November 2024

A view from business

Reflections on Nigeria's recent economic reforms and potential pathways forward

Table of contents

Table of figures

Executive summary

Macroeconomic context and introduction of reforms

Over the past five years, Nigeria's economy has grappled with a significant downturn, leading to profound challenges for both business performance and investment levels. This slowdown has deepened the country's import dependency, weakened domestic production capacity and worsened trade imbalances.

Since 2019, inflation has soared, with rates climbing from 11% in 2019 to approximately 32.7% in Q3 2024, driven largely by food inflation, which surged to an alarming 37.8% y-o-y in September 2024. This has placed immense pressure on household consumption and business operating costs. Concurrently, the naira's steep depreciation, from NGN 325 per USD 1 in 2019 to over NGN 1,650 per USD 1 by October 2024, has exacerbated the situation, pushing up import costs and fuelling inflation further. Compounding these issues, total capital importation (including foreign direct investment [FDI] and foreign portfolio investment [FPI]) plummeted at an average annual rate of 36%, with total inflows dropping from USD 24 billion in 2019 to USD 6 billion by Q2 2024.

This challenging business environment has been worsened by cash scarcity[1], supply chain disruptions, limited access to foreign exchange (FX) and ongoing structural problems such as inadequate power, fuel shortages and insecurity. Recognising the urgency of these challenges, the new administration, which took office in 2023, has since rolled out major economic reforms to address these structural and macroeconomic issues. These reforms signal an effort to stabilise the economy and foster sustainable growth in the long term.

Understanding the impact of reforms

To understand the impact of reforms, this research prioritised **seven key reforms** – the fuel subsidy removal, the FX market unification, the removal of FX purchase restrictions, multiple interest rate increases, new proposed tax regime; the implementation of cost-reflective electricity tariffs and the adjustment of import duties based on FX rates.

We engaged with businesses, researchers and policy experts to gather insights into the general perceptions and impact of these reforms. Five key messages emerged.[2]

1 There have been signs that some reforms are starting to achieve their stated objectives. For example, introducing the FX unification reform has helped close the differential gap between official and parallel market rates. Total capital importation in Q2 2024 stood at USD 6 billion, significantly higher than the USD 2 billion recorded in Q2 2023. However, FDI remains critically low, hitting a record low of just USD 29 million in Q2 2024, indicating the need for substantial efforts to boost FDI inflows.

2 There is limited consensus on the importance of reforms, except for two – fuel subsidy removal and FX market unification. These two reforms are considered the most essential, especially by over half of the businesses in sectors like financial services, mining and manufacturing. However, 52% of executives stated that the multiple increases in interest rate was not essential. For these businesses, higher working capital financing costs

[1] Nigeria's 2023 cash shortage, triggered by the CBN's redesign of the naira and the rushed withdrawal of old notes, led to widespread cash scarcity. This caused significant disruptions to Nigeria's cash economy, crippled small businesses and slowed economic activity, as many Nigerians struggled to access physical currency

[2] 2024 Nigeria Economic Reforms CEO Survey: Business operators, N = 52

added pressure on already thin margins and limited business expansion. Similarly, 40% indicated FX restriction removal was inessential.

Fuel subsidy reforms and FX market unification hurt businesses the most. Fuel subsidy removal negatively impacted 85% of business respondents, especially in fuel-dependent sectors. FX unification negatively affected 77% of businesses, although a few in the financial services benefited from the improved financial predictability that the reform provided. However, there have been some positive implications for certain sectors. For example, the oil and gas sector gained from the fuel subsidy removal, which opened opportunities for market-driven pricing and increased private sector participation. The financial services industry also saw improved transparency with FX unification, and the power sector is poised to attract more investment due to cost-reflective tariffs, helping to address underinvestment issues.

3 Over 50% of businesses report that their production costs have doubled, leading to upward price adjustments, with small businesses being the most affected. Around 42% to 46% of small businesses saw their cost of goods sold (COGS) and SG&A expenses double, while 21% and 29% experienced a 3x increase in COGS and SG&A respectively. This was a dramatic increase in production costs in less than 24 months, making it difficult for small businesses to remain afloat. In contrast, 74% of large firms reported up to 2x rise in COGS, and 5% experienced a 3x increase in SG&A.

4 Yet, businesses remain positive with seven in ten businesses confident about sustaining operations for the next five years. 89% of medium and large businesses plan to operate for over five years, with 44% of medium firms eyeing significant investments. The finance and mining sectors are most confident, while agriculture and accommodation remain hesitant.

5 While acknowledging the necessity of some of these reforms, businesses believe that the reform implementation process can be strengthened through policy and non-policy actions for better outcomes.

Proposed interventions and potential pathways by businesses

Businesses have proposed a series of recommendations and pathways that could enhance the reform implementation process, offering suggestions that reflect an aspiration for long-term sustainability.

From a policy perspective, businesses emphasise the importance of a stable exchange rate to shield against the sharp depreciation of the naira, which has escalated import costs and affected profitability. A more predictable and sustainable exchange rate is essential for long-term planning, particularly for companies reliant on imported goods or inputs. It would enhance business confidence, reduce uncertainty and create an environment conducive to investment.

However, achieving this in the short term is complex. It requires balancing market forces and maintaining adequate foreign currency reserves to allow the Central Bank of Nigeria (CBN) to intervene during periods of high demand. Long-term sustainability involves managing reserves effectively, enabling and increasing exports, encouraging remittances and attracting foreign investments.

Policies should prioritise a diversified economy that reduces reliance on imports, avoiding excessive interventions that deplete reserves. This sustainable approach provides businesses with predictable conditions, fosters investment and supports economic growth while minimising inflationary pressures. The government's posture should focus on sustainable exchange rate management, balancing market forces while preventing sharp volatility. This approach would also support FDI and boost economic growth, as stable currency dynamics tend to attract long-term capital inflows and encourage expansion across sectors.

Calls for reduced tax levies and more competitive interest rates reflect concerns about the current borrowing climate, which has hindered investment and expansion. However, policymakers appear to be one step ahead, as some of these initiatives are already in the works.

The government is in the process of implementing tax reforms. Some of these include working on value-added tax (VAT) exemptions for input providers and plans to grant 100% input credit on assets and services. VAT and duties on imported inputs for stabilisation purposes are set to be waived once the VAT order is gazetted. Additionally, pending legislation includes the reduction of corporate income tax from 30% to 25%, and efforts are underway to amend laws regarding levies like Nigerian Ports Authority (NPA) and Nigerian Maritime

Administration and Safety Agency (NIMASA) to allow for tax and levy payments in FX. These reforms are part of a broader national fiscal policy aimed at addressing subsidy infrastructure and providing a stable framework for economic growth. Still, there is an evident need to accelerate the implementation of such reforms to ease the pressure businesses are currently experiencing.

Additionally, businesses stress the importance of non-policy actions. These include improving the electricity supply and transportation infrastructure, employing an effective communications strategy to increase transparency and increasing the funding set aside for grants and social programmes to support business demographics and sectors hardest hit by the economic downturn.

A key component of the actions related to effective communications efforts is the engagement of small and medium-size enterprises (SMEs). Given that Nigeria's SME sector employs over 60% of the workforce, it is crucial for the government to engage this segment more actively in policy reform processes. The survey highlights that SMEs are the most adversely impacted by recent reforms, yet they remain the least engaged. Businesses surveyed recommend that the government initiate consultations with SME associations, like the Small, Medium Enterprise Development Agency of Nigeria (SMEDAN), and work with local government entities to ensure these vital enterprises are represented and prepared for the changes. This will help foster greater inclusivity and mitigate negative impacts on SMEs during reform implementations.

Lessons from Egypt, Poland and India highlight the importance of clear, transparent and targeted messaging in ensuring the effectiveness of communications. Egypt's 2014 fuel subsidy reform successfully used media outreach, including TV and radio, alongside in-person engagement such as town hall sessions, to explain subsidy redirection. India's 2017 communication strategy, which included tutorial videos, celebrity endorsements and social media campaigns, effectively enhanced awareness and registration of businesses as part of its goods and service tax (GST) reform, showcasing the power of communication in driving stakeholder buy-in.

Nigeria can learn from these examples by adopting a comprehensive communication strategy to build public trust and clarify the benefits of reforms such as multiple interest rate increases, removal of FX purchase restrictions and other reforms that businesses regard as 'unnecessary', ensuring smoother transitions and broader support.

In addition, investment in power, transport, and security infrastructure is crucial for enabling business growth regardless of firm size. Public-private partnerships can be explored to mobilize funding and accelerate the delivery of critical infrastructure.

The Nigerian economy and major recent reforms

Over the past five years, Nigeria's economic environment has faced numerous challenges and partial recoveries.

The fluctuating performance of Nigeria's economy reflects a tension between external economic shocks and internal policy responses, with citizens and businesses feeling the weight of both. Despite these challenges, the potential for recovery and reform remains a central theme.

In 2019, real GDP growth stood at 2.3%, a moderate performance that was soon overshadowed by the pandemic-induced contraction of 2020, when the economy shrank by 1.9%. The subsequent years saw Nigeria navigating global external shocks and local structural challenges, with a fragile recovery. By Q3 2024, the economy grew by 3.2%, signalling some resilience, but the road ahead remains uncertain.

Amidst these economic challenges, the depreciation of the naira has been one of the most pressing concerns. Between 2019 and 2023, the exchange rate doubled, from NGN 325 per USD 1 in 2019 to NGN 640 per USD 1 in 2023. This decline has increased import costs, directly impacting inflation, which surged from 11% to approximately 25% in 2023. The cost-of-living crisis is evident in the rising food inflation, which hit approximately 28% by the end of 2023, exacerbating pressures on households and businesses alike.

In response, the CBN has maintained a high monetary policy rate (MPR) – up to 18.5% by Q4 2023[3] – a measure designed to tame inflation but with the trade-off of making borrowing more expensive. While intended to cool inflationary pressures, this contradictory monetary policy has constrained business growth and limited access to affordable credit for expansion.

