Analysis of the COVID-19 Impact: Need to Harness Opportunities in the Resilient Sectors for Sustainable Growth in Nigeria

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Abstract

There is an urgent need to implement critical macroeconomic policies which will directly support Nigeria's economic landscape, protect its vulnerable population, and set its economy on a pathway towards economic recovery. There should be a focus on sectors with the highest growth potential that showed remarkable resilience through the peak of the Covid-19 pandemic in 2020. In line with the focus of this policy paper, we recommend that the Federal Government carry out the following actions to achieve stable markets, promote economic prosperity through diversification, ensure business development, and reduce poverty in Nigeria.

- Agricultural policies should aim at supporting the development and availability of high yield seeds in Nigeria. In addition, measures should be taken to boost the availability of irrigation facilities to aid all-year-round farming in Nigeria. These two measures would increase crop production in Nigeria and help curtail low agricultural productivity, a significant reason for the high prevalence and persistence of high food inflation, by keeping the rural population trapped in a vicious cycle of poverty.

- Strong focus to leverage Information and Communication Technology to address socio-economic issues and utilize its positive macroeconomic potential. A report by World Economic Forum shows that a 10 percent digitization increase of a country would result in a 0.75 percent increase in GDP per capita with a 1.02 percent drop in the unemployment rate. The pandemic has accelerated the pace of digitization globally. Better enabling conditions for remote work to support activities in other parts of the globe could help enable skills transfer, job creation, and improved forex inflows from exporting services from Nigeria.

- The monetary authority should review and maintain policies to boost access to credit. These measures include providing credit bureaus with more data to assess the creditworthiness of borrowers and driving financial inclusion to enable financial institutions to mobilize more deposits. This would increase the availability of funds available for lending, and banks will be more aware of borrowers likely to default. It would also reduce the cost of borrowing by manufacturers in the country. Currently, Nigeria has one of the highest lending rates in sub-Saharan Africa, pegged at a double-digit of 11.5 percent, compared to Kenya, Ethiopia, Namibia, whose MPR is pegged at a single digit.

- The apex bank should support policy measures that would increase the supply of forex into the country. Accessing new channels such as diaspora remittances and export of services from Nigeria could help in addressing the challenge around accessibility and affordability of forex. This would facilitate the importation of raw materials and other vital resources not locally available.

- The federal government should address the insecurity challenges in the northern and eastern parts of the country, endowed with natural minerals. This would attract both domestic and foreign investors to leverage the underutilized mining and quarrying sector.

