

COVID-19: EVALUATING THE IMMEDIATE AND REMOTE IMPACTS FOR NIGERIA AND THE WAY FORWARD

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Unequivocally, technology has been and will continue to be the major disruptor of our living systems. Nigeria being an emerging economy is grappling to adapt to the fast-changing and transforming world driven by technology yet is fazed with an unprecedented disruptor named COVID-19. Though the “Virus” and “Tech” are both invisible disruptors; the virus, unlike tech, is a devour of health and wealth of individuals, businesses and economy of nations.

The outbreak of the novel coronavirus was reported in December 2019 in Wuhan, China, but the first case of coronavirus in Nigeria was reported on March 17, 2020. COVID-19 has since become a pandemic and within the period of three months; the immediate impact in Nigeria include – the crash of global oil prices – shortfall in revenue for Federal and State Governments, devaluation of Naira by CBN, raising inflation – general increase in prices of goods because the heavy imports, shutting down economic activities resulting in low productivity and shortfall in tax revenue, difficulty in meeting obligations by Government, organizations and individuals and the increase in crime, especially Bank fraud.

Some of the remote impacts for Nigeria would include recession and depression – industry and bank failure requiring bailout, job-loss, freezing tax rates and tax payments to enable companies conserve cash and equity, emergence of new business models – financial system, supply-chain, medical services, educational systems and heralding the Fourth Industrial Revolution – Artificial Intelligence, Internet of things, etc.

The response thus far includes:

1. The Bankers’ Committee and CBN announced a ***N3.5trillion*** stimulus package to cover:
 - N1 trillion in loans to boost local manufacturing and production across critical sectors.
 - N50 billion targeted credit facility for small and medium scale enterprises and households.
 - Interest rates cut from 9% to 5% for CBN intervention facilities.
 - Grace period of one year on principal facilities for intervention loans.
 - N100 billion in loan for pharmaceutical companies and healthcare practitioners to produce vaccines and test kits in Nigeria.
 - N1.5 trillion InfraCo Project for building critical infrastructure
2. FGN review of 2020 budget, set crude oil bench mark at \$30/bbl and a 20% reduction of the capital expenditure.
3. House of Reps Emergency Economic Stimulus Bill – proposing tax rebate for companies, deferred payment of mortgage obligations with FMBN, duty waivers for importation medical equipment.

4. UBA foundation announced N5billion relief support across Africa to cover
 - N1 billion to Lagos State Government
 - N500 million to Federal Capital Territory, Abuja
 - N1 billion to 35 States in Nigeria
 - N1 billion for Medical Centres with equipment and supplies
 - N1.5billion to African countries with UBA presence.
5. Donation of medical equipment and cash by individuals and corporate organizations.

COVID-19 shocked world and proved that, the singular problem of the world is interdependence - everything affects everything else. The response thus far appears to be linear or isolated interventions, so much activities that may not make meaningful impact or produce the result. A systems thinking approach would minimize the impacts of the COVID-19 and optimize the results of various interventions in Nigeria. This requires understanding the connectedness and identifying the leverage points for expeditious interventions without dissipating energy and resources, and to avoid unintended consequences.

Outlined below are some suggested short-term and medium to long-term interventions.

Short-Term Interventions

These are immediate interventions within the next one week to six months.

1. **Emergency Economic Stimulus Bill** - The bill is timely and requires urgent attention, and passage into law within the next two weeks to provide legal backing to some of the actions taken by government and the organized private sector.

The proposed bill at it is not robust, hence the following recommendations are germane to provide a comprehensive stimulus that addresses wide range of interests.

- a. **Food and Nutrition Assistance Fund (FNAF)** – The urgent stimulus Nigerians need now is the provision of food. One of the effective strategies of curtailing the spread of the coronavirus is the ‘Stay at Home’ strategy, however, most Nigerians live on daily subsistence. There is the need to design food and nutrition assistance programme to cater for the daily needs of Nigerians. The FNAF should receive contributions from:
 - The CBN intervention for household
 - FGN contributions from humanitarian budget for 2020
 - State Governments contributions.
 - NGO contributions – Local and International NGO.
 - Donations by private organizations and individuals. To encourage this, 20% of the amount donated should be tax deductible for company income tax and personal income tax purpose.
 - Farmers’ Association of Nigeria to organize it members to make food available at afford price.

- b. **Tax Rates Reduction and Tax Payments**

In consonance with the principles of simplicity and certainty of taxation, the following is recommended for 2020 Tax Year:

- A reduction of CIT rate from 30% to 20% for large companies
- A reduction of CIT rate from 20% to 15% for medium companies
- SMEs are already exempted, and no further tax holiday is advisable.
- Suspension of the minimum tax provision.
- Extension of period of filing tax returns and due date of payment by two months.

The above provides direct benefits and far-reaching impact on companies than the proposed 50% of PAYE as rebate for CIT. Companies would be encouraged to retain their employees.

c. Deferral of Mortgage Obligations and Rebate for Rent and Lease Obligations.

