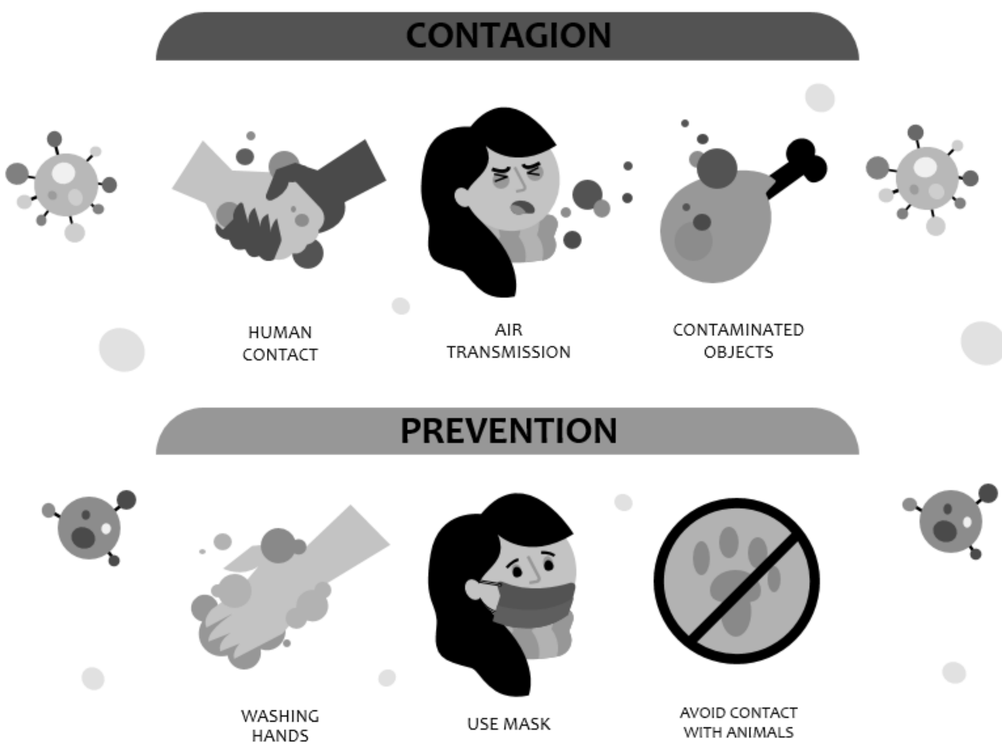
NIGERIA GOVERNORS' FORUM

COVID-19:

WHAT IT MEANS FOR STATE ECONOMIES



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This policy note is part of a three-part series on the impact of COVID-19 on State governments in Nigeria. This issue focuses on the greatest risks of the pandemic to Nigerians as governments rally around a national response.

The COVID-19 pandemic has given way for greater economic and social concerns across the country

For the majority of Africa's youths, the health risks brought by the COVID-19 pandemic ranks behind multiple, complex and larger structural concerns such as economic insecurity, democratic threat and the need to change the current economic model. The economic and social impacts of the COVID-19 crisis rank among the major concerns of 237 young and mid-level career Africans in 43 countries in the continent, with almost all respondents citing unemployment, food insecurity, increased criminality and gender-based violence as their biggest concerns[1]. This was the main result of a survey conducted between 12-25 June 2020 by the Mo Ibrahim Foundation's Now Generation Network (NGN).

For countries such as Nigeria that are ostensibly diversified but resource-revenue dependent, the crisis is a tipping point. Before the pandemic, the country's unemployed population was over 20 million with an expected increase of about 2 million owing to low labour productivity and rising population. The World Bank's Nigeria Development Update: Laying Foundations for a Strong Recovery warns that without a strong response, the implications of the crisis in 2020 and 2021 could include loss of life and the possibility of 5 million more Nigerians being pushed into poverty[2]. In May 2020, majority of Nigerians reported that although they were concerned about the health threat to their households, they were even more worried about the impact on their financial future[3]. The pandemic has disrupted employment, income-generating activities, access to food, healthcare and education – with wider impact on human capital development in the country.

Pre-existing vulnerabilities have limited governments' capacity for an effective policy response

The structure of State economies reflects a predominance of the services sector which accounts for nearly 60% of the economic activities of workers, characterized by low productivity and low paying jobs. The poor employment record reflects low productivity and the absence of a strong

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[1] Mo Ibrahim Foundation (2020) COVID-19 in Africa: What does it mean for young people – Now Generation Network Survey – July 2020. Retrieved July 26, 2020, from https://mo.ibrahim.foundation/sites/default/files/2020-07/ngn-survey-report.pdf.

