

Nigeria in Times of COVID-19: Laying Foundations for a Strong Recovery



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Nigeria in Times of COVID-19: Laying Foundations for a Strong Recovery

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1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

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The report was prepared by a World Bank team led by Gloria Joseph-Raji (Senior Economist), Steve Loris Guidiby (Economist), and Marco Hernandez (Lead Economist). The team included: Emilija Timmis, Joseph Ogebe, Mohammed Shuaibu, Admasu Maruta, Ifeyinwa Isiekwe, Masami Kojima, Ahmed Rostom, Mariano Cortes, Siegfried Zottel, Max Rudibert Steinbach, Sean Lothrop, Oliver Balch, Tara Vishwanath and Jonathan Lain (welfare impacts of COVID-19 on Nigerian households), Julia Valliant and Andrew Brudevold-Newman (gender impacts of COVID-19), Jakob Engel and Woori Lee (impacts of the border closure), Elliot Mghenyi (agriculture), Supriyo De, Nadege Yameogo, and Samik Adhikari (migration and remittances), and Ayodeji Ajiboye (health financing).

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The report was prepared under the overall supervision of Shubham Chaudhuri (Country Director for Nigeria), Elisabeth Huybens (Regional Director for Equitable Growth, Finance, and Institutions), and Francisco Carneiro (Practice Manager for Macroeconomics, Trade, and Investment).

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For questions about this report please email marcohernandez@worldbank.org

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Abbreviations and Acronyms

bb1	Barrels
BoP	Balance of Payments
CBN	Central Bank of Nigeria
CPI	Consumer Price Index
ERGP	Economic Recovery and Growth Plan
EU	European Union
FCS	Fragile and Conflicted affected Situations
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Inflows
GDP	Gross Domestic Product
H1	First Half of the Calendar Year
H2	Second Half of the Calendar Year
IEFX	Investors & Exporters Foreign Exchange
ILO	International Labour Organization
IMF	International Monetary Fund
KNOMAD	Knowledge Partnership on Migration and Development
LDR	Loan-to-Deposit Ratio
NBS	National Bureau of Statistics
NPL	Non-Performing Loans
OECD	Organization for Economic Co-operation and Development
OMO	Open Market Operations
PMI	Purchasing Manager's Index
PPP	Purchasing Power Parity
Q1	First Quarter
Q2	Second Quarter
Q3	Third Quarter
Q4	Fourth Quarter
NLSS	Nigerian Living Standards Survey
SME	Small and Medium Enterprise
UK	United Kingdom
US\$	United States Dollars
VAT	Value Added Tax

Overview

Nigeria's economy was still recovering from the 2016 recession when the COVID-19 pandemic emerged in early 2020. The collapse of global oil prices in 2014–16, combined with lower domestic oil production put the brakes on economic activity. Although Nigeria's oil sector accounts for less than 10 percent of gross domestic product (GDP), it is a key source of export earnings and government revenues. In some ways, the 2020 situation resembles the scenario after the oil shock in 2015–16. Then, the plunge in oil prices caused the annual real GDP growth rate to fall from an average of 7 percent from 2000 to 2014 to 2.7 percent in 2015 and -1.6 percent in 2016—Nigeria's first recession in 25 years. Growth slowly rebounded in 2017 and 2018, supported by rising oil prices and a recovery in agriculture and services. By 2019, the economic recovery appeared to be strengthening as annual GDP growth reached 2.2 percent.

The global spread of the pandemic and the subsequent collapse of international oil prices are destabilizing Nigeria's macroeconomic balances. Over the past five years, oil has represented more than 80 percent of exports, 30 percent of banking-sector credit, and 50 percent of general government revenues. A large share of the country's non-oil industrial and service sectors also relies on foreign-exchange inflows generated by the oil industry. The protracted slump in global oil prices has reduced Nigeria's general government revenue from an already low 8 percent of GDP in 2019 to a projected 5 percent in 2020. This sudden drop in revenue comes just when fiscal resources are urgently needed to contain the COVID-19 outbreak and stimulate the economy, creating a financing gap that threatens to destabilize the government's fiscal position. Meanwhile, the pandemic will reduce global remittances to Nigeria, which in 2019 were equivalent to 5.3 percent of GDP and 40 percent of oil exports. The fall in remittances is likely to affect household consumption because half of Nigerians live

in remittance-receiving households, of which about a third are poor. Meanwhile, eroding investor sentiment is causing a decline in foreign portfolio flows (volumes were down 46 percent in the first quarter of 2020), thus compounding the pressure on foreign reserves imposed by the widening current account deficit. The macroeconomic implications of COVID-19 in 2020 and 2021 will be severe even if Nigeria manages to contain the virus.

Beyond external factors, behavioral changes and containment measures linked to the domestic outbreak of COVID-19 are affecting employment in all sectors of the Nigerian economy. To limit the spread of the virus, the government acted promptly to restrict international and domestic flights, interstate road traffic, and the movement of people in urban areas. As experienced by other countries, it is inevitable that such preventive actions will have profound knock-on effects on services and industry in both the formal and informal sectors. As an unintended consequence, a steep decline in output can therefore be expected. Agriculture is the only sector that is projected to grow in 2020—it is somewhat shielded from the effects of lower oil prices. Nonetheless, it is highly probable that the disruption of supply chains due to lockdown measures will affect the planting season, lowering agricultural output later in the year. The difficulties arising from COVID-19 inevitably extend to the labor market, with significant impacts on employment anticipated for some time to come. As of May 2020, 4 in 10 workers in Nigeria were already reporting a loss of labor income, and disruptions to markets and supply chains are impeding agricultural activity. Retail trade, for instance, which employs 1 in 6 workers, is being hit especially hard as income losses spread through the economy. Overall, the disruption of employment dynamics will affect household incomes and consumption.

The COVID-19 pandemic and the associated lockdown measures are also affecting the supply of basic services, with both direct and indirect costs for Nigerian households. The closure of schools is likely to reduce the food intake of some 7 million children who live in poverty and who are enrolled in the national school feeding program. With out-of-pocket expenditures accounting for 77 percent of health spending in Nigeria, contracting the virus imposes a substantial direct financial burden on households just when they are likely seeing their labor income go down. It is probable that the pandemic will disproportionately disrupt the economic activities of women. As health-sector resources shift from preventive care to emergency management, women's health and social outcomes are likely to worsen.

In 2020, Nigeria's economy is expected to experience its worst recession in four decades. In the baseline scenario, the economy would contract by 3.2 percent this year. This assumes an annual average oil price of \$30 a barrel. It also assumes that the spread of COVID-19 eases by the end of the second quarter and is contained in Nigeria by the third quarter of 2020. This revised growth projection is over 5 percentage points below the pre-COVID-19 forecast of 2.1 percent. This will make the predicted 2020 recession at least twice as deep as that of 2015–16 and the deepest since the 1980s. In this scenario, real GDP growth would recover gradually and by 2022 would converge with the population growth rate of 2.6 percent.

The growth outlook is highly uncertain, however, because it depends on how the world economy and oil prices recover. Weakening global demand for oil, compounded by the unpredictable policy decisions of the Organization of the Petroleum Exporting Countries and other major oil producers, are serious threats to Nigeria's economic outlook. A more severe domestic outbreak and/or a more protracted decline in oil prices relative to the baseline scenario would further deepen Nigeria's recession. In a high-risk scenario—one that assumes a severe outbreak of COVID-19 and a slower

recovery in oil prices—Nigeria could experience negative growth of -7.4 percent in 2020, and the recession would extend into 2021. Failure to contain COVID-19 domestically would not only deepen the recession, but also impose a major burden on the already strained healthcare system. This, in turn, could cause a spike in morbidity and mortality rates, especially for low-income households and vulnerable communities.

The human cost of COVID-19 will be high: beyond the loss of life, as the economy contracts and per capita incomes fall, the pandemic is projected to leave 5 million more Nigerians living in poverty in 2020 relative to the pre-COVID forecast. Household circumstances already leave Nigerians highly exposed to the pandemic; a reality that is hard to mitigate without certain reforms within Nigeria's economy. In 2019, about 83 million people—equivalent to 4 in 10 Nigerians—were already living below the national poverty line, with millions only barely above it, making them vulnerable to falling into poverty when shocks occur. Over 75 percent of poor Nigerians live in the north of the country, most of whom depend on the informal economy or on smallholder farming. Household incomes are higher in central and southern Nigeria where job creation has traditionally been concentrated. Before COVID-19, the poverty rate was expected to increase by about 0.1 percentage points from 40.1 percent in 2019 to 40.2 percent in 2020, implying that the number of poor Nigerians would rise by 2.3 million, largely due to population growth. However, due to the recession, the poverty rate is now projected to increase by 2.4 percentage points to 42.5 percent in 2020, implying that the number of poor Nigerians would rise by 7.2 million. Thus, the COVID-19 shock alone is projected to push an additional 4.9 million Nigerians into poverty in 2020.

Today's unprecedented crisis will require an equally unprecedented response from the entire Nigerian public sector, together with the private sector, to contain the outbreak and protect the lives and livelihoods of low-income and vulnerable

communities. The trajectory of the global pandemic and its long-term economic impact are subject to an extraordinary degree of uncertainty. Even so, the government is in a strong position to determine the speed, quality, and sustainability of Nigeria’s economic recovery. Much will depend on how the government’s clear initial response to this unexpected turbulence evolves going forward. In the near term, the next 3 to 6 months, coordinated fiscal and monetary policy actions will be necessary to ease the human and economic costs of COVID-19. In the medium-term, the next 6 to 12 months, a series of bold reforms represent the best opportunity for ensuring a robust and sustainable recovery. While dealing with the disruption of the pandemic, a post-COVID-19 reform package would be needed to overcome some of Nigeria’s more persistent macroeconomic challenges, including its low level of economic productivity.

This edition of the Nigeria Development Update provides policy options that Nigerian policymakers may consider in order to mitigate the impacts of

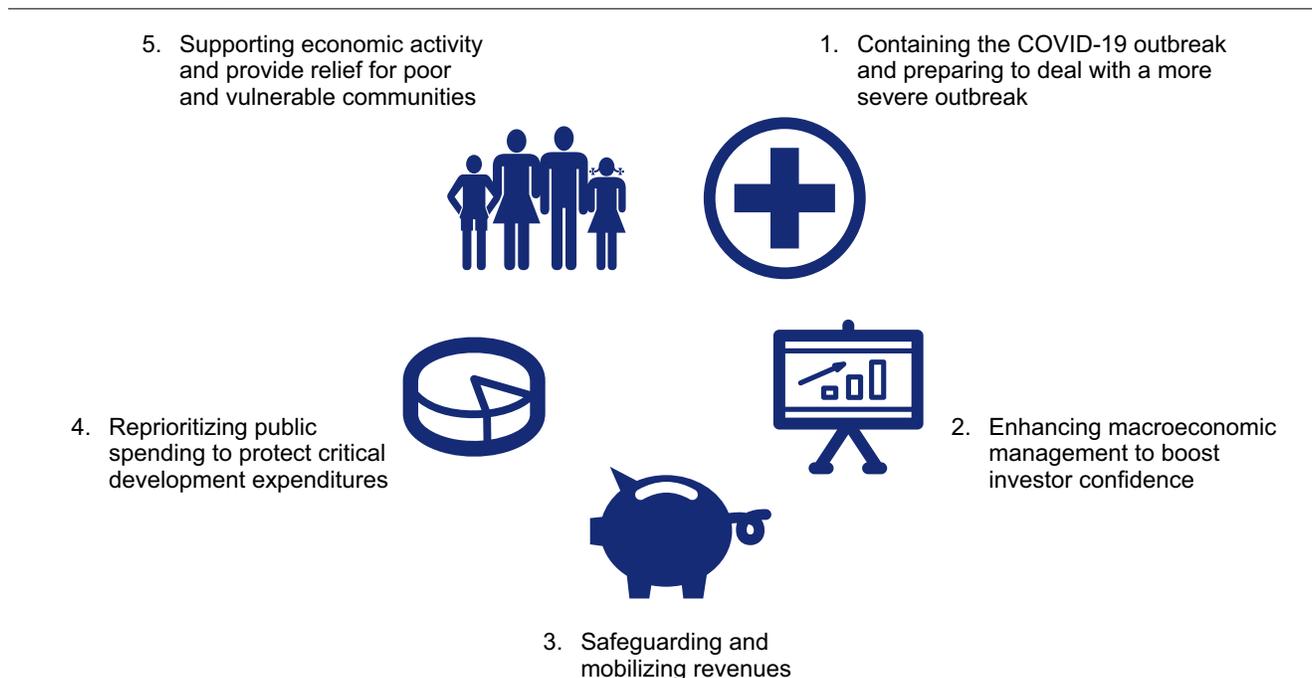
COVID-19 and lay the foundation for a strong recovery. These policy options are organized in the five areas summarized in Table O.1.

A closer look at the welfare impacts of COVID-19 and Nigeria’s border closure

This edition of the Nigeria Development Update analyzes two topics in depth: (1) how COVID-19 will affect the welfare of Nigerian households; and (2) how the 2019 border will affect the economy.

- **Welfare impacts of COVID-19:** In addition to the direct health impacts of COVID-19, the pandemic is threatening the ability of Nigerian households to generate income to meet their basic consumption needs. The 4 in 10 working Nigerians who work in non-farm enterprises are likely to be particularly

Table O.1. Policy areas to mitigate the impacts of COVID-19 in Nigeria and lay the foundation for a strong recovery.



affected as demand contracts and consumers cut spending. Although agriculture is expected to be more resilient, working Nigerians employed on farms and related industries could see incomes fall due to market disruptions. At the same time, non-labor incomes are likely to decline if foreign remittances fall, as is expected. A high frequency survey conducted in April-May 2020 found that Nigerian households began to experience significant losses in employment and income almost as soon as the pandemic broke. About 1 in 2 households reported having had to reduce food consumption to cope. Since coverage of social protection programs is low, an expansion of government support is necessary to prevent poverty deepening in Nigeria.

- **The 2019 land border closure:** Increasing the competitiveness and value added of Nigeria's industries is a vital springboard both to combat the immediate effects of COVID-19 and for long-term economic growth. It is particularly important to make it easier for more firms to enter the market, succeed, and create jobs. Analysis of the impact of the 2019 border closure found that it contributed to higher inflation—especially true for food, despite the relatively little impact on agricultural output. Because of the rises in food prices, Nigerian consumers now need to pay 2 percent more for the same basket of goods, with negative effects on their consumption. Another consequence of the closure is a marked shift in formal trade to Nigeria and away from Benin. This has contributed to a moderate increase in customs revenue, although comparable to that of previous years. In light of the COVID-19 pandemic, the closure has now been extended indefinitely and broadened to include most of cross-border activity. The shared threat of the COVID-19 pandemic gives Nigeria an opportunity to cooperate more closely with its neighbors on shared cross-border priorities, among them public health, counterterrorism, trade, and investment. Streamlining cross-border trade and transit procedures is particularly imperative: in the short term, it will reduce excessive border congestion

and thus lower the risk of contagion. Support for transport and logistics services is equally vital to help maintain international value chains, especially in essential goods. More generally, reopening land borders once the public health situation permits would help Nigerian firms export and source foreign inputs for production. The phased removal of nontariff barriers such as import bans and foreign exchange restrictions would also contribute to the sustained competitiveness of Nigeria's firms and could, if bans were converted into tariffs, increase revenue. Medium-term benefits include lowering the prices consumers face, boosting regional transportation and logistics networks, and increasing Nigeria's participation in international value chains.

Spotlights on Nigeria's agricultural sector and on migration and remittances

With the focus squarely on building back better for a post-COVID-19 world, now is an opportune moment for Nigeria to identify and remove any structural bottlenecks to economic productivity. Doing so will help the country to recover faster while generating more jobs. All these outcomes will be invaluable in helping Nigeria to realize its announced ambition of lifting 100 million people out of poverty in the next decade. To help inform the policy debate, this edition of the Nigeria Development Update analyzes two vital topics: (1) advancing food security and job creation in agriculture; and (2) leveraging emigration, remittances, and the diaspora for development.

- **Agriculture:** Typically, when oil prices fall, many of Nigeria's displaced urban workers return to agriculture. However, the country's large agricultural sector has been performing below its potential, and millions of its workers struggle to move beyond subsistence farming. The COVID-19 pandemic will

depress agricultural productivity and will ultimately cause a further drop in farmers' wages. Supply-side effects will include the disruption of input supply networks and temporary shortages of labor for agricultural production. Movement restrictions related to the pandemic are already interfering with food supply chains, leaving farmers with fewer buyers and consumers with less food. To complicate the situation, the emerging crisis comes on top of continuing food-price inflation across Nigeria. This steady rise in food prices is linked to import restrictions, which have ranged from limits on foreign exchange on the imports of various food commodities to outright border closure. Besides the pandemic, agriculture in Nigeria is still remains vulnerable to the effects of agroclimatic change. Collectively, these challenges call for the government, first, to lessen the pandemic's effects on food security and, second, to accelerate the creation of more and better jobs by transforming agricultural and agribusiness value chains. In the short term, it is important to ensure that agricultural systems continue to produce enough food for the population. Equally critical is that markets function effectively so that this food is widely available throughout Nigeria. Ideally, domestic production would supply national food reserves for emergency and relief needs and school feeding programs. Taking steps to ease immediate problems will help protect farmers' livelihoods and provide food security in the coming months. They also serve as building blocks for the longer-term recovery, which targeted measures can help accelerate. Because the sector is inherently resilient, it has considerable potential for creating more and better jobs through targeted investments that transform agricultural and agribusiness value chains.

- **Emigration and remittances:** Remittances in Nigeria are larger than both foreign direct investment (FDI) and official development assistance. Thus, leveraging the diaspora more effectively in support of the country's sustainable growth and development is now more important than ever. Remittances help

many Nigerians meet their health needs, not only in a pandemic like COVID-19 but throughout their lives. Recipient households are also shown to be more likely to increase their investments in education and entrepreneurship, thus helping put Nigeria on a firm footing for the future. Nigerian emigrants dispersed across Africa, Europe, and North America are also well positioned to catalyze development through trade, investments, technology transfer, and knowledge exchange. At present, intense migratory pressures have overwhelmed the capacity of established systems to deliver safe, regular, and organized migration. In response to COVID-19, the Nigerian authorities now have a timely opportunity to strengthen these systems by actively collaborating with counterparts in destination countries. In the short to medium term, policy reforms could also encourage skilled emigrants to return and also attract foreign workers with valuable knowledge and advanced skills. The total effect would be to maximize the developmental impact of Nigeria's widespread diaspora.



**Part 1:
Recent Economic Developments
and Outlook for Nigeria**

Economic Growth: Nigeria's economy is expected to contract in 2020 due to the twin hits of COVID-19 and collapsing global oil prices

Before COVID-19, Nigeria's economy was gradually recovering from the 2016 recession, although per capita incomes were still falling because economic growth lagged population growth. Nigeria's GDP growth rate improved slightly in 2019, reflecting rising service output and improved oil and gas exports. On the supply side, growth was mainly driven by the services sector, which represents about 50 percent of GDP and last year contributed 1.2 percentage points to GDP growth (Figure 1.1). The principal performers here were telecommunications, driven by an expansion in broadband connections, and financial services, which expanded mainly because of policies aimed at increasing credit to the private sector. Agriculture and the oil industry also contributed to growth positively (0.5 and 0.4 percentage points, respectively), despite the introduction of an OPEC cap on oil production. On the demand side, growth was driven by strengthening

investment and growing net exports, which more than compensated for still declining domestic consumption. As the GDP growth rate remained below the population growth rate (estimated at 2.6 percent per year), per capita GDP declined in 2019 (Figure 1.2).

Nigeria's nascent recovery pre-COVID-19 was unfolding in a context of continuing structural challenges (see Box 1.1). As discussions in recent editions of this report, Nigeria's economy suffers from low growth, high unemployment, and high poverty. These challenges reflect longstanding shortfalls in human capital, infrastructure and public services, women's economic inclusion, the business environment, access to finance, and governance, as the government recognized in its Economic Recovery and Growth Plan 2017–20. For example, access to affordable finance hinders growth because, with inflation high, among other factors, the

Figure 1.1. Nigeria's economic recovery was fragile when it was hit by COVID-19...

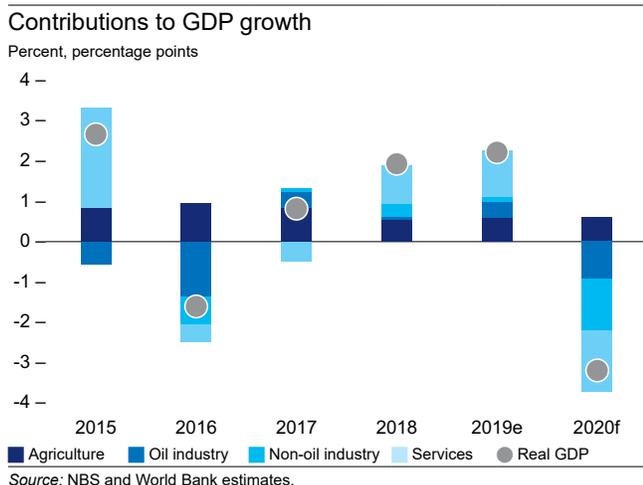
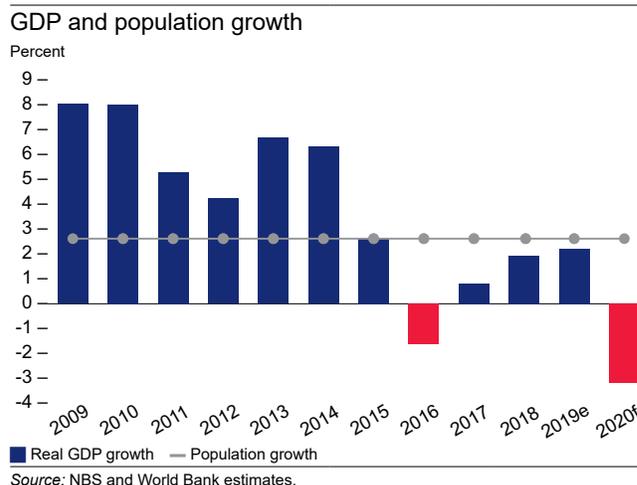


Figure 1.2. ...with GDP growth below population growth.



lending rates offered by Nigerian commercial banks are significantly higher than those in other middle-income countries.

Before COVID-19, the closure of land borders and ongoing security issues were impeding growth. Nigeria closed its land borders in August 2019 to reduce smuggling, address security concerns, and protect domestic production. One of the knock-on effects of the border closure was to slow the growth of trade and transportation, both of which contracted in Q4 of last year. Meanwhile, among notable examples of security problems affecting agriculture production were continuing conflict in the north-east region and farmer-herder conflicts in the central region.

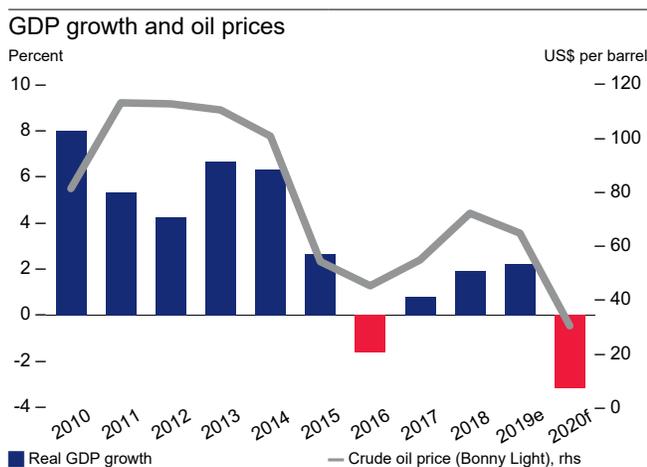
The COVID-19 pandemic and the subsequent collapse of international oil prices abruptly halted Nigeria's fragile economic recovery. The extraordinary decline in oil prices since March 2020 has profoundly impacted the Nigerian economy, downgrading its annual growth outlook by between 5 to 10 percentage points this year and possibly triggering the country's most severe recession in four decades. The COVID-19 pandemic is expected to primarily affect Nigeria's economy through three oil-related channels: (1) lower external demand

due to the expected global economic recession; (2) less private investment; and (3) lower government revenues, particularly at the state level, prompting an expenditure-led fiscal adjustment.

The COVID-19 outbreak and its global consequences will weigh on Nigeria's economic prospects through the medium term. Nigeria's GDP growth rate is closely correlated with changes in crude oil prices (Figure 1.3 and Figure 1.4). Due to the COVID-19 pandemic, output in advanced economies is expected to contract by about 7 percent in 2020, putting downward pressure on oil prices. Notably, the pandemic is already slowing economic activity in Nigeria's major trading partners. Indonesia's economy is signaling stagnation in 2020, for instance, and contractions are expected in India (-3.2 percent), the United States (-6.1 percent) and the Euro Area (-9.1 percent).¹ Although oil prices are notoriously difficult to forecast, one likely scenario is for the average price of Nigerian crude to fall from \$65 per barrel (/bbl) in 2019 to \$30/bbl in 2020, the price assumed in this update.

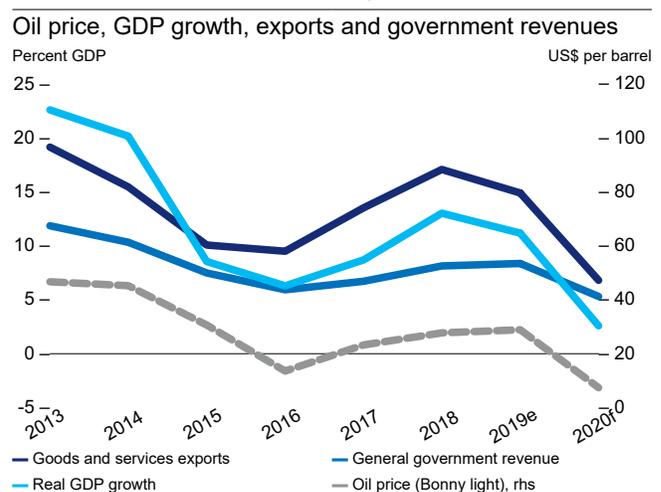
The domestic spread of COVID-19 is expected to alter consumer behavior, undermine consumer and business confidence, and disrupt production, with

Figure 1.3. The collapse in oil prices is weighing on Nigeria's economic growth prospects...



Source: NBS, CBN and World Bank estimates.

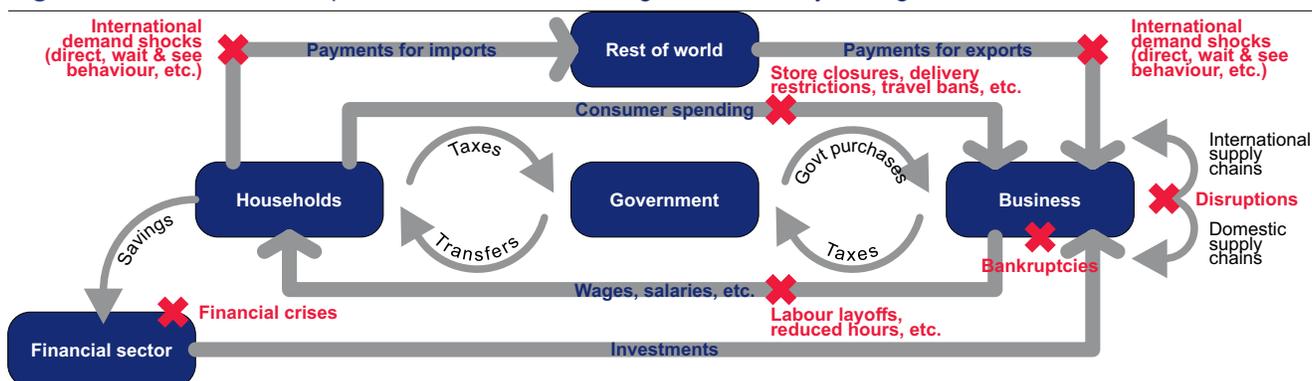
Figure 1.4. ...as Nigeria's growth, exports, and government revenues are closely correlated with oil prices.



Source: NBS, CBN and World Bank estimates.

¹ World Bank Global Economic Prospects (June 2020).

Figure 1.5. The COVID-19 pandemic will affect the Nigerian economy through numerous channels.



Source: Baldwin and Weder di Mauro (2020).

Table 1.1. To different degrees, the COVID-19 pandemic will affect virtually all economic sectors in Nigeria.

Major Economic Activity	Exposure to COVID-19	Level of employment (000's)	Share in total employment (%)	Share of male (%)	Share of female (%)	Employed workers (%)	Self employed workers (%)	Unpaid household workers (%)
Education	Low	2,523	4.3	49.3	50.7	17.1	1.0	1.4
Human Health and Social Services	Low	1,974	3.3	38.3	61.7	13.5	0.5	3.4
Administrative and Support Services	Low	434	0.7	81.6	18.4	2.4	0.3	0.3
Electricity, Gas, Steam & Air Conditioning Supply	Low	7	0.0	100.0	0.0	0.0	0.0	0.0
Water Supply, Sewerage, Waste Management & Remediation	Low	84	0.1	80.1	19.9	0.4	0.1	0.0
Agriculture	Low-medium	32,358	54.7	74.5	25.5	20.0	61.9	79.9
Construction	Medium	1,614	2.7	98.0	2.0	6.4	1.9	0.3
Financial and Insurance	Medium	884	1.5	64.3	35.7	6.8	0.1	0.2
Mining and Quarrying	Medium	112	0.2	92.2	7.8	0.2	0.2	0.0
Arts, Entertainment and Recreation	Medium-high	445	0.8	81.0	19.0	3.4	0.1	0.0
Transportation and Storage	Medium-high	2,390	4.0	99.0	1.0	7.2	3.5	0.4
Information and Communication	Medium-high	388	0.7	78.5	21.5	2.5	0.2	0.0
Accommodation and Food Services	High	935	1.6	12.3	87.7	0.2	1.9	2.3
Real Estate	High	66	0.1	96.1	3.9	0.0	0.2	0.0
Manufacturing	High	4,922	8.3	61.1	38.9	8.2	8.5	6.5
Trade	High	10,015	16.9	35.9	64.1	11.9	19.6	5.1

Source: Nigerian authorities, ILO, and World Bank estimates.

Notes: (1) Economic activities excludes professional, scientific, and technical services and other services; (2) level of COVID-19 risk adapted from ILO Monitor 2nd edition: "COVID-19 and the World of Work".

deeply negative consequences for the economy. Figure 1.5 summarizes the transmission channels through which COVID-19 affects the economy. Most notably, its spread within Nigeria will likely weaken domestic demand as consumers adopt precautionary behaviors and government containment measures will hinder economic activity. Informal workers in Nigeria are especially vulnerable to the latter type of disruption because they have no employment-related protection and no social safety nets. This is highly significant because the informal economy represents 41 percent of GDP and employs 53 percent of Nigeria's active labor force. The domestic outbreak of COVID-19 is pushing up spending on public health, social protection, and economic support measures designed to address market disruptions. As its fiscal resources are already severely reduced by the oil price shock, a sudden surge in emergency spending may crowd out public investments in physical and human capital, lowering prospects for Nigeria's long-term growth.

Nigeria rapidly put in place strict measures to contain the domestic spread of COVID-19; though welcome, they are having unintended adverse consequences for growth. The government has, e.g., restricted the movement of people, limited the size of gatherings, closed air borders, extended its land border closures (to include human traffic), tightened controls on access to seaports, and set a curfew. Coupled with voluntary behavioral changes by individuals and firms, the containment measures are having direct impact on virtually all areas of the economy (Table 1.1). A telephone survey by the research firm SBM Intel found that workers are pessimistic about the post-pandemic outlook for their own sectors.² This uncertainty is likely to devitalize investment in 2020 whether or not the domestic spread of COVID-19 is contained.

