

# The COVID-19 Economic Recovery Advocacy Project in Lagos State



## **ABOUT LAGOS STATE EMPLOYMENT TRUST FUND (LSETF)**

The Lagos State Employment Trust Fund (LSETF) was established by the Lagos State Employment Trust Fund Law 2016 to provide financial support to residents of Lagos State, for job, wealth creation and to tackle unemployment.

LSETF focuses on promoting entrepreneurship by improving access to finance, strengthening the institutional capacity of MSMEs and formulating policies designed to improve the business environment in Lagos State. In addition, the Fund develops programmes designed to train and place unemployed Lagos residents in jobs; while also focusing on programmes designed to drive innovation within the Lagos ecosystem.

## **ABOUT DEUTSCHE GESELLSCHAFT FÜR INTERNATIONALE ZUSAMMENARBEIT (GIZ)**

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH is a service provider in the field of international cooperation for sustainable development and international education work. GIZ is dedicated to shaping a future worth living around the world. With over 50 years of experience, GIZ primarily focuses on increasing employment and income generation, as well as access to finances for micro, small and medium-sized enterprises across the world. GIZ partners with a number of organisations and local government bodies to achieve its aim.

GIZ has its registered office in Germany and has worked in Nigeria since 1974 and has maintained a country office in the capital city, Abuja since 2004. GIZ has implemented the Pro-Poor Growth and Promotion of Employment Programme – SEDIN to provide Financial System Development, Business Enabling Environment Reforms, favourable Trade Policy & Facilitation and empower Agricultural & Non-agricultural Value Chains (VCs) in Nigeria.

## **ABOUT AGUSTO CONSULTING LIMITED**

Agusto Consulting is a wholly owned subsidiary of Agusto & Co., a foremost rating agency, providing value-adding business solutions to each of its clients. Agusto Consulting possesses deep knowledge of African economies and key industries therein due to the breadth and scope of its mandates. The company appraises and develops frameworks and methodologies for performance evaluation and benchmarks to companies, industries and obligors. These mandates cut across Sub-Saharan Africa with multinationals and industrial corporates seeking to improve value creation and create performance benchmarks.

Agusto Consulting executes its mandates by approaching assignments from a macro, industry and firm level. The company's findings from the macro-micro level helps provide a framework for customised business solutions to each client. The company has proven to be a trusted adviser to a wide range of clients due to the wealth of its in-house expertise drawn across industry knowledge, management consulting, and ratings.

Agusto Consulting's deep understanding of the macro-economy also helps the company prepare clients well ahead of macro headwinds by providing mitigations to risks while also identifying opportunities in times like these. To achieve these, Agusto Consulting adopts scenario planning for its engagements.

**October 2021**

## OBJECTIVES OF THE REPORT

GIZ-SEDIN has partnered with the Lagos State Employment Trust Fund (LSETF) and seeks to increase and sustain the state government's efforts and policy response to reduce the impact of COVID-19 on MSMEs and jobs in Lagos state.

The specific objectives of this assignment are:

- To review existing reports of the economic impact of COVID-19 on MSMEs and jobs in Lagos State.
- To collate and validate policy recommendations to address the impact of COVID-19 on MSMEs and jobs in Lagos state.
- To develop policy briefs and present them to the relevant policy actors at the national and state levels.
- To increase advocacy for policy reforms at state and national levels towards enabling MSMEs to recover from the impact of the pandemic and create jobs.

## OUR METHODOLOGY

The data and other information used in this report were obtained from a combination of primary and secondary sources. Our primary sources of information include virtual interviews with Industry operators and regulators. Secondary sources of information include third party research papers, Industry and trade associations and other print and electronic media.

## LIMITATIONS

We encountered the following limitations during the course of the exercise;

- The presence of COVID-19 restricted our physical meetings with Industry operators and regulators.
- Challenge of data gathering from the Nigerian Bureau of Statistics due to the gaps in data reporting

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## ACRONYMS

ACGS	Agricultural Credit Guarantee Scheme
AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
AI	Artificial Intelligence
APCON	Advertising Practitioners of Nigeria
AuM	Assets Under Management
BOI	Bank of Industry
CACS	Commercial Agricultural Credit Scheme Fund
CACS	Commercial Agricultural Credit Scheme Fund
CBN	Central Bank of Nigeria
CIT	Corporate Income Tax
CIT	Company Income Tax
CPC	Consumer Protection Council
DBN	Development Bank of Nigeria
DCEB	Donor Committee for Enterprise Development
FAFIN	Fund for Agricultural Finance in Nigeria
FCMB	First City Monument Bank
FEC	Federal Executive Council
FIRS	Federal Inland Revenue Service
FMARD	Federal Ministry of Agriculture and Rural Development
FMTI	Federal Ministry of Trade and Investment
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
ICT	Information and Communications Technology
IFC	International Finance Corporation
ILO	International Labour Organisation
IMF	International Monetary Fund
ISPs	Internet Service Providers
LASG	Lagos State Government
LCCI	Lagos Chamber of Commerce & Industry
LSETF	Lagos State Employment Trust Fund
MDAs	Ministries, Departments & Agencies
MFBs	Micro Finance Banks
MFBs	Microfinance Banks
MSMEDF	Micro, Small and Medium Enterprise Development Fund
MSMEs	Micro, Small and Medium Enterprises
NAFDAC	National Agency for Food and Drug Administration and Control
NBS	National Bureau of Statistics
NCS	Nigeria Customs Service
NEF	Nigerian Entrepreneurs Forum
NICOP	Nigerian Competitiveness Project
NIRSAL	Nigerian Incentive-Based Risk Sharing System for Agricultural Lending
NOTAP	National Office for Technology Acquisition and Promotion
OECD	Organisation for Economic Co-operation and Development
PPE	Personal Protective Equipment
RRC	Regulatory Reform Committee
RRF	Refinancing and Rediscounting Scheme



SEDIN	Sustainable Economic Development in Nigeria
SMECGS	Small and Medium Enterprises Credit Guarantee Scheme
SMEDAN	Small and Medium Enterprises Development Agency of Nigeria
SMEEIS	Small and Medium Enterprises Equity Investment Scheme
SMEs	Small and Medium Enterprises
SON	Standard Organisation of Nigeria
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
VCs	Value Chains

## EXECUTIVE SUMMARY

While Lagos eases from the health effects of the COVID-19 pandemic, the economic downsides of the pandemic – particularly on micro and small business enterprises (MSMEs) – could remain for years to come if recovery efforts are not well marshalled. The pandemic left a significant dent on the economy of Lagos and the small businesses that operate within the state. For instance, unemployment in Lagos surged past the national average for the first time in decades with MSMEs at the brunt of the job losses. Small businesses also faced significant cash flow problems as the lockdown of the state meant that businesses that had to shut down lost revenue due to the inactivity. Even small businesses that were opened also faced significant cash flow challenges owing to the drop-in revenues. The crunch in cash flow for small businesses has had a telling effect for MSMEs with interest-bearing debt. This has pushed these businesses to the brink.

The pandemic has also helped to stoke other macro risks that have left MSMEs worse-off. Over the last year and a half, Nigeria has experienced a spiralling inflation (currently above the long-term average of 12% at 17% as of October, 2021), and a currency depreciation that has led to the worst capital flight in this 4<sup>th</sup> Republic. These macro risks do have a significant effect on the performance of MSMEs especially as it affects trade and commerce which represents over 60% of the small businesses in the country and also in Lagos. With the macro risks not abating soon, the operating environment for MSMEs will remain hostile, increasing the risks of business failure as few MSMEs have the financial buffer to mitigate these risks.

Despite the dire effects of the pandemic on small businesses, there have been some upsides especially for the MSMEs which have shown resilience and on the other hand, the ones able to transform rapidly and respond to the changes in the operating environment. The most upsides have reflected in the ability of small businesses to do more online in simple or in complex formats. The simple online models range from the ability of small businesses to migrate client interphase to social media and other phone-based applications such as WhatsApp and Telegram. The complex has seen small businesses develop sophisticated websites and apps that are integrated into online payment platforms. Even small businesses that have not fully exploited these digital platforms have shown stronger inclination to digitalizing their client interphase.

Overall, we believe that the post-COVID era creates a unique opportunity for Lagos to rebuild its economy on a more sustainable basis. The post-COVID era creates a chance for Lagos to “build back better”. The theme of Building Back Better (BBB) suggests that Lagos must not only seek policy interventions that will help spur economic recovery but also help rebuild on a more sustainable basis driven by a need to correct some of the institutional or structural flaws of the past rather than patch them up. Thus, to reflect the BBB philosophy, policy responses and initiatives must be aimed at increasing operational efficiencies of MSMEs which will help stimulate the state’s economy.

Rebuilding on a more sustainable scale would require the State to adopt two broad philosophies in the Building Back Better strategy. The first broad philosophy will be to ensure that the policy thrust of the post-COVID economic rebuilding plans is not limited to only measures that aim to help MSMEs recover from the downsides of COVID alone. This implies that the policy interventions must be ambitious enough to propel real growth rather than simply aim to restore MSMEs to their pre-COVID positions. Thus, the second philosophy will be to enact institutional reforms and invest substantially in upending the structural bottlenecks that currently stymie the State’s economic growth potential. The pursuit of a post-COVID economic rebuilding plan for MSMEs on the back of these philosophies will not only help small businesses in Lagos state to recover from the downsides of COVID but also place them on a path of long-term sustainable growth driven by institutional reforms.



The World Trade Organisation (WTO) recommends that countries will need to formulate policies for post-COVID economic through resilient and inclusive development path, setting a foundation for robust growth and development in the longer run. This will require new innovative approaches that harness the potential of new technologies and digital platforms to enhance public-private dialogue and social dialogue mechanisms and engage essential market actors, including Employers' and Workers' Organisations, social impact institutions when identifying reform priorities.

This report has 11-major policy recommendations which are highlighted in the table below and analysed in the report.

#### Summary of Key Policy Recommendations for Post-COVID Economic Recovery

S/No	Policy Thrust	Recommendation	Expected Outcome
1	Advocacy	Increased Engagement of Market Actors in Post-COVID Recovery	Increase stakeholder engagement
2	Institutional Reforms	Institutionalising Broad Regulatory Reforms in response to the Pandemic	Long-term sustainability of the reforms
3		Fast-track regulatory and statutory approval processes	Improve doing business reforms
4		Digitise Approval & Regulatory Processes	Increase access to regulatory services while improving transparency in the delivery of public services
5	Finance & Strategic Partnerships	Serve as an Implementation Partner for the Federal Government and Other Partners	Improve access to support from the central government and other international partners
6		Establishment of the MSME Grant Support Fund	Improve non-interest financing for MSMEs
7		Promote Alternative Access to Finance – Equipment Leasing, Factoring	Improve access to alternative financing
8	Structural Reforms	Prioritise the easing of Traffic Congestion to help unlock growth in Lagos State	Improve transportation in the State
9	Technical Support	Government to assist MSMEs digitise	Improve digital penetration of MSMEs in the state
10		Create Market Linkages for MSMEs	Improve access to new markets particularly export markets
11		Ensure that support reaches vulnerable segments of MSMEs and entrepreneurs	Improve the penetration of support services and funds to a wider spectrum of MSMEs

Source: Agusto Consulting

## SECTION1: INTRODUCTION & BACKGROUND

## The MSME Industry in Lagos State

Up to 96% of businesses in Nigeria are Micro, Small and Medium Enterprises (MSMEs)<sup>1</sup>. Similar to other economies, small businesses have been instrumental to the development of the Nigerian economy, given the huge employment opportunities they create. These businesses operate in all sectors of the economy from agriculture to trade and manufacturing, and are evident in every corner of the country, offering a variety of products and services. Thus, MSMEs can be found in practically every form of business activity in the formal and informal sectors; from makeshift restaurants in car parks, roadside motor mechanics to more structured companies such as professional services firms and IT consulting firms. Nigeria's large population exceeding 200 million signifies a huge market for these MSMEs' products and services.

