



COVID-19 RAPID ASSESSMENT: IMPACT ON THE NIGERIAN PRIVATE SECTOR AND PERSPECTIVES ON ACCELERATING THE RECOVERY

Supplement to the Country Private Sector Diagnostic on Nigeria

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Creating Markets, Creating Opportunities

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All data are current as of September 2020.

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INTRODUCTION

This rapid assessment of the impact of COVID-19 on the private sector and private sector investment serves as a supplement to the Nigeria Country Private Sector Diagnostic (CPSD), which assesses opportunities for and constraints to private sector-led growth. The CPSD includes an examination of the state of the private sector, identification of opportunities for private sector engagement, and recommendations of reforms and policy actions to mobilize private investment and drive solutions for key development challenges.

This assessment was completed when the confirmed cases in Nigeria had reached 56,400; since then the curve has started to flatten. Therefore, the assessment, which is informed by IFC and World Bank sector experts and consultations with stakeholders in Nigeria, represents estimates and projections about, but not yet a clear picture of, the lasting impact or opportunities for additional investment. Importantly, further government interventions are expected as the pandemic evolves, and new needs and opportunities may emerge.

Stakeholders can use the findings of this assessment to consider opportunities to mitigate the impact of the pandemic on the private sector as well as to identify new opportunities that could emerge in a post-COVID-19 world.

You can find more information on the Nigeria Country Private Sector Diagnostic [here](#).

EXECUTIVE SUMMARY

The COVID-19 pandemic has had a far-reaching and devastating impact on Nigeria's already fragile oil- and import-dependent economy. The pandemic threatens the livelihood of 85.2 million people living in poverty, who mostly sustain themselves on daily labor, and 41.5 million small and medium enterprises (SMEs), which account for 76 percent of the labor force and contribute half of the gross domestic product (GDP) but are mostly informal. The long-term fallout of the pandemic could mean local food shortages, massive unemployment, and large-scale business failure. The impending recession risks increasing the number of people living in poverty to 95.7 million by 2022 (World Bank Group 2020), and reducing Nigeria's economic and development outcomes, which lag peers.

The government has taken decisive action to mitigate the humanitarian and economic impact of the pandemic and the oil price shock but the outcome is still uncertain. Government efforts have been enhanced by a US\$3.4 billion loan by the International Monetary Fund (IMF) and have been augmented by massive support from the private sector and development organizations. The government's goals to tackle the pandemic's health and economic threats include: (a) addressing the large gaps in the health care system to contain the health crisis; (b) securing supply chains of essential products across Nigeria and inputs from abroad while encouraging efficient domestic production; (c) maintaining stability of the financial system and the naira while managing foreign exchange (forex) liquidity constraints; and, (d) providing access to funds for households and businesses affected by the pandemic, including cash payments for the most vulnerable. The government's Economic Sustainability Plan, a one-year program estimated at ₦2.3 trillion, focuses on achieving mass employment and mass domestic production and on expanding pro-poor spending to protect the vulnerable. The plan's effectiveness will depend on speed of implementation and coordination between the government, development organizations, and the private sector to efficiently deploy the committed resources across Nigeria. Furthermore, effectively targeting the specific needs of SMEs, the informal economy, and firms in strategic sectors is key to protect jobs and to increase self-sufficiency. It is imperative that the financial support is provided transparently and fairly to maintain macroeconomic and social stability and to support sustainable private sector development. In addition, during the midterm, when firms will need to be restructured and bankruptcies will need to be managed, supporting competitiveness should be an objective.

The crisis also creates new opportunities to transform Nigeria's dynamic private sector amid continued improvements in the enabling environment. Although the fallout of the pandemic is having a severe impact on important sectors such as aviation, oil and gas, hospitality, entertainment, retail, manufacturing, and banking, new business models also are emerging. Together with structural reforms to increase competitiveness and market competition, these new business models could fundamentally reshape some of the most affected sectors and diversify Nigeria's oil-dependent economy. The pace of digitalization could accelerate in context of the new operating environment and changing consumer behaviors, especially in banking, retail, and education. A push toward self-reliance can encourage greater integration along the value chain in manufacturing and agribusiness. As global trade cools, regional trade, especially in the Economic Community of West African States (ECOWAS), represents opportunities for deepening regional integration and diversifying exports. Margin compression will force cost reduction measures. These trends may accelerate consolidation that could restructure sectors and strengthen ecosystems. Although 60 percent of SMEs (the share of SMEs operating in sectors that are expected to be severely affected) are highly vulnerable to the economic shock, closer links with large businesses and digitalization could improve their productivity and access to finance and markets and encourage formalization.

To support the private sector during the crisis and recovery, IFC, working with the World Bank, will partner with the Nigerian government and the private sector to provide and mobilize private sector financing at a time when net private flows have collapsed. The IFC response is part of a broader World Bank program of fast-track financing to assist companies and countries in their efforts to prevent, detect and respond to the rapid spread of COVID-19.

CONTAINING THE SPREAD OF COVID-19 IN NIGERIA

The ability to contain the spread of the virus across Nigeria, Africa, and globally to allow for the resumption of full economic activity will determine the economic impact of the crisis on Nigeria. Lockdowns, subsequent movement restrictions, and interstate and international border closures have slowed down the initial spread of the virus. As of September 15, Nigeria has recorded 56,400 cases and 1,000 deaths with clusters in Lagos State. However, limited testing indicates the real toll may be significantly higher (14 tests per million people in Nigeria versus 285 tests in South Africa¹). As one of the most underfunded public health care systems in the world, with government spending on health care at 4.6 percent of GDP versus 9 percent globally,² Nigeria's public health care system has been under pressure to meet the needs of the rapidly growing number of patients that require emergency care.

The private sector has a critical role in mitigating the impact of COVID-19, including through the Nigerian private sector Coalition Against COVID-19 (CACOVID). CACOVID is a partnership composed of the Central Bank of Nigeria (CBN) and private sector and philanthropic organizations that are pulling resources across industries to provide technical, operational, and funding support to public and private health care's ability to respond to COVID-19. Through CACOVID, the private sector has contributed about ₦23 billion (approximately US\$60 million) to support the government's effort and it has donated tens of thousands of testing kits, hundreds of intensive-care beds, medical equipment, and temporary isolation centers. Also, firms have provided palliatives across their communities. They have supported their customers by waiving fees and granting grace periods for bill payments; telecommunications companies have provided free data. Microfinance banks have used their large rural agent network to reach microenterprises and communities to educate them about the pandemic. Digital platforms, such as Givefood.ng, an emergency food relief platform that leverages existing food supply chains, have helped to better coordinate and scale the impact. Technology entrepreneurs have started WeAreTogether, a crowdfunded COVID-19 relief fund; it uses bank verification numbers (BVNs) to determine if applicants fall under the category of vulnerable Nigerians to disburse the funds accordingly.

ASSESSING THE POTENTIAL ECONOMIC IMPACT ON THE PRIVATE SECTOR

The Nigerian economy entered the pandemic after a weak recovery from the 2014 oil price shock with limited buffers and foreign reserves. Real GDP grew at 2.2 percent in 2019, below the population growth rate of 2.6 percent. The agricultural sector suffered from lingering insurgency in the northeast and farmers-herdsmen clashes in the Middle Belt. Trade, the second largest employer after agriculture, contracted in late 2019, partly in response to Nigeria's land border closure in August 2019. An increase in services and oil production partly offset the adverse effects. Prior to the pandemic, a sharp drop in oil prices and limited fiscal space prompted the IMF to reduce its 2020 GDP forecast to 2 percent (from 2.5 percent). With more than half of government revenues dependent on oil, the debt service-to-revenue ratio of 60 percent was already expected to worsen.

The short- to medium-term outlook for the Nigerian economy is bleak. The World Bank estimates that 6.5 percent of Nigeria's GDP is exposed to COVID-19 shocks, one of the highest in Sub-Saharan Africa.³ The revised forecast by the World Bank and IMF projects between 3.2 and 5.4 percent contraction in 2020 with most of the impact coming from oil price effects, followed by gradual recovery in 2021 and convergence with population growth of 2.6 percent by 2022 (World Bank 2020). Lockdowns and movement restrictions in Nigeria and globally have halted or hampered commercial and government activities, reduced demand for oil, decreased remittances by Nigerians living overseas, disrupted supply chains across sectors, and limited household consumption. To date, the pandemic has already led to an unprecedented collapse in commodity prices and capital flight.

Even if oil prices stabilize, a resurgent global outbreak and widespread infection in Africa could further reduce GDP. Under a downside scenario, in which the global economy recovers more slowly than expected and Nigeria suffers a widespread domestic outbreak of COVID-19, the IMF projects a protracted recovery with no growth in 2021. In May 2020, the Minister of Finance, Budget and National Planning also estimated a dramatic drop in GDP in a worst-case scenario but presented a scenario of a shallow recession of 0.4 percent should the fiscal stimulus efforts be effective and oil prices do not fall below US\$28 a barrel.

A slump in consumption and changes in household expenditure are expected to continue to depress consumer demand. With uncertain expectations for the future and erosion of wealth, household consumption is expected to continue to shift to essential goods and services and remain below historical levels. Those people working in Nigeria's large gig economy and informal sector—which contributes 65 percent of economic output—may cut spending the most because of a reduced ability to earn an income under movement restrictions.

Lower oil prices and uncertainty of the duration of the outbreak have caused capital flight and delays in capital expenditure. Firms are reducing inventory in response to supply-chain shocks and weakened demand and may delay capital expenditures to preserve liquidity. Net foreign investment is expected to fall from US\$2 billion in 2019 to an outflow of US\$7 billion, including US\$5 billion of portfolio investments exiting at maturity, while foreign direct investment (FDI) will likely be limited to reinvestment of retained earnings (Agusto 2020). The shift from FDI to foreign portfolio investment (FPI) exacerbates the vulnerability of the current account. The move toward a market-driven exchange rate regime should encourage more foreign capital inflow once markets stabilize.

In 2019, half of Nigerian households received remittances totaling US\$25 billion (6 percent of GDP). The 20 percent decline in remittances to date has contributed to reduced consumption and investment in real estate projects and is compounding the adverse impact on Nigeria's balance of payments.

