International Journal of Law
www.lawjournals.org
ISSN: 2455-2194
Received: 19-07-2024, Accepted: 18-08-2024, Published: 02-09-2024
Volume 10, Issue 5, 2024, Page No. 4-10

Corporate survival strategies for companies in financial trauma under the companies and allied matters act (Cama) 2020 in Nigeria: An appraisal

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Abstract
Nigeria is one of the world's leading business locations on the African continent. However, operating a company in Nigeria is fraught with several challenges. 80% of new businesses fail within the first 3 years.
Companies in Nigeria are fraught with many challenges to remain as a going concern and have faced turbulent times recently. These challenges include tough economic climate, inflation, harsh operating environment, stiff competition or difficult regulatory compliance, among others. Thus rather than fizzle out, companies that want to stay afloat must design and embark on legally acceptable survival options, many of which are provided for in the Companies and Allied Matters Act (CAMA) 2020. These restructuring options could be Internal that is involving arrangements between a company and its members or creditors, or External, that involving the company and outsiders. This paper examines the internal and external restructuring options available to companies in Nigeria.

Keywords: Corporate, strategies, companies, financial trauma, CAMA 2020, Nigeria

Introduction

Nigeria is one of the most marketable countries this side of the world for prospective investors and entrepreneurs alike, with its vast population; of over 180 million people with over 40% of that literate and ambitious people. Indeed, Nigeria is one of the world's leading business locations on the African continent. Nigeria is blessed with mineral natural and human resources making her the envy of the more developed Nations as well as an ever dynamic hub for high class investors and diverse businesses [1].

It goes without saying that Nigeria has the potential to be one of the top industrialized and commercial nations in Africa but a series of successive bad policies, and gross mismanagement of resources have contributed to impeding the growth of commercialization in the country. 80% of new businesses fail within the first 3 years [2].

A plethora of challenges including poor access to forex for importation of raw materials not available locally, effect of rising global inflation, aggressive drive for revenue by Government, frequent collapse of the Grid, increase in price of diesel, scarcity of wheat and other manufacturing inputs due to the ongoing war in Europe and wide spread insecurity that combined to limit productive activities in the economy during the quarter [3].

The business environment in Nigeria is rapidly changing with respect to technology, competition, products, people, geographical area, markets, and customers. It is not enough if companies keep pace with these changes but are expected to beat competition and innovate in order to continuously maximize shareholder value. Inorganic growth strategies like mergers, acquisitions, takeovers and spin offs are regarded as important engines that help companies to enter new markets, expand customer base, cut competition, consolidate and grow in size quickly, employ new technology with respect to products, people and processes. Thus the inorganic growth strategies are regarded as fast track corporate restructuring strategies for growth.

One of the advantages of incorporation of a company, as provided by the Companies and Allied Matters Act, is that it gives such a company a distinct legal personality from its owners. That is, in the eyes of the law, it is a human being and has the rights, liabilities, and capacities of a human being. Therefore, such a company can enter into a contract in its name, acquire and discharge properties, sue and be sued, and just like humans, these companies can also birth other companies, fall sick and recover from the same, and finally, it can die. A company falling sick is synonymous with it having challenges in its finances and management. Therefore, it can decide to change its financial, structural, and operational features to ensure that it gets business investment opportunities, cut down costs, and keeps being a going concern. This can be done either internally, that is within the company and its creditors, or externally, that is involving a third party. This process is called Corporate Restructuring [4].

Corporate restructuring can be described as the adjustment to the internal or external structure of a Company in order to re-position a company so as to achieve corporate set goals.

According to Investopedia, Corporate restructuring is the process of reorganizing a company. It is a corporate action done by a company to significantly change its financial and operational features [5]. Companies may need to restructure their operations at some point during the course of their business. Usually, restructuring becomes a necessity when a company is facing financial difficulties. Companies may also restructure to comply with new regulatory requirements as the need arises, or when there is a change in ownership of the company. This restructure usually brings about a change in the legal, ownership, or operational structure of the company. Note however, that Corporate Restructuring could also be carried out as a result of a Company's financial buoyancy [6].

