COVID-19: ECONOMIC IMPLICATIONS OF THE LOCKDOWN ON SOUTHWEST STATES OF NIGERIA

Introduction

This paper examines the economic implications of the lock-down on six States in the Southwest Region of Nigeria, sequel to the incidence of COVIC- 19 pandemic. The lock-down became imperative due to the spread of the disease. The disease, though currently has a low fatality rate, constitutes a potential danger for the Southwest Region given the weak state of our health care system. Even countries with modern health facilities are overwhelmed due to their inability to promptly contain the spread of the disease. The study highlighted the spread of the disease in the Region, peculiarities of the Region and economic rationale for lock-down as well as highlighted the immediate, intermediate and long-run impact of the lock-down.

Distribution of infected persons in the South West Nigeria

On February 29, 2020, the first Nigerian index case of COVID-19, a disease caused by the Severe Acute Respiratory Syndrome Coronavirus 2 (SAR-Cov2), was reported in Lagos State. The first index case was an Italian businessman who returned to the country a few days earlier.

SAR-Cov2 is a novel coronavirus but shares some commonalities with another family of coronaviruses such as Middle East Respiratory Syndrome (MERS) and Severe Acute Respiratory Syndrome (SARS). The fatality level of SAR-Cov2 is currently at 2% and it is lower than that of MERS (37%) and SARS (19%). The coverage of SAR-Cov2 is however higher than previously reported coronavirus[1].

The COVID-19 influenza was first reported in Wuhan, Hubei Province, China, on December 31, 2019. However, it crossed an inflection point during the week of February 24, 2020, when cases outside China exceeded those within China for the first time, with 54 countries reporting cases as of February 29, 2020. The outbreak is most concentrated in four transmission complexes—China (centered in Hubei), East Asia (centered in South Korea and Japan), the Middle East (centered in Iran), and Western Europe (centered in Italy).

The World Health Organisation (WHO) has, therefore, classified the disease as a Public Health Emergency of International Concern (PHEIC) on January 30, 2020 because of its

[1] Week one lecture note on COVID-19: Tackling the novel coronavirus by London School of Hygiene and Tropical Medicine.

spread across the globe as well as its adverse effects on trade and travel. The virus was declared a pandemic on March 11, 2020 by WHO Director-General, showing the spread of the disease to be dangerous and that it should be contained. In total, the most-affected countries represent nearly 40 percent of the global economy as of that date. But as of March 30, 2020, at least one case of COVID-19 has been reported in more than 120 countries including over 130 reported cases.

In Nigeria, the number of reported cases is 139 as of March 31, 2020. A total of 100 were reported in the Southwest Region, representing 72% of the total reported cases. With a total of 82 cases in Lagos State, eight in Oyo State, five in Osun State, four in Ogun State and one in Ekiti State. None was reported in Ondo State as at the time of reporting. However there is high probability that the actual number of those currently infected with the disease is higher than what is reported given the limited number of people that are currently being tested. Less than 700 people have been tested, with a positive outcome in almost 20% of those tested and more than 4000 others to be traced for having had contacts with those with positive outcomes. These statistics suggest that the current number of reported cases present an underestimation of the reality in the country and the in Region by extension.