Figure 1: Trends across macroeconomic indicators for Nigeria

↑ Positive trend ↑ ↓ Negative trend

Selected macroeconomic indicators for Nigeria		2019	2020	2021	2022	2023	Q3 2024[a]	% change 2019-23
Real GDP growth, %, total annual growth		2.27	-1.92	3.4	3.1	2.74	3.19	↑ 0.5 p.p.
Inflation, %, annual average	All	11.4	13.2	17	18.8	24.5	32.8[e]	↑ 13 p.p.
	Food	13.7	16.1	20.5	20.8	27.7	37.8	↑ 14 p.p.
Total capital importation[b], USD Billion		24	9.7	6.7	5.3	3.9	3.4	↓ -83.7%
Monetary Policy Rate, %, annual average		13.5	12.5	11.5	13.7	18.5	27.2	↑ 5 p.p.
FX exchange rate, ₦/USD, annual average		325	360	410	423	640	1658	↑ 96.9%
Nigeria stock exchange ASI[c] annual average, normalised January 2019 = 100		93.2	85.8	128.1	153.6	192.7	320	↑ 106.8%
MSCI[d] Nigeria index, annual average, normalised January 2019 = 100		89.2	61.7	68.2	52.8	51.1	21.9	↓ -42.6%

a) Latest available data
b) Includes FDI, FPI and other investments
c) ASI stands for all share index, which is denominated in Naira, representing all listed companies in NGX
d) The MSCI index is Morgan Stanley Capital International, denominated in USD, containing the top 15 constituents representing >80% of the Nigerian equity universe (e.g., Guaranty Trust, Seplat Energy, Dangote Cement, Zenith Bank)
e) Headline inflation eased in July (33.4%) and August (32.2%) for the first time in the last 8 months

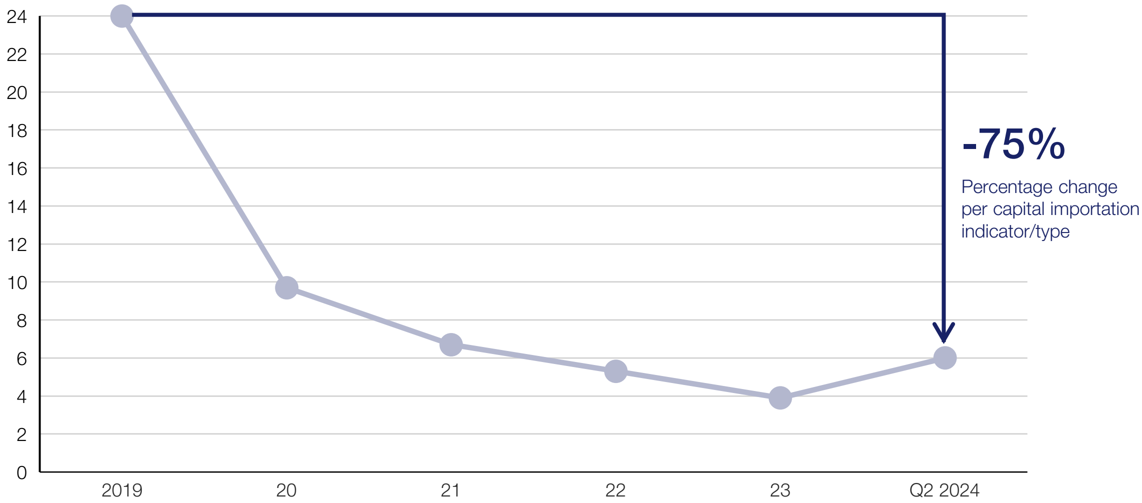
Source: Nigeria Bureau of Statistics; World Bank; CBN

3 MPC of the CBN, September 2024

This economic strain has also been evident in the steep decline in foreign investment. Total capital importation plummeted from USD 24 billion in 2019 to just USD 3.9 billion by 2023, an alarming 37% annual drop. External investor confidence has taken a severe hit, reflected in the 20.6% annual decline in the MSCI Nigeria index. Together, these trends have underscored a challenging landscape for growth and investment in Nigeria's economy.

Figure 2: Total capital importation in Nigeria, 2019 to Q2 2024

USD billion



Source: Nigeria Bureau of Statistics eLibrary: Nigeria Capital Importation Q2 2024

In the same three-to five-year period, the country also experienced various structural and economic bottlenecks that have since impacted the ease of doing business.

One prominent example stemmed from the CBN's naira redesign in February 2022, which caused severe **cash shortages.** This event particularly affected cash-dependent sectors like retail and transportation and resulted in reduced sales and delayed transactions, **leading to an estimated loss of NGN 20 trillion in these sectors.**[4]

Another example is the **persistent scarcity of foreign currency** in the market experienced between 2022 and 2023.[5] Due to the limited supply from the CBN, businesses struggled to access the FX they needed, which resulted in diminished profit margins – especially for import-reliant companies. For context, in 2022, the official exchange rate was NGN 440 to USD 1, but businesses often turned to the parallel market, where the rate soared to NGN 755 to USD 1.

These challenges have been compounded by **supply chain disruptions from the Russia-Ukraine war,** which also started in early 2022. Furthermore, businesses face **barriers to trade** stemming from complex customs procedures and high tariffs. The average applied tariff rate across all products is approximately 12.73%, with rates for some industrial goods ranging from 5% to 30%.[6]

In addition, businesses also face persistent structural challenges such as **inadequate power and transportation infrastructure, consistent fuel supply shortages, limited access to financing and difficult social issues** such as unemployment and physical insecurity. The implications of these factors on business are just as significant as the macroeconomic challenges. For instance, inadequate power infrastructure leads to intermittent electricity supply, which increases production costs, business inefficiencies and reduced competitiveness, while fuel shortages lead to disrupted logistics operations, higher transport costs and raised goods prices.

The combination of these structural and macroeconomic factors creates a challenging environment for businesses striving to maintain operations and drive growth in Nigeria; they have resulted in volatile growth, rising inflation, reduced purchasing power and declining capital inflows. Furthermore, these factors have underscored the urgent need for reforms to stabilise the Nigerian economy.

4 Nairametrics: "Nigerian economy 'loses N20 trillion' as 70% of cash sucked away from economy – CPPE" (2022)
5 FXC Intelligence: "FX Scarcity in Nigeria: causes, challenges and solutions" – April 2022
6 World Bank: Tariff rate, applied, simple mean, all products (%) – Nigeria

Against this backdrop, since the onset of the Tinubu administration, policymakers have introduced several reforms to stabilise the economy and improve the business environment. Seven key reforms have been prioritised for discussion in this exercise:

Fuel subsidy reform (May 2023)

Introduced on the current administration's Inauguration Day, this reform targeted fiscal imbalances by reducing subsidy expenditure, which made up approximately 20% of government expenditure in 2022, amounting to an average annual spend of up to NGN 3.36 trillion. The primary goal was to free up fiscal resources for infrastructure and social investments.[7] Additionally, the reform aimed to curtail widespread corrupt practices, such as inflated claims and payments to ghost marketers.

FX market unification (July 2023)

The CBN unified the official and parallel market exchange rates to eliminate the 60% differential observed in 2022. Prior to this reform, the FX market had operated a dual system, with official CBN rates coexisting alongside parallel market rates, often referred to as 'black market' rates. The significant disparity between these two systems often led to unequal access to FX for certain individuals and companies, creating inefficiencies, enhanced liquidity risks and implications for FDI inflows. The unification reform was implemented to address these issues by establishing a market-driven, single exchange rate system, enhancing liquidity and promoting greater stability in the Nigerian FX market.[8]

Removal of FX restrictions (October 2023)

The CBN removed FX restrictions on 43 import lines, which were initially imposed in 2015 to curb FX demand for locally producible goods and conserve foreign reserves. However, these restrictions led to increased activity in the parallel market, which resulted in a surplus demand for FX, higher parallel market rates and ultimately, price increases for essential goods. To mitigate these issues, the reform was therefore introduced to further enable the market-driven exchange rate system by enhancing price stability, improving FX liquidity and limiting distortions.[9]

MPR increases (February to September 2024)

The CBN significantly increased the MPR in response to escalating inflationary pressures. In February 2024, the inflation rate was 31.7%, continuing its upward trend. By August 2024, inflation had surged to 32.15%. In response, the CBN's Monetary Policy Committee (MPC) adjusted the MPR, raising it from 18.5% in February to 27.25% by the end of September. This decision aimed to improve price stability and ultimately rein in inflation while addressing Nigeria's complex economic landscape, including high public debt, exchange rate volatility and supply-side constraints.[10,11]

Electricity tariff review (April 2024)

The Nigerian Electricity Regulatory Commission (NERC) reviewed and increased electricity tariffs for Band A customers from NGN 66 per kWh to NGN 225 per kWh.[12,13] This review aimed to attract investments to the power sector, which stood at USD 58.9 billion at the time, and ultimately improve the power supply. Previously, the sector saw limited development due to low investment stemming from non-cost-reflective tariffs. Additionally, the sector had accumulated a debt of over NGN 3 trillion owed to power companies over the last decade due to the lack of cost-reflective pricing.[14] The April reform introduced cost-reflective tariffs to attract investment, enhance electricity supply and reduce the financial burden on the government, specifically by lowering the subsidy by NGN 1.1 trillion for 2024.[15,16]

---

7 NNPC; NBS Reports; Nigerian Upstream Petroleum Regulatory Commission (NUPRC) annual reports; press research: Resagratia
8 CBN (Press Release, June 2023): Operational Changes to FX Market
9 CBN: FAQ on Removal of FX Restriction – 43 items
10 Monetary Policy Comminique No. 154, September 2024: Monetary policy raised by 50 basis points
11 World Bank-Nigeria Development Update 2023; IMF Nigeria Country Report 2024
12 In Nigeria, Band A customers are classified as high-end consumers, typically including large businesses and industries that consume significant amounts of electricity and are expected to pay higher tariffs due to their consumption levels
13 Nigeria Electricity Regulatory Commission: May 2024 Supplementary Order to the Multi-Year Tariff Order 2024
14 Nigeria Electricity Regulatory Commission (NERC); NBS; press research (Nairametrics)
15 Nairametrics, April 2024: "New hike in electricity tariff to reduce subsidy for 2024 by 1.14 trillion – NERC"
16 BudgIt: Sectoral Analysis of the 2024 Federal Government Approved Budget, page 40

New tax regime (July 2024)

A new tax regime was proposed to increase the tax revenue contribution to GDP, which stood at approximately 10.86% in 2023. The country currently has 60 official and 200 unofficial taxes and experiences low revenue accountability. The reform aimed to enhance revenue generation by expanding the tax base and simplifying the tax processes.[17]

Nigeria Customs Service (NCS) rate adjustment

The NCS adjusted FX rates for import duties to align with actual market rates. Historically, the NCS has set the FX rate for import duties higher than the prevailing daily rate. For example, on May 2, it was adjusted to NGN 1,441 per USD 1, exceeding the actual daily rate of NGN 1,402 per USD 1. This reform was designed to promote fair competition among businesses by levelling the playing field for local importers. Additionally, it seeks to curb currency arbitrage resulting from discrepancies between official and parallel exchange rates.[18]

International Financial Institutions like the World Bank and the International Monetary Fund (IMF) believe these reforms have the potential to stimulate the country's long-term development. Lessons from developing economies such as India, Egypt and Bangladesh demonstrate that reforms focused on fiscal prudence, currency stabilisation and improved infrastructure can drive economic transformation. Nigeria's initiatives, like unifying the exchange rate and increasing investments in the power sector, align with global best practices, even as the immediate impacts – rising inflation, reduced capital inflows and increased operational costs – are felt across key sectors.

