Mitigating Nigeria's Unemployment Post-COVID

Briefing Note | August 2020

This note attempts to review options for Nigeria to consider in dealing with the looming increase in unemployment and under-employment as a result of the COVID-19 disruptions. While recognising the interventions by the Federal Government to recruit hundreds of millions of Nigerians in public works and provide fiscal and monetary policy stimuli across sectors, early estimates suggest that these interventions may not fully abate the impact of the economic slow-down. Based on various policy options and learning points from other countries, some policy options and outlook are presented to assist policy makers in reviewing alternatives for Africa's largest workforce.

Introduction

Global estimates by the International Labour Organisation indicate continued sharp decline in working hours globally due to the COVID-19 outbreak, with about half of the global workforce in immediate danger of having their livelihoods suspended or destroyed. According to the *ILO Monitor third edition: COVID-19 and the world of work* , the impact of reduced working hours in the second quarter of 2020 is expected to be significantly worse than previously forecasted.

Sub-Saharan Africa is expected to witness a contracted economy in 2020 by as much as 5% due to the COVID-19-induced disruptions, according to the World Bank. Larger economies like Nigeria and South Africa are expected to bear a significant bit of the economic hit due to several factors including scale effects and multiplier effects. In Nigeria, early estimates for the negative economic growth are between – 3.4% according to the World Bank, and – 4.4%, according to Nigeria's fiscal authorities. In a worst case, this could reach -8.9%, or alternatively improve to about 0.6% if the stimulus package was effectively implemented.

The implications of this on the workforce are enormous. An aggregate reduction in volume of goods and services in an economy with no formal social or employment insurance simply reduces the employee count required for production and puts further pressure on the limited resources available for the under-18 dependent population that is approximately 50% of the population.

Recent fiscal snapshots of government also suggest that while the Federal Government has assured not to downsize the headcount in the public service in the short-term, say for 2020/ 2021, the Federal and State Governments have little buffer to create employment beyond stimulus programs for the private sector and public works programs. Other innovative approaches to mitigating the impact of the looming unemployment that many analysts imagine would begin to crystallise from Quarter three 2020, are therefore imperative.

2.0 Purpose & Structure

The purpose of this note is to review Nigeria's performance till date on managing unemployment as a result of COVID-19, to provide an overview on how other countries have responded to labour issues and highlight broad options for decision-makers to consider.

The document is organized around three parts: the magnitude of the problem, experience from other countries, and possible policy options.

3.0 Magnitude of the Problem

Relative to the continent, Nigeria already had one of the higher unemployment rates among African countries. Between 2017 and 2019, Nigeria had recorded a significant increase in unemployment and underemployment within a space of two years following the economic recession experienced in 2016.

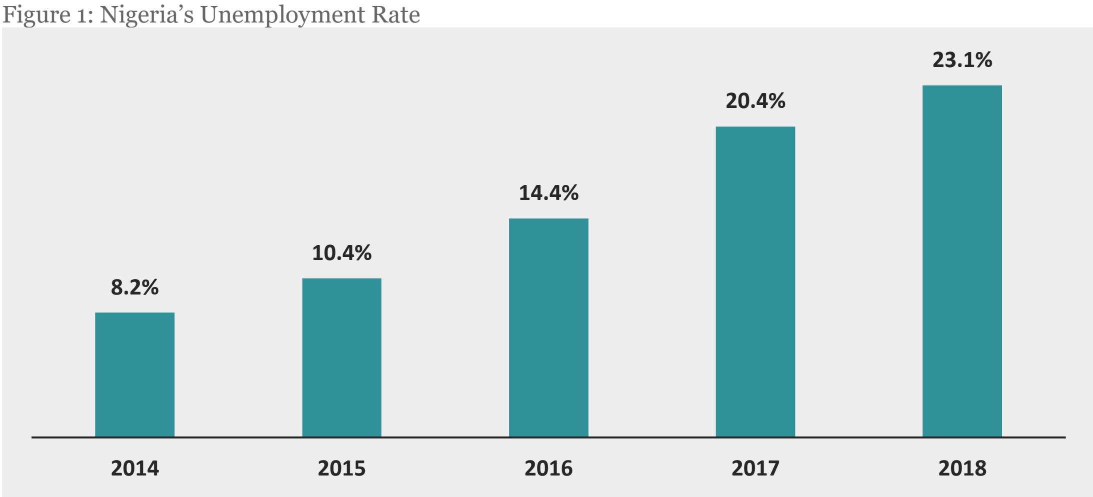
Table 1 Unemployment rates in selected African countries (* Projected figures)

