

COVID-19 AND NIGERIAN BUSINESSES: FROM SURVIVAL TO THRIVING IN A CHANGING WORLD

FULL REPORT

Highlights

- The social, economic and financial challenges of the COVID-19 will lead to a global economic recession in 2020 and potential lost output of \$2.7 trillion
- Nigeria may go into economic recession if the Coronavirus pandemic persists for months and with the potential loss of N2.27 trillion worth of trade and significant job losses across sectors

"Difficult days ahead for over 100m Nigerians living on N700 daily, and the 78m Nigerians without savings who rely on daily wage, monthly salary, and support from family members for survival"

- Employee productivity is expected to drop especially for companies that were not designed for and have not made remote working a part of their processes

- Business leaders should expect different recovery speeds for different sectors and different locations

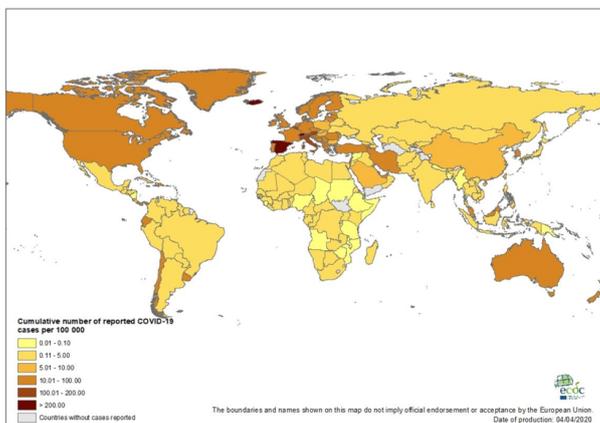
"It is crucial for business leaders to distinguish between hard facts, soft facts, and speculation, and to make fact-based decisions by probing situations and responding by creating environments and experiments that allow for patterns to evolve"

- Leaders must also be flexible to spot and pursue the opportunities presented by this crisis including reserving 90 minutes (10% of 15 hour day) per day for work focused on preparing the organization for the future

A Quake on the World Economy

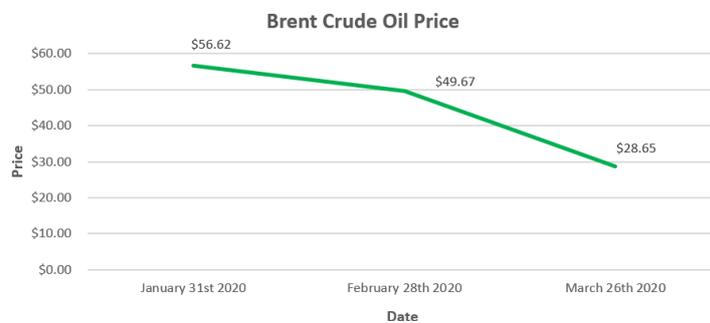
Global collapse in world economy

Caused by the Severe Acute Respiratory Syndrome coronavirus2 (SARS-CoV-2), the Coronavirus disease 2019, code name COVID-19, has plagued nations, leading to over 1.2 million cases and an excess of 74,000 deaths globally as at April 7. Many nations have moved from their initial prevention strategy to aggressive multi-prong strategies to contain its rapid spread, save lives and sustain economic activities to ensure a health crisis does not morph into a combination of a financial crisis, economic recession, and social upheaval. About 192 countries have been affected and the death rate keeps increasing while about 22% have made a full recovery and are disease-free[1]. The coronavirus has, so far, had a devastating effect on human lives and has begun to leave its negative impact on economies and businesses worldwide. Nigeria is not exempted from its insidious effect.



Bloomberg predicts the Coronavirus pandemic could lead to a scenario of zero global growth in 2020 and with a lost output of \$2.7 trillion [2]. Already, the Organization for Economic Co-operation and Development (OECD), in early March, noted that “annual global GDP growth is projected to drop to 2.4% in 2020, down from the 2.9% projected earlier”. The Sub-Sahara African region is not immune from the economic shock caused by the coronavirus outbreak. In its analysis, Renaissance Capital revised down the growth forecast for Sub-Sahara Africa from 3.5% to 1.3%.