However, despite the huge impact of this segment of the economy, Nigerian MSMEs require immense support from the government through the creation of an enabling environment to thrive. While countries under the Organisation for Economic Co-operation and Development (OECD) such as Australia, Canada, the United Kingdom and the United States provide public utilities such as regular electricity supply, security, modern transportation network and clean water supply that support the growth of MSMEs, Nigeria fails to provide these amenities on most fronts. To survive, MSMEs are required to self-generate electricity, provide security, manoeuvre bad roads and either pay for the delivery of clean water or drill boreholes. The provision of such basic amenities by MSMEs increases the costs of doing business and reduces efficiency and profits. Poor access to finance also reduces the competitiveness of MSMEs in Nigeria, particularly in this era of globalisation. Few MSMEs are able to obtain loans they require from banks. In addition, the interest rates at which both commercial banks and micro-finance banks offer loans to MSMEs are high; forcing businesses to seek financing from alternative sources- mainly from personal savings, family and friends.

Lagos State is regarded as Nigeria's commercial capital – home to many Micro, Small and Medium Enterprises (MSMEs) because of its growing population and possession of more developed business infrastructures compared to other parts of Nigeria. Furthermore, Lagos is a major financial centre in Africa; the mega-city with the fourth highest GDP after Johannesburg, Cape Town and Cairo<sup>2</sup>; also housing one of the largest and busiest ports on the continent. – the Apapa Sea Port.

The small business economic activities in Lagos have the potential to contribute largely to the growth of the non-oil sector, employment generation, and the creation of sustainable entrepreneurship. These can largely be driven by businesses in the formal and informal sectors in the State. Arguably, MSMEs represent over 90% of private businesses in the state and contribute to more than 50% of the State's current employment.

The total number of registered MSMEs in Lagos is estimated at 3.2 million, representing about 10% of businesses in Nigeria.<sup>3</sup> MSMEs in Lagos also employ over 5.6 million people within the State according to data from the Nigerian Bureau of Statistics (NBS) and SMEDAN survey (2015). Despite the large number of MSMEs in the State, the impact is yet to be fully felt as challenges and bottlenecks continue to plague the industry. This ranges from inadequate funding and semi-skilled manpower to infrastructural deficits. We believe that tackling these challenges will create a thriving environment for Micro, Small and Medium Enterprises in Lagos

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<sup>1</sup> International Finance Corporation (IFC)

<sup>2</sup> Lagos Socio-Economic Profile (<http://mepb.lagosstate.gov.ng/wp-content/uploads/sites/29/2019/11/11.0-LAGOS-SOCIO-ECONOMIC-PROFILE.pdf>)

<sup>3</sup> SMEDAN AND NATIONAL BUREAU OF STATISTICS COLLABORATIVE SURVEY: SELECTED FINDINGS (2013)  
[https://nigerianstat.gov.ng/pdfuploads/SMEDAN%202013\\_Selected%20Tables.pdf](https://nigerianstat.gov.ng/pdfuploads/SMEDAN%202013_Selected%20Tables.pdf)

State and ultimately boost the State's economy through job creation, economic diversification, creativity and income redistribution.

### Defining the Thresholds for the MSME Classification

The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), the government institution set up to develop the MSMEs Sector, adopts a classification based on dual criteria, staff headcount and assets (excluding land and buildings) as shown below.

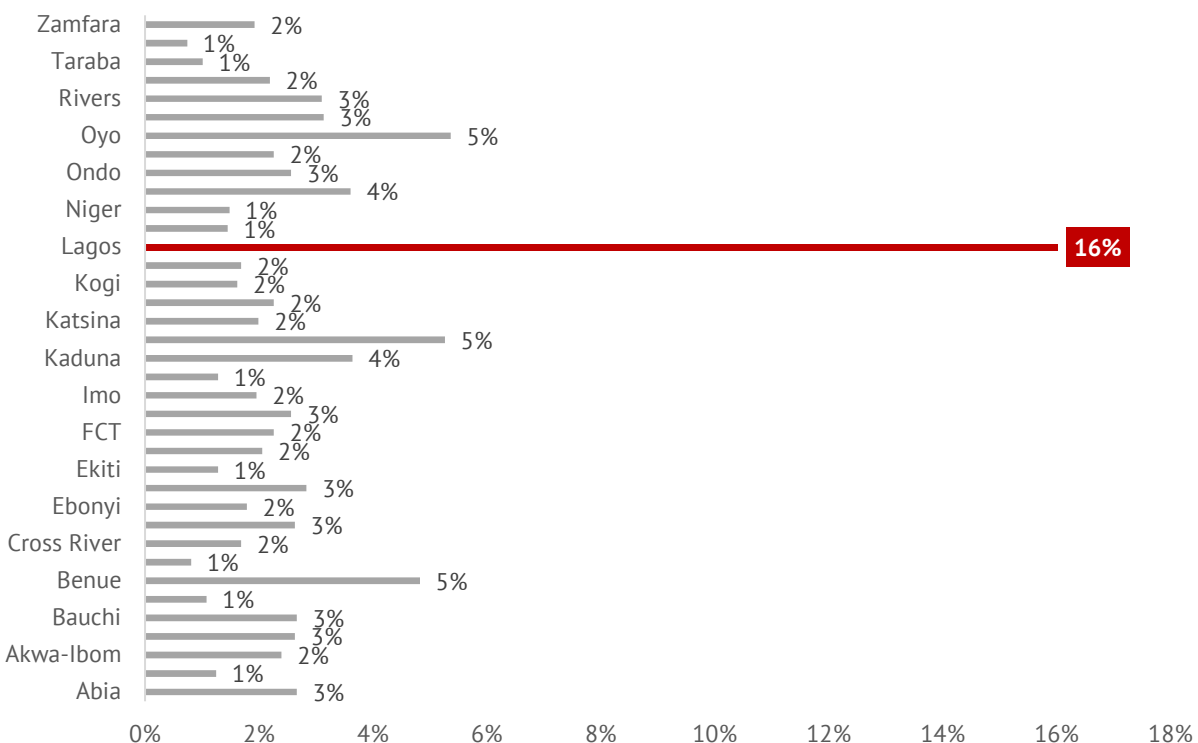
**Table 1: MSME Definition by SMEDAN**

Size Category	Staff Headcount	Assets (₦ Million) excl. land and building
Nano enterprises	1 to 3	1 to 3
Micro enterprises	4 to 9	4 to 9
Small enterprises	10 to 49	10 to 50
Medium enterprises	50 to 199	100 to 1000

Source: SMEDAN

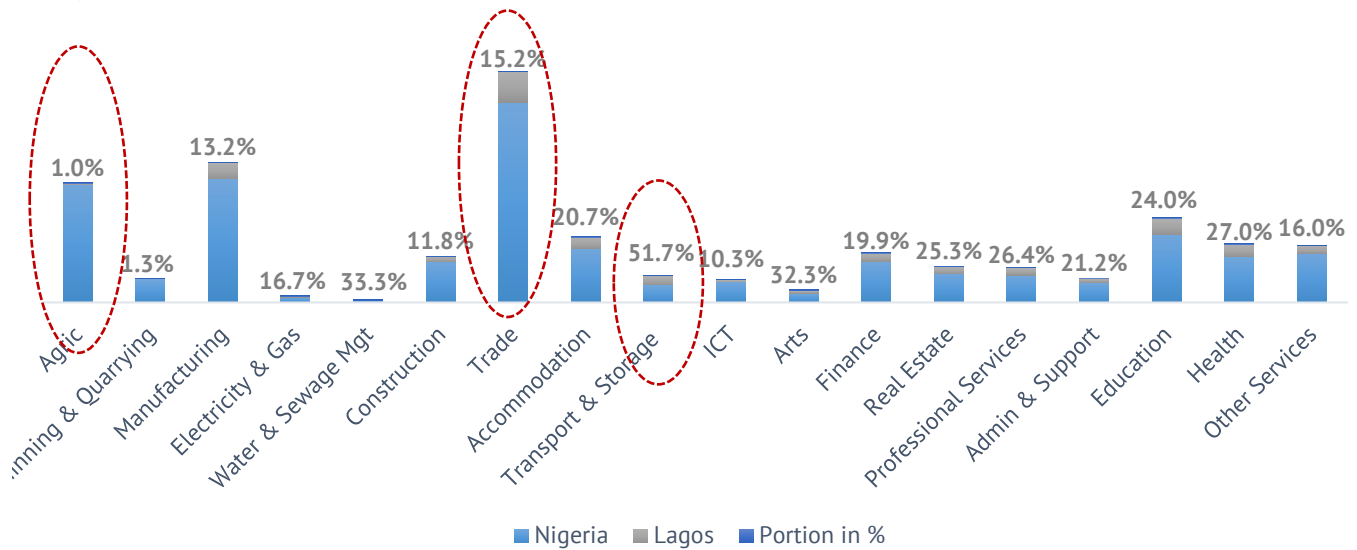
According to data from the Nigerian Bureau of Statistics, Lagos State represents the highest portion of Enterprises in Nigeria holding 16% of total enterprises in the country.

**Figure 1: Portion of Enterprises by State in Nigeria, 2021**



Source: NBS - The Impact of COVID-19 on Business Enterprises

**Figure 2: Breakdown of Enterprises in Lagos State (as a percentage of the total number of Enterprises in Nigeria by Sector) 2021**



Source: NBS - The Impact of COVID-19 on Business Enterprises

From Figure 2 above, 15.2% of enterprises in trade and trade related services in Nigeria are located in Lagos State. This is fuelled by the importation of goods into the country and is evident in the growing number of players in the e-commerce industry. A significant 51.7% of transportation and storage services in Nigeria is domiciled in Lagos State. Lagos remains one of the most populous cities in Nigeria, hence, transportation will continue to be an essential service within the State.

A meagre 1% of Agricultural service enterprises is domiciled in Lagos State, which we believe is as a result of limited land space to practice within the State.



## Key Risks faced by MSMEs in Lagos State

Figure 3: Key Risks in Lagos MSME Market



Source: Agusto & Co. Research

### Macro Risks

Nigeria experienced its second recession in just five years at the end of 2020. Despite an economic resurgence of some sorts in 2021, risks abound. Some of these macro risks, include high inflation (currently above the long-term average of 12% at 17% as of August, 2021), high unemployment with over 30 million people out of job in the labour market, and a currency depreciation that has led to the worst capital flight in this 4<sup>th</sup> Republic. These macro risks do have a significant effect on the performance of MSMEs especially as it affects trade and commerce which represents over 60% of the small businesses in the country and also in Lagos. With the macro risks not abating soon, the operating environment for MSMEs will remain hostile, increasing the risks of business failure as few MSMEs have the financial buffer to mitigate these risks.