YEAR	NIGERIA	SOUTH AFRICA	EGYPT	ALGERIA	ANGOLA	MOROCCO	KENYA	ETHOPIA	GHANA	RWANDA	AFRICA
2019	29.7%	29.1%	8.0%	12.6%	31.8%	9.2%	9.3%	19.1%	6.8%	15.4%	34.0%
2020	33.5% **	35.313%	10.3%	15.1%	no data	12.5%	11.4%	20.0% *	7.6% *	18.5% *	34.9%

** *Worst case scenario projection*

Data from the National Bureau of Statistics (NBS) showed that 23.1% of participants in the labour force were unemployed in 2018, representing a significant increase from 14.4% in 2016. In terms of underemployment, 20.1% of workers in the labour force, totalling 18.2 million were classified as underemployed in 2018. This is an addition of 1.2 million from 17 million in 2016.

Figure 1: Nigeria's Unemployment Rate



Source: National Bureau of Statistics (NBS)

From 2016 to 2018, 15.1 million individuals had been added to the unemployed labour force. Among these additions are fresh graduates from secondary and tertiary institutions seeking their first job. As of 2018, 35% (3.4 million) of the 9.7 million 'unemployed persons that did nothing' reported being unemployed for less than a year while 90% (8.8 million) were seeking their first job.

The challenge of rising unemployment pre-COVID-19 was further compounded by the limited number of jobs created in the economy since the recession in 2016 vis-à-vis the number of entrants into the labour market. From 2016 to 2018, the economy lost a net total of 59,631 jobs despite the increasing number of labour force entrants per annum at 4.7 million, within the period. Many of the key economic sectors that employ a significant number of the labour force have exhibited negative and/or sluggish growth since the recession in 2016 and therefore have limited capacity to create new jobs due to existing business constraints in the economy.

The outbreak of COVID-19 had impact on the Nigerian economy through three major channels: oil price and output disruption; supply chain disruption and disruptions of economic activities arising from lockdown and movement restrictions. Among these three channels, the disruption of economic activities had the most direct negative impact of unemployment in Nigeria.

With the first case reported in February 2020 in Nigeria, restriction policies to curtail the virus have resulted in the shutdown of production facilities involved in non-essentials and the halt of business operations which had direct implication on unemployment and poverty rates in the country.

COVID-19 has triggered an unemployment crisis in Nigeria which will see an increase in the number of:

- Individuals who are unemployed due to social distancing policies and restrictions of sectors such as entertainment, hospitality, etc.;
- Individuals in the labour force that cannot find work;
- Previously employed individuals who became unemployed due to business downsizing;
- Individuals that will be forced to work less than 20 hours and therefore qualify as unemployed.

In estimating the impact of COVID-19 on unemployment, the NBS recently released a report which surveyed 3000 households across Nigeria. The report showed that 42% of respondents who were working before the outbreak reported that they were not currently working due to COVID-19. Sectors such as trade, service and agriculture were among the most hit. The report also showed that 79% of respondents reported that their households' total incomes have decreased since mid-March.