[2] Cortes, M et al. (2020) *Nigeria in Times of COVID-19: Laying Foundations for a Strong Recovery (English).* Nigeria Economic Update Washington, D.C.: World Bank Group. Retrieved July 26, 2020, from http://documents.worldbank.org/curated/en/695491593024516552/Nigeria-in-Times-of-COVID-19-Laying-Foundations-for-a-Strong-Recovery

[3] Lain, J. W, et al. (2020) COVID-19 From the Ground Up: What the Crisis Means for Nigerians (English). Monitoring COVID-19 Impacts on Households in Nigeria Washington, D.C.: World Bank Group. Retrieved July 26, 2020 from http://documents.worldbank.org/curated/en/757201593465025800/COVID-19-From-the-Ground-Up-What-the-Crisis-Means-for-Nigerians

manufacturing base. Only three out of the twenty-two States that report data on gross domestic product have a manufacturing base that accounts for up to 20% of economic activities in their States.

As the impact of the pandemic prolongs, State governments have been hit by a double whammy on the fiscal side. The revenue shortfall from the fall in oil price and contraction in the tax base owing to lockdown measures is estimated by the Nigeria Governors' Forum Secretariat (NGFS) to reach N800 billion in 2020. Governments are compelled to increase public spending to mitigate the impact of COVID-19, by setting-up testing and treatment centres from scratch and implementing targeted responses in public health, security, public works, social safety and other stimulus-targeted interventions.

Prior to the pandemic, the fiscal environment was already vulnerable to the volatility effect of oil[4] and the unsustainable rise in permanent expenditures including government overheads, wages and salaries estimated at over 70% of State budgets. This is worsened by the absence of fiscal buffers in many States and a debt overhang. Many States have in fact 'borrowed' from their staff, their pensioners and suppliers, by accumulating arrears which have reached over N4 trillion[5] – over three times higher than their total internally generated revenues. Domestic revenue mobilisation improved in the last five years from N687 billion in 2015 to N1.3 trillion in 2019, but the high growth has been accounted for by two-thirds of the States. For many States, IGR growth has not been enough to cushion the rise in permanent expenditures, especially since the signing of the new minimum wage in April 2019.

Governments have reached a consensus around a set of actions

Earlier in March 2020 when the country started recording cases of the virus, the Nigeria Centre for Disease Control (NCDC) released an advisory that showed that if nothing was done, 80% of Nigeria's population could be infected, with over 17 million people requiring hospitalization by September 2020. With implementation at 50%, 4 million people where estimated to be infected, with 50,000 deaths. Following the advisory, both the federal and State governments responded by putting in place public health measures to stop the spread of the virus and increase care for those infected, as well as phased lockdown measures which began in March 30.

Since lockdown measures were enforced, government responses have targeted public health, economic, public finance, social investment and other sectoral and cross-cutting priorities drawn from various ad-hoc government advisory committees, including the Nigeria Governors' Forum (NGF) Committee on COVID-19 set up by State governors, the National Economic Council (NEC) Ad-Hoc Committee on COVID-19, the Presidential Task Force (PTF) on COVID-19 and the

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[4] Nabena D. (2019) Managing Volatility in Nigeria. Nigeria Governors' Forum. Available at: https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID3384488_code3519620.pdf?abstractid=3384488&mirid=1

[5] Debt Management Office (2020) Domestic Debt Data for the 36 States of the Federation and the Federal Capital Territory as at March 31, 2020. Retrieved July 26, 2020, from https://www.dmo.gov.ng/debt-profile/sub-national-debts/3236-states-and-fct-domestic-debt-stock-as-at-march-31-2020

Economic Sustainability Committee (ESC) headed by the Vice President, Prof Yemi Osinbajo SAN, GCON.

Box 1: Phased lockdown implemented by the Nigerian government

- March 30: Nigeria implements a two-week quarantine in three major states - Lagos, Abuja and Ogun
- April 13: Nigeria extends lockdown in the three States for two weeks
- April 27: Nigeria announces a phased and gradual easing of lockdown measures in Abuja, Ogun and Lagos states. New measures include a ban on "non-essential" interstate travel, mandatory use of face masks and a curfew from 8pm to 6am. Lockdown was also placed on Kano for two weeks.
- May 4: Phased and gradual easing of lockdown in the three major states
- May 18: Gradual easing of lockdown in the three major states for two weeks to June 1.
- June 2: Phase two easing of lockdown and nationwide curfew relaxed to 10pm – 4am daily.
- June 30: Extension of phase two of the eased lockdown by 4 weeks. Resumption of interstate and domestic air travel.
- July 27: Extension of phase two of eased lockdown by one week from July 29 to August 6.

The sustainability of States remains central to mitigating widespread impact of the crisis

Although State governments spend less than the federal government, they remain central to mitigating vulnerabilities that are arising from the COVID-19 pandemic. This is particularly so given their constitutional role and expenditure responsibilities in health, education, agriculture, light industries, as well as workers' compensation. State governments are also largely responsible for their markets and competition policy.

In the second quarter of 2020, State governments kickstarted a move to revise their 2020 plans to be more responsive to the new fiscal environment (with the need to rationalise non-essential spending and reprioritise essential spending). They face the challenge of realising balanced budgets. Instead of recording vast deficits, governments will be compelled to make significant spending cuts in the face of a subdued macroeconomic forecast for the country. The demand for revenue increase through tax will also be moderate given that it is not economically and politically feasible to raise and collect taxes during the period.