Women and workers in the informal sector are more likely to be affected by the pandemic and associated containment measures. So far, countries

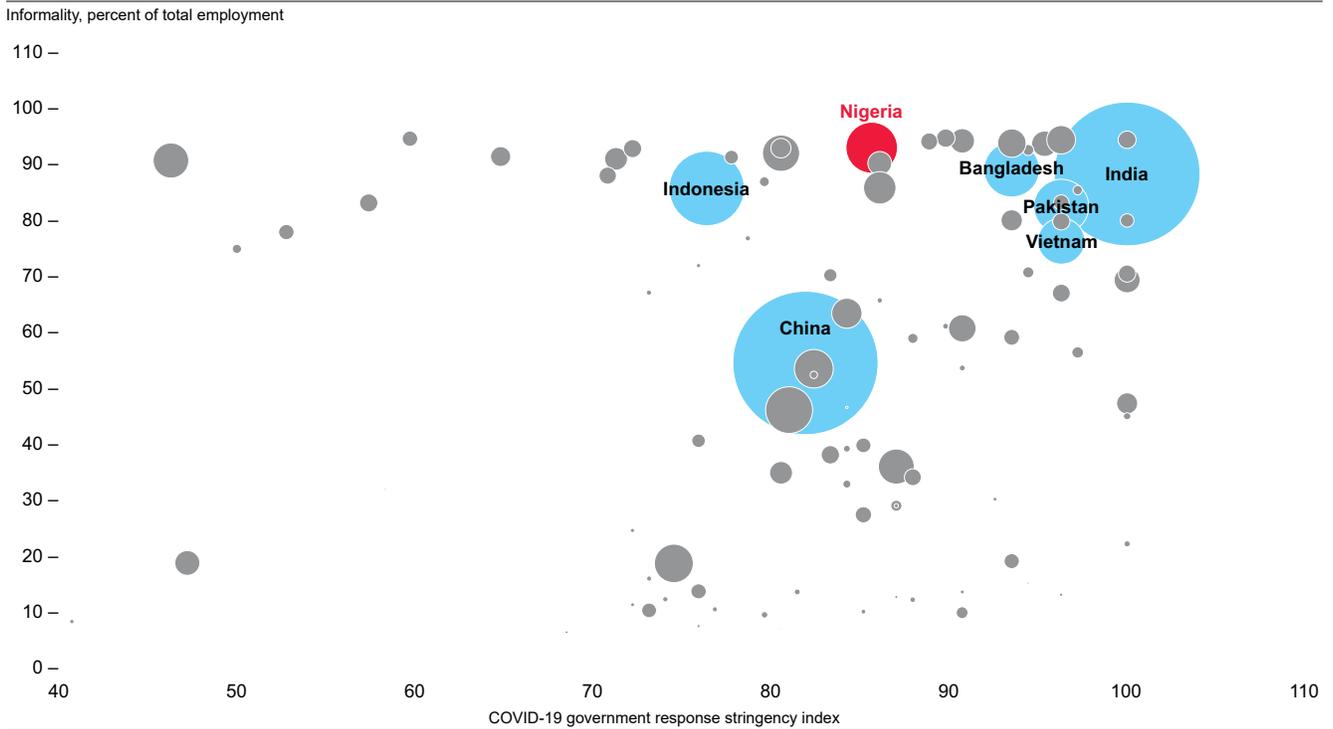
with larger informal sectors implemented more stringent containment measures (Figure 1.6). However, these measures can disproportionately impact informal workers. Not only do these individuals often have low income and little savings, but they are also likely to work in occupations that require face-to-face interaction. In Nigeria, the sectors most exposed to COVID-19-related economic disruptions are also those that have the largest shares of female workers. Notable examples are trade, manufacturing, accommodation, and food services (Figure 1.7)—sectors where a total of 9.2 million female workers in Nigeria earn their living. Meanwhile, diversion of scarce resources to emergency health care measures may reduce preventive care, so that early childbirth and domestic violence add to the channels for disproportionate impact of the pandemic on women, and children.

The Nigerian economy is expected to contract in 2020 by at least 3 percent. The projection assumes that oil prices will average \$30/bbl, the domestic spread of COVID-19 will be largely contained, and current response policies will continue. The slump in global oil prices will slash exports: more than 80 percent of Nigeria's exports derive from the oil sector. Although softened domestic demand will markedly reduce imports, it is unlikely to be enough to offset export decline, and Nigeria's trade balance is projected to deteriorate. Gross domestic demand is also expected to contract as consumers spend less, there is spending-led fiscal consolidation, and uncertainty about the economy discourages private investment. Because its fiscal space is limited and its external buffers depleted, Nigeria's fiscal and monetary policy response has been modest³ by the standards of comparable countries (Figure 1.8), making it harder for the country to avoid recession (Figure 1.9). However, agricultural output may make a positive contribution to growth in 2020, despite sectoral challenges and the disruption of cross-border trade (see: Focus section on the Border Closure).

² Conducted April 16–19, 2020, the survey was based on interviews with workers in the financial, entertainment, travel, oil and gas, trade and transportation, construction, and automotive sectors. For more information see: <https://www.sbmintel.com/2020/05/chart-of-the-week-post-covid-19-industry-risks/>

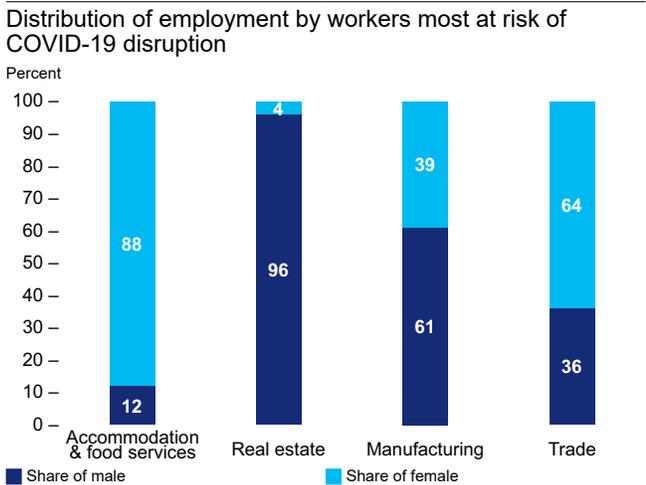
³ Both the government and the private sector are contributing to the help fight the COVID-19 pandemic in Nigeria. For instance, the government plans to withdraw US\$150 million from Nigeria Sovereign Investment Authority (NSIA) Stabilization Fund to augment Federal Account Allocation Committee (FAAC) disbursements to state and local governments across the country. Also, the private sector Coalition Against COVID-19 (CACOVID) has raised over N27 billion (US\$75 million) to help combat the COVID-19 pandemic.

Figure 1.6. Worldwide, government responses to COVID-19 are more stringent the larger the size of a country's informal sector.



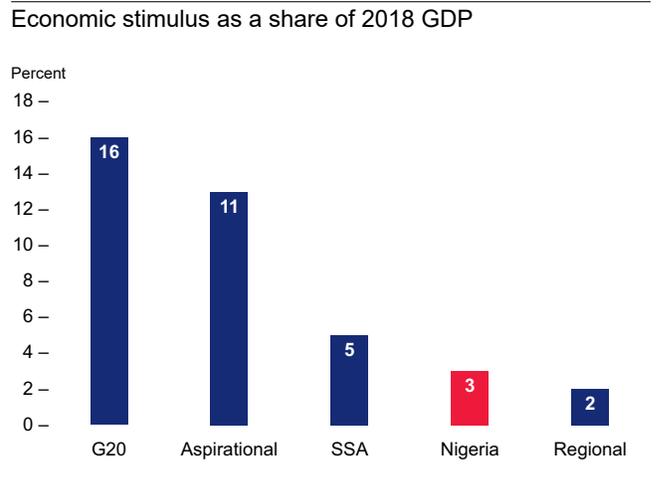
Source: ILO, Oxford COVID-19 Government Response Tracker and World Bank estimates.
 Notes: (1) Stringency index as calculated by Oxford COVID-19 Government Response Tracker, which covers school closures, workplace closures, cancellation of public events, restrictions on gatherings, closures of public transport, stay-at-home requirements, restrictions on internal movement, international travel controls, and public information campaigns. (2) Bubbles show the relative size of total informal employment in each country, calculated by multiplying the percentage of informal employment by total employment, as per ILOSTAT's modelled estimates.

Figure 1.7. In Nigeria, female workers are over-represented in sectors exposed to COVID-19-related economic disruptions.



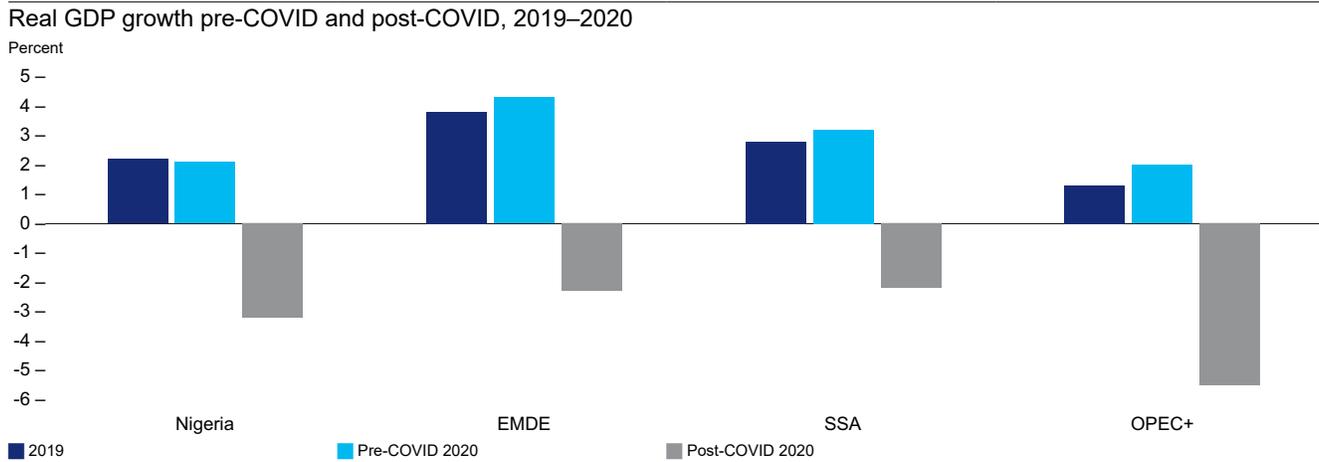
Source: ILO and World Bank estimates.
 Notes: (1) Economic activities excludes professional, scientific, technical, or other services; (2) COVID-19 risk adapted from ILO Monitor 2nd edition: "COVID-19 and the World of Work".

Figure 1.8. Nigeria's planned economic stimulus policies are modest compared to those of peer countries.



Source: Overseas Development Institute (ODI) and World Bank estimates.
 Notes: (1) Economic stimulus includes both fiscal (aid, grants, and guarantees) and monetary (central banks' explicit monetary liquidity injection, plus expected impact from lowering policy interest rates; does not reflect measures by regional central banks); (2) Aspirational peers comprise Brazil, Mexico, Russia, and South Africa. Regional peers comprise Angola, Ethiopia, Ghana, Kenya, Senegal, and Uganda.

Figure 1.9. COVID-19 has dramatically worsened economic forecasts for 2020.



Source: Global Economic Prospects and World Bank estimates.
 Notes: EMDE = Emerging Markets and Developing Economies. SSA = Sub-Saharan Africa.

Box 1.1. Pre-existing structural challenges left the Nigerian economy especially vulnerable to the COVID-19 outbreak and its consequences.

Before COVID-19 broke out, Nigeria already had structural challenges that made it more vulnerable to a global pandemic, particularly macroeconomic and health issues. This box discusses how Nigeria compares to aspirational and regional countries on these issues.

Nigeria’s macroeconomic vulnerabilities relate to the labor market structure, fiscal outturns, and the fragile external stability (Figure B1.1.2). The Nigerian labor force consists disproportionately of informal, part-time, and self-employed workers—83 percent of nonagricultural employment is informal; and 81.4 percent of total employment consists of workers who are self-employment. Moreover, in the national labor market total employment rates are also low. Collectively, this suggests many workers in Nigeria are highly vulnerable to an economic downturn, particularly since social safety nets are inadequate or nonexistent. Meanwhile, the country has limited fiscal buffers because government revenues are low. With the hydrocarbon sector contributing more than half of all government revenues, the current oil price collapse will hit the government budget hard. The level of fiscal outturns and the composition of spending will also limit Nigeria’s response to the crisis. Low oil prices also reduce external buffers as international reserves are relatively low, the exchange rate lacks flexibility, and all major sources of international flows are volatile. The last of these points relates especially to hydrocarbon goods, which represent 94 percent of merchandise exports, and remittance inflows, which comprise 6 percent of GDP. Both these flows are high compared to regional and aspirational peers.

The health heatmap suggests there is a need to improve the country’s health system and its preparedness for pandemics (Figure B1.1.2). Compared with regional and aspirational countries, in Nigeria current per capita expenditure on public health is relatively low and out-of-pocket expenditure relatively high. The first helps explain why Nigeria is under-prepared for pandemics and also clarifies some health system weaknesses

Box 1.1 continued

Figure B1.1.1. Heatmap of macroeconomic vulnerabilities.

		NGA	Peer Countries							
			BRA	COL	IND	IDN	MEX	PER	RUS	ZAF
1. Labor Market	Self-employed (% of total employment)	81.4	32.7	51.2	76.3	51.5	31.7	54.4	6.8	15.6
	Part time employment, total (% of total employment)	41.3	27.2	27.1	na	32.5	23.8	23.3	8.9	15.26
	Informal employment (% of total non-agricultural employment)	82.9	26.4	50.0	na	62.7	33.1	40.5	24.3	21.4
	Informal employment (% of total employment)	80.4	30.3	55.9	na	67.5	29.1	69.2	24.4	21.8
	Employment to population ratio, 15+, total (%) (modeled ILO estimate)	48.6	56.2	62.1	46.7	64.3	58.6	75.1	59.0	40.2
2. Fiscal Policy	Fiscal balance (% of GDP)	-5.0	-6.0	-2.2	-7.4	-2.2	-2.3	-1.4	1.9	-6.3
	Revenue (% of GDP)	7.9	31.9	31.6	19.7	14.2	23.3	20.0	35.8	29.1
	Expenditure (% of GDP)	12.8	37.9	33.8	27.1	16.4	25.7	21.3	33.8	35.3
	Gross Debt (% of GDP)	29.4	89.5	52.9	71.9	30.4	53.4	26.7	14.0	62.2
	Interest payment (% of revenue)	57.5	29.9	10.8	23.7	13.3	14.5	6.6	2.4	12.1
3. Monetary Policy	Exchange rate (1-flexible, 0-fixed)	0	1	1	1	1	1	1	1	1
	Inflation, consumer prices (annual %)	11.4	3.7	3.5	7.7	3.0	3.6	2.1	4.5	4.1
4. Financial sector policy	Bank capital to assets ratio (%)	7.3	10.1	17.0	7.5	15.6	11.0	12.5	10.0	8.4
	Bank liquid reserves to bank assets ratio (%)	52.8	26.2	6.3	na	18.1	6.2	25.5	9.0	3.4
	Bank nonperforming loans to total gross loans (%)	6.0	3.1	4.2	9.5	2.4	2.1	3.3	10.1	3.7
5. External vulnerability	Current account (% of GDP)	-3.8	-2.7	-4.3	-1.1	-2.7	-0.2	-1.4	3.8	-3.0
	Goods exports (% of GDP)	15.9	12.7	13.4	12.2	17.3	37.0	22.1	26.7	25.6
	Service exports (% of GDP)	1.2	1.9	2.9	7.5	3.0	2.4	3.2	3.9	4.3
	Fuel imports (% of merchandise imports)	29.7	15.1	6.9	35.3	16.7	10.0	16.0	0.9	18.6
	Fuel exports (% of merchandise exports)	94.0	12.5	60.0	14.9	23.2	6.7	10.4	52.0	11.1
	International tourism (% GDP)	0.5	0.3	2.0	1.1	1.5	1.9	2.2	1.1	2.7
	Travel/transport exports (% of services exports)	27.6	16.6	19.5	9.3	11.5	7.6	22.8	34.2	13.8
	Remittance inflows (% of GDP)	6.1	0.2	1.9	2.9	1.1	2.9	1.5	0.6	0.3
	Reserves (months of imports)	5.8	13.6	7.1	6.9	5.6	3.9	11.1	12.8	4.8

Sources: WDI, IMF, ILO, and World Bank estimates.

Notes: The indicators for the real, financial, and external sectors and for fiscal and monetary policy present only a limited view of a broad range of factors associated with macroeconomic risks and vulnerabilities. Color coding is based on indicator values relative to each other and should be viewed strictly within the context of the discussion in this note. Darker shades of blue represent heightened vulnerabilities, while lighter shades represent lower vulnerabilities.

Box 1.1 continued

more generally. Drawing on the Global Health Security Index, Figure B1.1.2 shows vulnerabilities in the following areas: prevention of the emergence or release of pathogens; early detection and reporting for epidemics of potential international concern; rapid response to and mitigation of the spread of an epidemic; and health system capacity to treat the sick and protect health workers. The health system would benefit from (1) building the capacities of clinics, hospitals and community care centers; (2) improving communications with health workers during public emergencies; (3) reviewing infection control practices and ensuring the availability of equipment; and (4) upgrading medical countermeasures while ensuring deployment personnel.

Figure B1.1.2. Heatmap of vulnerabilities in the health sector.

	NGA	Peer Countries							
		BRA	COL	IND	IDN	MEX	PER	RUS	ZAF
Current health expenditure per capita, PPP (current international \$)	221	1,472	1,039	253	368	1,036	681	1,404	1,098
Out-of-pocket expenditure** (% of current health expenditure)	77	27	16	62	35	41	28	40	8
Number of Confirmed Cases***	9,855	438,238	25,366	173,763	25,216	81,400	141,779	396,575	29,240
Number of Deaths***	273	26,754	822	4,971	1,520	9,044	4,099	4,555	611
% Population over 60	3	9	8	6	6	7	8	15	5
GHSI Rank	96	22	65	57	30	28	49	63	34
GHSI Country Score*	38	60	44	47	57	58	49	44	55
GHSI Indicators*									
Prevention of the emergence or release of pathogens	26	59	37	35	50	46	43	43	45
Early detection and reporting for epidemics of potential international concern	45	82	42	47	68	71	38	34	82
Rapid response to and mitigation of the spread of an epidemic	44	67	44	52	54	51	52	50	58
Sufficient and robust health system to treat the sick and protect health workers	20	45	34	43	39	47	45	38	33
Commitments to improving national capacity, financing plans to address gaps, and adhering to global norms	57	42	60	48	73	74	63	53	46

Box 1.1 continued

Figure B1.1.2. Heatmap of vulnerabilities in the health sector (continued)

	NGA	Peer Countries							
		BRA	COL	IND	IDN	MEX	PER	RUS	ZAF
Overall risk environment and country vulnerability to biological threats	34	56	51	54	54	57	58	51	62
Health System Analysis*									
Health capacity in clinics, hospitals and community care centers									
Medical countermeasures and personnel deployment									
Healthcare access									
Communications with healthcare workers during a public health emergency									
Infection control practices and availability of equipment									
Capacity to test and approve new medical countermeasures									

Sources: World Bank, World Health Organization (WHO), Nigerian Center for Disease Control, Global Health Security Index, and World Bank estimates.
 Notes: The Global Health Security Index ranks 195 countries. Current per capita spending on health is expressed in international dollars at purchasing power parity. See: <https://www.ghsindex.org>. In ranking the 195 countries, the higher the ranking the better, e.g., Nigeria scores higher than Algeria. For the prevention, detection, response, health system, norms and risk environment scores, scores are normalized from 0 to 100, with 100 most favorable.
 * Darker shades of blue represent heightened risks, while lighter shades represent lower risks.
 ** Share of out-of-pocket payments (spending on health by households themselves) as share of total current health spending.
 *** Data based on WHO situation reports as of May 31, 2020.

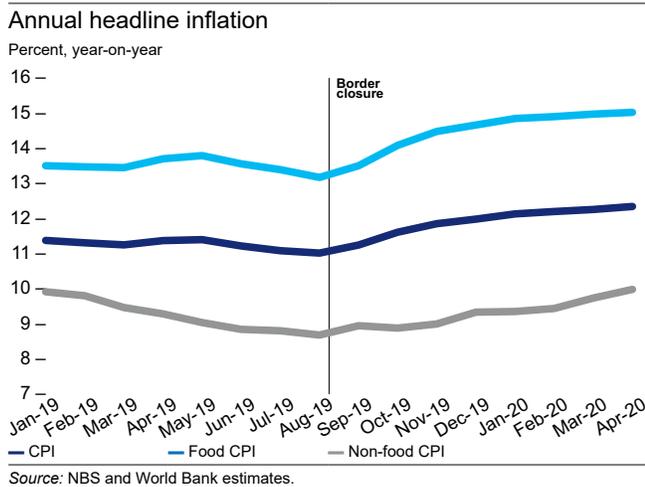
Prices: COVID-19 is intensifying inflationary pressures

Rising food prices were already putting upward pressure on the inflation rate prior to the emergence of COVID-19. The annual headline inflation rate increased from 11.3 percent in H1 2019 to 11.5 percent in H2 2019. In 2019, food prices rose by an average of 13.7 percent, and food products represent about 50 percent of the consumption basket (Figure 1.10). Persistent conflict and instability in multiple parts of

the country constrained agriculture and trade activities and disrupted agricultural supply chains. Moreover, the closure of Nigeria’s land borders for the movement of goods in August 2019 significantly increased food prices (see section on Nigeria’s Border Closure). In December 2019, food prices had increased by 14.7 percent (end-period), well above the increase of 13.6 percent observed during the same period a year earlier.

Monetization by the Central Bank of Nigeria (CBN) of the fiscal deficit and the increase in credit to the economy also contributed to inflationary pressures

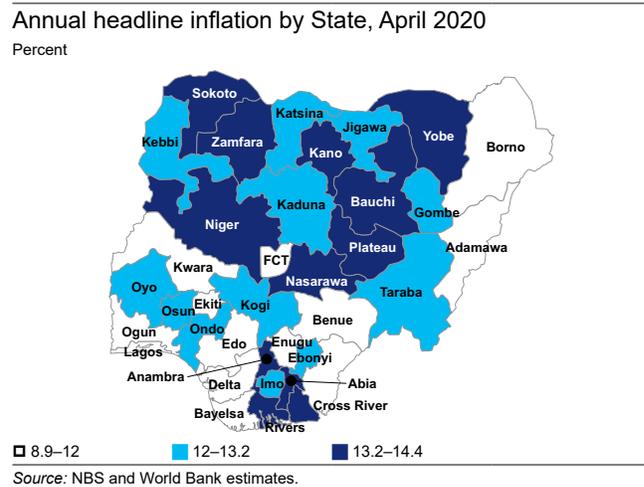
Figure 1.10. Inflation edged upward in 2019, driven by rising food prices.



in 2019. Despite efforts to mop up excess liquidity in the banking system through the issuance of Open Market Operations (OMO) bills, the monetization of over 80 percent of the Federal Government fiscal deficit contributed to higher inflation. Due to government revenue shortfalls and borrowing ceilings imposed by the legislature, the CBN contributed to additional public spending. Outstanding net claims on the Federal Government by the monetary authorities increased from ₦1.4 trillion in January 2019 to ₦4.1 trillion in November 2019. However, the CBN did not completely sterilized the monetization of the public deficit, as ₦1.1 trillion remained in circulation. As this quasi-fiscal activity crowded out banks’ private-sector lending (see financial sector section), the CBN imposed a minimum Loan-to-Deposit Ratio (LDR) in mid-2019. The minimum LDR ratio was initially set at 60 percent and increased to 65 percent in December. The LDR policy spurred rapid credit growth, and bank credit increased by 13.7 percent in H2 2019, with consumer credit (mostly short tenure) expanding by 40 percent. By December 2019, net domestic credit was ₦36.2 trillion, up 31 percent year-on-year.

By yearend 2020 the impact of COVID-19 on both domestic production and imports is projected to drive inflation up to 13.8 percent. The headline inflation rate stood at 12.2 percent in Q1 2020, up from 11.3 percent

Figure 1.11. In early 2020, northern states had higher inflation rates.



in Q1 2019. Impacted by increased impediments to trade (border closure, and foreign exchange restrictions), the food component of the consumption basket increased by 14.9 percent in Q1 2020. Extension of lockdown measures, further disruptions to domestic agricultural production, and naira depreciation is expected to put additional upward pressure on prices, though it will be moderated by lower fuel prices and lower consumer demand.

The External Sector: The twin hit of the COVID-19 pandemic and the oil shock is raising Nigeria’s external vulnerabilities

Before COVID-19, Nigeria’s current account deficit was already widening, portfolio flows had reversed, and external reserves were declining. The current account balance shifted from a surplus of 1.0 percent of GDP in 2018 to a deficit of 3.8 percent by the end of 2019—Nigeria’s first current account deficit since the 2015 oil shock (Figure 1.12). The trade balance deteriorated by 4.5 percent of GDP between 2018 and 2019 as oil exports declined (relative to GDP) while imports rose markedly, though the latter effect was due

in part to the closure of Nigeria’s land border in August, which boosted formal imports. Meanwhile, net foreign portfolio inflows (FPI), the main financing source of the current account deficit in 2019, sharply reversed, dropping from US\$17 billion in H1 2019 (when they spiked after the February elections) to a negative US\$8 billion in H2 as foreign investors reacted to developments in global financial markets and declining volumes and moderating rates of domestic OMO bills, of which they held a large share of about a third (Figure 1.13). External reserves dropped by US\$6.5 billion between end-H1 and end-H2 2019. As in previous years, the services and income accounts were negative, and current transfers, mainly remittances, remained high at over 5 percent of GDP, equivalent to about 40 percent of oil export receipts. In nominal terms, remittance inflows amounted to US\$23.8 billion in 2019. Nigeria is the largest recipient of remittances in Sub-Saharan Africa and the sixth largest among low- and middle-income countries worldwide.

Nigeria’s external position had already eroded before the COVID-19 pandemic, and the country’s reliance on oil exports and short-term financial flows left it highly vulnerable to the crisis. Nigeria’s balance of payments is especially sensitive to shocks to oil prices, which are transmitted to oil exports, remittances, and

portfolio flows. The collapse of global oil prices led to a sharp contraction in the value of Nigeria’s oil and gas exports, which plunged by 19 percent in Q1 2020, in comparison with Q4 2019. As oil and gas represent over 80 percent of total goods and service exports, the impact on the balance on payments was severe. Moreover, the slump in global oil prices has persisted, leading major producers to partially suspend operations, and due to the technical difficulty of restarting production in idle fields, Nigeria’s oil and gas exports will be slow to recover even after prices rebound.

In addition to keeping oil prices low, the economic downturn in developed countries is affecting remittances. Most of Nigeria’s diaspora populations are located in advanced economies, where rising unemployment rates are constricting remittances, which had previously proved less volatile and procyclical than other international capital flows. The simultaneous decline in both oil prices and remittances is a unique feature of the COVID-19 pandemic. Though oil prices plunged in 2015, remittances were largely unaffected. However, now the pandemic-related global economic slowdown is impacting both oil prices and remittances, compounding its adverse impact on Nigeria’s balance of payments.

Figure 1.12. The current account balance turned negative in 2019 and is expected to remain so in 2020.

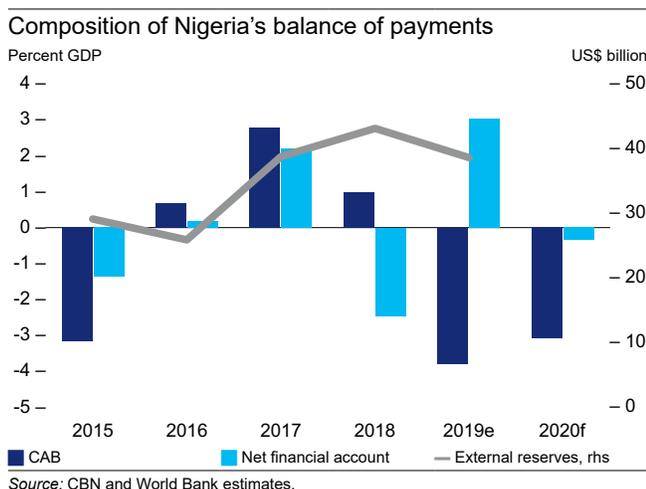
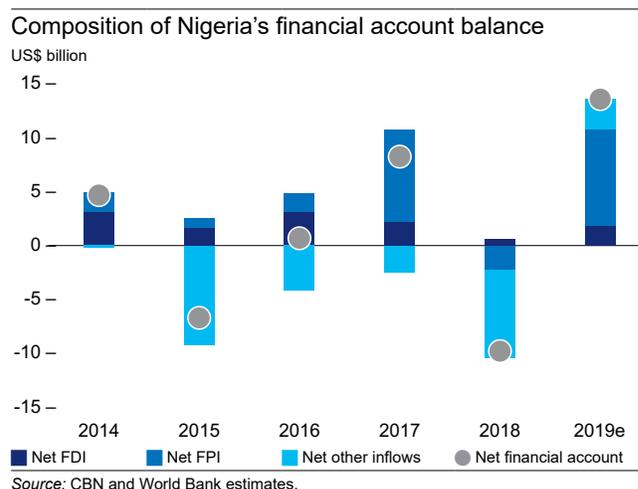


Figure 1.13. FPI were the largest share of capital inflows in 2019, rendering the BoP more vulnerable to COVID-19.

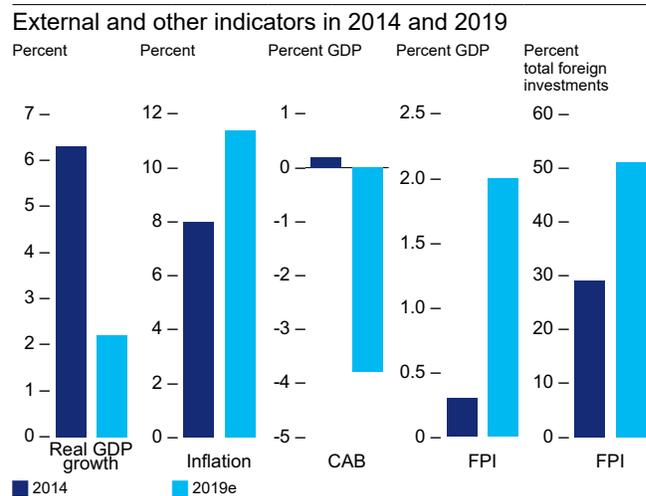


A persistent current-account deficit and falling FPI inflows are exacerbating the deterioration of Nigeria’s external position. In 2019, the current-account deficit was mainly financed by net FPI inflows of US\$9 billion, which were attracted by a stable exchange rate and high returns on fixed-income securities (especially OMO bills) early in the year. However, due to increasing risk aversion in global capital markets, total FPI flows into Nigeria declined by 54 percent during Q1 2020. Meanwhile, in a context of pervasive policy and regulatory uncertainty, weakening demand, and rising macroeconomic headwinds, net FDI inflows fell in 2019 by 8 percent from their already low level of less than US\$2 billion, or 0.5 percent of GDP. While FPI and FDI both declined, FDI fell faster, causing the share of FPI in total capital inflows to rise to over 50 percent in 2019. The shift from FDI to FPI represents an increase in Nigeria’s reliance on “hot money” to finance the BoP, which exacerbates the vulnerability of the current account (Figure 1.13). Finally, net external reserves fell from US\$42.1 billion in 2018 to US\$37.8 billion by end-2019, equivalent to 4.6 months of imports, and intensifying pressures on the naira exchange rate. These variables are all markedly worse than on the eve of the 2015–16 shock.