Meaning of corporate restructuring

Corporate restructuring means rearranging the business of a company for increasing its efficiency and profitability. Restructuring is a method of changing the organizational structure in order to achieve the strategic goals of the organizations. Corporate restructuring is a wide expression and it includes various kinds of tools. Thus, it is the purpose or object of the organization which will determine the kind of tool to be used in corporate restructuring. Corporate restructuring is a comprehensive process by which a company consolidates it business operation and strengthen its position for achieving its short term and long term corporate objectives.

Corporate restructuring options for companies in Nigeria

There are several restructuring options as provided by the laws that a company may decide to explore, depending on the current situation and needs of the company. This can be an internal restructuring or an external restructuring. Internal restructuring is a restructuring process involving the companies and their creditors. Examples of internal restructuring are

Arrangement and compromise, Management Buy-out, among others, while external restructuring is a restructuring process that involves the company and another company. Examples are Mergers, Acquisitions, Take-over, etc.

1. Internal restructuring

Internal restructuring is generally employed when a Company has a large debt profile and the Company desires to retain its corporate identity without the involvement of any third party. The various forms of internal restructuring shall be discussed below.

1.1. Arrangement and compromise

Arrangement is defined as any change in the right and liabilities of members, debentures holders or creditors, or any class of them, or in the regulation of the company other than a change, effect under any other provision of this Act, or by the unanimous agreement of all parties affected [7].

The CAMA [8] provides that

1. Where under a scheme proposed for a compromise, arrangement or reconstruction between two or more companies or the merger of any two or more companies, the whole or any part of the undertaking or the property of any company concerned in the scheme (in this section referred to as "the transfer of company") is to be transferred to another company, the Court may, on the application in summary of any of the companies to be affected, order separate meetings of the companies to be summoned in such manner as the Court may direct.
2. If a majority representing at least three-quarter in value of the share of members being present and voting either in person or by proxy at each of the separate meetings, agree to the scheme, an application may be made to the Court by one or more of the companies, and the Court shall sanction the scheme.
3. When the scheme is sanctioned by the Court, it becomes binding on the companies, and the Court may, by the order sanctioning the scheme or by any subsequent order, make provision for
   a. The transfer to the transferee company of the whole or any part of the undertaking and of the property or liabilities of any transferor company;
   b. The allotting or appropriation by the transferee company of shares, debentures, policies or other like interests in that company which under the compromise or arrangement are to be allotted or appropriated by that company to or for any person;
   c. The continuation by or against the transferee company of legal proceedings pending by or against any transferor company;
   d. the dissolution, without winding-up, of any transferor company;
   e. The provision to be made for any persons who in such manner as the court may direct, dissent from the compromise or arrangement; and
   f. Such incidental, consequential and supplemental matters as are necessary to secure that the reconstruction or merger shall be fully and effectively carried out.

4. An order under subsection (3) (d) shall not be made unless—
   a. the whole of the undertaking and the property, assets and liabilities of the transferor company are being transferred into the transferee company;and
   b. the Court is satisfied that adequate provision by way of compensation or otherwise have been made with respect to the employees of the company to be dissolved.

   Arrangement and Compromise can take the form of compelling the shareholders to contribute further capital or agreeing with preference shareholders to convert their preference shares into ordinary shares, or reduction of dividend right by preference shareholders etc.

Where a company proposes an arrangement or compromise between it and its creditors, the company or the creditors, or the liquidator for a company being wound up will apply to the Court in a summary way, to order a meeting of the creditors or members of the company as the Court may direct [9].

The compromise arrangement or compromise will be presented and votes will be cast by the members present at the meeting. If a majority of at least three-quarters of the members present at the meeting agree to the arrangement or compromise, the arrangement or compromise will be referred by the Court to the Securities and Exchange Commission, which will investigate the fairness of the arrangement or compromise [10].

If the Court is satisfied with the fairness of the arrangement or compromise, it will be sanctioned. When this arrangement or compromise is sanctioned, it becomes binding on the creditors, members, or company as the case may be [11]. Such sanction will not be effective until a certified true copy of the arrangement or compromise is submitted by the company to the Corporate Affairs Commission, and is annexed to the memorandum of the company prepared after the arrangement or compromise has been sanctioned by the Court [12].

1.2. Arrangement on sale

Arrangement on sale is one of the internal reconstruction methods towards the survival of an ailing company. This occurs when a company by a special resolution, resolve that the company is put into a members voluntary winding up, and a liquidator be appointed to sell part or whole of the company's undertaking and assets, to another corporate body, whether a company or not. The consideration for the sale may be cash, shares, debentures or policies which should then be distributed in species among the members of the company, in accordance with their rights in liquidation [13].