A reduction in global economic activity has lowered the demand for oil, taking oil prices to a multi-year low. In March of 2020, the price of Brent crude averaged \$34.27 per barrel in the month (spot price FOB was \$23.55 on March 26), while the price was \$56.21 per barrel in February of 2020. This is a 65.25% reduction in price since the beginning of 2020 and 48.19% reduction over the last twelve months, with an obvious negative impact on the FGN 2020 budget as about 60% of the Federal



Government's revenue and 95% of export revenue comes from oil and gas. As at April 3, the Brent Oil Price fell to as low as \$19.125 per barrel. As it stands, monthly Federation Account Allocation Committee disbursement to Federal and State government is expected to drop below N400 billion over the next 3 to 6 months from projected N888.5 billion, a shortfall of 55%. Yet, to meet their current obligation, the Federal and State Governments require, at least, N650 billion monthly as February already showed sign of slowed economic activity with a disbursement of N647.4 billion. It is, therefore, not surprising that Nigeria is also not exempted from a downward revision of its GDP growth rate to less than 2% by major analysts, down from the initial 2.4% projection. The Government is currently seeking concessional funding from international development banks like the World Bank, African Development Bank, and Islamic Development Bank to brace the 2020 budget, having suffered rating downgrade by global rating agencies due to concerns about reversal of international portfolio inflows in a context of a spike in global risk aversion that could magnify the impact of the oil price shock. All-Share Index and Market Capitalisation both dropped 19.5% and 18% to close the month at 22,198.43 and N11.568 trillion respectively as at March 20, but all of these are signs of a troubling journey for the economy and the citizenry.

Collapse in national development indices

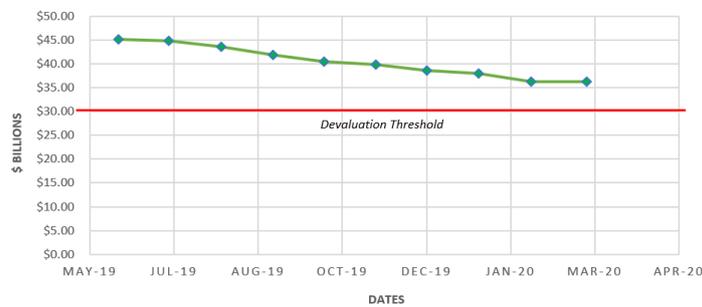
Four of Nigeria's top trading partners and import sources - China, USA, Spain, and the Netherlands - accounting for an estimated 45% of our imports have implemented lockdown strategies to contain the spread of COVID-19. The attendant effect on trade, if this continues for another 2 months, is a potential N2.23 trillion loss from Nigeria's top 5 import nations which would lead to domestic scarcity. From the top 5 export figures, another estimated N2.27 trillion worth of exports which should drive economic activities will also be lost to closed borders, social distancing, lockdown in destination nations, and lockdown in Nigeria. While the exchange rate will be significantly challenged from the loss of

[1] <https://www.worldometers.info/coronavirus/>

[2] <https://www.bloomberg.com/graphics/2020-coronavirus-pandemic-global-economic-risk/>



NIGERIA FOREIGN RESERVES



exports proceed, this pandemic will be responsible for the attendant decline in revenues, reduction in profits, and erosion in asset value for non-essential services, consumer-facing, and export-dependent firms who may then have to downsize. Market scenarios are likely to get worse if the naira is devalued. The Central Bank of Nigeria has set a \$30bn foreign reserves threshold for devaluation. With a 19.83% drop from \$45.175 billion in June 2019 to \$36.221 billion as at March 5, 2020, amidst a falling oil price and oil production, the nation's reserve is dangerously close to this threshold and it is not surprising that the CBN has made an adjustment of the Naira/USD exchange rate to N360 per dollar for bank transactions from prior N306, and to N380 per dollar in the I&E window from prior N365. The Government has also reviewed the 2020 budget downward by benchmarking oil price to \$30 per barrel from its initial \$57 per barrel and oil production to 1.7mbpd from 2.1 mbpd. This effectively, is a 57% reduction in the benchmark of oil revenue. Non-Oil revenue projections have also been reviewed downwards considering expected fall in tax, customs receipt, and privatisation exercise revenues.

Beyond the foreign reserves and exchange rate of the Naira, employment and poverty indices will need to be thoroughly reviewed to provide useful economic indicators and business planning guides for small, medium scale and corporate business over the next few weeks.