Nigeria is in a significantly weaker macroeconomic position than it was during the 2015/16 recession, and it has fewer policy instruments to cushion the shocks induced by the pandemic. In 2014, just before the recession, Nigeria’s GDP growth rate was a robust 6.3 percent. By contrast, when the COVID-19 pandemic struck, Nigeria’s economy was growing at a rate of 2.2 percent, and its external indicators were generally weaker (Figure 1.14). Moreover, the recent collapse of global oil prices has proven far steeper than the previous price shock. Whereas in 2016 Nigeria’s benchmark crude price (Bonny Light) averaged US\$45 per barrel, it could average just US\$30 per barrel in 2020. Nigeria’s external position is also substantially weaker than it was during at the start of the 2015–16 shock. At the onset of the pandemic, the current account was already running a deficit of 3.8 percent of GDP—its first deficit since

2015—and its external reserves had fallen to 4.6 months of import cover, almost half of which were the equivalent of foreign-held short-term fixed income securities. FDI, affected by policy uncertainty, has fallen sharply, increasing Nigeria’s reliance on volatile FPI. Finally, international remittances, which in previous downturns had been a source of stability, are being disrupted by the impact of COVID-19 and are projected to decline by at least 25 percent in 2020.

Figure 1.14. Unlike the 2015–16 oil shock, when COVID-19 emerged Nigeria’s external vulnerabilities were already heightened.



Source: NBS, CBN, and World Bank estimates.

In 2020 the current account is expected to hold steady at about -3.1 percent of GDP in 2020, although imports and exports are both projected to contract considerably (Figure 1.15). Nigeria’s exports are expected to fall by US\$40.3 billion, 9 percent of GDP, because of the drop in global oil prices, and imports are expected to fall by US\$50.5 billion, 12 percent of GDP, because of sluggish demand and disruptions in global supply chains. Meanwhile, international remittances are projected to decline by up to US\$6 billion, 1.5 percent of GDP. The relative stability of the current account deficit masks an increase in the vulnerability of external accounts as the decline in trade flows intensifies Nigeria’s sensitivity to future shocks.

Figure 1.15. Goods and services imports will continue to drive changes in the current-account balance in 2020.

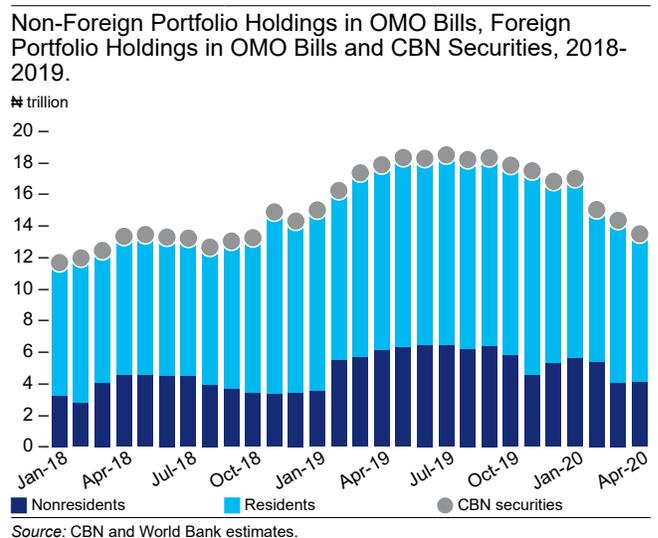


In line with projections for the global economic recovery, oil exports and remittances are both expected to rebound in 2021. A growing agricultural sector and support for agro-processing could boost nonoil exports, providing much-needed diversification of foreign-exchange earnings. Meanwhile, the start of operations at the Dangote refinery is expected to reduce both crude exports and fuel imports, with a modest net impact on the balance of payments due to savings on transportation costs. As global risk aversion eases and investors seek returns in recovering emerging economies, expanding exports and a stronger capital account are expected to bolster international reserves and help accommodate higher demand for imports spurred by rising levels of public and private investment. The evolution of food and consumer goods imports will largely depend on changes in trade policies as part of the implementation of the African Continental Free-Trade Area agreement. By the end of April, Nigeria's external reserves declined to US\$32.8 billion, with some room still available to facilitate the management of the external balances, supported by the exchange-rate adjustment and increased concessional financing.

Monetary and Exchange Rate Policies: Actions have been taken to mitigate the impact of COVID-19, but further measures are necessary

In 2019, the monetization of the fiscal deficit heightened underlying tensions in monetary and exchange-rate policies objectives. In 2019, the CBN was committed to maintaining a stable nominal exchange rate in both the official and the investors and exporters foreign exchange (IEFX) windows.⁴ For most of 2019, the CBN increasingly issued OMO bills at high yields to attract foreign portfolio investments, buttress foreign reserves, and stabilize the exchange rate. The stock of CBN bills grew substantially during the year, hitting the equivalent of US\$55 billion by yearend with yields at 12.2–15.3 percent (Figure 1.16), with about a third of the issues held by foreigners.⁵ However, attractive yields on both CBN bills and government securities weakened incentives for commercial banks to lend to the private sector. The CBN responded in early July 2019 by introducing a minimum LDR to compel commercial banks to increase lending to the

Figure 1.16. In 2019 issues of CBN securities rose significantly; one-third were held by foreign investors.



⁴ The CBN also continued to manage the exchange rates via multiple exchange widows and restricted the supply of foreign exchange for imports of 43 groups of products.

⁵ True yields on CBN securities at the last OMO auction in 2019, for securities with maturities of 180 and 361 days. The naira value of the OMO securities issued through 2019 converted to US\$ at the closing rate at Nigerian Autonomous Foreign Exchange Market (NAFEX). Source: CBN Quarterly Statistical Bulletin and website.

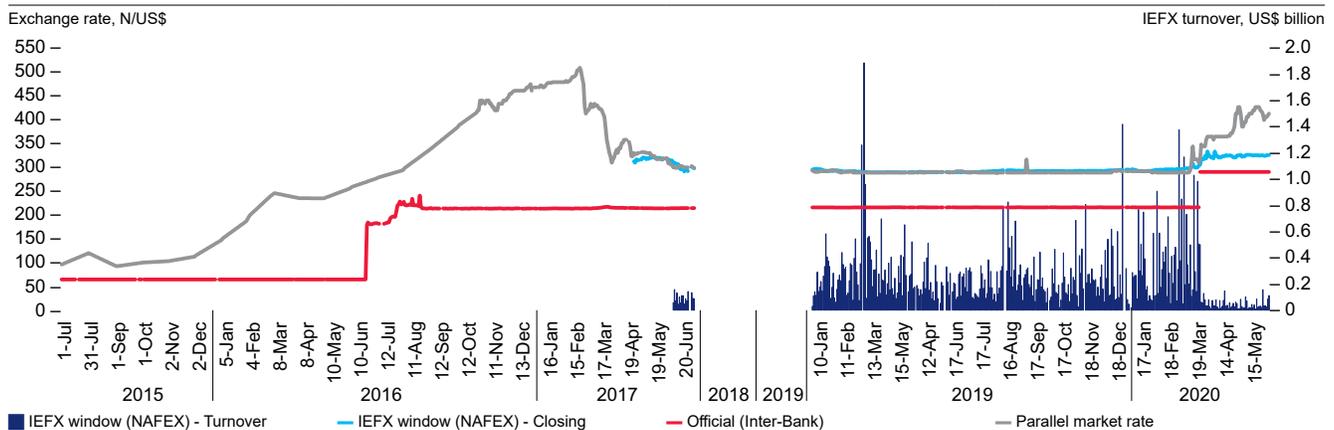
private sector,⁶ but most new loans were short-term and consumption-oriented—and despite the penalties administered through the cash reserve ratio (CRR), not all banks achieved the targets, in part due to concern that the policy would increase nonperforming loans (NPLs). To boost growth, the central bank continued subsidized lending to specific sectors; the impact of that has yet to be evaluated. The CBN also provided more credit to the federal government through its overdraft facility, effectively monetizing over 80 percent of the federal government deficit. Together, the multiple competing policy objectives and fiscal interventions complicated monetary policy and undermined its primary objective of price stability.

In early 2020, the CBN began to adjust its policies in light of the deterioration in market dynamics caused by the COVID-19 outbreak. The significant foreign portfolio outflows that began in late 2019 as the global economy slowed were exacerbated by weakening sentiment toward emerging-market assets due to COVID-19. In March, the CBN adjusted the official exchange rate by 15 percent, bringing it closer to the other rates, a major step toward exchange-rate unification. The CBN also stopped intervening in the IEFX window and allowed the rate to slide in response to market dynamics. The various exchange windows have been converging to the IEFX rate, and in April the CBN

committed to moving to a more flexible exchange-rate regime, intervening only to smooth large exchange-rate fluctuations and avoiding foreign-exchange rationing. However, from late March through May the CBN kept the official exchange rate, which applies to government operations, at ₦360/US\$, and the spread between the official and IEFX rates widened, an indication that the devaluation of the official exchange rate has only partly responded to the strain on the balance of payments (Figure 1.17).

The CBN has introduced measures to lessen the economic impact of the COVID-19 crisis. After tightening its monetary stance in January by raising the CRR from 22.5 to 27.5 percent, the CBN lowered interest rates on all CBN subsidized interventions from 9 to 5 percent and imposed a one-year moratorium on interest payments for CBN facilities. It also established a ₦50 billion credit facility targeted to households and firms affected by the crisis, provided an additional ₦100 billion in healthcare loans to pharmaceutical companies, and reached an agreement with the Bankers’ Committee to avoid laying off bank employees. In May, the CBN reduced its Monetary Policy Rate (MPR) from 13.5 to 12.5 percent, signaling a looser policy stance to support economic recovery (Figure 1.18).

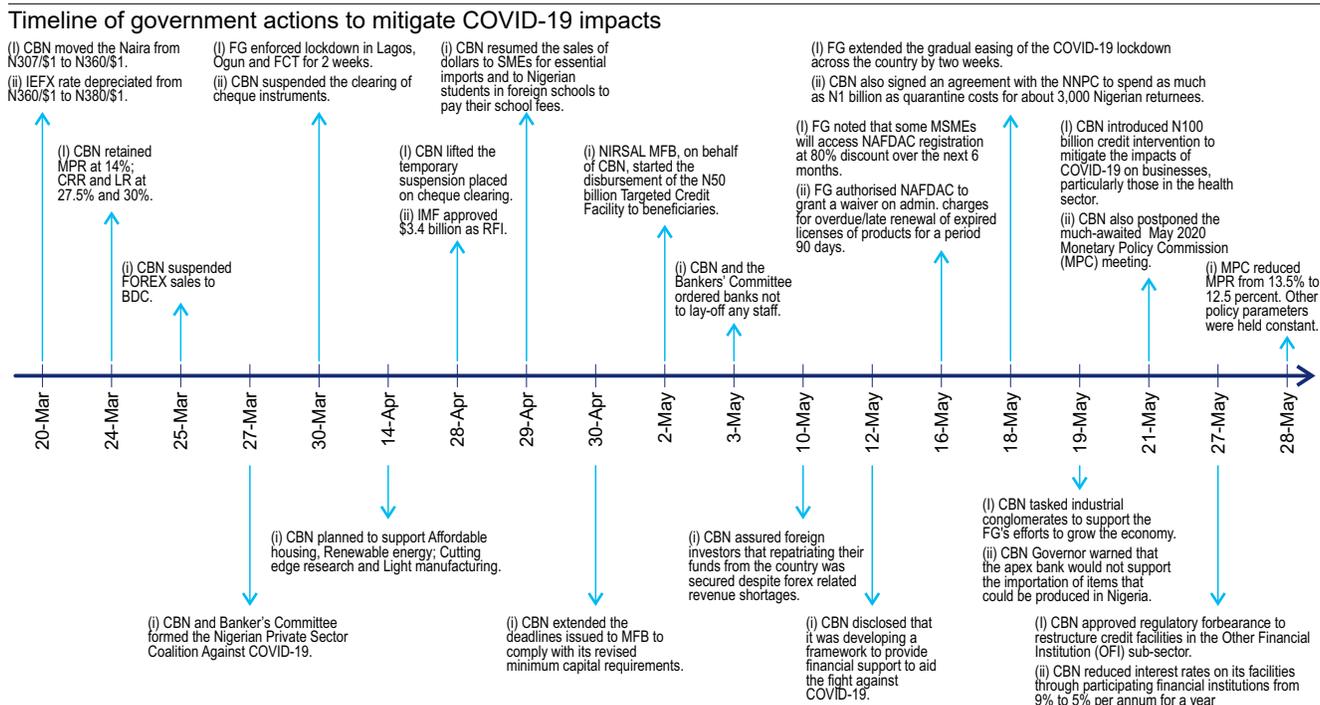
Figure 1.17. The adjustment of the official exchange has only partially reflected the strain on the balance of payments.



Source: CBN, Financial Markets Dealers Quotation (FMDQ), Aboki FX and World Bank estimates.

⁶ In October 2019, the CBN also barred all resident nonbank institutions from participation in OMO auctions, officially to boost liquidity in other segments of the money market and drive down interest rates, though it was probably also intended to drive foreign inflows through OMOs.

Figure 1.18. The CBN has progressively adapted monetary policy in response to the COVID-19 crisis.



The COVID-19 pandemic and associated lockdown measures have temporarily limited demand for foreign exchange; however, the gradual lifting of restrictions may reveal a need for further market adjustment. Markedly lower turnover at the IEFX window reflects the pandemic’s dampening effect on imports, travel, government, and public securities activity. The CBN also suspended sales of foreign exchange for small and medium-sized enterprises (SMEs), invisible transactions, and Bureaux de Change (BDCs) until the end of April. Foreign exchange market turnover is expected to gradually pick up when full banking activities resume, and lockdown measures are lifted in early June.

The Financial Sector: The pandemic could slow recent improvements

The financial system in 2019 performed well on a range of financial soundness indicators. Profitability indicators improved considerably—bank returns on assets rose from 2.0 percent in 2018 to 2.5 percent in 2019, and bank returns on equity jumped from 22.7 to 29.4 percent, driven by a surge in both the net interest margin and in fee income, as well as lower loan provisioning charges as the quality of the overall loan portfolio improved. Meanwhile the NPL ratio dropped from 11.7 to 6.1 percent, thanks to a 40 percent reduction in NPLs from write-offs and upgrades in loan classification as the government continued to settle arrears with suppliers and a 14 percent increase in the portfolio of gross loans to the private sector. Because growth of capital did not keep pace with growth of risk assets, the capitalization ratio fell from 15.2 to 14.6 percent. As of yearend 2019 bank liquidity remained adequate.

However, the COVID-19 shock poses serious risks to the financial sector, as mounting pressures in Nigeria’s external sector and the intensifying stress in global financial markets threaten its stability.

The economic downturn and the collapse of global oil prices will likely reverse the declining trend in banking-sector NPLs, starting with loans to the oil sector, which represent almost 30 percent of private-sector credit, and progressing through the remaining sectors as demand weakens. On-balance-sheet dollar-denominated exposures, which represented 38 percent of banks’ loan portfolio and 55 percent of their liabilities at end-2019, will also be a source of strain. The credit to private sector has severely declined in April 2020 as effects of the lock down and constrained economic activity as it sharply dropped by 65.7 percent in April 2020 (Figure 1.19). Meanwhile, credit to the government grew by 7.2 percent, rebounding from a 53 percent decline in January 2020.

Pressures in the external sector and the stress COVID-19 caused in global financial markets could destabilize Nigeria’s financial sector.

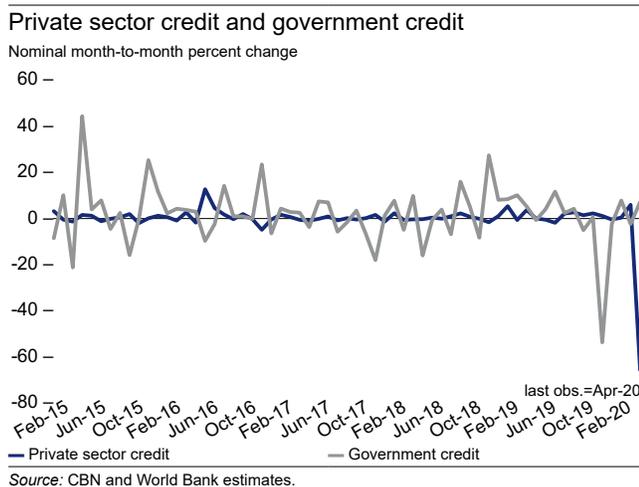
As part of its COVID-19 response, the CBN has implemented regulatory measures to safeguard stability, including granting regulatory forbearance to banks to restructure the terms of facilities in affected sectors and triggering business-continuity processes to ensure financial

institutions continue to serve the public while adopting new safety measures. However, the global economic downturn and the collapse of global oil prices will likely reverse the declining trend in banking-sector NPLs, starting with loans to the oil sector, which represent almost 30 percent of private-sector credit, and progressing through the rest of the economy as demand weakens. On-balance-sheet dollar-denominated exposures—38 percent of bank loan portfolios and 55 percent of their liabilities as 2019 ended—will also be a source of strain.

The CBN has acted to narrow the spread between key exchange rates and implement a stimulus package, yet the financial sector still remains vulnerable to a trio of COVID-19-related risks:

(1) Shrinking domestic demand is expected to cause the nonoil economy to contract, and despite CBN’s efforts to scale up targeted interventions, only agriculture is likely to contribute positively to growth in 2020. (2) The disruption of global supply chains is expected to push up prices for imported goods and services, intensifying inflationary pressures. (3) The contraction of the oil sector is likely to worsen the NPL ratio, and the banking system could be confronted by capital erosion. That is why asset quality must be carefully monitored. With COVID-19 inducing capital outflows to safer markets, unless the outflow pressures are eased Nigeria may find it very difficult to attract investment during the recovery from COVID-19.

Figure 1.19. The growth of credit to the private sector has been affected by COVID-19.



Fiscal Policy: To deal with the impacts of COVID-19 it will be necessary to safeguard revenues and reprioritize spending

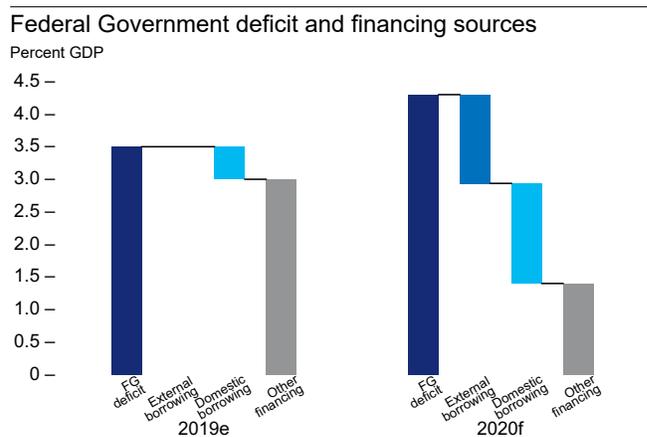
The pandemic and the collapse of global oil prices are aggravating Nigeria’s already difficult fiscal position. Its chronically low revenue collection is a major structural challenge. Since 2015, the general government revenue-to-GDP ratio has averaged just

6–8 percent, one of the lowest in the world. About 50 percent of revenue comes from the oil and gas sector, leaving Nigeria extremely vulnerable to global oil-price shocks. Before the pandemic, Nigeria already mobilized less domestic revenue relative to the size of its economy than almost any other country, severely limiting the fiscal space it had to invest in building human and physical capital. Inadequate resources and inefficient public spending have long undermined the government’s ability to provide enough basic services to address the needs of its rapidly growing population, and the absence of fiscal buffers limits its capacity to respond to shocks.

In 2019, just before onset of the pandemic, the fiscal deficit had already widened to average 4.4 percent of GDP. Inflows from the main sources of nonoil tax revenue—value-added tax (VAT), corporate income tax, and customs revenue—were low but stable. However, revenue from the oil sector contracted slightly, ahead of the fall in oil prices. Gross collections of royalties and petroleum taxes were less than in 2018 and short of the budget targets. Moreover, revenue deductions—among them US\$1.8 billion in compensation for gasoline subsidies—exceeded budget, so that net oil and gas revenues plunged by 0.7 percent of GDP to just 50 percent of budget. However, despite the diminished revenues, the Federal Government continued to increase capital spending.⁷ Spending on electricity subsidies, though not fully reflected in the budget, also rose slightly. Public spending is still skewed to recurrent expenditures, especially interest payments, which consume 50–60 percent of the Federal Government’s retained revenues. Due to overly optimistic revenue targets, the budget under-provisioned the issues of marketable debt instruments, so that the Federal Government deficit was largely financed by borrowing from the CBN (Figure 1.20).

Even before the COVID-19 shock, the Federal Government was acting to mobilize more domestic revenue and better manage spending. The Budget Office of the Federation had aligned the budget calendar with the fiscal year, and the 2020 Federal Government

Figure 1.20. Although its deficit is still widening, the Federal Government is moving to reduce its reliance on borrowing from the CBN.



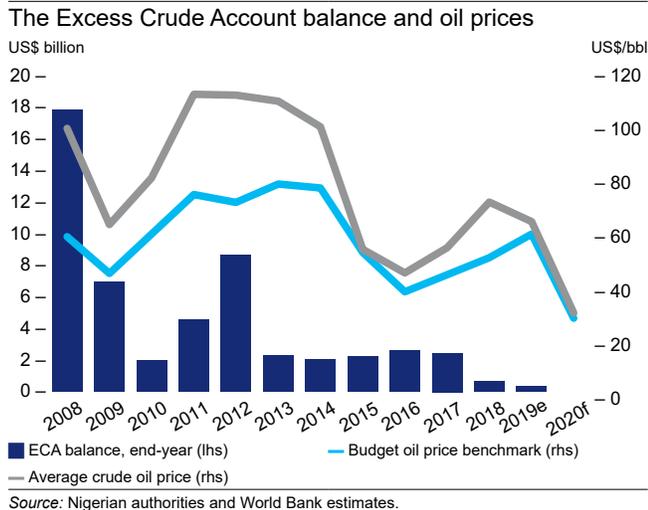
Source: Nigerian authorities and World Bank estimates.

budget was passed on time. Recognizing the urgent need to bring in more nonoil revenue, the passage of the budget was—for the first time—accompanied by passage of a Finance Act outlining much-needed revenue reforms, such as raising the VAT rate from 5 to 7.5 percent. Opening the Open Treasury Portal in 2019 dramatically expanded public access to government fiscal reports, expenditure data, and procurement information.

The crisis has sharply curtailed both oil and nonoil revenue streams at a time when fiscal resources are urgently needed to contain the virus and support economic activity. By April Nigerian crude oil prices had fallen to US\$20 a barrel—down nearly 70 percent in three months—although they have recovered since. After this extraordinary oil-price shock, which led to a steep drop in oil production, oil revenues are expected to fall from 3.2 percent of GDP in 2019 to about 1 percent in 2020. Nonoil revenues are also estimated to head down starting in the second quarter as lower imports reduced customs and VAT revenue; and slowing domestic economic activity, coupled with tax relief and postponement measures to relieve the financial strain on private firms, reduced corporate income tax collections and further depressed VAT revenue. Total general government revenue is projected to drop in 2020 to 5.3 percent of GDP, and even after spending cuts Nigeria’s fiscal deficit is projected to rise to about

⁷ The majority of general government revenues are collected at the federation level and shared among federal, state, and local governments. In 2019 the federal government retained about 30 percent of general government revenues (3 percent of GDP); it was responsible for about 50 percent of public spending and most (3.5 percent of GDP) of the deficit.

Figure 1.21. Nigeria's fiscal buffers were almost depleted when the COVID-19 pandemic precipitated the collapse of global oil prices.



5.5 percent. This extreme fiscal shock has hit Nigeria at a point when its fiscal buffers were still largely exhausted because of the 2015–16 oil shock (Figure 1.21), and additional resources are urgently needed to contain COVID-19 and stimulate the economy.

Responding swiftly to the fiscal shock as it emerged, the authorities adopted an amended federal budget for 2020 (Box 1.2). The amended budget was accompanied by an Addendum to the Medium-Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP) 2020–22 that responds to the impact of COVID-19 on Nigeria's public finances. The new budget revises revenue expectations downward in line with the collapse of global oil prices and the deteriorating macroeconomic outlook. It cuts nonessential spending and reprioritizes expenditures toward the COVID-19 response; a new ₦500 billion COVID-19 intervention fund channels resources to emergency health priorities (Box 1.3) and public works programs designed to ease the impact of the economic downturn on the livelihoods of poor and vulnerable Nigerians. A more realistic budget deficit estimate allows for an additional ₦2.8 trillion in borrowing from domestic and external sources using market instruments. Many state governments are also expected to revise their 2020 budgets.

To support its crisis response and limit the pressure on domestic financial markets, the government has sought concessional assistance from international institutions. With a relatively low debt-to-GDP ratio by international standards, Nigeria can borrow to help close the financing gap. Domestic markets have the capacity to absorb some debt issues, but because liquidity is relatively tight, more external financing will prevent government borrowing from crowding out credit to the private sector credit, particularly at a time when banks are likely to see their NPL ratios worsen. On April 28, 2020, the IMF approached Nigeria's request for a US\$3.4 billion concessional loan as an IMF Rapid Financing Instrument, and the government is working with the World Bank, the African Development Bank, and the Islamic Development Bank to secure more budget support for the Federal Government and for state fiscal responses. Despite deficits of 3–5 percent of GDP each year since 2015, the country's public-debt-to-GDP ratio of less than 30 percent is relatively low, and the increased borrowing the amended budget authorizes would not make the debt unsustainable. However, the authorities will need to rev up their revenue-mobilization efforts once the crisis is over to address rising interest-payment-to-revenue ratios.⁸ Shifting from CBN financing to more transparent borrowing via market instruments will allow the government to reduce its debt-service costs, because CBN financing costs 15.5–16.5 percent (the MPR+3 percent), and to free up future fiscal space to support renewed poverty reduction and economic recovery.

⁸ IMF 2020. Nigeria's public debt is primarily (about 75 percent) contracted by the Federal Government with the rest contracted by State Governments.

Box 1.2. Nigeria's amended federal government budget for 2020.

The amended budget significantly revises revenue projections and incorporates new exchange rates and growth projections. The budget lowers the oil-price benchmark from US\$57 to US\$28 a barrel, cuts projected aggregate oil production from 2.3 to 1.8 million bpd and reflects the new official exchange rate of ₦360/US\$. The projected GDP growth rate for 2020 was revised down from +2.9 to -4.4 percent, and annual inflation projections were raised from 10.8 to 14.1 percent. Given the new assumptions for the oil sector, federation net oil revenue projections were cut from the ₦5.4 trillion to ₦1.9 trillion. The budget reduces customs, VAT, and corporate income tax revenue targets to reflect lower projections for imports, taxable consumption, and corporate profits. It also recognizes that the reevaluation of external debt following the naira devaluation will increase interest payments on that debt, and it includes interest on central bank overdrafts. Finally, the budget introduces a ₦500 billion COVID-19 intervention fund to be used by Federal and State authorities to finance a health emergency response and support the livelihoods of poor and vulnerable Nigerians.

Table B1.2.1. The original and amended budgets for 2020.

	<i>Original 2020 Parameters and Projections</i>	<i>Amended 2020 Parameters and Projections</i>
Crude Oil Price (US\$/bbl)	57	28
Crude Oil Production (mbpd)	2.3	1.9
Exchange rate (₦/US\$)	305	360
Inflation (percent, annual average)	10.8%	14.1%
Real GDP Growth (percent)	2.9%	-4.4%
	<i>In Naira trillion</i>	
FG Revenues	7.9	5.1
o/w oil	2.6	0.9
FG Expenditures	9.7	9.7
o/w COVID-19 response	0.0	0.4
Federal Government Deficit	1.8	4.6
Financing	1.8	4.6
External borrowing	0.9	2.0
Domestic borrowing	0.7	2.2
Privatization	0.3	0.1
Other sources	0	0.3

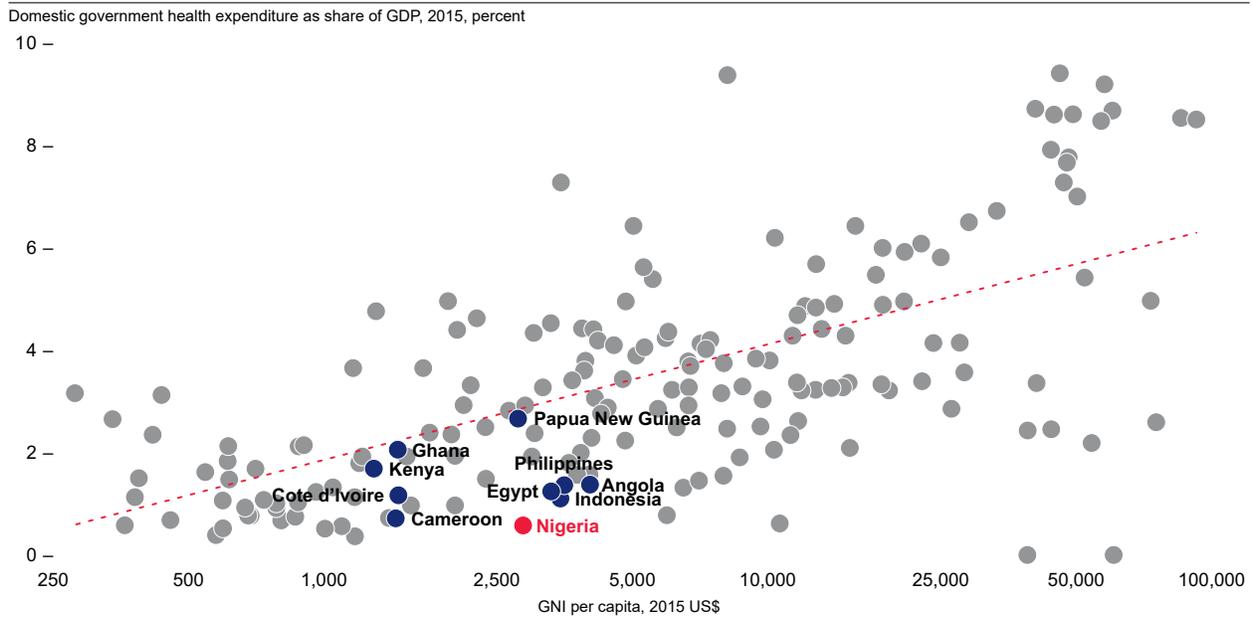
Source: Budget Office of the Federation.

Box 1.3. Financing Health in Nigeria: The Basic Health Care Provision Fund.

Nigeria faces significant health challenges that undermine the country’s human capital and economic development. Nigeria ranks 152nd out of 157 countries in the human capital index despite being a lower-middle income country. This low ranking reflects the country’s prolonged underinvestment in human capital—health, education, and nutrition of its citizens. Health outcomes in the country are among the poorest in the world, and there are large regional and socioeconomic inequalities. Compared to regional and low- and middle-income averages, Nigeria underperforms on life expectancy (53 years in 2016), maternal mortality (576 per 100,000 live births in 2013), and infant mortality (infant mortality rate of 65 per 1,000 live births in 2017). The poor health outcomes and insufficient coverage of essential services demonstrate the need for increased resource allocation and enhanced financial protection for healthcare in Nigeria.

The Nigerian government spends less on health than nearly every country in the world. In 2018, only 4.5 percent of the Federal Government’s budget was allocated to health, compared to 7.1 percent for education and 7.8 percent for power, works and housing. Total government expenditure for health in 2017 was 0.5 percent of GDP and as a share of total government expenditure, government health spending is also low at 4.6 percent. Health spending in Nigeria is dominated by out-of-pocket expenditures—77 percent of total health expenditure, one of the highest in the world. Consequently, about a quarter of all households in Nigeria spend 10 percent or more of their total household expenditure on health—this situation is worrisome as the high out-of-pocket expenditure pushes over 1 million people into poverty and causes many more to forgo care.