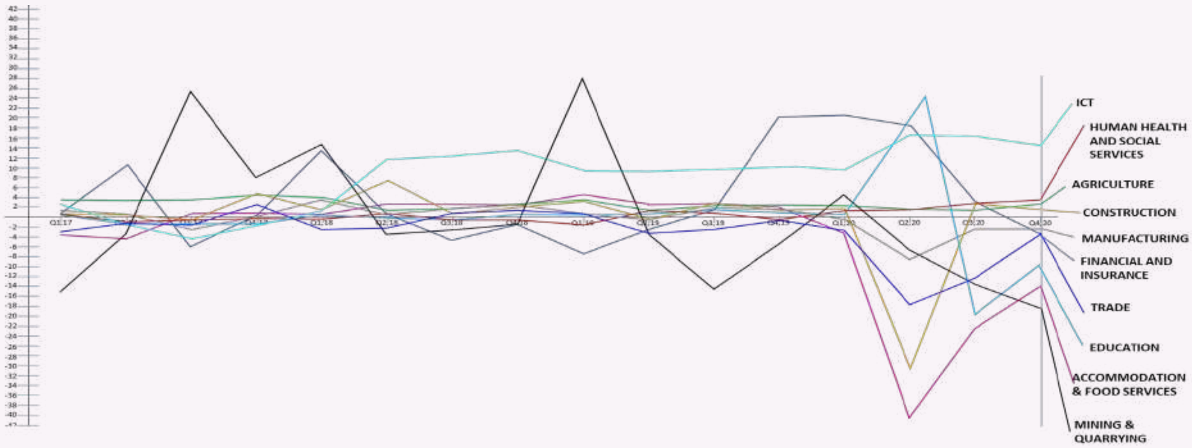
1. Introduction

The 2019 Coronavirus disease (COVID-19) created a public health and economic crisis in Nigeria. Its adverse effects led to the adoption of several measures to curtail the spread of the virus. However, containment measures led to disruptions in Nigeria's overall macroeconomic activities, which resulted in a GDP contraction of 6.1 percent and 3.62 percent in the second and third quarters of 2020, respectively. Additionally, crude oil prices fell to $22 per barrel, and low production volumes decreased to 1.5million barrels per day in July 2021 from 2.08million barrels per day in September 2019. According to the Nigerian Bureau of Statistics (NBS), the fall in oil prices and low production rate of its crude oil impacted government revenues and foreign exchange inflows, as sales from crude constitute close to 60 percent of government revenues and 80 percent of our foreign exchange earnings. (Afaha et al., 2020). In response to the adverse effects of the pandemic, the government intervened with robust monetary and fiscal measures to curtail the negative impact of the pandemic, notably, the Nigeria Economic Sustainability Plan (NESP), an 18-month plan, which the Federal Executive Council approved on June 24, 2020. The NESP, an N2.37 trillion Naira transition plan, was developed as a successive plan to the Economic Recovery and Growth Plan (ERGP) to respond robustly and appropriately to the challenges posed by the COVID-19 pandemic. However, the coronavirus pandemic revealed many weaknesses in the Nigerian economy. Its effects were visible across ten major economic sectors: information and communication, human health and social services, agriculture, construction, manufacturing, finance and insurance, Trade, education, accommodation and food services, mining, and quarrying (NBS,2020). The impact across these sectors highlights the urgent need to implement measures to cushion the pandemic's macroeconomic consequences, harness opportunities, protect the vulnerable population, and set the economy on a pathway of sustained economic recovery. This is possible by improving the gains from sectors that exhibited strong growth at the peak of the COVID-19 pandemic in 2020 and supporting the recovery in sectors constrained by the pandemic's impact.

2. Framework

The COVID-19 pandemic is a new global challenge that's testing the world economy's resilience across all areas of development. Resilience, in general terms, is the ability of a system to absorb disruptions and restructure while retaining its essential functions, structure, identity, and feedbacks (Prayag, 2018; Sisneros-Kidd et al., 2019). Resilience is prompted by change (Hall et al., 2018) which could be sudden or gradual. Compared to crisis management, resilience thinking offers a better perspective on how systems survive in the wake of the COVID-19. This paper employed a trend analysis to analyze, track, monitor, and compare the sectorial growth per quarter before and amid the peak of the Covid-19 pandemic to conclude on resilient sectors amid the height of the pandemic and sectors that grew consistently before the pandemic. Data was gotten from the Nigerian Bureau of Statistics (NBS) quarterly reports of major economic sectors from Q1 2017 to Q4 2020. The figure below shows the growth trend of ten sectors from 2017 (prior to Covid-19) to 2020 (amid the pandemic) to give a more detailed analysis of sectors that grew consistently before the pandemic and those that showed resilience at the peak of the pandemic.

Figure 1: Trend Analysis of Sectors Growth per Quarter from 2017 to 2020



Source: Nigerian Bureau of Statistics Reports and ACIOE Research

The trend analysis depicts that prior to the pandemic, all sectors grew at almost the same pace with insignificant variations, from Q1 2017 to Q1 2020. However, the Information and Communication sector grew exponentially from Q1 2018 to Q4 2020, compared to other sectors that grew below 10 percent. The Finance and Insurance sector had similar growth characteristics until the last two quarters of 2020. The change of average growth rate over these periods shows that Accommodation and Food Services declined by 4.32 percent, construction dropped by 0.24 percent, education fell by 0.45 percent, manufacturing declined by 0.10 percent, and Trade declined by 2.70 percent. These declines are attributed to the adverse effects of the pandemic between Q2 and Q4 2020. Nevertheless, Information and Communication grew by 8.14 percent, finance and insurance grew at 3.98 percent, agriculture grew by 2.52 percent, mining and quarrying grew at 0.04 percent, and human health and social services sectors grew at 0.48 percent. From these results, sectors that showed resilience and consistent growth amid the pandemic's peak are; Information and communication, finance and insurance, agriculture, human health, social services, and mining and quarrying.