The money realized can be used in the floatation of the new company or as equity contribution in any scheme of arrangement for restructuring such as a merger [14]. All sales or distributions done in pursuance of the special resolution are binding on the company and its members, and the members are deemed to have agreed with the transferee company to accept the fully paid shares, debentures, policies, cash, or others like interest to which they are entitled under such distribution [15]. However, where a member brings an action on grounds of unfairly prejudicial and oppressive conduct [16] for the winding up of the company, the arrangement for sale and distribution shall not be valid unless sanctioned by the Court.

A major difference between the liquidation process in corporate restructuring and that of dissolution of the company lies in the fact that the winding-up process embarked upon in corporate restructuring usually results in the resurrection of the company in another form. On the other hand, the winding up for dissolution of a company brings the company to a permanent end since the assets are distributed to those entitled according to the rules of distribution of assets of a dissolved company [17].

1.3. Management buy-out

This occurs when the management team of a company acquires the controlling shares of that company, with or without third-party funding in order to make the company survive a slack back [18]. The management team here is usually the directors and officers of the company. They often refer to this restructuring option to prevent an external take-over, acquisition, or merger from third parties who might not have the same mission and vision of the company. For this to be done;

1. An application for the approval of the Management Buy-Out is to be filed by the management team making the acquisition.
2. A copy of the special resolution of the Shareholders of the company approving the management Buy-out.
3. A copy of the resolution of the management team to undertake the same.
4. A copy of the Certificate of Incorporation of the company.
5. A copy of the memorandum and article of association of the company.
6. Two copies of the Prospectus of the company.
7. A copy of the sale agreement between the company and the management team.
8. And any other document required by SEC from time to time [19].

Where the employees of a company buy the controlling shares of the company, it is called employee Buy-out. Here the employees may decide to acquire a controlling interest in the company by pulling resources together. This buy-out is often motivated by an attachment to the company or to gain job security [20].

1.4. Company voluntary arrangement

Company Voluntary Arrangement (CVA), is one of the notable business rescue procedures introduced by the Companies and Allied Matters Act 2020 (CAMA 2020). The CVA in CAMA 2020 is modeled after the CVA in the United Kingdom (UK) Insolvency Act 1986 [21].

A CVA is an alternative arrangement available to companies facing financial challenges, that can be used by companies to conveniently structure the repayment of debts to their creditors [22]. Although the CAMA 2020 does not define a CVA, in practice in the UK, CVA's are described as a form of business rescue arrangement which allows a company in financial difficulties to propose to its creditors to enter into an agreement with them regarding the repayment of all, or a part, of its debts over an agreed period of time. CVA's, in some respects, are similar to a scheme of arrangement. A fundamental difference between a CVA and a scheme of arrangement is that CVA's are contractual in nature and require the approval of the creditors and members of the company to take effect. A scheme of arrangement, on the other hand, involves the courts, and requires orders of the court to convene meetings and to sanction the resolutions passed at such meetings. Furthermore, the CAMA 2020 introduced the concept of a statutory 6-month moratorium under a scheme of arrangement under s. 715, during which period, no winding up petition or enforcement action by any creditor shall be entertained against the company. This feature is not available under a CVA.

The CAMA 2020 outlines the process for implementing a CVA:

A CVA proposal is made to the creditors by the Directors of the company, or by the Administrator or Liquidator, as applicable [23].

The proposal is made through a person appointed by the Directors, Administration or Liquidator of the company (as applicable) to act as a nominee for the purpose of supervising the implementation of the CVA. The nominee must be qualified to act as an insolvency practitioner.

Within 28 days of receiving the notice of the proposal for a CVA, the nominee must submit a report to the Federal High Court stating whether, in his opinion, meetings of the company and of its creditors should be summoned to consider the proposal, and the date, time and place at which he proposed the meetings to be held.

The above requirement for the nominee to submit a report to the Court only applies where the company is not in administration or winding up. Where the company is in administration or winding up, the nominee may proceed to summon the necessary meetings without recourse to the Court. The meetings of the members and creditors are to be held separately.