Figure B1.3.1. Government health expenditure as a share of GDP versus Gross National Income per capita for Nigeria and comparator countries.



Box 1.3 continued

More recently, the Nigerian government has demonstrated a renewed commitment to universal health coverage for its citizens. The Universal Health Coverage (UHC) Declaration adopted at the 2014 Presidential Summit states that “[it] holds the key to unlocking the door for equitable, qualitative and universally accessible healthcare for all Nigerians without suffering financial hardship”. In the same year, the National Health Act was passed, entitling all Nigerians to a Basic Minimum Package of Health Care Services and establishing the Basic Health Care Provision Fund (BHCPF) as a funding vehicle. To further demonstrate its commitment to the UHC agenda, the Federal Government allocated ₦ 55.15 billion to the BHCPF in the 2018 budget and made the BHCPF a statutory transfer starting from the 2020 budget cycle. With only about 4.2 percent of Nigerians on any type of health insurance coverage, health reforms are also underway at the subnational level, with almost all the states in the federation having passed or in the process of passing a state health insurance law.

The COVID-19 pandemic presents an opportunity for Nigeria to prioritize increased health financing and fast track the implementation of BHCPF. In response to the challenging health situation, and broader fiscal and economic cost of the pandemic, the federal and state governments have mobilized additional domestic funds, including contributions from the private sector, support from development partners and external borrowings. However, given the existing poor health outcomes, the low level of government health expenditure and the low capacity of the country to prevent and respond to health crisis, the COVID-19 pandemic can rapidly overwhelm Nigeria’s entire health system. It is important that the country seizes the opportunity of this pandemic to improve government spending on health (focused on both public-health and facility-based care, especially primary health care) and fast track the implementation of the BHCPF and other policy measures to improve financial protection. There is no better time for health financing to take the center stage in Nigeria as critical investments are needed now.

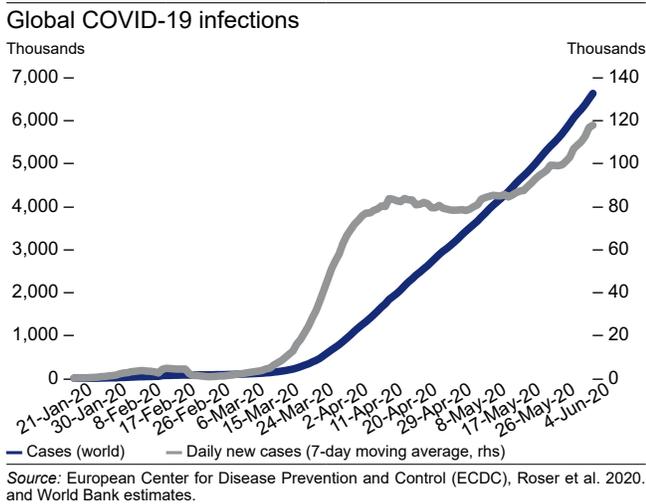
Economic Outlook

Global Prospects: In 2020 the world economy will contract and, for the near term, oil prices will remain below pre-COVID-19 levels

The global recovery was expected to be slow even before COVID-19. The world economy grew at 2.4 percent in 2019—its lowest rate since 2009—as weakening trade and investment dampened activity. The January 2020 edition of the World Bank’s *Global Economics Prospects* anticipated a strengthening recovery, with growth edging up to 2.5 percent. Now the emergence of COVID-19 has shifted global growth projections into negative territory.

In addition to constituting a major worldwide health emergency, COVID-19 is inflicting on the world complex economic shocks whose ramifications are unpredictable. As of June 15, 2020, 216 countries were affected, the number of confirmed cases had reached about 7 million (Figure 1.22), and there had been over 350,000 total COVID-19-related deaths. To cope with the pandemic and ease pressure on national healthcare systems, governments around the world have restricted domestic and international movement, closed schools and other public facilities, shuttered nonessential stores and firms, established curfews, and banned public gatherings. These measures, coupled with consumer behavioral changes, are disrupting economic activity. The pandemic has hit the services sector especially hard, and the Purchasing Manager’s Index (PMI) for services has fallen to a record low (Figure 1.23) because most

Figure 1.22. Global COVID-19 infections continue to rise, but the daily rate of new cases has plateaued.



activities requiring face-to-face interaction have come to a halt.

While the uncertain evolution of the pandemic continues to cloud global growth forecasts, emerging data suggests that in 2020 the global economy will contract by at least 5.2 percent as several of Nigeria’s major trading partners experience recessions. Scenario analyses suggest that output growth rates could contract by as much as 3.2 percent in India, 6.1 percent in the United States, and 9.1 percent in the Euro Area; in China while growth is expected to reach 1.0 percent and in Indonesia about 0 percent. However, in 2021 the global economy is expected to recover at rates ranging from 1 to 5 percent. If in 2020 H2 the current COVID-19 outbreaks persist for several more months or restrictions on movements and interactions are reintroduced, global growth would reach no more than 1 percent. In an upside scenario with consumer and investor confidence rising due to fiscal and monetary policy responses, the global economic recovery could be brisk.

Oil prices are expected to stay below pre-pandemic levels in 2020–21 because of slowed economic activity and a persistent supply glut. After averaging US\$65 per barrel (bbl) in 2019, the baseline scenario for this report assumes that prices of Nigerian crude oil will

Figure 1.23. Global manufacturing and services have been hit hard by COVID-19.

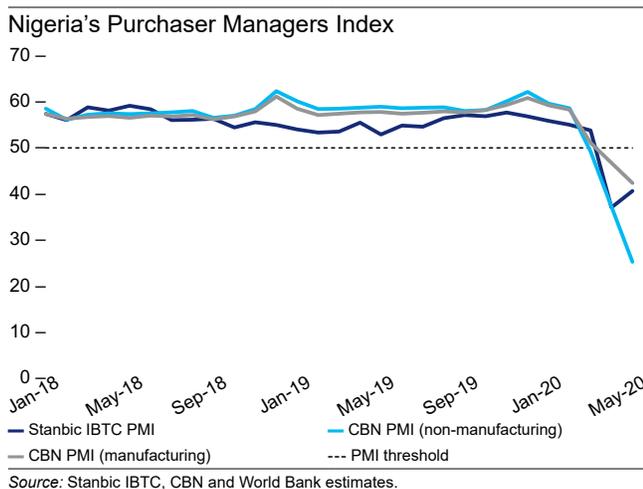


average US\$30/bbl in 2020 and US\$40/bbl in 2021. Oil prices are projected to begin recovering gradually in H2 of 2020, but accumulated inventories will continue to push prices down through 2021 even as global demand recovers, and the COVID-19 crisis subsides.

Nigeria’s Prospects: With the right pace of reforms, despite downside risks a sustained recovery is possible

In a baseline scenario—in which oil prices in 2020 average US\$30/bbl, the COVID-19 outbreak in Nigeria is contained, and the authorities carry out a package of economic-relief policies—in 2020 the Nigerian economy would still contract by at least 3 percent. Government oil revenue would be down by over 70 percent, cutting total general government revenue to 5.3 percent of GDP for the year. Faced with large and widening fiscal deficits, mounting pressure on health spending, and less room to borrow, Nigeria can be expected to cut capital spending, especially subnational, further diminishing its already low levels of investment and limiting service delivery at all levels. Falling domestic demand, which is sensitive to oil-dollar liquidity, will cause the nonoil economy to contract. With manufacturing and services hit hard by COVID-19 in April–May 2020 (Figure 1.24), only

Figure 1.24. Nigeria's manufacturing and services have been hit hard by COVID-19.



agriculture is expected to make a positive contribution to economic growth (Table 1.2).

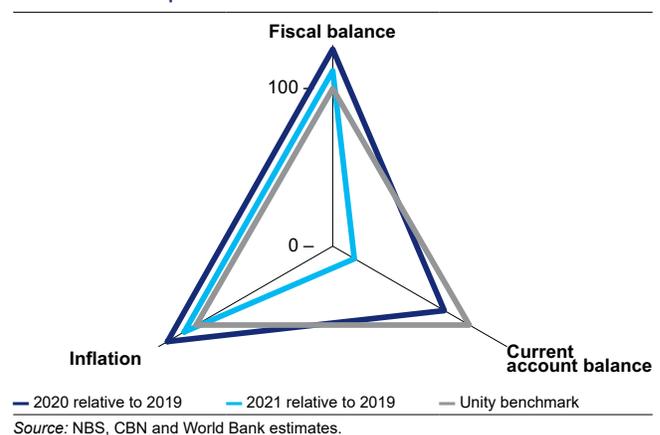
In the baseline scenario, in 2021 Nigeria's growth could recover to 1.7 percent and over the medium term gradually converge with population (Table 1.2). The economy is projected to recover gradually. Agricultural growth would recover as supply-chains normalize. In nonoil industry, the recovery is expected to be slow due to weak demand, but the opening of the private Dangote refinery should boost the growth of manufacturing and lower domestic fuel prices. Public investment programs and power-sector reforms are expected to boost demand for industrial inputs and spur the growth of utilities. Though oil production is expected to stabilize, it would not immediately contribute much to growth because investment in the sector is likely to remain subdued until the price outlook becomes more favorable.

After widening during the crisis and into 2021, in the medium term the fiscal deficit would moderate to about 4 percent of GDP. Despite spending cuts, the general government fiscal deficit is expected to go up from 4.4 percent of GDP in 2019 to 5.5 percent in 2020, due largely to the expected 70 percent drop in oil revenues. While cuts in some nonessential spending may relieve pressure on public spending, fiscal authorities

at all tiers of the government will need to continue responding to the health crisis and start to again provide other health services; protect the livelihoods of the poor and vulnerable and support economic recovery. As the financing gap widens, the public debt stock is expected to rise from 24 percent of GDP in 2019 to 30 percent in 2020 and continue up in the medium term. Nigeria's relatively low debt would allow increases in public debt, especially if it is sourced from concessional sources (please see the discussion on fiscal policy). In 2021, the government's commitment to step up efforts to mobilize domestic revenue are projected to narrow the fiscal deficit marginally to 4.9 percent of GDP and moderate the share of federal government revenue devoted to interest payments.⁹ The government plans to further rationalize tax expenditures and advance the launch of state-level property taxes. Improvements in tax and customs administration, especially the orderly rollout of the VAT reform, will further bolster revenues.

The current account deficit is expected to narrow in 2021 to 0.6 percent of GDP as oil prices rebound and remittances recover (Table 1.2). Oil exports and remittances, both important current account inflows, are expected to decline in 2020 as the global economy enters recession, but both are expected to rise in 2021 in line with the global economic recovery. Imports are projected to decline in 2020 as domestic investment

Figure 1.25. In 2021 the current account deficit is expected to narrow, but high inflation rates and large fiscal imbalances will persist.



⁹ Due to low revenue, the federal interest-payments-to-revenue ratio is expected to exceed the current 60 percent.

Table 1.2. Nigeria: Key Economic Indicators, 2016–2021.

Description	Unit	Historical				2020 Baseline		Pre-COVID baseline		Difference in forecast (absolute)	
		2016	2017	2018	2019e	2020f	2021f	2020f	2021f	2020f	2021f
Oil											
Oil price (Bonny Light)	US\$/bbl	45	55	72	65	30	40	63	64	-33	-24
Oil production (including condensate, mbpd)	mbpd	1.8	1.9	1.9	2.0	1.8	1.9	2.1	2.1	-0.3	-0.3
Growth											
Total GDP (constant market prices)	%, yoy	-1.6	0.8	1.9	2.2	-3.2	1.7	2.1	2.1	-5.3	-0.4
Agriculture	%, yoy	4.1	3.4	2.1	2.4	2.4	2.8	3.1	3.3	-0.7	-0.5
Industries	%, yoy	-8.9	2.1	1.9	2.3	-10.1	2.4	1.9	1.4	-12.0	1.0
Industry-Oil	%, yoy	-14.4	4.7	1.0	4.6	-10.6	2.8	1.7	0	-12.3	2.8
Industry-NonOil	%, yoy	-5.0	0.6	2.4	0.9	-9.7	2.1	2	2.4	-11.7	-0.3
Services	%, yoy	-0.8	-0.9	1.8	2.2	-2.9	0.9	1.6	1.7	-4.5	-0.8
Fiscal Accounts - general government											
Fiscal balance	% GDP	-3.8	-4.0	-4.2	-4.4	-5.5	-4.9	-4.1	-4.0	-1.4	-0.9
Revenues	% GDP	5.9	6.7	8.1	8.4	5.3	6.0	8.5	8.6	-3.2	-2.6
o/w oil	% GDP	1.6	2.3	3.6	3.2	1.0	1.7	...	...	...	...
Expenditures	% GDP	9.7	10.7	12.3	12.8	10.8	10.9	12.7	12.7	-1.9	-1.8
Public Debt (net)	% GDP	17.3	19.1	20.9	23.7	30.0	32.4	25.8	27.4	4.2	5.0
BOP											
Current account balance	% GDP	0.7	2.8	1.0	-3.8	-3.5	-0.6	0.0	0.2	-3.5	-0.8
Current account balance	US\$ bn	2.7	10.4	3.9	-17.0	-13.5	-2.7	0.5	1.4	-14.0	-4.1
G&S Exports	US\$ bn	38.4	50.8	66.0	69.9	29.6	42.5	67.3	68.5	-37.7	-26.0
o/w oil	US\$ bn	32.0	42.3	56.6	54.5	22.8	30.8	56.1	57.0	-33.3	-26.2
G&S Imports	US\$ bn	47.0	50.9	71.6	100.8	50.3	55.3	77.5	77.7	-27.2	-22.4
Net Income	US\$ bn	-8.6	-11.5	-14.7	-12.5	-12.0	-12.3	-15.7	-15.7	3.7	3.4
Net transfers	US\$ bn	19.9	22.0	24.1	26.4	19.3	22.3	26.3	26.3	-7.0	-4.0
Financial account	US\$ bn	0.7	8.2	-9.8	13.6	-1.5	6.8	5.1	6.9	-6.6	-0.1
Foreign Direct Investment	US\$ bn	3.1	2.2	0.6	1.8	...	...	...	...	...	...
Foreign Portfolio Investment	US\$ bn	1.7	8.5	-2.3	9.0	...	...	...	...	...	...
Other Investment	US\$ bn	-4.2	-2.5	-8.1	2.8	...	...	...	...	...	...
Errors and Omissions	US\$ bn	-4.4	-6.4	9.2	-1.1	...	...	...	...	...	...
Change in Reserves (+ Decrease)	US\$ bn	1.0	-12.2	3.5	4.5	...	...	...	...	...	...
Gross External Reserves (end period)	US\$ bn	25.8	38.8	43.1	38.6	...	...	...	...	...	...
Equivalent months of Imports		6.6	9.1	7.2	4.6	...	...	...	...	...	...
Inflation											
CPI	%, yoy	15.6	16.5	12.1	11.4	13.8	12.4	12.2	11.4	1.6	1.0

Source: Nigerian authorities and World Bank estimates.

falls. A growing agriculture sector and support for agro-processing could boost nonoil exports, providing a much-needed diversification of foreign-exchange earnings.

Three Scenarios

Nigeria’s growth outlook faces external headwinds and domestic challenges. It is subject to an extraordinary degree of uncertainty due to the unpredictable trajectory of the pandemic and its effects on global demand and oil prices. Short-term domestic risks are primarily related to the domestic spread of the virus and the speed and adequacy of the crisis response; long-term challenges relate to what happens with structural economic reforms to improve competitiveness. Three risk scenarios are evaluated (Table 1.3).

An insufficient macroeconomic policy response in 2021 would prolong economic recession. In this scenario, because the government makes no adjustment to nominal exchange rates external reserves are depleted or capital controls are imposed, and the resulting deterioration of investor confidence reduces investment flows. Instead of expanding by 1.7 percent in 2021, as the baseline scenario projected, the economy would contract by 0.2 percent. Meanwhile, the lack of fiscal measures to lessen the health and economic impacts of the COVID-19 crisis on poor and vulnerable

households, and to support broader economic recovery, would worsen the decline in per capita income and undermine aggregate demand. Together, these factors would prolong the recession into 2021 (Figure 1.26), and the poverty rate would continue to rise over the medium term.

By contrast, the government undertaking structural economic reforms that go beyond its current objectives could accelerate the recovery. In this scenario, the government would seize the opportunity for major reforms to enhance Nigeria’s competitiveness and position it for an especially robust post-crisis

Figure 1.26. Possible variations in Nigeria’s GDP growth outlook.

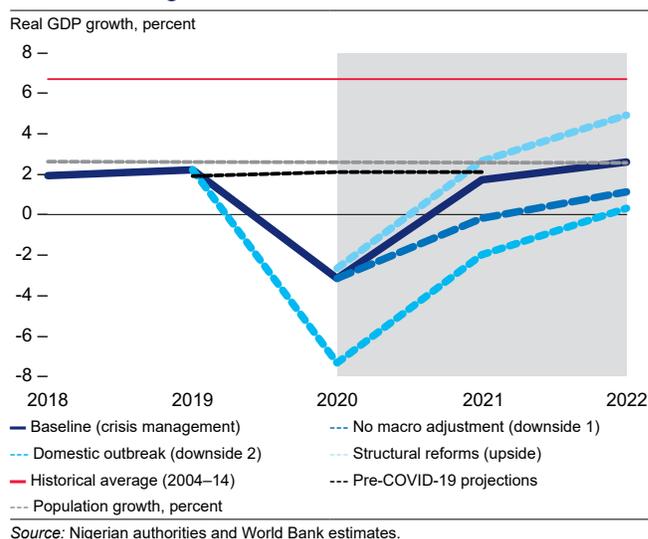


Table 1.3. Three Scenarios for Nigeria’s Economic Outlook.

Scenarios	Major Assumptions
Baseline	<ul style="list-style-type: none"> A timely response from fiscal and monetary authorities, with support from development partners, helps manage Nigeria’s external and fiscal financing gaps
Scenario 1: No macroeconomic adjustment	<ul style="list-style-type: none"> Fiscal and monetary policies do not adjust to cope with the current crisis.
Scenario 2: Structural reforms	<ul style="list-style-type: none"> The government seizes the opportunity to undertake major reforms to make Nigeria more competitive.
Scenario 3: Multiple shocks and an inadequate policy response	<ul style="list-style-type: none"> Uncontrolled domestic spread of COVID-19 is combined with a prolonged oil-price shock, aggravating the 2020 recession. The government does not adjust nominal exchange rates; external reserves are then depleted, or capital controls are imposed; and the resulting deterioration of investor confidence reduces future investment.

Source: World Bank.

recovery, which would boost real GDP growth rate in 2021 to 2.6 percent. These reforms would help mobilize domestic revenue, increase market competition, improve competitiveness, attract private investment, and enhance governance and service delivery. Gradual opening of the border, supported by measures to achieve security and domestic development objectives, would help ease inflationary pressure. These reforms would entail short-term costs, but they would also help to build a more productive and diversified economy, create jobs, and accelerate poverty reduction through the long term.

An uncontrolled domestic epidemic, a deeper, more protracted decline in oil prices, or both in 2020 could produce a steeper economic contraction (Figure 1.26). Any such shock would aggravate the 2020 recession and exacerbate the human cost of the crisis. In this scenario, the economy could contract by as much as 7.4 percent in 2020 and 2 percent in 2021. A major domestic outbreak in a country like Nigeria, with densely populated cities, high poverty, and inadequate health systems, would have severe human and economic consequences. If oil prices remain below the cost of production, project cancellations and a steep reduction in investment could permanently reduce oil production.

Nigeria's economic recovery hinges on global economic recovery, and the anticipated oil price rebound may not materialize if the pandemic is not contained or the policy responses of advanced economies is inadequate. The possibility of multiple COVID-19 waves¹⁰ is an especially serious risk—renewed spread of the virus could derail the global recovery. The re-imposition of lockdowns in different countries at different times over the next 18 months could have economic consequences that are impossible to predict. Based on the experience of the 1918 Spanish flu pandemic,¹¹ scientists recognize that waves of COVID-19 outbreaks could continue until a vaccine or herd immunity is available. The global economic recovery could also be sluggish if consumer and investor confidence remains weak, or if fiscal and monetary

policy responses do not adequately stimulate a recovery in advanced economies.

Policy Recommendations to Mitigate the Impacts of COVID-19 and Lay the Foundation for a Strong Recovery

The unprecedented COVID-19 pandemic requires an equally unprecedented policy response. Even if Nigeria can contain the spread of the virus, its impact will be severe. Moreover, before COVID-19 the challenges Nigeria must deal with were already formidable, among them falling per capita incomes and rising poverty. Table 1.4 provides policy options that Nigerian policymakers might consider in order to minimize pandemic impacts and lay the foundation for a strong economic recovery.

¹⁰ For instance, Singapore and Hong Kong have been experiencing repeated surges in coronavirus infections <https://www.ft.com/content/bdd48cc5-3d03-4741-8a68-20530a61c09e?shareType=nongift>

¹¹ The Spanish flu started in 1918 and ended in 1919 after three waves: winter 1917–18, fall 1918, and winter 1918–19.

Table 1.4. Policy options to mitigate the impacts of COVID-19 in Nigeria and lay the foundation for a strong recovery.

Near-term options (next 3 to 6 months)	Medium-term options (6 to 15 months)
Containing the COVID-19 outbreak and preparing to deal with a more severe outbreak	
<ul style="list-style-type: none"> • Continue improving surveillance and testing capacity. • Ensure provision of necessary protective gear for health workers; upgrade isolation and treatment facilities. • Strengthen community engagement to facilitate flows of credible information on, e.g., social distancing, wearing of masks, and other international best practice recommendations. • Improve the referral network system, including diagnostic (laboratory), and treatment and care (hospitals). 	<ul style="list-style-type: none"> • Scale up coverage of life and health insurance to provide an additional indemnity and safety net. • Ensure safe resumption of non-emergency primary care functions, such as vaccinations and preventive care.
Enhancing macroeconomic management to boost investor confidence	
<ul style="list-style-type: none"> • Unify exchange rates into a single, market-determined window. • Ensure clear separation and improved coordination of fiscal, financial, and monetary policies, starting with review and more transparent reporting of CBN quasi-fiscal interventions (e.g., financing of government functions through the overdraft facility, subsidized lending schemes) and use of CBN bills to manage monetary policy beyond standard open market operations. • Define measures for rescheduling and restructuring the loans of borrowers affected by COVID-19 and heighten monitoring of bank assets and the effectiveness of temporary forbearance measures. • Ease foreign exchange restrictions to limit inflationary pressures and increase supply of food and key staples (e.g., health-related products). • Phase out land border closures as soon as the health situation permits. 	<ul style="list-style-type: none"> • Refocus management of monetary policy toward the primary objective of price stability, with more transparent operational and liquidity management mechanisms (e.g. by reducing the use of discretionary CRR); and ensuring a clear distinction between public borrowing and liquidity management. • Continue making management of public debt more transparent by, e.g., securitizing CBN overdrafts and adhering to statutory limits for its use; and regularly updating the medium-term debt management strategy. • Review regulations that affect bank recovery and resolution planning to ensure that the management of banking system risks is transparent and effective. • Review prudential requirements related to bank sales of nonperforming loans to the Asset Management Corporation of Nigeria (AMCON) and similar companies to transparently streamline the process for efficient resolution of nonperforming loans.
Safeguarding and mobilizing revenues	
<ul style="list-style-type: none"> • Ensure business continuity of revenue collecting agencies and facilitate tax payments through online platforms. • Enhance the collection of oil and gas revenues and communicate a clear timeline for repayment of nonoil tax relief measures at both federal and subnational tiers of government. • Increase the transparency of oil and gas revenue reporting through regular publication of financial reports audited financial statements to formulate the reform agenda. 	<ul style="list-style-type: none"> • When the crisis passes, accelerate domestic revenue mobilization reforms; review and eliminate revenue-leaking incentives; adjust excise duties to bring in more revenue, from, e.g., alcohol, cigarettes, and fuel; and introduce measures to counter international tax avoidance by amending the international tax rules related to corporate and personal income taxes, VAT, and capital gains taxes. • Enhance oil-revenue remittances by managing unbudgeted deductions and underpayments by the Nigeria National Petroleum Corporation. • Introduce new petroleum industry legislation to safeguard oil revenues and strengthen the management, governance, and competitiveness of the oil sector.

Table 1.4. Policy options to mitigate the impacts of COVID-19 in Nigeria and lay the foundation for a strong recovery (continued)

Near-term options (next 3 to 6 months)	Medium-term options (6 to 15 months)
Reprioritizing public spending to protect critical development expenditures	
<ul style="list-style-type: none"> • Ensuring that execution of the 2020 Amended Budgets and both federal and state COVID-19 stimuli are effective and transparent, including accounting, procurement, and auditing for COVID-19 expenditures. • Create fiscal space by ensuring full implementation of the new market-based gasoline pricing mechanism. • Accelerate the implementation of the Power Sector Recovery Program, including reducing electricity tariff shortfalls while protecting the poor. • Continue tightening fiscal coordination across tiers of government to ensure the most efficient use of very scarce fiscal resources. 	<ul style="list-style-type: none"> • Formulate and adopt COVID-19–responsive 2021 budgets with fiscal stimulus measures to support economic recovery. • Identify fiscal savings through, e.g., evaluation of off-budget federal government spending. • Roll out the Treasury Single Account to include all federal government entities and agencies. • Expand the coverage of the expenditure commitment management and control module of the Government Integrated Financial Management System to cover all expenditures, budgetary and nonbudgetary, of Federal ministries, departments, and agencies. • Accelerate action on the recommendations of the Public Expenditure and Financial Accountability (PEFA) and Public Investment Management Assessment (PIMA) diagnostics to strengthen public financial management. • Evaluate the effectiveness of fiscal rules and review their design. • Review current public sector guarantees, monitor any added during the crisis, and devise a strategy for managing fiscal risks. • Continue tightening budgeting practices (revenue modelling and forecasting, expenditure allocation), to improve budget execution, spending efficiency and debt management and transparency, and eliminate recourse to central bank financing.
Supporting economic activity and provide relief for poor and vulnerable communities	
<ul style="list-style-type: none"> • Issue guidelines for adapting procurement procedures to support and encourage SMEs to participate in public procurement. • Increase cash, basic services, and livelihood support to poor and vulnerable households, through targeted cash or in-kind transfers for consumption support, livelihood grants to active households and groups, labor-intensive public works, and support for infrastructure microprojects. • Ensure food security and safe functioning of food supply chains for poor households through distribution of seeds and fertilizers, and service provision; labor-intensive agricultural infrastructure for canals, feeder roads, and warehouses; provision of block grants for assets and equipment; upgrading sanitary infrastructure in markets; and providing equipment for small-scale processing and packaging. 	<ul style="list-style-type: none"> • Facilitate recovery and enhance capabilities of SMEs by extending credit support to distressed and vulnerable enterprises; and providing one-off grants to SMEs, to cover operational costs and IT solutions. • Activate e-procurement. • Increase the efficiency of social protection spending by improving both traditional and nontraditional targeting methods, such as geographical, categorical, or community-based targeting, with delivery methods that are consistent with social distancing.

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Part 2: Taking a Closer Look

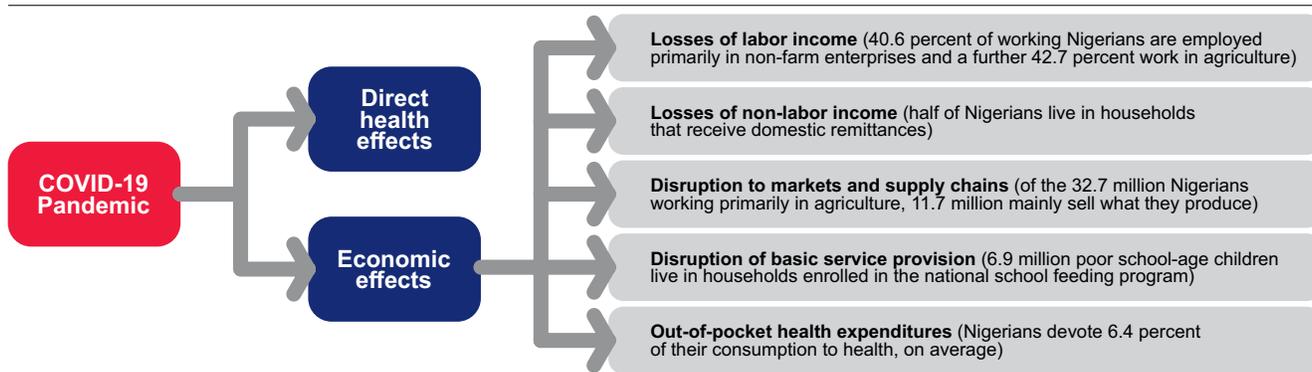
The Impact of COVID-19 on Nigerian Households

Summary: *Alongside the direct health impacts, COVID-19 threatens Nigerian households' ability to generate income and meet their basic consumption needs: absent any countervailing measures, an additional 6 million Nigerians are projected to live in poverty by 2022 due to the economic effects of the crisis. Even before the crisis, about 4 in 10 Nigerians were already poor and millions more lived only just above the poverty line, making them vulnerable to shocks. Moreover, with 40.6 percent of the Nigerian workforce employed in non-farm enterprises and 42.7 percent employed in agriculture—activities that may suffer as demand contracts, markets are disrupted, and social distancing measures are implemented—labor incomes are susceptible to the effects of COVID-19. This is compounded by potential losses in non-labor incomes, since about half of Nigerians live in households receiving remittances. The overlap between these pre-crisis vulnerabilities leaves some households especially exposed. Respondents to a high frequency survey conducted in April, report significant losses in employment and income. One in two households have had to reduce food consumption to cope with the crisis. Since the coverage of social protection programs is currently low, an expansion of government support is needed to prevent poverty increasing and deepening in Nigeria.*

The COVID-19 crisis threatens Nigerian households' welfare both through direct health channels—with the illness or death of family members—and at least five economic channels (Figure 2.1). First, households may lose *labor income* as vulnerable jobs—especially those in non-farm enterprises, selling agricultural produce, and in informal wage work—suffer as demand contracts and work is disrupted by social distancing measures. Household earnings will also be reduced if income-generating members contract the virus. Second, *non-labor income* sources may decline. For example, remittances will fall if sending households have lower income or if the infrastructure for effecting transfers is interrupted. Third, *disruptions to markets* could increase the prices of key food items, reducing households' purchasing power, while also preventing agricultural workers from selling their produce. Fourth, *service delivery* may be disrupted by social distancing measures, including the closure of schools. Finally, *direct out-of-pocket health expenditures* for those households whose members contract the virus will limit expenditure on other essential items.

Combining macroeconomic forecasts with the latest micro-data, it is possible to simulate how Nigerian

Figure 2.1. The COVID-19 pandemic will affect Nigerian households' welfare through several channels.