### Financing and Liquidity Risks

The operating environment has become more challenging for MSMEs, as access to short and long-term funding has become more stringent. As the SMEDAN survey on MSMEs reports, access to finance is the most severe problem for MSMEs in Lagos State. MSMEs are less equipped to inculcate a professional cash management system unlike the larger enterprises, thus embellishing liquidity risks<sup>4</sup>. Liquidity risk is the risk that businesses and individuals will not meet their short-term financial obligations, especially because of their inability to convert assets to cash without incurring losses.

Financing risks are caused by both internal and external factors. Internal factors include volatility in earnings or cash flows while external factors are associated with unfavourable changes in the financial markets.

To hedge against these risks, MSMEs will need to employ effective cash management tools. The duration of assets, need to be matched with their financing period to minimise or possibly eliminate liquidity risks and

<sup>3</sup> The risk of having insufficient liquidity to meet every day working capital requirements

further avoid exposure to debt crisis. Considering the significant economic importance of MSMEs in today's economy, banks could benefit significantly from providing simplified cash management tools to MSMEs. This will help to reduce the rate of default and in turn increase revenue for the financing institutions. In order to capture the significant benefits associated to servicing the cash management needs of MSMEs, banks will, however, need to understand the peculiarities of MSMEs and adapt their offerings to meet these requirements.

Diversification of income streams can also be used to manage volatility in earnings and cash flow. Most MSMEs lack information on the several business opportunities around them. It is imperative for MSMEs to research into their business environment and understand the industry's value chain so that they are more informed of business opportunities along the chain.

### **Operational Risks**

Operational risks are associated with the business's people, systems and processes. In MSMEs, business processes are typically managed in a far more integrated way and usually by one person or a small team of people. This means more often than not, that operational risks would most likely be higher compared to large enterprises where functions are delegated and control systems are available to mitigate these risks to a large extent.

### **Infrastructure Risks**

The Lagos State economy remains inhibited by infrastructure deficits, especially with regards to power supply, transportation, logistics, the quality of institutions, cost and access to funds etc. Small businesses are more vulnerable to these infrastructural risks as they lack the resources and economies of scale to absorb the associated costs.

However, of all of the infrastructure bottlenecks in Lagos, the traffic congestion presents a unique challenge to the state prompting its classification as one of the most congested cities in the world<sup>5</sup>. Traffic congestion is a major contributor to many problems for the residents of Lagos with commuters spending at least three hours in traffic each day<sup>6</sup>. While MSMEs largely exploit the traffic congestion in Lagos for the distribution of fast-moving consumer goods through street hawkers, we note that these gains are not enough to offset the aggregate adverse effects of the congestion on businesses in the state.

### **Regulatory Risks**

One of the key bottlenecks MSMEs in Lagos face is regulatory related, often characterised by difficulties in accessing government agencies with oversight functions. In some scenarios this could also imply a lack of understanding of regulatory requirements on the part of the MSMEs. On the other hand, the informal nature of most MSMEs in Lagos also means that the companies involved continue to try to avoid government regulatory oversight and, in extreme cases, circumvent it by conducting business outside the "official radar"

Regulatory risks in Lagos also reflect in the often-unwieldy activities of the Local Government<sup>7</sup> offices which in extreme scenarios can be disruptive to the normal flow of business within the MSMEs. The lack of clarity in the rule book of these local governments imply that even MSMEs that seek to comply with the regulations are

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<sup>5</sup> Internet Geography: Traffic Congestion in Lagos - What Impact Does Traffic Congestion Have on People in Lagos? [<https://www.internetgeography.net/topics/traffic-congestion-in-lagos/>]

<sup>6</sup> Ibid

<sup>7</sup> This also includes the activities of the Local Council Development Areas (LCDAs)



often at odds on their obligations to the government and thus face the risks of disruption from the Local Government officials.

### COVID-19 Induced Risks

The COVID-19 pandemic which led to unprecedented lockdown measures in Lagos – as a means of curbing the spread of the virus – introduced a new set of risks for MSMEs in Lagos. Firstly, the health risks from the virus did put several business owners at risk as MSMEs in the state are typically sole entrepreneurs and owner-managed businesses. Thus, health challenges or in extreme cases mortality of key personnel could jeopardise the long-term viability of a small business.

Outside of these health risks, the COVID-19 pandemic also led to other key risks. The lockdown of Lagos state fuelled job losses and affected the going concern status of quite a number of MSMEs. This also led to the spiral effect of weaker purchasing power amongst the populace, thus further shrinking the wallets of consumers and affecting the growth prospects of the MSMEs accessing these consumers.

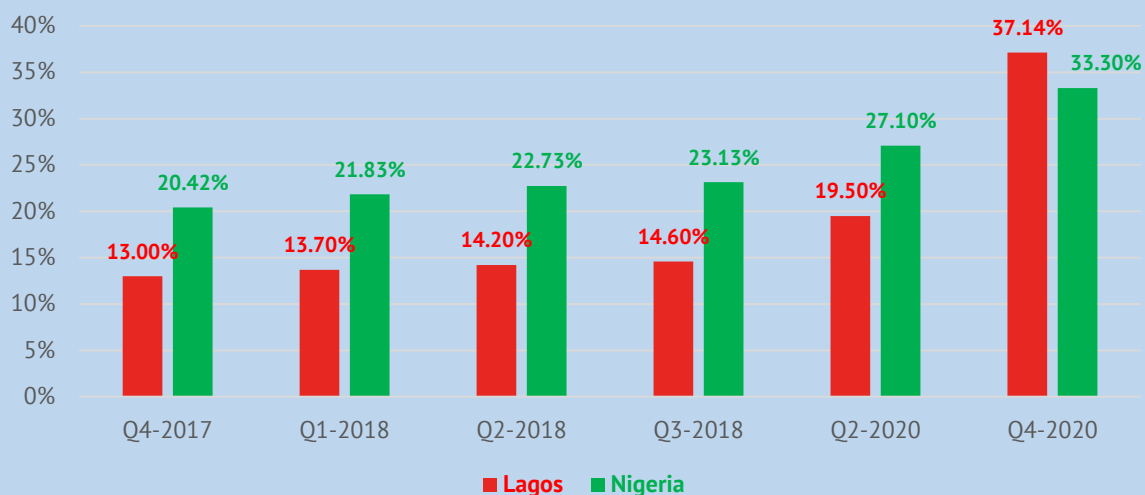
#### Text Box 1: COVID-19 Induced Unemployment in Lagos State

A review of the unemployment data from the Nigerian Bureau of Statistics indicates that Lagos State faced what could be described as COVID-19 induced unemployment at the end of 2020. In the fourth quarter of 2020, Lagos recorded an unemployment rate of 37.14%, higher than the national average of 33.3%, and marking the first time in the decade when the state's unemployment rate surpassed that of the country.

This high unemployment rate was driven by three major factors. The first was the harsh economic effects of the lockdown (as Lagos was the epicentre of the pandemic). Secondly, the telling effects of the recession in 2020 and thirdly the aftermath of the ENDSARS protests in Lagos. Prior to Q4-2020, Lagos had recorded unemployment rates lower than national average unemployment rates. (See Figure 4 below)

MSMEs which contribute over 60% to the Lagos labour market were at the receiving end of this unemployment crisis in Lagos. Thus, policy interventions of post-COVID economic recovery should have a strong focus on job creation.

**Figure 4: Unemployment data: Lagos Vs. Nigeria**



Source: Nigeria Bureau of Statistics

## Post Covid-19 Trends in the MSME Space

Figure 5: Key Risks in Lagos MSME Market



Source: Agusto & Co. Research

### Increased adoption of Technology

The COVID-19 induced lockdown, which restricted the movement of people in Lagos State brought about the adoption of technology by many MSMEs in the State. MSMEs who offer products such as food items, fashion items and other essentials introduced new ways to get their products and services to the consumers. This also resulted in a growth of the logistics industry within the State as the demand for dispatch and courier services increased. In addition, online shopping that experienced a boom during the lockdown has continued to grow post-Covid. The new culture of social distancing has sustained the need for online shopping, boosting the e-commerce sector.

Even beyond the sophistication of e-commerce, we have witnessed an increase in the adoption of social media tools such as WhatsApp, Instagram and Facebook as market places for the sale of goods and services. This adoption cuts across all categories of MSMEs even to petty traders of basic groceries, butchers in the open market and street hawkers. We believe this trend will subsist long after COVID-19 pandemic abates. The upside of this trend indicates that given the right incentives, MSMEs will adopt trends and practises that can accelerate business growth.

The use of machine learning and artificial intelligence (AI) is increasingly being adopted by businesses to automate many of the back-office operations needed for smooth business operations.

### Changes in Consumer Behaviour

The pandemic has caused a significant shift in the behaviour of consumers in Lagos State. This is particularly seen in the spending habits as more consumers affected by the pandemic induced economic crunch seek to purchase essential goods in smaller retail packs. These smaller retail packs help mitigate the risks of weaker purchasing power amongst consumers still reeling from the economic effects of the pandemic. Thus, several MSMEs have had to adjust their product offerings to meet the evolving needs of consumers. While this trend is not an entirely new trend, we do note that the demand for smaller sized packaging has increased in response to weaker purchasing power elicited by the pandemic induced economic crunch.

Going forward, we expect this trend to linger with the prioritisation of spending majorly on essentials such as food, health, and accommodation. The surge in ecommerce and other online services has had a consequent impact on dispatch and courier services within the State. Other industries such as hospitality, travel, and leisure are considered luxurious by a vast majority of consumers and have experienced low patronage due to the pandemic. However, given the increased awareness and increasing administration of the vaccines in Nigeria, particularly Lagos State, we expect some improvement in demand for non-essentials in the near term.

We have also observed an increase in saving rates, mostly by segments of society unaffected by job losses or salary cuts. These people were driven to save more during the lockdown for fear of future job losses or revenue shortages. This increased saving has led to growth in the assets under management (AuM) of asset management companies.

### **Social Media Marketing**

Owing to the Covid-19 pandemic, a significant number of businesses in Lagos State have had to invest in social media marketing to reach potential customers given the increasing rate of social media usage and the affordability of this alternative as a marketing tool. Social media marketing not only gives businesses more reach, but also improves brand awareness and business owners can improve customer service experience by engaging and responding to customers' enquiry/complaints/requests in a timely manner. This trend also creates a compelling case for more MSMEs to digitise their operations to exploit the advantages of increased social media operations.

### **Budget Cuts and Operational Efficiency**

Many business owners in Lagos State have reviewed their budgets downwards due to lower revenue generated during the COVID-19 peak period. Budget items not considered as priority such as excess office space, use of paper and other production costs are being eliminated from the annual budget on businesses, thus improving efficiency. Budget cuts have also affected employment capacity of these businesses. Recruitment processes have slowed down and existing staff who do not necessarily add to the business' bottom line either get their salaries slashed or are completely laid off.