For example, Trade and Other Services are two hard-hit sectors that account for 13.97% and 7.89% of the estimated 28 million^[3] formally employed population and jointly account for 18.98% of the country's \$410 billion gross domestic product as at 2019^[4]. This crisis, therefore, threatens not only the livelihoods of the directly affected 6.1 million employees but also their relations, dependents, personal staff and hitherto neighbourhood stores. This figure is more than the current 6.1% of the 62.4 million labour force that is currently unemployed^[5]. Although the Federal government has promised to create employment for 774,000 Nigerians through the Special Public Works Programme financed through the COVID-19 Crisis Intervention Fund, its implementation is delayed

^[3] <https://tradingeconomics.com/nigeria/employed-persons>

^[4] <https://tradingeconomics.com/nigeria/gdp>

^[5] <https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=NG>

to take effect from October to December. On one hand, we have seen a further reduction in PMS pump price by the Federal Government to recognize the global fall in oil prices and cushion some of the impact while on the other hand, we see the Central Bank of Nigeria cutting interest rates, injecting liquidity into the economy through different credit facilities aimed at stimulating economic activities, and regulatory forbearance for deposit money banks.

"All these monetary policy actions are no doubt, attempts by the Apex Bank to control the looming slowdown in economic growth"

Human capital challenges

As the health sector rightly takes up more national resources needed to combat this pandemic, people reduce social activities, and government revenue declines, we see a conscious decision by many businesses to conserve cash while government at the state and national levels are likely to slow down investments in physical infrastructure. Yet, there is a high risk of infection and mortality amongst health workers who are on the front lines fighting this global pandemic—in a country already battling with a shortfall in the supply of healthcare professionals — this could worsen health conditions further; eroding the slow gains being made in the sector. Furthermore, as schools close, students will lose learning opportunities and resources leaving more vulnerable students from low-income households with reduced chances of learning even with the online alternatives being hurriedly provided by some state governments and reduced opportunities of returning to school at later resumption date. This translates to lower long-term earning trajectories for them and their families and reduced overall human capital for the economy.

Supply chain bottleneck

This pandemic is already leading to severe shortages and a global supply chain bottleneck. With many local



manufacturing operations dependent on China, the global factory, the inbound logistics chain of many will suffer. Conversely, demand for Africa's raw materials and commodities in China and other closed-border producer nations will continue to decline and the attendant bottleneck will make a significant dent to manufacturing operations, consumer goods retail operations, and Africa's access to industrial components and manufactured goods from other regions will be hampered. When coupled with the closure of borders, including that of Nigeria, there will likely be a spike in production costs, increased lead time to restock raw materials, hoarding, panic purchasing, and severe, irregular price fluctuations as companies are forced to price goods and services at envisaged replacement cost and, at worst, cut production due to unavailability of raw materials. This calls for responsive and smart forecasting, planning and scheduling operations.

Cash crunch

In peculiar contexts where, a company nor its industry is not the only one affected by a social, economic, or even political Tsunami that sweeps through the business landscape, negotiation becomes critical. Every business seeks to operate from a point of advantage, and this may create conflicts. As corporates seek cash flow to stay afloat, they must negotiate to increase cash payable period and reduce the cash receivable period as a means to shorten their cash cycle. But the reverse case is of interest to suppliers and customers, hence the conflict. Traditionally, businesses give credit facility as a tactic to increase sales, but this advantage may be upended by bad debts and cash discounts. All these seeming conflicts must be implemented by a craftsmanship given to skillful precision. This effort will reduce pressure on cash and profit although this is better done when businesses ally to engage the government.

In response to the cash crunch, businesses must shorten their cash cycles; liquidate non-income generating assets to free up cash for more expedient use; pay up foreign currency-denominated debt on the balance sheet as soon as possible; where possible, businesses must seek means to hedge itself against exchange rate hike and possible interest rate fluctuation; and weigh the benefits of low-interest foreign debt against the impact of Naira devaluation. Indeed, prices may have to go up, corporates must understand the price elasticity for the demand of their products amidst competing alternatives. Also, efficiency must be mastered to reduce waste and turnaround time must be reduced for product and service firms respectively as a means to appropriate maximum value from all forms of the asset.