Trade flows will decrease. Imports, which rose in 2019 from formal trade after land border closures, are expected to decline by 12 percent of GDP because of disruptions in international trade and forex being rationed while U.S. dollars to finance imports are severely constrained by the decline in oil revenues. Exports, which are dominated by oil, fell by 60 percent and are expected to decline by 9 percent of GDP despite the improved competitiveness of Nigerian goods and services after the naira's devaluation (World Bank Group 2020). A growing agricultural sector and support for agro-processing could boost non-oil exports, providing a much needed diversification of foreign-exchange earnings, and could strengthen recovery. Meanwhile, the start of operations at the Dangote refinery is expected to reduce both crude exports and fuel imports.

Fiscal pressures constrain the government's policy response. Given that oil accounts for more than half of fiscal revenues, the revised budget forecasts government revenues to decline to 5.3 percent of GDP due to reduced oil prices (US\$30 versus US\$57 per barrel in the original budget). Although the government has increased borrowing limits to protect core government functions and its social and infrastructure spending, it canceled ₦1.5 trillion worth of nonessential capital spending. Also, the administration has taken the opportunity of historically low crude prices amid falling demand for crude oil globally to announce and implement the end of petrol subsidies, it has taken steps toward cost-reflective tariffs for electricity, and it intends to restructure the public service to reduce recurring expenditures by 25 percent.

Loans from multilateral organizations and domestic borrowing are expected to finance the budget deficit. Government expects the US\$3.4 billion emergency loan from the IMF to be supplemented by up to US\$2.5 billion from the World Bank and US\$1 billion from the African Development Bank to support the recovery efforts. Building on efforts to create a more favorable environment for the private sector, the pace of reform may accelerate. (Despite improving 39 places since 2015, Nigeria ranks 131 on the World Bank's Doing Business index.) The growing budget deficit, from 4.4 percent in 2019 to 5.5 percent in 2020, will need to be financed domestically. The risk of crowding out financing to the private sector will need to be managed.

Depleting foreign reserves strain forex liquidity, which is the biggest immediate threat to economic stability. Foreign exchange reserves, which reduced by 12 percent between January and April due to weak dollar inflows and net portfolio outflows, can cover approximately five months of imports at their current level of US\$35 billion (Gbenga 2020). Foreign portfolio investors in open market operation bills account for about a third of the foreign reserves (Mabogunje 2020). This may not be sustainable during a global recession. CBN has made assurances of sufficient access to foreign exchange to finance imports of essential goods and services and to repatriate foreign investment. However, foreign exchange trading in the investors and exporters window, where CBN is an active participant, dropped to US\$748 million in May from US\$8.1 billion in February (before the pandemic hit Nigeria).

In April, the federal government communicated to the IMF its commitment to achieving a unified and flexible exchange rate regime, with CBN only intervening to smooth large forex fluctuations. CBN moved closer toward a unified exchange rate system when it adjusted the official exchange rate in March. However, low oil prices and a prolonged economic contraction would put additional pressure on the exchange rate.

Inflation has increased and inflationary pressures are expected to continue in the coming months, particularly on food. Since the closing of the land borders in September 2019, consumer prices increased by 12.82 percent and food prices increased by 15.48 percent in July 2020 (year-on-year) (Oyekanmi 2020). Food prices are affected as disruptions to agriculture value chains reduce supply, the cost of imports and transportation rise, and planting season, a period of reduced agricultural output, commences. Furthermore, the recent increase in the value-added tax (VAT) rate will likely contribute to higher inflation.

Unemployment could soar to as high as 40 percent, affecting SMEs and youth the most, and thereby slow the recovery. Before the pandemic, unemployment was projected to rise to 33.5 percent in 2020 (from 23 percent in 2019). McKinsey estimates that one third of jobs across the formal and informal sectors are at risk either from job loss or reduction in wages and hours, with more than half of the workforce in sales and service, manufacturing, tourism, and construction adversely affected because of the pandemic (Jayaram and others 2020). As of May 2020, 4 in 10 workers in Nigeria were already reporting a loss of labor income (World Bank Group 2020). The Economic Stimulus Bill, which offers tax benefits to employers who do not make staff cuts in 2020, will help to mitigate job loss in the near term. However, its impact may be limited, and underemployment may grow if hours and compensation are reduced. Over the last decade, companies have moved to looser employer-employee contract arrangements that do not provide benefits. For example, banks have shifted their staff mix from 26 percent to 44 percent contract staff over the past three years (Adesoji 2019). More targeted intervention linked to subsidized financing may be needed to protect jobs at SMEs, given they were already granted tax benefits without this caveat.

GOVERNMENT RESPONSE

While the federal and state governments have responded quickly to COVID-19, the pandemic is testing their capacity to manage such a large-scale economic crisis. The federal government quickly responded to the pandemic with a broad relief program to strengthen health care capacity, stimulate the economy, and create fiscal space. The measures include reforms to create a more enabling environment for the public sector.

Fiscal stimulus

- COVID-19 Crisis Intervention Fund of ₦500 billion (US\$1.4 billion) to strengthen the health care infrastructure nationwide, provide access to foreign exchange, and waive import duties for import of critical medical equipment
- Extended revenue remittance deadlines for key non-oil tax payments (VAT, corporate taxes)
- Fifty percent rebate on corporate taxes for employers who do not make staff cuts between March 1 and December 31, 2020
- Tax waivers on essential medical supplies
- Under the National Housing Fund, 180-day moratorium on mortgage obligations

Social intervention and welfare programs

- Monthly payments of ₦20,000 (US\$52) to families registered in the National Social Register of Poor and Vulnerable Households for four months
- Expansion of social register from 2.6 million to 3.6 million households
- Three-month repayment moratorium for all TraderMoni, MarketMoni, and FarmerMoni loans and to all federal government funded loans issued by the Bank of Industry, Bank of Agriculture, and the Nigeria Export-Import Bank

Central Bank measures

- One-year extension of a moratorium on principal repayments for CBN intervention facilities
- Regulatory forbearance to banks on existing loans
- Provide access to financing with ₦1.1 trillion in funding for critical sectors, including ₦50 billion to SMEs and ₦100 million for pharmaceutical companies intending to expand their drug manufacturing plants in Nigeria, and by strengthening the enforcement of the increased loan-to-deposit ratio (LDR) requirement of 65 percent
- Interest rates on all CBN intervention facilities reduced from 9 percent to 5 percent
- Monetary policy rate reduced from 13.5 percent to 12.5 percent to aid economic recovery
- Direct oil sector to sell forex to CBN to improve CBN's forex supply
- Guaranteed access to forex to repatriate investors' funds from Nigeria
- Signed US\$2.5 billion currency swap agreement with the People's Bank of China to facilitate trade between the two countries and to enhance foreign reserve management

Major reforms

- Adjusted the exchange rate and aligned multiple foreign exchange windows
- Reduced regulated fuel prices and introduced an automatic fuel price formula to reduce subsidies
- Set the framework for cost-reflective tariffs for electricity by June 30, 2021

In June 2020, the government introduced the Nigeria Economic Sustainability Plan, which expanded the stimulus to ₦2.3 trillion, with the goal of creating mass employment and mass domestic production. The plan includes government support for the real sector across agriculture, food security, housing construction, renewable energy, infrastructure, manufacturing, and the digital economy and it seeks to support micro, small, and medium enterprises. Furthermore, it prioritizes government efforts for (a) universal digital identification to facilitate cash transfers and other benefits; (b) nationwide broadband connectivity, (c) a national research fund for medicine and pharmaceuticals; and (d) the promotion of strategic investment in the local manufacture of generic medicines.

ADDITIONAL MEASURES FOR CONSIDERATION

As the pandemic continues to inflict damage on the Nigerian economy, several additional measures, including cross-cutting and sector-specific measures, could increase the impact of the government's actions to date. This report describes general policy measures, including how the private sector could be leveraged further to reach the most vulnerable during the pandemic. The next section provides recommendations for sector-specific policy measures to address the unique challenges and opportunities emerging in each sector.

Given the high rate of expected business failures, an increasing need exists to complement the fiscal and regulatory responses with insolvency-related measures. The delay to enact the Insolvency Bill and to revise commercial law provisions and regulatory requirements to allow for the Distressed Asset Recovery Program (DARP) risks the survival of sound firms facing temporary market disruptions. Although the recently enacted Companies and Allied Matters Act contains some corporate insolvency provisions, a stand-alone Insolvency Bill that addresses corporate insolvency and individual bankruptcies is needed still. The latter is more germane because microenterprises that are mainly run by individuals constitute more than 70 percent of the businesses in the country. To ensure that sound firms are not penalized during the crisis, while also ensuring that as the crisis progresses there is not a proliferation of "zombie" firms that could starve healthy firms of credit in the post-crisis environment, insolvency measures should address three overlapping phases of the crisis.

Phase	Key challenges	Critical responses
I	Preventing viable firms from prematurely being pushed into insolvency	<p>Implement extraordinary measures for a limited period of time:</p> <ul style="list-style-type: none"> Suspend specific creditor rights and increase the barriers to creditor-initiated insolvency filings, especially for SMEs. Suspend the director's duty to file and associated liability.
II	Responding to the increased number of firms that will not survive this crisis without going through insolvency	<p>Ensure the smooth functioning of workouts and debt restructuring mechanisms:</p> <ul style="list-style-type: none"> Set up informal out-of-court or hybrid-workout frameworks. Facilitate business rescue through bridge financing. Extend procedural deadlines for a limited period of time. Do not require liquidation if the business activity of the debtor has stopped while undergoing reorganization. Encourage e-filings, virtual court hearings, and out-of-court solutions for insolvency cases.
III	Addressing individual financial distress resulting from the crisis	<ul style="list-style-type: none"> Implement a modern consumer bankruptcy framework. Ensure flexible options for debt rescheduling exist. Enable a debt forgiveness mechanism or discharge to facilitate a fresh start.

Because smaller firms are expected to be disproportionately affected by the pandemic, the full implementation of the Competition Act of 2019 should be accelerated to create a level playing field. Additional reforms to increase ease of doing business in the long term are described in the CPSD.

With FDI expected to drop significantly, the federal government through the Nigerian Investment Promotion Commission (NIPC) could work with investors to save operational investment projects from downsizing or closure. As the national focal point for managing relationships with direct investors, NIPC can play a crucial role in forestalling disinvestment through more effective Customer relationship management (CRM). Using CRM, NIPC should track and support high-priority foreign companies (using criteria such as employment, importance to national security, and contribution to tax revenue), as well as projects that are most distressed or at risk of closure because of the pandemic. The commission should help manage the government's relationships with investors and coordinate with public and private partners to identify and realize concrete remedial actions to assist at-risk investors.