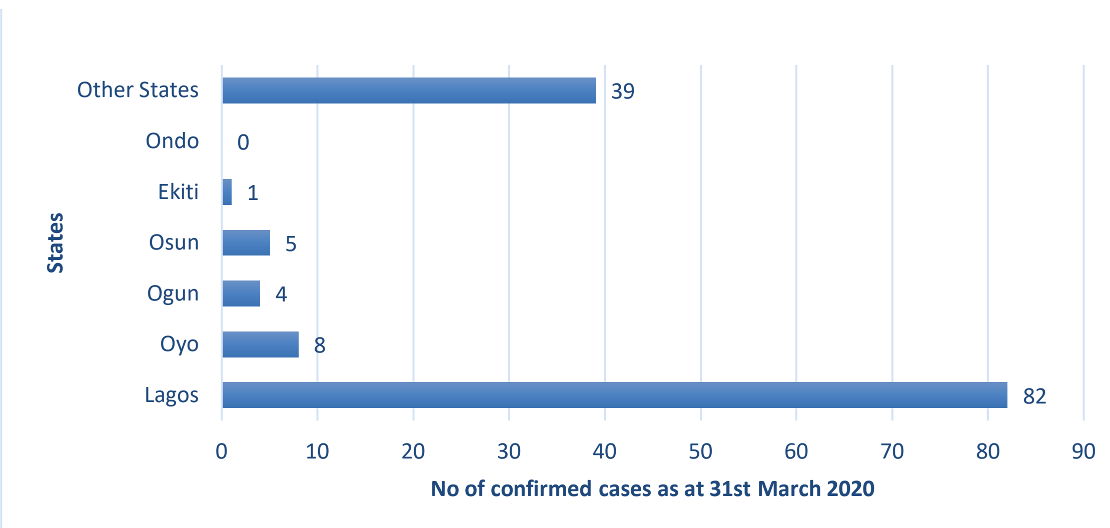

Figure 1: Distribution of COVID-19 in Nigeria
Source: Nigeria Centre for Disease Control (NCDC)

In Nigeria, out of the 139 confirmed cases reported on March 31, 2020, nine of the patients have been discharged while, unfortunately, two were reported dead. If the spread is curbed within a short period of time, it will help in reducing the cost of providing health care for infected individuals as well as limit the impact of the pandemic on the economy.

Response to COVID-19 Pandemic in Southwest Region

Southwest Region of Nigeria comprises of six States: Ekiti, Lagos, Ogun, Ondo, Osun, and Oyo States. Collectively, the region contributes more than 40% of total economic activities in Nigeria (NBS, 2018)[2]; more than 50% of these activities take place in Lagos State, the commercial nerve centre of the country. However, other States of the Region, particularly Ogun State, with proximity to Lagos, have taken the advantage to expand their economy by supplying food and other natural resources needed for production in many of the industries operating in the Lagos and Ogun States axis. Hence, there exists a high level of economic interdependence across the States in the Southwest Region, which can be leveraged for different interventions.

According to the data presented in Figure 1, Southwest Region is the epicentre of the epidemic in Nigeria and hence, aggressive efforts are needed to contain it. Lessons learned from the experience of Japan reveal that, the COVID-19 incidence curve flattened within few days of the first reported case, consequent upon the effective implementation of a lock-down in the affected area. A lockdown could be effective in preventing the spread of the disease, as well as, reduce the loss of human capital.

The decision to lockdown Lagos State- being the most affected area in Nigeria, as well as the adjoining Ogun State and The Federal Capital Territory, was taken by the Federal Government to curb the spread of the disease. Other States in the Region are however applying similar measures to avert the possibility of spreading the corona-virus through migration of people from Lagos State into neighbouring States.

A number of efforts are being made to address the problems associated with the pandemic. This includes the introduction of palliatives, apart from the construction and equipping of Isolation Centres. Lagos State has introduced an economic stimulus package for residents, where 200,000 households are being targeted in the first phase. This involves the distribution of food packs to the most vulnerable communities and households in every Local Government Area in the State. Priority is given to those who rely on daily wages. While the issue of targeting remains a challenge in this initiative as

[2] National Bureau of Statistics (NBS) 2018 Internally Generated Revenue (IGR) at State level. Due to the absence of State level data on economic activities for all States in Nigeria and knowing fully well that internally generated revenue measures taxes levied on economic activities. Thus, IGR was used to proxy the level of economic activity at the State level.

is evident in several similar Federal and States' programmes, the experience so far gained, is bound to improve Social Protection programming in the South West Region.

The Impact of COVID-19 Pandemic on the Global Economy

The IMF has declared that COVID-19 has caused a global recession. Economists from Mckinsey have also projected possible global economic downturn for the early part of the year but could be worse if scientists are unable to produce a vaccine in the next six months. However, they are optimistic of a slowdown if most countries, particularly Europe and America, can achieve the same rapid control China managed.