With COVID-19, several estimates show that the Nigerian economy will contract in 2020. The IMF for instance forecasted a GDP decline of 3.4% in 2020 while the NBS projects a 4.4% decline in economic output. It is important to note that even in the era of positive economic growth, unemployment rate continued to increase, especially given the fact that only a few sectors were responsible for this economic expansion. The Nigeria Economic Summit Group, in its Macroeconomic Outlook for 2020 notes that out of the 46 activity sectors captured in the economy, only three significantly contributed to economic growth in the last three years. These sectors include Telecommunication and Information Services (42%); Crop Production (41%) and Crude Petroleum and Natural Gas (19%). According to the NESG, "the remaining 43 sectors performed poorly below 10% pointing that economic growth remained largely skewed towards only a few sectors while the remaining have been underperforming." Following this weak relationship between economic growth and the expansion of labour-intensive sectors, a contraction of the economy, as anticipated in 2020, would further worsen the country's unemployment situation. According to the Federal Government's Economic Sustainability Plan, the unemployment rate which was 23.1% (or 20.9m people) at the end of 2018 is expected to rise to 33.6% (or 39.4 million people) at the end of 2020, if urgent steps are not taken.

From a sub-national perspective, while every state is expected to experience an increase in unemployment rate, the impact will be more severe on states that implemented lockdowns and restrictions. In Lagos for instance, continued lockdown of key sectors and business activities such as events centres, cinemas among others have kept individuals out of work. As the economies of these states open gradually due to relaxation of restriction policies, many businesses and business activities across sectors will remain subdued in the short term. This will have a huge negative impact on unemployment across the country.

Given that Nigeria has already acknowledged that her fiscal buffers are limited, implementing innovative approaches to keeping as many workers employed would be critical to maintaining social and economic security of the population.

4.0 Global Trends and Cross-country Experience

The International Labour Organisation (ILO) has defined four pillars of action to guide countries in their policy responses. Accordingly, country responses are presented within the **four pillars of action** defined by the ILO to mitigate the impact of COVID-19 on businesses, jobs, and the most vulnerable members of society. The four pillars include:

Pillar 1: Stimulating the economy and jobs - Active fiscal policy, Accommodative monetary policy, and Lending and financial support to specific sectors including the health sector.

Pillar 2: Supporting enterprises, employment and incomes - Extend social protection for all, Implement employment retention measures, and Provide financial/tax and other relief for enterprises.

Pillar 3: Protecting workers in the workplace - Strengthen Occupational Safety and Health (OSH) measures, Adapt work arrangements (e.g. teleworking), Prevent discrimination and exclusion, Provide health access for all, and Expand access to paid leave.

Pillar 4: Using social dialogue between government, workers and employers to find solution - Strengthen the capacity and resilience of employers' and workers' organisations, strengthen the capacity of governments, and strengthen social dialogue, collective bargaining and labour relations institutions and processes.

Globally, many countries have responded to the sharp rise in unemployment post-COVID-19 by adopting actions using Pillars one and two. However, for many developing African countries, with relatively weak institutions, implementing Pillars three and four that are hinged on softer issues have been more onerous. On the other hand, developed countries that have made more progress in implementing the four pillars collectively have utilised a combination of relief measures ranging from unemployment insurance payments, furlough rebates, tax subsidies, and subsidised universal healthcare and to certain categories of employers, and industry-specific comprehensive job protection programs.

While the overall strategy differs between regions, with Europe and Canada sponsoring employment-protection programs to keep employees on payroll, the United States' program subsidises fired employees with unemployment benefits.