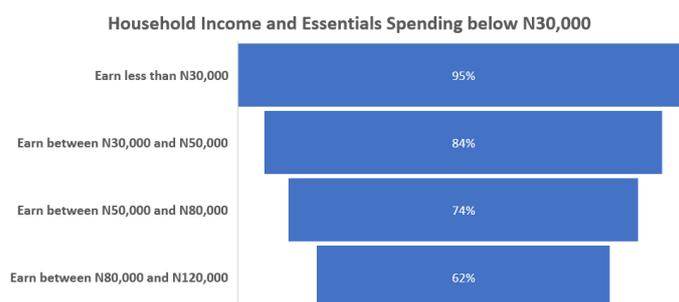
Drop in purchasing power

Although only 21% of the 99.6 million adult population in Nigeria have savings[6],

"...this period will particularly be a trying time for about 78 million Nigerians who are without savings."

Most of these people wait on the monthly salary, daily income, or erstwhile generous relatives who remit money home. There has been and will be some panic buying and stocking but overall, there is likely to be a decline in discretionary spending and producers of luxury and non-essential goods and services will need to brace up for the times ahead.

Households that earn less than the minimum wage of N30,000 every month, spend 95% of their salary on food and other essentials. 84% of those who earn between N30,000 and N50,000, slightly above the national minimum wage, spend less than N30,000 on feeding, and the remaining 16% spend between N30,000 and N60,000 monthly on food. Interestingly, 3 of 4 (74%) of earners of monthly salary between N50,000 to N80,000 and 3 out of 5 (62%) of those whose earnings fall within the range of N80,000 and N120,000 spend less than N30,000 on food monthly[7] [8]. With over 100 million people living on N700 daily[9], more than half the country will be under the immense pressure of inflation even if they focus on only food and essentials. As more people consequently seek cheaper but less healthy substitutes, this begins to lay the foundation for future pressure on our limited health infrastructure.



Professional services, sports, education, entertainment, transportation, retail energy, hospitality, and tourism services will need to plan and hunker down for the coming lull in their sectors. However, the new essential service providers – Food and Agriculture, Electricity, ICT, Trade and Manufacturing, Banking, and Healthcare businesses – may not likely have the capacity to meet the

[6] https://www.efina.org.ng/wp-content/uploads/2019/01/AZF-2018-Key-Findings-11_01_19.pdf

[7] <https://nairametrics.com/2019/08/20/nigerians-who-earn-less-than-minimum-wage-spend-95-on-food-report/>

[8] <https://www.sbmintel.com/2019/08/discretionary-income-in-nigeria/>

[9] <https://nairametrics.com/2019/12/09/over-100-million-nigerians-earn-less-n700-daily-uks-efina/>



coming demand as border closure prevails, movement is further restricted, and social distancing is enforced.

Employee productivity is expected to drop especially for companies that were not designed for and have not made remote working a part of their processes. As the middle and lower class cut discretionary spending, employees who work remotely may be forced to ration their power, and telecommunication spend in the face of an uncertain revenue stream. Business leaders must enable remote working for a portion of the workforce and support people as they transition to digital ways of working.

Pressure on health systems

Beyond the economic implications, it is most likely that Nigeria, as a whole, is not ready for a pandemic of this magnitude. This is uncharted territories and with less than 9% of the population having access to health insurance [10] [11], the need for the rapid introduction of innovative and affordable health insurance schemes and telemedicine options has now become more crucial than ever particularly for the treatment of non-communicable and less acute medical conditions. Health insurance firms, as well as pharmacy chains, must scale up their operations, responsiveness and overall customer service using technology. The non-profits in the healthcare intervention sector also need to scale up and prepare for increased collaboration with the Government to implement the necessary healthcare interventions that will be required. In addition to the coronavirus pandemic, we would do well to situate the ongoing battle with the Lassa fever epidemic in Nigeria.

Hope in the horizon

Surviving the storm - short term

At this point, it will not be out of place to borrow from Snowden and Boone (2007) masterpiece, a Harvard Business Review article on managing in difficult times. The authors discussed how to respond in simple, complex, complicated, and chaotic business scenarios and market environments. Most unique to this present discourse is the complex business context as it references business situations characterized by flux and unpredictabilities, emergent instructive patterns, unknown unknowns, a myriad of competing ideas, the need for creative and innovative approaches and pattern-based leadership. It is crucial for business leaders to distinguish between hard facts, soft facts, and speculation, and to make fact-based decisions by probing

situations and responding by creating environments and experiments that allow for patterns to evolve. This will require increased teamwork, communication, and interaction between multidisciplinary teams across divides. Business leaders must track progress daily, look ahead to anticipate shifts and constantly update insight to frame overall perspective to avoid being slow to changing dynamics.