3. Economic Sectors

This section shows two categories of sectors;

a. Resilient sectors amid the pandemic's peak.

b. Sectors that were adversely affected by the pandemic but showed consistent growth before the peak of the pandemic.

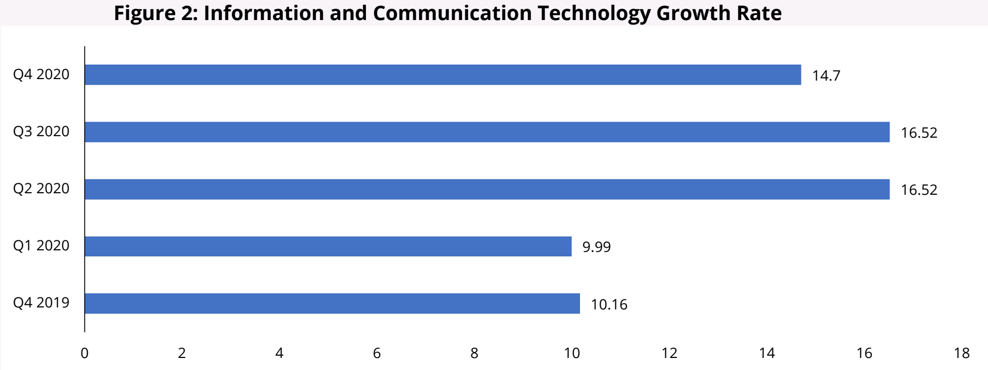
3.1 Resilient Sectors

Information and Communication

Information and Communications Technology emerged as a critical means of resolving challenges caused by the pandemic and responding to the new reality of communication in these challenging times. In 2020, the COVID-19 pandemic affected every sector, including the Telecommunications, Media, and Technology (TMT) sector. However, telecommunications services saw an increase in mobile and broadband penetration. As a result, the ICT sector accounted for about 17.83 percent of the total real GDP in Q2 2020, 20.54 percent higher than its contribution in the previous year's quarter, which accounted for 14.07 percent (NBS, 2020). This increase was attributed to an upsurge in demand for data and voice-related services during lockdowns in Nigeria. Consumers had to depend on ICT services to work from home, maintain social ties, participate in training, carry out financial transactions, among others.

The pandemic encouraged innovations in the sector through services, products, learning, activities, and more job opportunities. ICT has played an essential role in bolstering long-term resiliency against future pandemics and solving the challenges within a socially distanced environment. As the global economy continued to suffer from the ongoing COVID-19 pandemic, the ICT sector has positively impacted and helped drive economic growth. Nigeria also witnessed investments in the fintech landscape based on an increase in trends of innovative payment solutions. Creative business ideas, programs, and Digital revolution through ICT can be a pathway to sustainable development in the post - COVID-19 era.