Although the federal government quickly passed a relief program, there is opportunity to strengthen implementation. Limited fiscal space and capacity mean the government will need to work with the private sector and with development organizations to coordinate and track the health and economic impact of the pandemic at the local level. Our interviews with private sector leaders confirmed their eagerness to help and highlighted the need for better coordinated efforts to bring to bear the country's resources and expertise across the 36 states. To increase the effectiveness of the response, Nigeria could look to other countries' examples to strengthen the operations of CACOVID to create a national nerve center to collect, analyze, and make decisions on the basis of real-time data. Integrating real-time data from multiple sources about health care capacity, medical supplies, food prices, and bottlenecks in supply chains of essential goods at ports and transportation routes could enable more effective identification of problems and could inform decision makers where to distribute critical supplies and intervene with the appropriate measures.

The government could work with the private sector to increase coverage of vulnerable households for the cash transfer program through additional data sources and the use of mobile money. The crisis calls for speed and broad coverage of assistance, in preference to precise targeting. Without full implementation of BVNs, the government has limited means to reach the most vulnerable households.⁴ The National Register of Poor and Vulnerable, even after its recent expansion, only covers 3.6 million households, which is a fraction of the 85 million Nigerians living below the poverty line. Although universal digital identification should be pursued, a potential way to identify people in need in the near term is to use telecommunication companies' data to build income estimates based on customers' usage of their telephones or through mobile phone surveys. Once identified, USSD technology enables anyone with a mobile phone to receive cash payments.

Measures targeting the specific needs and opportunities of firms in adversely affected sectors, and the SMEs in them, could make interventions more effective. Such measures should focus on ensuring livelihoods, preserving jobs, the well-functioning of the financial sector, and the security of essential goods and services. The measures should not save all firms at any cost, nor should they necessarily encourage a swift return to functioning at full capacity given the health risks. The following section describes the challenges faced by the private sector; it details how the pandemic is affecting micro, small, and medium enterprises and sectors differently and how a more targeted approach could be deployed to help them.

COVID-19 RAPID ASSESSMENT OF THE PRIVATE SECTOR:

IMPACT, OPPORTUNITIES, AND POTENTIAL POLICY MEASURES

Overview

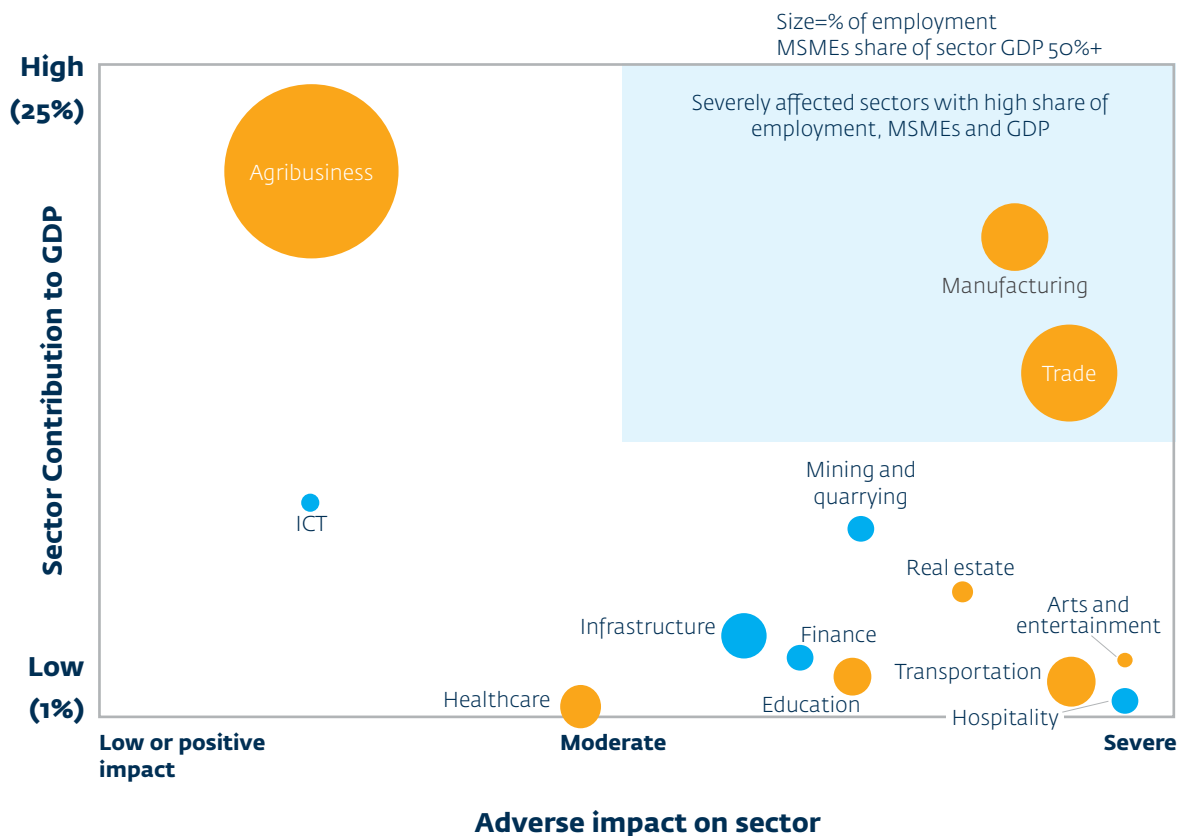
This assessment focuses on several sectors that drive Nigeria's economic potential in terms of contribution to GDP, including export growth, and accelerating poverty alleviation. Other sectors, such as the creative sector, that are not covered here would also benefit from an assessment of the impact of the COVID-19 pandemic and the opportunity it creates. In some cases, there are key policy measures presented that, if addressed in the immediate term, could have a dramatic impact on the pace and depth of the recovery. Long-term reforms that are needed to increase Nigeria's productivity are addressed in the CPSD.

Sector
Micro, small, and medium enterprises
Real sector
Agribusiness
Manufacturing
Power
Mining
Real estate
ICT and digital economy
Financial sector
Banking (deposit money banks)
Microfinance
Insurance

Impact

The COVID-19 pandemic has presented new challenges to businesses, disproportionately affecting smaller and less-efficient firms across all industries. Businesses had to move quickly to remote operations while ensuring business continuity under the lockdown. They had to change their operating models to safeguard workers and customers, manage disruptions in supply chains and cash flow, and respond to changing demand. Increased working capital requirements coupled with liquidity constraints, reduced access to forex for imports, logistics disruptions at ports and in interstate transport, and rising insecurity in the North have strained their operations. Many businesses are being forced to downsize operations, retrench workers, and reduce compensation to avoid failure.

The fallout from the pandemic is expected to severely affect several sectors that account for two thirds of GDP, 28 percent of employment, and up to 60 percent of micro, small, and medium enterprises. The most affected sectors, not taking into account planned government interventions, are (a) manufacturing and trade because of disruptions in international and domestic supply chains, forex constraints, and rising import costs caused by the devaluation of the naira; (b) nonessential services, such as aviation, hospitality, food services, and arts and entertainment; (c) infrastructure and real estate because of lower demand, and (d) financial services, which are at risk of increasing defaults. Although President Buhari's policy measures have encouraged self-sufficiency in agriculture, the Nigerian economy is still highly dependent on imports. Although the agriculture sector is not expected to be badly hit, limited access to imports, especially to some high-quality inputs for fertilizer production, and bottlenecks in transportation heighten the risk of a food shortage in the medium term. To minimize the long-term costs of losing viable businesses and jobs, liquidity must urgently be injected into affected sectors to meet mounting working capital needs.



Notes: MSMEs = Micro, small and medium enterprises

Opportunities

The crisis also presents opportunities that can transform sectors and drive recovery. Agile companies that can adapt their business models to changing consumer behavior, reduce dependence on imports, secure supply chains through greater value-chain integration, and increase competitiveness in regional markets can become stronger during the crisis. Large companies with strong balance sheets are expected to further consolidate their positions. New entrants and innovations will succeed only if they have access to cash; otherwise, they may be acquired or fail. Depending on the level of systemic and firm-level support, the competitive landscape may change in the most affected industries. Interventions can encourage firms to take advantage of the opportunities and mobilize the private sector investment needed to realize them. If successful, the efforts can speed recovery, reduce Nigeria's dependence on oil, grow non-oil exports, and increase its resilience.

Sector	Opportunities arising from COVID-19
Agriculture	<ul style="list-style-type: none"> Stronger value-chain links of small-holder farmers, representing 80 percent of total, to ensure access to inputs, finance, and markets to increase food security. Agtech and supply-chain digitization, with the help of aggregators, can reduce systemic and individual farmer risk. Collaboration between storage and logistics companies to optimize food transportation and enhance food security
Trade	<ul style="list-style-type: none"> Strengthen supply-chain relationships and leverage them to increase working capital financing for SMEs (mostly informal). Increase adoption of digital transactions. Retail e-commerce

Sector	Opportunities arising from COVID-19
Manufacturing	<ul style="list-style-type: none"> Pharmaceuticals and other health sector products, such as personal protective equipment, on back of government incentives to raise local capacity Backward integration and consolidation to increase self-reliance and efficiency through scale Gas to chemicals manufacturing infrastructure to diversify government revenues Automation and workforce re-skilling E-commerce in fast-moving consumer goods
Power	<ul style="list-style-type: none"> Targeted grid expansion on back of implementation of cost recovery and loss reduction measures Off-grid solar with local ecosystems
Banking	<ul style="list-style-type: none"> Risk-sharing facilities to increase access to credit Digital financial services, including mobile money and fintech acquisitions
Mining	<ul style="list-style-type: none"> Automation of mining operations Demand for construction materials through housing program
Arts and entertainment	<ul style="list-style-type: none"> Digital entertainment
ICT	<ul style="list-style-type: none"> Expansion of broadband infrastructure and increasing penetration High growth in digital entrepreneurship, especially in fintech, e-commerce, SME solutions, and education
Education	<ul style="list-style-type: none"> Web-based adult training and certification E-learning platforms for primary education
Health care	<ul style="list-style-type: none"> Medical special economic zones for efficient and cost-effective production of medical products and delivery of medical care Remote diagnostics and case management and expansion of telemedicine solutions Hospital provision in specialty areas to reverse outward medical tourism
Insurance	<ul style="list-style-type: none"> E-insurance with simple life product (without medical exam) New risk covers (for example, cyber risk, nondamaging business interruption) Agri-insurance
Transport/ Logistics	<ul style="list-style-type: none"> Development of online sales for transport companies Provision of fast delivery services
Real estate	<ul style="list-style-type: none"> Warehouses and factories for on-shoring, data centers, and towers A large-scale affordable housing program through PPPs

Policies

Continuous assessment of the pandemic's impact by sector could help the government tailor its support depending on the heterogeneity of the shock for different firms, sectors, locations and depending on the urgency with which assistance is needed.