### **Expansion of Conventional Business Offerings**

Due to the pandemic, some MSMEs in Lagos have slightly expanded their product offerings to fit into the current realities. For instance, tailors who majored in ready-to-wear outfits for both male and female have begun producing face masks, Personal Protective Equipment (PPEs) and uniforms for staff on essential services. In addition, the transportation sector which was also affected by the lockdowns in the State has included logistics services into their business offerings.



## SECTION 2: MSME Policy Environment

## National Policy on Micro, Small and Medium Enterprises (MSMEs)

- In 2007, the first National Policy on Micro, Small and Medium Enterprises (MSMEs) was developed by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and approved by the Federal Executive Council (FEC) 9th May, 2007.
- However, overall implementation was adversely affected by several challenges which include:
  - Weak stakeholder buy-in (public and private sector institutions)
  - Lack of strong commitment to MSME development by all tiers of government
  - Weak institutional synergy
  - Ineffective funding of the MSMEs development process.
  - Weak capacity among MSMEs
- This led to a policy review in 2012 with the unveiling of the new National Policy on MSMEs in May 2015, in the twilight of the Goodluck Jonathan administration.
- The revised policy is based on close partnership and cooperation between the various levels of government and community organisations on one hand, and private enterprises & business organisations on the other.
- The policy has also built on international best practices to classify MSMEs based on the dual criteria of employment and assets (excluding land and buildings).
- In addition, the policy takes into cognizance other international best practices such as a decentralized institutional framework that leverages synergies between the public and private sector for the development of MSMEs.
- It promotes the cluster approach for the development of MSMEs. Globally, this approach has proven to be a more effective and efficient way of reaching MSMEs as, clusters provide a healthy symbiotic ecosystem for small businesses.
- The revised policy also recognizes the use of ICT in improving government's efficiency, effectiveness and service delivery to MSMEs. For instance, in order to “enable a regulatory environment that supports MSMEs”, SMEDAN aims to establish MSME friendly registration windows and one-stop business registration points accessible in MSME clusters, federal institutions and select post offices. This one stop registration point is similar to the South Korean “Start Biz Online”, an online system managed by the Small & Medium Business Administration to simplify business incorporation processes and facilitate easy, efficient and cost-effective start-up environment.
- In 2020, the Federal Government of Nigeria revised the guideline policy on MSMEs in Nigeria in a bid to improve access to finance among players. The revised guideline is expected to provide a regulatory basis for the operations of credit guarantee companies in Nigeria, and also seeks to reduce credit risk, stimulate lower interest rates on loans and complement other initiatives of regulatory authorities aimed at stimulating lending to MSMEs.

- The revised policy also makes provisions for new categorisation, which now includes Nano/Homestead in the ecosystem of the Micro, Small, Medium and Large Enterprises and tasked Nigerian Microfinance banks on increasing support for the newly classified Nano enterprises with turnovers between ₦1 million to ₦3million. Furthermore, the Federal Government in 2017, said that Small and Medium Enterprises can use their movable assets to secure bank loans instead of landed property.

## Key Financiers and Enablers Aiding the Development of MSMEs in Nigeria

### Central Bank of Nigeria (CBN)

The CBN Act of 2007 charges the bank with overall control and administration of the monetary and financial sector policies of the Federal Government of Nigeria. The CBN also performs developmental functions in key sectors of the Nigerian economy. For small businesses, CBN has created the Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) amongst other credit schemes.

#### List of schemes supported by the CBN:

- The Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL)
- Agricultural Credit Guarantee Scheme (ACGS)
- Commercial Agricultural Credit Scheme Fund (CACF)
- Small and Medium Enterprises Credit Guarantee Scheme (SMECGS)
- Micro, Small and Medium Enterprise Development Fund (MSMEDF)
- Refinancing and Rediscounting Scheme (RRF)
- Small and Medium Enterprises Equity Investment Scheme (SMEEIS)

### Microfinance Banks (MFBs)

MFBs receive funding from the government (through intervention funds), from domestic financial institutions and from international organisations such as the International Finance Corporation (IFC) and African Development Bank (AfDB). MFBs specialise in extending loans to individuals, micro and small businesses based on the applicant's character and the cash flow. Therefore, most micro and small businesses, find that they are more likely to be granted loans from MFBs.

Generally, the maturity profiles of microfinance loans typically fall within the 180 days (6 months) bucket, however, longer tenured loans are also considered for special cases. For example, agric loans often require a longer maturity period, but these "special" loans have a maximum tenor of 12 months. MFBs charge interest on a monthly basis, typically between 3% - 5% per month (translating to about 36% and 60% per annum) and loans in excess of ₦500,000 require collateral.

### African Development Bank (AfDB)

AfDB was founded in 1964 as a multilateral development institution. The bank comprises three institutions namely: the African Development Bank, the African Development Fund and the Nigeria Trust Fund. AfDB aims to encourage sustainable economic growth and reduce poverty in Africa, while achieving the objectives of the

Millennium Development Goals. In December 2014, the AfDB approved a US\$500 million package to support the establishment of the Development Bank of Nigeria (DBN) Plc, which will support MSMEs.

### **Federal Ministry of Agriculture and Rural Development (FMARD)**

FMARD was established in 1966 with the responsibility of enhancing agriculture and integrating rural development to transform Nigeria's economy. The Ministry aims to transform the sector to create job wealth, ensure food security and position Nigeria as a net food exporter. FMARD has collaborated with other bodies on credit schemes for small farmers, which includes the Fund for Agricultural Finance in Nigeria (FAFIN) and the Commercial Agricultural Credit Scheme Fund (CACF).

### **Nigerian Entrepreneurs Forum (NEF)**

NEF was established in 2010 as a private sector initiative for Nigerian entrepreneurs to interact, network and transact with each other. NEF aims to enhance members' competency and encourage growth and profitability of member organisations through monthly networking sessions, sponsorships and participation in foreign workshops, conferences and exhibitions. NEF holds Entrepreneurship Development Programs on the last week of every month at the NEF Capacity Centre, Federal Ministry of Industry Trade & Investment.

### **Lagos State Employment Trust Fund (LSETF)**

The Lagos State Employment Trust Fund (LSETF) was established by the Lagos State Employment Trust Fund Law 2016 to provide financial support to residents of Lagos State, for job, wealth creation and to tackle unemployment<sup>8</sup>. The Fund was established with an initial capital of ₦25Billion contributed over four years by the Lagos State Government, but has also raised additional funding from various sources including donor partners, development agencies, corporate organisations and individuals.<sup>9</sup>

LSETF's focus is on promoting entrepreneurship by improving access to finance, strengthening the institutional capacity of MSMEs and formulating policies designed to improve the business environment in Lagos State<sup>10</sup>. In addition, the Fund also develops programmes designed to train and place unemployed Lagos residents in jobs; while also focusing on programmes designed to drive innovation within the Lagos ecosystem.<sup>11</sup>

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<sup>8</sup> LSETF: Overview [<https://lsetf.ng/content/overview>]

<sup>9</sup> Ibid

<sup>10</sup> Ibid

<sup>11</sup> Ibid



## SECTION 3: KEY FINDINGS FROM REVIEW



## Summary of Reviewed Reports Highlighting Key Findings

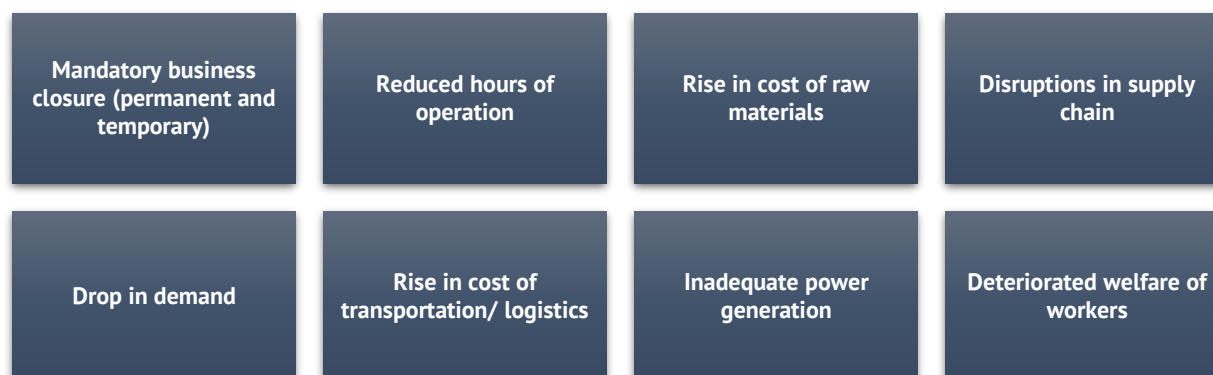
### The Impact of Covid-19 on Business Enterprises in Nigeria

By the United Nations Development Programme (UNDP) and National Bureau of Statistics (NBS)

#### Report Summary

A large percentage of businesses operating in Nigeria have suffered from the pandemic and subsequent restrictions imposed on companies to prevent the spread of the virus, including bans, movement restrictions, and other public health measures. Nigeria confirmed its first Corona Virus case in Lagos State on February 27, 2020. In response, the Federal Government ordered the suspension of movement in Lagos (the largest city in Africa), Ogun State and the Federal Capital Territory at the end of March 2020. The severity of layoffs, reduced working hours, and limited access to credit indicate that the livelihoods and income of individuals and families have been harshly compromised; unfortunately, Lagos State being the most severely impacted. Industrial and commercial enterprises in different industries have experienced uneven effects, and the impact varies between formal and informal enterprises.

Figure 3: Assessing the impact of the pandemic on business operations



Source: United Nations Development Programme (UNDP) and National Bureau of Statistics (NBS)

Businesses, especially informal businesses, reported difficulties in obtaining credit and capital to support their operations, and in paying fixed costs such as rent. Many business owners had to rely on personal savings or family and social network support to sustain their business operations. There is a need to ensure access to cheap credit or targeted funding to support businesses.

### Lockdown and its Impact on Businesses: LCCI Survey Report

By the Lagos Chamber of Commerce & Industry (LCCI)

#### Background

The Lagos Chamber of Commerce & Industry (LCCI) conducted a survey to determine the impact of the COVID-19 induced lockdown on businesses in Lagos State. Respondents were classified into Services (72%), Industry (18%) and Agriculture (10%).

## Survey Findings

Over 80% of respondents were severely impacted by the lockdown, majority being from the services sector. The survey highlighted a decline in demand for non-essential services, as clients placed greater preference on food and other essential items. Approximately 60% of respondents – drawn from businesses operating in the state – recorded revenue losses of below ₦500,000, and 40% lost above ₦500,000, during the lockdown.

The unemployment rate in Lagos rose substantially because of the lockdown. The survey revealed that majority of respondents considered reducing the size of their workforce as a first step to cost optimisation. Other steps included a reduction in capital and financial expenditure and an increased usage of technology. In addition to downsizing, plans were made to slash salaries and, in some cases, discontinue salary payments entirely.