The CVA proposal may be approved with or without modifications, provided that the proposal itself or any subsequent modification does not affect the right of a secured creditor to enforce its security or the priority and rights of preferential creditors except with the concurrence of the secured creditor or preferential creditors concerned.

The CAMA 2020 does not provide for the voting threshold for the approval of a CVA at the creditors' and members' meetings and this is a significant lacuna in the CAMA 2020. It only provides that "...each of the meetings shall be conducted in accordance with the " The CAMA 2020 defines the term "rules" to include "rules made by the Chief Judge of the Federal High Court for the purpose of section 616 (i.e. Delegation to liquidator of certain powers of court) or 683 of the CAMA 2020 (i.e. Information as to pending liquidations and disposal of unclaimed assets) and all incidental forms together with rules made by the Corporate Affairs Commission."

There is, however, no specific indication of the rules being referred to in the CAMA 2020, the provisions of the current Winding up Rules, 2001, could be relied on. The Winding up Rules provide for a simple majority approval of creditors and contributories (i.e. 50% + 1 vote) for a resolution to have been deemed to be passed. Under the UK Insolvency Rules, 1986, approval of a CVA requires the majority in excess of three-quarters (by debt value) of the creditors present in person or by proxy at the creditors' meeting, and a simple majority approval of the members present in person or proxy at the members' meeting. For clarity, it is recommended that the CAC, in its regulations, should confirm that the rules applicable to voting in relation to a CVA shall be the Winding up Rules 2001. The CAC could also specify the voting threshold applicable to voting in relation to a CVA.

Where the decision taken at the creditors' meeting differs from that taken at the members meeting, the Court may, on application by a member, order that the decision of the members' meeting shall prevail or make such other order as it thinks fit. This position applies in similar circumstances in the UK.

The decision relating to the approval of a CVA has effect if it has been taken by both meetings summoned, or by the creditors' meeting alone, but in the latter case the decision is subject to an order of the court made on application as mentioned in the preceding paragraph above. The company shall be liable to pay the creditors the amounts approved under the CVA.

The CVA can be challenged in Court on the grounds of unfair prejudice or material irregularity (or both) in relation to either of the meetings, and where such application is made, the Court may revoke or suspend any decision approving the CVA or direct the nominee to summon further meetings to consider a revised proposal with regard to the CVA.

1.5. Share consolidation and reconstruction

Reconstruction of capital is to either increase or reduce the value of each share by way of consolidation or subdivision of shares. Section 125 of CAMA 2020 provides that a company with share capital may in a general meeting and not otherwise, alter conditions in its memorandum to; Consolidate and divide all or any part of its share capital into shares of larger amount than its existing shares; Subdivide its shares or any of them into shares of smaller amounts than is fixed by the memorandum.

Consolidation of shares is the process of reconstituting shares of a certain denomination to a greater denomination, resulting in the value of shares being greater than their original value. It is to increase the value upon which shares are divided while reducing the number of shares in issue, for instance, 1,000,000 shares of 1 naira per 1 share can be reconstituted into 500,000 shares of 2 naira per 1 share.

By virtue of section 125 of CAMA 2020, reconfiguration of company capital can only be done in a general meeting by alteration of conditions in the memorandum. Section 49 of CAMA 2020 provides that a company may not alter the conditions contained in its memorandum except in the cases and in the manner and to the extent for which express provision is made in this Act. Due to the nature of conditions in the memorandum, alteration of the said conditions would be by special resolutions. Section 258(2) of CAMA 2020 defines special resolution as "resolution…passed by at least three-fourths of the votes cast by members of the company as, vote in person or by proxy at a general meeting of which 21 days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given…"

Notice of the alteration must be given to the Corporate Affairs Commission ("CAC") within one month of the alteration resolution, specifying the shares consolidated, divided, or subdivided [24].

Increase of company capital can only be carried out in a general meeting by ordinary resolution [25].

Section 258(1) of CAMA 2020 defines ordinary resolution as "resolution…passed by a simple majority of votes cast by members of the company as, being entitled to do so, vote in person or by proxy at a general meeting." The rationale behind the ordinary resolution requirement is that capital increase is usually beneficial to all the stakeholders of the company.