Building on the government's response to date, the following two-track approach can be useful given the size of the SME and informal sector (accounting for 80 percent of employment) and the need to protect systemic firms:

- A first track could be geared to systemically important employers—those with significant backward and forward links or those in sectors such as logistics and utilities that enable other economic activities (for example, agribusiness, petrochemical). Due consideration could also be given to those firms that employ a larger share of women and socially disadvantaged groups. Systemic banks could be supported to ensure they remain a source of stability during the crisis.
- The second, parallel, track could focus on supporting smaller, younger, and innovative firms; women-owned businesses; and SMEs—including informal ones—that suffer from asymmetric access to financial markets and are difficult to reach through formal banking channels (for instance, small retailers, technology entrepreneurs, small-holder farmers). Higher proportion of wage bills can be covered for furloughed firms until operations can restart (for example, entertainment and arts, tourism, and hospitality sectors).

Furthermore, the government could stimulate recovery by addressing several constraints that have stifled private sector growth.

The private sector's ability to weather the fallout from the pandemic is mainly constrained by low access to finance, and exacerbated by low land titling and registration, limited connectivity, the health care system's low capacity, and the weakness of land transportation. These areas require urgent action to mitigate the impact and to speed recovery. Addressing additional constraints, including large gaps in infrastructure, especially power; unfavorable aspects of fiscal, monetary, and trade policies and weak human capital; and ease of doing business, can increase resilience in future crises. These constraints are described in the CPSD.

The following section assesses the sector-level impact of COVID-19 and identifies opportunities arising from it, including a detailed look at micro, small, and medium enterprises. It also lists potential policies that could help to mitigate the adverse impact and enable emerging opportunities.

MICRO, SMALL, AND MEDIUM ENTERPRISES (MSMES)

Impact

The pandemic has severely affected MSMEs on the demand and supply sides. Both microenterprises, which are estimated at 37 million, and the approximately 28,000 SMEs are experiencing these impacts. A survey by the Lagos Chamber of Commerce and Industry on the impact of the COVID-19 crisis on the Lagos business community revealed that 81 percent of SMEs were “severely” affected by the pandemic. On the supply side, MSMEs have limited capacity and digitization to adopt their business model to the new operating environment and changing consumer behavior. Many have reduced labor capacity because employees have to tend to children while schools are closed or operate remotely. They have struggled to create a safe work environment, to observe new health protocols, and to move to cashless transactions to protect their workforce and customers; only a few are able to work remotely. While microenterprises and SMEs in agribusiness are less adversely affected, producers face a higher risk of outbreak of the coronavirus in rural farm communities where access to health care is extremely low. The inability of MSMEs that are involved in the food value chain to ensure effective implementation of social distancing and other preventative methods to prevent the spread of coronavirus could have detrimental effects not only on their communities but also on the national food supply.

Given their lack of adequate cash buffers and access to finance, microenterprises are quickly destabilizing as their daily income is affected. Close to 25 million microenterprises operating in tourism, hospitality, entertainment, and trade have had to close or face significantly reduced operating hours. With large markets closed during the lockdown, many traders temporarily lost their access to customers. Small shops have found it difficult to adjust to changing demand and supply-chain disruptions without digital inventory management and they are running out of cash. The compounding effect of demand and supply shocks and payment delays that are, in part, a result of the limited use of mobile money, is straining MSMEs’ ability to meet short-term cash obligations, including salaries, and raise the potential of failure.

Opportunities

Supply-chain relationships with anchor corporates, e-commerce engines, and payment aggregators could be used to support informal enterprises, especially in retail and services, which have been severely affected by the crisis. Taxation policies and wage subsidies cannot reach the informal sector. In agriculture and trade, where MSMEs account for 92 percent and 56 percent of jobs, respectively, most businesses are informal. However, millions of Nigeria’s micro retailers, informal service providers, and farmers work with the supply chains of global firms, such as apparel retailers, agricultural traders, and processors and some even provide them with credit. These supply chains already have in place payment, monitoring, and information technology systems that can support the timely delivery of cash transfers. Collaboration during the crisis could strengthen relationships and lead to more backward integration of supply chains, improving their long-term resilience.

In retail and agriculture, new business models of aggregators with agent networks and digital capabilities that provide SMEs economies of scale for more efficient and reliable supply-chain management and access to short-term financing have helped to alleviate some of the challenges for shops and small-holder farmers. Investment in these new businesses could help expand their reach and services, especially access to finance, and help improve the resilience of SMEs. Digitizing SMEs will help to accelerate the use of digital data for credit decisioning and expand access to finance for MSMEs.

Policy support

More support may be needed for MSMEs, including the informal sector, to avoid a worse outcome compared to the last recession when employment by MSMEs fell from 84 percent to 77 percent of the labor force. Though SMEs account for about half of GDP, ₦625 billion of the ₦2.3 trillion of the economic stimulus directly targets them. Stronger coordination with development finance institutions (DFIs) could help to mobilize the funding needed to increase the relief package for SMEs, and avoid crowding out by low-interest CBN facilities. New instruments could leverage government credit guarantee plans to encourage lending by commercial banks. Furthermore, cash transfers could be channeled through microfinance banks, digital lending platforms, local governments, communities, and other intermediaries to provide immediate relief to informal microfirms. These efforts could also facilitate formalization.

Access to facilities targeting SMEs and vulnerable households should be eased. The initial ₦50 billion credit facility through the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) microfinance bank for households and SMEs most affected by the pandemic, of which 80,000 households got up to ₦3 million loans (US\$7,700) and SMEs up to ₦25 million (US\$67,500), was difficult to access and required proof of collateral, such as personal property, which many poor families, and especially women, are unlikely to have.

More progress aimed at modernizing the country's credit reporting system and providing access to the movable asset financing regime can have a significant impact on access to finance for MSMEs. The enactment of the National Credit Reporting Act and the Secured Transaction in Movable Asset Act and the establishment of a modern, notice-based online registry for security interests in movable assets (the National Collateral Registry) represented a major development in MSME access to finance. However, more work is required to achieve the overarching objectives of the reforms. The coverage of uniquely identified individuals and corporate entities in the credit reporting system as of December 2019 is 14 percent of the adult population and well below Kenya's 36 percent and South Africa's 66 percent. Poor knowledge of movable asset lending by financial institutions, weak enforcement procedures, and low awareness levels continue to inhibit rapid adoption of the new regime of movable asset financing. High provisioning requirements and asset classification rules for innovative MSME lending products developed under the reforms constrict the effectiveness of the reforms. Further revisions of the enabling legislation and prudential guidelines should include classification and provisioning requirements to make them supportive of movable asset financing and the use of credit reporting analytics in lending by banks and financial institutions.

The following examples from other countries could help to effectively implement the Economic Sustainability Plan and strengthen the policy response to support MSMEs through the established SME Survival Fund and other fiscal measures, credit facilities, grants, and subsidies:

- Extended or simplified provision of loan guarantees to enable commercial banks to expand lending to MSMEs while relaxing collateral requirements. Include special provisions for women in interventions that support highly impacted sectors with high female employment (for example, retail, hospitality, tourism, and leisure).
- Wage support, for a limited period, that is paid using digital solutions. This solution allows companies to reduce working hours and keep employees and provide funds either to companies or workers directly to compensate for lost wages, including the self-employed. Leveraging digital solutions such as mobile banking, mobile wallets, and agents to distribute these payments can contribute to the integration of smaller, informal businesses into the formal economy.
- Short-term grants and subsidies to MSMEs and other companies to bridge the drop in revenues in severely affected sectors such as tourism.
- Measures for public procurement, such as ease of approval and rapid or advance payment of public contracts with appropriate conditions and oversight, to ease liquidity pressure.
- Specific plans to track the impact of the crisis on MSMEs and to adjust relevant policy responses.

To bring to bear Nigeria's strong entrepreneurial culture to address the challenges of the pandemic and capture new opportunities that have arisen from the crisis, the government could also support SME adoption of new working models and digital technologies.

Examples of measures implemented by other countries to provide SMEs with access to new markets and distribution channels and sustain operations under containment measures include the following:

- Teleworking: (a) a portal for MSMEs with free access to digital services from large private sector companies regarding smart/teleworking, video conferencing, mobile data, cloud computing, etc.; and (b) measures to encourage brick-and-mortar shops to open an online storefront.
- MSME digitalization: (a) access to digital solutions for MSME business processes, such as inventory management, billing, and accounting, by technology companies; and (b) fintech initiatives for digital finance.
- Foster innovation to find solutions to the COVID-19 outbreak and other problems: (a) project subsidies, (b) start-up funds, and (c) hackathons for projects directly linked to testing, treating, monitoring, and other aspects related to the coronavirus.
- Training and skill development: (a) free access to online training platforms and (b) consultancy and support services to entrepreneurs.
- Support to access export markets.

REAL SECTOR

AGRIBUSINESS

Impact

Recent policy measures to strengthen domestic production and backward integration have put Nigeria's agribusiness, where production is dominated by small-holder farmers, in a better position than during the last crisis. Nigeria's reliance on food and beverage imports contributed to a cumulative import bill worth ₦3.7 trillion (US\$12.1 billion) in 2015–17 and an average agriculture trade deficit of US\$3 billion during the same period. Since the last recession, President Buhari's policy to ban the import of some food items, such as rice, have started to reduce Nigeria's official accounts of food imports from 30 percent of total imports in 2011 to 11 percent in 2018. A boost in local agriculture production has also come as a result of the closure of borders with neighboring countries, which occurred just months after Nigeria signed the African Continental Free Trade Agreement, which if implemented would create the world's largest free trading bloc. However, Nigeria still relies on imports for high quality inputs and machinery. Though the Anchor Borrower Program has encouraged ecosystems that better link outgrowers (small-holder farmers) to local processors, create access to bank financing, and increase productivity, low-yield and limited value-add processing continue to hinder the sector's ability to meet domestic food demand. Exports have been an important and emerging source of value creation, especially for cocoa beans and sesame seeds, but they are likely to face depressed global demand because international buyers of cocoa and shea nuts are deferring purchases by two to four months. Although the demand for sesame seeds from China and Japan may remain consistent, logistics challenges could negatively impact their export.