## Government Support

Respondents requested four major palliatives measures from the government:

1. Tax waivers
2. Import/demurrage waivers
3. Reduction in interest rate on loans
4. Moratorium of loans

## NICOP (Nigerian Competitiveness Project) Report: Analysis of Economic Impact of COVID-19 on Selected Sectors and States

By PwC

*This report was prepared with a primary focus on the following states: Abia, Kaduna, and Oyo. However, our review has shown that some of the information contained in the report are also relevant in addressing the impact of COVID-19 on MSMEs and jobs in Lagos state.*

## Background

The Nigerian economy was still in its recovery phase from the 2016/2017 recession when the global pandemic hit. The pandemic consequently led to a further shrinkage of the country's GDP in 2020. With organisations pausing operations, downsizing, and cutting down work hours, the labour market has suffered a lot of snags. The International Monetary Fund (IMF) revised Nigeria's GDP growth rate downwards as a result of reduced economic activities caused by the Corona Virus pandemic. Port services were restricted by the Federal Government of Nigeria and a ban placed on international travels in a bid to control the spread of COVID-19.

Agriculture, manufacturing, trade, tourism, aviation, hospitality, cinemas and entertainment sectors were all hit severely by the pandemic, contributing to the contraction of Nigeria's GDP. A survey was conducted to analyse the economic impact of the pandemic on selected sectors and states. Although specific states were targeted, generally MSMEs across Nigeria were particularly adversely affected, resulting in the Federal Government's review of its 2020 budget from ₦10.8tn to ₦10.5tn. Likewise, in response to the adverse effect of COVID-19 on businesses, Lagos State also reviewed its 2020 budget from ₦1.68tn to ₦920.5bn, and extended its deadline for business to file tax returns to 30 June 2020, which applied to self-employed persons as well.

## Impact of Covid-19 on Nigerian MSMEs

By FATE Foundation/BugIT

### Background

Over 90% of the respondents of the survey confirmed that their businesses were negatively impacted by the pandemic. One major impact was on their cash flow, as many had to fall back on savings and reserves, with a few others looking to obtain loans. Another impact was the inability to provide products and services virtually (76.4% of respondents).

A good number of respondents suggested that there was a high likelihood of laying off some of their staff as a result of prolonged pandemic, inability to pay staff and poor sales. Almost all the respondents confirmed that they have not received any form of support since the inception of the pandemic and stated that support was urgently needed in the areas of funding for growth, business financing, working capital (including wages & salaries) and equipment financing.

Despite the shortcomings brought by the pandemic, some MSMEs in Nigeria remain optimistic that their businesses will thrive again. The basis for their optimism includes creation of new products that will remain in demand despite the pandemic, opportunities for business expansion and innovation/disruption.

For these businesses to thrive amidst the pandemic, the support of the government and other stakeholders is required. According to the survey, MSMEs in Nigeria are seeking support in the following areas:

- Funding
  - Grants
  - Low-interest financing
- Adequate data and internet infrastructure
- Access to market
- Remote MSME Clinics (a one-stop shop for MSMEs to interact with all relevant agencies)
- Tax rebate/holidays
  - Tax Deferrals
  - Relief Programmes

## Economic Impact of Covid-19 on Micro, Small and Medium Enterprises (MSMEs) in Africa and Policy Options for Mitigation

By Ibrahim A. Zeidy, Director - COMESA Monetary Institute

### Background

Micro, Small and Medium Enterprises (MSMEs) are a vital engine in the African economy; they drive growth, create employment, and foster innovation. This is because MSMEs have access to a larger customer base using new technology and innovative methods to reach customers. According to the COMESA, inadequate financing, poor business management, lack of training (owners and employees), corruption and poor infrastructure have hampered the growth of MSMEs in Africa.

A survey was carried out by UNECA to study the impact of COVID-19 on MSMEs across Africa and respondents were from the 54 countries on the continent.



## Survey Findings

### Impact of Covid-19 on MSMEs

1. Reduction in the supply of labour: Given that many MSMEs are labour intensive, the presence of the pandemic resulted in lower availability of workforce due to health concerns.
2. Interruption of supply chains: The pandemic brought about restricted movements in many parts of Africa, hence, the movement of raw materials and finished goods from one part of the country/area to another was interrupted.
3. Lower patronage: This is as a result of lower purchasing power of many customers caused by either job losses or income reduction.
4. Lack of operational cash flow.

### Country Policy Responses

1. Central Banks have stepped in by enabling commercial banks to provide more loans to SMEs (specific to Kenya)
  - a. Reduction in tax for all MSMEs
  - b. Reduction of VAT from 16% to 14%
2. Introduction of measures to defer tax, social security payments, debt payments and rent and utility payments. In some cases, tax relief or a moratorium on debt repayments have been implemented
3. Introduction of policies to ensure that commercial banks expand loans for MSMEs
4. Some governments have introduced grants to MSME who have suffered great revenue losses as a result of the pandemic.

### Recommendations by Author

**Table 2: Key Recommendations from COMESA Monetary Institute Publication**

S/N	Stakeholder	Actions
1	Government	<ul style="list-style-type: none"> <li>• Enhance entrepreneurial culture by promoting programs that prioritise MSMEs</li> <li>• Provide adequate training across MSME industries</li> <li>• Make research and development a prerequisite for innovation</li> <li>• Provide financial and non-financial support to MSME start-ups</li> </ul>
2	Banks and Financial Institutions	<ul style="list-style-type: none"> <li>• Suspend and restructure loan repayment by affected MSMEs</li> <li>• Make loan application and disbursement processes seamless</li> </ul>
3	MSME Players	<ul style="list-style-type: none"> <li>• Embrace new technology while maximising cost</li> <li>• Develop team skills and capabilities and empower leadership.</li> </ul>

Source: Economic Impact of Covid-19 on Micro, Small and Medium Enterprises (MSMEs) in Africa and Policy Options for Mitigation

### Policy Options: Existing and Recommended Policies in the Industry<sup>12</sup>

This section contains collated relevant recommendations and policy options. Lagos State can take advantage of these options to address the impact of COVID-19 on MSMEs and jobs within the state.

#### 1. Policies and palliatives to the MSMEs in the Agriculture and manufacturing sectors

<sup>12</sup> PwC - NICOP Report: Analysis of Economic Impact of COVID-19 on Selected Sectors and States

**Federal Ministry of Agriculture (Agric):** The Federal Government through the Federal Ministry of Agriculture distributed some farm inputs including rice, maize, wheat, and palm seedlings in some states of the federation to help farmers to continue in the business in spite of the covid-19 circumstances.

The Ministry is also distributing 66,000 sprouted nuts of oil farmers in Kogi, Nasarawa, and the Kaduna States. The seeds were said to be free of charge.

**Central Bank of Nigeria (Agric & MSMEs):** The CBN introduced the following initiatives for both Agric sector and MSMEs

- Interest rates on all applicable CBN interventions were reduced from 9% to 5%. The CBN also introduced a one-year moratorium on CBN intervention facilities.
- Created a ₦50 billion (about \$139 million) targeted credit facility.
- An Agric Small Medium Enterprise Scheme (AGSMEIS) was created by the CBN in collaboration with the Bankers' Committee which requires all banks to set aside five percent of their profit after tax (PAT) annually to fund small businesses.
- Over ₦300 billion was disbursed to operators in the Small and Medium Enterprises space, together with the Healthcare, Agriculture, and Manufacturing sectors, among others to cushion the effects of the Coronavirus pandemic on their businesses.

**CBN (Light Manufacturing & MSMEs):**

- The CBN provided ₦1 trillion in loans to boost local manufacturing and production across critical sectors
- The Bank also created a ₦50 billion targeted credit facility for affected households and SMEs
- Liquidity injection of ₦3.6 trillion into the banking system to the real sector to impacted industries. Regulatory forbearance was also introduced to restructure loans in impacted sectors.

**Federal Inland Revenue Service (FIRS):**

The FIRS introduced the following measures:

- Extending the time for filing tax returns
- E-filing of returns and payment of taxes
- Filing tax returns without audited financial statements (provided that AFS is submitted within 2months)

## **2. Palliatives provided by development banks to ease the effect of the pandemic**

### **World Bank**

International Finance Corporation (IFC), a member of the World Bank Group, announced a \$50 million loan to Nigeria's First City Monument Bank (FCMB) Limited, to assist the Bank expand lending to small and medium enterprises (SMEs), enabling them sustain business activities disrupted by the COVID-19 pandemic.

### **Bank of Industry**

The Bank of Industry has raised a €1bn (about \$1.11bn) medium-term syndicated facility from the international capital market to support micro, small, medium and large enterprises across key sectors of the Nigerian economy.

## **3. The Finance Act 2019: Favourable conditions for MSMEs**

- Companies with an annual turnover of ₦25 million exempt from corporate income tax (CIT)



- Companies with an annual turnover of N25million to N100million have reduced corporate income tax (CIT) rate of 20%
- Deductible tax losses
- Exemption from VAT
- Early payment incentive

#### **4. The Finance Act 2020: Measures to ease the burden of MSMEs in the agriculture and light manufacturing sectors**

- Pioneer status incentive
- Annual Company Income Tax (CIT) filing
- Reduction of Import Duties on Tractors and VAT exemption on lease of agricultural equipment
- Introduction and definition of “primary agricultural production”
- Deductible donations to approved COVID-19 relief funds

The Finance Act also introduced some rules that will ensure efficiency in the operations of MSMEs

- Record keeping: The Act has now made it mandatory for all companies including those not liable to taxes to maintain an accurate and up to date record of transactions in a format that will be prescribed by the tax authority. Such records are to be kept for at least six years. This implies that there is no obligation to maintain such records in excess of six years. However, there is a penalty of ₦100,000 in the first month of default and ₦50,000 for subsequent months for failure to provide records upon request by FIRS.

#### **5. Comparison with other jurisdictions**

##### **Brussels**

Brussels, state capital of Belgium, provided a EUR4,000 payment for companies that had to shut down due to the pandemic.

##### **Jakarta**

Jakarta, Indonesia, organised virtual business match making events to boost SME exports. This helped increase the sales of the small businesses.

##### **Hubei**

Hubei province in China encouraged large enterprises to cooperate with SMEs by increasing their support in supply chains, loan recovery, raw material supply and project outsourcing.

##### **Model for post Covid-19 Economic Recovery Plan**

*These recommended policies were collated from the NICOP (Nigerian Competitiveness Project) Report on the Analysis of Economic Impact of COVID-19 on Selected Sectors and States*

**Table 3: Model for post-Covid-19 Economic Recovery Plan**

	Policy recommendations	Comments
1	Develop technology policies to facilitate MSMEs in the new normal	The pandemic presents opportunities for innovation in the way business is conducted. Therefore state governments should issue legislation that would encourage e-commerce, logistics and use of technology. For example, Ekiti State is laying the foundation for a Digital state concluding plans to create a N5 billion digital hub.
2	Keeping robust data bank to help with introducing policies	Each States needs to have current and accurate information on its demographics, businesses, natural resources, population etc. to help it introduce the most effective and impactful policies.
3	Develop & support AfCFTA policies	AfCFTA became effective on 1 <sup>st</sup> January 2021. The Agreement ensures free movement of goods and services across Africa. State governments need to introduce policies to support their MSMEs to make the competitive and prepare them for export. Where effective, such policies would increase employment, exports and foreign currency earnings.
4	Review old and archaic legislation that impede ease of doing businesses	Many state legislation are archaic which are impediments to businesses. New laws reflecting current business realities should be introduced. This may require a collaboration with other levels of government.
5	Promote inter-state commerce	States need to work together on inter-State Commerce. An example is the 2016/2017 partnership between Kebbi and Lagos States to produce and sell LAKE rice. Such would spur interstate commerce and provide more opportunities for SMEs.
6	Address liquidity and capital challenges, provide access to affordable finance	States may provide credit guarantees to MSMEs. While government resources may be limited, State governments may facilitate third party financing from the Federal Government or Supra-nationals. States may also grant moratorium on loans.

