

# NIGERIA, SUPPORT YOUR SMALL AND GROWING BUSINESSES

## SMEs Must Be Prioritized In The Government's COVID-19 Interventions

### 10 IMMEDIATE POLICY RECOMMENDATIONS FOR THE NIGERIAN GOVERNMENT

15<sup>th</sup> April 2020

COVID-19 has descended upon our world, disrupting global health, economic, social and financial systems. On March 30<sup>th</sup>, President Buhari announced a 2-week stay-at-home lockdown in Lagos, Ogun and Abuja, leading to a sudden and unprecedented halt in operations of businesses across the formal and informal sectors, a lock-down that has been further extended for another 2 weeks. Governments around the world who announced similar lockdowns, including African countries like Ghana, Kenya and South Africa, have quickly followed up with stimulus packages to support their Small Businesses, largely considered to be the engine of growth of the economy, to ensure millions of jobs are retained and to subdue the negative economic impact of a slow-down.

However, in Nigeria, small Business owners are yet to see meaningful supporting actions from the government, causing a great deal of fear and uncertainty of the future of their businesses. According to the Central Bank of Nigeria (CBN), a Small and Medium Enterprises (SME) is a company that employs from 11 to 100 people and has assets between ₦5 and ₦500 million. SMEs make up over 86% of the Nigerian workforce and form a crucial part of the private sector ecosystem. And so the nationwide lockdown has severely affected livelihoods, as SMEs are no longer able to operate, generate revenues, and meet short-term cash obligations. Most small and growing businesses are currently faced with threats of mounting cost pressure, inability to meet short-term cash obligations like salaries, and potential of complete business failure. Nigeria needs to urgently do more to support her over 73,000<sup>[1]</sup> SMEs, particularly, the over 11,000 <sup>[2]</sup> in Lagos, the epicenter of the pandemic.

We put Nigeria's SME COVID-19 intervention in context by observing the most sophisticated responses in the developed world and other developing economies. What is evident is that Nigeria's stimulus response for existing SMEs is disheartening. The chart below depicts that Nigeria has contributed only 0.03% of its GDP to supporting SMEs through this pandemic. For example, to achieve what Mexico has done for its own SMEs, where similar to Nigeria, SMEs hire over 70% of the workforce, **we would require a targeted response 260% larger than current figures i.e. ₦130 billion vs. current ₦50 billion.** The Nigerian government can, and must do more.

**Table 1: Targeted Fiscal Response For SMEs Alone During COVID-19 Pandemic**

In addition, much needed stimulus packages, loans and private investments have gone to the healthcare sector, the most critical intervention at this time. However, the other side of the economic coin are industries like **food, technology, creative, tourism, logistics, education and manufacturing** that are critical to maintaining jobs, livelihoods and stability, in the midst of this crisis. These are **vulnerable industries** that must also be supported.

Country	SME Fiscal Stimulus (\$ bn)	GDP (\$bn)	% GDP
Nigeria	0.135	400	0.03%
Mexico	1	1,274	0.08%
Hungary	1.4	160	0.88%
United States	359	20,500	1.75%
United Kingdom	416	2,855	14.75%

Source: COVID19 Fiscal response, IMF, 2020

Taking the points above into perspective, after a week in lockdown, Ada Osakwe, Founder of Nuli, a small and growing food service business in Lagos, started an online petition calling on all who want the government to do more to support SMEs. **2,644** individuals have signed this petition as at April 15<sup>th</sup> (see appendix and attached names). This petition has inspired SME-owners, particularly those representing the vulnerable industries, to come together to identify the challenges that affect them and agree on the most urgent solutions they require to pull-through this crisis.

Our three main priorities are to **Retain Jobs**, **Avoid an Economic Depression** and **Reduce Social Unrest**.

## Why Existing Responses Need To Be Amplified

Over the last few weeks, a few measures have been announced to ease the pain of the pandemic on SMEs. For example, the Lagos state government, through its Lagos State Employment Trust Fund (LSETF), has given forbearance on its loans to micro, small and medium enterprises. A few commercial banks including Sterling bank, FCMB and GTB, have also proactively given moratoriums to their SME clients. This has been extremely helpful in ensuring SMEs feel supported through this period.

Furthermore, the apex financial regulator, the Central Bank of Nigeria (CBN), outlined a variety of interventions to support households and small businesses challenged by the impact of COVID-19 on the economy, including placing a moratorium on existing CBN intervention funds and an interest rate reduction from 9% to 5%, as well as the creation of a ₦50 billion debt facility for households and SMEs particularly hit by COVID-19.