Demand for food remains high but supply-chain disruptions strain the agribusiness value chain and could lead to reduced yield.

Pressure on local crop production is high because of the increasing demand for staples as consumers substitute lower-cost items for higher-priced processed food. However, the sector will struggle to fulfill the demand as a result of low yields in major agricultural commodities including rice, maize, sorghum, groundnuts, sugarcane, and yams. These yields could be reduced further if a steep rise in the price of high-quality inputs from abroad leads to the substitution of lower-quality inputs and to temporary shortages of labor for agricultural production. Although agricultural production decreased 14 percent year-on-year in April-May 2020, the sector is expected to be the least severely impacted by the crisis and the first to rebound, as long as there are not any significant interruptions to the planting season. However, output could reduce because of delays in the transportation of seeds and fertilizers across state borders from the South to producers in the North. Release of strategic reserves can soften the impact, but food shortages could ensue. In March 2020, it was estimated that about 5 million people in the northeast and northwest regions are experiencing a Phase 3+ food crisis, and this number is expected to rise significantly (World Bank Group 2020).

The CBN's stimulus measures are helping to alleviate cash constraints, especially by input producers and agri-processors. While the former struggle with low access to and higher cost of inputs, the latter are not able to operate at full capacity because of the implementation of social distancing measures at processing facilities. Furthermore, although agriculture products have been designated essential commodities exempted from restrictions on interstate movement, limited market openings lead to a high incidence of spoilage. Sustained access to working capital will remain critical to ensure the food supply.

Opportunities

As described in the CPSD, agribusiness represents one of the best opportunities for investment and has the potential to transform Nigeria, especially in the North. To date, the agricultural sector's growth rate has failed to meet the objectives of the Economic Recovery and Growth Plan, averaging 2.6 percent during 2017–19, well below the average GDP growth rate of 3.8 percent recorded during the past decade. The Economic Recovery and Growth Plan aimed to increase agricultural output at an average annual rate of 6.92 percent between 2017 and 2020, to significantly reduce food imports, and to become a net exporter of key agricultural products and achieve self-sufficiency in several key staple crops by 2020. Although the strategy was not able to achieve these ambitious goals, the COVID-19 pandemic could accelerate the sector's transformation with an intensified push toward self-sufficiency and backward integration. Furthermore, it could enable more rapid scaling of innovative business models and digital solutions that provide access to improved inputs, better management practices, technical advice, and external markets for commodities, and that de-risk the agriculture value chain. As a result, the following opportunities are emerging:

- Increased efforts for value-chain integration with supply-chain digitalization to ensure uninterrupted access to raw materials (such as rice, palm oil, sugar, and fresh milk) will require investment in local sourcing and processing, traceability, warehouse capacity, refrigeration, and infrastructure. Some of these investments could be done through PPPs.
- High-tech franchise models that provide comprehensive solutions to small-holder farmers' needs and that enable them to significantly increase their yields and reduce their risk exposure can increase scale during the pandemic given sufficient access to capital. Their business models have demonstrated resilience during the lockdown by providing uninterrupted access to markets, inputs, and training by their agent network, including the use of agtech and safe operating measures to reduce contagion. They are rapidly trying to scale and are hiring new staff to meet the needs of their fast-growing client base, which is looking for end-to-end solutions along the value chain to minimize movement and interaction during these uncertain times.
- Consumer behavior may shift after COVID-19 toward e-commerce, as shopping in large, crowded markets declines due to risk of infection, which will create opportunities for direct-to-consumer models with online platforms and third-party delivery.

Policy

The Nigeria Economic Sustainability Plan's Mass Agricultural Program aims to bring between 20,000 and 100,000 hectares of new farmland under cultivation and to create 5 million jobs over a 12-month period using outgrower plans and financing. The approach seeks to create more robust value chains supported by reliable access to energy for irrigation, agricultural production, and refrigeration of goods to markets. Private sector anchor purchasers (for example, large conglomerates), agro-processors, commodity exchanges, and procurement for government strategic reserves will purchase production. Furthermore, the National Rural Road Construction Program will help to increase the agricultural sector's access to markets.

The proposed program could include the following policies to help secure food supply and more broadly support the agribusiness sector to achieve this goal:

- Improved policy guidelines are needed to ensure the safety of activities along agricultural value chains, to improve the functioning of input markets, and to inform a rules-based approach to the procurement and release of food from national reserves.
- Government-funded working-capital support to upstream segments of the agricultural value chain (that is, input distributors and retailers).
- Extending mechanization services to farmers and leveraging new technologies to share productive capital could help offset the short-term shock to the labor supply.

The constraints to private sector investment in agriculture, including land administration, regulatory framework for warehouse-receipt systems, and digital finance to increase access to finance, are described in detail in the CPSD. Government support to the sector would need effective PPPs that drive efficient allocation of public funding and mobilization of private capital.

MANUFACTURING

Impact

Manufacturers of pharmaceuticals, sanitizers, and other essential goods have continued to operate and benefit from high demand. However, the nonessential manufacturing sector has been adversely affected in four ways: (a) manufacturing plants were closed during the seven-week lockdown and continue to operate under capacity, (b) the CBN's restriction of imports to essential goods to maintain foreign exchange reserves has cut off manufacturers' timely access to imported inputs and machinery, (c) these imports have also become more expensive due to the naira's devaluation, and (d) movement restrictions have disrupted the imports' route to market from ports to both retail and wholesale outlets and have raised distribution costs, while export channels have disappeared. If implemented as envisaged, the CBN's ₦1 trillion loan facility to boost local manufacturing and production across critical sectors will help to mitigate the impact on manufacturers and their employees.

With the easing of restrictions, plant operations are resuming but not all manufacturers have been able to implement social distancing requirements to reopen. While some manufacturers of essential goods had their best month in April, some nonessential ones only operated at 50 percent capacity even after the lockdown was lifted. When possible, manufacturers are switching to local, higher-cost suppliers, but fully doing so will take time and investment. Facing a decline in demand for nonessential goods, those that can are retooling to produce personal protective equipment. The lack of access to imported inputs and liquidity constraints may delay planned capital expenditure and the completion of ongoing projects. Several long-term, large-scale projects, including fertilizer plants by Indorama and Dangote Group, will increase Nigeria's self-sufficiency at a critical time if they are completed as planned this year. However, reduced mobility makes implementation of large-scale projects, especially in the North, more difficult.

Subsectors are being affected differently.

- Pharmaceutical companies have not only benefited from high demand, they have also received targeted economic stimulus and access to raw materials to strengthen the health care response.
- For the fast-moving consumer goods (FMCG) subsector, which relies on high volume to compensate for slim profit margins, the impact of the pandemic could be especially severe given inconsistent demand and the limited ability to raise prices despite the higher cost of inputs. However, large mass-market FMCG producers may be less affected because they benefit from the increased demand from consumers switching to cheaper products.
- Packaging companies have had to quickly respond to the shift in consumption from commercial and school to retail. Furthermore, the slow-down in demand in FMCG is expected to affect the packaging subsector, which could also be severely hampered by the shortage of raw materials in the medium term.
- The downstream oil and gas sector has experienced mixed effects from the pandemic. The white products market has seen weak demand because of reduced motorized traffic and factory slowdown. However, the much smaller liquified petroleum gas market, which is currently concentrated around the household segment, has not been significantly affected.

Opportunities

Based on its experience in the last recession, the sector may be slow to recover from the current crisis. The current recovery may be even slower because of the need to automate. Although the government's Economic Sustainability Plan provides support to the manufacturing sector, there is a greater need for DFIs to provide access to trade lines and to bridge financing as foreign financial institutions pull back. Specifically, the Economic Sustainability Plan creates short-term opportunities in four areas:

- Light manufacture of inputs for house construction, such as locks, keys, nails, doors, and window frames to meet the needs of the Mass Housing program.
- Indigenous manufacture of gas cylinders, building gas filling stations, and the conversion of cars and ovens to encourage expanded use of compressed natural gas in the domestic market.
- Local manufacture of solar equipment to cover up to 5 million households and to serve about 25 million Nigerians who are currently not connected to the national grid, through the Solar Home Systems Project.
- For MSMEs, guaranteeing the offtake of priority products such as processed food, personal protective equipment, hand sanitizers, facemasks, face-shields, shoe covers, and pharmaceuticals.

The following long-term trends may create opportunities for investors in higher-performing segments of the sector:

- Boosted during the pandemic, Nigeria's nascent but relatively competitive pharmaceutical manufacturing and research and development (R&D) subsector will require investment along the value chain to achieve scale and increase self-sufficiency. The sector's development will benefit from the government's program to stimulate R&D and manufacturing but will require the removal of significant constraints for investment.
- Manufacturing plants will need to become more automated to implement social distancing and to reduce dependence on human labor. This shift will significantly reduce labor needs and require re-skilling of workers. Back-office functions also will need to be digitized to reduce their cost and increase flexibility for remote work.
- Backward integration of value chains, especially for FMCG, may accelerate. To de-risk their supply chains (reduce exposure to forex), manufacturers, that can, are shifting to more domestic sourcing, investing in processing plants and transportation for distribution. Firms will need financing to transition.
- A shift in consumer behavior to e-commerce could help transform the industry. The FMCG sector could develop (for the higher-income customer segment) a direct-to-consumer channel through e-commerce with integrated delivery services and fintech providers. Although valuations are more favorable, such a transformation would require significant investment to support acquisitions and automation.
- Monetizing flared gas because of pressure to reduce costs is an opportunity in the near-term in downstream and midstream.
- Although a cheaper naira makes Nigeria more competitive in export markets, the export of manufactured goods is not a significant opportunity as long as international trade is disrupted by the pandemic and the sector's productivity is not improved.

Policy

Policy measures to support the manufacturing sector could include (a) expanded tax relief and an accelerated VAT refund to alleviate working capital constraints, (b) access to imported materials and machinery that cannot be sourced locally, (c) improved port management for faster processing, and (d) access to low-cost funds to promote investment in local manufacturing ecosystems in priority subsectors, including free zones / special economic zones.

