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# Mini MBA

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## HOW NIGERIA PAUSED A DYNAMIC STARTUP ECOSYSTEM

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\*Tekedia AI Companion created this summary based on the course video transcript

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## Introduction: The AI Paradox in Tech Careers

This presentation will explore the trajectory of the Nigerian startup ecosystem, examining its period of vibrant growth, the factors that led to its decline, and the current challenges it faces. We will delve into the critical role of government policies, particularly currency flotation, and its profound impact on startup valuations, investor confidence, and talent retention.

### 1. The Golden Age of Nigerian Startups (Pre-May 2023)

Before May 2023, the Nigerian startup ecosystem was characterized by immense dynamism and vibrancy.

- **1.1. Rapid Growth and Investment Influx**
- **Foreign Investment:** The ecosystem was "firing on all cylinders," with startups successfully raising millions of dollars from foreign investors.
- **Entrepreneurial Capitalism:** Nigeria was experiencing a "Cambrian moment" in entrepreneurial capitalism, with significant activity across various industrial sectors and territories, a level not seen in decades.
- **Optimism and Unicorn Potential:** There was widespread optimism about the emergence of "unicorns" (startups valued at over \$1 billion) and the potential for significant financial returns for investors.
- **1.2. Key Indicators of Success**
- **High Valuations:** Startups commanded strong valuations, attracting substantial foreign capital.
- **Job Creation:** The thriving ecosystem provided numerous jobs for young people, fostering a culture of innovation and entrepreneurship.
- **Global Recognition:** Nigerian startups were gaining international attention, contributing to the country's economic growth and global standing.

### 2. The Turning Point: Currency Flotation and its Aftermath (Post-May 2023)

A significant policy change – the flotation of Nigeria's currency, the Naira – marked a turning point for the ecosystem.

#### 2.1. The Naira's Devaluation

- **Policy Implementation:** Nigeria floated its currency, a move that was considered progressive by some but predicted to cause severe economic disruptions by others.

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- **Lack of Economic Fundamentals:** The speaker argues that the Naira lacked the necessary "life jacket" of robust manufacturing, warehouses, and other productive sectors to withstand flotation in the international market.
  - **Dramatic Loss of Value:** Consequently, the Naira experienced a massive depreciation, plummeting from approximately 400-415 Naira to the dollar to as high as 1,700 Naira to the dollar.

## 2.2. Impact on Startup Valuations

- **Erosion of Value:** The currency devaluation directly led to a significant erosion in the valuations of most Nigerian startups.
- **Investor Disappearance:** Foreign companies and investors who previously drove significant funding rounds largely disappeared due to the instability and reduced returns on investment.
- **Illustrative Example:**
  - **Pre-Float:** A company with 500,000 Naira in revenue, using a 20x revenue multiple, would be valued at 20 million Naira.
  - **Post-Float:** Even if revenue increased to 750,000 Naira, the devaluation meant that this amount was less than the pre-float equivalent of 1 million Naira. The valuation effectively halved, from 20 million Naira to 10 million Naira (or less, depending on the exact exchange rate).
- **Negative Feedback Loop:** This created a "vicious cycle" where founders, original investors, and potential future investors became fearful, leading to a further decline in investment.

## 3. Consequences of the Decline

The currency crisis had far-reaching consequences for the Nigerian startup ecosystem.

### 3.1. Funding Freeze and Company Stagnation

- **Capital Scarcity:** The lack of available capital meant that many companies could not transition from their "fledgling phase" to sustained growth.
- **"Zombie Companies":** Many startups became "zombie companies" – still existing online but lacking the capital and capacity to operate effectively or grow into the future.
- **Shutdowns and Lost Missions:** Numerous startups faced shutdowns, and many lost their original missions as they struggled to survive.

### 3.2. Exodus of Talent and Capital (Japa)

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- **Brain Drain:** Brilliant young innovators and founders began to leave Nigeria, a phenomenon referred to as "Japa."
  - **Relocation of Businesses:** Many companies, already registered in places like Delaware, USA, had little motivation to remain in Nigeria, especially with the lack of capital.
  - **Shift in Focus:** Some founders who left are now building products and services primarily for Nigerians in the diaspora, focusing on areas like remittances, rather than internal development within Nigeria. This indicates a shift from building a domestic economy to facilitating external financial flows.

### 3.3. Investor Hesitation and Losses

- **Fear Among Local Investors:** Even Nigerian angel investors, who typically provide initial seed funding, became hesitant to write checks due to past losses from dissipated valuations.
- **Historical Parallels:** The situation is compared to the Nigerian stock exchange collapse in 2008 and the period before 2015, where investors who put money in from outside Nigeria have not recovered their original investments due to currency depreciation.
- **No Compensation for Devaluation:** No company has been able to grow sufficiently to compensate investors for the significant deterioration of the Naira against foreign currencies.

## 4. The Current State and Future Outlook

The current state of the Nigerian startup ecosystem is one of external focus and a struggle to build internal capacity.

### 4.1. External-Facing Startups

- **Remittance Focus:** Most startups currently raising money are operating from "outside looking in," primarily focusing on remittances and money transfers for the diaspora.
- **Limited Internal Impact:** While these companies may use "Nigeria" in their branding, their operations do not significantly contribute to internal economic activity or job creation within the country.
- **Investor Aversion to Naira Exposure:** Investors are actively avoiding exposure to the Naira, preferring to keep their investments outside Nigeria.

### 4.2. The Challenge of Nation Building

- **Disconnection from Domestic Needs:** The current trend of external-facing startups raises a fundamental question: "How do you build a nation on that?"
- **Unmet Domestic Needs:** Young people still need education, families need to be raised, and jobs are desperately needed within Nigeria.

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- **The Currency as a Core Issue:** The speaker emphasizes that the fundamental issue remains the currency's instability, and a solution is urgently needed.

### Summary

The Nigerian startup ecosystem, once a beacon of entrepreneurial spirit and a magnet for foreign investment, has experienced a significant downturn since May 2023. The primary catalyst for this decline was the government's decision to float the Naira without sufficient underlying economic structures to support its value. This led to a drastic currency devaluation, which in turn eroded startup valuations, deterred foreign and local investors, and ultimately froze capital flow. The consequences have been severe: many promising startups have become "zombie companies" or have shut down, and there has been a significant "brain drain" as talented founders and innovators seek opportunities abroad. The current landscape is dominated by external-facing businesses, particularly in remittances, with little focus on internal economic development. This shift raises critical concerns about Nigeria's ability to build a sustainable domestic economy and provide opportunities for its growing population if the fundamental issue of currency instability is not addressed.

### Conclusion

The experience of the Nigerian startup ecosystem serves as a powerful case study illustrating the profound impact of macroeconomic policies, particularly currency management, on entrepreneurial growth and innovation. While the initial intent of floating the Naira might have been progressive, the absence of a robust productive base to support the currency proved detrimental. The resulting loss of investor confidence, coupled with the exodus of talent, has significantly hampered the ecosystem's potential. For Nigeria to reclaim its position as a vibrant hub for startups and foster genuine national development, a stable and predictable currency environment is paramount. This requires not just policy adjustments but also a deeper commitment to building the foundational economic structures – manufacturing, warehousing, and other productive sectors – that can provide the "life jacket" for the Naira to truly thrive and attract sustainable investment for internal growth. Without addressing these core issues, the nation risks continuing to build an economy that serves external interests rather than its own citizens.

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