Source: Adapted from World Bank's note on "Poverty and distributional impacts of COVID-19" based on data from the 2018/19 NLSS and World Bank estimates.

households' consumption may evolve through the COVID-19 crisis. Bringing the growth forecasts to the household consumption data provides a simple, forward-looking approach to capture the channels described above (see Part 1 for details of the macroeconomic forecasts; see annex for details on methods). Two scenarios are compared. The 'main prediction' draws on the latest available macroeconomic forecasts, which incorporate the downturn expected from the COVID-19 crisis. A 'counterfactual' scenario then uses the growth forecasts that were in place before the COVID-19 outbreak.¹²

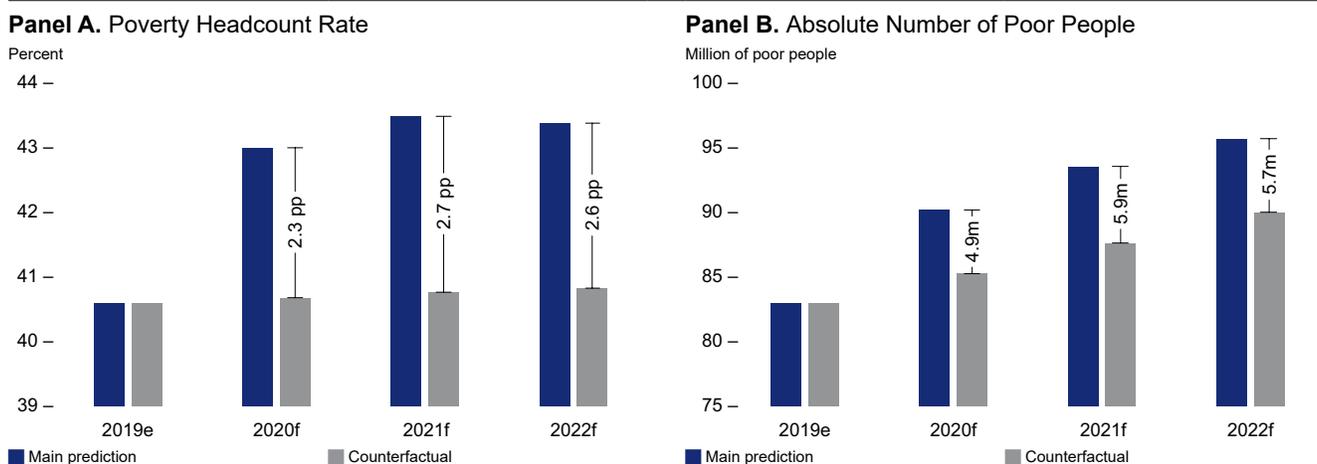
The COVID-19 pandemic is predicted to drive up the poverty rate in Nigeria, pushing almost 6 million additional people into poverty by 2022. With real per capita GDP growth forecast to be negative in all sectors in 2020, poverty will deepen for the current poor, while those households that were just above the poverty line prior to the COVID-19 crisis will fall into poverty. Were the crisis not to have hit (the counterfactual scenario), the poverty headcount rate would be forecast to remain virtually unchanged, with the number of poor people set to rise from 82.9 million today to 85.2 million in 2020 and 90.0 million in 2022 due to natural population growth (Figure 2.2). Given the effects of the crisis,

however, the national poverty headcount rate is instead forecast to jump from 40.1 percent today to 42.5 percent in 2020 and 42.9 percent in 2022, implying that the number of poor people will be 90.2 million in 2020 and 95.7 million in 2022. Thus, taking the difference between these two scenarios, the crisis alone is forecast to drive an additional 4.9 million people into poverty this year, with an additional 5.7 million people living in poverty by 2022.¹³

A disproportionate share of those pushed into poverty by the COVID-19 crisis are predicted to be in urban areas and depend on income from services. More than one-third of the additional people forecast to be pushed into poverty by the COVID-19 crisis are expected to be in urban areas, while just 15.9 percent of the current poor are urban dwellers (Figure 2.3). Only 13.1 percent of the additional poor people in 2022 are predicted to be in households where the head works primarily in agriculture, while, today, 56.0 percent of poor Nigerians live in agricultural households.

Many Nigerians who are not poor today are vulnerable to falling below the poverty line during the COVID-19 crisis. People living only just above the poverty line are more susceptible to becoming poor

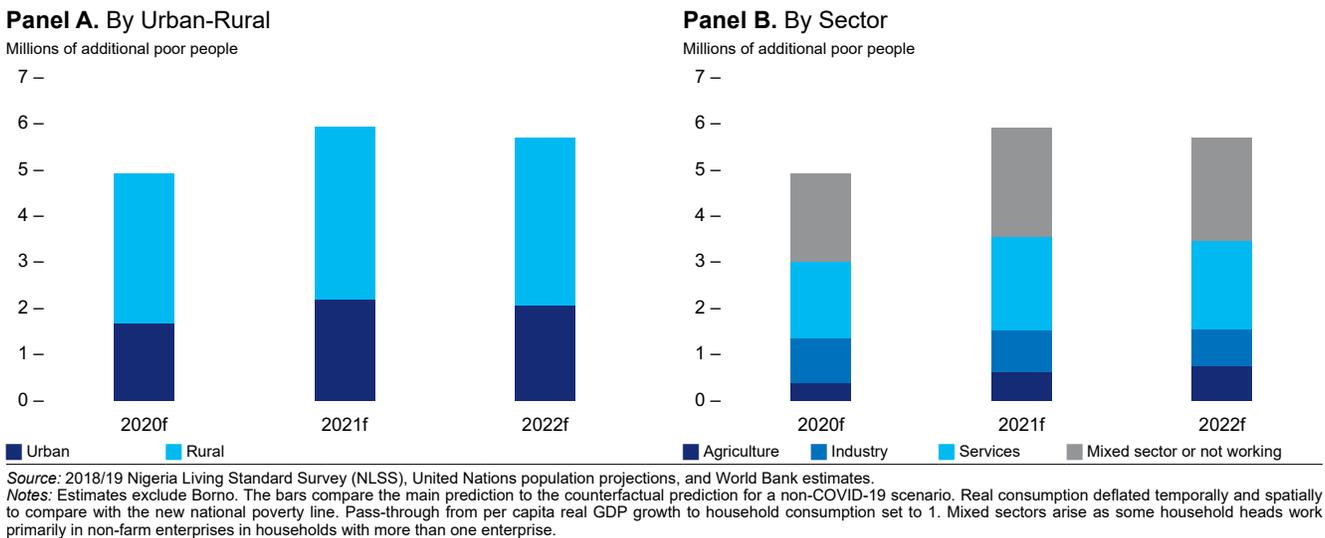
Figure 2.2. The COVID-19 pandemic may push almost 6 million more Nigerians into poverty by 2022.



Source: 2018/19 NLSS, United Nations population projections, and World Bank estimates.
 Notes: Estimates exclude Borno. Real consumption deflated temporally and spatially to compare with the new national poverty line. Pass-through from per capita real GDP growth to household consumption set to 1.

12 The simulations presented have many caveats, and the results are sensitive to different modelling assumptions (see the Annex at the end of this section).
 13 Under a less optimistic growth scenario, where real GDP drops by 7.4 percent in 2020 and rises by just 0.9 percent in 2021 and by 1.90 percent in 2022, the increase in poverty would be even larger. Under this scenario, the poverty headcount rate would jump to 44.7 percent in 2020 and 46.1 percent in 2022, meaning there would be 94.8 million poor Nigerians in 2020 and 102.8 million poor Nigerians in 2022.

Figure 2.3. A disproportionate share of those made poor by the COVID-19 crisis are predicted to be in urban areas and in services.

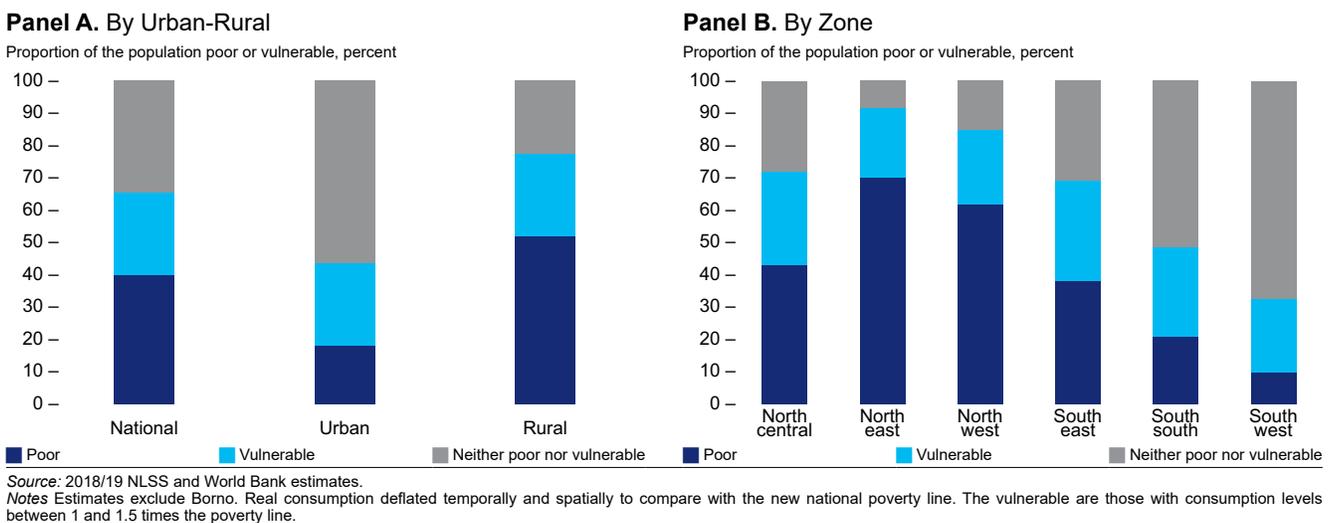


when shocks occur. Those with consumption levels between the poverty line and 1.5 times the poverty line may be defined as ‘vulnerable’.¹⁴ Nationally, 40.1 percent of Nigerians (82.9 million people) live below the poverty line, while another 25.4 percent (52.6 million people) are vulnerable by this definition (Figure 2.4). In rural areas, more than three-quarters of the population are either poor or vulnerable, yet even in urban areas—where the poverty headcount rate is far lower at

18.0 percent—around a quarter of the population is vulnerable to shocks.

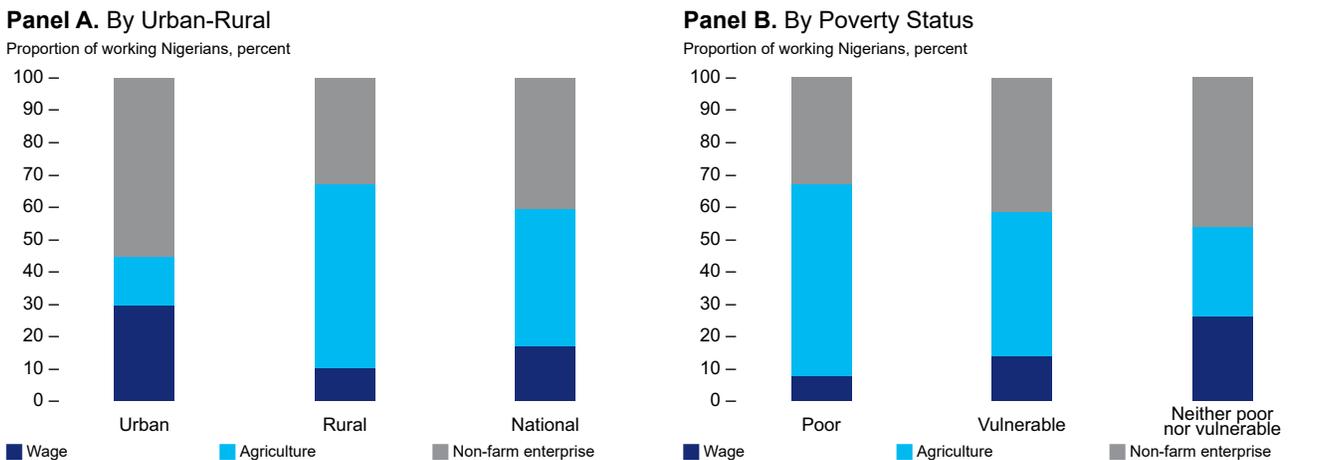
Most Nigerian workers—especially those in poor households—are employed in agriculture or non-farm enterprises, which may be more susceptible to the COVID-19 crisis. As Figure 2.5 shows, just 16.8 percent of working Nigerians (12.9 million workers) are employed primarily in wage jobs, according

Figure 2.4. Many non-poor Nigerians are vulnerable to falling back into poverty during shocks.



¹⁴ In the 2016 Nigeria World Bank Poverty Assessment, two vulnerability lines were used at 1.4 and 1.8 times the poverty line. Panel data from other countries has shown that households between 1 and 1.5 times the poverty line are vulnerable in the sense that they have at least a 10 percent chance of falling back into poverty each year (see, for example, ‘Aspiring Indonesia - Expanding the Middle Class’, World Bank, 2019). Additionally, the World Bank’s ‘moderate’ poverty line of 3.20 United States Dollar PPP per day is around 1.7 times the World Bank’s ‘extreme’ poverty line of 1.90 United States Dollar PPP per day.

Figure 2.5. Most Nigerian workers are employed in agriculture and non-farm enterprises, especially among the poor.

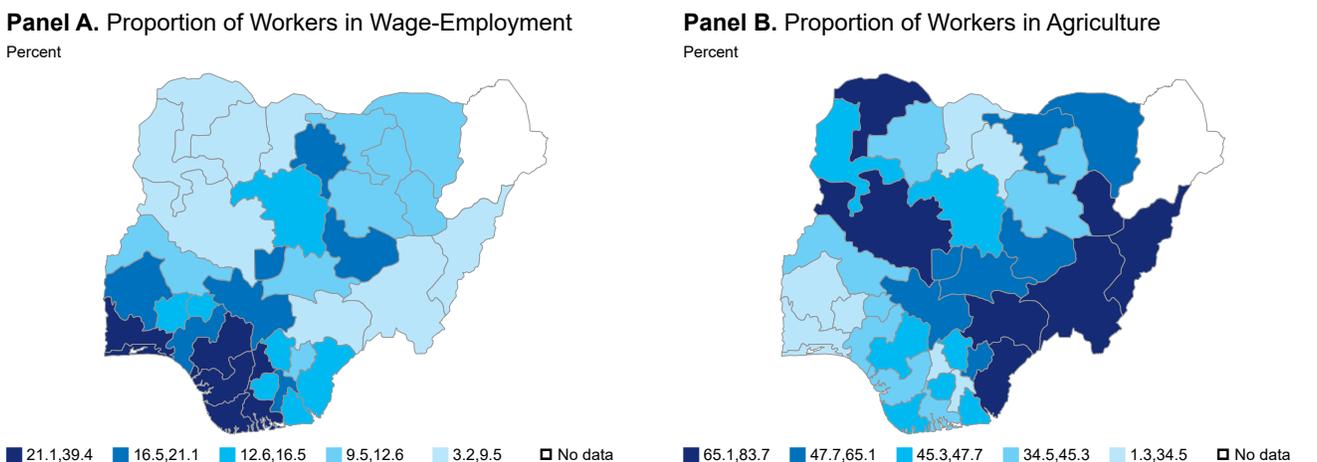


Source: 2018/19 NLSS and World Bank estimates.
Notes Estimates exclude Borno. Graphs focus on primary job, the job in which the most hours were worked in the previous seven days. Sample restricted to workers aged 15 or more. Real consumption deflated temporally and spatially to compare with the new national poverty line. The vulnerable are those with consumption levels between 1 and 1.5 times the poverty line.

to the 2018/19 NLSS.^{15,16} Around 42.7 percent work primarily in agriculture (32.7 million workers), and 40.6 percent work primarily in non-farm enterprises (31.1 million workers). Social distancing measures pose a serious threat to non-farm enterprises that rely on face-to-face interactions with customers, as well as those agricultural workers that need to buy inputs and sell produce.¹⁷ Agriculture is particularly dominant for the poor and vulnerable, and wage-employment is limited: only 7.7 percent of poor Nigerian workers (2.0 million

workers) work primarily in wage-employment, while 59.3 percent of poor Nigerian workers are primarily engaged in agriculture (15.5 million workers). There is also substantial geographical variation in the way that different types of jobs are dispersed across Nigeria, with urban areas in the south of the country having a larger share of wage jobs and agriculture being more concentrated in rural areas and in the north (see Figure 2.6).

Figure 2.6. The concentration of different types of jobs varies dramatically across Nigeria's states.



Source: 2018/19 NLSS, Humanitarian Data Exchange (for map shape files), and World Bank estimates.
Notes Estimates exclude Borno. Maps focus on primary job, the job in which the most hours were worked in the previous seven days. Sample restricted to workers aged 15 or above.

15 The primary job is defined as the job that the individual spent the most time doing in the previous seven days. The sample is restricted to workers aged 15 or above
16 Even among Nigerians holding wage jobs, formal contracts and in-work benefits that might help alleviate the effects of the COVID-19 crisis are not universal. Less than two-thirds of wage-employed Nigerians have a formal contract (8.1 million workers) and only around one-third have access to paid sick, maternity, or paternity leave (4.5 million workers).
17 While most farm work is in subsistence agriculture, many agricultural workers sell or barter their products in external markets. Even among poor and vulnerable households, sale or barter of agricultural products is not uncommon: around one-third of poor agricultural workers (4.9 million workers) declare their agricultural output to be 'mainly for sale or barter' or 'only for sale or barter'.

Around half of all Nigerians live in households receiving domestic remittances, a source of non-labor income which may be interrupted by the COVID-19 crisis. Moreover, despite being more common for richer households, remittances are still widespread among the poor and vulnerable. As many as 39.4 percent of poor Nigerians (32.7 million people) and 53.0 percent of vulnerable Nigerians (27.9 million people) live in households receiving domestic remittances.

There is also a substantial overlap among Nigerian households' different vulnerabilities to the COVID-19 crisis, making some households particularly susceptible to falling back or falling further into poverty. In particular, many households that depend on vulnerable employment—defined as those households in which the household head did not work in contracted wage work or in subsistence agriculture—are also remittance recipients. Indeed, there are around

Box 2.1. The impact of COVID-19 on women's economic activities in Nigeria.

The COVID-19 pandemic is likely to disproportionately disrupt women's economic activities. Ongoing analytical work by the Nigeria Gender Innovation Lab has found that just under half of working women in Nigeria are self-employed entrepreneurs who sell to final consumers (Figure B2.1.1). These workers are likely to be particularly hard hit by social distancing policies, which limit person-to-person interactions to slow the spread of COVID-19. Additionally, working women in Nigeria are more likely than working men to serve as primary caregivers (illustrated for women farmers in Figure B2.1.2). COVID-19 is likely to exacerbate their burden of care responsibilities as family members fall ill and children stay away from closed schools: these increased caretaking responsibilities are likely to come, at least in part, at the expense of income generating activities. Finally, women in Nigeria are more likely to finance entrepreneurial activities through informal lending—such as savings and loan groups—which is likely to be affected by the pandemic, and which may make it difficult to raise funds to reopen after the pandemic.

Figure B2.1.1. Working women are more likely to be entrepreneurs and less likely to have wage employment than working men.

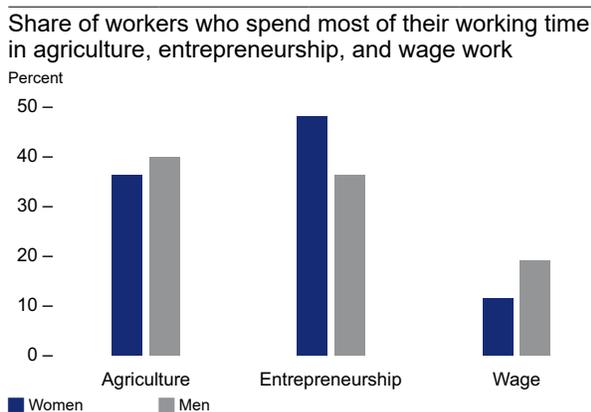
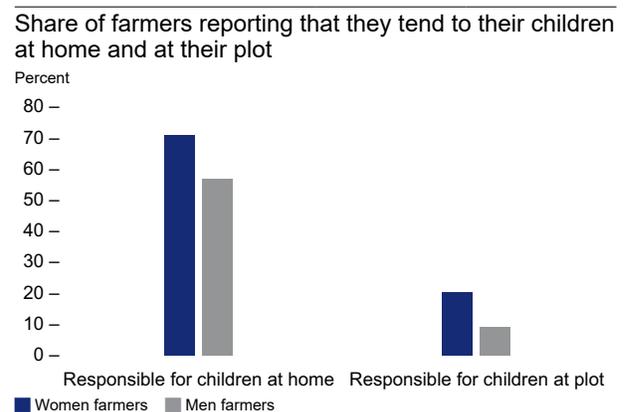


Figure B2.1.2. Female farmers are more likely to be responsible for children both at home and at their plot.



Source: World Bank estimates based on Nigeria's General Household Survey (GHS) 2018–2019 and Nigeria's High-Frequency Agricultural Labor Surveys 2018–2019. Notes: Figure B2.1.1 plots the percentage of working women and men by the type of income generating activity (agriculture, entrepreneurship, and wage work) in which they report spending the most time working. Figure B2.1.2 plots the percentage of women and men farmers who report being responsible for tending to their children at home and at their agricultural plot.

Box 2.1 continued

The COVID-19 pandemic may also affect reproductive health and domestic violence. With the government response constrained by very low global commodity prices, public health resources are likely to shift from preventative care, such as family planning services, to emergency response. Shifting resources in this way is likely to increase unintended pregnancies for women of all reproductive ages, with particularly harmful impacts for young women for whom childbirth is especially dangerous. Further, households may marry off young daughters to bring in a dowry and reduce consumption, setting the stage for additional early childbirth. The combination of confinement and increased stress may also increase intimate partner violence.

Cash transfers and Adolescent Girls Clubs may help mitigate harm during containment. Impact evaluations in Nigeria and throughout Sub-Saharan Africa have found broad positive impacts of cash transfers on a range of welfare outcomes, including increased food security, reduced stress, and decreased intimate partner violence. A recent Nigeria Gender Innovation Lab project found that the positive impact of cash transfers for women are just as strong when they are delivered on a quarterly basis as when they are delivered monthly, yielding the same impact at a lower cost, and with fewer person-to-person interactions. Shifting to digital delivery of cash transfers could further reduce in-person interactions, but any adaptations must recognize that women in Nigeria are over 20 percentage points less likely than men to have their own phone and twice as likely to have no access to a phone. Evidence on Adolescent Girls Clubs, which pair mentoring with vocational and life skills trainings, suggests that they may help insulate participants in times of crisis: adapting such programs to a virtual format could help protect girls during confinement due to COVID19.

The post-pandemic policy response needs to be informed by rigorous evidence. There is a growing body of evidence on the impact of women-centered programs designed to jump-start growth in Nigeria. In addition to their potential to protect households during the crisis, cash transfers could also fuel growth coming out of the pandemic as demonstrated by a cash transfer program in Kebbi state that led women to start businesses. Similarly, large business plan competitions have demonstrated broad growth impacts: Nigeria's YouWin competition increased firm profits and sales, survival, and employment. Other promising policies include innovative financial products, such as uncollateralized, cash-based, or psychometric-based loans, which can unlock lending to women who typically lack the collateral of men. Finally, personal initiative training—which teaches women entrepreneurs to be proactive and demonstrate perseverance—has shown promise for women entrepreneurs in Togo and may help women in Nigeria bounce back from the economic ramifications of COVID-19.

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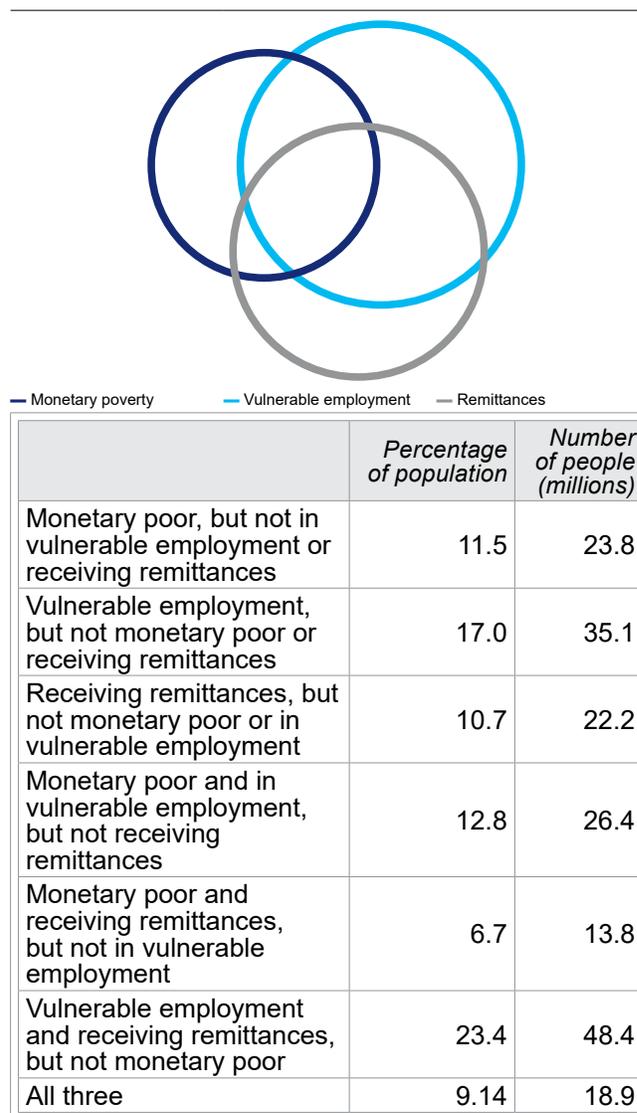
18.9 million poor Nigerians and 48.4 million non-poor Nigerians living in households that both depend on vulnerable employment and receive remittances (Figure 2.7). There is also a large overlap between vulnerable employment and living in urban areas, as would be expected given that non-farm enterprises and informal wage jobs are concentrated in towns and cities. Overall, 52.0 million urban Nigerians live in households depending on vulnerable employment. Since the virus appears to spread faster in large settlements and social distancing measures are more likely to affect urban areas, the welfare of these urban dwellers is at increased risk from the COVID-19 crisis.

Despite high poverty and vulnerability leaving many households susceptible to the COVID-19 crisis, coverage of social protection in Nigeria is low.

According to the 2018/19 NLSS, just 1.6 percent of Nigerians live in a household enrolled in the National Social Safety Net Program (also known as ‘Beta Don Come’). Coverage of most other social-assistance programs is even lower. The only exception is the school feeding program: 20.1 percent of school-age children (11.0 million children) live in households receiving support from this program.¹⁸ Closing schools to control the spread of COVID-19 therefore not only threatens children’s education, but also their nutrition, potentially exacerbating any negative effects on their human capital development.

High-frequency micro-data collected during the first months of the COVID-19 crisis confirm that households, especially poor and vulnerable households, have already suffered severe income shocks and are adopting costly coping strategies.¹⁹ By April-May 2020, 42.2 percent of individuals who were working before March 2020 were no longer working. The share of individuals who stopped working was highest among the poor and, echoing the simulations, those in service-sector jobs. Purchasing power has also been threatened by rising prices: 85.3 percent of households reported that the price of major food items

Figure 2.7. The overlap between different vulnerabilities to the COVID-19 crisis is sizeable.



Source: 2018/19 NLSS and World Bank estimates.
 Notes: Estimates exclude Borno. Monetary poverty calculated using the new national poverty line. Vulnerable employment defined as any household in which the head was not working in a wage job with a contract and was not in subsistence agriculture. Remittances refers to those households receiving domestic remittances. Observations weighted to represent the proportion of people in each type of household.

had increased since the start of the COVID-19 crisis. As a result, households are adopting coping strategies that not only reduce welfare in the short-term but also have long-term negative consequences for human capital development. One in two households reported that they had reduced their food consumption to cope with the effects of the crisis.

¹⁸ School age is defined as children aged 5-13 years old.

¹⁹ To monitor the effects of the crisis, the COVID-19 National Longitudinal Phone Survey (NLPS) collected information between April 20 and May 11 on a sub-sample of households that had already been interviewed for the 2018/19 GHS.

Policy Implications

Addressing the health crisis and saving lives is the top priority. This hinges on containing the spread of COVID-19 and ensuring that Nigerians have access to testing and treatment for the disease. Such policies will need to be especially geared towards poor and vulnerable households, whose access to medical facilities lags richer households, and did so even prior to the COVID-19 crisis. Only half of poor Nigerians had any kind of health facility—be it a health center, public hospital, private hospital, or private clinic—in their community compared to around two-thirds of non-poor Nigerians.

In the short term, targeted cash or in-kind transfers will be needed to stop households falling back into or further into poverty, but such social assistance needs to be adapted to the realities of the COVID-19 crisis. With just over 135 million Nigerians being poor or vulnerable and the COVID-19 crisis, the rapid rollout of policies that help households meet their basic consumption needs is essential. Since the virus must be contained, social assistance policies need to adhere to social distancing, and thus public works programs would need to be carefully considered. Given that coverage of current social protection programs is low, traditional targeting methods must be augmented with new alternatives, such as simple geographical, categorical, or community-based targeting, which can be implemented quickly. Delivery methods that are consistent with social distancing will also be required to ensure that cash or in-kind benefits reach their intended beneficiaries.

The government may need to intervene to ensure that households can access essential supplies, including foods and medicines. Providing cash may not be sufficient if markets cease to offer the goods that households need at prices they can afford. Poverty as measured in Nigeria is anchored in households' ability to buy enough food to meet caloric requirements. Since poverty by this measure is so widespread, ensuring Nigerians have access to enough nutritious meals will be crucial. This is especially important given the prevalence

of the school feeding program, which may be interrupted if schools are closed.

Nigeria also needs a medium-term policy package to help create the conditions for fast and inclusive growth, once the COVID-19 crisis subsides. In particular, the pandemic poses a serious threat to human capital development, given the disruptions to education and nutrition, alongside the direct health consequences of the virus. Since individuals' and households' exposure to the virus—both in terms of health effects and economic effects—is unequal, a policy agenda that helps the poor and vulnerable access new, post-crisis opportunities will be vital for Nigeria's long-term path towards reducing poverty and sharing the proceeds of growth.

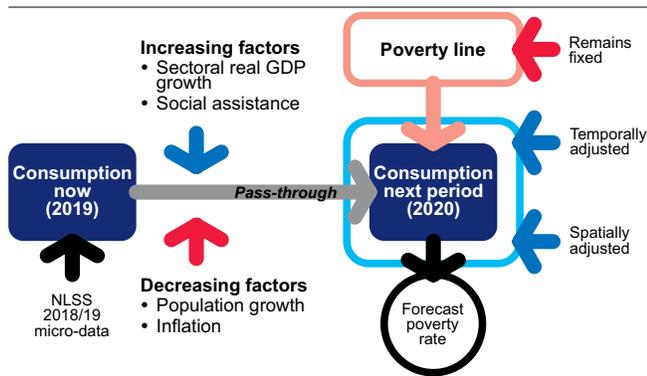
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Annex

Changes in household welfare and poverty can be simulated by combining macroeconomic forecasts with the latest micro-data taken from the 2018/19 NLSS. The model used to do this is summarized in Figure 2.8. First, predictions for *per capita* real GDP growth can be calculated for each sector of the economy using the World Bank’s forecasts for real GDP growth (see Part 1) and the United Nation’s projections for population growth. Then, according to some pass-through factor, the per capita consumption of each household observed in the 2018/19 NLSS can be forecast, with the sectoral per capita growth forecasts being matched to each household according to the sector of the household head’s primary job. The population weights are also adjusted according to the population projections. No further adjustments are made for prices, because the GDP forecasts are already deflated. As such, the model forecasts the *entire* consumption distribution in real terms, which can then be compared with the current poverty line to predict the poverty rate and the number of poor people. In principle, the model can also be augmented with poverty-reducing policies, including social protection measures, but such policies have not been included in the present version of the model.

Figure 2.8. Approach for simulating household welfare and poverty in Nigeria.



Source: World Bank’s elaboration.