Economies that have implemented major market reforms like these indicate that tough adjustments are part of the process in the short run – one such example is Poland (See Box 1). In the late 1980s, Poland faced severe economic challenges with hyperinflation exceeding 600%, high unemployment and an inefficient, state-controlled economy. To address the crisis, the government implemented rapid price liberalisation, privatised state-owned enterprises, introduced a new tax regime and enacted strict monetary policies to stabilise the currency. These reforms, coupled with measures to attract foreign investment and align regulations with EU standards, curbed hyperinflation to below 60% by 1991 and boosted GDP from USD 67 billion in 1989 to USD 94 billion by 1992, transforming Poland into a market-based economy.

Despite these early obstacles in Nigeria, the reforms lay the groundwork for a more competitive business environment that could attract investment and improve productivity in the next decade and beyond. However, in the short term, it is important to acknowledge the tough adjustments and difficulties businesses are facing with the introduction of reforms. Some businesses have closed business divisions or locations, rightsized, reduced available SKUs in the market and in some instances shut down or exited the market leading to loss of employment and productivity. Hence, mitigating solutions to prevent further business collapse is critical while the country resets for long-term resilience and growth.

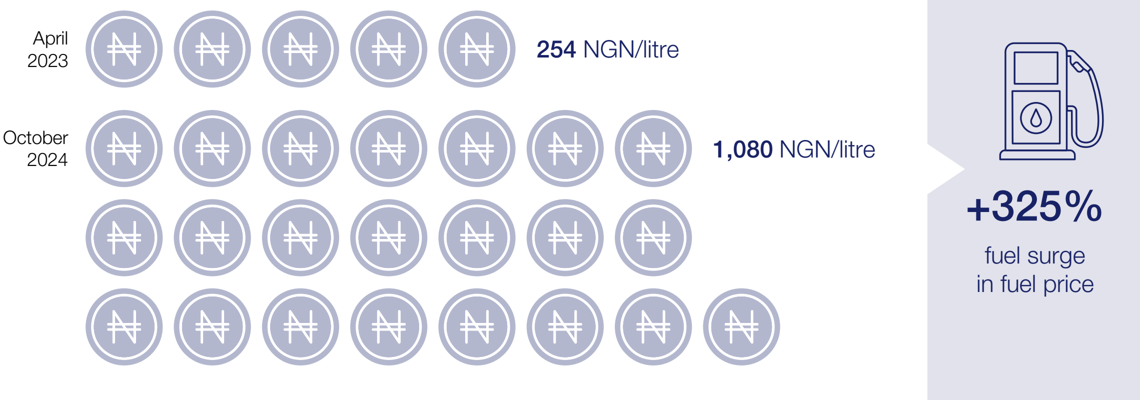
[17] Fitch Solutions; World Bank; IMF
[18] Press research: Vanguard; The Cable

Understanding the impact of reforms on decision-making

While these reforms have significant long-term potential, their short-term introduction has had a challenging impact on businesses e.g., weak demand for goods and services caused by limited purchasing power of households. Still, some reforms introduced reforms have slowly corrected market distortions present pre-May 2023.

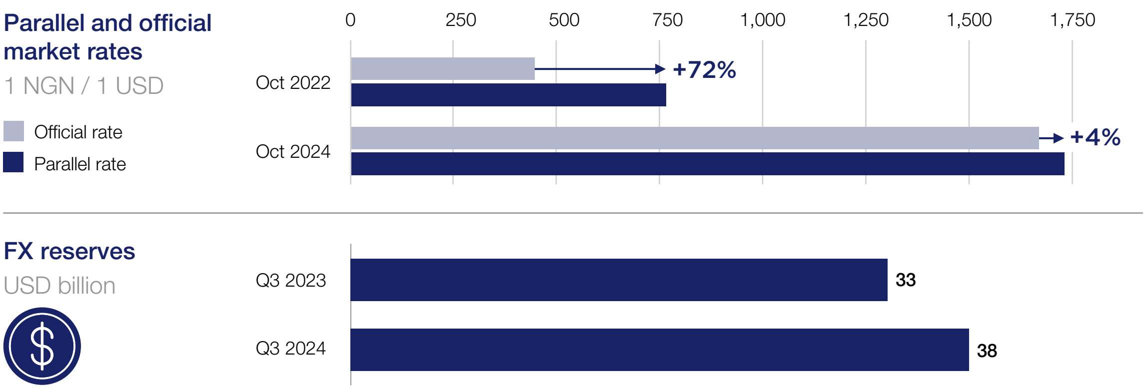
The removal of fuel subsidies led to a >300% surge in fuel prices, which inevitably increased inflation levels. Despite this, the move has reduced the fiscal burden on the government and freed up resources for various initiatives. These include investments in fertiliser funding for farmers across the country, consumer credit schemes, loan repayments from previous administrations and compressed natural gas (CNG) conversion kits for public distribution.

Figure 3: Preliminary outcomes of the fuel subsidy reform



Since the **FX market unification reform,** Nigeria has made progress in narrowing the differential between the official CBN rate and the parallel market rate from 72% in 2023 to 1% to 2% in 2024, significantly improving market transparency. In Nigeria's context, achieving a stable exchange rate requires navigating complex challenges, particularly finding the balance between managing reserves and the high demand for foreign

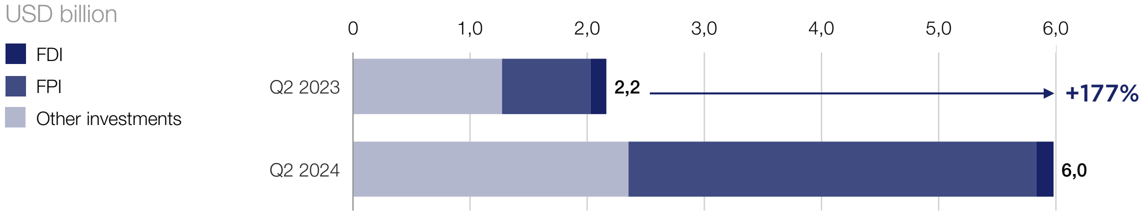
Figure 4: Preliminary outcomes of the foreign exchange unification reform



currency. However, ensuring long-term stability in this space goes beyond short-term interventions requires a strategic approach to bolstering foreign currency reserves. This can be achieved by fostering export growth, improving remittance inflows and encouraging foreign investments.

Figure 5: Preliminary impact of reforms on total capital importation

USD billion



The sustainability of exchange rate stability also hinges on structural reforms that strengthen Nigeria's economic fundamentals. This includes diversifying the economy away from its heavy reliance on imports and crude oil revenues, which put immense pressure on foreign currency reserves. As global oil prices fluctuate, the country's reserves often take a hit, limiting the CBN's ability to intervene effectively in the market. To counter this, Nigeria needs to promote local production, reduce import dependency and encourage private sector participation in non-oil sectors. Without such measures, currency stability will remain vulnerable to external shocks, making it difficult for the economy to achieve sustainable growth.

Cost-reflective electricity tariffs have been implemented for customers in Band A, and already, revenue generated by the distribution companies has increased by 47% (from NGN 604 billion in H1 2023 to NGN 888 billion in H1 2024).[19]

While the Tinubu Administration's economic reforms have started to yield modest successes, there is an absence of a fact-base documenting the short-term impact on businesses and households. Economic reforms typically require adjustments to correct for economic distortions in the short term. The research methodology used here was largely based on primary data to assess the impact of reforms on businesses, understand their responses to these challenges and investment outlook and identify potential pathways policymakers can consider as interim measures to ease the tough transition for businesses and investors, as seen in countries like Poland (see Box 1).

Box 1

In the late 1980s, Poland grappled with severe economic instability marked by hyperinflation exceeding 600%, rising unemployment and a stagnant economy dominated by inefficient state-owned enterprises. Shortages of essential goods, rigid price controls and a debt-to-GDP ratio near 70% further exacerbated the crisis, making it difficult to finance imports and attract foreign investment, and pushing the country deeper into recession. These factors highlighted the urgent need for comprehensive economic reforms.

In response, Poland swiftly implemented price liberalisation to eliminate state-controlled pricing, privatised state-owned companies to boost efficiency and introduced a new tax regime to streamline taxation and increase revenues. Strict monetary policies helped control hyperinflation and stabilise the currency, while measures were taken to attract FDI through incentives. Social safety nets were also put in place to support vulnerable populations, and regulations were aligned with EU standards in preparation for membership.

As a result, Poland's economy shifted to a market-based system, with inflation dropping below 60% by 1991, and GDP rebounding from USD 67 billion in 1989 to USD 94 billion by 1992.

