

Newsletter

June 2025



Welcome to the June Edition of the Kreston Pedabo Newsletter!

This month's edition is packed with valuable insights to keep you informed and ahead of the business landscape. Here's a glimpse of what we have for you:

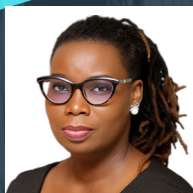
- » **Featured Article: "Needs Assessment: Identifying Critical Business Gaps Before Scaling"** – A must-read for growth-focused businesses.
- » **Nigeria's Industrial & Consumer Sector Review** – Exploring challenges, tax implications, and strategic solutions.
- » **FG's New Order on Upstream Petroleum Operations** – Key takeaways on cost efficiency incentives.

Dive in and enjoy the read!



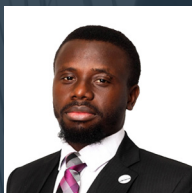
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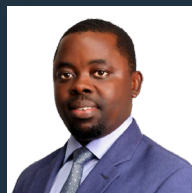
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Needs Assessment: Identifying Critical Business Gaps Before Scaling

In today's fast-paced digital economy, scaling a business is not just about growth – it is about sustainable expansion. However, many organisations rush into scaling without addressing underlying operational gaps, leading to inefficiencies, customer dissatisfaction, and financial strain. A thorough needs assessment is the cornerstone of successful scaling, enabling businesses to pinpoint vulnerabilities, align resources, and implement targeted solutions.

This article explores the importance of identifying critical business gaps before scaling, drawing insights

from industry leaders and recent data. By examining real-world challenges and solutions, we provide a roadmap for businesses to assess their readiness for growth and avoid common pitfalls.

The Scaling Challenge

Scaling a business amplifies both opportunities and risks. Without a clear understanding of operational gaps, companies may face:



Process Bottlenecks: Inefficiencies that hinder productivity and increase costs.



Resource Constraints: Insufficient infrastructure or workforce to support growth.



Customer Experience Gaps: Declining satisfaction due to unmet expectations.



Data and Technology Limitations: Siloed or outdated systems that impede decision-making.

For example, a 2023 McKinsey report revealed that 70% of digital transformations fail due to inadequate pre-scaling assessments. Similarly, a PwC survey highlighted that 45% of scaling businesses struggle with workforce misalignment, underscoring the need for proactive review and gap analysis.



Case Study 1:

Paystack – Bridging Payment Infrastructure Gaps Before Expansion

Overview



Between 2019 and 2021, Paystack, a leading African fintech company, experienced exponential growth as digital payments surged across the continent. However, this rapid expansion exposed critical weaknesses in its payment infrastructure, leading to transaction failures and customer complaints.

The Challenge



According to Paystack's 2022 internal audit findings, 20% of payment processing delays were attributed to outdated systems and insufficient server capacity revealing limited planning for growth. These issues threatened customer trust and market competitiveness.

Strategic Interventions

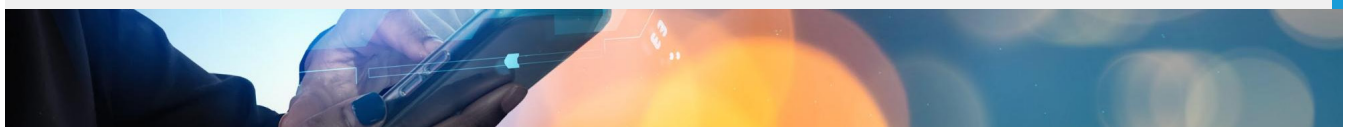


- **Infrastructure Audit:** Conducted a comprehensive review of server capacity and transaction processing workflows.
- **Technology Upgrade:** Invested in scalable cloud-based solutions to handle increased transaction volumes.
- **Customer Feedback Integration:** Implemented real-time monitoring tools to identify and resolve payment issues promptly.

Impact



- **99.9% Uptime Achieved:** System reliability improved, reducing transaction failures to less than 0.1%.
- **30% Increase in Merchant Onboarding:** Enhanced infrastructure attracted more businesses to the platform.
- **Customer Satisfaction Scores Rose by 25%:** Faster, more reliable payments boosted user confidence.



Case Study 2: Andela – Aligning Workforce Skills with Scaling Goals

Overview



From 2020 to 2022, Andela, a global talent accelerator, struggled to maintain service quality as it expanded into new markets. The company identified a critical gap: its workforce lacked the advanced technical skills required for scaling.