Though all sectors will be impacted, but London Business School has identified about six sectors that the pandemic will hit hard. The following sectors were identified:

- Tourism and hospitality
- Aviation/Airlines
- Oil and gas
- Automotive
- Consumer products
- Consumer electronics, semiconductors

Focusing on Nigeria, Mckinsey has pointed out drivers that will matter most for Nigeria, and they are presented in Table 1.

Table 1: COVID-19 and its potential impact on the Nigerian economy

1.	**Oil prices**	Oil impact	A decline in oil prices to as low as ~$25-30/bbl could result in lost GDP, with knock-on effects to the economy via reduced government spending and exchange rate instability
2.	**Consumer demand**	Restricted movement	Reduced household and business consumption due to restricted movement, travel ban, and the knock-on effects of reduced government expenditure
		Travel bans	Reduction in the number of people travelling because of health concerns
		Shrinking wallets	Actual (and expected) health costs and job losses could lead to deep cuts in discretionary spending and trade downs in non-discretionary spending

3.	**Trade and Investment**	Supply chain disruption	Disruptions in value chains lead to production losses due to a shortage of inputs
		Non-Oil exports	Decline in export revenue from non-oil goods because of lower demand in core markets
		Investment and capital inflow	Movement restrictions of people and materials result in delayed or cancelled foreign investment and construction

Source: Mckinsey (2020) COVID-19: Nigeria economic impact and implications for CPG

The Potential Impacts of Lockdown on Southwest States

The use of lockdown to contain the spread of COVID-19 is bound to slow down the economic activities in Lagos State where it is applied, as well as the contiguous States. The cessation of movement of people will cause a decline in the economic activities of the Region especially in the areas of food production and distribution, manufacturing, and commercial activities. The downturn in economic activities as a result of the lockdown will definitely create short-run economic losses, nevertheless, there is high tendency of early economic recovery if the spread of the virus is effectively curbed, such that, economic acitivites resumes few weeks after the lockdown. However some potential long term effects of the short term losses are also imminent if some measures are not taken immediately. For example, States need to issue special road permits, not only to food suppliers but also input suppliers such that, they can haul inputs such as, fertiliser and seedlings across States and enable farmers to proceed with farming activities with the outset of rains and catch up with 2021 farm produce.

However, the possibility of early recovery of economic activities in the South West is not solely dependent on our effort at curbing the spread of the virus but also on other factors occassioned by the interdependence of the global economy. For Nigeria in particular, most of its trading partners in Europe and America are gravely affected by the pandemic. Thus, the decline in the global economy means that businesses within the Southwest Region that are dependent on the global market will be adversely affected as follows:

- There will be low demand for non-oil export commodities from the States resulting in loss of income and foreign exchange earnings (cocoa, cashew, charcoal, spices etc.)
- Manufacturing firms that depend heavily on imported inputs are more likely to experience a significant decline in production,
- Massive reduction in turnover and profit levels,

- Inability of businesses to meet credit terms ,
- Fall in taxable company incomes and subsequent reduction in estimated tax revenues accruable to the different tiers of government. This is likely to make the actual internal generated revenue of the States in the Region lower than the estimated amount.

Figure 2 shows the proportion of statutory allocation in the six Southwest States approved budget for 2020. From the Figure 2, it is observed that Lagos and Ogun States are the only two States in the Region that might not be adversely affected by the shortfall in oil revenues, as their reliance on statutory allocation for revenue is low. The other States in the Region, especially Osun State, may experience difficulty in paying worker's salaries regularly and fulfilling some other fiscal obligations. This suggests that majority of the Southwest States rely more on statutory allocation from the Federal account as source of revenue, which in turn reflects their low level of Internally Generated Revenue capacity.