The oil and gas sector has traditionally been the driver of FDI in Nigeria. Therefore, modernizing the governance framework for the oil industry with the passing of the long-delayed Petroleum Industry Bill would help to reduce uncertainty in the industry and encourage final investment decisions for projects worth US\$100 billion (Menas Associates 2020). Other long-term policy measures to support its growth are described in the CPSD.

POWER

Impact

The pandemic is pushing Nigeria's already-strained power sector to the brink. Tariffs for grid power that have historically covered only 30 percent of costs, high technical, commercial, and collections losses (44 percent in third quarter 2019), and the inability to meet Nigerian Bulk Electricity Trading Plc debt obligations have required three government bailouts of distribution companies amounting to ₦1.5 trillion—the most recent one in 2019. The industry continues to face severe liquidity challenges that are exacerbated by the pandemic. With commercial activities reduced across the country, industrial and commercial demand for electricity has declined significantly while residential demand has increased. Overall capacity during the lockdown remained constant thanks to effective remote monitoring. However, the shift to residential use has reduced distribution companies' revenues, which cross-subsidize lower tariffs to consumers with higher rates to commercial and industrial consumers. Distribution companies' historical low ability to collect from residential consumers, especially without use of cash payments, compounded with the high rate of energy theft, low metering (40 percent of total customers), and high transmission losses, will further depress revenues and increase pressure to cut costs and jobs. Given past concerns of overbilling, energy billed to unmetered consumers has recently been capped. Supply-chain disruptions have delayed procurement of equipment for maintenance and inputs for smart meters.

Opportunities

With unreliable and poor access to electricity, the investment in the power sector to expand the grid is critical for Nigeria's private sector development. The acceleration of reforms could help to address investors' concerns and drive investment to expand the grid to increase electricity access from the current 58 percent to 95 percent.

Off-grid solar for communities and commercial and industrial clusters is a high-potential opportunity for investors. Recently, solar energy got a boost with the Africa Development Bank using concessional financing to catalyze US\$400 million in investment by the Green Climate Fund to support independent power producers to generate utility-scale solar power with 400 megawatts. Furthermore, the Economic Sustainability Plan seeks to support off-grid solar energy projects to install 5 million solar home systems and mini-grids. A value-chain approach by developers to facilitate the sustainable demand for mini-grids by off-takers through investment in ecosystems, such as cold storage, connectivity, and access to market for agriculture, could help to increase the projects' viability.

Policy

Although the pandemic is making the industry's transition to cost-reflective tariffs more challenging, fiscal constraints may accelerate reform. The recent Multi-Year Tariff order in the Nigerian Electricity Supply Industry follows service-based principles intended to improve the quality of service (inclusive of metering) and will result in a service-based tariff structure. Under these principles and a service-based tariff structure the following will be true:

Distribution companies will only be able to review tariff rates for customers after consultation and commitment to increase the number of hours of supply per day and quality of service.

- Poor and vulnerable Nigerians will not experience any increase and there will be no change in tariff for those consuming 50 kilowatts or less.
- Distribution companies must communicate a guaranteed level of electricity service by the distribution companies based on hours of supply and ensure customers are metered.
- There is no estimated billing through the strict enforcement of the capping regulation.

Full implementation of the Power Sector Recovery Program with cost-reflective tariffs and provisions for solar is critical to encourage investment in the sector and to enable the development of Nigeria's private sector. The CPSD discusses how to support the development of off-grid solar and how to improve the PPP framework to increase private sector willingness to invest in the sector. For off-grid solar, access to foreign reserves and imported components and regulation for the adequate compensation of mini-grid developers in the event of a national grid expansion are needed to ease investors' concerns.

MINING

Impact

The mining sector has been adversely affected by the COVID-19 pandemic. Shutdowns during the lockdown and the high risk of exposure because of crowded facilities, such as lifts and dressing rooms, present significant challenges to safe operations. The sector faces subdued demand reflected by the steep drop in commodity prices. Capital expenditure projects are being put on hold.

The long-term impact of COVID-19 on the sector may be similar to the impact on the manufacturing sector. Significant opportunity exists to automate mining operations with self-driving haul trucks, loaders and drills, and remote operations centers to reduce the dependence on human labor.

Opportunities

Though mining represents a long-term opportunity for growing the Nigerian economy, the pandemic likely increased the hurdles for the resource-rich but underdeveloped mining sector, which has already faced significant constraints. The government's planned Mass Housing Program, which will build up to 300,000 affordable homes by engaging SMEs and using mass production techniques, and its Extensive Public Works and Road Construction Program, which will use local materials and rural labor, are expected to stimulate demand for the sector. However, the pandemic has increased the sector's risk profile and raised the level of investment required given the heightened urgency to automate mining operations. The long-term opportunities and constraints to realize them are described in the CPSD.

REAL ESTATE

Impact

The real estate sector has been one of the sectors hardest hit by the crisis. Shopping malls and similar retail infrastructure have been adversely affected by the slowdown of foot traffic into retail outlets due to movement restrictions. Construction was halted during the lockdown and is expected to suffer from the cancelation of large infrastructure projects. The housing market also has been adversely affected by the drop in purchasing power of the average Nigerian, which has affected affordability. However, warehousing (particularly companies servicing e-commerce firms) has been less affected.

In the short-term, lower rent income is expected, especially for commercial retail space. Building costs are expected to increase temporarily due to the disruption in the supply of building materials because factories are shut or operating below full capacity and supply chains are strained. Operating costs likely will increase as some changes in how buildings are operated are implemented. Temperature checks, cleaning routines, and the requirement to stagger customers are increasing costs that landlords may not be able to pass on to tenants.

In the medium term, there could be a demand shortfall as people and businesses face financial strains caused by higher unemployment, lower remittances, and slower economic activity.

Opportunities

The following opportunities may emerge from the COVID-19 pandemic and could support the recovery:

- The government's Mass Housing Program through PPPs may create attractive investment opportunities in construction that leverage Nigeria's abundance of raw materials including granite, gravel, marble, and sand.
- The localization of supply chains may increase the demand for warehouses and factories.
- As more activities move online, the demand for data centers and digital infrastructure will rise.
- Long-term trends to e-commerce could reduce the demand for traditional retail space, which could transform the sector's focus to entertainment.
- Although remote work could become more common post COVID-19, the demand for office space is expected to strengthen during the recovery, especially if higher space requirements per person are introduced.
- With the push for remote work, coworking spaces may enjoy a rebound.

ICT AND DIGITAL ECONOMY

Impact

The use of telecommunications services has increased significantly as mobility has declined and digital technologies have demonstrated that they can be game changers in times of crisis. The private sector and general population have relied on telecommunications for most of their essential needs as businesses shifted to remote work and physical interactions became limited. MTN Nigeria, the mobile telephone company with the largest number of subscribers, reported more than 30 percent growth in data and more than 20 percent growth in fintech revenues for the first quarter of 2020. High growth continued in the second quarter when the ICT sector increased by 15.1 percent. E-commerce, telemedicine, digital payments, online entertainment, and web-based distance learning are quickly becoming mainstream for some segments. Many previously financially excluded people made their first digital financial transaction using mobile money. While online retailers are benefiting from increased demand, they must also manage disruptions in the supply chains, fraud, and growing customer-service needs to win customers for the long term. Fintechs rushed to provide solutions to the millions of SMEs operating in agriculture and trade sectors to help them weather the crisis. Successful technology-based service providers that rely on face-to-face interaction, such as Uber and Bolt, are piloting new service lines, including food delivery through their driver network, to offset the decline in demand for their core services.

Opportunities

The opportunities to leverage technology for each sector is described throughout this document, including digitizing agricultural value chains and manufacturing supply chains, automating plant operations, and providing technology-enabled solutions to MSMEs. Though the opportunities for digital are infinite, COVID-19 likely will have the largest impact on the following areas with the potential to transform financial services, retail, and adult education.

- Fixed broadband penetration in Nigeria is very low, with a household penetration rate of 0.04 percent at the end of 2018, which is below the African regional average (0.6 percent) and well below the world average (13.6 percent). The surge in demand has created an urgent need to ramp up the requisite broadband infrastructure in backbone networks and last-mile connectivity to sustain the quality and reliability of services. Several local state governments, following the lead of Ekiti State, have lowered their right-of-way tariffs to make the cost of broadband more accessible which in turn creates opportunities for private sector players to expand internet service across the country.
- Mobile money, which has yet to meaningfully take off in Nigeria but proliferates throughout Sub-Saharan Africa, will likely grow during the pandemic given the need for cashless transactions. After long delay, the CBN granted licenses to three payment service banks (PSB) in August 2020. Enabling more mobile network operators to offer a broader and deeper range of financial services could quickly increase mobile money penetration and financial inclusion from 6 percent to 40 to 70 percent that is enjoyed by peers like Ghana and Kenya. Mobile money could become a low-cost channel for remittances, which could be leveraged to increase private sector investment in high-opportunity sectors. Although PSBs cannot provide credit and insurance, the expanded adoption of mobile money and digital payments could help drive growth of the insurtech market and credit in the agriculture value chain.
- E-commerce, which is estimated at US\$12 billion with 87 Nigerian platforms and employs 2.9 million people in the country, could be unlocked if the industry can gain consumer trust to transact and pay online. Jumia's volume through its contactless delivery model, which uses digital payments and includes partnerships with Reckitt Benckiser, Procter & Gamble, Coca-Cola, as well as MSMEs, has increased during the pandemic to reach 6.4 million active consumers (annual growth of 51 percent) (Jumia 2020). Jumia and other traditional commerce companies that are now going digital are working with digital last-mile logistics providers (for example, Gokada, Max.ng, and O-Pay), to deliver products to their end consumers. These partnerships have given a lifeline to the okadas (motorcycle taxis), which were banned from transporting people by the Lagos state government. In addition, e-commerce by informal FMCG retailers, who use digital platforms to access a range of products at a lower cost and to have them conveniently delivered to their shops, also has increased during the pandemic. There is additional opportunity to support financial institutions to leverage e-commerce and expand their SME business.
- A large population of young entrepreneurs is poised to take advantage of these trends through digital entrepreneurship, especially to meet the needs of 41.5 million MSMEs. However, they will have to compete with a few large-scale fintechs, such as Flutterware, which connects African entrepreneurs to the 1 billion Chinese customers of Alipay, and Interswitch, which is valued at US\$1 billion dollars. In the current environment, subscale fintechs that need financing will be challenged to attract the high investment interest they enjoyed in 2019 and, therefore, they may be acquired by banks at a discount.
- The high use of online education for remote learning during the pandemic could encourage its adoption to address Nigeria's large human capital gap. As used during the coronavirus, e-learning solutions could be used in technical training and (re)certification for adults and potentially extend to schools if the government's plan to connect all tertiary institutions, 50 percent of secondary schools, and 25 percent of primary schools to broadband by 2025 is achieved (Lawal 2020). A new generation of tech-savvy talent could enable Nigeria to develop outsourcing hubs for higher-end services as remote work becomes more common and to attract more global technology companies. New business models in digital entertainment and digital health care with remote diagnostics and patient case management may also continue to grow from the momentum gained during the pandemic.