The Challenge



A 2021 internal skills assessment revealed that 40% of engineers lacked proficiency in emerging technologies like AI and cloud computing, limiting Andela's ability to meet client demands.

Strategic Interventions

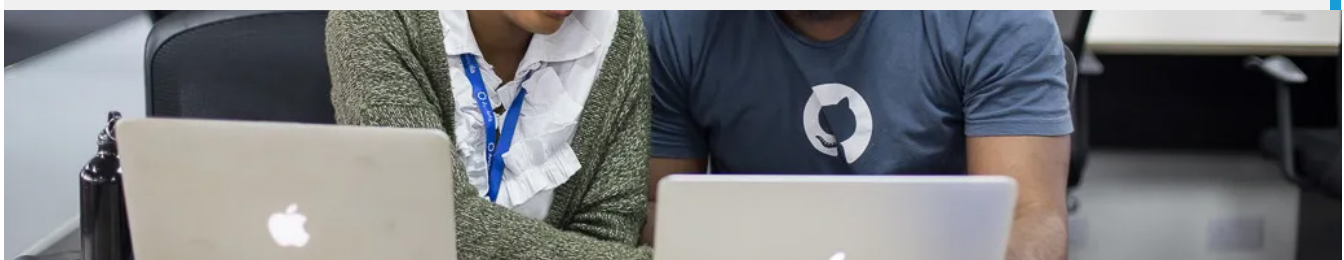


- **Skills Gap Analysis:** Conducted assessments to identify critical skill shortages.
- **Upskilling Programs:** Launched targeted training initiatives in AI, DevOps, and data science.
- **Partnerships with Tech Giants:** Collaborated with Microsoft and Google to provide certification courses.

Impact



- **50% Improvement in Project Delivery Speed:** Skilled teams completed projects faster and with higher quality.
- **Client Retention Increased by 35%:** Enhanced capabilities led to stronger client relationships.
- **Expansion into 3 New Markets:** A competent workforce enabled successful geographic scaling.



Case Study 3: Kobo360 – Optimising Logistics for Scalability

Overview



Between 2021 and 2023, Kobo360, a Nigerian logistics platform, experienced delivery delays and inefficiencies as demand grew. A needs assessment revealed gaps in route optimisation and driver management.

The Challenge



Per a 2022 Deloitte analysis, Kobo360's manual routing systems caused 25% of deliveries to miss deadlines, eroding customer trust.

Strategic Interventions



- **Route Optimisation Software:** Implemented AI-driven tools to streamline delivery paths.
- **Driver Training Programs:** Equipped drivers with digital tools and best practices for efficiency.
- **Real-Time Tracking:** Introduced GPS-enabled tracking for transparency and accountability.

Impact



- **40% Reduction in Delivery Delays:** Optimised routes improved on-time performance.
- **Customer Complaints Dropped by 50%:** Enhanced reliability restored user confidence.
- **Revenue Grew by 60%:** Operational improvements directly contributed to business growth.



Common Scaling Gaps and Solutions

A 2024 Gartner report identified the most prevalent gaps businesses face when scaling:

- 1 Technology Deficiencies:** Outdated systems unable to handle increased loads.
 - **Solution:** Invest in scalable cloud infrastructure and automation.
- 2 Workforce Skill Gaps:** Employees unprepared for new tools or processes.
 - **Solution:** Prioritise upskilling, reskilling, and continuous learning programs.
- 3 Process Inefficiencies:** Manual workflows that slow down operations.
 - **Solution:** Adopt end-to-end automation and lean methodologies.
- 4 Customer Experience Inconsistencies:** Disjointed interactions due to poor integration.
 - **Solution:** Implement unified CRM systems and feedback loops.
- 5 Data Fragmentation:** Siloed data hindering real-time decision-making.
 - **Solution:** Deploy integrated analytics platforms.

A Framework for Effective Needs Assessment

- 1 Conduct a Comprehensive Audit**

Evaluate technology, workforce, processes, and customer touchpoints.
- 2 Engage Stakeholders**

Gather insights from employees, customers, and partners to identify pain points.
- 3 Prioritise Gaps**

Focus on critical areas that directly impact scalability and customer satisfaction.
- 4 Develop Targeted Interventions**

Implement solutions tailored to address identified gaps.
- 5 Monitor and Iterate**

Continuously track progress and adjust strategies as needed.