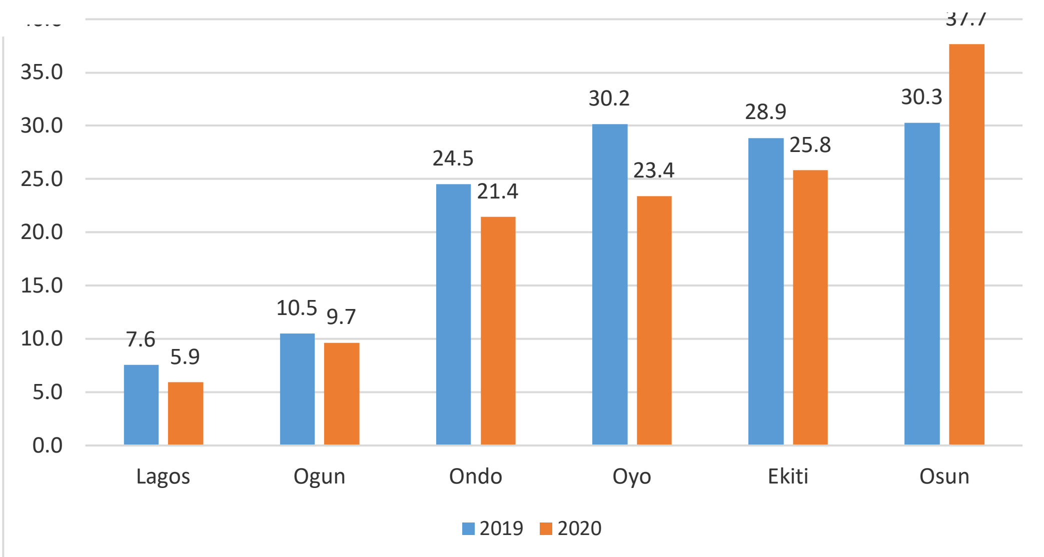

Figure 2: Share of Statutory allocation in total revenue (%)
Source: Various States approved budget document.
N.B: This statutory allocation does not include allocations from excess crude account and VAT

In a bid to curtail the spread of COVID-19 in China, social distance and lockdown approaches were used, and as a result, economic activities dropped. The decline in economic activities leads to a decline in demand for crude oil, which in turn caused crude oil prices to fall in January 2020. The spread of COVID-19 to other advance countries further led to additional drop in crude oil prices as shown in Figure 3. Furthermore, the Saudi Arabia-Russia price war caused the decline to persist.

