

Capitalizing on Change: The Impact of CBN's Recapitalization on Corporate Finance

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Corporate Finance Fundamentals

In the business scene, finance and regulation are inextricably connected. Finance acts as the vital fuel that drives growth and innovation within businesses, while regulation provides essential safeguards that maintain stability and integrity in the marketplace. This synergy forms the basis of corporate finance, which involves managing money and complying with legal standards, influencing both daily operations and long-term strategic decisions of companies.

Corporate finance is essential for any successful economy. It guides companies in making important choices about how to invest, raise money, and manage risks. Businesses raise capital through equity (selling shares), debt (taking out loans), using their own saved profits (retained earnings), corporate restructuring (mergers and acquisitions), amongst other capital-raising strategies. The main goal is to increase the value for shareholders, making sure that all financial activities are done responsibly under strict rules.

Navigating the Regulatory Maze:

Navigating Nigeria's corporate finance landscape requires understanding its comprehensive regulatory framework, enforced by several key bodies, including:

- **Securities and Exchange Commission (SEC):** The SEC oversees financial reporting and corporate governance, ensuring companies adhere to high transparency and ethical standards to maintain investor confidence.
- **Central Bank of Nigeria (CBN):** As the primary regulator of banking and monetary policies, the CBN oversees financial stability and lending capacities of financial institutions, supporting economic growth and resilience.
- **Nigerian Stock Exchange (NSE):** The NSE facilitates capital raising through securities trading, providing liquidity and investment opportunities, crucial for business expansion.
- **Federal Competition and Consumer Protection Commission (FCCPC):** The FCCPC regulates competitive practices, focusing on fair competition and consumer protection, significantly influencing corporate strategies in mergers and acquisitions.

Each regulatory entity plays a distinct role in shaping Nigeria's financial environment, ensuring stability, competition, and integrity essential for business growth and innovation. These institutions shape the strategies that corporations can employ, setting the stage for the real-world applications discussed in the following case studies.

Real-World Applications: Corporate Finance in Action

- **Dangote Group's Strategic Capital Structure:** The Dangote Group uses corporate finance to its advantage by maintaining an optimal balance between debt and equity. This balance allows the company to leverage the strengths of different financing methods to fund expansion and diversify its business operations effectively. By accessing both domestic and international markets, the group not only mitigates financial risk but also secures the necessary capital to sustain growth and explore new opportunities. This demonstrates corporate finance's role in strategic planning and risk management.
- **Access Bank and Diamond Bank Merger:** The merger between Access Bank and Diamond Bank exemplifies another critical aspect of corporate finance—mergers and acquisitions (M&A). This strategic move combined the financial resources and expertise of two entities to create a larger, more stable institution capable of competing on a global scale. The merger showcases how corporate finance facilitates growth and stability through strategic partnerships and resource optimization within a regulated environment.

Both examples highlight the crucial role of corporate finance in shaping business strategies that lead to sustainable growth, competitive advantage, and enhanced financial stability.

The Role of Banks in Corporate Finance

Banks in Nigeria are crucial in driving corporate finance, acting as intermediaries that channel funds from savers to businesses seeking capital. They play a vital role in supporting a spectrum of corporate financial activities, ranging from everyday operations to strategic long-term investments. The health and stability of banks are fundamental to ensuring the continuous growth and sustainability of the corporate sector, enabling companies to expand and innovate while attracting both domestic and international investments.

The Impact of CBN's Recapitalization Directive

In response to macroeconomic challenges, the Central Bank of Nigeria (CBN) issued a significant recapitalization directive on March 28, 2024, aimed at strengthening the banking sector. This

move is designed to ensure that banks can support economic growth and are equipped to withstand future economic shocks. The new capital requirements will influence corporate financial planning and risk management across the entire financial landscape. The capital threshold each bank needs to hold depends on their type of banking license. Here are the specifics of the new capital thresholds set by the CBN:

- **Commercial Banks with International Authorization:** a minimum capital of ₦500 billion.
- **Commercial Banks with National Authorization:** a minimum capital of ₦200 billion.
- **Commercial Banks with Regional Authorization:** a minimum capital of ₦50 billion.
- **Merchant Banks with National Authorization:** a minimum capital of ₦50 billion.
- **Non-Interest Banks with National Authorization:** a minimum capital of ₦20 billion.
- **Non-Interest Banks with Regional Authorization:** a minimum capital of ₦10 billion.