Interviews and surveys were used to poll over 50 executives across a wide range of sectors, including both private and publicly listed companies. The sample size encompassed a mix of local companies and multinationals of varying sizes. Small enterprises formed the largest group, making up nearly half of the respondents at 46%. Mid-sized companies made up 17%, and large enterprises made up 37% of businesses engaged.[20]

19 Press research: Nairametrics; Abuja Inquirer; Ventures Africa; The Cable; Punch

20 Small enterprises are those with fewer than 50 employees. Mid-sized companies are regarded as those employing between 50 and 250 people. Large enterprises are those with a workforce exceeding 250. This definition was acquired from SMEDAN and the Bank of Industry (BoI)

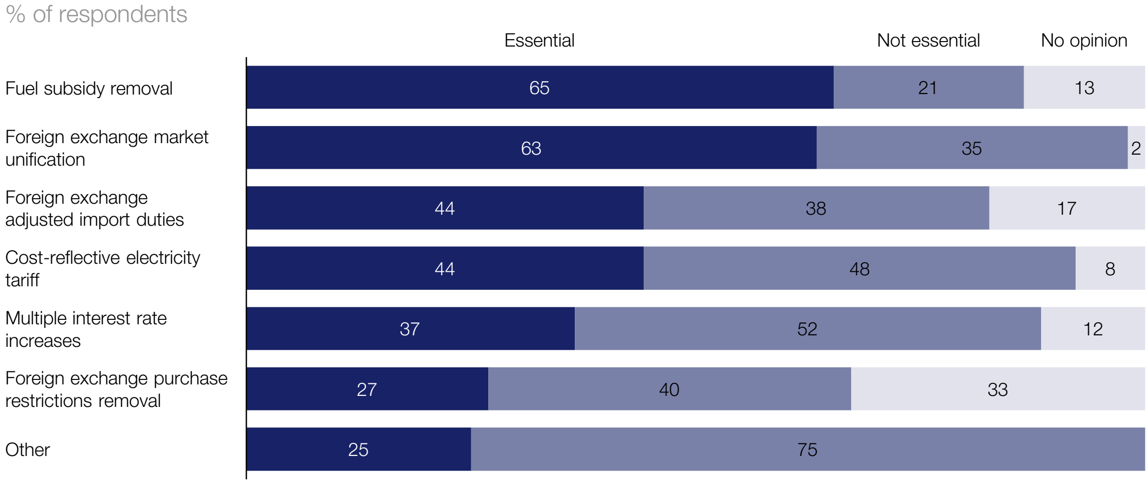
From a sectoral standpoint, manufacturing emerged as the leading industry represented (at 21%), followed by agriculture, financial services and professional services, each contributing 10% to the sample set. There was also a strong mix of other industries represented, including oil and gas, construction, ICT and healthcare businesses, all totalling 49% of respondent businesses. Notably, 38% to 40% of these businesses generated between 70% and 100% of their revenue domestically, underscoring the importance of understanding how economic reforms are perceived by a predominantly Nigeria-focused market.[21]

Across these business types and industries, there was limited consensus on the necessity of the reforms, except for two: fuel subsidy removal and FX market unification.

Figure 6: General perceptions on the necessity of economic reforms

Question: In your opinion, which of these policy reforms were essential?

% of respondents



An overwhelming 65% of respondents identified the fuel subsidy removal as the most essential, viewing it as a move that addresses deep-rooted inefficiencies in Nigeria's fuel market. Closely following, 63% pointed to FX unification as crucial, reflecting the importance of stabilising currency fluctuations for businesses reliant on imports and foreign transactions. These two reforms stood out not only for their impact but for their immediate effect on daily operations. The removal of fuel subsidies directly influenced energy and transportation costs, while FX unification has improved liquidity and brought a level of predictability to the previously volatile FX market. This shared perspective underscores the need for reforms that provide clear, tangible outcomes, particularly in a business environment fraught with uncertainty.

> "We believe fuel subsidy removal was necessary but has increased overall price levels impacting consumer purchasing power. Low-income earners spend more proportion of their income on drugs than middle-income earners. Thus, are significantly affected by price increases."
>
> **– Pharma Retail Executive**

The responses to Nigeria's recent economic reforms vary by sector, reflecting how each reform directly impacts operational costs and resource access. Unsurprisingly, the fuel subsidy removal received widespread support, particularly from industries such as financial services and oil and gas. This support can be attributed to these industries' clearer understanding of the reform's potential to enhance market efficiency, reduce government spending and promote long-term economic stability.75% of business executives in the mining sector and 64% in the manufacturing sector supported the removal of fuel subsidies. In the mining sector, players in the oil and gas downstream viewed the removal of petrol subsidies as a positive step toward pricing premium motor spirit (PMS) closer to the true cost and addressing long-standing inefficiencies in Nigeria's fuel market.

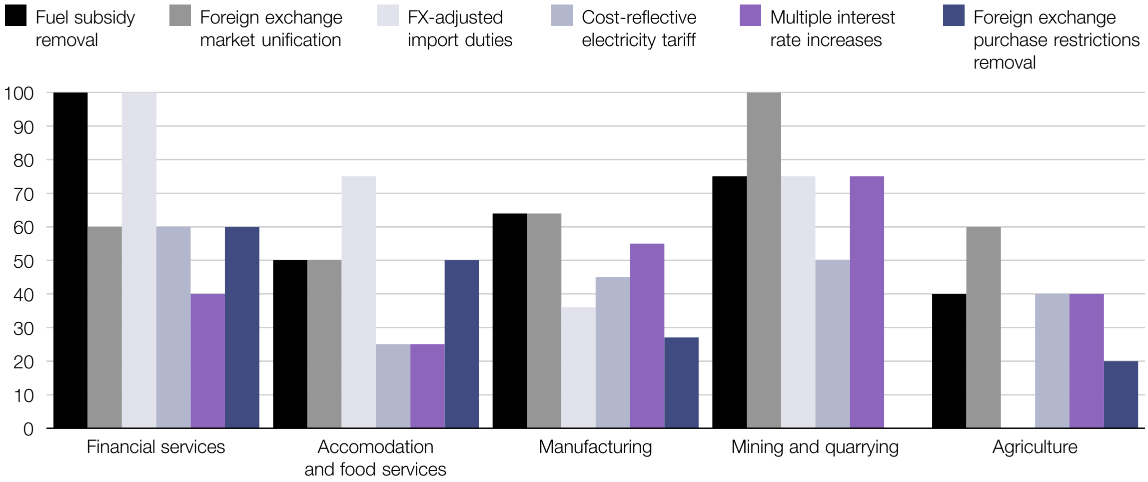
The FX market unification reform followed closely in terms of perceived necessity, with a sizeable number of respondents in mining (100%), manufacturing (64%) and financial services (60%) deeming it critical. The primary reason for this support was the recognition that Nigeria could not continue to sustain the previous FX pricing structure without risking significant economic strain. Adjusting the exchange rate was seen as necessary

[21] 2024 Nigeria Economic Reforms CEO Survey: Business operators, N = 52

Figure 7: Perceptions of the necessity of reforms across sectors

Question: In your opinion, which of these policy reforms were essential?[a]

% of respondents



a) Multiple answer question

60% benchmark

to avoid potential fiscal challenges and ensure a more stable and market-driven FX system. Additionally, manufacturers expected the reform to provide continuous access to FX for business operations, given their dependence on imports. Approximately six in ten respondents in the agriculture sector also supported FX unification.

However, multiple interest rate increases were met with significant resistance, with over half of respondents across sectors viewing this reform as non-essential. Many, particularly SMEs, viewed the rising cost of borrowing as a major barrier to investment and growth. Notably, only 20% of professional services and 40% of agriculture and financial services respondents indicated support for the reform, likely due to concerns about reduced access to funding, especially working capital.

> "Previously competitiveness was hugely affected by the restricted and not transparent forex market and we exited some parts of the business. Could have completed (sic) exited because of that issue but that's why the reforms came (to create a level playing field) … There needed to be a level playing field."

Opinions were more divided on the removal of FX restrictions and the implementation of cost-reflective electricity tariffs. Regarding FX restrictions, 33% of respondents remained neutral, and 40% considered the reform non-essential. This ambivalence may be attributed to businesses having adapted to using informal markets for FX access. Similarly, opinions on electricity tariffs were split, with 44% deeming them necessary and 48% not. This divide suggests that most prominent players are less reliant on power from the national grid, having developed self-sufficient alternatives.

Across the board, the data shows that support for reforms is closely linked to how directly each sector is affected by production factors and input costs, such as fuel, raw materials and financing. This highlights the need for sector-specific considerations in the design and implementation of future economic reforms to maximise their effectiveness.

Notably, businesses' perceptions of the importance of reforms did not correlate positively with the impact that these reforms have had on them. The FX exchange unification and fuel subsidy removal particularly hurt businesses the most, as illustrated in Figure 6.

The fuel subsidy removal reform had a notably negative impact, with 27% and 58% of businesses reporting a 'negative' and 'very negative' effect on their operations, respectively. This was largely due to the sudden increase in fuel costs, which significantly raised production costs, especially for fuel-dependent industries. Additionally, companies were indirectly affected through cost-of-living adjustments to staff salaries. In contrast, FX purchase restrictions had no impact on 73% of businesses, with only 4% reporting a 'very negative' effect, likely because many companies had already adapted to sourcing foreign currency through informal channels.