Figure 2: Information and Communication Technology Growth Rate

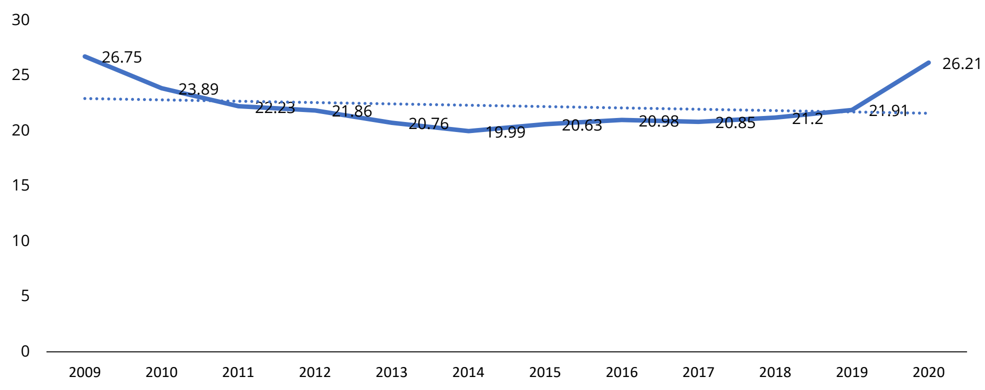


Source: NBS, ACIOE Research

Agricultural Sector

The agricultural sector grew by 3.42 percent in Q4 2020 from 1.39 percent in Q3 2020 to 2.31 percent in Q4 2019. This shows the sector's resilience amid the COVID-19 pandemic, which crippled most sectors of the Nigerian economy, resulting in a contraction of annual growth of real GDP at – 1.92 percent in 2020, which is a decline of –4.20 percent points when compared to the 2.27 percent recorded in 2019 (NBS, 2021). The sector would have seen more robust growth if not for additional challenges such as the lockdown effect, climate change, clashes with herders in parts of the farm belt areas, and slow repayment obligations with the Anchors borrower's programme. The agricultural sector has four dominant segments: crop production, fishing, livestock, and forestry. Crop production remains the most significant segment, accounting for about 87.6 percent of the sector's total output. Livestock, fishing, and forestry stand at 8.1 percent, 3.2 percent, and 1.1 percent, respectively. Between 2013 and 2019, Agriculture remains the largest sector in Nigeria, contributing 24 percent to the nation's GDP. The industry also employs more than 36 percent of the country's labour force, reinforcing the sector as the largest employer of labor (Oyaniran, 2020). The graph below shows the contribution of the agriculture sector from 2009 to 2019. The agricultural sector contributes to GDP with an average growth rate of 21.91 percent from 2009 to 2019 (ACIOE Research).

Figure 3: GDP Contribution of Agricultural Sector from 2009 – 2019



Source: NBS, ACIOE Research

The annual 2020 contribution stood at 26.21 percent. Crop production remained the primary driver of the sector, as it accounts for 89.67 percent of the overall nominal growth of the industry in Q4 2020 and 91.44 percent share in 2020 (NBS, 2021).

3.2 Sectors with underutilized potential

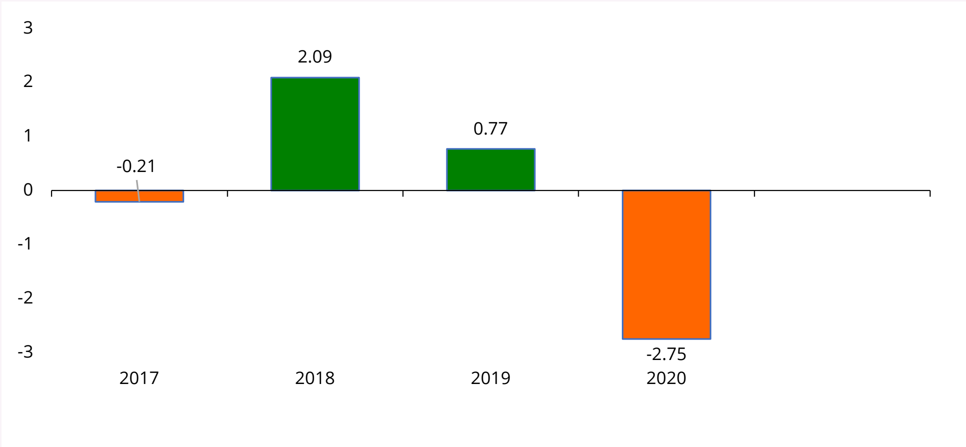
Mining and Quarrying

Mining and quarrying are some sectors with the potential to build economic resilience if necessary policies are implemented to set it on the right footing. It is the process of extracting natural occurring stone minerals such as ores, coals, crude petroleum, and natural gas from the earth. As a result of the significance of petroleum and natural gas to the economy, it is discussed separately from solid minerals, especially the oil boom of the 1970s that saw attention rapidly turned away from these traditional sources of revenue and towards extraction of crude. However, the oil price volatility and cut in production necessitated a radical change in policy, such as the 1994 private sector-led economic revival programme in solid minerals, agriculture, and manufacturing as a means of diversifying the economy.