Source: PwC, NICOP Report

## SECTION 4: POLICY OPTIONS ANALYSIS & AGUSTO CONSULTING RECOMMENDATIONS

## Agusto Consulting recommendations for Lagos State – “Build Back Better”

The theme of our recommendations is **“Build Back Better”** which is inspired by the OECD’s COVID economic recovery plans. The theme of Building Back Better suggests that Lagos must not seek only policy interventions that will help spur economic recovery but also policies that will help the State rebuild on a more sustainable basis driven by a need to correct some of the institutional or structural flaws of the past rather than patch them up.

Rebuilding on a more sustainable scale would require the State to adopt two broad philosophies in the Building Back Better strategy. The first broad philosophy will be to ensure that the policy thrust of the post-COVID economic rebuilding plans is not limited to only measures that aim to help MSMEs recover from the downsides of COVID alone. This implies that the policy interventions must be ambitious enough to propel real growth rather than simply aim to restore MSMEs to their pre-COVID positions. Thus, the second philosophy will be to enact institutional reforms and invest substantially in upending the structural bottlenecks that currently stymie the State’s economic growth potential.

The pursuit of a post-COVID economic rebuilding plan for MSMEs on the back of these philosophies will not only help small businesses in Lagos state to recover from the downsides of COVID but also place them on a path of long-term sustainable growth driven by institutional reforms.

**Table 4: Summary of Key Policy Recommendations for Post-COVID Economic Recovery**

S/No	Policy Thrust	Recommendation	Expected Outcome
1	Advocacy	Increased Engagement of Market Actors in Post-COVID Recovery	Increase stakeholder engagement
2	Institutional Reforms	Institutionalising Broad Regulatory Reforms in response to the Pandemic	Long-term sustainability of the reforms
3		Fast-track regulatory and statutory approval processes	Improve doing business reforms
4		Digitise Approval & Regulatory Processes	Increase access to regulatory services while improving transparency in the delivery of public services
5	Finance & Strategic Partnerships	Serve as an Implementation Partner for the Federal Government and Other Partners	Improve access to support from the central government and other international partners
6		Establishment of the MSME Grant Support Fund	Improve non-interest financing for MSMEs
7		Promote Alternative Access to Finance – Equipment Leasing, Factoring	Improve access to alternative financing
8	Structural Reforms	Prioritise the easing of Traffic Congestion to help unlock growth in Lagos State	Improve transportation in the State
9	Technical Support	Government to assist MSMEs digitise	Improve digital penetration of MSMEs in the state
10		Create Market Linkages for MSMEs	Improve access to new markets particularly export markets
11		Ensure that support reaches vulnerable segments of MSMEs and entrepreneurs	Improve the penetration of support services and funds to a wider spectrum of MSMEs

Source: Agusto Consulting

## Increased Engagement of Market Actors in Post-COVID Recovery

We note that the bulk of the policy responses to the COVID-19 pandemic has been on health interventions. However, in some countries SME aspects are explicitly considered in these coordinated efforts, as are multi-level governance matters.<sup>13</sup> For instance, in Denmark, the government set up the “Government and Business Corona Unit” in collaboration with the business sector, with a mandate to discuss possible temporary and targeted measures that can address the current challenges of the business sector because of the outbreak of COVID-19.<sup>14</sup>

According to the International Labour Organisation (ILO), it is important for the voice of private sector employers and workers to be heard when designing, implementing and monitoring an economic recovery<sup>15</sup>. This requires new innovative approaches that harness the potential of new technologies and digital platforms to enhance public-private dialogue and social dialogue mechanisms and engage essential market actors, including Employers’ and Workers’ Organisations, when identifying reform priorities.<sup>16</sup>

### Text Box 2: Creation of a Lagos COVID Business Council

Thus, we will recommend that Lagos State establishes a “**Lagos COVID Recovery Business Council**” which will be a joint initiative between the Lagos State Government and the organised private sector under the management of the LSETF. The *Lagos COVID Recovery Business Council* will be a policy dialogue of the LASG and the private sector managed by the LSETF to engage with the State Government on providing targeted measures (short to medium term) and interventions that will help address the challenges of the private sector due to the outbreak of COVID-19.

## Serving as an Implementation Partner for the Federal Government and Other Partners

The Federal Government of Nigeria and some of its strategic Ministries, Departments & Agencies (MDAs) such as the Central Bank of Nigeria as well as several international not-for-profit organisations have established a series of programs to help mitigate the downsides risks of the COVID-19 pandemic. In Italy, the Cura Italia decree-law provides EUR 5 billion for a national redundancy fund, and the regions are responsible for working with social partners to disburse the funds.<sup>17</sup>

### Text Box 3: Embedding a Help Desk Function as part of the mandate of the Lagos COVID Business Council

We would recommend that the Lagos State Government also creates a COVID Business Help Desk which would help co-ordinate the sourcing and disbursement of various funds and initiatives from the Central Government, MDAs and international partners aimed at COVID relief. To mitigate risks of bureaucracy and duplication of functions, we would recommend that this role is embedded within the mandate of the aforementioned Lagos COVID Business Council.

<sup>13</sup> OECD: OECD Policy Responses to Coronavirus (COVID-19) – Coronavirus (COVID-19): SME Policy Responses [<https://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/#section-d1e8531>]

<sup>14</sup> Ibid

<sup>15</sup> International Labour Organization (ILO) – Policy Brief: Enabling Environment for Sustainable Enterprises and the PostCOVID-19 Rapid Response [[https://www.ilo.org/wcmsp5/groups/public/-ed\\_emp/-emp\\_ent/documents/publication/wcms\\_750320.pdf](https://www.ilo.org/wcmsp5/groups/public/-ed_emp/-emp_ent/documents/publication/wcms_750320.pdf)]

<sup>16</sup> Ibid

<sup>17</sup> OECD: Coronavirus (COVID-19) From pandemic to recovery: Local employment and economic development [[https://knowledge-uclga.org/IMG/pdf/coronavirus\\_covid-19\\_from\\_pandemic\\_to\\_recovery.pdf](https://knowledge-uclga.org/IMG/pdf/coronavirus_covid-19_from_pandemic_to_recovery.pdf)]

## Fast-track regulatory and statutory approval processes

While the regulatory requirements for businesses to start-up, change or close should be based on clearly defined rules and objective criteria, policymakers can also explore public measures to stimulate business investments associated with essential or strategic industry sectors<sup>18</sup>. For example, the Lagos State Governments can find ways to fast-track the regulatory processes associated with professional licensing, accreditation<sup>19</sup>, and issuing regulatory permits particularly for high-growth sectors. These reforms are also likely to involve simplifying license requirements and fast-tracking approvals for manufacturers of essential health-emergency products, such as personal protective equipment and pharmaceutical production and medical services<sup>20</sup>.

### Text Box 4: Fast-track approval process for priority and high-growth sectors

We believe that the priority of the Lagos State Government should be reflating the economy of the state, not just to recover from the pandemic induced losses but also to set the state on a path of a strong post-pandemic growth trajectory. Thus, this process would also involve identifying some of the sectors and business activities that have experienced accelerated growth due to the pandemic. The prioritisation of these sectors will help reflate the economy even in broader terms. Sectors which also reflect high growth potentials could also become a part of this pilot phase for the Fast-track Approval processes.

For instance, we note that business activities such as e-commerce, motor-bike delivery services, fintech start-ups, internet service providers (ISPs) and the local manufacturing of health-care based products have experienced increased activity levels partly owing to the pandemic. For ventures such as these, we would recommend fast-track approval processes for regulatory and statutory permits. This will help the priority sectors consolidate growth and improve their capabilities to create even more jobs.

On the other end, sectors which have suffered COVID-induced slumps should also be placed on this fast-track approval processes to help stimulate recoveries and restore them to the path of growth. Some of the sectors which have suffered significant COVID-induced slumps include entertainment and hospitality, aviation, real estate, construction and education.

Sectors such as sanitation, renewable energy, and cooling & distribution have been identified as the high-growth potentials.

<sup>18</sup> International Labour Organization (ILO) – Policy Brief: Enabling Environment for Sustainable Enterprises and the PostCOVID-19 Rapid Response [[https://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/---emp\\_ent/documents/publication/wcms\\_750320.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_750320.pdf)]

<sup>19</sup> Ibid

<sup>20</sup> Ibid

**Figure 6: Priority Sectors for Fast Track Approval Processes**

High Growth Sectors	High Growth Potential Sectors	Weak Growth Sectors
<input type="checkbox"/> Internet Services	<input type="checkbox"/> Renewable Energy	<input type="checkbox"/> Education
<input type="checkbox"/> Fintech Start Ups	<input type="checkbox"/> Recycling	<input type="checkbox"/> Entertainment & Hospitality
<input type="checkbox"/> Manufacture of Health care related products	<input type="checkbox"/> Sanitation	<input type="checkbox"/> Real Estate
<input type="checkbox"/> Motor-bike delivery services	<input type="checkbox"/> Cooling & Distribution	<input type="checkbox"/> Construction
<input type="checkbox"/> E-commerce		<input type="checkbox"/> Aviation

Source: Agusto Consulting

## Digitise Approval and Regulatory Processes

According to the ILO, the drive to make regulatory compliance simpler and cheaper increasingly involves digitising legal and regulatory administration arrangements<sup>21</sup>. These reforms make business registration, licensing, taxation and reporting faster, more accessible, transparent and rule-based. They also remove or significantly reduce the need for physical contact and can increase the access MSMEs and their workers in remote areas have to government services. For instance, the United Nations Conference on Trade and Development's (UNCTAD's) e-government platform, known as e-registrations, has allowed for the continuation of essential services during the COVID-19 pandemic and for the online distribution of funds from governments to MSMEs while offices were closed.

### Text Box 5: Making a Case for Digitising Regulatory and Approval Processes in Lagos State

One of the major constraints small businesses typically face in Lagos State is manoeuvring the onerous regulatory bottlenecks when dealing with the key departments and agencies of the state on one hand, and on the other with local government offices.

These bottlenecks range from the red tape of seeking approvals from key government officials and the extra costs of physical visits to government offices. Even the state government ends up as a loser in this scenario as physical contacts with government staff increases the risks of financial inducement which more often than not leads to revenue leakages for the government. On the other end, the shedding of physical staffing in government offices in response to the pandemic, also affects the government's ability to provide key regulatory service and vis a vis could have a telling impact on its revenue earning capacity.

To mitigate these risks on the part of MSMEs and even the government, we would recommend digitising regulatory compliance and other public sector administrative processes in the state. This reform process should not be confined to the state government only but also to the local government offices. This will

<sup>21</sup> International Labour Organization (ILO) – Policy Brief: Enabling Environment for Sustainable Enterprises and the PostCOVID-19 Rapid Response [[https://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/---emp\\_ent/documents/publication/wcms\\_750320.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_750320.pdf)]

reduce the need for physical contact between businesses and the public sector while also driving efficiencies in the delivery of key services by the government.