Conclusion



Scaling a business without a needs assessment is like building on sand – it may hold temporarily but will eventually crumble. The experiences of Paystack, Andela, and Kobo360 demonstrate that identifying and addressing gaps before scaling is not optional; it is a strategic imperative.

Businesses can scale efficiently and sustainably by leveraging data-driven assessments, investing in technology and people, and designing customer-centric processes. The future belongs to organisations that grow smartly, not just quickly.

Key Takeaways:

- » **Audit before you scale.**
- » **Align technology and talent with growth goals.**
- » **Optimise processes for efficiency.**
- » **Listen to your customers.**
- » **Iterate and improve continuously.**

In the race to scale, the winners are those who prepare thoroughly and act strategically.

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Comprehensive Review of Nigeria's Industrial & Consumer Sector: Challenges, Tax Implications, and Strategic Solutions



Introduction

Nigeria's industrial and consumer sector continues to grapple with a mix of structural and fiscal challenges, shaping both operational realities and tax outcomes. This edition opens with a focus on the manufacturing sector, setting the stage for a broader analysis of related subsectors and the strategic implications for businesses navigating today's complex environment.

This edition presents an in-depth review of Nigeria's industrial consumer sector, highlighting the enduring structural challenges, intensifying fiscal pressures, and their broad tax-related consequences. Drawing from credible local news sources and sector-specific industry analyses, the article explores key subsectors including manufacturing, FMCG, retail, automotive, and healthcare to mention a few.

These foundational sectors are contending with systemic obstacles such as unreliable energy supply, persistent foreign exchange instability, and an increasingly complex regulatory landscape. These issues not only hinder operational performance but also complicate tax compliance, strategic tax planning, and broader government revenue mobilisation efforts.

Sectoral Challenges and Tax Implications

The Manufacturing Sub-Sector: A Strained Engine of Growth



It remains one of the most vital components of Nigeria's industrial economy, contributing significantly to employment, domestic production, and non-oil exports. However, in 2025, it is increasingly being defined not by its potential, but by the overwhelming hurdles that impede its growth. A combination of structural inefficiencies, macroeconomic instability, and fiscal pressures has created an operational landscape fraught with uncertainty. From power supply shortages and foreign exchange scarcity to the burden of multiple taxation, manufacturers across Nigeria are navigating a perfect storm — one with serious implications not just for business viability, but also for national tax revenue and industrial policy.

What are these challenges?

1

Energy Crisis and Operational Disruption

One of the most significant challenges facing manufacturers in 2025 is the soaring cost of energy. With the national grid supplying less than 4,000 megawatts of electricity daily to a population of over 200 million, manufacturers have little choice but to rely on self-generated power. As of May 2025, diesel prices reached ₦1,200 per litre — up 33 percent from ₦900 in the previous year. This spike has drastically increased production costs.

A Lagos-based fast-moving consumer goods (FMCG) company reported that its monthly energy expenditure surged by 40 percent compared to the same period last year. Small-scale manufacturers are even more vulnerable, with many downsizing operations or closing temporarily due to unaffordable energy bills.

2

Foreign Exchange Volatility and Import Constraints

The volatility of the naira — trading between ₦1,450 and ₦1,600 per United States dollar — has made it extremely difficult for manufacturers to plan effectively. Many rely heavily on imported inputs, machinery, and spare parts. The Central Bank of Nigeria's managed float regime has not delivered adequate liquidity to meet demand at official rates, forcing companies to source FX on the parallel market at significant premiums. For example, a major pharmaceutical company halted the production of a high-demand medication after the cost of importing active pharmaceutical ingredients (APIs) tripled over a six-month period. This not only affects the company's bottom line but also threatens national drug supply stability.

3

Raw Material Scarcity and Supply Chain Fragility

Compounding these problems is the rising cost and scarcity of locally sourced raw materials. Agricultural inputs, packaging materials, and chemicals have all seen double-digit inflation. Insecurity in farming regions and poor transport infrastructure contribute to supply chain instability, leading to stockouts, idle machines, and missed delivery deadlines.

