Scaling through crisis

Impact Assessment on Startups and Scaleups in Nigeria

endeavor

BRITER BRIDGES

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About Endeavor Nigeria

Established in 1997, Endeavor is a mission-driven, global organisation leading the high-impact entrepreneurship movement. Endeavor was founded on the belief that job creation, innovation, and overall prosperity flourish where there is robust support for high-impact entrepreneurs.

Endeavor screens, selects, and accelerates high-impact entrepreneurs building transformative companies in nearly 40 markets globally. Headquartered in New York City, Endeavor operates across underserved ecosystems throughout Africa, Asia, Europe, Latin America, the Middle East, and North America. Endeavor Entrepreneurs have a significant track record of impact, helping to build sustainable growth models in their home countries by inspiring future generations to innovate and take risks. There are over **2,000** Endeavor Entrepreneurs leading over **1,300** companies across the world. In 2019, Endeavor Entrepreneur-led companies created over 4 million jobs and generated over **$24 billion** in revenues. Endeavor launches in markets where there is a vibrant startup ecosystem, lacking in scaleup support. Endeavor Nigeria launched in 2018 to support the best founders of companies at the scale-up stage, who demonstrate the potential to leverage Endeavor's resources to create large-scale wealth and jobs, and are committed to reinvesting their time and money to help other entrepreneurs in Nigeria's ecosystem take off. Endeavor Nigeria currently supports 17 Endeavor Entrepreneurs leading 11 companies in Nigeria.

Learn about Endeavor's global operations: **www.endeavor.org**
Learn more about Endeavor in Nigeria: **www.endeavornigeria.org**

About Briter Bridges

Briter Bridges is a data-driven research firm founded in 2018 and focused on producing market insights about underserved markets, with a particular focus on Africa. Briter has produced the largest publicly-available collection of visual information on Africa's business, funding, and technology to date, becoming one of the go-to resources for development finance institutions, donors, investors, and corporates globally. Its flagship product, Intelligence, provides real-time data and analytics and a centralised, digital tool to easily access comprehensive information about Africa's innovation and investment.

Learn more about Briter Bridges at: **briterbridges.com**.

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Companies

max.ng

LifeBank

aza

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DAYSTAR POWER ENERGY SOLUTIONS

paga your cash, anywhere, anytime

cellulant

arnergy

migo

kobo 360

Investors and lenders

lateral capital

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National Information Technology Development Agency

Foreword

Many of us started 2020 with grand plans for what we hoped to accomplish, but in March, things took a swift turn. Despite early news reports of COVID-19 taking hold first in China, then in Spain and other parts of Europe, in Nigeria, there was more of a sense of ambivalence about the pace of the pandemic and the potential impact on local businesses. Startups and scaleups took the advice to shore up balance sheets, and prepare for a significant economic downturn with a degree of scepticism, until the first lockdowns. The six-week lockdown in March took a toll on many startups and scaleups in Nigeria, and businesses and consumers continue to be cautious. The great news is that the tech community has embraced a lower-touch future much more readily than other businesses, by digitising processes, working from home and managing remote workforces despite the usual challenges of infrastructure.

By all indications, the broader economic outlook for the next several months will be a difficult one. Despite these setbacks, the innovation ecosystem in Nigeria has risen to the challenge, quickly embracing the imperative to adapt. For startups and scaleups, the question, "how much runway do you have?" became top of mind early on during this crisis. Investors urged founders to remain focused and even see this as an opportunity for innovation—after all, some of the most impactful companies today were formed during a crisis. It is possible that resilience can be built into a business model, but the fact remains that in uncertain times, the success or failure of a company also depends on the structures and support network around the company and its founders.

In March 2020, the United States launched a Payment Protection Program under the CARES Act to support businesses and provide unemployment benefits for eligible taxpayers, creating a softer landing for many business owners and their employees.

In Nigeria, these incentives took a different turn and can be seen in the Central Bank of Nigeria's NGN 100 billion credit support for the pharmaceutical industry and the National Information Technology Development Agency's advisory committee on supporting the technology ecosystem amongst others. Additionally, the swift response of the Private Sector Coalition Against COVID-19 (CACOVID) signalled that private-public sector collaboration can derive the most impactful solutions in Nigeria. In June 2020, Endeavor and Briter Bridges conducted in-depth interviews with active participants in Nigeria's innovation ecosystem and this report highlights the excerpts, trends, and insights garnered from those conversations.

Our conversations emphasised the urgency of building a shock-proof economy by investing in critical infrastructure, looking at alternative business models in essential sectors such as healthcare and agriculture, and the importance of maintaining investor relationships year-round. At Endeavor, we believe that job creation, innovation, and overall prosperity flourish where there is robust support for high-impact entrepreneurs. The purpose of this report is to present information on the unique role that scaleups play in Nigeria, the unique experiences and challenges they face in these times, and why we must protect them. Now more than ever, it is vital that Nigerian founders exist in an ecosystem that provides them with incentives that allow them to thrive like their peers in other parts of the world.