## **Institutionalising Broad Regulatory Reforms in response to the Pandemic**

Historically, nations that win after crises tend to be those that implement reforms focused on simplifying regulatory compliance and easing business entry<sup>22</sup>. For instance, following the Asian Financial Crisis of the late 1990s – which pushed South Korea into its deepest recession in history – the administration of Kim Dae-Jung (1998 – 2003) pushed a slew of reforms that strengthened the ability of businesses to adapt to market fluctuations<sup>23</sup>. To drive its agenda forward, the reform program was institutionalized through the Basic Act on Administrative Regulations of February 1998, and the Regulatory Reform Committee (RRC) was created to identify and monitor reforms. Several actions were subsequently taken, using different approaches. For example, ministries were tasked to carry-out a stockholding exercise of all regulations. A Presidential Directive then halved the total number of regulations, with a focus on eliminating overlapping regulations, regulations contrary to global standards, regulations with low compliance rates, and regulations without a legal basis. The transparency of regulation was enhanced through information disclosure acts and the overall regulatory approach shifted from a negative system (where actions are prohibited) to a positive system (where actions are permitted with a simple registration or notice)<sup>24</sup>.

Mexico – following its currency and sovereign debt crisis of the 1980s into the 1990s – also instituted a set of reforms aimed at reducing regulatory costs and enhancing predictability in the business environment. To achieve this, Mexico created the Economic Deregulation Unit (UDE), passed the Federal Competition Law, and amended the Federal Administrative Procedures Law. Mexico also created a registry of regulations for firms to learn what requirements they are subject to – an initiative that was credited with nearly halving the number of procedures required of firms. Finally, Mexico streamlined formalities related to business entry and many licenses were changed to notifications reducing the discretionary power of government agents.

### **Text Box 6: The COVID-19 Pandemic Creates a Case for Regulatory Reform Urgency in Lagos State**

According to the Donor Committee for Enterprise Development (DCEB), an enabling business environment is important in recovering from crises as a high-quality business regulatory framework facilitates adjustments and reallocates resources to the most productive sectors and firms within an economy. Based on the survey results of the 2019/2020 Global Investment Competitiveness Report, investors ranked the state of the legal and regulatory environments as one of the top three factors for investment<sup>25</sup>. The survey indicates that the legal and regulatory conditions of the host countries rank behind only political and macroeconomic stability, and ahead of considerations such as low taxes and low input costs.

We would recommend that the Lagos State Government institutionalises reforms aimed at significantly improving the state's legal and regulatory framework. These reforms should be targeted at improving the

<sup>22</sup> Donor Committee for Enterprise Development (DCEB): *Lessons Learned on the Role of Business Regulation in Economic Recovery from the COVID-19 Pandemic* [<https://www.enterprise-development.org/wp-content/uploads/DCED-BER-Covid-Policy-Brief-2-Business-regulation-Recovery-final-26APR21.pdf>]

<sup>23</sup> *Ibid*

<sup>24</sup> *Ibid*

<sup>25</sup> World Bank Group: *2019/2020 Global Investment Competitiveness – Rebuilding Investor Confidence in Times of Uncertainty* [<https://openknowledge.worldbank.org/bitstream/handle/10986/33808/9781464815362.pdf?sequence=4&isAllowed=y>]



quality of institutions governing the business environment measured in terms of bureaucratic efficiency, corruption levels, and property rights protections<sup>26</sup>.

### **Establishment of the MSME Grant Support Fund**

With the pivot from emergency measures to policies aimed at recovery and stimulating growth, we would recommend the establishment of an MSME Grant Support Fund. According to the OECD in its SME and Entrepreneurship study, a key advantage of grant support is that a broad spectrum of firms can benefit, including micro-enterprises and SMEs with limited growth potential without adding to their debt<sup>27</sup>.

The OECD Study also indicates a number of countries that have used grant as a key policy measure for a variety of purposes from wage subsidies, to compensation for lost revenue and for up-skilling. For instance, in Chile, the “Reactivate Plan” provides grants of up to \$4,200 for SMEs that have been affected by the pandemic. However, these grants are also linked to an incentive scheme to get MSMEs to invest a minimum of 30% in digital solutions.

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#### **Text Box 7: Creation of a Lagos COVID Recovery Grant**

We recommend the creation of the Lagos COVID recovery grant as part of the liquidity support in the policy mix amidst other financial support measures especially in the hard-hit sectors of the Lagos economy. Grants have been used as a policy measure in cities like Milan (Italy) and Buenos Aires (Argentina) to help MSMEs in recovering from the effects of the pandemic.

While a number of European countries used grants to provide liquidity support for revenue shortfalls, Israel’s grants to MSMEs was targeted at helping small businesses acquire fibre optic internet connection thus boosting their digital capabilities.

We would recommend that the Lagos COVID Recovery Grant should also be aimed at steering small businesses into niche high-impact investments particularly in digital operations and acquisition of alternative green energy solutions such as solar power.

### **Ensure that support reaches vulnerable segments of MSMEs and entrepreneurs**

In their continued support efforts, policymakers should take the diversity of SMES and the specific circumstances of vulnerable groups of MSMEs into account. This will mitigate the risk of some segments of the SME population not being able to benefit from the policy response.

According to the OECD, informal ventures are at a higher risk of not being eligible for support measures. Thus, countries with a high share of informal ventures have adopted diverse approaches to tackle these challenges. Grants and subsidies are preferred to credit instruments as the repayment capacity of informal SME owners is

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<sup>26</sup> Donor Committee for Enterprise Development (DCEB): Lessons Learned on the Role of Business Regulation in Economic Recovery from the COVID-19 Pandemic [<https://www.enterprise-development.org/wp-content/uploads/DCED-BER-Covid-Policy-Brief-2-Business-regulation-Recovery-final-26APR21.pdf>]

<sup>27</sup> OECD: OECD SME and Entrepreneurship Papers No. 25 – An in-depth analysis of one year of SME and entrepreneurship policy responses to COVID-19: Lessons learned for the path to recovery [[https://aecom.eu/wp-content/uploads/2021/06/202106\\_OECD\\_An-in-depth-analysis-of-one-year-of-SME-and-entrepreneurship-policy-responses-to-COVID-19.pdf](https://aecom.eu/wp-content/uploads/2021/06/202106_OECD_An-in-depth-analysis-of-one-year-of-SME-and-entrepreneurship-policy-responses-to-COVID-19.pdf)]

often very low. Another important factor is the deferral of loan repayments which is particularly relevant given the acute cashflow challenges containment measures often entail.

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**Text Box 8: Lessons from South America on ensuring informal business segments receive support**

The high share of informal business ventures in Lagos State places this segment of MSMEs and entrepreneurs at a higher risk of not being eligible for the various support measures. Thus, finding optimal channels to reach informal SMEs is crucial.

In this regard, some governments (including Argentina, Costa Rica, Ecuador and Panama) are inviting informal owners to self-identify to obtain support, for example through websites or mobile platforms. The data regarding the economic activity and personal details could then be cross-checked with national registries or other existing identification mechanisms to detect fraudulent requests. In Argentina, for example, once the SME is registered, it can apply for permanent tax benefits and access to preferential credit lines and assistance programs.

### **Prioritising the easing of Traffic Congestion to help unlock growth in Lagos State**

According to the Danne Institute for Research, traffic congestion is a constraint to jobs and markets in a city that accounts for 45% of Nigeria's skilled labour force, crippling the growth of most MSMEs located in Lagos.<sup>28</sup> According to the institute, beyond a certain threshold, gridlocks paralyse economic activities as transport cost increases and productivity decreases and in Lagos state, congestion cripples the potential benefits of the economic density of Lagos<sup>29</sup>. Data from the Danne Institute suggests that an average of 264 cars per km negotiate the roads of Lagos compared to the world average of 11 cars per km, a scenario which leads to the volume of traffic on the state's roads exceeding the capacity of the traffic network, hence traffic congestion.

The cost of this traffic congestion to the Lagos economy has been placed at about NGN4 trillion annually<sup>30</sup>. The traffic congestion in Lagos is set to worsen due to four major factors. The first is the easing of the lockdown restrictions across the state which has led to the reopening of offices, markets and entertainment centres. Augusto Consulting's Independent Survey on Post-COVID work life also suggests the easing of remote working arrangements by corporate organisations in the state. Thus, commuting to work is on the increase. This will place more vehicles on the roads and increase the daily commute of workers to and fro the office. The second major factor is the closure of some major roads across the state due to ongoing construction work. We view this as a temporary setback as these investments in upgrading the existing road network will help fix the traffic congestion in the long-term. The third major factor is the breakdown in the traffic lights across major roads in the state further compounded by poor road markings and the lack of traffic signages on the streets. The fourth major factor is the level of street trading which has seen traders occupy as much as two lanes on some major roads thus creating a gridlock on major road arteries and alternative routes. All these factors culminate in the

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<sup>28</sup> Danne Institute for Research: What Traffic Congestion Costs Lagos Commuters [<https://danneinstitute.org/publications/what-traffic-congestion-costs-lagos-commuters/>]

<sup>29</sup> Ibid

<sup>30</sup> The Guardian: Productivity drops as traffic congestion costs Lagosians N4 trillion yearly [<https://guardian.ng/business-services/productivity-drops-as-traffic-congestion-costs-lagosians-n4-trillion-yearly/>]

stubborn traffic congestion in Lagos which has a material impact on MSMEs and the overall business environment in the state.

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**Text Box 9: Unlocking Economic Growth in Lagos through improved road traffic conditions**

According to the Danne Institute, better mobility or improved connectivity in Lagos will reduce the socioeconomic cost of traffic congestion to individuals. We believe fixing the structural bottleneck of traffic congestion in Lagos will help unlock economic growth in the state and spur the post-COVID economic recovery of MSMEs in the state.

In addition to long-term solutions such as increased investments in the road network, we would recommend a review of the current street trading framework in the state. For a start, the Lagos State Government will have to address the paradox of having under-used markets (such as the Oyingbo and Tejuosho Markets) while traders create uneconomical traffic gridlocks on the streets right beside these under-used markets.

We will also recommend more investments in road transportation enablers such as traffic lights, street markings and traffic signages that will help address gridlocks across the state.

Providing strong links among possible transport options in Lagos will reduce traffic gridlocks as a multimodal mass transport system with buses, trains, and ferries in the megacity will put some order into an otherwise unruly transport system.<sup>31</sup> Consequently, it will reduce hours lost in traffic jams and improve labour productivity in the megacity.

## Creating market linkages

Regional integration can have a strong and positive impact on the future of business in Africa. Opportunities are plentiful for companies seeking access to domestic markets and beyond, but governments can further provide strong regulation and quality infrastructure that will lower costs for businesses and facilitate business, expand trade and attract investment. Regional collaboration can be a critical factor for MSMEs in Africa, allowing them to rethink their strategies and better serve a growing African market. The African Continental Free Trade Area (AfCFTA) will reduce tariffs on the continent, but Africa as a whole will need more to achieve economic integration.<sup>32</sup> Considering the impact Lagos has on Africa as a whole, creating, fostering, and sustaining market linkages through the state will not only be beneficial to the state, but also to the African continent.