According to NBS Report, 2021, quarrying and other minerals exhibited the highest rate of all the sub-activities at 117.48 percent, followed by metal ore activity at 2.73 percent. Also, the annual contribution of real GDP stood at 8.31 percent in 2020. The figure above shows mining and quarrying grew at an average of 5.71 percent in two quarters. Furthermore, it was affected negatively due to the shallow nature of the sector amid the height of the pandemic. The optimal utilization of this sector would open opportunities in the areas of;

- Revenue generation through export and taxation
- The emergence of new industries and downstream products
- Increase employment of Nigerians, especially those in the host (rural) communities
- Use of local industries for manufacturing of finished products
- Development in rural areas.

Figure 4: Quarrying & Mining Potential Before and Amid COVID-19



Source: NBS, ACIOE Research

Manufacturing

The manufacturing sector of any economy is the engine of growth and a catalyst for sustainable transformation and national development. Nigeria's manufacturing sector was doing reasonably well before the pandemic erupted. The sector over a decade contributed less than 10 percent of the GDP of the Nigerian economy (NBS, Report). To a large extent, the sector was adversely affected by deficiency in physical infrastructure, difficulty in accessing forex, and high cost of raw materials.

Figure 5: Manufacturing Growth Trend from 2017 to 2020

Source: NBS, ACIOE Research

Amid the pandemic, manufacturers suffered a decline in aggregate demand by consumers due to shrinking disposable income and lockdowns across the country, which resulted in an increased inventory of unsold goods amidst a rise in production and operation costs. A business day report showed that the unsold inventory of manufactured goods increased toN577.61 billion in 2020 from N402.42 billion in 2019. Addressing the key challenges undermining the growth of this sector is vital if Nigeria is to reap the benefits of supporting the needs of its local markets and the export market. Efforts should also be made to attract foreign direct investment in the sector to take advantage of the African Continental Free Trade Area (AfCFTA).

S/no	RECOMMENDATION	IMPLEMENTATION STRATEGY
1	Enhance Crop Production	• Agricultural policies should aim at supporting the development and availability of high yield seeds in Nigeria. In addition, measures should be taken to boost the availability of irrigation facilities to aid all-year-round farming in Nigeria. These two measures would boost crop production in Nigeria and help curtail low productivity in agriculture, a significant reason for the high prevalence and persistence of high food inflation, by keeping the rural population trapped in a vicious cycle of poverty. • Through the Ministry of Agriculture, the Federal Government should work with the private sector down to the LGA level to receive prompt feedback on the outcomes of the current policies in the agricultural sector. • The Federal Government of Nigeria should develop an incorporated policy similar to the United States Agricultural Improvement Act of 2018 (2018 Farm Bill) that guarantees crop insurance, farm credit, and agricultural research. The policy should also protect farmers from price fluctuations by ensuring a price ceiling for their products in shortfalls due to a fall in crop prices.
2	Resource-based industrialization	• The federal government should develop robust fiscal policies that facilitate industrialization efficiently and pragmatically. There should be a strategic policy mix carried out in sequences and phased manner with collective responsibilities at all levels of government. • The federal government should have a strong synergy with the private sectors to achieve optimal utilization of the extractive and manufacturing sectors in the country. This will boost local production, strengthen infant industries, increase exportation of value-added products, and reduce importation of raw materials.
3	Prioritize the development of the Information and Communications Technology (ICT) sector in Nigeria	• Strong focus to leverage Information and Communication Technology to address socio-economic issues and utilize its positive macroeconomic potentials. A report by World Economic Forum shows that a 10 percent digitization increase of a country would result in a 0.75 percent increase in GDP per capita with a 1.02 percent drop in the unemployment rate. Covid has accelerated the pace of digitization globally. Better enabling conditions for remote work to support activities in other parts of the globe could help allow skills to transfer, job creation, and improved forex inflows from exporting services from Nigeria.
4.	Financial Stability	• The monetary authority should review and maintain policies to boost access to credit. These measures include providing credit bureaus with more data to assess the creditworthiness of borrowers and driving financial inclusion to enable financial institutions to mobilize more deposits. This would increase the availability of funds available for lending, and banks will be more aware of borrowers likely to default. It would also reduce the cost of borrowing by manufacturers in the country. Currently, Nigeria has one of the highest lending rates in sub-Saharan Africa, pegged at a double-digit of 11.5 percent, compared to Kenya, Ethiopia, Namibia, whose MPR is pegged at a single digit. • The apex bank should support policy measures that would increase the supply of forex into the country. Accessing new channels such as diaspora remittances and export of services from Nigeria could help in addressing the challenge around accessibility and affordability of forex. This would facilitate the importation of raw materials and other vital resources not locally available.
5.	Create a robust Business Environment for domestic and foreign direct investment	• The federal government should address the insecurity in the northern and eastern parts of the country, endowed with natural minerals. This would attract both domestic and foreign investors to leverage the underutilized sector.