4

Regulatory Pressure and Multiple Taxation

Manufacturers also face increasing regulatory pressure from multiple government agencies. Beyond the Federal Inland Revenue Service (FIRS), local governments and state revenue agencies impose levies such as signage fees, environmental levies, and business premises taxes. These overlapping charges, often duplicative and inconsistently enforced, result in compliance fatigue and uncertainty.

Tax Implications for the Manufacturing Sector

The interplay between these operational challenges and the tax environment is significant and multi-faceted:

1

Erosion of Taxable Profits:

The rise in energy and import costs has significantly eroded operating margins. Many firms, especially in consumer goods and building materials, are reporting lower net profits or outright losses. Since corporate income tax (CIT) is assessed on taxable profit, government revenue from the sector is likely to fall unless profitability rebounds.

2

Increased Tax Avoidance and Informality:

Smaller manufacturers, particularly those outside organised industrial clusters, are increasingly engaging in informal tax mitigation strategies. This includes under-declaration of income, reliance on cash transactions, and delayed or inaccurate filing of returns. This behaviour further widens the tax gap.

3

Reduced Compliance with Sector-Specific Taxes:

Taxes such as excise duty (applicable to alcohol, tobacco, carbonated drinks, etc.) have become more difficult to comply with, especially for firms whose production volumes have declined. In some cases, operators are lobbying for a temporary suspension or reduction of excise rates to preserve jobs.

4

Delayed or Disputed VAT Remittances:

As sales shrink and customer defaults increase, many companies are unable to remit value-added tax (VAT) promptly. This has resulted in growing tensions between manufacturers and tax authorities over VAT assessments and penalties.

5

Transfer Pricing Complications:

For multinational manufacturers with related-party transactions, the FX fluctuations and differing exchange rates across reporting periods have introduced complexities in meeting transfer pricing documentation and benchmarking requirements.

Case

Dangote Cement Plc

One of the leading players in Nigeria's industrial sector, Dangote Cement, reported a 15 percent decline in Q1 2025 profits, largely attributed to surging energy costs. This dip not only affects its share value but will also significantly lower its corporate tax liability in the current fiscal year, reducing government revenue from one of its biggest corporate taxpayers.

Strategic Solutions for Manufacturing Sector Recovery and Resilience

To address the manufacturing sub-sector's current crisis, there is an urgent need for coordinated interventions that not only ease immediate pressures but also lay the groundwork for sustainable industrial growth. One of the most critical areas of reform is energy. With self-generated power costs at an all-time high, manufacturers require policy-driven support to transition to more affordable and reliable alternatives. Government can encourage this shift through fiscal incentives such as tax credits and capital allowances for investments in renewable energy infrastructure, particularly solar and gas-powered systems. Moreover, the promotion of cluster-based embedded generation, where manufacturers within industrial parks or estates share dedicated power solutions can help reduce the cost burden associated with isolated energy generation. Support for energy efficiency initiatives, including subsidised energy audits and retrofit funding, would also help firms lower operating costs.

Foreign exchange instability, another core issue, must be addressed through targeted monetary and trade policy responses. While exchange rate reforms are ongoing, there is a case for a dedicated foreign exchange allocation mechanism specifically for manufacturers of essential goods. This could help stabilise import planning and reduce exposure to parallel market premiums. In the medium term, stronger support is needed for backward integration. The government can provide import duty waivers or tax holidays for firms investing in the local production of critical inputs, such as packaging materials, agro-based raw materials,



and basic chemicals, thereby reducing over-reliance on imports and insulating the sector from external shocks.

The scarcity of local raw materials and persistent supply chain disruptions also demand urgent attention. To strengthen input security, the government should intensify investment in rural infrastructure to improve access to farming regions that supply agro-based materials to manufacturers. This can be complemented by incentivising storage and processing facilities near production hubs, which would help reduce post-harvest losses and transportation delays. Moreover, building digital supply chain platforms and promoting manufacturer-supplier partnerships through cooperative models can help streamline sourcing and improve inventory management.

On the regulatory front, the burden of multiple taxation and overlapping oversight continues to weigh heavily on manufacturers. A harmonised regulatory framework that consolidates the various taxes and levies across federal, state, and local authorities is needed to simplify compliance. The introduction of a unified tax payment portal – supported by legislation that limits duplicative levies would significantly improve the operating environment. Manufacturers would also benefit from clearer dispute resolution processes and the adoption of risk-based audit mechanisms by the Federal Inland Revenue Service and state tax authorities, thereby reducing the unpredictability that currently deters long-term investment.