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**Text Box 10: Optimising linkages to facilitate growth**

Forward linkages with customers, backward linkages with suppliers, linkages with technology partners and linkages through competition all contribute to creating market linkages in general terms. The Lagos State Government has the opportunity to serve as an enabler of market linkages for MSMEs. More often than not linkages through competition do not typically materialise without deliberate planning and strategizing; this is where the government can step in to ensure a level playing field. The government must minimise information barriers as much as possible, in order to have a solid bedrock of support in strengthening

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<sup>31</sup> Danne Institute for Research: What Traffic Congestion Costs Lagos Commuters [<https://danneinstitute.org/publications/what-traffic-congestion-costs-lagos-commuters/>]

<sup>32</sup> OECD (2020), "Business Insights on Emerging Markets 2020", OECD Emerging Markets Network, OECD Development Centre, Paris, <http://www.oecd.org/dev/oecdemnet.htm>.

linkages and business opportunities for MSMEs. In addition, along with other recommendations revolving around digital upskilling, grant support, enhancing the regulatory environment and so on, the government of Lagos state can leverage risk alleviation and performance requirements to stir up and strengthen linkages.

### **Other Access to Finance – Equipment Leasing, Factoring**

Some means of financing MSMEs include: overdrafts; retained earnings; factoring; leasing; private equity; external equity and bank loans. According to the OECD, German MSMEs use credit lines more than overdrafts; foreign currency loans are typical for Danish, Italian and Portuguese MSMEs, but are almost completely absent in other EU countries; more than half of US MSMEs use a loan in the form of a bank credit line or in the form of capital leasing; in Japan, more than 60% of all bank lending is to MSMEs.<sup>33</sup> Furthermore, considering our current environment, there is a need for MSMEs to use capital markets. Funding from capital markets (as well as loans from non-banks) should be seen as an option in addition to traditional bank credit channels.<sup>34</sup>

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#### **Text Box 11: Facilitating other access to finance**

Different sources of debt or equity financing become important at different stages of a company's development, with different forms of debt financing complementing various forms of equity financing. For example, the ability to manage a company's capital structure by issuing debt often depends on the availability of sufficient equity in the capital structure. There is no one-size-fits-all solution to address financing all MSMEs in need of such support. However, the variety and complexity of MSMEs also provide a wide range of options for considering market financing.<sup>35</sup>

We would recommend the facilitation of other access to finance by the Lagos State Government through knowledge sharing sessions. There is a need to educate MSMEs on other forms of financing that they can consider and access. Public private partnerships would play a key role in the success of these knowledge sharing sessions; the Lagos State Government can partner with established organisations who have the capacity and capabilities to deliver informative and well-structured knowledge sharing sessions.

### **Government to assist MSMEs digitalise**

A study published by the Multidisciplinary Digital Publishing Institute recommends a number of ways the government can assist MSMEs in digitalisation. One of those ways is to promote mobile/digital payment. Mobile or digital payment systems play a significant role in the business environment of Lagos. Large organisations or businesses who utilise such systems have adequate assets and monetary ability to drive usage. On the other hand, some MSMEs may lack assets and financial ability to build and sustain the adoption of such systems. This is where the government can step in and support MSMEs by establishing digital transaction regulations to help increase the trust of customers in making use of mobile or digital payment platforms and

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<sup>33</sup> OECD: *Small Businesses, Job Creation and Growth: Facts, Obstacles and Best Practices* [<https://www.oecd.org/cfe/smes/2090740.pdf>]

<sup>34</sup> *Opportunities and Constraints of Market-Based Financing for SMEs* OECD Report to G20 Finance Ministers and Central Bank Governors [<https://www.oecd.org/finance/financial-markets/Opportunities-and-Constraints-of-Market-based-Financing-for-SMEs.pdf>]

<sup>35</sup> *Opportunities and Constraints of Market-Based Financing for SMEs* OECD Report to G20 Finance Ministers and Central Bank Governors [<https://www.oecd.org/finance/financial-markets/Opportunities-and-Constraints-of-Market-based-Financing-for-SMEs.pdf>]

systems. As customers or clients become more accustomed to mobile or digital payments, adoption of these systems increases.<sup>36</sup>

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**Text Box 12: Upskilling through digital training**

In addition to promoting mobile or digital payments, the government can help MSMEs improve their digital skills by providing digital education or training to owners and/or managers. Digital training can expand the digital knowledge of the MSME ecosystem and positively affect the digital performance of businesses. Increasing the digital skills of MSME owners/managers will help them thrive. Having sufficient knowledge of digital technologies will lead MSMEs to develop a digital vision. Additionally, digital capability is an important driver of digital innovation, influencing a company's digital capabilities in developing new digital products to meet the needs of new customers. The government can help MSMEs develop a digital learning and training system for their employees and this system could help reduce the cost of hiring and training new employees.<sup>37</sup>

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<sup>36</sup> Chen, C.-L.; Lin, Y.-C.; Chen, W.-H.; Chao, C.-F.; Pandia, H. Role of Government to Enhance Digital Transformation in Small Service Business. *Sustainability* 2021, 13, 1028. [<https://www.mdpi.com/2071-1050/13/3/1028>]

<sup>37</sup> Chen, C.-L.; Lin, Y.-C.; Chen, W.-H.; Chao, C.-F.; Pandia, H. Role of Government to Enhance Digital Transformation in Small Service Business. *Sustainability* 2021, 13, 1028. [<https://www.mdpi.com/2071-1050/13/3/1028>]



## Appendix

## A Brief Regulatory Overview of the Industry

### MSME Regulators

MSMEs exist across all sectors in the Nigerian economy. Thus, these enterprises are regulated by various regulatory agencies. We have however highlighted the major regulatory agencies existing across the broad industry classification of trade and non-trade MSMEs. These regulatory agencies include:

#### The Federal Ministry of Trade and Investment (FMTI)

The Federal Ministry of Trade and Investment (FMTI or “the Ministry”) was established to promote trade and investment with special emphasis on increased production and export of non-oil and gas products in Nigeria. The Ministry provides regulatory direction to MSMEs through the Standards Organisation of Nigeria (SON).

#### Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)

The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) was established by the SMEDAN Act of 2003 to promote the development of the MSME sector of the Nigeria Economy. The Agency positions itself as a One Stop Shop for MSME Development. Micro Enterprises are included in the clientele of the Agency since they form the bedrock for SMEs. The mandate of SMEDAN as contained in the enabling Act can be summarized as follows:

- Stimulating, monitoring and coordinating the development of the MSMEs sub-sector
- Initiating and articulating policy ideas for small and medium enterprises growth and development
- Promoting and facilitating development programmes, instruments and support services to accelerate the development and modernization of MSME operations
- Serving as vanguard for rural industrialization, poverty reduction, job creation and enhanced livelihoods
- Linking MSMEs to internal and external sources of finance, appropriate technology, technical skills as well as to large enterprises
- Promoting and providing access to industrial infrastructures such as layouts, incubators, industrial parks
- Intermediating between MSMEs and the Government
- Working in contact with other institutions in both public and private sector to create a good enabling environment of business in general, and MSME activities in particular.

#### The Standards Organization of Nigeria (SON)

Standards organisation of Nigeria (SON or the “the Organisation”) was established by Act No. 82 of 1971. The Organisation is authorised to enforce standards elaboration, specification and quality assurance systems for commodities, manufactured and imported products and services. The major functions of SON include:

- Organising, testing and ensuring mandatory compliance with standards designated and approved by the Council.
- Undertaking necessary investigations into the quality of facilities, materials and products in Nigeria.
- Establishing a quality assurance system including certification of factories, products and laboratories.

- Ensuring reference standards for calibration and verification of measures and measuring instruments.
- Undertaking the preparation and distribution of standard samples.
- Compiling an inventory of products requiring standardization.
- Registering and regulating standard marks and specifications.

### **National Agency for Food and Drug Administration and Control (NAFDAC)**

The National Agency for Food and Drug Administration and Control (NAFDAC or the “Agency”) is a government parastatal supervised by the Federal Ministry of Health. The Agency was established by Decree 15 of 1993 due to the inability of the Directorate of Food and Drug Administration and Control (DFAC) to combat counterfeiting of drugs and other products in Nigeria. The major responsibilities of NAFDAC are highlighted below:

- Conducting appropriate tests and ensuring compliance with standard specifications designated and approved by the council for the effective control of quality of food, drugs, cosmetics, medical devices, bottled water, and chemicals.
- Undertaking appropriate investigation into the production premises and raw materials used in manufacturing personal care products. Carrying out mandatory inspection of personal care products intended for sale.
- Undertaking the registration of food, drugs, medical devices, bottled water and chemicals.
- Establishing a relevant quality assurance system, including certification of production sites and regulated products. Controlling the exportation and issue quality certification of personal care products intended for export.

### **National Office for Technology Acquisition Promotion (NOTAP)**

The National Office for Technology Acquisition Promotion (“NOTAP” or “the Agency”) is a government parastatal under the Ministry of Science and Technology. The Agency was established in 1979 to implement the acquisition, promotion and development of foreign technology. The responsibilities of NOTAP are:

- Regulation of technology transfers from abroad, patents and remittances on patents made by manufacturing players in Nigeria to international companies
- Provision of a more efficient process for the adaptation of imported technology.
- Registration of all foreign technology transfer agreements having effect in Nigeria.
- Commercialization of R&D Results and Inventions.
- Promotion of locally generated technologies.
- Promotion of Intellectual Property.
- Collection of government taxes on the back-log of unremitted patents

### **The Nigerian Customs Service (NCS)**

The Nigerian Customs Service (“NCS” or the “Organisation”) is a paramilitary organisation under the Federal Ministry of Finance. It is charged with the responsibility of managing the Country’s borders and trade activities between Nigeria and foreign countries. The functions of the organisation are categorised into core and other functions.



### **Core Functions**

- Collection of revenues (Import and excise duties) on behalf of the Federal Government of Nigeria.
- Prevention and reduction of smuggling across the Nigerian borders.
- Joint collaboration with NAFDAC and SON on the inspection of goods coming into Nigeria.

### **Other Functions**

- The provision of support on the infringement on intellectual property rights.
- Combating illegal trades in arms and munitions
- Combating the trafficking of hard drugs

### **Advertising Practitioners of Nigeria (APCON)**

The Advertising Practitioners Council of Nigeria (APCON or the “Agency”) was set up in 1988. The Agency regulates advertising practices of operators in the personal care industry with the major objective of protecting consumer rights. APCON vets and approves all advertisements and receives payments for signage across the nation.

### **Consumer Protection Council (CPC)**

The Consumer Protection Council (CPC or “the Council”) is a Parastatal of the Federal Government of Nigeria, supervised by the Federal Ministry of Trade and Investment. It was established by Act No. 66 of 1992 and commenced operations only in 1999. CPC is mandated to carry out the following activities:

- Eliminating hazardous products from the market,
- Providing speedy redress to consumers complaints,
- Undertaking campaigns to increase consumer awareness,
- Ensuring that consumers’ interest receive due consideration at the appropriate forums, and
- Encouraging trade, industry and professional associations to develop and enforce quality standards designed to safeguard the interest of their customers.

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