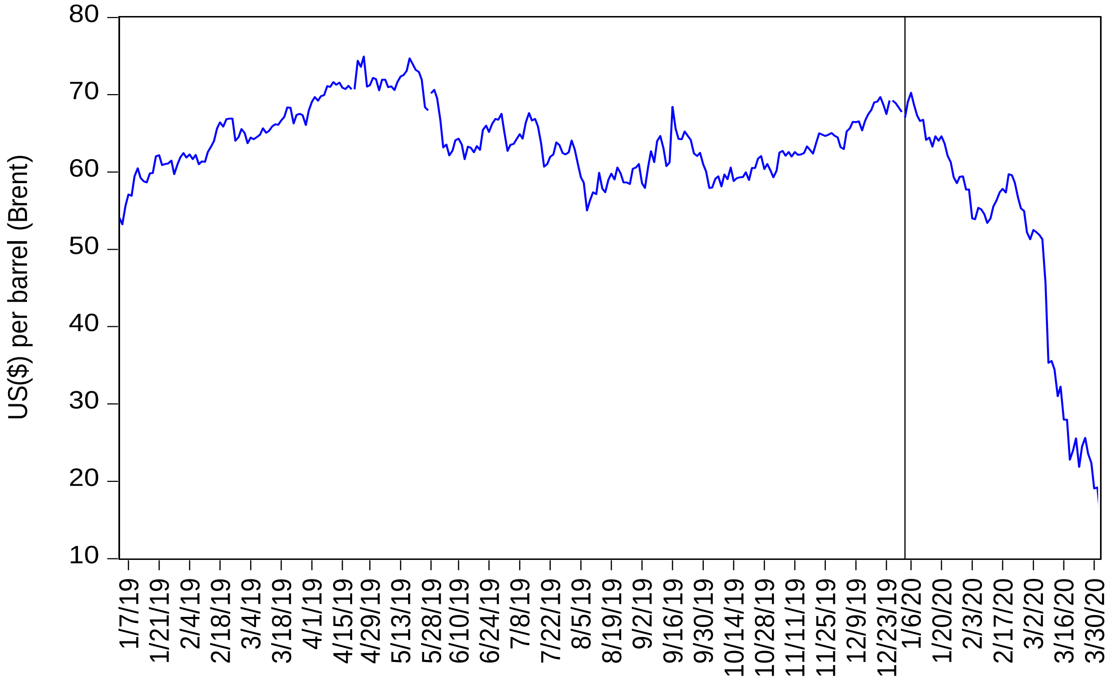

Figure 3: Brent crude oil price per barrel in US ($), January 2019 to March 2020
Source: U.S. Energy Information Administration

The sharp decline in crude oil prices from January to end of March 2020 suggests that, the Federal Government will not be able to effectively finance her 2020 budget as proposed. This in turn, means that Southwest States that relies more on statutory allocation from the Federal Government will experience difficulty in realising their fiscal obligation for 2020.

The Federal Government initially benchmarked crude oil prices at $57 per barrel, given the recent happenings in the world crude oil market, a barrel of crude oil was sold for less than $25 on the March 15, 2020. This compelled the Federal Government to reduce the benchmarked price by $27 to $30 per barrel on March 18, 2020. Due to the projected fall in crude oil revenue, the Federal Government reduced its expenditure by N1.5trillion, which was accomplished by a slash of 25% in the recurrent expenditure and 20% in capital expenditure[3]. This is expected to cause a decline in the statutory allocation going to each state in the federation.

Both Figures 4 and 5 indicate the importance of the oil sector to Nigeria's government earnings. Specifically, Figure 4 shows that more than 45% percent of government revenue was realised from the sector, the lowest was recorded in 2016. With the recovery of the crude oil prices, post-2016 contributes in part to the increase in the share of oil

[3] Agbakwuru (2020): COVID-19: FG cuts 2020 budget by N1.5trn. Vanguard March 19, 2020

revenue in total revenue. Furthermore, Figure 4 shows that the Federal Government total revenue decreases as the share of oil revenue in total revenue falls. The recent drop in crude oil price is, therefore, expected to bring about a sharp decline in total revenue.