Commercial Banks and Mortgage Banks and Property Owner are to adjust their obligations from customers and tenants as follows:

- Deferred payment of principal and interest on mortgage loans for nine months effective April 1, 2020.
- 50% reduction on rent and lease payment on residential and commercial properties for nine months effective April 1, 2020

The deferred payment and rent/lease rebate would be compensated for with the reduction of CIT rates in 2020 Tax year.

d. Grants and loans by CBN and Commercial Banks

To stimulate economic activities and prevent bank failure, the CBN and Commercial banks should provide the following interventions:

- The CBN to grants to Manufacturing Companies for purchase of equipment and input for productions
- The CBN to provide Interest-free loans to Small, Medium and Large Companies
- The CBN to facilitate “Productive Lending Programme” mandating Commercial Banks to lend specific percentage of their deposits to Manufacturing Companies. This is a more purposeful approach to increasing deposit to lending ratio by banks.
- The CBN reduction of interest rate for special or intervention facilities.
- The CBN to review cash reserve ratio for Banks.
- The CBN and Commercial Banks to review existing loans with a view to reducing the interest rates to avoid bad loans and bank failure.

e. Medical Equipment and Medical Goods and Services

To support the purchase of medical equipment, goods and services:

- CBN providing N100 billion in loan for pharmaceutical companies and healthcare practitioners to produce vaccines and test kits in Nigeria
- Solicit additional funding to support hospital and community health centers from international NGOs.
- Waiver of import duty on medical equipment.

Medium and Long–Term Interventions

Perhaps, COVID-19 offer Nigeria the opportunity to reset her fiscal and monetary policies. Hence, we must be proactive and be bold to make fundamental changes to position the economy for prosperity. Here are some of the changes:

1. Fiscal Sustainability – the economy is in a bad shape with low revenue, low foreign reserves, huge debt burden, weak currency, weak infrastructure, weak productive industries, etc., The following measures would be helpful.

- **Crude Oil** – has been the mainstay of the country but susceptible to global price shock. With the current drastic drop in crude oil prices; it is high time we reviewed the management of the crude oil fiscal regime and Nigeria’s stakes in OPEC.

Prudent management of fiscal regime is imperative at this time. There is the need to establish Digital Revenue Assurance Tools to optimize revenue generation and collection. Digital Revenue Assurance Tools would help to identify and plug the revenue leakages in the production and sale of crude oil in Nigeria. Also, no individual should own oil well and mineral resources. The ultimate owners of any natural resources should be the Host Community, Local Government, State Government and the Federal Government.

Lastly, it is high time Nigeria left the OPEC if her market share cannot be increased. It is not equitable for Nigeria with a population over 200 million to be restricted to produce 2million barrel per day, while Saudi Arabia with a population of about 34million produces over 10million barrels per day.

These are hard decisions worth taking at this time.

- **Solid Minerals** – there is the need to articulate the solid mineral fiscal regime to harness the potential in every State of the Federation. Nigeria is currently losing a lot revenue because of the illegal mining being carried by Nigerians and foreigners.
- **Budgeting** – it is imperative to set our budget priorities right from 2021 budget. Education and Health should be given top priority.
- **Debt Relief** – Debt restructuring and reliefs are strategies to be considered.
- **Alternative or Renewable Energy** – in no distant future fossil fuel will become thing of the past. Nigeria needs to leverage its environmental climate to build capacity to be exporter of alternative or renewable energy to the world.

2. Tax Policy Mix and Design – Taxation remains a major and sustainable such of revenue to Government. The appropriate tax policy mix and design increases tax compliance and revenue to government. The following need to be reviewed.

- **Multiple Taxation** – The optimal tax policy mix and design should include to achieve one tax per tax base that is eliminating multiple taxation. The fewer the number of tax type, the higher rate of compliance and the higher tax revenue. Too many taxes, levies, statutory contribution deplete capital and profits. There should not be more twenty tax type collectibles by the three tiers of Government in Nigeria.
 - **Tax Incentives** – Tax incentives are designed to achieve specific economic goals. There are too many tax incentives that are not promoting any economic growth but reducing competitiveness of companies and eroding economic values. For instance, given the size of Nigeria’s gray economy, it is not advisable to exempt small companies from paying income taxes, rather such companies should be taxed at a reduced tax rate.
 - **Personal Income Tax** – the current personal income tax is not equitable. The applicable tax rates should be redesigned to exempt minimum wage earners from tax, while imposing higher tax rates on wealthy individuals.
 - **Statutory Contributions** – There too many statutory deductions or contributions that are increasing the cost of doing business in Nigeria. For instance, contribution to Industrial Training Fund, Nigerian Social Insurance Trust Fund, etc., constitute huge burden on businesses. Contributions to pension for both employer and employee should not be more than 10% of the total earnings of an employee.
- 3. Financial Services** – There is the need to carry out broad spectrum policies review to align monetary policies and fiscal policies. The financial services industry is fundamental in driving economic growth and prosperity of a nation. Some of the decisions for consideration are:
- **Commercial Interests** – The interest rate in Nigeria is too high. High interest rates only create asymmetric economic growth without development in the real sector of the economy. To experience any significant development in Nigeria, commercial interest rates must be single digit.
 - **Currency Redenomination and Asset Pricing** – at this point that the value of the naira has been eroded; redenomination of the naira would be a prudent currency management strategy to strengthen the value and increase the purchasing power of the naira. It will help to reverse the over reliance on the US dollar and over pricing of assets. To redenominating the currency, 100 naira would be the highest naira denomination.
- 4. Infrastructure Development** – Nigeria needs an infrastructure development policy to address the infrastructural gap. Nigeria has been playing catch-up in its current infrastructure development drive, instead of setting the pace with novel infrastructure. To bridge the infrastructure deficit gap, it is prudent to concession critical infrastructure – refineries, roads, sea-ports, electricity, etc.
- 5. Learning Economy** - Learning is the foundation for productivity, and progress in a society can only be achieved through learning. To emerge stronger from the current

virus disruption; now is the opportunity to reposition Nigeria as a learning economy in readiness for the fourth industrial revolution that will be characterized by technology disruption. The current educational system in Nigeria needs to be redesigned to be fit-for-purpose. Nigerians need the right knowledge and right skills to compete in the new world order. The ability to transform raw inputs – agriculture, crude oil, solid mineral – into finished products is the major factor for cultivating and sustaining prosperity.