It is our belief that these interventions do not do enough to reach the over 73,000 Small and Medium Enterprises estimated to be in Nigeria. Some reasons why include:

1. The ₦50 billion (US\$ 135 million) credit facility is for both SMEs and households. With a maximum loan amount of ₦25 million (US\$ 67,500) for SMEs, this will mean that if there is a 50-50 split between the two beneficiary groupings, only about 1000 and 1,500 SMEs are likely to be reached. This is simply not enough.

2. The collateral requirements are out of reach for most small business owners, and even the larger SMEs are finding it difficult to qualify for the ₦25 million maximum amount that they need.
3. Many SMEs are disillusioned by the CBN's intervention funds, stating that previous loans have been difficult to access. A valid concern as a number of SME owners have experienced situations where at the implementation stage of previous intervention loans, a greedy-few with privileged positions establish 'brief-case' companies to round-trip the loans, denying access to the true entrepreneurs who need the funding to make a difference in society.

As an SME-led initiative, our solutions are authentic and directly from the 'horses-mouth'. After a two-week lockdown, we are already experiencing the fact that the COVID-19 will ultimately affect the livelihoods of hundreds of thousands of Nigerians who depend on being open for business. We are therefore calling for a **Government-led, SME-focused** response to the crisis by providing urgent recommendations in this CALL TO ACTION, which we hope are incorporated into nationwide COVID-19 palliative measures.

## CALL TO ACTION

As mentioned above, our three main priorities are to **Retain Jobs**, **Avoid an Economic Depression** and **Reduce Social Unrest**.

Our recommendations are Nigeria-centric, as we look to our unique situation and not copy-paste from other countries. We recommend a two-phased response in our 10-point recommendations focused on actions for **immediate relief** and actions **post-lockdown** that will stimulate a recovery in the aftermath of the pandemic.

## IMMEDIATE RELIEF ACTIONS

Actions that need to be taken **within the next week**, during the lockdown period, to stem the negative impact of the standstill in the economy.

1. **Provide ₦30 billion grants to directly support businesses in vulnerable industries to avoid job retrenchments** The SME workforce are not classified as "poor & vulnerable", and so do not qualify for existing government relief packages including cash-transfers and food distribution. However, due to an already harsh economy pre-COVID19, a majority of the SME workforce can easily fall into the "poor & vulnerable" category. It is their monthly salaries that prevent this from happening. And so this needs to be restored, even in a stay-at-home COVID-19 economy.

**₦30 billion** should be used to provide small grants of ₦3 million to at least 10,000 SMEs that will cover at least 3 months of **all or a portion of payroll of these companies (i.e. ₦1 million/ month)**.

Vulnerable industries such as food service, financial service, technology, creative arts (including music, fashion, beauty and entertainment), travel & tourism, agribusiness, logistics, education and manufacturing will benefit from this.

Furthermore, we insist that the funds be deployed **directly** to the beneficiaries, using their BVN numbers. **In the interest of time and to avoid complexity, the funds should not be channeled through any financial intermediary. Key Driver: Ministry of Finance**

- 2. Declare Force Majeure on contracts. Allow complete forgiveness of principal and interest repayments on existing SME loans during the Government legislated lockdown** Currently, the CBN and some commercial banks have granted moratoriums on SME loans for 90-days, meaning that repayments will be deferred till a later point through an extension of the loan maturity by 90-days.

We propose that instead, the CBN and its regulated financial institutions should **completely forgive** repayments during this lock-down period that no revenue are being generated through no fault of SMEs. **Key Driver: CBN**

- 3. Grant forbearance on principal on existing SME loans for at least 3 months after the shut-down period** Following a lift of the lockdown, and resulting re-opening of businesses, the negative impact of the pandemic is expected to linger on for a while, depressing consumer demand. SMEs will struggle to recoup lost revenues and grow their businesses.

As a result, we seek a **three-month forbearance** on principal repayments once businesses resume operations. This means that the loan tenor will be extended by this period. Interest on these loans should be repaid, even during the forbearance period. **Key Driver: CBN**

- 4. Provide guarantees for new ₦30 billion SME loans, specifically through digital lenders for quick disbursement** The government and/or its development partners should provide full or partial risk guarantees/ risk-sharing for private financial intermediaries to lend each SME loans up to ₦30 million and up to 5 year tenor.