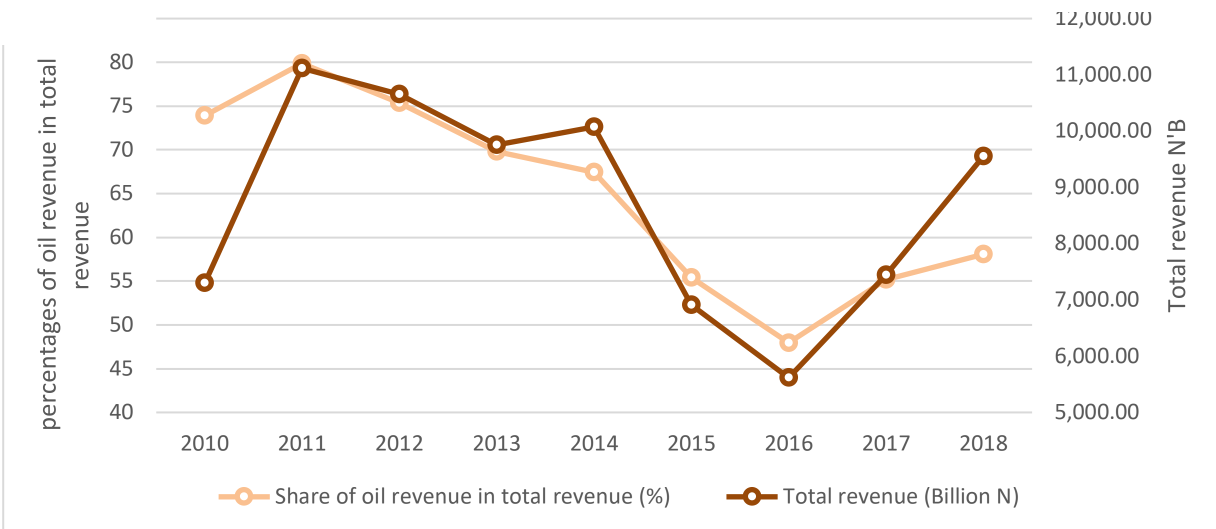

Figure 4: Total revenue and share of oil revenue in Federal Government revenue (%)
Source: Central Bank of Nigeria Statistical Bulletin, 2018.

Likewise, Figure 5 shows that non-oil export contributes less than 8% of Nigeria's export over the last ten years. Hence, foreign exchange earnings of the country is more likely to reduce by half over the next few months if the crude oil price continues to plummet. This will have an adverse effect on the country's capacity to import and the exchange rate value.

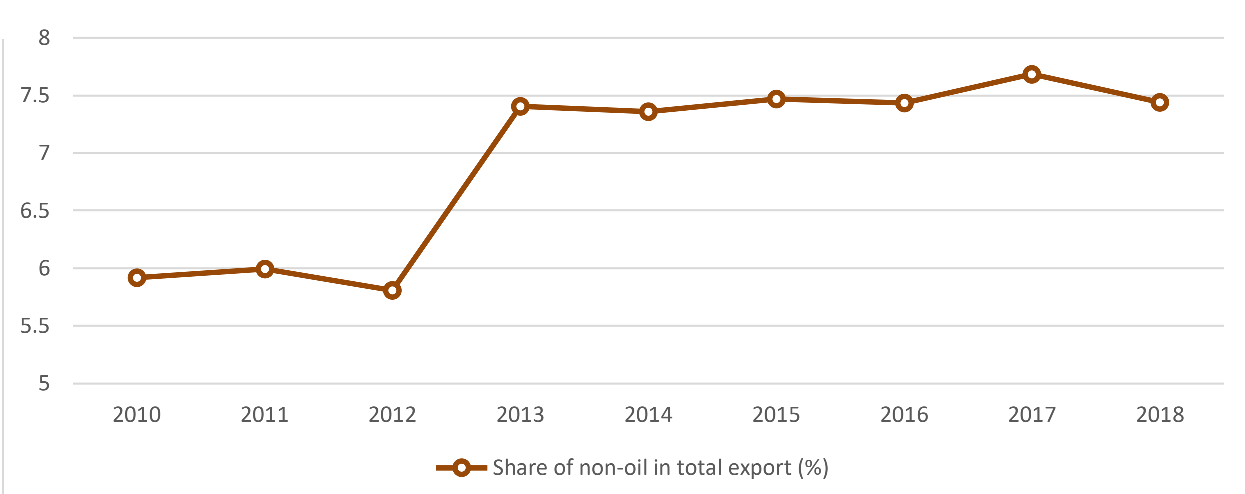

Figure 5: Share of non-oil in total export (%)
Source: Central Bank of Nigeria Statistical Bulletin, 2018.

Considering an imminent decline in statutory allocation from the Federal government amid the COVID-19 crisis and the potential fall in tax revenue. It is crucial to understand the existing ability of the States to generate revenue.

Table 2 shows the amount realised by Southwest States as revenue through Internally Generated Revenues (IGRs) for the first nine months in 2019. It was reported that majority of Southwest States IGRs come from Pay-As-You-Earn (PAYE), while road tax contributed the least. State of Osun and Ogun state optimised their MDAs the most, while other States are underutilising this option of revenue given that its share of total revenue is less than 25%. Government initiatives targeted at improving MDAs service delivery are expected to boost IGR. Similarly, States could leverage more on road taxes by reducing leakages. Generally, there is an urgent need for States' to optimise their revenue.