5. Conclusion

In conclusion, the policy implications of this study's outcome recommend that the government should prioritize and implement favorable policies that facilitate the growth of the Information and Communication Technological (ICT), Agriculture, Mining and Quarrying, and Manufacturing sectors to achieve a long-run positive economic transformation in Nigeria. Furthermore, these policies should consider sustainable solutions to position Nigeria as a stronger player in the global supply chain and build the human capacity of its citizens, especially the rural poor.

Appendix

	2017				2018				2019				2020				Avg
SECTORS	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Accommodation and Food Services	-3.96	-4.05	0.18	0.78	0.29	2.43	2.66	2.05	4.15	2.92	2.28	2.02	-2.99	-40.19	-22.61	-15.03	- 4.32
Agriculture	3.39	3.01	3.06	4.23	3.00	1.19	1.91	2.46	3.17	1.79	2.28	2.31	2.20	1.58	1.39	3.42	2.52
Construction	0.15	0.13	-0.46	4.40	1.54	7.66	0.54	2.05	3.18	-0.67	2.37	1.31	1.69	-31.77	2.84	1.21	-0.24
Education	0.86	-1.34	-1.22	-1.04	0.45	-0.67	-0.42	0.35	0.18	0.96	1.20	0.84	0.69	24.12	-20.74	-11.43	-0.45
Financial and Insurance Sector	0.67	10.45	-5.96	0.22	13.30	1.28	-4.81	-1.76	-7.60	-2.24	1.07	20.18	20.79	18.49	3.21	-3.63	3.98
Human Health and Social Services	1.07	-0.96	-0.85	-0.38	-0.37	0.41	-0.68	-0.64	-0.16	1.13	0.86	-0.56	1.06	1.89	2.82	3.05	0.48
Information and Communication	2.73	-1.15	-4.48	-1.46	1.58	11.81	12.09	13.20	9.48	9.01	9.88	10.16	9.99	16.52	16.13	14.70	8.14
Manufacturing	1.36	0.64	-2.85	0.14	3.39	0.68	1.92	2.35	0.81	-0.13	1.10	1.24	-0.43	-8.78	-1.51	-1.51	- 0.10
Mining and Quarrying	-15.40	3.51	25.44	7.96	14.85	-3.84	-2.81	-1.23	29.00	-3.48	-14.02	-5.63	4.58	-6.60	-13.22	-18.44	0.04
Trade	-3.08	-1.62	-1.74	2.07	-2.57	-2.14	0.98	1.02	0.85	-0.25	-1.45	-0.58	-2.82	-16.59	-12.12	-3.20	- 2.70

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