Digital lenders in Nigeria are capable of quickly turning around new loan requests in under 24hrs given their use of technology in KYC, onboarding and payments. They are a modern ecosystem tailored to serve Nigerian SMEs and individuals. This channel is considered **vital** to **speedily** assist an already overburdened financial system. Note that even with the significant stimulus packages to SMEs, the UK and United States are struggling with the traditional channels<sup>[3]</sup> like commercial banks. We have a chance to utilize the lending innovations already existing in our own markets to more readily impact our SMEs.

These digital financial intermediaries should have a proven track-record of successfully supporting SMEs, and particularly, targeting vulnerable sectors such as those mentioned above. Companies like Migo, Carbon, FINT and Lidya, have a demonstrated capacity of disbursing quick, micro-loans to SMEs and collecting these loans when due. They also have a strong system of data-collection and tracking. **Key Driver: NIRSAL, Development Partners e.g. AfDB**

- 5. Provide relief on business taxes due, rent payments, and associated essential utilities** We seek a halt in all state and federal tax collections, including VAT and Consumption Tax, as well as an extension on filings.

We urge the governments should provide relief for rents, urging landlords to allow for moratoriums, and also, to ensure landlords are not charging service fees, or deferring them, during the lockdown period.

Furthermore, given the fact that thousands of small companies now have to work remotely, insufficient internet data has been a frequent pain point of the workforce. Government to provide relief on behalf of SMEs, to the telecommunications companies to provide free or subsidized data services to employed Nigerians, as well as cover electricity, water and other major utilities. **Key Driver: FGN**

- 6. Establish A Small Business Resilience Fund** A multi-stakeholder fund, the Nigeria Small Business Resilience Fund (NSBRF) will be similar to COCAVID, led by Africa's richest entrepreneur and business-man, Aliko Dangote, allowing contributions from private sector individuals, corporations and foundations, to buttress public sector funds. It will be different from COCAVID in that interventions will go beyond the health-sector to also cut-across other vulnerable sectors essential to keeping the economy afloat. The funds will be utilized to provide tailor-made financing, utilizing various financing instruments including grants, equity and debt.

The Fund should be managed by an independent private fund-manager or administrator who can put in place transparent guidelines and quickly assess potential beneficiaries, deploy, and effectively track the funds in a transparent manner. This fund-manager will be experienced in investing in SMEs and have a defensive strategy that specifically supports existing and new business opportunities that increase resilience to future pandemics and other shocks, while creating thousands of dignified, skilled jobs. **Key Driver: FGN, CBN**

## **POST-LOCKDOWN RECOVERY ACTIONS**

Actions that need to be taken within the next 1 to 4 weeks as we look ahead to prepare for and stimulate the economic recovery during and post COVID-19 and protect ourselves in the event of another pandemic of similar magnitude.

- 7. SME entrepreneurs to be included in Presidential task-force developing a comprehensive policy for a “Nigerian Economy Functioning with COVID-19”** On April 13<sup>th</sup>, in President Buhari's address to the nation, he announced that specific Ministries jointly develop a comprehensive

policy for an economy that is able to function in the midst of COVID. This is a brilliant initiative by Mr. President as it includes heads of relevant sectors namely Ministers of Industry, Trade and Investment; Communication and Digital Economy; Science and Technology; Transportation; Aviation; Interior; Health; Works and Housing; Labour and Employment.

**We propose that this ‘task-force’ include the SME agencies like NASME (Nigerian Association of Small and Medium Enterprises) and NASSI (Nigerian Association of Small Scale Industrialists), as well as a few SMEs involved in this Call To Action, and not the usual-suspects who run large, well-established enterprises.** Having these individuals, representing diverse industries, will give real-life examples of what small-businesses are facing, in order to ensure optimal policies are constructed. It also provides an opportunity to proactively work with SME owners to assess scenarios to avoid the mass firing of staff.

**Key Driver: FGN**

- 8. Launch SME Business support services, especially those that foster digital business transformation** The pandemic has revealed the importance of digital technologies that facilitate remote socialization and transactions that drive economic activity. However, many SMEs were not prepared for this future of work. Going forward, they have to be. Working through corporations and financial institutions, there should be nationwide launch of virtual training forums to support SMEs in their transition to more digitally-prepared businesses that support the types of jobs of the future.