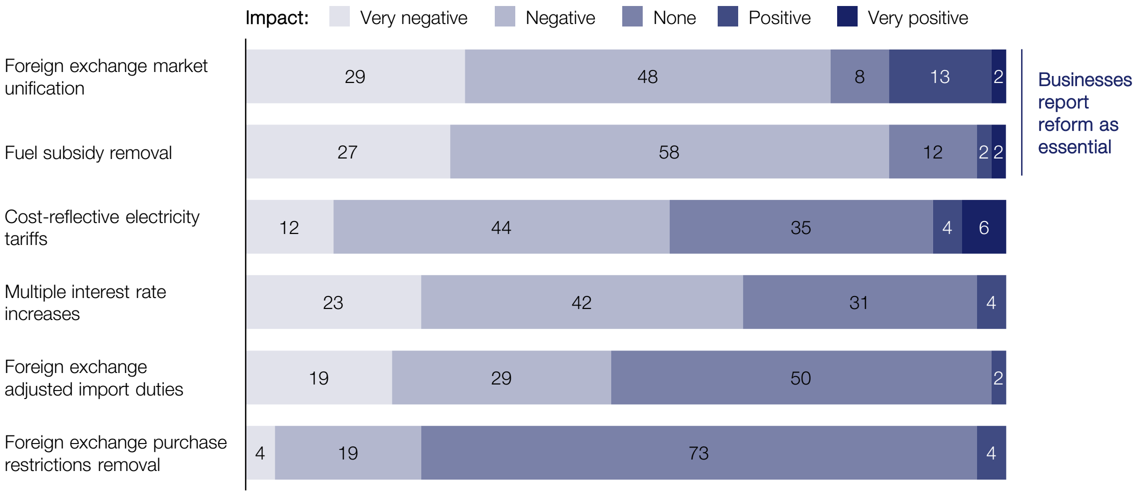
FX unification, while also severe, affected 29% of businesses 'very negatively'. This reform increased input costs for import-dependent firms and repayment burdens for companies with FX-denominated debts. However, it also saw the highest proportion of businesses reporting a 'positive impact' compared to other reforms.

For companies that reported a negative impact, this could be attributed to the increasing cost of raw materials, particularly in consumer goods and pharmaceutical manufacturing. For instance, many pharma manufacturers import a considerable proportion of active pharmaceutical ingredients (APIs). For multinational corporations obligated to repatriate profits to parent companies, returns in foreign currency shrank significantly due to declining revenues in dollar terms, impacting shareholder returns. Additionally, FX-denominated debts for some of these companies have ballooned, with debt obligations eating into tight profit margins. Conversely, successful manufacturers have diversified their portfolios across categories, transitioned to backward integration and are sourcing inputs locally or engaging in trade to generate FX, sometimes combining these strategies to remain relevant and insulate themselves from currency shocks.

Figure 8: Businesses' perceptions of how reforms impact their operations

Question: What impact did these policy reforms have on your business?

% of respondents



International companies, especially those with FX-denominated debts, felt an even greater pinch. As the naira weakened, the cost of servicing loans and repaying parent companies or international funders soared, leading to FX losses that often wiped out retained earnings and even eroded shareholder capital. In some cases, this severely impacted overall business performance and profitability.

> "Nigeria is attractive to foreign investors if currency devaluation does not continue. Stabilise inflation and exchange rates to promote investment."
>
> **– Financial Services Executive**

Meanwhile, companies in the financial services sector benefitted from the more stable and predictable exchange rate environment resulting from FX unification. With the current high interest rates, the yield on money market instruments has become attractive to both local and international portfolio investors, leading to a 360% year-over-year increase in FPI between Q2 2023 and Q2 2024.

This stark divergence in outcomes highlights the importance of strategic planning. For import-dependent sectors, reducing FX exposure through local sourcing and backward integration is crucial. Meanwhile, international companies may need to implement improved hedging strategies to safeguard against future currency depreciation. Additionally, the government could explore support mechanisms for sectors most affected by FX volatility to promote economic stability and foster resilience.

The cost-reflective electricity tariff reform showed mixed but generally more positive outcomes compared to other reforms. Only 12% of businesses reported a 'very negative impact', while 6% experienced a 'very positive impact' and 4% noted a 'positive impact'. The lower negativity might be attributed to the reform's long-term goal of improving power supply and reducing sector debts, which has created some optimism among businesses reliant on stable electricity. However, the neutral response from 35% of businesses likely reflects those still adjusting or not yet directly affected. In contrast, multiple increases in interest rates had a more pronounced negative impact (23%), likely due to increased borrowing costs that immediately strained cash flows, affecting capital investments and operations. Both reforms show substantial neutrality, suggesting that some businesses are still adapting or remain unaffected at this stage.

Since the introduction of these reforms, over 50% of businesses have reported a doubling of production costs, leading to upward price adjustments that have affected small businesses the most.

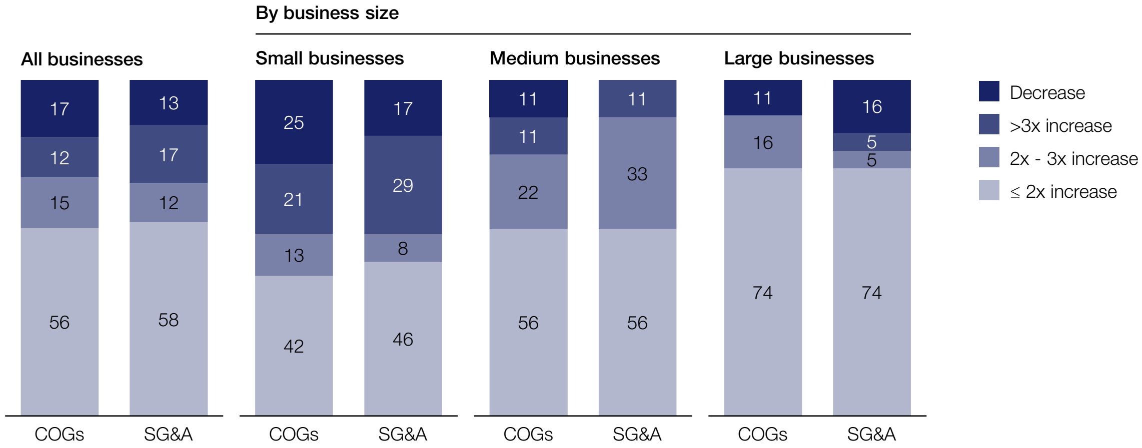
For some businesses, the increase in FX and PMS prices nearly matched the increases in production costs. Between May 2023 and September 2024, the official FX rate and the average retail price of PMS increased by 3.4x. During this 15-month period, the financial performance of businesses also shifted – a few of the surveyed companies (12% and 17% respectively) experienced more than a threefold increase in COGS and General & Administrative (SG&A) expenses. One firm even reported that its 'costs of goods quadrupled'. Additionally, some businesses recorded 'zero revenue', while others noted 'no sales, only repairs of already sold items', reflecting the reduced purchasing power of existing and prospective customers.

> "Non-oil sectors have seen a steep increase in the COGS, SG&A and fixed costs because of reform."
>
> **– Pan-African Executive**

Figure 9: Changes in financial performance, by business type

Question: How has your organisation's financial performance changed in the following categories in the last 15 months?

% of respondents



The financial impact of the reforms varied across different business types. Small businesses were most affected by cost increases, with 21% experiencing a more than threefold rise in COGS, compared to 11% of medium-sized businesses and none of the large businesses. Additionally, 42% to 46% of small businesses recorded an increase of more than twofold in COGS and SG&A. This disproportionate impact is likely due to smaller firms' limited ability to absorb rising input costs, given their lack of scale for proactive bulk procurement of raw materials or negotiating power with suppliers.

As expected, large businesses faced the lowest cost increases, with 74% reporting up to a twofold increase in COGS and SG&A, and only 5% seeing a more than threefold rise in SG&A, benefiting from economies of scale. Medium-sized businesses saw mixed outcomes – over half recorded up to a twofold cost increase, aligning with the overall respondent average of 56% to 58%, but a notable 33% faced a two- to threefold rise in SG&A, reflecting increased distribution and financing costs. Businesses stated that, since the reforms, "there have (sic) been marginal or no growth this period," and cited other cost increases such as staff costs, rising transportation costs and multiple taxation.

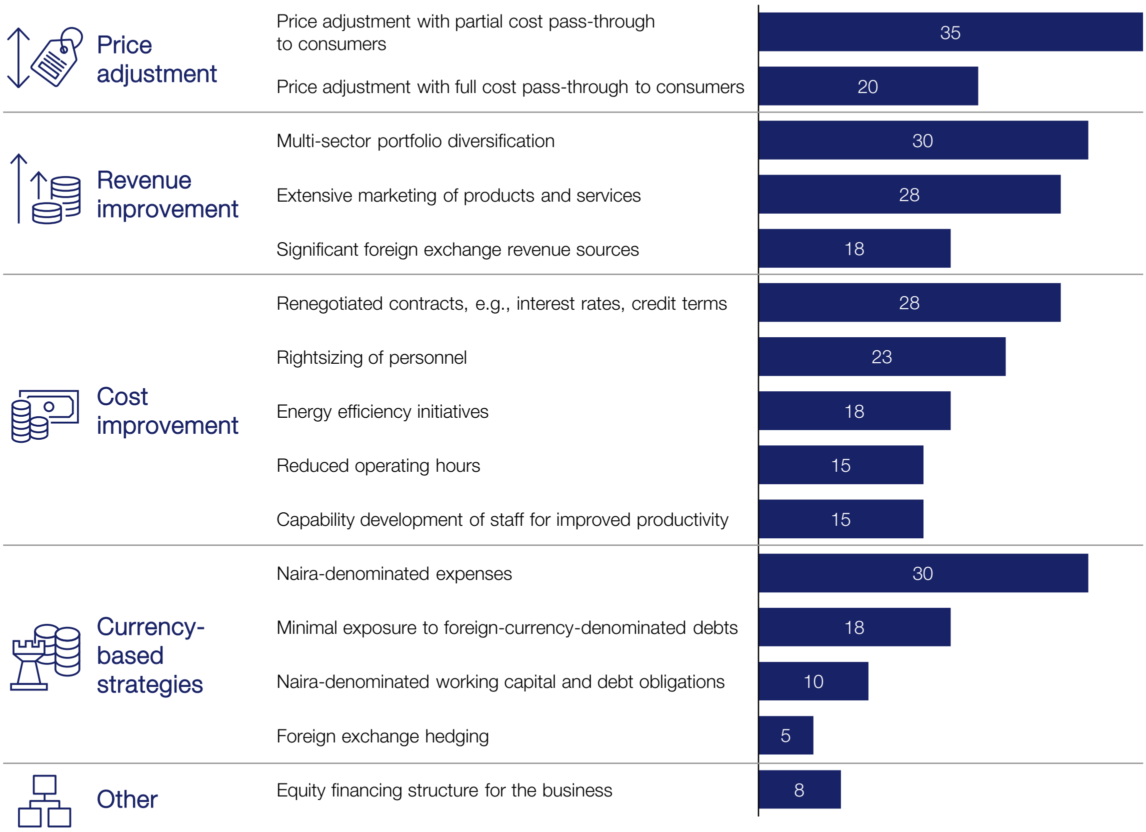
Businesses have responded to the shifting business and economic landscape in various ways. The majority of companies have prioritised efficiency initiatives, while some are considering expansion and sectoral pivots. While many businesses focused on survival through cost management, others saw the potential for growth and innovation, highlighting the diverse strategies companies are employing to weather the economic shifts.

