups. In the Northwest, for instance, groups such as Yan Sakai Yan Bindiga emerged to fill the security vacuum in their communities. In the Southeast, the Eastern Security Network (ESN) emerged also ostensibly to protect the Southeast from violent incursion. The general state of insecurity in the country has serious implications for the business environment and the economy in general. Aside from the threats to the lives and properties of business agents, farming communities are constantly displaced by activities of bandits and insurgents as well as violent farmers-herders conflicts across the country. These negatively impact food production and farm outputs required as input in various industries.

Another political indicator of Nigeria's fragility is the capture of state institutions at national and sub-national levels by powerful elites in ways akin to what Fukuyama (2015, p. 28) described as "repatrimonialization." The capture of state institutions enables powerful elites to exercise unequal power relations in making and implementing economic policies to the detriment of some economic agents and the business environment in general. As a result, institutions under the capture of powerful elites are not able to perform basic functions, including creating an enabling environment for businesses to thrive. For instance, the foreign exchange crisis, one of the challenges cited by the MNCs, is connected to the phenomenon of state capture. The Nigeria National Petroleum Corporation Limited (NNPCL) and the Central Bank of Nigeria (CBN) have been implicated in Nigeria's foreign exchange crisis. The NNPC, which is the business arm of the state, has been accused of a lack of transparency in its business dealings, particularly in the area of remitting dollar earnings to the federation account.

Similarly, the CBN has been accused of favouritism in selling foreign exchange. The inability of the NNPC to remit foreign exchange earned from the sale of crude oil and the lack of transparency by the CBN in selling foreign exchange implies that some businesses, including MNCs, are unable to access foreign exchange needed for their business operations. Another instance is the trapped funds of international airlines in the country, which has skyrocketed the cost of international flights compared to other African countries, while the CBN continues to struggle with transparency in dealing with forex payment. Nigerians now crossover to neighbouring African countries to get cheaper flight tickets.

Implications of the Exodus: A Prognosis

The exit of MNCs from Nigeria will have far-reaching implications for Nigeria's political economy. First is hike in prices of products of such MNCs due to the high cost of importing such finished goods from locations where they are produced outside the country. A related implication is the possibility of fake and substandard products flooding the market, given the fact that many consumers may not be able to pay the high cost of the original products. Operators in the pharmaceutical industry revealed that some pharmaceutical products of some of the exiting MNCs are already being adulterated and sold in the market (Personal Communication). More so, the government at all levels will lose foreign direct investments (FDI) and important sources of revenue in the form of taxes and levies paid by these MNCs. Analysts estimate Nigeria's economy may lose $335 million (about N310 billion) in FDI. The exit will further worsen Nigeria's unemployment situation, given that there were direct and indirect job losses resulting from the exit of these MNCs. It is estimated that at least 6,000 jobs will be lost as a result of these MNCs' exit.

The job losses will deepen the demographic pressures Nigeria is already facing as many more young people will join the unemployment market. This will, in turn, heighten the risks of criminality, youth restiveness and other forms of uprising in the country. Politically, the MNCs exist, and their impact will deepen populism in Nigeria's political landscape as both the incumbent and opposition political parties are likely to engage in trading blame in order to score cheap political goals. The likelihood of foreign airlines pulling out of Nigeria because of trapped funds and operational environment will further increase frustrations among Nigerians and investors who would require such services.

Recommendations: Halting the Exodus and Mitigating the Impact

It was Winston Churchill who admonished nations to "Never let a good crisis go to waste". The Nigerian government can halt the exodus of MNCs and mitigate the impact by taking the following steps:

1. **Working Politically and Socially Smart:** The political and social issues affecting businesses in the country need urgent, intentional and locally-led solutions. Nigerian state needs to do things differently to return trust in both local and foreign investments.

2. **Support Existing Indigenous Industries and Start-ups:** The exit of the MNCs should serve as an opportunity for the Nigerian state to deepen support for indigenous industries, firms and start-ups in various sectors. The support could be in the form of tax holidays, subsidies for inputs, and funding for research and development in areas that will catalyse innovation beneficial to the local industries. To this end, there is an urgent need to operationalise the eight pillars of the National Digital Economy Policy and Strategy (NDEPS) and implement the provisions of the Nigeria Start-up Act 2022.

3. **Institutional Reforms:** There is a need to carry out reform of institutions critical for creating an enabling environment for businesses to thrive in all sectors. To this end, the NNPCL and the CBN should be reformed to be more transparent in their dealings with foreign exchange.

4. **Institutionalise Conflict Early Warning and Early Response:** The government should partner with credible advisory organisations to deepen conflict early warning and response. This will go a long way in reducing violent conflicts and mitigating their impact on the business environment.

5. **Apply Concessionary Duties on Essential Medical Products: G**iven that some products of the exiting MNCs are essential medical products, in the short run, the Nigerian Customs may consider applying concessionary duties on such essential medical products which will now be imported from outside the country following the exit of MNCs like GSK.

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Nextier SPD (www.thenextier.com/spd) is an international development consulting firm that uses evidence-based research to develop and build knowledge and skills to enhance human security, peace, and sustainable development as means to achieving stability and prosperity in Nigeria, and in the African region.

Conclusion

The increasing exit of MNCs from Nigeria is better appreciated within the context of the broader fragility of the Nigerian state. While the challenges in the business environment have been cited as the core reasons for the exit of the MNCs, political variables such as increasing insecurity and elite capture of state institutions arising from unequal power relations are implicated in the worsening business environment in Nigeria. There is a need to halt the trend of MNCs through multi-faceted intervention involving institutional reforms.

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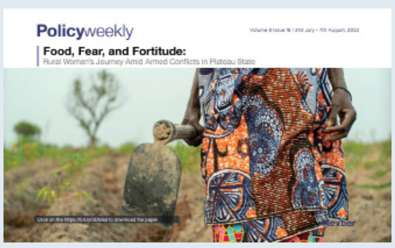

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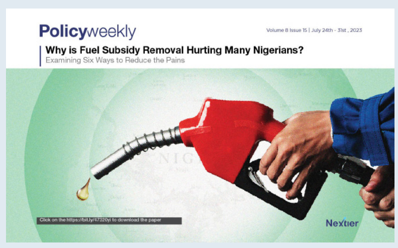

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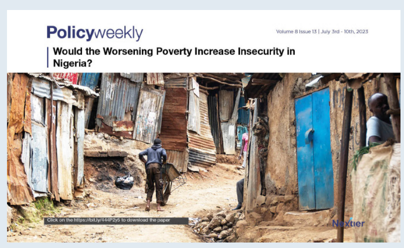

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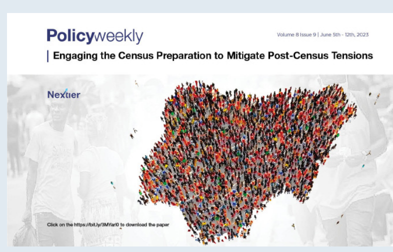

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