Working with relevant experts, like lawyers and accountants, SME owners also need to be supported as they think through adapting their business models to a post-Covid19 world. Indeed, some SME owners will have to face the fact that their businesses may not survive this pandemic, and think through establishing the types of businesses that would. **Key Driver: CBN, FGN**

- 9. Direct Tax Reliefs to incentivize capital to new start-ups and early-stage businesses** The future of work and social interactions will be very different after we emerge from this global pandemic. Some industries will wither while others will rise. It is important that the new businesses that emerge from this by radically changing their business models, are supported with adequate financing. Many of these will be start-ups who are too risky to be given loans. The typical sources of seed investments from angel investors, both locally and internationally, have already sent signals of drying-up, as investors hoard cash rather than deploy. **An effective means of shifting capital from savings to investment** in this scenario is the provision of necessary incentives, similar to the EIS and SEIS<sup>[4]</sup> programs in the United Kingdoms, which give up to 50% income tax relief on SME equity investments. Let us incentivize our High Net-worth Individuals and attract capital potentially from our informal/black economy. **Key Driver: FGN, State Governments**

- 10. State Governments To Consider FREE Transportation For Workers For 90-days** Junior members of SME teams typically spend up to 40 percent of their monthly earnings on transportation to the workplace. The recent ban of



commuter bikes like Okada in the major city centers has exacerbated this situation. To ease the pain of limited or no salary being paid to them, the governments of states experiencing a lockdown should consider providing free public transportation on its state-owned commuter vehicles for a period of up to 3 months. **Key Driver: State Governments**

Through the 10 recommendations above, the *SME Business-Owners Working Group*, alongside the efforts of the NASME and NASSI, *want* to ensure that SMEs representing vulnerable sectors are urgently included in the COVID-19 response of the Nigerian government (Federal, State and Local) and her agencies, as well as in the actions of financial intermediaries like commercial banks. This additional government-led support should be appropriately structured to quickly and effectively get to the intended beneficiaries.

**We recognize that these are unprecedented times globally, so we believe unprecedented actions need to be taken. Most of our recommendations are unconventional, but we strongly urge our leaders to open their minds to doing things differently.**

The petition in the Appendix is proof of the strong concerns Nigerian SMEs have and their plea to be heard. We have also attached the **2,644 names of individuals who have signed this petition**, and included their comments on why they signed.

It is our sincere hope that the government is able to understand what SMEs are going through and rank our needs at the top of their interventions in order to **Retain Jobs**, **Avoid an Economic Depression** and **Reduce Social Unrest**.

**Thank you for your consideration.**

**Ada OSAKWE**

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[1] SME survey 2017, Nigeria Bureau of Statistics

[2] SME survey 2017, Nigeria Bureau of Statistics

[3]<https://www.theguardian.com/business/2020/apr/02/130k-inquiries-1k-loans-why-uk-government-had-to-tweak-help-for-small-firms>

[4]<https://www.gov.uk/government/publications/seed-enterprise-investment-scheme-income-tax-and-capital-gains-tax-reliefs-hs393-self-assessment-helpsheet/hs393-seed-enterprise-investment-scheme-income-tax-and-capital-gains-tax-reliefs-2020>

## APPENDIX

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### NIGERIA, SUPPORT YOUR SMALL BUSINESSES TO SURVIVE COVID-19

2,644 have signed. Let's get to 5,000!

Jack Sogbeye signed 15 hours ago  
Fidella Medora signed 18 hours ago

Government: NIGERIA, SUPPORT YOUR SMALL BUSINESSES...

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Adia Osoke started this petition to Government and 2 others

Small and Medium Enterprises (SMEs) make up over 86% of the Nigerian workforce. And so the nationwide lockdown has severely affected livelihoods, as SMEs are no longer able to operate, generate revenues, and meet short-term cash obligations.

## Petition

**Started:** April 9<sup>th</sup> 2019  
**Signatures as of 15 April:**  
**2,644**

Small and Medium Enterprises (SMEs) make up over 86% of the Nigerian workforce. And so the nationwide lockdown has severely affected livelihoods, as SMEs are no longer able to operate, generate revenues, and meet short-term cash obligations.

Governments around the world quickly put in place stimulus packages to support their Small Businesses to ensure jobs were not lost and the pain in the economy is not as pronounced. However, the Nigerian government has done very little to support their SMEs, particularly, the over 12,000 SMEs in Lagos, the center of the pandemic.

Many of us business owners feel lost. We are scared of what the future might bring, not knowing how our businesses are going to get through this. If we can pay salaries for April and the coming months. If we can meet our other obligations.

What makes it worse is that our financial providers, commercial banks, continue to act like nothing has changed. Principal and interest payments on loans are still being deducted, as well as the erroneous fees from ATM, to Maintenance and Stamp Duty.

We need HELP. From our Federal Government, through the Central Bank, who can also mandate commercial banks to rein in on their practices. These are not normal times.

**NIGERIA, PLEASE SUPPORT YOUR SMEs!**

**SIGN THE PETITION**