Tax policy itself must become more responsive to the unique pressures confronting the manufacturing sector. Temporary relief measures, such as excise duty suspensions or Value Added Tax payment deferrals, should be considered for sub-sectors experiencing sharp revenue declines. Additionally, multinational manufacturers grappling with foreign exchange-related transfer pricing complications would benefit from safe harbour provisions and more flexible benchmarking guidelines. For small and medium-sized manufacturers operating informally, there is a need for tailored fiscal onboarding strategies, such as simplified tax regimes, micro-credit access, and digitised compliance platforms, to facilitate a smoother transition into the formal tax net.

Ultimately, these strategic solutions must be pursued through sustained dialogue between government, industry stakeholders, and development partners. A deliberate and well-coordinated approach will not only safeguard the sub-sector but also reinforce its critical role in job creation, non-oil exports, and broader economic diversification.

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The Federal Government of Nigeria issues the Upstream Petroleum Operations (Cost Efficiency Incentives) Order 2025

A New Era for Nigeria's Oil and Gas Sector

Introduction

The President of the Federal Republic of Nigeria, Bola Ahmed Tinubu recently signed a new Executive Order titled **"Upstream Petroleum Operations (Cost Efficiency Incentives) Order 2025"** with a commencement date of 30th, April 2025. This Order introduces a Cost Efficiency Incentive (CEI) framework which is aimed at:

- I. Reducing operating costs in the upstream petroleum sector through achievable cost reduction measures and targets.
- II. Encouraging stakeholders to adopt cost-saving strategies and streamline contract cycles.
- III. Enhance Nigeria's competitiveness in the global oil and gas sector while maximising economic gains.

Key features of the CEI Order

1

Application of the incentives: Leases, licenses, and contractors who meet or exceed the cost reduction targets set by the Nigerian Upstream Petroleum Regulatory Commission ("the Commission") shall be eligible for the incentives.

2

Cost efficiency incentive benchmark: The Commission will conduct annual assessments and benchmarking studies to establish cost benchmarks for upstream operational activities and unit operating costs, set terrain-specific reduction targets, and conduct annual reviews to verify performance. Companies (licenses or leases) that meet or exceed these targets will be eligible for cost efficiency incentives in the form of tax credits.

3

Tax Credits: Companies that reduce their costs below the Commission's targets can claim tax credits based on their savings. The tax credits shall be applied to reduce the

4

Company's overall tax liability for the relevant asset. This is aimed at rewarding such Company for efficiently managing its cost without compromising government revenue. It is important to note that the incentives shall expire on 31st, May 2035, unless extended or modified. Any unused tax credits shall become invalid after this date.

Framework for the claim of incentives: The Commission will set cost reduction targets to align Nigeria's upstream petroleum costs with global standards. To incentivise efficiency, Companies can claim tax credits, which will be capped at 20% of their annual tax liability. These tax credits can be used to offset income tax liability within three years of issuance. Importantly, Companies must ensure that their cost reduction strategies do not involve harmful practices, as may be determined by the Commission from time to time.

5

Implementation guidelines and effective date: The Service and Commission will issue Minister-approved implementation guidelines within 30 days from the effective date of 30th, April 2025. These guidelines shall detail the unit cost evaluation, data submission, and publication of Companies eligible for tax incentives. The Commission will also publish benchmarks and targets on its website within 90 days of the beginning of each calendar year and subsequently list eligible Companies online prior to the deadline for tax return filings.



Our Comments

The signing of the Upstream Petroleum Operations (Cost Efficiency Incentives) Order 2025 by the President is a commendable and bold step towards making Nigeria's upstream oil and gas sector more competitive and transparent. The Order is expected to have a transformative impact on the sector by enhancing competitiveness, driving cost savings, and promoting transparency.

This new framework could help reshape the sector by promoting efficient operations and encouraging better cost management through tax incentives. Licenses and leases that successfully keep their costs below the set benchmarks will benefit from the tax credits, and the 10-year incentive period is expected to motivate them to adopt sustainable practices and optimise their operations. With the government having laid the groundwork, the onus now shifts to oil-producing companies to optimise their operations and unlock the full potential of the incentive scheme.

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