The majority (58%) opted to streamline operations, simplifying their portfolios and driving efficiency to combat rising costs without drastic changes to their core business model. This conservative approach likely reflects a desire to maintain stability amidst rising costs.

Figure 10: Business decisions made in the last 15 months

Question: What measures has your organisation implemented to maintain business sustainability?

Business sustainability measures, % of respondents



However, some businesses pursued a more growth-oriented path, with 33% expanding into new markets – either geographically or through new product lines – while seeking to diversify revenue streams and risks amidst uncertainty. Meanwhile, one in five businesses invested in new production lines or made capital improvements, demonstrating resilience and a longer-term vision of boosting capacity and anticipating future growth despite the challenging environment.

> “The cost of fuel is crippling our operations as we cannot afford to run the generator.”

On the other end of the spectrum, 13% of businesses exited the market entirely, while 3% shut down operations. For those that exited, several factors contributed to their decision (as illustrated in Figure 9): a significant 41% cited opportunities to diversify market risk as a key reason, possibly indicating a preference to consolidate efforts where they have a competitive or positional advantage. Additionally, 40% reported exiting due to reduced demand for their products, likely driven by lower consumer purchasing power in a challenging economic environment, ultimately impacting revenues.

Rising operating costs were also major factors: 38% blamed higher energy prices, while less than 30% pointed to increased staff costs and the rising cost of raw materials caused by currency depreciation impacting their businesses, necessitating an exit.

Interestingly, the availability of FX access at competitive pricing was not a key determinant of business exit, implying that businesses found workarounds to these challenges. The resilience shown in these efforts to overcome obstacles sets a foundation for optimism about prospects.

Overall, businesses express an optimistic outlook. Seven in ten are confident about sustaining their operations for the next five years, with at least 50% planning to make capital investments.

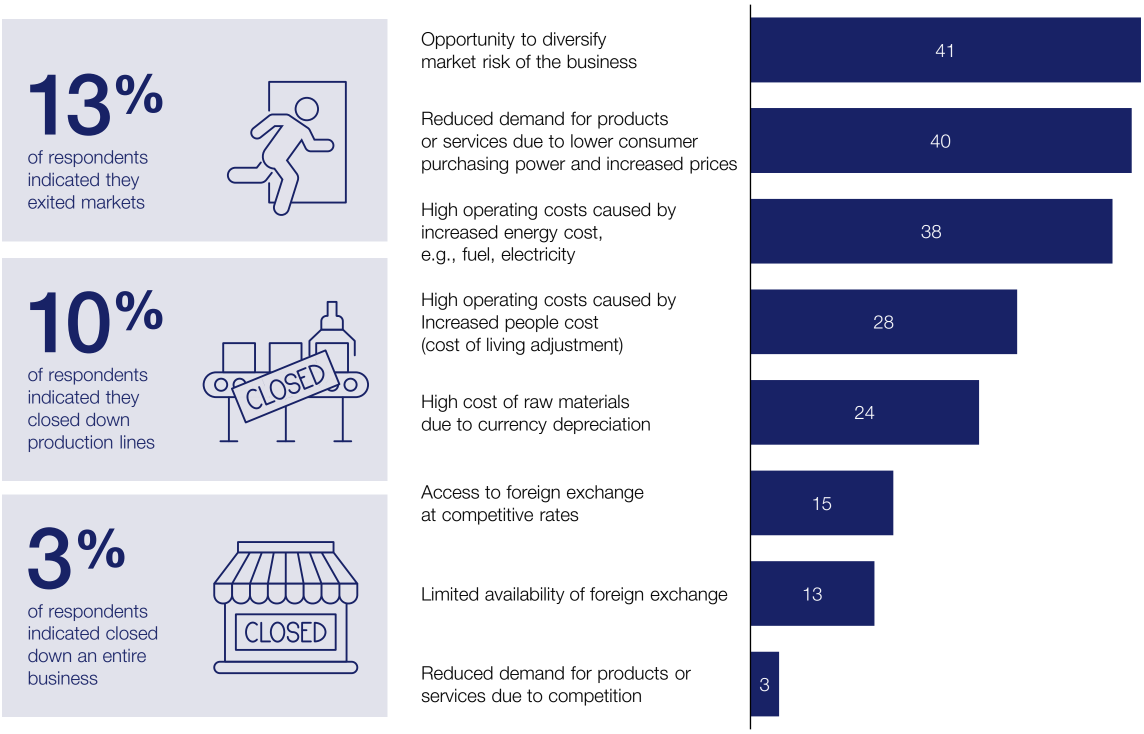
Medium and large businesses exhibit the most resilient long-term outlook, with 89% planning to remain operational

> “We believe Nigeria is still the number one market we want to play in, the size of the market is the biggest driver but also, we are expecting that based on all the reforms we will be able to do business easier.”

Figure 11: Drivers of business decisions in the last 15 months

Question: Since the reforms were introduced in May 2023, has your company taken any of the following business decisions?

% of recurrence



over the next five years. This signals their cautious optimism and resilience in navigating current economic challenges. However, the impact of recent reforms has left smaller businesses on less stable ground, with 42% of them uncertain about their future and most concerned about business sustainability in the future.

By sector, manufacturing, finance and mining show the strongest continuation plans, with 91% to 100% of businesses in these sectors, aiming to operate for at least five more years. In contrast, accommodation and food services are the most uncertain, with 50% unsure about their survival. Meanwhile, agriculture businesses maintain cautious optimism, with 60% planning to stay operational for the next three to five years. This varied outlook indicates that while larger firms are more likely to endure, smaller businesses and certain sectors face significant risks if the economy does not stabilise soon.

Overall, businesses remain cautiously optimistic about investments. Investment plans reveal a distinctly cautious mindset, reflecting prevailing uncertainties. While over a third of companies intend to invest

Figure 12: Businesses' outlook on their operations in Nigeria over the next 3 to 5 years

Question: Based on the current economic and market conditions, how long do you plan to continue business operations in Nigeria?

% of respondents

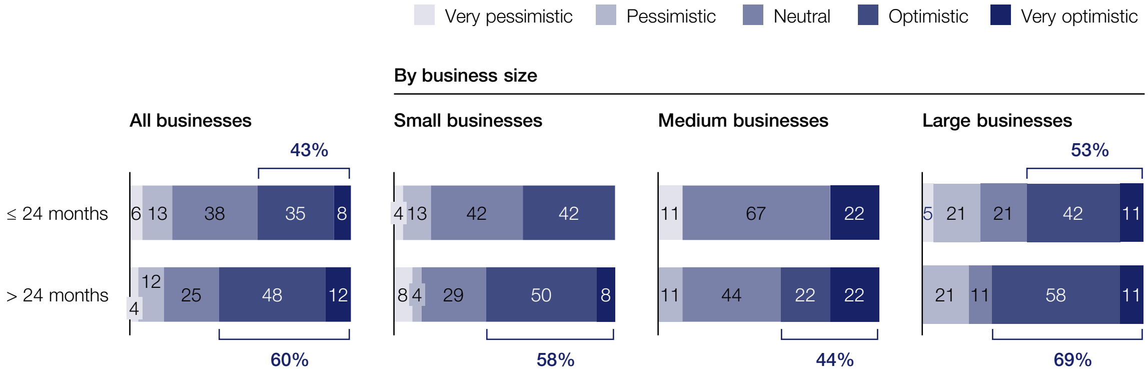
		By business type			By sector				
Duration	All businesses	Small	Medium	Large	Manufacturing	Agriculture	Finance and insurance	Accommodation and food services	Mining and quarrying
Up to 2 years	6	12	0	0	0	0	0	25	0
3 to 5 years	6	8	0	6	0	60	0	0	0
Over 5 years	65	38	89	89	91	20	100	25	100
Do not know	23	42	11	5	9	20	0	50	0

conservatively in the next two years, a similar portion aims to maintain this cautious strategy beyond that timeframe. Limited enthusiasm for substantial capital outlays is evident, with only around 17% to 19% planning significant investments in the near or long term. Larger enterprises exhibit slightly more confidence, with a majority (53% and 69%) indicating intentions to invest within and beyond the next 2 years respectively. However, many remain hesitant due to concerns about economic and political instability, the risk of social unrest and growing levels of inequality and poverty.

Figure 13: Businesses' outlook on their investments in Nigeria, by business type

Question: What is your perspective on the investment outlook?

% of respondents



Similar to sentiments shared about future operations, smaller businesses report greater levels of uncertainty, with 38% undecided about future investments. Medium-sized enterprises show more optimism for the long haul, with nearly four in five planning substantial investments beyond two years, suggesting their ability to balance growth opportunities with risk.

In summary, the recent reforms have produced a complex landscape for businesses in Nigeria, characterised by varied impacts across different sectors and company sizes. While small businesses face significant challenges, medium and large enterprises exhibit a more stable outlook, though they still approach investments cautiously due to ongoing uncertainties. This divergence underscores the need for targeted strategies to mitigate the negative effects of these reforms, particularly prioritising support to small businesses to enable them to survive these challenging situations. As we move forward, it is essential to explore viable pathways that can enhance business resilience and drive sustainable growth in this evolving economic environment.

Proposed interventions and potential pathways for the future

Businesses believe that the reform implementation process can be strengthened by introducing policy and non-policy actions – both interim and longer-term measures to help cushion the effects of the reform process.

From a policy perspective, many firms suggest **that a stable exchange rate environment** is crucial for planning and growth, as the sharp depreciation of the naira has significantly affected import costs and profitability. While there is no consensus on the "right" exchange rate, most businesses concur that stable exchange rates are crucial. The push for stability was underscored effectively by one respondent who stated, "[The rate] doesn't matter as long as it is stable."