To compensate for the shortfall in revenues, State governments are relying on the federal government to provide additional financing to close the financing gap created by the crisis. Some of these support instruments have included a moratorium on debts owed to the federal government and the Central Bank of Nigeria (CBN), refunds on infrastructure projects implemented on behalf of the federal government, as well as loans and grants from bilateral and multilateral partners. State governments are anticipating a multi-pronged World Bank package of about US$1.6 billion covering an expansion of on ongoing States' Fiscal Transparency Accountability (SFTAS) programme (US$750 million), support for COVID-19 Action Recovery and Economic Stimulus (CARES) (US$750 million) and an additional US$100 million to finance health mitigation measures.

Box 2: Bouncing Back – Priorities of Nigeria's Economic Sustainability Plan

1. Immediate Fiscal Measures to mobilise resources to stimulate the economy and fund projects in the Economic Sustainability Plan.
2. Fiscal Measures to Safeguard Oil Revenues
3. Fiscal Measures to Mobilise and Preserve Non-Oil Revenues
4. Fiscal Measures to Reduce Non-Essential Spending
5. Monetary Policy Measures to Support the Economy
6. Measures to Mobilise External Support and Funding
7. Measures to collaborate with and support States
    - i. Negotiate suspension of payments on Irrevocable Standing Payment Orders (ISPOs).
    - ii. Provide moratorium on deductions in respect of bailout loans.
    - iii. Develop guidelines to protect inter-state commerce.
    - iv. Encourage States to achieve the States' Fiscal Transparency Accountability and Sustainability (SFTAS) programme and other World Bank programmes in order to access external support.
    - v. Issuance of promissory notes to pay States' construction debts.
    - vi. Collaborate with State Governments on Affordable Mass Housing, Agriculture and Off-grid Power Projects and other projects in the ESP.
8. Measures requiring Legislative Support, including a Fiscal Stimulus Act and provisions to backstop the Economic Sustainability Plan.
9. Cross Cutting Imperatives for a post-COVID Economic Recovery, including collaboration between governments, the telecoms ecosystem and banking sector to provide a National Identification Number (NIN) for every Nigerian.
10. Food for All: Agriculture and Food Security
11. Jobs through Homes: Mass Housing Strategy
12. Energy for All: Solar Power Strategy
13. Jobs for Youths and Women Post COVID-19
14. The Future of Work – Strategy for Jobs in Technology
15. National Gas Expansion Programme (NGEP)
16. Supporting Small Businesses: Guaranteed Offtake Scheme for MSMEs; SME Survival Fund; SME Intervention Funds; MSME Regulatory Support
17. Moving People and Goods: Road Construction and Rehabilitation
18. Building A Resilient Health Sector with the capacity to withstand shocks.
19. WASH Emergency Response to COVID-19
20. Social Investment Programme
21. Aviation
22. Ensuring Continuous Learning – Education
23. Science and Technology
24. Internal Security
25. Solid Minerals
26. Digital Switch Over Programme

Amidst the collective action, governments must focus on the risk of data deprivation in policy making, long term resilience for the health sector and business continuity

Since the lockdown, Nigeria has been operating at less than full capacity given the shutdown and disruption in economic activities and value chains. The rapidly changing environment reinforces the need for a dashboard of previously neglected data and new information given that much of what should be known is currently untracked or unreliable. Data deprivation is a rising risk that is easily overlooked but it highlights governments' incapacity to allocate resources to mitigate the impact of the pandemic effectively and efficiently. Data analytics will help governments monitor trends, disruptions and progress; guide strategic interventions; assess how effective interventions are; and guide the implementation of localised actions across communities. Fortunately, the pandemic comes at a time when much of the world has been digitalised.

Governments can start by collecting the scope of private data already available. Forward looking, data integration of public and private data will provide useful insights on real time trends, for example, transaction data may show how consumption or jobs are changing across income groups and locations. Phone surveys on the other hand may be easily administered to measure job losses and risks created by the pandemic.

Secondly, recent trends across countries have shown that the hardest hit economies are those with weak health systems and heavy reliance on trade, tourism and commodity exports. While broader measures are structural and long term, responding to the pandemic requires an unprecedented upgrade of health sector capacity through State and national policy cooperation, including an insurance programme that covers both the formal and informal sector workers. As governments continue to provide palliatives (many of which are short term and ad-hoc) for the vulnerable population, there are many Nigerians who are invisible – who live in informal settlements. A tax-for-service programme using the presumptive tax regime may be used to secure health sector financing and scale up informal sector taxpayer compliance.

Finally, as governments face a contracting fiscal space, many businesses are also recording closures due to the liquidity crisis. The situation requires that governments' response to the pandemic must be complemented with support for business continuity to provide short term relief and get businesses back on steam. This may be implemented through a tax relief programme for taxpayers and businesses, easing of regulations or the provision of targeted public services.

These lessons are based on in-country and international experiences.

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