State	**Ekiti**	**Lagos**	**Ogun**	**Ondo**	**Osun**	**Oyo**
PAYE	4,906.49	202,283.26	17,360.37	15,143.36	6,353.64	8,129.11
Direct Assessment	202.47	12,887.81	2,424.07	444.33	688.82	4,207.76
Road Tax	95.99	7,169.06	762.40	541.66	162.97	710.72
Other Taxes	2,364.19	48310.22	12,159.11	5,750.91	173.55	2,627.39
Total Tax	7,569.14	270650.35	32,705.95	21,880.26	7,378.98	15,674.99
MDAs Revenue	736.38	26446.06	20,164.02	2,656.02	6,779.80	4,329.36
Total	**8,305.52**	**297,096.40**	**52,869.97**	**24,536.28**	**14,158.78**	**20,004.35**
Share of tax revenue	91.13	91.10	61.86	89.18	52.12	78.36
Share of MDAs Revenue	8.87	8.90	38.14	10.82	47.88	21.64

Table 2: Southwest States Internally Generated Revenue in Million (N), January to September 2019
Source: NBS (2019): Internally Generated Revenue at State Level (Q3 2019)

Immediate/Intermediate impact of the lockdown

The majority of economic activities in the Region are located in the informal sector, hence, the lock-down implies that more households in the Region will experience difficulty to sustain their household's needs in the coming weeks. The slow recovery of the Nigerian economy from the recession that started in the first half of 2016 is yet to fully impact employment and has resulted in the creation of more small businesses. MSMEs on the whole represent about 80% of the total labour force, while a majority of these enterprises are in the microenterprise sub sector (SMEDAN 2013). Key findings from EFInA Access to Financial Services in Nigeria Survey, A2F2018, shows that COVID-19 poses a threat to the livelihoods of about 50% of the 99.6 million Nigerian adult population who earn their income on a daily/weekly basis. The threat across States differ significantly, with over 4.5m adults at risk in Lagos while Ogun has 1.7m and FCT has 800,000 adults at.

The remaining households which are also engaging in small and medium scale enterprises may not necessarily be technology-driven, hence making the possibility of working remotely difficult. They are therefore most likely be unproductive during the lockdown. All these will most definitely have a telling effect on the Region's economy in the coming days and months.

The immediate effect of the lock-down on the Region can be described as follows:

- A significant decline in output by more than 40%[4].
- Partial loss of revenue to the government.
- The additional cost of providing relief packages for those on lock-down.
- A rise in unemployment as industries will likely lay off staff due to lack of production. This has the potential of jeopardising growth prospects and socio-economic wellbeing of a large number of people.
- There is also the possibility of many of the traders living off their capital during the lockdown, which will adversely affect their working capital and in turn returns to capital.
- Food insecurity, the UN FAO has warned that there could be a global food shortage unless measures are taken to keep the food supply chain active and mitigate the pandemic's impact across the food chain. For instance, some countries have already begun to take some measures by placing an embargo on export. Russia on March 20 called a halt to the export of buckwheat and other grains for 10 days, while Kazakhstan introduced restrictions on shipments of wheat flour, buckwheat, sugar, several types of vegetables and sunflower oil. Thus, there could be an acute shortage of food by the time the world recovers from the pandemic.
- Oil price crash: lower revenue for most States in the Region and the attendant failure to meet up with fiscal obligation. And this could be prolonged if the world demand for oil doesn't increase.

[4] This is based on the following assumptions: first, more than 75% of activities are currently grounded; second, imported effect, essential sectors that reply on imported inputs from other countries that have impose lockdown such as US and China will experience slowdown in production.

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Long-run impact of the lockdown

Since economic activities in the Region are mostly in the informal sector while those in the formal sector are dominated by small and medium scale enterprise, with limited disruption occasioned by the pandemic and minimal loss of life during the pandemic, the economy of the Region is expected to quickly recover and experience significant growth in the long-run. It is expected that workplaces and healthcare systems would experience a more efficient and effective means of service delivery over a long term.