However, it is important to note that given the state of the economy, the focus should be on exchange rate sustainability rather than mere stability. Stability would require ongoing interventions by the CBN, which could deplete reserves . With the current inflation rate, pursuing a sustainable exchange rate is a more viable pathway for monetary authorities. In Malaysia, for example, similar reforms were tackled by building FX reserves, which was achieved by promoting and supporting export-focused businesses . This approach underscores the need for targeted strategies that not only stabilize the exchange rate but also ensure its long-term sustainability, thereby fostering a more conducive environment for business planning and growth.

Box 2

Malaysia's strategy for building its FX reserves has been multifaceted, combining strong export growth, prudent fiscal and monetary policies and active intervention by Bank Negara Malaysia (BNM). The country's economic success has been largely driven by robust performance in key sectors such as electronics, palm oil and natural resources.

In 2021, Malaysia's electronics exports reached a record high, contributing significantly to the overall trade surplus of its FX reserves. Additionally, BNM took a proactive approach, purchasing foreign currencies during periods of trade surpluses. This tactic not only helped in accumulating reserves but also aimed to stabilise the currency amidst global market fluctuations. During times of volatility, BNM intervened by selling foreign currencies to support the Malaysian ringgit and safeguard market stability.

Bank Negara Malaysia reports; CEIC data; World Bank

Another set of major policy actions businesses are calling for are **lower tax levies and competitive interest rates** to encourage investment and stimulate economic activity, particularly in a climate where high borrowing costs have stifled expansion. Several strategic recommendations were proposed to lower tax levies. These include exempting NGOs from withholding tax on social-development-related services and encouraging corporate social responsibility among businesses. Additionally, simplifying the tax system through harmonisation and a single payment system can address multiple taxation issues and ease the burden on businesses. Furthermore, providing tax relief for key sectors like manufacturing and agriculture, along with the removal of personal income taxes for lower-income employees could stimulate economic growth and boost community engagement.

> "Reduc[ing] [the] CIT rate … to spur increased investment … [and] eliminat[ing] the police levy and IT levy on profits."
>
> "[implement] harmonisation of company income taxes to a [single] number."

For automobile manufacturing, executives suggested providing incentives for local car assembly and manufacturing by imposing higher levies on fully built automobiles compared to semi-knocked down (SKD) commercial vehicles.

Interestingly, policymakers are already implementing some of these tax relief initiatives. Recent efforts aim to alleviate the financial strain on businesses through key exemptions and adjustments.

— A proposed exemption from VAT for input providers aims to reduce the cost of production, helping companies maintain profitability despite rising operating expenses.

— Further plans to grant 100% input VAT credit on assets and services will ease cash flow, particularly for businesses with high capital expenditure. These plans are still in discussion; stakeholders have noted their potential benefits, especially for cash flow in capital-intensive sectors like manufacturing, as they allow companies to claim back VAT on their investments.

— Additionally, once the legislation is gazetted, a VAT order will waive VAT and duties on imported inputs used to stabilise critical industries. This would provide temporary relief for businesses reliant on imported goods, especially as exchange rate fluctuations continue to impact import costs.

— Beyond VAT adjustments, legislative efforts are underway to lower the corporate income tax rate from 30% to 25% for qualifying sectors. This tax reduction, pending approval, is intended to make Nigeria's tax regime more competitive and attractive for local and foreign investors.

— Additionally, regulatory amendments are in progress to allow tax and levy payments in FX, specifically targeting high-cost levies imposed by agencies such as the NPA and the NIMASA.

These reforms are part of a broader national fiscal policy agenda designed to provide a structured subsidy infrastructure aimed at stabilising the economy and supporting growth across sectors. However, while these measures are promising, the urgency of their implementation is pressing, as the economic climate remains challenging, and businesses face immediate pressures due to inflation, energy costs and FX volatility.

The government could also prioritise export promotion as a key economic resilience and growth strategy. By fostering exports, the country can diversify revenue sources, strengthen foreign reserves and stabilise the currency. Supporting exporters can help create jobs, increase local production and enhance competitiveness, ultimately building a more robust economy less dependent on imports.

Businesses also emphasise that non-policy actions are just as vital to improving operational conditions.

Priorities include **enhancing electricity supply and transportation infrastructure,** both of which have been longstanding issues that impact productivity and the cost of doing business. Additionally, firms highlight the need for **increased funding for grants and social programmes,** which would offer support for sectors hardest hit by the economic downturn and promote inclusive growth.

Box 3

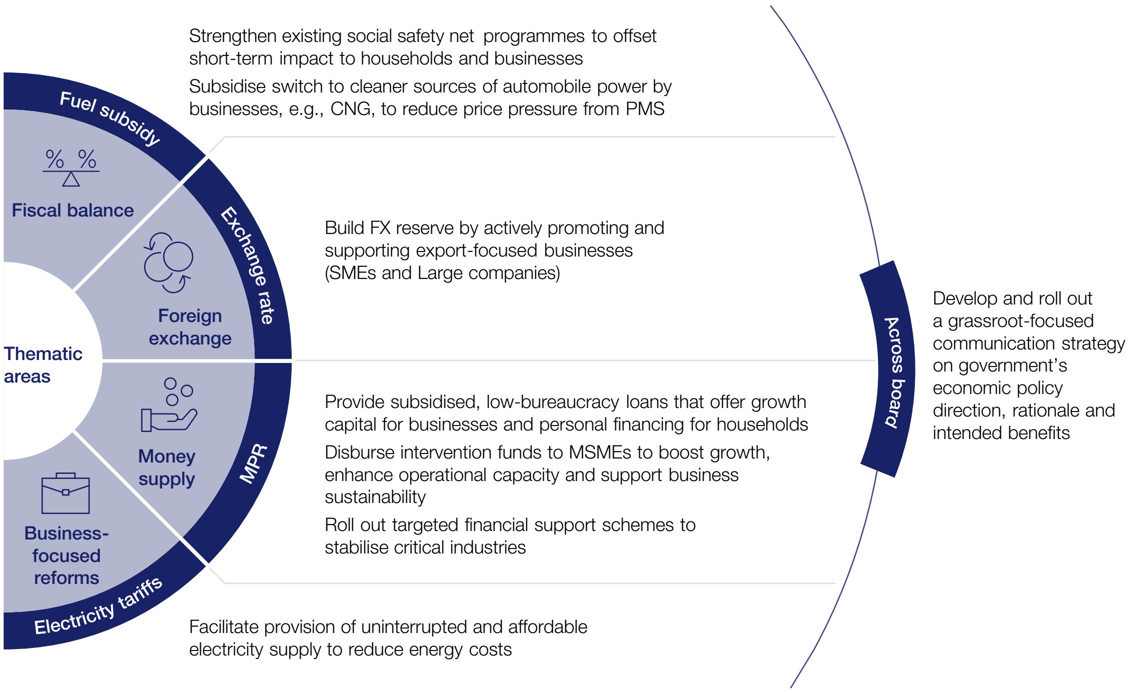
Egypt provides a notable example that may be applicable to the Nigerian context. In 2014, the Egyptian government implemented a series of social safety net programmes alongside its fuel subsidy reform to offset the reform's short-term impact. They allocated EGP 10 billion to the Takaful and Karama programmes, supported by a USD 400 million World Bank project. Takaful provided conditional cash transfers to low-income families, incentivising school attendance and nutrition awareness. Karama offered unconditional pensions for vulnerable groups such as the elderly, disabled and orphans.

Both programmes utilised a proxy means testing questionnaire and a unified national registry to precisely target beneficiaries. Additionally, the Forsa programme promoted self-sufficiency by providing job placements and asset transfers, fostering financial inclusion and aiding beneficiaries in their transition from cash dependency to economic resilience.

IFPRI Middle East and North Africa: Phasing Out Energy Subsidies as Part of Egypt's Economic Reform Programme

In reviewing these recommendations and approaches from other countries, eight potential pathways for stimulating business and investment growth amidst reform emerge.

Figure 14: Potential pathways for easing the impact of reforms



Fuel subsidy

To address the effects of fuel subsidy reform, the government could:

Strengthen existing social safety net programmes. This initiative aims to enhance social protection measures, such as cash transfers and food subsidies, to mitigate the immediate effects of reforms on vulnerable households and businesses. It will help maintain household consumption and support small businesses facing increased operational costs.

Subsidise a switch to cleaner automobile power (for example, CNG) to help businesses transition from petrol to cheaper, cleaner energy sources. Policymakers in Nigeria have already begun to implement a similar initiative called the "Presidential Compressed Natural Gas Initiative (P-CNGi)" – a nationwide distribution of CNG conversion kits.[22] This programme is said to leverage the increased allocation available because of the fuel subsidy removal. To accelerate the CNG programme, the government could enhance public-private partnerships to expand conversion centres nationwide. Additionally, offering tax incentives for vehicle owners and CNG infrastructure investors could make conversions more financially attractive for both businesses and individuals.

Exchange rate

To effectively cushion the effects of the FX unification reform and enable the success of the reform, the government could:

Build FX reserves by supporting export-focused businesses by actively promoting export growth. This would involve providing incentives, infrastructure support and financing to export-oriented businesses to increase FX inflows, which will strengthen Nigeria's FX reserves, stabilise the currency and improve the overall economic environment.

MPR

The short-term impact of monetary policy reform on the business environment can be addressed by:

Providing subsidised, low-bureaucracy loans. Offering loans with minimal red tape and lower interest rates would help businesses secure essential growth capital and enable households to meet their financial needs. This approach will help alleviate cash flow challenges stemming from increased costs, fostering both short-term resilience and long-term growth. This approach could build on initiatives like CrediCorp, which

[22] PCNGi: Conversion Incentive Programme Website

aims to enhance access to credit.[23] However, it is crucial to improve the awareness and outreach of such programmes to ensure they effectively reach underserved communities and maximise their impact.

Disbursing intervention funds to MSMEs to help them cope with increased costs and other challenges posed by reforms. This support will facilitate job retention, growth and business sustainability in critical sectors.