Policy

The implementation of the Strategic Road Map for a digital ID system and the new National Broadband Plan for 2020–25, which targets 90 percent broadband penetration by 2025, will help to support the growth of the digital economy (Lawal 2020). The government could consider several policies to support the opportunities for telecommunications and digital to help weather the crisis and drive recovery.

To encourage digital financial services:

- Ease know-your-customer (KYC) requirements for mobile money and allow alternative identification measures and remote onboarding during the COVID-19 crisis.
- Continue to approve PSB licenses to allow more companies to commence operations.
- In the medium term, the Nigerian Inter-Bank Settlement System and National Identity Management Commission should expediently complete the integration between the national identification number system and the BVN database.
- Revise regulations on agent networks to incentivize investments in access points in financially excluded communities.
- To enhance the digital infrastructure:
- Enable import of critical components to expand the infrastructure on the back of surge in demand.
- Harmonize right-of-way policy for critical digital infrastructure and review national spectrum policy to optimize usage.
- To encourage digital platforms:
- Remove the overlap of responsibilities between different entities regulating the ICT sector.
- Continue to digitize government services, including payments, social transfers, and tax collections.
- To build digital skills:
- Leverage the Smart Nigeria Digital Economy Project to include digital skills in the wider curriculum and scale up private sector-led initiatives.
- Additional policy recommendations to capture the digital opportunity in the longer term are included in the CPSD.

FINANCIAL SECTOR

BANKING (DEPOSIT MONEY BANKS)

Impact

Though indicators imply the Nigerian banking sector is financially sound, it is a limited conduit for broad-based economic stability and growth. Banks entered the crisis not fully recovered from, but equipped with, the experience of the 2016 recession—when they were hard hit by the combination of oil price shock, economic slowdown, forex-liquidity shortages, and the depreciation of the naira. They face many of the same challenges now. Banks have largely implemented IFRS 9, and tier-1 banks rebuilt capital buffers while medium-size banks remain undercapitalized. The system's capitalization ratio is 14.6 percent; NPLs to total gross loans reduced to 6 percent—driven both by a reduction in NPLs and reflecting loan restructuring and write-offs (IFC 2020). Banks' accumulation of CBN and government securities has significantly strengthened their liquidity and profitability; banks' return on assets reached 2.5 percent and return on equity jumped to 29.4 percent. Furthermore, through a series of acquisitions over the past decade, the tier-1 banks have built scale and invested in building digital capabilities that should enable them to better manage downturns. However, the pandemic introduces a risk of new vulnerabilities that threaten the sector's resilience in the medium term.

Banks' lending and exposure to the private sector remains low but carries higher risk compared with the last crisis. Private debt to GDP in Nigeria is 10.5 percent, compared with 27.5 percent in Kenya and 138.8 percent in South Africa (World Bank 2019). Overall banking penetration remains low with only 40 percent of adults having an account. A bank-led model for mobile money has not achieved large-scale adoption. Banks, preferring to invest in low-risk government securities, have been slow to offer affordable credit beyond the large corporate sector. Limited financial infrastructure, such as credit reporting and collateral registries, as described earlier in the context of micro, small, and medium enterprises, has also limited their ability to do so. Their loan credit portfolios became less diversified—the share of the oil and gas sector has increased from one quarter to one third since 2014. To some extent, banks have been crowded out by CBN-subsidized sectoral development lines of credit and guarantees through DFIs (for example, Bank of Agriculture, Bank of Industry). Despite CBN's enforcement of the increased regulatory loan-to-deposit ratio (LDR) of 65 percent with a 150 percent weight on SME, retail, consumer, and mortgage loans, only 11 percent of firms have access to credit. Credit flow to the private sector during the pandemic, which increased by 14 percent in 2019 but dropped by 65 percent in April during the crisis, mostly will be led by CBN and DFI-funded facilities.

The impact of the COVID-19 and oil price shocks on banks is expected to be severe and will unfold over the next 12 to 24 months. Bank valuations have already priced in NPLs of up to 30 percent and rating agencies have started to downgrade banks (Fitch Ratings 2020; S&P Global 2020). Depending on their digital maturity, brick-and-mortar players shifted their service delivery to their digital platforms, ATMs, and customer service centers, while managing a higher incidence of fraud and cyber risk. Banks also quickly moved to adapt their risk models, stress test their portfolios, and restructure loans, and provided forbearance to some clients affected by COVID-19 in compliance with CBN guidelines for regulatory forbearance. The decline in interest and noninterest income and the low availability of funding for credit lines, especially forex trade financing, will strain near-term liquidity and will constrain recovery.

- Liquidity will be stressed by delays from loan repayments and increased cash withdrawals by depositors. Increasingly, banks will be challenged to comply with LDR requirements.
- On-balance-sheet dollar-denominated exposures, which represented 38 percent of banks' loan portfolios and 55 percent of their liabilities at the end of 2019, will also be a source of strain.
- Revenues will decline. Interest income will decrease due to lower interest rates on the restructured loans. Commissions and other trade-related income will also decrease. (Forex constraints have forced banks to reduce international spending limits by their customers.)
- The cost of funds through deposits will increase and flight to quality will drive funds from "risky" to "safe" banks based on their perceived risk profile.
- The limited ability to reduce staff cost because of CBN restrictions could further erode profitability.

With declining private sector investment, the naira's devaluation, and return on equity below their cost of capital, banks may find it challenging and expensive to raise capital in a severe crisis. The phase-out strategy of the regulatory forbearance will determine the rate of defaults, which may be higher than during the global financial crisis.

Opportunities

In the near-term, it is critical that the banking sector fulfills the private sector's need for increased working capital and access to trade lines.

- Risk-sharing facilities with government and DFI support will be critical to maintain credit flow as liquidity tightens. The Development Bank of Nigeria can be used effectively to provide access to financing to SMEs through banks.
- The government's Mass Housing Program also creates opportunities for banks to grow their mortgage business by providing financing to the middle class.

The impact of the crisis will force structural changes on the industry. Banks will have to reconfigure their business models to accommodate an environment of high nonperforming loans and defaults, low interest rates, credit tightening, capital constraints, changing consumer behaviors, and stronger competition from nontraditional players such as fintechs in digital financial services.

- Digitization will accelerate out of necessity for service delivery and cost reduction and it will need to cover all aspects of operations. Branch networks, depending on CBN permission, will be significantly downsized. On the other hand, banks will have to scale their customer service centers (for example, digital resource hubs and call centers) for easy access and can re-skill employees to provide advice to SMEs. Although most of the banks have started their digital transformation, completing the journey under an accelerated timeframe, challenging operating circumstances, and potential financial strain will be difficult.
- USSD accounts, which use a simple mobile phone to create an account, were already the fastest growing channel prior to COVID-19. The inability to use cash during the pandemic is increasing its adoption by the financially excluded. However, broadscale adoption will require expanding the agent network, ensuring security, and interoperability. In adopting alternative financing vehicles, banks will also have to level up their risk management strategy both in identifying and assessing risks during their credit appraisal process and establish effective controls and monitoring. If mobile money gains traction as expected, banks will have to compete with new entrants, including payment service banks and fintechs.
- The impact on the competitive landscape may be transformational. Banks with limited risk-exposure, large-scale, resilient operations that stand up to the challenges of the pandemic and with access to capital may strengthen their market positions, including through fintech acquisitions. CBN may force failing banks into takeovers.
- Partnerships may become more prevalent to go down-market with end-to-end solutions across the value chain. The need for backward integration in agriculture could create opportunities for banks to grow through partnerships with agriculture aggregators.
- Value-added tech-enabled services are in high demand by SMEs to regain access to markets and they represent opportunities for enhanced risk management and new revenue streams for banks. For example, First City Monument Bank has seen its use of the FCMB Business Zone, a one-stop online platform that provides SMEs access to market information and virtual marketplace with information about local business offerings, increase significantly. Banks have also expanded their offering of nonfinancial services with new business solutions, such as webinars, online learning platforms, advisory services, with some solutions specifically targeting women in business, to help navigate the crisis.
- Warehouse receipt financing represents an avenue to increase access to finance in the agriculture sector in Nigeria. However, there will be a learning curve for banks which must go through the relevant “test and learn” cycles to build understanding, comfort, and acceptance. This process includes adapting credit and risk systems, aligning with banking regulation, managing process and IT adaptation, and building an appropriate channel and branch strategy for deploying the product.

Policy

Several policy measures to enhance innovation, improve debt resolution, and deeper financial information could strengthen the banking sector's ability to be a source of stability during the crisis and its ability to provide aid during recovery.