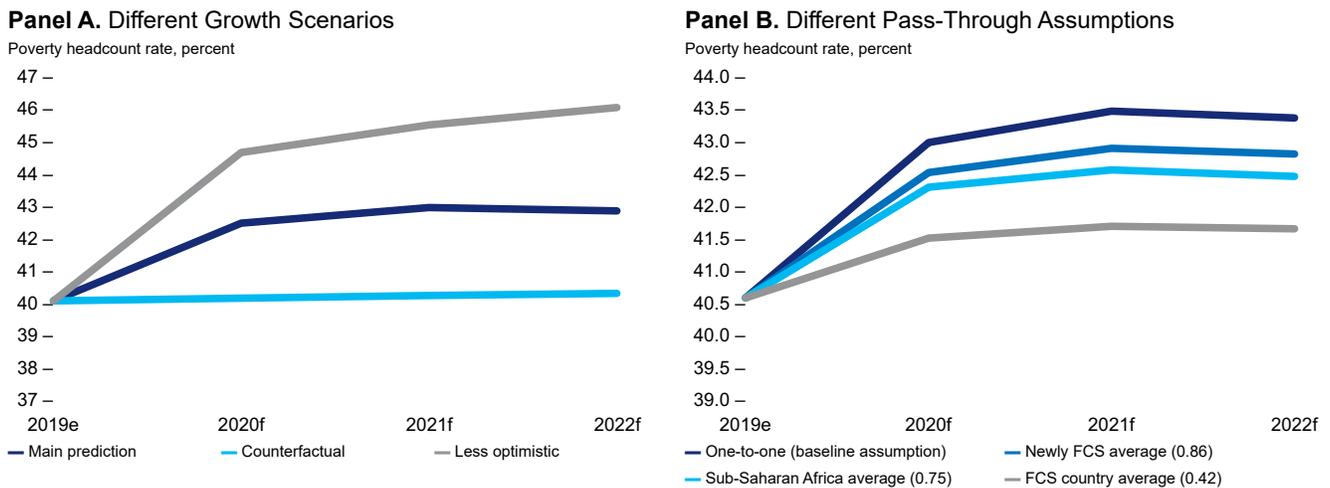
The simulation results are highly sensitive to the macroeconomic forecasts and the modelling assumptions used. Under less optimistic macroeconomic forecasts, the predicted increase in poverty would be even more severe. Panel A of Figure 2.9 shows how the poverty headcount rate in the main prediction and counterfactual scenarios discussed above compare with a less optimistic growth scenario where real GDP drops by 7.4 percent in 2020 and rises by just 0.9 percent in 2021 and by 1.90 percent in 2022. In this scenario, the poverty headcount rate would jump to 44.7 percent in 2020 and would reach 46.1 percent in 2022. Changing the modelling assumptions also alters the poverty predictions: assuming a weaker pass-through from per capita real GDP growth to household consumption growth would dampen the effects of the recession on poverty (see Panel B of Figure 2.9). While it is not possible to calculate a pass-through rate for Nigeria, the pass-through rates for other countries in Sub-Saharan Africa and for Fragile and Conflicted affected Situations (FCS) are estimated to be below 1.²⁰ Indeed, if the average FCS pass-through rate of 0.42 is applied, the increase in the poverty headcount rate is forecast to be far more muted, rising to 41.0 percent in 2020 and 41.2 percent by 2022.

The model has at least five key caveats, which should be borne in mind when interpreting the results.

First, and most crucially, the model focusses entirely on the economic effects on households coming from the COVID-19 crisis via the contraction of GDP: the health effects that households may suffer are not captured. Second, the mapping of the sector-level per capita real GDP growth forecasts into the micro-data is very coarse. By focusing only on the household head’s primary job, the income-generating activities of other household members are ignored. Third, the model does not allow household heads to switch sectors. In reality, workers in industry and services may switch into agriculture to mitigate the effects of the crisis. Fourth, the assumption that pass-through from real GDP per capita growth to household consumption growth is the same for all households—regardless of whether they are rich or

20 A pass-through rate cannot be calculated for Nigeria because the 2018/19 NLSS adopted a new and improved methodology for measuring consumption, such that it cannot be straightforwardly compared to previous household surveys in Nigeria.

Figure 2.9. The predicted poverty rate depends on the underlying macroeconomic forecasts and the modelling assumptions used.



Source: 2018/19 NLSS, United Nations population projections, and World Bank estimates.
 Notes: Estimates exclude Borno. Real consumption deflated temporally and spatially to compare with new national poverty line. 'FCS' means fragile and conflicted-affected situations. Pass-through estimates for FCS settings taken from 'On the Front Lines of the Fight Against Poverty', Corral et al., 2020. Pass through estimates for sub-Saharan Africa taken from the World Bank Poverty and Shared Prosperity Report 2018. In Panel A, pass-through is set to 1. In Panel B, the main prediction growth scenarios are used.

poor—is very strong. Fifth, the model does not capture the possibility that purchasing power may be further threatened if prices for food and other basic goods rise faster—perhaps due to market disruptions—than the GDP deflator used to place GDP growth in real terms.

Nigeria's Border Closure: Impacts and the Way Forward

Summary: Nigeria's decision to close its land borders to trade in August 2019 precipitated a significant deterioration in economic relations with neighboring countries. According to public statements, the closure was intended to address three main problems: (i) the illegal export of subsidized fuel from Nigeria; (ii) the import of banned or illegally trans-shipped goods, or of those in competition with Nigerian priority industries; and (iii) security concerns related to drugs, guns, and criminals entering the country through highly porous borders. In light of the COVID-19 pandemic, the closure order has now been extended indefinitely and broadened to include any kind of cross-border activity. This analysis highlights six key impacts of Nigeria's border closure and subsequent COVID-19 restrictions. These comprise: (i) an increase in inflation, especially for food products; (ii) lower household consumption due to higher food prices, with the average Nigerian now having to pay two percent more for the same basket of goods; (iii) a decrease in welfare standards among Nigeria's neighbors, especially Benin; (iv) a marked shift in formal trade to Nigeria and away from Benin, leading to some improvement in customs revenues; (v) a short-term but not potentially not sustained reduction in smuggling; and (vi) a decline in trade for some private-sector businesses, although precise outcomes vary greatly depending on the industry sector, import requirements, and customer base of individual firms. The COVID-19 crisis provides an opportunity for Nigeria to cooperate more closely with its neighbors on shared priorities, including public health, counterterrorism, trade and investment. Nigeria's industries will stand to benefit from streamlining cross-border trade. Making transit procedures and logistical services more efficient would also present advantages. Among the anticipated benefits of these measures would be to strengthen Nigeria's participation in regional and global value chains, lower the prices consumers face, accelerate economic diversification, and increase value addition and competitiveness of domestic firms.

Background on the border closure

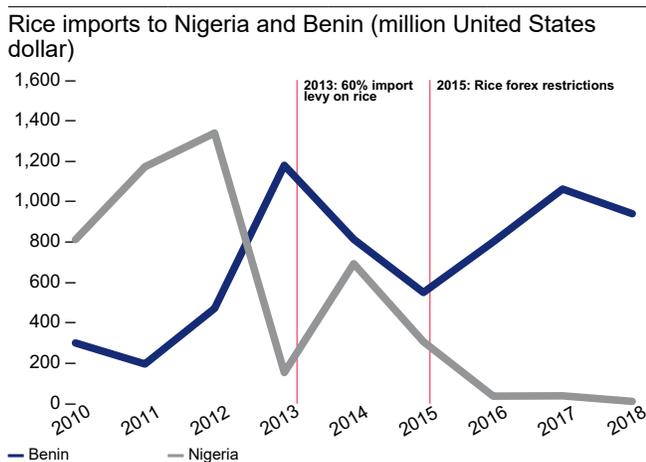
As with many countries in the world, in March 2020 Nigeria closed its land borders indefinitely to limit the spread of the COVID-19 pandemic. While ports have remained in operation, both major airports in Lagos and Abuja have been closed to international arrivals. Nigeria's land borders have been sealed off completely, and cross-border travel and trade have declined dramatically.

However, Nigeria's cross-border trade with its neighbors had already come to a halt more than six months beforehand. On August 22, 2019, the Federal Government of Nigeria announced the closures of the border crossings at Ekok (to Cameroon), Seme and Chikanda (both to Benin). These closures were subsequently extended to all other land border crossings. The rationale for these measures has varied, but one of three reasons are generally given: (i) the illegal export of subsidized fuel from Nigeria; (ii) the import of banned or illegally trans-shipped goods, as well for those goods Nigeria is aiming to increase domestic production; and (iii) security concerns related to drugs, guns, and criminals entering the country.

The border closure precipitated a deterioration in economic relations between Nigeria and its neighbors. Over the past decade, the Federal Government has implemented partial border closures, tightened restrictions on imports, and increased the presence of security forces at borders. This was in response to small-scale informal trade and organized smuggling, both of which are prevalent in Nigeria.²¹ During the recent past, a relationship has existed between the Nigerian government's imposition of import restrictions on goods, on the one hand, and Benin's importation of these goods, on the other (Figure 2.10). Moreover, Nigeria's

21 Little reliable data exist on informal trade volumes, yet a 2011 estimate places the ratio of informal to formal trade for Nigerian imports from Benin stands at about five to one, and at one to one for Nigeria's exports (Bensassi et al. 2019).

Figure 2.10. Following new restrictions, Nigerian rice imports decline and Benin’s imports surge.

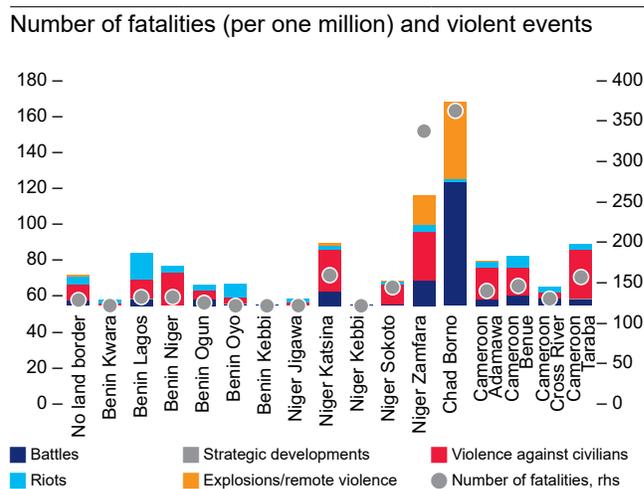


Source: World Bank estimates using COMTRADE mirror data. Note: HS Code 1006 used for rice.

North East and North West of the country, bordering Chad, Cameroon and Niger, has had the highest levels of violence in recent years (Figure 2.11).

However, the prevalence of smuggling has at least partially been driven by Nigerian trade and industrial policy over the past decade. The border closure follows longstanding policies by the government to restrict imports of select goods. It has opted to do so through outright import prohibitions, foreign exchange restrictions, and high tariffs, which have in turn created significant incentives for smuggling. Yet, the impact has been limited. Even for prohibited items, the exchange rate pass-through remains high, meaning that prices remain externally driven (Lundback and Yao 2020, forthcoming). Instead, these measures have primarily led to increased prices for consumers, on the one hand, and to strong incentives for smuggling, on the other.²² Meanwhile, the benefits for Nigerian industries have been limited. In summary, not only have past restrictions proved ineffective at achieving their intended goals, but Nigerian citizens have seen their welfare standards decline as a result.

Figure 2.11. Violence in the year before the closure was most prevalent in regions bordering Niger, Chad and Cameroon.



Source: World Bank estimates using ACLED data for August 2018–July 2019. Average number of fatalities in states with no land borders is population-weighted; violent events are the mean value of states.

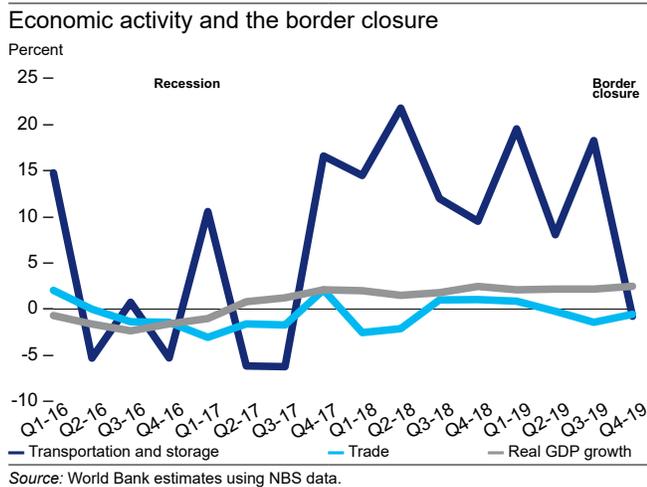
Impacts of the border closure

The overall macroeconomic impact of the border closure is relatively minor according to GDP data (Figure 2.12). The effect of the border closure on individual sectors is less clear and it is too early to tell whether the desired import substitution impact has been achieved. Impacts will likely depend on a particular firm’s industry, its import requirements, and its customer base. The most recent figures show a contraction of the trade sub-sector in the fourth quarter, which lowered overall 2019 GDP growth by 0.1 percent. In addition, the transport sector contracted for the first time since the recession ended in early 2017. According to the CBN’s monthly Business Expectations Survey of 1,050 firms, business confidence related to the closure exhibited no notable change. Moreover, concerns about competition remained stable and no decline was seen in the perception of “lack of material inputs” as a key constraint.

However, the border closure had an immediate and significant impact on inflation, especially for food (Figure 2.13). Overall inflation rate increased from 11 percent in August 2019 to 12.1 percent in January

22 See Treichel et al. (2012), Bensassi et al. (2016) and Dabalen and Nguyen (2018) for past analyses on the impact of Nigeria’s import bans.

Figure 2.12. Overall economic activity stayed constant in Q4...



2020. This was particularly driven by food inflation, which makes up half of the Consumer Price Index (CPI) basket and which rose from 13.2 percent in August 2019 to 14.8 percent in January 2020. In some cases, these changes have been quite dramatic. In the three months after the border closure (October–December 2019), for example, rice prices increased by 15.1 percent (local) and 20.3 percent (imported). Prices for staples such as tomatoes and frozen chicken also rose sharply, jumping by 10.2 percent and 14.5 percent, respectively.²³

Faced with these price changes, households need to spend about 2 percent more to maintain their consumption (Figure 2.14). The additional expenditure required to maintain consumption has also increased since the border closure, from 0.8 percent (1,452 Naira in 2018/19 prices) in September 2019 to 1.7 percent (3,194 Naira in 2018/19 prices) in December 2019.²⁴ Price increases for rice make up 76 percent of the total additional expenditure that Nigerian householders now face as a consequence of the border closure.²⁵ In addition to higher prices, households that rely on cross-border trade are likely to suffer from lost income, as well as longer distances to markets and potentially less variety. Even relatively modest and temporary increases in food

Figure 2.13. ...but inflation accelerated after the border closure.

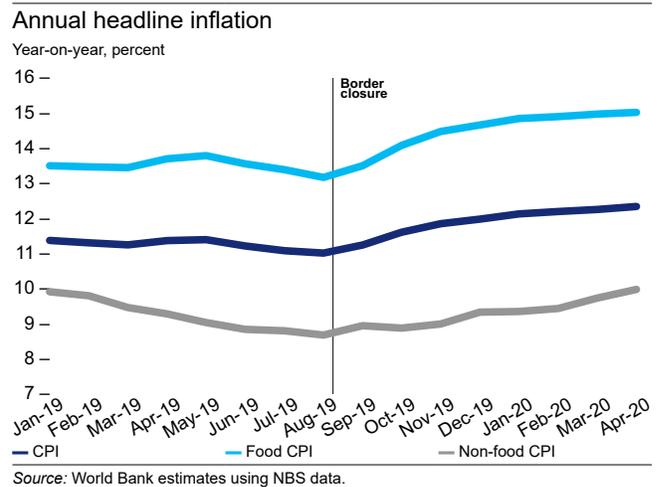
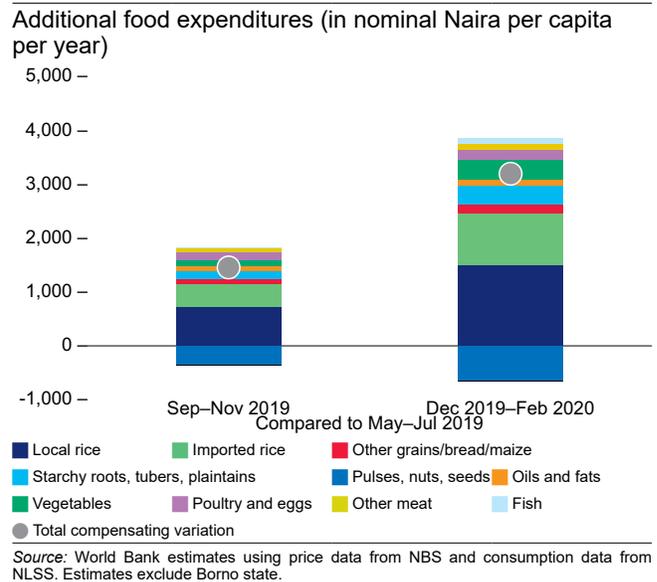


Figure 2.14. The additional expenditure needed to maintain the same welfare as before the border closure has been driven by rice price increases.



prices can have long-run impacts, especially if they reduce children’s nutritional intake.

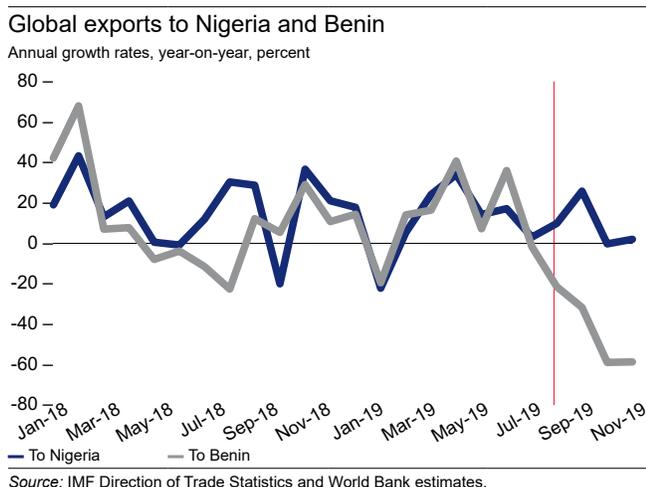
Imports that had previously been smuggled into Nigeria began entering formally after the closure, at least initially. According to official data, the border

23 These changes, which compare to average prices in May–July 2019, far exceed normal seasonal fluctuations. For the same May–July period in 2016–18, for instance, average frozen chicken prices increased by 14.5 percent, while tomatoes prices declined by 19.3 percent. Rice prices, on the other hand, remained relatively constant, ranging from a decline of minus 0.4 percent for some local varieties to an increase of 2.5 percent for imported varieties.

24 The mean is used to aggregate across different food items in the official price data so they can be mapped into the food items in the household consumption data from the 2018/19 Nigerian Living Standards Survey (NLSS).

25 This assumes a constant consumption basket. Substitution between goods may lessen these welfare effects on households, although these effects may be downplayed as current data do not cover the entire consumption basket.

Figure 2.15. The border closure seems to have diverted formal trade from Benin to Nigeria.



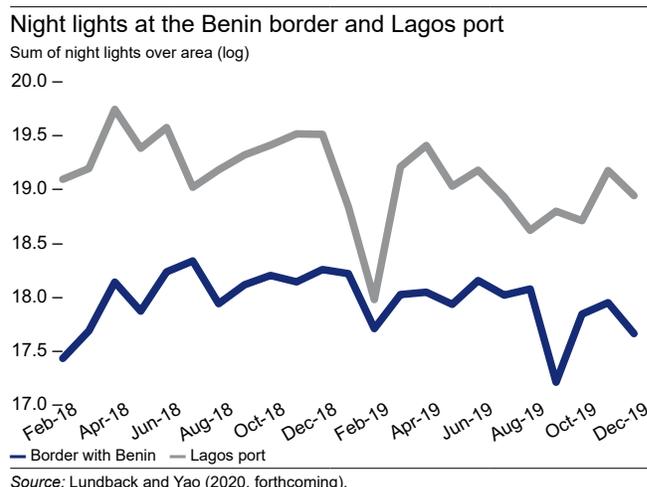
closure coincided with a striking decline in Benin’s global imports and a temporary increase in Nigeria’s imports (Figure 2.15). This is consistent across some of the major non-African trading partners, including the United States, India, China and the European Union. Product-level data show that goods with import restrictions such as footwear and carpets saw rapid increases in recorded exports to Nigeria following the border closure, whereas in Benin they fell. However, it is unclear whether these effects were sustained. It is notable, for example, that the initial boost in exports to Nigeria tapered off after the first few months. According to IMF analysis of economic activity proxied by night lights (Yao, 2020f), trade in border areas initially slowed while trade in port areas grew, although activity patterns now appear to have reverted to pre-closure levels (Figure 2.16).

Table 2.1. Exports to Nigeria and Benin, average year-on-year growth rates before and after border closure.

Origins	Jan–Aug 2019		Sept–Dec 2019	
	Benin	Nigeria	Benin	Nigeria
China	25%	19%	-46%	14%
India	44%	31%	-55%	34%
United States	15%	20%	-21%	18%
EU	-16%	5%	-23%	4%
ECOWAS	57%	36%	-1%	162%

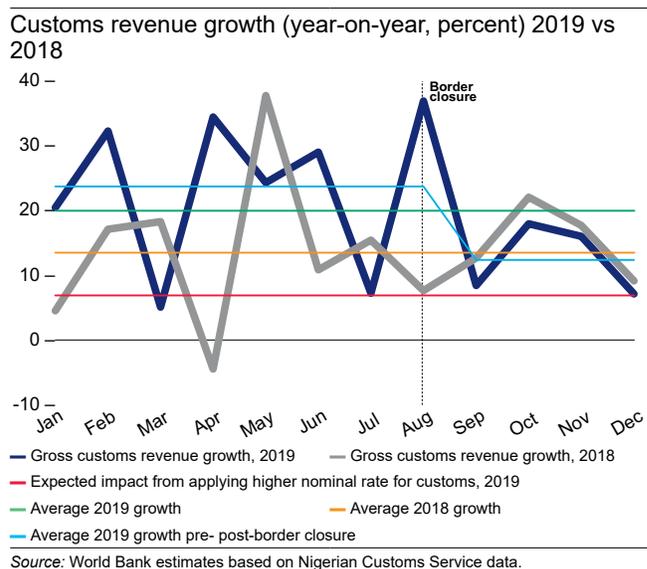
Source: IMF Direction of Trade Statistics and World Bank estimates.
Notes: ECOWAS = Economic Community of West African States. ECOWAS trade flows exclude Burkina Faso, Cabo Verde, Guinea-Bissau, and Liberia for Nigeria, and Cabo Verde, the Gambia, and Liberia for Benin (due to data availability).

Figure 2.16. The decline in economic activity along the Benin-Nigeria border was short-lived.



The impact on customs revenues has been limited. The Federal Government’s fiscal data show a spike in customs revenue in the month that the first closure was imposed (i.e. August 2019), but evidence no large increase thereafter (Figure 2.17). Overall, the 2019 customs (import, excise, and fees) revenue growth averaged 20 percent. This compares to 14 percent nominal, year-on-year growth in 2018. If one includes the increase of 6 percent that had already been expected from revisions to the nominal exchange applicable to

Figure 2.17. The border closure did not spur a sustained increase in customs revenues.



customs (to N326/US\$), then customs revenue growth in 2019 is largely in line with that of the previous year.

Impacts of the border closure are likely to be more significant in neighboring Benin, where the country's dependence on economic relations with Nigeria are far greater. As in Nigeria, higher food and energy prices since the closure have also led to inflation in Benin. On the fiscal side, meanwhile, Benin's tax revenue collection fell short of expectations in 2019, most likely in part due to the closure's negative impacts on customs revenue. In total, the estimated monthly loss in Benin's customs revenue due to the closure is 10–15 billion West African CFA (*Communauté Financière Africaine* - Financial African Community) francs. This implies that the measures were partially successful. A case in point is the price of fuel smuggled from Nigeria, known as *kpayo*, which increased up to 40 percent in some districts of Benin. In November 2019 and February 2020, shortages in *kpayo* caused fuel prices to double overnight, before stabilizing back at the levels immediately after the border closure's introduction.²⁶ These highly asymmetric impacts are also supported by new World Bank analysis. Lebrand (2020, forthcoming) shows that a complete border closure between Benin and Nigeria would lead to a 4.9 percent gap loss in welfare, with some border districts losing 11 percent. This is especially noteworthy as these districts are already poorer on average. Less information exists on the fiscal effects of the border closure on Niger. Estimates by the IMF, however, point to a significant deterioration of its current account shortfall, resulting in a 0.4 percent gap in GDP relative to projections (IMF 2020).

Supporting Nigeria's economic recovery by safely reopening and managing its land border once the immediate spread of COVID-19 has been addressed

Nigeria has agreed to several regional initiatives to reopen the border in the recent past. Notably, the government consented to a joint border force being set up between Benin, Niger, and itself in November

2019. Two months later, it also agreed to the creation of a committee approved by the Economic Community of West African States, led by President Roch Marc Christian Kabore of Burkina Faso, to study and report on the land border closure. The spread of the COVID-19 pandemic has diverted the attention of Economic Community of West African States, thus delaying the committee's progress. As shown in Box 2.2, COVID-19 has created new trade-related challenges for Nigeria as it seeks to ensure sufficient supply of medical products to address the pandemic.

The COVID-19 pandemic provides an opportunity for Nigeria to cooperate more closely with its neighbors on shared priorities. For example, a focus on addressing smuggling can form part of a broader agenda around facilitating legitimate trade, improving security and counterterrorism, and increasing cooperation on public health. A common focus on trade facilitation measures can contribute to the response to COVID-19 by expediting the movement, release, and clearance of goods (including those in transit). In the medium term, this would also improve health protection as Nigeria would have greater access to essential products to fight the pandemic. Joint actions could include bilateral cooperation on border management, joint information campaigns, coordinated purchasing of medical equipment, partnering on repurposing production to produce medical goods, and management of health specialists to deal with emerging hotspots in the region.

Trade facilitation reforms would benefit Nigeria's businesses and consumers, as well as helping tackle corruption. Such reforms would allow better and faster access for businesses to production inputs from abroad and support greater participation in global value chains (GVCs). Countries where inputs can be imported and exported in a quick and reliable manner are more attractive for FDI. Consumers also benefit from lower prices, higher quality products, and a greater goods variety. Trade facilitation reforms especially help small and medium-sized enterprises (SMEs) to participate in trade, reducing unnecessary costs.

²⁶ No conclusive statements could be drawn from the currently available Nigeria National Petroleum Corporation (NNPC) data on the impact of the border closure on the changes in volumes of Nigeria's imports of fuel, nor the impact on the fuel subsidy.

Box 2.2. An overview of Nigeria's trade in medical products and potential supply vulnerabilities related to COVID-19.

The high concentration of imports in COVID-19 medical products makes Nigeria vulnerable to potential shortages in supplies from top producer countries. The World Health Organization COVID-19 Disease Community Package (DCP) contains 46 items for surveillance, triage, screening, and clinical management. Among them, 17 products have been prioritized as key critical items to deal with the current crisis. These include essential items for diagnosis and treatment processes, such as enzymes, liquid soap, personal protection equipment, and oxygen concentrators. In Nigeria, the top three exporters represent an average of 80 percent of Nigeria's imports. Import concentration is particularly high for key products, such as heavy-duty aprons, gloves, nitrile and sterile gloves, medical masks, and protective goggles. Over 90 percent of Nigeria's imports of medical masks are currently subject to export restrictions from suppliers, resulting in an estimated price rise of around 40 percent. Similar levels of restrictions are placed on bougies, catheters, drains and probes, leading to a price hike of around 20 percent.

Compared to the global average, Nigeria has moderate tariffs on medical products, with higher tariffs for selected products. Average tariffs for key COVID-19 medical products are 8 percent. Import restrictions are particularly high for personal protective equipment and hygiene products. These tariffs cause prices to rise and negatively affect Nigeria's ability to respond to the pandemic. In terms of non-tariff measures, Nigeria imposes import licensing requirements for protective garments, medicine, and ventilators. In addition, the majority (70 percent) of COVID-19 products are subject to pre-shipment inspection requirements. The same is true for all personal protection equipment. Imports of tissue paper and disinfectant, meanwhile, are banned. To effectively and safely deal with the current health crisis, Nigeria can take action on various fronts. Options include diversifying import sources, eliminating unnecessary import restrictions, reducing other taxes such as VAT, and streamlining non-tariff measures on COVID-19 medical products.

Source: Espita et al. (2020).

In parallel, there is an urgent need to address some of the underlying policy-related causes that have been driving smuggling and that motivated the initial closure of the border. Low-income Nigerians are especially well-placed to benefit from the removal of import prohibitions because import bans restrict the domestic availability of imported goods and limit competition in price and quality. As a result, prices for these protected products are higher in Nigeria than in the world market. This negatively impacts consumers' welfare as they have fewer varieties to choose from and have to pay more. Another channel through which the domestic price of protected goods is driven up relates to higher input prices to industries that use protected products, such as cement and timber. Moreover, the

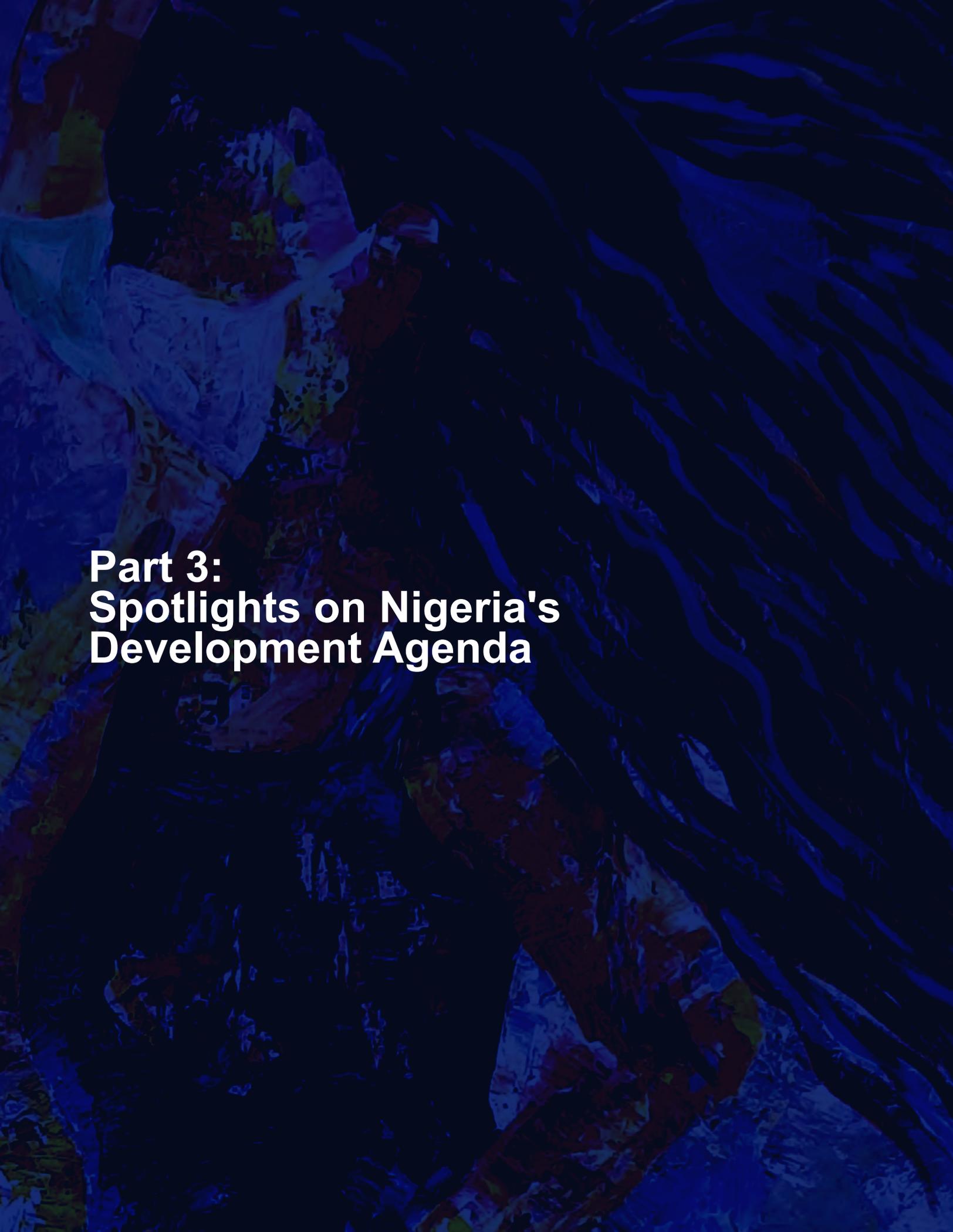
decline in oil prices and the resultant fiscal crisis present an opportune moment to reduce or even remove the country's regressive gasoline subsidies. As it stands, these subsidies primarily benefit middle and high-income household, while also acting as a driver of smuggling.