An increase of capital would not be carried out unless there is authorization under the article of association. Where there is no such authorization, the article would be altered by a special resolution to give the company power to increase its capital. Hence, due to the requirement of ordinary resolution for an increase of capital and special resolution for the alteration of article to give the company power to increase capital, they can both be carried out in one meeting since 21 days' notice only applies to special resolution and not ordinary resolution [26].

In Andrews **v** Gas Meter Company, [27] the issue was whether a company having no power under its Memorandum and Articles of association to issue preference shares could alter its articles to allow the issuance of preference shares through increased capital. The Court, in this case, held that as long as the constitution of a company depends on the articles, it is alterable by special resolution under the powers conferred by the Act. Therefore it was proper for the company to alter those articles and issue preference shares. Any regulation or article which purports to deprive the company of this power is therefore invalid, on the ground that such an article or regulation will be contrary to the statute.

An increase of share capital would take effect where: a) at least 25% of the share capital including the increase must have been paid up, and b) the directors should have delivered to CAC a statutory declaration verifying that fact, as provided under section 128 of CAMA 2020.

Following the increase of a company's capital, section 127(2) of CAMA 2020 provides that the company shall within 15 days after the passing of the resolution authorizing the increase, give to the CAC notice of the increase and the CAC shall record the increase.

According to the amendment made to CAMA 2020 by the Business Facilitation Act 2023, Section 127(1) of CAMA is now amended by paragraph 3 to provide that a company can also increase its issued share capital by a resolution of the Board of Directors. However, it is subject to conditions that may be imposed by the Articles or the company in general meetings. Previously, this could only be done by the company in general meetings.

2. External restructuring

2.1. Mergers and acquisition

A merger is said to have occurred when one or more companies directly or indirectly, acquire or get a direct or indirect control, either partly or wholly of the business of another company [28]. This can be achieved through the purchase or lease of shares, interest, or assets of the company in question, or the merging with the other company or a joint venture [29]. For a company to have control over another company, it must; Own more than half of the issued share capital of the other company, Be entitled to cast the majority vote that may be cast in the general meeting of the other company, Be able to appoint or veto the appointment of a majority director, if a holding company and the other company is a subsidiary company as provided for under the Companies and Allied Matter Act, or, have the ability to influence materially the policy of the other company [30]. There are 3 types of mergers as defined by Rule 421 (1) of the Securities and Exchange Commission Rules: horizontal, vertical and conglomerate mergers.

Horizontal mergers: Horizontal is one involving direct competitors. Thus, a horizontal merger is a combination or fusion of companies in the same line of business. Thus, a merger of two or more banks is a horizontal merger.

Vertical mergers: Vertical merger is one between companies in a non-competitive relationship. That is, a vertical merger is a combination or fusion of two or more companies which are engaged in complementary business activities. e.g. a packaging company and a manufacturing company.

Conglomerate mergers: A conglomerate merger is a combination or fusion of two or more companies that engage in completely unrelated aspects of business. An example is a fashion line and an energy company.

Any of the above mergers can either be a small merger, that is, a merger with a value at or below the lower threshold which is 1, 000, 000,000-naira (One Billion),or a large merger that is a merger with a value above the upper threshold which 5, 000, 000, 000 (five billion) and above [31].

The Securities and Exchange Commission Rules have defined Acquisition as when a person or group of persons buys most of a company's shares in order to assume ownership of that company [32]. It is the acquisition of one company by another company in which no new company is formed. For this to happen, the acquirer shall file a letter of intent to the Securities and Exchange Commission by a registered capital market operator registered to function as an issuing house [33]. The Securities and Exchange Commission has been saddled with the responsibility of regulating acquisitions in both public and private unquoted companies, through the filling and approval of the requirements for acquisitions by any corporate body or individual. The Commission also carries out a post-incorporation inspection three months after the approval of the application [34].

Prior to the enactment of the FCCPA, the regulatory body for mergers and acquisitions in Nigeria was the Securities and Exchange Commission and the legal framework was the Investments and Securities act. However, with the enactment of the FCCPA, the regulatory body is now the Federal Competition and Consumer Protection Commission and the legal framework is the FCCPA 2019.

For a proposed merger to be implemented, it must first be notified and approved by the Federal Competition Consumer Protection Commission (the Commission), which will determine the threshold of the annual turnover of the company to determine the category of merger and the method of calculating the annual turn-over [35]. The commission will also determine whether or not the merger will reduce competition, result in technological efficiency or other pro-competitive gains, or whether it can or cannot be justified on substantial public interest [36].