Rolling out targeted financial support schemes. Focused financial aid programmes for key sectors like manufacturing, agriculture and transport will help stabilise industries heavily affected by higher operating costs. It will ensure continued sector growth and economic diversification. Given the country's current financial constraints, engaging development banks and encouraging private sector participation can provide critical funding sources. This collaborative approach will enable a more sustainable and robust support system for these sectors.

Electricity tariffs

The cost-reflective electricity tariffs reform can be supported by:

Facilitating uninterrupted, affordable electricity through substantial private-sector investment in transmission and distribution. Creating an enabling environment to attract private capital will be essential to ensure reliable infrastructure and reduce businesses' dependency on costly self-generated power.

All reforms

A major cross-cutting initiative that could support the success of all reforms would require the government and policymakers to:

Develop and roll out a grassroots communication strategy. This would involve creating a communications campaign aimed at local communities, explaining the government's economic policies and their intended benefits. Clear communication has the potential to increase public understanding of reforms, ultimately helping to foster trust and reduce resistance to changes.

Crucially, **implementing effective communication strategies** is one of the recurring non-policy actions proposed by businesses. Respondents highlight that transparent, frequent and targeted messaging from the government would help clarify the rationale behind ongoing reforms. As one business leader stated, "increase interactions with business owners before taking hasty economic decisions."

Some of these interventions require financial commitment, which must be weighed against the country's current fiscal debt. Therefore, alternative funding methods, such as public-private partnerships (PPPs), impact investing and international grants, can be explored to attract private capital without placing additional strain on government resources.

As an immediate priority, **enhancing communication about the objectives and significance of these reforms** could foster wider public support and a clearer understanding of their long-term benefits.

The engagement between the government and various business sectors prior to the introduction of policy reforms revealed a significant divide in participation. When asked about their involvement in developing and implementing these reforms, a substantial majority of businesses reported a lack of engagement (directly or indirectly), particularly in the entertainment, arts, construction, real estate and transportation sectors. In stark contrast, manufacturing and mining businesses emerged as the most actively engaged sectors, receiving direct engagement from policymakers.

Over half of the large businesses surveyed confirmed their direct engagement with government officials before the establishment of reforms. In contrast, nearly 90% of small businesses and 78% of medium-sized firms stated they were not engaged at all – neither directly nor indirectly. This stark reality highlights the critical

> "(…) the pervading uncertainty about almost everything," while another highlighted that "[the] regulatory environment is burdensome and needs simplifying."
>
> "[there is a] lack of proper information by policymakers on [the] impact of policies on investment"

[23] Nigerian Consumer Credit Corporation (CrediCorp): About Us (website)

communication gap that likely hindered business preparedness, leaving small enterprises particularly vulnerable to the impacts of these reforms. Such findings underscore the urgent need for inclusive policymaking involving diverse stakeholders to ensure that all sectors, especially smaller businesses, are informed to navigate economic changes effectively.

Furthermore, there is an overarching sentiment regarding a lack of clarity and preparedness for changing policies, which creates an unpredictable environment that stifles business growth and stability.

As identified in other countries' approaches, improving and prioritising communications would alleviate public concerns and foster greater trust between policymakers and the private sector, ensuring businesses remain engaged in the reform process. For example, Egypt's successful implementation of programmes like Takaful and Karama, which reached over 9.5 million individuals, is a compelling model of how strategic communication can lead to greater acceptance and success in policy changes.

Box 4

In 2014, Egypt initiated a comprehensive communications strategy to support its fuel subsidy reforms to address significant fiscal imbalances within the economy. The campaign was designed to educate the public on the rationale behind reducing fuel subsidies, which had largely favoured wealthier households at the expense of broader economic stability. By leveraging multiple platforms (social media channels, television and community outreach), Egypt sought to effectively communicate the changes and their intended benefits.

The strategy highlighted the government's commitment to redirecting the funds previously allocated to fuel subsidies toward vital social programmes, such as Takaful and Karama. This multifaceted approach not only aimed to mitigate public backlash but also fostered a sense of community involvement in the reform process, showcasing the government's dedication to inclusive economic recovery. As a result of this approach and other supporting activities, programmes like Takaful and Karama reached over 9.5 million individuals by 2018, helping mitigate the impact of subsidy cuts on vulnerable populations

IISD; World Resources Institute; IFPRI Middle East and North Africa: Phasing Out Energy Subsidies as Part of Egypt's Economic Reform Programme

For Nigeria, there are several applicable learnings. By adopting a comprehensive communications strategy that utilises diverse platforms, including digital and offline channels, the government could better inform its citizens about the rationale behind subsidy reductions and the intended benefits. Emphasising transparency in how redirected funds will support vital government initiatives and plans can foster public trust and mitigate backlash. Additionally, by actively involving communities in the reform process and showcasing a commitment to supporting vulnerable populations, Nigeria could enhance the effectiveness of its reforms and promote a more inclusive economic recovery.

Another notable example is Poland, which effectively communicated its monetary policies by utilising a multi-channel approach that included media engagement, press releases and public forums. This ultimately ensured that businesses felt adequately informed about monetary policies and their implications.

Box 5

As part of its 1989 economic reform to curb inflation, Poland developed and rolled out a grassroots-focused communication strategy on the government's economic policy direction, rationale and intended benefits. The Polish government effectively communicated its monetary policies by utilising a multi-channel approach that included media engagement, press releases and public forums. They collaborated with financial institutions to disseminate information and gather feedback from businesses, particularly targeting grassroots organisations and local business associations to ensure a broad reach. Grassroots targeting involved organising workshops and community meetings, allowing small business owners to express concerns and provide input directly to policymakers. To sustain this engagement, the government established a regular communication schedule, often issuing updates quarterly and hosting monthly forums to maintain an open dialogue with stakeholders. This proactive approach resulted in increased business confidence, with surveys indicating that 70% of businesses felt adequately informed about monetary policies and their implications.

IMF; World Bank

Actively targeting grassroots organisations and local business associations to gather feedback can ensure that the concerns of SMEs are heard and addressed. Establishing a regular communication schedule with consistent updates and open dialogue would further build business confidence, fostering a more supportive environment for policy changes. This proactive engagement strategy could ultimately help Nigeria to create a more informed and resilient business community.

Box 6

In 2017, the Indian government aimed to unify the tax regime through a GST reform to enhance transparency, improve collection and foster a single national market. To effectively communicate the reform, the Indian government employed a comprehensive social media strategy. Official accounts, such as @FinMinIndia on Twitter and Facebook, provided timely updates and clarifications about the policy. To engage the public, they launched hashtag campaigns like #GSTForCommonMan, which educated citizens on the benefits of the reform. Interactive sessions were held on social media, allowing citizens and businesses to participate in live Q&A discussions. Additionally, tutorial videos were shared to explain compliance procedures, while influencers and celebrities were enlisted to reach a broader audience and enhance awareness. To further assist businesses, the government promoted helplines through social media, ensuring that queries related to the new tax regime could be addressed promptly. The campaign significantly enhanced understanding of the GST, with registrations rising from eight million to 12 million by 2021 and monthly collections reaching a record high. Additionally, the time required for tax filing dropped from 241 hours to less than 100 hours by 2019, aided by continuous feedback that facilitated adjustments in tax rates and smoother transitions.

IIndia Ministry of Consumer Affairs; Grant Thornton Bharat; New Indian Express

Nigeria can draw from these examples by deploying a tailored communication strategy that informs and engages citizens about ongoing reforms. Highlighting the direct benefits of changes, ensuring transparency and using diverse communication channels could help build public trust and ease the implementation of critical reforms like fuel subsidy removal or currency unification.

Conclusion

While businesses in Nigeria face significant challenges due to recent reforms, there remains a clear path forward through collaborative engagement and targeted interventions. The insights shared by industry stakeholders highlight the urgent need for a stable economic environment characterised by predictable exchange rates, reduced tax burdens and competitive interest rates, as well as essential infrastructure improvements. Drawing from successful examples in other countries, it is evident that effective government policies, coupled with transparent communication and support programmes, can drive meaningful economic resilience. By prioritising these initiatives, government stakeholders can both alleviate the current pressures on businesses and foster a more sustainable and robust economic landscape, paving the way for long-term growth and stability in Nigeria.

Appendix: 2024 Nigeria Economic Reforms Impact CEO Survey

1. What is your primary role?
2. What is your current position within your organisation?
3. In which sector of the economy does your company primarily operate?
4. Which segment of the value chain does your company primarily operate in?
5. Is your company listed on the Nigerian Exchange Group (NGX)?
6. How many employees does your company have?
7. What is your company's annual revenue range?
8. What proportion of your revenue comes from your operations in Nigeria?
9. How would you describe your overall business experience in Nigeria between 2019 and May 2023?
10. In your opinion, which policy reforms were essential?
11. What impact did these policy reforms have on your business?
12. How has your organisation's financial performance changed in the last 15 months across key categories?
13. Since the reforms were introduced in May 2023, has your company taken any significant business decisions?
14. What have been the key drivers of recent business decisions (since May 2023)?
15. What measures have your organisation implemented to maintain business sustainability?
16. Are there any other factors that can negatively affect your ability to conduct business in Nigeria?
17. Based on current economic and market conditions, how long do you plan to continue business operations in Nigeria?
18. Does your organisation plan to invest in capital expenditure?
19. What is your perspective on the future investment outlook?
20. What risks and concerns do you foresee if the current situation remains unchanged over the next 3-5 years?
21. Was your organisation engaged by the government in developing and/or implementing any policy reforms?
    a. Please list the industry associations that have engaged your organisation on reforms.
22. Which of the following policies are critical for the success of your business?
    a. What exchange rate range would ensure your company's long-term business planning remains unaffected?
    b. What is the average annual interest rate that would support your company's growth?
    c. What could improve foreign exchange availability for companies?
    d. What import duty waivers would be most beneficial for your business?
    e. How would exempting your business from withholding tax benefit your company?
    f. What changes to current tax levies would benefit your business?
    g. What changes to the current tax collection process would be beneficial for your business?
23. What other non-policy actions could positively affect the success of your business?
24. What other actions or ideas would you like policymakers to take to improve the business environment?
25. What is your expectation regarding future tax administration changes e.g., VAT increase, tax harmonisation, WHT exemption for SMEs?