Any changes need to be complemented by efforts to diversify the economy and increase the export competitiveness of Nigerian firms. Helping to achieve these twin objectives would be a broader economic agenda focused on value addition. Specific measures in this regard include: (i) improving domestic transportation connectivity so as to reduce prices and leverage Nigeria's limited physical, financial, and human resources; (ii) ramping up business environment

reforms put forth by the Presidential Enabling Business Environment Council; (iii) facilitating the use of imported inputs in production process through an open and transparent trade and foreign exchange policy; and (iv) integrating and upgrading into targeted regional and global value chains by investing in human and physical capital.

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**Part 3:
Spotlights on Nigeria's
Development Agenda**

Spotlight 1: The Role of Agribusiness in Providing Food Security and Supporting the Post-Pandemic Recovery

Summary: *By the standards of middle-income countries, Nigeria's agricultural sector has limited linkages with manufacturing. Boosting agribusiness would improve food security in Nigeria by reducing the reliance on food imports while building resilience to the volatility of agricultural commodity prices and import supply chains. Despite government interventions, however, 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 COVID-19 pandemic and related containment measures are expected to adversely affect agriculture supply chains and the rural labor market, with negative effects on the 2020 planting season and subsequent agricultural output. Small farmers will have difficulty bringing their products to market, and large farmers will face higher costs of production, both of which are expected to increase food prices. In the context of the COVID-19 pandemic, the expected increase in food prices poses a major threat to food security, especially for the 26 million undernourished Nigerians. An effective response to these challenges will require a sequenced approach, with initial interventions designed to mitigate the effects of the pandemic on food security followed by measures to accelerate recovery and create inclusive growth by supporting the development of agribusiness value chains.*

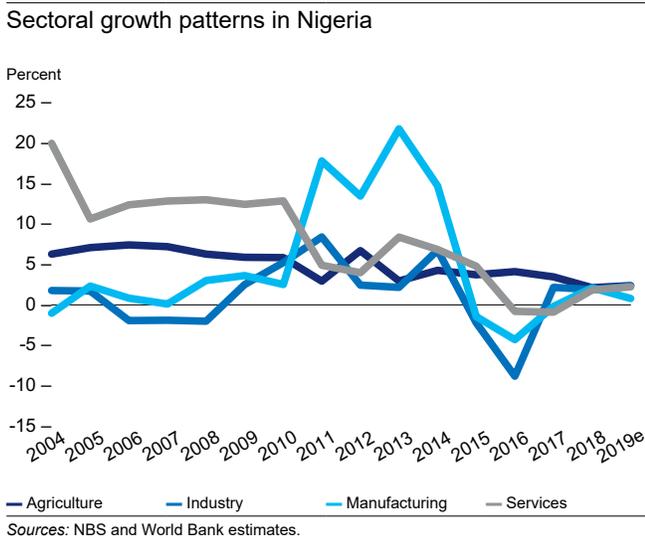
The agricultural sector has been broadly resilient to previous crises, but productivity remains low

Due to its relative economic isolation and longstanding role as an employer of last resort, the agricultural sector has proven broadly resilient to economic volatility over the past decade. Crops and livestock contribute about 90 percent and 7 percent to the sector's total output, respectively, and Nigeria's top three agricultural products are cassava, rice and maize. Agriculture was the only sector that did not contract during the 2016 recession, and it was the most stable sector in the turbulent years preceding the recession (Figure 3.1). The relative stability of agriculture is due in part to weak its weak linkages with other sectors. Inter-sectoral linkages are weak because it is estimated that about 50 percent of the manufacturing sector GDP involves processing of agricultural raw materials (agribusiness) but a significant proportion of these raw materials is imported.²⁷

The industrial sector relies on imports, and changes in agricultural imports are correlated with changes in manufacturing output. A significant share of raw materials for agribusiness are imported (about 47 percent of food and beverage imports in Nigeria are inputs for industrial food production). Imports of agricultural commodities peaked when output growth in the manufacturing sector was at its highest and declined sharply as manufacturing growth plunged (Figure 3.1). 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.

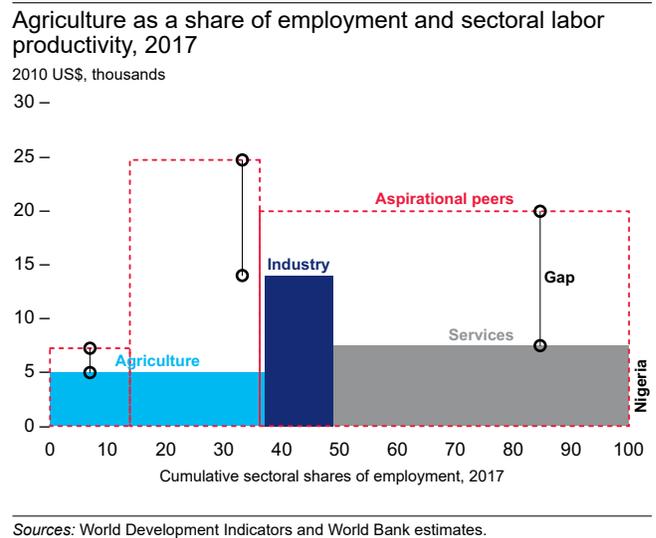
²⁷ World Bank 2020: Transforming Agriculture for More and Better Jobs, forthcoming.

Figure 3.1. Growth in agriculture has been less volatile than in other sectors, but it has been declining.



To foster economic diversification and ease reliance on imported food, the Nigerian government has launched a range of agricultural programs and included a sectoral development strategy in the Economic Recovery and Growth Plan for 2017–19. The government launched The Green Alternative in 2016 and the Presidential Initiative on Fertilizer in 2017. The Green Alternative focuses on enhancing productivity, crowding in private investment, and addressing institutional issues relevant to agriculture and rural development. The Presidential Initiative on Fertilizer is designed to facilitate access to fertilizers at reduced prices through public and private partnerships. The ERGP aimed to increase agricultural output at an average annual rate of 6.92 percent between 2017 and 2020, significantly reduce food imports and become a net exporter of key agricultural products and achieve self-sufficiency in several key staple crops by 2020. However, the strategy was not able to achieve these ambitious goals.

Figure 3.2. Nigeria's agriculture sector is relatively large compared to peers, and its productivity is lower.



The agricultural sector has grown slowly despite government interventions

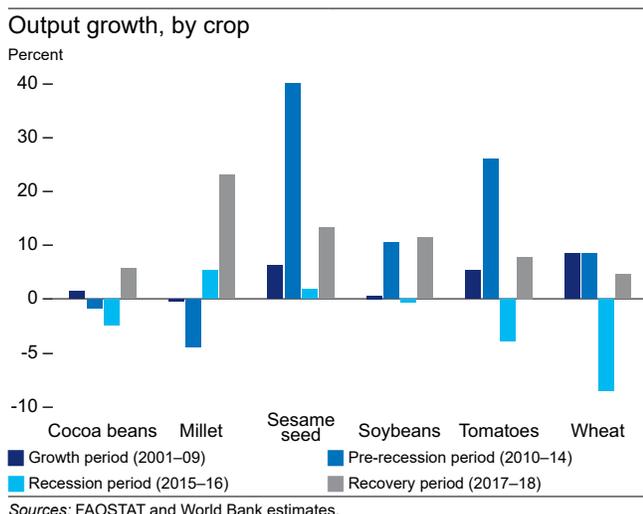
The agriculture sector grew at an average annual rate of 2.6 percent in 2017–19, well below the decade average of 3.8 percent for the economy as a whole. A broad range of subsectors drove agricultural growth in 2017–19, including cereals, cash crops, and vegetables (Figure 3.3). The crop that grew at the fastest rate was millet, a staple food grown mainly in the northern parts of the country. However, the increase in millet production reflected a return to historical levels following a collapse during 2010–14. Other agricultural subsectors that performed well in 2017–19 include sesame seed, which has emerged as a major export crop in recent years, cashew nuts, and soya beans, the latter of which are grown mostly in the middle belt and are becoming an increasingly important source of feedstock for the poultry and fish sectors in the southern states. Tomato and wheat grew at average rates of 8 percent and 5 percent, respectively, during the post-recession period, rebounding from contractions of 8 percent and 17 percent, respectively in 2015 and 2016. However, during the past three years the growth of the agricultural

sector has fallen short of its historical average (Figure 3.4), and the COVID-19 pandemic and looming economic downturn are expected to disrupt production over the near term.

While the expansion of cultivated area drove production growth for several crops, tomatoes and sesame experienced increases in marginal yields.

Tomato yields increased by 27.4 percent, while the area under cultivation contracted by about 14.0 percent. Meanwhile, sesame yields grew by 7.0 percent and cultivated area expanded by 6.0 percent, indicating that both extensive and intensive cultivation are driving

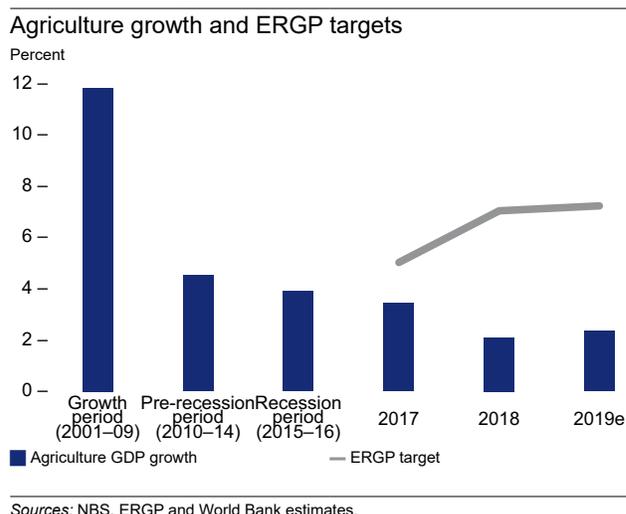
Figure 3.3. Major crops drove agriculture growth.



growth of an increasingly significant export crop. By contrast, wheat yields declined by 11.1 percent even as the total area under cultivation expanded by 17.6 percent. Yields for other major agricultural commodities remained broadly stable, including cocoa beans (-1.5 percent), millet (1.4 percent), and soya beans (0.8 percent).

Low productivity continues to inhibit the growth of agriculture. Technological uptake and efficiency gains both require that farmer have access to improved inputs, better management practices, technical advice, and external markets for commodities. However,

Figure 3.4. Agriculture growth fell below ERGP targets and historical rates.



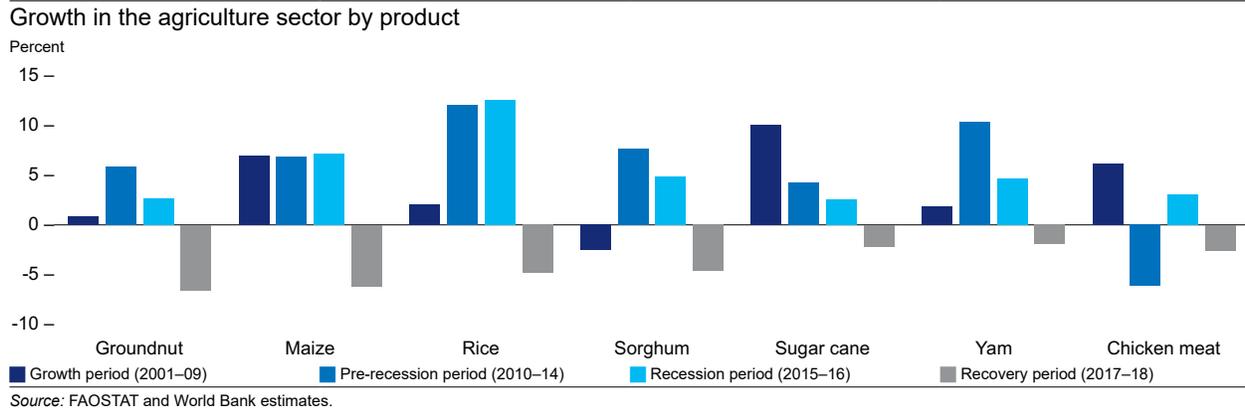
Box 3.1. Enhancing the competitiveness of Nigeria’s rice production.

Rice output contracted sharply after the 2016 recession. This downturn was preceded by a half-decade of rapid production growth driven by import restrictions. Annual output growth averaged over 12 percent between 2010 and 2016, then plunged to -5 percent after 2016 (Figure 3.25). Import restrictions caused a steep decline in official imports, which fell to near zero by 2019, spurring the increase in domestic production. However, output growth was almost due to the expansion of cultivated area, as rice increased from 6.7 percent of total cultivated land in 2010–14 to 10.6 percent during 2015–16. This model was not sustainable, and the sudden increase in rice output was followed by a deep and sustained contraction in 2017–19. Nigeria’s marginal rice yields have remained persistently low relative to those of major world producers. Other major agricultural commodities—including maize, sorghum, groundnuts, sugarcane, and yams—followed the same pattern, growing swiftly before the recession and then contracting during it. However, poultry production

Box 3.1 continued

bucked this trend, contracting by about 6.1 percent in 2010–14, then recovering modestly, during the recession, and then contracting again in the post-recession period.

Figure B3.1.1. Major subsectors that negatively weigh on agriculture growth.



Rice output cannot sustainably increase unless the subsector’s competitiveness issues are addressed. The rice sector is not competitive in the domestic market due to consumer preferences, high production costs, and logistical issues. Domestic consumers tend to regard local rice varieties as inferior to imported varieties. Low yields increase production costs above the levels of many rice exporters. Weak post-harvest management leads to contamination and reduces quality. Import restrictions appear to have boosted domestic production but did not address any of these underlying factors.

Technological upgrading is vital to support the rice subsector. Enhancing the competitiveness of the rice sector will require improving the technology of production, introducing higher-yield varieties with more desirable attributes, disseminating agronomic practices that increase yields and use fewer less inputs (especially water), developing plot-specific knowledge of soil nutrient profiles and providing access to blended fertilizers with specific nutrient compositions, building efficient irrigation systems, and investing in on-farm post-harvest management capacity. Nigerian farmers need more effective extension service and agronomic education to apply new technologies effectively. While productivity-focused agricultural interventions are far harder to design and implement than trade restrictions, their returns are higher, more equitably distributed among small-scale farmers, more beneficial to consumers and agribusiness firms, and more sustainable.

many Nigerian farmers are unable to access improved technology, production processes, and commodity markets due to inadequate investment in agricultural research and development, fragmented agribusiness value chains that prevent producers from coordinating with buyers and instead rely on spot transactions, lack of access to finance for agriculture, and an unpredictable policy environment.

Technological upgrading could help mitigate the negative effects of climate change on agriculture output. Nigeria is one of the fifteen countries in the world most vulnerable to natural disasters, such as floods, droughts, heat waves, and storms. Climate models for Nigeria predict that these effects will be most intense in the North, which is both deeply impoverished and heavily reliant on agriculture. In the North, climate

change will increase temperatures and reduce rainfall, while in the South it will increase flooding, soil erosion, and land degradation. Overall, the effects of climate change will diminish the productive capacity of the land and lower agricultural productivity, further undermining food security and increasing dependence on food imports.

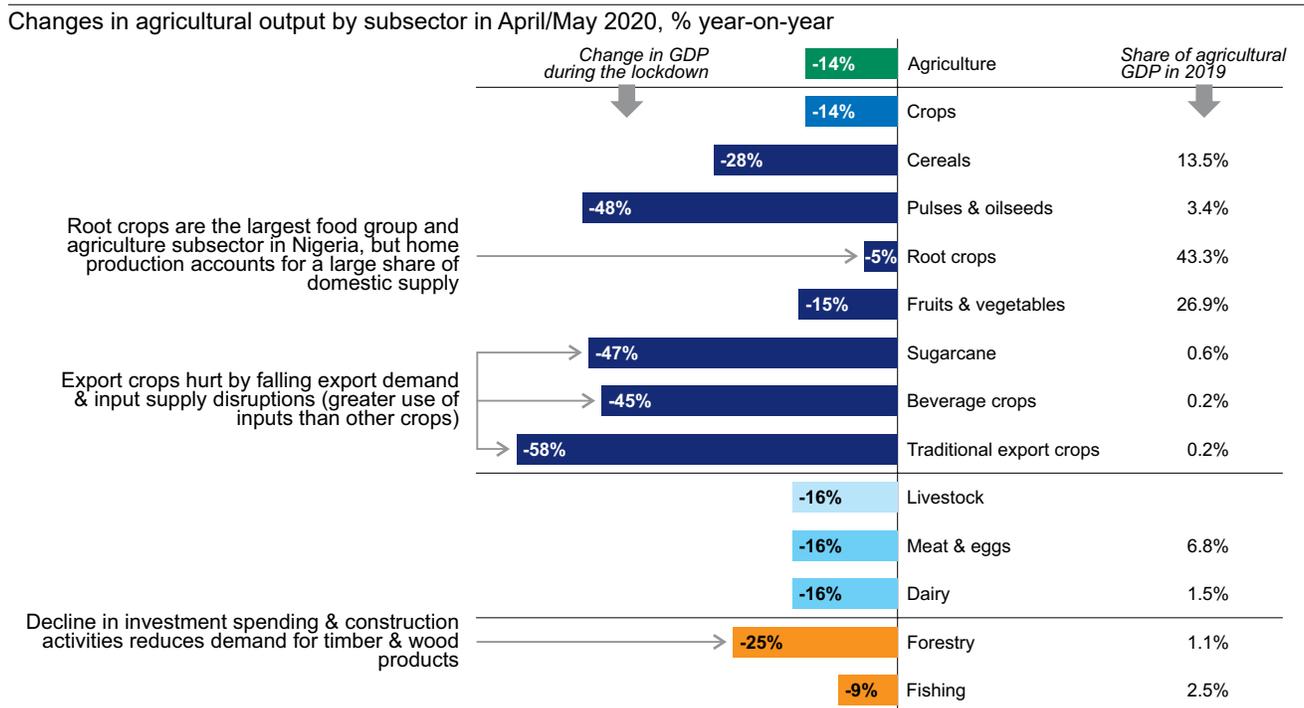
The COVID-19 crisis could threaten agricultural output and food security

The COVID-19 pandemic and associated economic downturn are the most daunting challenges facing the agriculture sector in the short term. While the agriculture sector proved quite resilient during the recession of 2016, the COVID-19 pandemic presents new challenges that could severely affect growth in the sector. After a five-week lockdown, Andam K. et

al. (2020) find that agricultural output declined by an estimated 14 percent, year-on-year, in April/May 2020 (Figure 3.5). The social distancing, transport restrictions, and partial closure of food retail markets are already affecting agricultural livelihoods and food security through multiple channels. In the near term, farmers could lose part of the current planting season if immediate mitigation measures are not implemented. Disruptions during the planting season would reduce food production later in the year, threatening the livelihoods of the more than 90 percent of the population who derive income from agriculture. A contracting food supply could fuel an increase in food prices, especially in remote and economically isolated areas.

The COVID-19 pandemic and associated lockdown measures are disrupting input supply networks and causing short-term labor shortages. Social distancing and restrictions on the movement of people and goods have curtailed the supply of labor and agricultural inputs. The effects will be more pronounced in labor-intensive subsectors that dependent on migrant and

Figure 3.5. The pandemic and associated lockdown measures have caused Nigeria’s agricultural sector to contract.



Source: Andam K. et al., Impact of COVID-19 on Production, Poverty and Food Systems. International Food Policy Research Institute (IFPRI) 2020.

hired labor, such as poultry and aquaculture, as well as among smallholder farms that rely on traditional labor-sharing arrangements during field preparation and planting activities. Short-term effects on labor movements could be exacerbated by COVID-19 morbidity and/or the widespread adoption of voluntary precautionary measures. Restrictions on movement have already disrupted supply networks for seeds, fertilizers, agrochemicals, and technical advice, reducing the availability of key inputs and increasing their cost.

Job losses in the urban economy are expected to ease shortages in the agricultural labor supply. As urban unemployment rates rise, a share of urban labor is likely to return to the agricultural sector as an employer of last resort. However, the prospective influx of additional labor will likely arrive late in the current season and may not be able to contribute effectively to production.

COVID-19 is adversely affecting food markets as well as input supply chains. Wet markets appear to have been affected more than supermarkets or formal retailers. Wet markets tend to operate with a high density of buyers and sellers and without ample sanitation services. Farmers who rely on wet markets are facing difficulties moving goods to markets, which is lowering farmgate prices and increasing food loss and waste at the farm level. Welfare losses among farmers relying on spot transactions are expected to be greater than those of farmers who are integrated into formal value chains. Perishable commodities, including fruits and vegetables, meat and dairy products, and fish, are especially vulnerable to market disruptions.

The COVID-19 pandemic is increasing the risk of food-price inflation. The COVID-19 pandemic materialized at a time when Nigeria's food stocks were already largely depleted, due in part to the seasonal nature of agricultural production and in part to import restrictions on various food commodities, including rice. Rice production was already contracting prior to the pandemic (Box 3.1), and the supply-side effects of COVID-19 could further reduce production. Moreover,

the depreciation of the naira is expected to narrow the scope for ramping up food imports. Consequently, although global food markets are well stocked, and food prices are lower and more stable than in previous years, shocks that affect domestic production or imports could increase speculation in the domestic market and push food prices higher. Furthermore, the experience of the 2007/08 food crisis shows that export restrictions or large-scale imports can disrupt markets and precipitate a global food crisis even when their food stocks are adequate.

The potential for food-price inflation is a major risk to food security, especially for the 26 million undernourished Nigerians. Food insecurity was already increasing before the COVID-19 pandemic: between 2006 and 2018, the number of people facing food insecurity/undernutrition in Nigeria increased by more than 180 percent, from 9.1 million to 25.6 million.²⁸ The situation is worse in the conflict-affected areas of the North East, as ongoing insecurity and increasing reliance on emergency food relief have disrupted production, inhibited the provision of public agriculture services, and compromised the functioning of food value chains. In March 2020, it was estimated that around 5 million people,²⁹ in the North East and North West regions, are experiencing a Phase 3+ food crisis, and this number is expected to reach 7.1 million by June–August 2020.

The pandemic and resulting economic contraction are expected to contribute to rising levels of unemployment and poverty, with negative implications for food security and nutrition. Perishable commodities tend to have both greater nutritional value and higher income elasticities of demand than grains. Consequently, households facing a loss of income are likely to adjust their consumption baskets away from perishables, and undernourishment may increase. Meanwhile, the supply-side disruptions created by the pandemic are increasing food waste, and shocks that drive up prices for perishable commodities could have an especially significant impact on food consumption.

28 FAO (2019). The State of Food Security and Nutrition in the World 2019. Rome: FAO (<http://www.fao.org/3/ca5162en/ca5162en.pdf>; accessed on June 15, 2020).

29 Famine Early Warning System Network (FEWS NET) West Africa.

Policy recommendations

An effective response to these challenges will require a sequenced approach, with initial interventions designed to mitigate the effects of the pandemic on food security followed by measures to accelerate recovery by supporting the development of agribusiness value chains. In the short term, the authorities must focus on protecting livelihoods and food security by ensuring that agricultural systems continue to produce at adequate levels, that markets function effectively, and that national reserves are sufficient to provide emergency relief and support school feeding programs. Over the long term, accelerating the recovery of the agricultural sector will require targeted investments aimed at transforming agricultural production and developing agribusiness value chains.

Enhancing food security and protecting agricultural livelihoods

Farmers urgently require inputs and services during the current and the next planting season. The COVID-19 pandemic is already affecting agricultural livelihoods and food security through multiple channels. Programs that deliver inputs to farmers must be rapidly expanded before the end of the planting season. In addition to distributing inputs directly to farmers, the government should offer working-capital support to upstream segments of the agricultural value chain (i.e., input distributors and retailers). Extending mechanization services to the farmers and leveraging new technologies to share productive capital could help offset the short-term shock to the labor supply.

The authorities can help prepare the agriculture sector to absorb returning workers from the urban economy. Investing in labor-intensive agriculture infrastructure would provide short-term jobs for displaced urban workers, mitigating the wage effects of reverse rural-urban migration while enhancing the

productive capacity of the agricultural sector and laying the foundation for a faster recovery. These investments could include the construction or rehabilitation of public irrigation systems (i.e., secondary and tertiary canals), small-scale irrigation equipment, tertiary roads that connect farmers to markets, and warehouses and other post-harvest infrastructure. Such projects should be implemented with the understanding that the infrastructure would be offered to the private sector under concession agreements. Increased warehousing capacity will facilitate the expansion of warehousing-receipt systems and commodity exchanges. These projects could be complemented by investments designed to increase the agricultural asset base of farmers and improve capital formation in agriculture, such as block grants for micro-level power generation and biogas equipment to enable the environmentally sustainable management of agricultural waste.

Ensuring that food supply chains continue to function is critical to national food security. Shocks to supply chains and markets are reducing productivity and increasing waste, but these effects can be mitigated at the farm level by increasing the processing capacity of farmers and producer organizations. For example, providing small-scale processing equipment for drying, milling, smoking, curing, and packaging agricultural commodities could reduce waste and increase value addition. Infrastructure in wet markets can be improved by enhancing water and sanitation services, which would further reduce waste while increasing the safety of buyers and sellers.

Improved policy guidelines are needed to ensure the safety of activities along agricultural value chains, improve the functioning of input markets, and inform a rules-based approach to the procurement and release of food from national reserves. Improved safety guidelines should cover farm operations, the construction and maintenance of agricultural infrastructure, processing of agricultural commodities, the operation of wet markets, and related subjects. Special guidelines for maintaining social distancing during agricultural

production (especially land preparation and planting), food processing and handling, and the operation of formal and wet markets will necessary to enable agricultural supply and marketing systems to function effectively during the pandemic. Tighter oversight of input supply networks and commodity value chains is necessary to discourage oligopolistic behavior. A rules-based system for managing national reserves would support decisions regarding the volume of imports needed to manage domestic prices without distorting production incentives. Finally, the government will need to monitor domestic agricultural production and global markets carefully and develop contingency plans to respond to crises and ensure food security.

Accelerating the recovery and transformation of agriculture and agribusiness value chains

The growth of agriculture and agribusiness value chains can be accelerated through coordinated “brownfield” investments that link organized farmers with growth-oriented SMEs in downstream market segments. The Nigerian government has recognized the enormous employment potential of the agribusiness sector and has targeted the creation of six million jobs in agricultural value chains by 2023. The authorities are also aiming to attract US\$10-15 billion in investments in the agriculture and agribusiness sectors.³⁰ Meeting this jobs target would require an annual employment growth rate of about 6.7 percent in both primary agriculture and nonfarm agribusiness, far above the rate of 3.9 percent projected prior to the COVID-19 crisis.³¹

Coordinated investments in agricultural value chains can help farmers to move away from spot transactions and develop vertical integration with agribusiness. “Greenfield” investments involve large capital injections by multinational agribusiness corporations, while “brownfield” investments build on existing agribusiness SMEs that can leverage established relationships with upstream primary producers. Because they rely on preexisting firms and market linkages, brownfield

investments can be mobilized faster than greenfield investments. Moreover, greenfield investors may be less willing to invest in new ventures during a time of profound economic uncertainty and in a segment that is already considered inherently risky.

Improving the enabling environment for agribusiness will catalyze private investment. The enabling environment includes upstream primary production and downstream nonfarm enterprises involved in processing, input supply, trading, and food service. A holistic approach is necessary to encourage investment in both segments. The World Bank’s 2019 *Enabling the Business of Agriculture* report identified critical gaps in upstream segments in Nigeria, including seed and fertilizers markets, access to finance, equipment registration, plant health, food trading, and sustainable livestock production. The inadequate regulatory framework for the warehouse-receipt system is a major constraint on access to finance. Currently, warehouse receipts are limited as negotiable instruments and cannot be used as collateral in the commercial banking sector. Consequently, farmers and traders cannot use stored commodities as collateral to obtain credit from commercial lenders. Furthermore, the financial sector’s regulatory framework constrains the development of fintech, mobile money, and crowdfunding solutions. Countries with more enabling financial regulatory frameworks (e.g., Kenya) have seen enormous growth in digital finance. These innovations have proven highly effective in unlocking financing for small and informal agribusinesses with needs that are not well served by conventional banking products.

Implementing agroclimatic adaptation measures and addressing the causes of conflict in rural areas will be necessary to sustainably increase productivity and improve the management of land, soil, and water resources. Collaboration between scientific organizations, farmers, and extension service providers will enable the collaborative development of solutions tailored to the local context. Digital technologies can help build the resilience of food systems to agroclimatic change by monitoring climate risks and facilitating

³⁰ Delivering on the Government’s Priorities 2019-2023; Federal Government of Nigeria.

³¹ World Bank 2020: Transforming Agriculture for More and Better Jobs, forthcoming.

responses at the regional, community, and farm levels. Automated irrigation systems, soil sensors, drones, and other innovations can increase the efficiency with which agricultural resources are used. In addition, Nigeria cannot ensure food security without addressing the agriculture-related drivers of conflict and fragility and their consequences for agricultural production. Managing competition for natural resources in fragile areas, especially between herders and crop farmers, will be essential to mitigate conflict. To leverage local knowledge and ensure local ownership, the authorities must build the capacity of local institutions and actors to design and implement community-based approaches to effectively and equitably manage natural resources.

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Spotlight 2: Leveraging Migration, Remittances, and the Diaspora for Development

Summary: *Maximizing the opportunities created by emigration and minimizing its negative effects would help achieve the government objectives of lifting 100 million people out of poverty in the next decade. For the past 15 years, remittances have surpassed inflows of foreign investment, and more recently oil rents. Remittances are a major source of foreign exchange for Nigeria and an important source of income source for households. The rise in remittances is explained by the large number of Nigerian emigrants, their capacity to generate financial resources, and their education. Some Nigerians use formal channels to emigrate. However, the less fortunate use informal channels or risk irregular migration routes. Lack of jobs and economic hardships have pushed up pressures to emigrate. For 2020 the COVID-19 outbreak is expected to cut deeply into remittances to Nigeria. It is also expected that fewer Nigerians will emigrate in 2020. Yet, the Nigerian diaspora will continue to grow over the medium term. With remittances a major source of foreign exchange revenue for Nigeria, the decline will intensify pressures on the balance of payments, and investments will be postponed. Among policy priorities through the medium term should be harnessing investment by Nigeria's diaspora, accurately capturing remittance data, and reducing remittance costs.*

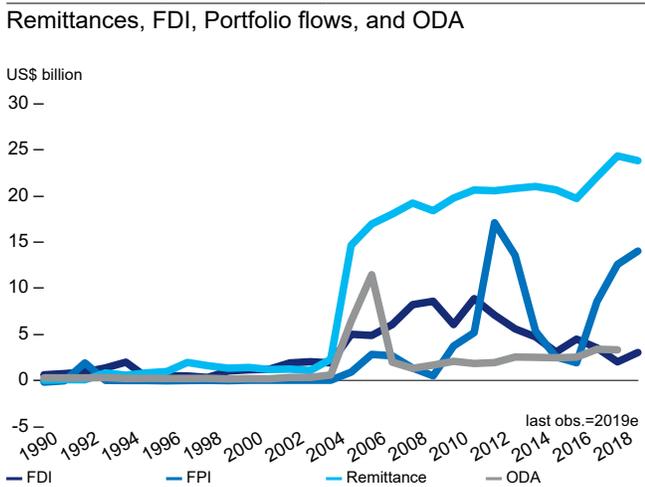
Economic and demographic factors have been driving remittances; and pressures emigrate are expected to remain high

In the past 15 years, remittances have become a major source of foreign exchange for Nigeria and of income for its households. Remittances averaged 5.3 percent of GDP in 2004–18; during the 2009 global financial crisis they were more stable and countercyclical than other international capital flows. In 2018, remittances to Nigeria amounted to about US\$24.3 billion—more than FDI and Official Development Assistance (ODA) combined (Figure 3.6).³² Notably, remittances contribute as much as oil rents to Nigeria's GDP and are less volatile. Remittances can be used to improve the country's creditworthiness and access to international capital markets (World Bank 2019). At the micro level they help households diversify their sources of income while providing much-needed savings and capital for investment. Households invest remittances productively in physical and human capital: 46 percent are used for business development, 10 percent for housing, 20 percent for education, and 12 percent for health care (Plaza and Ratha, 2011).