However, there are chances that the situation may snowball into a chaotic one considering the less than optimal state of many Nigerian institutions. In such high turbulence, high tension and unclear scenarios, characterised by many unknowns; it serves little benefit looking for the right answers and business leaders need to step up and act in what they consider to be the best interests of the firm while balancing responses to staff, clients, suppliers, community and others. Businesses must focus on re-establishing order while providing very clear and direct communication. The danger with this command-and-control regime is that if it takes longer than necessary, businesses may miss the opportunity to innovate amid the adversity. Leaders can mitigate this by setting up parallel teams that can pursue the spotted opportunities even in such chaotic environments.

Looking beyond today - long term

"At every point in the history of global inflection such as this, few companies emerge stronger than others"

While most businesses are rightly active about short term survival, these few companies are deliberately positioned to take advantage of future opportunities and beat the curve ahead. This is coupled with the knowledge that some industries will feel the impact differently, faster, and more intensely than some others.

But, similarly, some industries will jump the curve faster than some others too. Companies must be very prudent to know in what direction to spend its scarce resources. While many businesses will be driving for cash at the expense of profits, smart firms must skillfully drive for both. It is high time for business leaders to leverage experiential insights defined by clarity of maneuvering familiar grounds.

Just as the Great Depression defined consumer habits for decades; oil supply crisis of the 70s led to the first efforts at energy efficiency, diversity, and conservation, and the 2008 financial crisis triggered a new regulatory framework across the financial service industry, the COVID-19 health emergency is likely to change the way

[10] <https://www.medicwestafrica.com/content/dam/Informa/medic-west-africa/english/2019/HealthcareInsights.pdf>

[11] <https://noi-polls.com/fourteen-years-after-the-establishment-of-nhis-about-90-percent-of-nigerians-still-do-not-have-health-insurance-cover/>



we work and live including online teaching, remote work, distributed supply chain, delivery service, eCommerce and digital financial services.

"Employees and the community are looking forward to business leaders to demonstrate responsible leadership during the crisis period."

Leadership that demonstrates inclusion, diversity, empathy, compassion, humility, transparency and openness in taking decisions while actively listening to divergent views and balancing the needs of critical stakeholders such as employees, clients, suppliers, community, governments, and investors is highly sought after during this period.

Business leaders must also build resilience in their operations to enable the business to have the ability to survive and thrive through multiple crises. Operations must have a definite business continuity plan that offers inbuilt redundancies and avoid dependency on one source or have a single point of failure. Diversity of the workforce across gender, culture, ethnicity, social status, religion, and other dimensions must be actively promoted, as this would enrich the conversation and foster diverse thinking during moments of crisis. Infrastructure and machinery must be modular and be such that they can evolve over-time and can be fashioned for different usage. Lastly, business leaders must act with both courage and prudence to ensure the business is embedded in an ecosystem to benefit from affinity and economies of scale.

"To conclude, we urge our business partners to brace up for what lies ahead and be agile, flexible and adaptable in a rapidly changing situation. The next crisis is lurking around the corner"

There are many unknown unknowns and uncertainties ahead, we do not yet know exactly how this will play out in Nigeria, but we do know that we are not exempted from the flux this has brought to other nations and its attendant impact on life and business supply chains.

Business leaders would do well to consult multiple sources and experts and to map out alternative scenarios and set up plans to ride the storm and come out of this with minimized damage to their business operations.

"Business leaders must reserve the ability to place bets on future opportunities and also consciously reserve at least 1.5 hours per day for work focused on preparing their organization for the future, so they are not consumed by the urgent imperatives of today."

Business Leaders must deliberately look for opportunities amid the adversity – new consumption habits, new products, new services – and rapidly innovate around new needs to create future income streams. Those who succeed will be leaders who can creatively lead the organization to navigate the crisis of today while also sensing and exploring the opportunities of tomorrow. They do not waste the opportunities presented by the crisis to streamline and reorganize to improve operating efficiency and to also capture opportunities to improve competitive agility.

Reference

Snowden, D. J., & Boone, M. E. (2007). A leader's framework for decision making. *Harvard Business Review*, 85(11), 68.

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