These banks have been given a 24-month period, starting from April 1, 2024, to March 31, 2026, to meet these new capital thresholds. The CBN's recapitalization directive outlines several strategic options for banks to meet the new capital requirements. These options include injecting fresh equity, engaging in mergers and acquisitions, or opting to change their licensing categories. The CBN emphasizes the importance of compliance in this recapitalization effort and commits to stringent monitoring and enforcement to ensure adherence.

Corporate Finance in the Wake of Recapitalization

The CBN's recapitalization directive has significant implications for corporate finance in Nigeria:

- **Access to Capital:** With higher capital reserves, banks will enhance their lending capacities and have more money to lend to businesses. This increase is expected to provide more substantial financial support to corporate entities, facilitating growth and development across various sectors.
- **Cost of Capital:** As banks stabilize financially, they may offer more favorable borrowing terms to attract corporate clients. This competition among banks could lead to lower financing costs for corporations, making it easier and more cost-effective for them to fund new projects and expansions.
- **Corporate Strategy and Risk Management:** Businesses may need to revise their financial strategies to adapt to the evolving banking landscape. This could involve optimizing

balance sheets and reevaluating risk management practices in response to changes in banks' lending behaviors.

- **Investment and Growth:** A stronger banking sector is likely to boost investor confidence, potentially stimulating increased domestic and foreign investment. This enhanced confidence can lead to more significant investment in infrastructure, technology, and human resources, driving broader economic growth and corporate expansion.

Looking Ahead: Key Trends Shaping Nigeria's Corporate Finance Landscape

Looking ahead, the landscape of corporate finance in Nigeria is expected to evolve significantly, driven by two major trends: digital transformation and a growing emphasis on Environmental, Social, and Governance (ESG) factors.

- **Digital Transformation:** This shift towards digital finance impacts corporate finance by changing how financial services are structured, delivered, and consumed. The transition to digital platforms means that financial operations can become more efficient, with improved access to capital and faster transaction processing. Digital tools like blockchain and artificial intelligence (AI) allow for more sophisticated risk management and data analysis, directly affecting financial decision-making and strategy. However, it also introduces challenges such as the need for robust cybersecurity measures to protect financial data and the risk of widening the technology gap between larger institutions and smaller firms, which could affect market competitiveness and financial inclusivity.
- **ESG Factors:** The increasing global focus on ESG factors reflects a shift in how companies should approach their long-term financial planning and strategy. For corporate finance, this trend means that businesses will increasingly need to integrate ESG criteria into their investment decisions, risk assessments, and financial reporting. This shift could attract more international investors who are looking to fund companies with sustainable practices, thereby opening up new funding streams. Regulatory frameworks will need to evolve to offer clear guidelines and incentives for ESG integration, ensuring that sustainability is a key part of corporate strategy.

Both trends indicate significant changes that could either enhance or complicate the corporate finance environment. Companies and regulators must be ready to adapt to these changes, ensuring that progress in technology and sustainability results in wider economic benefits while maintaining financial stability and fairness. This adaptation will ensure that the evolution in

corporate finance aligns with global standards and contributes positively to Nigeria's economic growth and stability.

Embracing Change in Nigerian Corporate Finance

The recent recapitalization directive from the Central Bank of Nigeria is set to improve the financial stability and growth prospects of Nigerian banks and businesses. This directive requires banks to hold more capital, which encourages stronger financial practices and will benefit the broader economy.

As businesses in Nigeria adapt to these evolving regulatory and financial landscapes, they face both challenges and opportunities. Companies are likely to see dual implications: while access to capital might increase, lending criteria may become stricter. Businesses will need to reevaluate their financial strategies, possibly turning to alternative financing sources or rethinking their expansion strategies. At SimmonsCooper Partners, we recognize these challenges and offer advisory services to help companies navigate and leverage these changes effectively. Our support is crucial for leaders aiming to manage risks and seize growth opportunities within the corporate finance space.

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