The magnitude of remittances to Nigeria can be explained by the large number of Nigerian emigrants, their capacity to generate financial resources, and their education. There are 15 to 17 million Nigerians dispersed across Africa, Europe, and North America, where they are well-positioned to catalyze development at home through remittances, trade, investments,

³² World Bank estimates based on data reported by the CBN to the IMF, which meet *Balance of Payments Manual 6* (BPM6) standards. The BPM6 requires that both formal and informal flows, and both cash and in-kind transfers, be reported. Some remittances are hand-carried or come informal operators (hawala) etc. For those arriving through formal channels, banks and money transfer operators may mislabel some formal remittances as trade or tourism receipts, so a variety of estimation techniques were used based on macro and micro data. Thus, remittances as reported by the CBN to the IMF may vary from the remittance information reported by formal channels.

Figure 3.6. For Nigeria, remittances are a major source of foreign exchange in Nigeria.

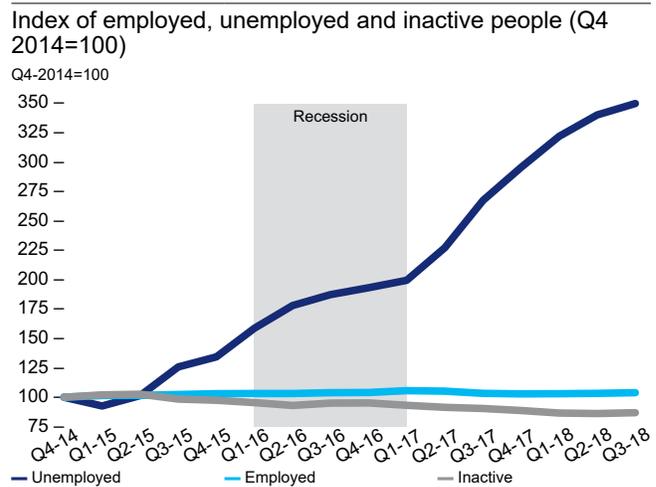


Source: Nigerian authorities, Global Knowledge Partnership on Migration and Development (KNOMAD), IMF, and World Bank estimates.

entrepreneurship, and knowledge exchange.³³ Estimated continental dispersion of Nigerian diaspora is Africa 44 percent; Europe 31 percent; North America 22 percent; Asia 2 percent; and Oceania 1 percent. Members of the diaspora thus have a great opportunity to tap into resources in their countries of residence. The annual savings of Nigerian migrants amount to about \$5 billion, suggesting that they could contribute to their home economy through investment and capital market participation.³⁴ The savings of Nigerian emigrants residing in the United States in 2017 was about \$2.65 billion, the highest in any destination country, and the savings of those in the United Kingdom reached about \$1.1 billion. According to the OECD, 51.2 percent of Nigerian migrants in OECD countries have tertiary education. Disaggregated OECD data on skill levels by gender demonstrate that 47.4 percent of female Nigerian emigrants have tertiary education. Nigeria’s emigrants are clearly skilled and could facilitate transfer home of technology, knowledge, and FDI. Thus they can help unleash the benefits of economic migration for development.

In the past few years lack of jobs and economic hardships have created tremendous pressures to emigrate from Nigeria. For the past five years,

Figure 3.7. Increasing unemployment in Nigeria has raised migratory pressures.



Source: NBS and World Bank estimates.

unemployment rates have been persistently high (Figure 3.7). During that time, 19 million Nigerians entered the labor force but only 15 million found jobs. Youth and women struggle more than men to find jobs: 66.6 percent of young Nigerians are unemployed or inactive—double the adult rate; 70 percent of women aged 20–24 were not in work in 2018, and of these 50 percent were neither employed nor in school. According to the *2017 Afrobarometer* survey, 33 percent of Nigerians have considered emigrating, and among them about 36 percent had secondary and 44 percent had post-secondary education. Among urban dwellers 42 percent would like to emigrate, as would 30 percent of rural residents.

In the long run, driven by income gaps and demographic imbalances, emigration from Nigeria is expected to go up. Most Nigerian migrants move to countries where per capita incomes are much larger (Table 3.1). Per capita incomes are 30 times greater than Nigeria’s in the US, 20 times in the UK, and 17 times in Italy. This makes the prospect of earning higher incomes a major pull factor for high-income countries. Nigeria will soon have one of the youngest and largest working-age populations in the world, Considering the scale of opportunities and challenges of Nigeria’s growing youth

33 Based on previous diaspora estimates from sources below: <https://www.migrationpolicy.org/article/nigeria-multiple-forms-mobility-africas-demographic-giant>; https://publications.iom.int/system/files/pdf/nigeria_diasporas.pdf

34 KNOMAD-World Bank estimates based on the methodology in: <http://documents.worldbank.org/curated/en/819641468147573586/Preliminary-estimates-of-diaspora-savings>

Table 3.1. Incomes and GDP per capita, Nigerian emigrant destination countries.

Destination Countries	Numbers of Migrants	% Total Migrants	GDP per Capita	Income Gap (US\$)
United States	309,699	22	62,795	-60,767
United Kingdom	205,698	14	42,944	-40,916
Cameroon	148,076	10	1,534	494
Niger	130,982	9	414	1,614
Benin	86,226	6	902	1,126
Italy	80,235	6	34,483	-32,455
Ghana	79,023	5	2,202	-174
Canada	45,188	3	46,233	-44,205
High-income countries	802,598	56	44,787	
Low- and middle-income countries	635,733	44	4,971	
World	1,438,331	100	11,313	

Sources: United Nations Population Division (2019 mid-year estimates) and World Development Indicators.

Note: United Nations High Commissioner for Refugees (UNHCR) 2018 midyear refugee estimates for Nigeria are 0.27 million. GDP per capita data are 2018 nominal US\$. The 2018 nominal GDP per capita rate for Nigeria is US\$2,028.

population, new approaches are crucial. In the next few years about 300,000 young people will be entering the labor force every month, and unless changes are made, 80 percent of them could be unemployed. Nigeria has a higher ratio of youth to general population than high-income countries. Thus, younger Nigerians could help respond to labor shortages in OECD markets where the population is aging. For example, by 2030 the ratio of old persons (65+) to young (15–24), would be 3 to 1 in Germany and Italy, and 2 to 1 in the UK and US. For Nigeria the ratio would be 1 to 7.

The anticipated rise in migration and remittances can spur development

The Nigerian diaspora can be a catalyst for FDI inflows, capital market growth, and development finance. Its members can use information about Nigeria to invest themselves and bring in foreign investors. Those who emigrate are more willing than other investors to take on risks in their country of origin and they possess valuable information about opportunities and regulatory requirements. For example, multinationals seek out professionals from Taiwan for their operations in China,

and the East African Community has a mechanism for channeling diaspora financing to investment projects in partnering states. Nigerian emigrants can also facilitate development of the country's financial and capital markets. Thus, they can diversify the investor base, introduce new financial products, and provide a reliable source of funding. For example, Indians who have emigrated invest in Indian stock markets through appointed intermediaries or use online trading facilities themselves.

It is, however, necessary to encourage emigrants to move into a wider range of productive investments, such as agricultural equipment, farm improvements, and land purchases. Buying a house may be the first stage of a broader investment relationship between emigrants and their countries of origin. Some governments have eased restrictions on foreign land ownership to attract investments from their emigrants, as demonstrated by the Rwanda Diaspora General Directorate and *Credit Financier de Cameroon*. Collective remittances can be a tool for financing specified local projects and community development initiatives. Collective remittances may also be used to supplement public funds and spur local area development. For example, diaspora associations have provided substantial funds to some African communities for public works, mostly in small towns. Matching grant programs in

Mexico and Colombia provide government funding to match emigrant group funds (Plaza and Ratha, 2011).

Carefully drafted policies can accelerate transfers of technology and skills through the Nigerian diaspora.

For example, governments in Japan, the Republic of Korea, Taiwan, and China have promoted the return of foreign-educated students or established networks for knowledge exchange. Policies to encourage return of skilled emigrants and attract foreign workers might include (1) tax incentives; (2) help in finding housing or investing in real estate; (3) education for children; (4) smoother transfer of financial and material assets; (5) residency, education, and work permits for foreign spouses or foreign-born noncitizen children; and (6) ability to switch employers. For example, the Malaysian government designed a Talent Roadmap as part of the country’s strategic plan to become a high-income economy.³⁵

Table 3.2. Incomes and GDP per capita, Nigerian emigrant destination countries.

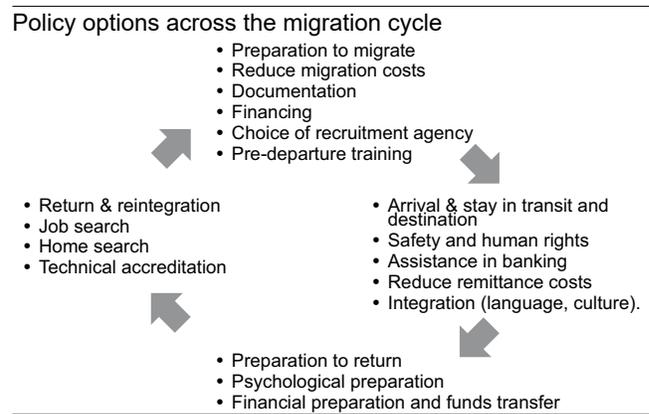
Corridor	Q3 2019	Q4 2019
Ghana to Nigeria	16.41	22.20
South Africa to Nigeria	18.51	16.96
United States to Nigeria	6.11	6.23
UK to Nigeria	6.74	7.24
Italy	8.81	7.85
Global Average	6.84	6.82
2030 Target	3	

Sources: World Bank Remittance Prices Worldwide database.

However, the cost of sending remittances to Nigeria are far above the global average and the sustainable development goal target of 3 percent by 2030 (Table 3.2). Low volumes of formal flows, inadequate penetration of innovative technologies, and lack of a competitive market make it difficult to cut costs. Derisking by international correspondent banks—i.e., closing the bank accounts of money transfer operators (MTOs) to avoid rather than manage the risk in their efforts to comply with anti-money laundering and countering financing of terrorism (AML/CFT) norms—

has affected remittance services and may have prevented further reduction in costs. Also, in an apparent example of policy incoherence, remittance costs tend to include a premium, that is a cost mark-up, when national post offices have exclusive partnership arrangements with a dominant MTO. Harmonized regulation and adoption of innovative technologies could lower remittance costs by reducing intermediaries, enabling standardized and verifiable transactions, and smoothing AML/CFT regulatory processes.

Figure 3.8. At different stages of the migration cycle, Nigeria can implement policies to leverage migration for development.



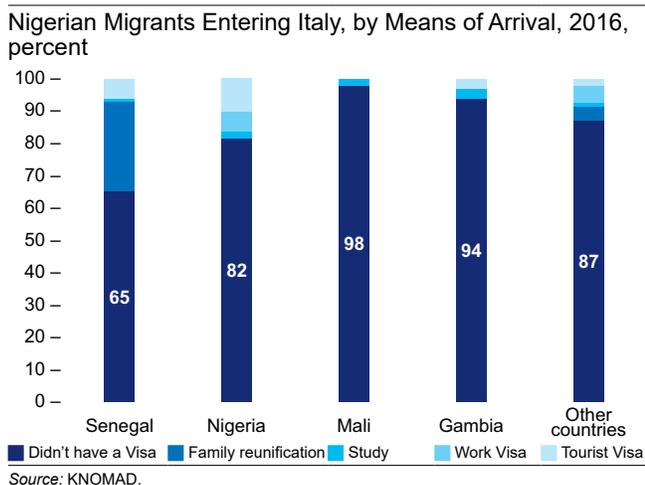
Source: World Bank.

Nigeria’s growing emigration pressures need to be met with better pathways for safe, regular, and organized emigration.

The quality of the experience could be improved by providing support throughout the migration cycle (Figure 3.8). Presently, lack of regular migration channels leads to irregular migration. In 2016 Nigerians constituted the largest group of migrants arriving in Italy by sea—more than 35,000 Nigerians completed the dangerous sea crossing into the European Union (EU) and in Italy 82 percent of Nigerians surveyed entered irregularly, compared to 65 percent of Senegalese (Figure 3.9). In 2018 16,520 Nigerians were identified as irregular migrants in EU in 2018, 20,535 in 2016, and 19,380 in 2017. The migration cost for Nigerian workers is the highest among West African

35 It included creation of Talent Corporation Malaysia Berhad (TalentCorp) to assess and fulfill Malaysia’s talent needs. TalentCorp has two initiatives to attract and retain global talent, including the Malaysian diaspora: the Returning Expert Program and Residence Pass-Talent. The Returning Expert Program is directed to returning Malaysians. The Resident-Pass Talent targets high-skilled immigrants from other countries. The World Bank reported that the REP has been effective in attracting people with the skills that Malaysia needs. See: (1) <https://www.talentcorp.com.my/resources/press-releases/world-bank-recommends-changes-to-improve-rep-and-rp-t>; 2) <http://documents.worldbank.org/curated/en/979921468185948875/pdf/104625-WP-PUBLIC-Report-Talent-Corp-Final-June-23-PUBLIC.pdf>; and (3) <http://pubdocs.worldbank.org/en/1375771474454575067/Malaysia-DOTW-Migration-of-Talent-and-Taxes-March-2016.pdf>

Figure 3.9. A large share of Nigerian emigrants enters host states irregularly.

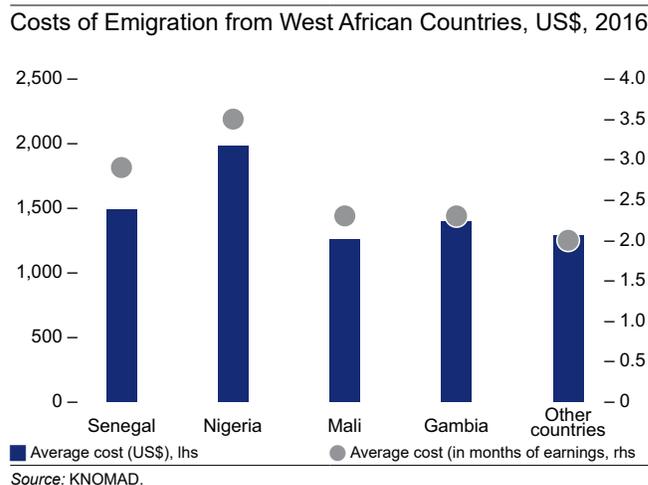


nations (Figure 3.10). Lower migration costs could help migrant workers avoid high financial burdens and place more money in the hands of households. Regulation and encouragement of formal recruitment agencies and ranking them publicly (as Singapore and Indonesia do), bilateral labor agreements, access to information (publication of itemized data on migration costs), and access to finance (formal loans to migrate) could all be beneficial to both emigrants and ultimately to Nigeria.

In the near term the COVID-19 pandemic is expected to reduce remittances and emigration

Beyond its impact on the global economy, the pandemic has hugely complicated cross-sectoral mobility of workers, particularly, it seems likely, for lower-skilled, informal, and undocumented migrant workers. During the 2009 global financial crisis, many migrant workers moved from construction to agriculture and retail. They tend to be more vulnerable than native-born workers to loss of jobs and wages and in an economic crisis in their host country they usually have little or no access to social protection. In the 2009 crisis, average unemployment for foreign-born workers

Figure 3.10. Nigerians face high emigration costs.



in EU-28 countries jumped from 11.1 percent in 2007 to 16.4 percent in 2009, which was much more than the increase for native workers. Moreover, in the current situation the pandemic has affected migrant communities in a variety of ways and some workers have been infected; for all, incomes will shrink, and many will have no money to send home. Even if they do have incomes, because of social distancing many MTOs have reduced their services and some have switched entirely to online money transfer. Nigerians elsewhere, like other emigrants, will not be able to help their families as they had been doing.

Under normal circumstances, migrants losing their jobs would consider returning home. However, travel bans, and suspension of transportation services have made that nearly impossible. As a result, the rate of voluntary return is likely to fall, except in a few cross-border migration corridors and irregular migration flows in the South (e.g., between Nigeria and neighboring countries). In other words, more people will stay in the host country than would be typical.

In 2019 remittances to Nigeria fell from \$24.3 billion in 2018 to about \$23.8 billion. For 2020, however, they are expected to plunge by over 25 percent, because of the protracted interruption of economic activity in the main destinations of Nigerian emigrants, the US and

the UK. The United States accounts for 23 percent of Nigerian emigrants, and this does not include naturalized Nigerians in the United States. A recent Gallup survey (Hrynowski, 2020)³⁶ found that nearly one in three Americans have experienced a temporary layoff, reduction in hours, permanent job loss, or reduction of income as a result of the pandemic. Among those earning less than \$36,000, about 32 percent have seen income loss and about 24–25 percent of those earning more than \$36,000 have lost income. It is expected that such problems will have greater impact on migrant workers, so that this year remittances from the United States to Nigeria are expected to plummet. The situation is likely to be similar in most OECD countries especially the UK, which host 15 percent of Nigerian emigrants; Italy, which hosts 5 percent of Nigerian emigrants, and Spain, hosting 3 percent, have both been hit hard by COVID-19. Remittances from Canada, Germany, Ireland, and other destinations of Nigerian migrants are also likely to go down this year. In the South, Cameroon, hosting 9 percent of Nigerian emigrants, Niger, 8 percent, Ghana, 5 percent, and Benin, 4 percent were less severely affected by the COVID-19 pandemic itself but the global slowdown in economic activities will undoubtedly affect businesses there and thus could further cut into remittances to Nigeria.

Because remittances are a major source of foreign exchange revenue for Nigeria, their loss will worsen pressures on its balance of payments, and investments could be postponed. With COVID-19 affecting source as well as recipient countries, lower remittance and export revenues are likely to put great pressure on Nigeria's balance of payments. Though the effects will be highest among irregular and informal migrants living in OECD countries, even if Nigerian emigrants in high-end health care jobs still have good incomes, slowdowns of other interruptions in cash-based remittance channels would be barriers to remittance transactions. Moreover, as expected returns in Nigeria fall, investment-oriented remittances from wealthy emigrants may slow. In 2021, however, the forecast is for a tentative recovery in

emigrant host countries that may cause remittances to rebound by over 6 percent (World Bank 2020).

Policy recommendations

Leveraging financial innovation will reduce remittance costs: Making full use of technology and innovation can help reduce remittance costs. Payment services in Nigeria are a successful example of use of financial technology (fintech), measured by both the number of ventures and consumer uptake. But use in Nigeria of fintech for remittances is low compared to Kenya and other African countries. For this to become a significant channel for diaspora remittances will depend on an enabling laws, reliable infrastructure, reliable technology, and integration with cross-border service providers. More effort should also to identifying sound investment opportunities that will attract diaspora savings—potential that can be realized by establishing dedicated private equity funds with transparent investment policies and well-defined disclosure provisions.

Creating profiles of Nigerian emigrants and organize investment forums and focus groups for them will help attract investment from the diaspora. To design effective strategies for tapping into the opportunities the diaspora represents, Nigeria will need a clear picture of its emigrants by location, economic activity, skills profile, earnings, savings, and investment profile. The top priority would be surveys of the diaspora to get the necessary information. A second priority would be focus groups in their countries of residence to discuss emigrant investment preferences, challenges they face in investing back home, and how the Government could help facilitate their greater engagement with Nigeria. A third priority is to organize investment forums in destination countries not only for emigrants but also for potential

³⁶ <https://news.gallup.com/poll/309299/covid-disrupts-americans-jobs-finances.aspx>

foreign investors to discuss government strategies to facilitate FDI to Nigeria.

Designing diaspora investment and innovation strategies will also help attract investment. Based on all the information to be collected through surveys and consultations, Nigeria could prioritize areas that might be of interest, such as diaspora bonds, investment in housing, and investment in private sector capital markets. Members of the diaspora can be a useful source and facilitator of research and innovation, technology transfer, and skills development. It is necessary to explore ways successful emigrants can accelerate transfers of technology and skills. Possible options might be fellowships and academic residencies, summer and short-term teaching/research assignments for overseas Nigerian researchers and academics, and encouraging interaction with overseas mentors in sectors important to Nigeria's development, such as health care, telecommunications, and finance.

Better data will help assess and catalyze the development impact of emigration and remittances. The data on migrant numbers in destination countries are based on national censuses in those countries, which may not capture all migrants. Migrants may also prefer not to disclose their origins in destination countries because they fear xenophobic attacks.

Improving channels for safe, regular, and orderly emigration and designing better emigration systems is critical to leverage emigration for Nigeria's development. Emigration from Nigeria will not only continue but increase. Many of the Nigerians in Europe are irregular migrants; if found to be illegally present in the EU, they risk deportation and would need viable channels for return and reintegration.

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Nigeria: Key Economic Indicators

Nigeria: Key Economic Indicators

<i>Economy</i>	2015	2016	2017	2018	2019e	2020f
Real GDP Growth (% yoy)	2.7	-1.6	0.8	1.9	2.2	-3.2
Nominal GDP (Naira tr)	95	103	115	129	146	155
Oil Production (mb/d)	2.1	1.8	1.9	1.9	2.0	1.8
Oil Price (Bonny light, US\$/bbl)	54	45	55	72	65	30
Inflation (% , average)	9.0	15.6	16.5	12.1	11.4	13.8

<i>Real sectoral growth (% , yoy)</i>	2015	2016	2017	2018	2019e	2020f
Real GDP Growth	2.7	-1.6	0.8	1.9	2.2	-3.2
Agriculture	3.7	4.1	3.4	2.1	2.4	2.4
Industries	-2.2	-8.9	2.1	1.9	2.3	-10.1
Industry-Oil	-5.4	-14.4	4.7	1.0	4.6	-10.6
Industry-NonOil	0.1	-5.0	0.6	2.4	0.9	-9.7
Services	4.8	-0.8	-0.9	1.8	2.2	-2.9
Oil GDP	-5.4	-14.4	4.7	1.0	4.6	-10.6
Non-Oil GDP	3.7	-0.2	0.5	2.0	2.1	-2.1

<i>GDP Composition (%)</i>	2015	2016	2017	2018	2019e	2020f
Total GDP	100.0	100.0	100.0	100.0	100.0	...
Agriculture	20.9	21.2	21.1	21.4	22.1	...
Industries	20.4	18.4	22.5	26.0	27.7	...
Industry-Oil	6.4	5.3	9.1	10.5	8.6	...
Industry-NonOil	14.0	13.1	13.4	15.5	19.1	...
Services	58.8	60.4	56.4	52.6	50.2	...
Oil GDP	6.4	5.3	9.1	10.5	8.6	...
Non-Oil GDP	93.6	94.7	90.9	89.5	91.4	...

Source: Nigerian authorities and World Bank calculations.

<i>Monetary and Financial Sector (% change yoy, end of period, unless indicated otherwise)</i>	2015	2016	2017	2018	2019e	2020f
Money Supply (M2)	5.9	17.8	2.3	12.1	6.3	...
Narrow Money	24.1	31.5	-0.9	5.2	-10.4	...
Net Foreign Assets	-18.7	61.8	69.6	18.5	-68.5	...
Net Domestic Credit	12.1	24.3	-3.5	6.3	31.2	...
Credit to Government	152.0	68.6	-25.4	33.7	94.9	...
Credit to Private Sector	3.3	17.4	1.4	1.9	17.6	...
Monetary policy parameters:						
Monetary Policy Rate (absolute rate, end of period)	11.0	14.0	14.0	14.0	13.5	...
Liquidity Ratio (absolute rate, end of period)	30.0	30.0	30.0	30.0	30	...
Cash Reserve Requirement (absolute rate, end of period)	20.0	22.5	22.5	22.5	22.5	...

<i>Financial Market Indicators (end of period)</i>						
Stock Market (NSE) Index	28,642	26,875	38,243	31,431	26,842	...
Fitch Sovereign Long Term Foreign Debt Rating	BB-	B+	B+	B+	B+	...
Moody's Sovereign Long Term Foreign Debt Rating	Ba3	B1	B2	B2	B2	...
S&P Sovereign Long Term Foreign Debt Rating	B+	B	B	B	B	...

<i>External Sector</i>	2015	2016	2017	2018	2019e	2020f
Exchange rate - official (₦/US\$, end of period)	197	305	306	307	307	...
Exchange rate - parallel (₦/US\$, end of period)	267	490	363	363	362	...
Real effective exchange rate index (end of period)	67	86	99	87	79	...
Current Account Balance (%GDP)	-3.2	0.7	2.8	1.0	-3.8	-3.5
Current Account Balance (US\$ bn)	-15	3	10	4	-17	-14
Exports of Goods and Services (US\$ bn)	49	38	51	66	70	30
o/w oil and gas exports (US\$ bn)	42	32	42	57	55	23
Imports of Goods and Services (US\$ bn)	72	47	51	72	101	50
Net Income (US\$ bn)	-13	-9	-12	-15	-12	-12
Net transfers (including remittances) (US\$ bn)	20	20	22	24	26	19
Net Direct Investment (US\$ bn)	2	3	2	1	2	...
Net Portfolio Investment (US\$ bn)	1	2	9	-2	9	...
Net Other Investment (US\$ bn)	-9	-4	-2	-8	3	...
External Reserves (US\$ bn, end of period)	29	26	39	43	39	...
Equivalent months of imports of G&S	5	7	9	7	5	...

Source: Nigerian authorities and World Bank calculations.

<i>Nigeria: General Government Fiscal Summary - preliminary</i>						
<i>Actual (%GDP)</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019e</i>	<i>2020f</i>
Total revenues	7.5	5.9	6.7	8.1	8.4	5.3
Federally collected	6.4	4.8	5.4	6.6	6.1	3.4
Oil and gas revenues	3.2	1.6	2.3	3.6	3.2	1.0
Non-oil revenues and other revenues	3.2	3.1	3.1	3.0	2.9	2.4
Independent and other revenues	1.1	1.2	1.3	1.5	2.3	1.9
Total expenditure	10.7	9.7	10.7	12.3	12.8	10.8
Overall balance (general government)	-3.2	-3.8	-4.0	-4.2	-4.4	-5.5
Public Debt (net)	14.2	17.3	19.1	20.9	23.7	30.0

Source: Nigerian authorities and World Bank calculations.

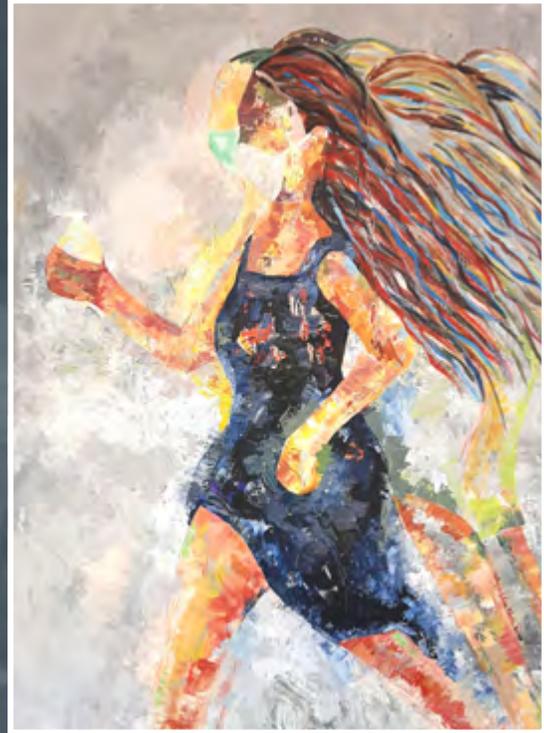
Notes: /1 After budgeted and discretionary deductions, but before derivation. /2 Includes Solid Minerals, NLNG Dividend, and Signature Bonus; exchange rate difference, excess petroleum profit tax.

<i>Nigeria: Federal Government Fiscal Accounts - preliminary</i>						
<i>Actual (%GDP)</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019e</i>	<i>2020f</i>
Total Revenue	2.7	2.0	2.4	3.0	3.3	2.1
Share of federally collected revenues	2.5	1.7	2.0	2.5	2.4	1.3
Oil, Gas and Mineral Revenue (incl. signature bonus)	1.5	0.7	1.0	1.5	1.5	0.5
Non-Oil Revenue	1.0	1.0	1.0	1.0	0.9	0.8
FG Independent revenues and grants	0.3	0.3	0.4	0.6	0.9	0.8
Total Expenditure	5.0	4.7	5.7	6.3	6.8	6.4
Recurrent Expenditure	4.4	3.9	4.4	4.8	5.1	5.3
Personnel Cost (including Pensions)	2.2	1.8	1.8	1.8	1.8	2.1
Overhead Cost	0.1	0.1	0.2	0.1	0.2	0.2
Other recurrent (incl. COVID-19 intervention and power sector)	na	0.7	1.1	1.2	1.5	1.1
Interest payments	1.1	1.2	1.4	1.7	1.7	1.8
Capital Expenditure (incl. COVID-19 intervention)	0.6	0.7	1.2	1.5	1.7	1.1
Overall Fiscal Balance	-2.2	-2.7	-3.3	-3.2	-3.5	-4.3

Source: Nigerian authorities and World Bank calculations.

Notes: The reported revenue and fiscal balance figures differ from the published Federal Government budget figures as the World Bank excludes the non-revenue items under international classification. Total expenditure for some years differs from the Federal Government reports as the World Bank excludes debt amortization payments from expenditure. Figures exclude government-owned enterprises and donor funding. /1 Includes other extractives revenues. /2 The actual capital spending reported for the calendar year. /3 Other Outflows include irregular items.

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Riding the Tide
by *Lilian Chizoba Pilaku*

Lilian Chizoba Pilaku was born in Benue State, Nigeria. She is a well-rounded artist with a master's degree in art from Southwest University, Chongqing, China, a Post-graduate diploma in administration from the University of Abuja, and a bachelor's degree from the University of Nigeria, Nsukka. Pilaku engages her energy in painting and video art. She also works as a resident artist, curator at the National Gallery of Art, Nigeria. Pilaku has exhibited her works in numerous platforms within and outside Nigeria and her works adorn public spaces and private homes. Pilaku's work "Riding the Tide" represents the race against the COVID-19 pandemic plaguing the world. The women racing against the storm are a metaphor for our collective struggle to abide by safety measures and guidelines in a bid to keep us all safe from the deadly virus in the midst of uncertainties and challenges posed by the present situation. The work was produced in isolation and during the peak of the lockdown.

People forge ideas, people mold dreams, and people create art. To connect local artists to a broader audience, the cover of this report and following editions will feature art from Nigeria.