However, if we are unable to contain the spread within the 14 days of lockdown, most of the traders could start living off their capital, and then, have difficulty in returning to business after the pandemic while some may become bankrupt as a result of their inability to service and repay their loans. Efforts of State governments in expanding the tax net through the introduction of Presumptive Tax in the hugely untapped informal tax sector may therefore be hampered in the Region. Presumptive Income Tax Assessment (PITAS) is in line with the National Tax Policy (NTP) but its objectives may not be achievable since informal sector operators may need to recover from the shock of the lockdown and may even expect to get a boost from stimulus packages.

On a positive note, the avalanche of interventions in the health sector due to COVID-19 outbreak and the possible reinforcement in the coming days has the potential of strengthening the sector and prepare the Region for any future health challenges. But that will also require a reinforcement of the Primary Health Care System. Also, the plethora of sensitisation that has been carried out, if sustained, has the potential of improving hygienic living among the populace, hence, increase in the number of healthy and productive citizens.

Recommendations

- Reinforce strategy against oil dependence in the Region as the unreliability of oil revenue is being further exposed.
- Governments to identify opportunities to urgently reduce non-essential spending as well as anticipate and prepare for what the post-crisis near normal situation would look like.
- Develop a comprehensive strategy on food security for the Region.
- Priority for government is to ensure support for most vulnerable populations.
- As preparations for this year's planting season may have started, governments, as against direct intervention, should work with the private sector and trade

associations to facilitate the distribution of inputs such as seeds and fertilisers, to avert an imminent food crisis in 2021. Haulers of these products must hold verifiable identification such that they do not encounter unnecessary harassment by law enforcement agents on highways.

- As a matter of priority, governments to engage stakeholders such as President, Nigerian Agro Inputs Dealers Association of Nigeria (NAIDA), State Chairmen, All Farmers Association of Nigeria (AFAN), Pioneer Seeds, IITA etc. in food security agenda setting dialogue.
- There is need to organise informal sector networks and encourage business formalisation, not only for revenue generation purposes but for channelling interventions in times like this. Several credit interventions and stimulus packages require appropriate formal platforms for accessing such opportunities.
- Strengthen community structures such as neighbourhood associations, cooperative groups etc. and improve their visibility as channels of transfers and interventions.
- Construct biometric infrastructure for effective development planning and palliative interventions.
- Strengthen health sector financing through a functional health insurance scheme.
- Temporary reorganisation of workspace by both public and private sector organisations in compliance with the social distancing guidelines.

Conclusion

A lock-down definitely has direct health benefits and direct economic cost, arriving at an optimal point is the key to achieving the purpose and goal of such lockdown. There exists a high level of economic interdependence among the six States in the Region, most especially between Lagos State and the remaining five States. The use of lockdown to contain the spread of the disease will slow down the economic activities of the Region in the short-run with attendant long-run economic benefits since it will help in preserving the Region's human capital.

Steps should be taken to secure the supply chain of essential products and stability of the financial system, help businesses survive the crisis and support household's economic welfare. State governments also need to consider an extensive stimulus package to reverse the economic damage of the crisis.

Moreover, this moment also offers us the opportunity to refocus the Region's socio-economic development with a particular strategy to reduce our dependency on crude oil revenue and create a system of self-sufficiency through massive intervention in agriculture and agribusiness sector, leveraging on the natural endowment of the Region.

However, gleaning from the experiences of other middle-income countries, quality education and healthcare system are essential for any nation desirous of growth and development. Hence, the need for increased strategic investment in the social sector if the Region must become self-sufficient in the shortest possible time.

Finally, as the issue of COVID 19 evolves in the country, some measure of regional coordination would be needed in response efforts. International Monetary Fund (IMF) Chief Economist, Kristalina Georgieva, has said that the length and depth of the imminent global recession would depend on: containing the virus and "having an effective, coordinated response to the crisis." In Southwest Nigeria, regional coordination has veritable potential to strengthening States' capacity to address the effects of the pandemic.