Figure 2. Employment incentives in selected African countries

EMPLOYEE INCENTIVES AND RELIEFS	COUNTRIES	OTHER MEASURES
VAT exemption for basic food has been expanded in addition to medical and pharmaceutical products. Hazard allowances provided in the remuneration structure of the Federal health sector workers. Social investment programme distributes palliative (Cash and food) to 3.5 million households and also there was loan repayment waiver.	NIGERA	• Several intervention funds by Central Bank to boost industries. • The electricity regulator, the Nigerian Electricity Regulatory Commission (NERC) suspended scheduled kick-off of the new tariff partly due to impact of the COVID-19 pandemic. • The Federal Government further slashed the price of Premium Motor Spirit, PMS to N123.50 per litre. • A 1-year extension of a moratorium on principal repayments for CBN intervention facilities and reduction of the interest rate on intervention loans from 9 % to 5 %.
Unemployment Insurance Fund (UIF) in response to COVID-19 was established on March 25, 2020. Over 77,000 employers have filed applications for UIF relief. They also disbursed Temporary Employer/Employee Relief Scheme (TERS) benefits.	SOUTH AFRICA	• Debt relief funds for SMEs and centralised registration system (www.smmesa.gov.za) established for those in need of financial aid. • The Employment Tax Incentive (ETI) to encourage employers to hire young work seekers. • COVID-19 Temporary Employee/Employer Relief Scheme (C19 TERS) for employees. • South African Reserve Bank on 14th April 2020 reduced the "repo rate" (the benchmark lending interest rate). • Unemployment grant of R350 a month for the next six months until October 2020 with extra R300 for child support grant beneficiaries in May 2020. • R100 billion fund for protection of jobs and to create jobs and R1.6 billion amount paid out by the Unemployment Insurance Fund's special COVID-19 scheme to assist over 37,000 companies and 600 000 workers.
The Employees Emergency Fund has a pivotal responsibility in supporting struggling companies to survive through the economic crisis.	EGYPT	• Social transfers to registered informal workers. • Preferential interest rate on loans to SMEs, industry, tourism, and housing for low-income and middle-class families has been reduced. • The Central Bank of Egypt ("CBE") has decided to cut down the credit and discount rate from 12.75% to 9.75%.
The Algerian government ordered that at least half of the public employees working in each public institution and administration be put on leave with pay. This exceptional leave was extended to the public and private economic sector.	ALGERIA	• Decentralisation of social security transfers contributions. • The Monetary Policy Operations Committee reduces the required reserve ratio from 10% to 8% and to lower the reserve ratio by 25 basis points (0.25%). The key rate of the Bank of Algeria set at 3.25% as from 15 March 2020.
Limited insurance and incentives	ANGOLA	Deferral of payment of payroll tax contributions
Monthly payment of 800- 1,200 dirhams to households based on size.	MORROCCO	• Employees affiliated with the CNSS (social security) will also: Be granted a 2000 dirhams net (190€) monthly

		allowance disbursed from the Fund for Management of Coronavirus Effects. • Various tax deferrals.
Kenya's government has used an existing cash transfer programme, Inua Jamii, to boost payments to more than one million vulnerable people. $93m targeted to informal workers who have lost their jobs with weekly payments.	KENYA	• Bank debt restructurings for non-performing loans to apply to businesses facing financial instability due to COVID-19. This may contribute to keeping businesses afloat to employ staff. • Reduced rediscount/ interest rates 5% to boost interbank market and liquidity management.
Ethiopia has offered tax relief and outstanding tax cancellation to companies affected by the outbreak.	ETHOPIA	• Laying off employees and termination of contracts are prohibited during the Pandemic period. • National Bank of Ethiopia has availed 15-billion-birr (About USD 450 million) liquidity for private banks to enable them to provide debt relief and additional loans to their customers in need and especially the businesses adversely affected by COVID-19. • Eviction of tenants and increasing of rent during the pandemic is forbidden. • Removal of the restriction on floor price for flower exports that was previously set by the National Bank of Ethiopia.

5.0 Policy Options

Though most employment-creating interventions have a policy lead time of at least 12-24 months, a combination of various interventions with staggered impact cycles would help in ensuring that an increasing number of the unemployed population re-join the labour market.

Nigeria's Economic Sustainability Plan, released in June 2020 has identified seven key initiatives to drive employment creation:

- Mass agriculture program
- Extensive public works and road construction program
- Mass housing program
- Promoting manufacturing and social production
- Strengthening the safety net
- Support for Micro, Small and Medium Enterprises (MSME)
- Digital technology

Industry operators however recognize some of these as medium-term initiatives with impact in eighteen months or more. The specific tactics and implementation plan to actualize these initiatives also remain yet to be published. Similarly, research and advocacy groups such as The Nigeria Economic Summit Group have suggested that the current level of stimulus provided by the Federal Government may be below what is required to maintain production, and by implication, at pre-COVID levels.

To achieve the desired result, implementing the seven employment-boosting initiatives as detailed in the Economic Sustainability Plan would require close collaboration with the private sector, and the provision of targeted incentives to willing private sector companies to help deliver on those initiatives.