- Ensure consistent flow of affordable credit to affected businesses, including SMEs and women-owned businesses, with risk-sharing facilities with effective disbursement leveraging the banking sector as described earlier.
- Tiered eKYC rules with remote onboarding could facilitate eKYC emergency cash transfers (government-to-person) through digital means to SMEs and financially excluded populations.
- Provide banks more flexibility to weather the crisis by eliminating the minimum loan-to-deposit requirement. In addition, the IMF also recommends relaxing the cash reserve ratio, which encourages higher credit risk and a shorter maturity structure. Without this requirement, supervisors could temporarily allow banks to drop below the minimum capital requirement (currently 15 percent for large banks, which is significantly above the Basel II 8 percent requirement).
- Implement statutory changes to bring Nigeria's crisis management and resolution frameworks in line with international standards. Letting (medium-size) banks continue to operate in a noncompliant minimum capital asset ratio status undermines system soundness, fosters distortions and risk taking, and undermines a level playing field. Supervisors should provide bail-ins to nonsecured creditors, thus diminishing the likelihood that recourse to public funds would be needed to resolve (systemic) banks.
- Improve the legal and judicial framework for insolvency and bad debt resolution (as described in the government response section). Create an effective and efficient distressed-assets market to systematically intervene in case of rising NPLs. DARPs are needed to enable banks to dispose of their nonproductive assets and to free up capital to resume lending and to restructure and refinance potentially viable companies.
- Expand credit reporting to promote the use of alternative data and analytics, with the participation of cooperatives, fintechs, mobile money operators, and business associations to create alternative credit scores acceptable by lenders for microbusinesses, farmers, and small-household renters.
- Address gaps in extant policies, practices, and prudential requirements with regard to movable asset financing, leasing, and credit guarantee use to broaden the access to finance for micro, small, and medium enterprises. Integrate other registries—vehicle registry, states' sale of goods registries, and others—into the National Collateral Registry to create a single unified registry for movable assets.

The CPSD describes reforms needed in the medium term to strengthen the financial sector, including phasing out CBN's development finance activities to avoid credit market distortions.

MICROFINANCE

Impact

Microfinance institutions (MFIs) and microfinance banks (MFBs) have faced fundamental challenges regarding the soundness of their business models, which are being tested during the COVID-19 pandemic. Though MFIs have raised financial inclusion in Nigeria by 10 percent and provide access to financial services to more than 13 million depositors and 4 million borrowers, their assets represent 1 percent of those of deposit money banks (DMBs). Despite CBN licensing about 50 new MFBs per year, the net additional contribution of MFBs to financial inclusion has fallen since 2014, while the proportion served by DMBs has increased. Though there are nearly 900 unit MFBs operating at the local level, they are generally small with limited ability to close the finance gap. More than 100 state MFBs reach as many depositors as the eight national MFBs but they vary widely in performance and soundness. With 1 percent of banking assets, MFBs have absorbed 30 percent of Nigeria Deposit Insurance Corporation (NDIC) payouts, reflecting both the performance difficulties of MFBs and the need to strengthen the oversight for the sector.

COVID-19 is a fundamental threat to the fragile MFB sector, especially to subscale operations. MFBs face similar, but more acute, challenges as DMBs and they are in a weaker position to manage them. Being primarily lending organizations, loan portfolio deterioration that leads to huge provisioning and revenue decline puts their future in jeopardy. MFBs lack or have limited digital capabilities and physical interaction is needed for service delivery in branches and through agents to collect loan repayments in cash. With limited cash buffers and inadequate capital even before the pandemic, their liquidity is under severe stress. The CBN measures, including regulatory forbearance and an extension to comply with increased capital requirements, give MFBs much needed relief in the near term. However, their long-term survival and their 30,000 employees remain at high risk.

Opportunities

Although most MFBs stopped lending at the outset of the pandemic, it is critical that the sector helps to meet the increasing need for credit in its communities. Similar to DMBs, risk-sharing facilities could help them do so.

Larger MFBs' deep reach into communities can be leveraged during the pandemic and recovery. They provide a lifeline to individuals who might otherwise miss out on support because of limited access or literacy, infrastructure, or technology connections. As a result, MFBs can play an important role in educating the public about the disease and containment measures. Also, they can use their branch and agent network to distribute other services to their communities and to generate additional revenues. (for example, government social services, airtime).

Given low capital levels and the negative impact of deteriorating portfolios, MFBs will need to transform their business models for long-term sustainability. Consolidation is a critical step toward ensuring that stronger and adequately capitalized MFBs can introduce more diverse and formal financial services to lower-income families in both rural and urban settings, thereby expanding financial inclusion. MFBs with a strong capital base, similar to DMBs, will be able to take advantage of opportunities such as **digitalization, mobile money, and nonfinancial services**.

Policy

It is critical that the microfinance sector is supported throughout the crisis and that there is an orderly restructuring in case of institutional failures. The implementation of minimum reporting requirements could enable monitoring and systemic and firm-level stress testing of MFBs during the crisis. A review by OFISD and NDIC is needed given the difficulties confronted by MFBs in managing the quality of their loan portfolios. Corrective actions and, when those are insufficient, de-licensing will have to be exercised. The sector's stability must be carefully managed because the crisis may expose unknown weaknesses, especially in local unit and state MFBs because of inadequate historical reporting. Up-to-date data could be used to take timely action to support the microfinance sector through a potentially existential crisis as a result of the pandemic.

Larger national MFBs that have sufficient capacity would benefit from policies recommended to support DMBs (for example, tiered KYC and remote onboarding for digital financial services).

INSURANCE

Impact

The impact of the pandemic on Nigeria's nascent insurance industry (0.8 percent of GDP versus 14.7 percent in South Africa) is expected to be moderate. The recent increase in capital requirements will help the sector better weather the impact. However, the sector may struggle to grow and it may consolidate.

- Life insurers are stress testing to assess the impact of higher morbidity due to COVID-19, and to mitigate fraud. Although the pandemic is increasing the demand for corporate life policies and agents are actively interacting with clients online, life sales are negatively affected by the limited ability to complete medical underwriting. The lapse rate is increasing because of the reduction or complete lack of face-to-face interaction between agents and customers during the pandemic. Reduced ability to save in the current environment is expected to affect the sale of endowment products. To retain life agents, who have seen their commissions halved, insurers are providing palliative measures, such as cash payments and loan moratoriums. There is an increase in surrender and withdrawal claims on Ordinary Life policies as individuals seek to hold cash for precautionary purposes. Finally, there is reinvestment risk of life insurance assets because the yields on government securities has compressed since the COVID shutdown.
- Non-life corporate business policies are not expected to be severely affected because these policies cover property damage but do not cover business interruptions. Industry insiders indicate the cancellation of oil and gas projects is reducing insurable interests but most corporate policies are being renewed. They are seeing the demand for auto coverage shifting from third-party liability to more comprehensive coverage. However, limited travel is expected to diminish the demand for travel insurance. Under fire and casualty, an increase in the claims ratios because of higher business interruption claims is expected. The worsening of economic conditions will likely increase fraudulent claims. In addition, COVID will likely result in reduced premium income across all lines of business as premium collection becomes difficult.

Opportunities

The pandemic is increasing risk sensitivity and may drive increased demand for insurance. Opportunities include the following revenue enhancing and cost-saving measures:

- Adoption of digital solutions. For example, in distribution through the online sale of simple life coverage and technology-enabled agent networks. This adoption would reduce the physical footprint and significantly increase the share of work that is permanently remote. Digital solutions also could be incorporated in other areas such as claims processing and reporting to improve operational efficiency.
- New products, such as a non-damage interruption policy for known epidemics, cyber risk for corporate interests, a limited all-risk business interruption policy, simple retail products including a life policy without in-person medical exams for e-insurance, and agriculture risks, such as index insurance.
- Distribution partnerships, such as with NIRSAL for agri-insurance to rural farmers, health insurers to cross-sell health and life policies, and fintech for micro e-insurance.

Policy

While updating of the Insurance Act is necessary, several short-term actions by the regulator could increase the insurance industry's ability to reduce corporate and retail risk during the crisis and support agriculture insurance, given the sector's importance during the pandemic and recovery.

- Allow monthly payments of motor insurance premiums to increase affordability.
- Clarify and simplify the new product approval process to reduce time to market. This action can also include working with the regulator to set up regulatory sandboxes for the testing of new products and technologies, which would support the improvement of approval processes, regulatory requirements, and regulatory capacity.
- Streamline the process for the approval of intermediaries for bancassurance (a partnership between a bank and an insurance company) and agents to account for high turnover (agency versus agent approval).

In the midterm, government-sponsored programs could help to address constraints around limited risk-based pricing and general actuarial capacity to enable the sector's development.

IFC SUPPORT TO THE PRIVATE SECTOR DURING THE PANDEMIC AND RECOVERY

IFC will continue to work together with the Nigerian government and the private sector to mitigate the impact of the COVID-19 pandemic on the Nigerian economy. IFC will help support the flow of credit to the real economy by providing liquidity through banks to support ailing but otherwise solvent firms. Working capital and trade-lines financing will be provided to minimize, where possible, the extent of layoffs, firm closures, and bankruptcies. Some programs may be targeted toward hard-hit sectors, including SMEs, and subregions. Programs focused on strategic or high-employment industries, manufacturing, and agribusiness will help firms upgrade for the new economic environment, strengthen value-chain links, and provide liquidity. The interventions will facilitate risk-sharing solutions, create additionality, and seek to crowd-in private sector financing and capital. These interventions will build on the support to date, which includes credit lines to existing IFC clients under streamlined approval processes for financial institutions and access to short-term financing in the form of trade guarantees, risk-sharing facilities, and a funded facility with working capital solutions for up to one-year tenor with an option to renew. In addition, IFC and World Bank are designing initiatives to support government's efforts to strengthen insolvency frameworks, to improve uptake of movable assets lending and to broaden the reach and enhance the effectiveness of the emerging credit reporting system.

Once the outbreak stabilizes, IFC will contribute to private sector-led recovery by launching conducive programs that support inclusive financial, physical, and social infrastructure development, as well as programs promoting the development of local ecosystems and regional value chains in agribusiness and manufacturing. The programs will leverage digital solutions, when applicable, and target SMEs and women-owned businesses. IFC will work closely with the World Bank and DFIs to assess how the crisis has affected investment opportunities and regulatory constraints in strategic sectors. Building on the World Bank program, IFC will support government efforts to create a more conducive business environment through reforms that establish sound competition in strategic sectors and regulatory frameworks that ensure transparency and increase fiscal space while supporting efficient allocation of private capital. A subnational approach will seek to strengthen Nigeria's cohesiveness through increased connectivity (digital and physical) and inclusiveness while building its resilience. The IFC COVID-19 response is evolving as the impacts become clearer and will be communicated to stakeholders as new initiatives arise.

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NOTES

- 1 As of September 15, 2020 (<https://ourworldindata.org/>).
- 2 As of 2017 (<https://data.worldbank.org/indicator/>).
- 3 Exposure to COVID-19 shocks is estimated based on GDP share of exports to affected countries, personal remittances receipts, fuel exports, and international tourism receipts.
- 5 The Nigerian Inter-Bank Settlement System reports that as of May 10, 2020, only 41.8 million people have been issued a BVN.



Creating Markets, Creating Opportunities