2.2. Takeover

A takeover is virtually the same as an acquisition, except that "takeover" has a negative connotation, indicating the target does not wish to be purchased. When an acquiring company makes a bid for a target company, it is called a takeover. If the takeover goes through, the acquiring company becomes responsible for all of the target company's operations, holdings and debt. When the target is a publicly-traded company, the acquiring company will make an offer for all of the target's outstanding shares [37].

According to the Investment and Securities Act, a Take-over is the acquisition by one company of sufficient shares in another company to give the acquiring company control over the other company [38]. The acquiring company acquires at least 30% to 50% of the shares or voting rights in the acquired company. For take-over to occur there must be a take-over bid. A take-over bid is a corporate action in which a company makes an offer to purchase another company. The acquiring company offers cash, stock, or a combination of both cash and stock in an attempt to take control of the target company [39].

A Take-over bid is deemed to be made by a person or persons who either himself or themselves or through his agent or their agents, dispatches a bid to the Shareholders at nearly the same time in order to re-purchase the company's own shares, [40] or by a company by itself or through its agent when it dispatches a bid to its Shareholders at nearly the same time in order to re-purchase the company's own shares [41]. A Take-over bid shall not be made to less than twenty Shareholders or such number prescribed by the commission; neither shall it be made to purchase shares in a company which has fewer than twenty or such prescribed number by the regulations, nor to a private company [42]. For a person or group of persons to make a take-over bid, he or they must first be granted the authority to proceed with the take-over bid by the Securities and Exchange Commission [43]. This authority shall be in writing, signed by the Securities and Exchange Commission, dated with full particulars to enable identification of the bid,[44] and will remain in force three months after the grant of the authority, or for a longer period as the commission may deem fit upon an application to him for the extension of time [45].

2.3. Purchase and assumption

This external restructuring option is often explored by ailing banks and financial institutions. Here the assets and liabilities of an ailing company are purchased by another company at an auction price. This restructuring option is often governed by the Federal High Court.

Purchase and assumption is a transaction in which a healthy bank or thrift purchases assets and assumes liabilities (including all insured deposits) from an unhealthy bank or thrift.

It is the most common and preferred method used by the Regulatory Bodies to deal with failing banks. Insured depositors of the insolvent institution immediately become depositors of the assuming bank and have access to their insured funds [46].

Purchase and Assumption (P&A) is a failure resolution mechanism which involves purchasing the assets of a failed bank and assuming its liabilities by another healthy insured bank(s).

Under a Purchase & Assumption arrangement, the NDIC may arrange for the assets and liabilities of a failed bank to be taken over by another bank. For example, in October 2007 the United Bank for Africa assumed the fixed assets and private sector deposit liabilities of African Express Bank under direction of the CBN and the NDIC [47].

An application must be made to the Federal High Court for the P&A to be sanctioned. The assumed company does not go through the formal winding-up process but is dissolved through a judicial sale of its assets and liabilities to the purchasing company.

2.4. Cherry picking

This is an external restructuring option for a failing company, also aimed at reducing the loss of investment. Unlike Purchase & Assumption, the company/investor is not taking up all the liabilities of the failing/failed company, but is allowed to inspect the books, assets, business operations/activities of the failing company with a view to pick or choose out those aspects it could save by integrating them into its own business activities.

Cherry picking can be an effective way to generate returns and is often used by both individual investors and fund managers. Cherry picking can be helpful for investors who are unfamiliar with the process of stock selection and investment research. These novice investors can choose to invest in the top securities of a particular mutual fund or portfolio. A mutual fund is a basket of securities or stocks purchased by pooled funds and actively managed by a fund manager [48].

Conclusion

Corporate restructuring has over the years proven to be the best way of saving a corporate entity from an untimely death (winding up or dissolution). It is geared towards increasing efficiency, competitive edge, profits, and prolonging the life span of a corporate entity.

The Framework of restructuring introduced by CAMA 2020 and Business Facilitation Act 2023 has put Nigeria on the global map of stimulating growth and development in an ever-evolving digital economy. In this way, companies facing financial trauma can survive and continue to carry on their businesses. This would invariably have a positive impact on the economy of the nation.

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