Eloho Omame

Managing Director, Endeavor Nigeria

Introduction

Scaling through Crisis is a qualitative assessment aimed at investigating the impact of the Coronavirus pandemic across Nigeria's innovation ecosystem, examining the trends arising from what has come to be defined as the 'new normal', and assessing the strategies being implemented by industry leaders to navigate the crisis. This study is divided into five main sections:

1. **Setting the scene:** *explores the context of the Nigerian business environment, by discussing some of the macroscopic challenges that the crisis is bringing to the forefront; such as infrastructural inadequacy, the threat of unemployment, and the undercapitalisation of the State.*
2. **How is COVID-19 impacting markets and industries:** *investigates the repercussions of the pandemic on specific sectors and the factors causing a slowdown or increase in revenue generation.*
3. **How are entrepreneurs and investors adapting to the pandemic?:** *looks at suggestions from industry leaders and investors to keep businesses afloat in times of crises and the changes in investment appetite.*
4. **Capacity building efforts by the government to support businesses:** *explores what government-level interventions are being implemented to safeguard the economy and ensure the conditions for recovery.*
5. **Recommendations:** *highlights the critical steps that the government can take to mitigate the impact of the crisis and build a shock-proof economy.*

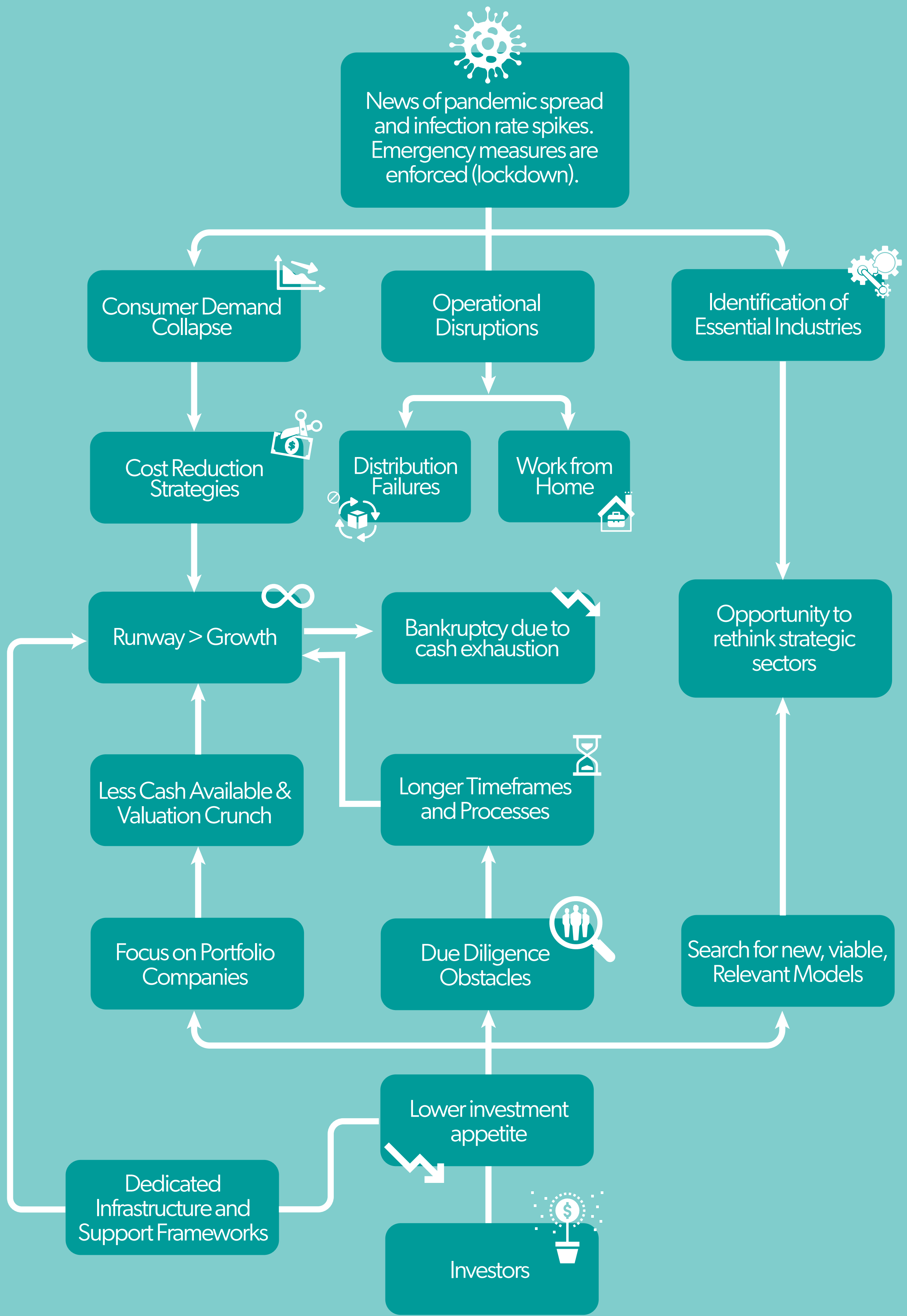
The report builds on more than two dozen in-depth conversations with Nigeria's industry leaders, including founders and business leaders, investors, institutional lenders, and government agencies. The goal was to understand the impact of COVID-19 on their businesses or portfolios on everything from sales, to revenue growth, and workforce management. The decision to gather qualitative data, as opposed to quantitative data through surveys, is due to the fact that despite ongoing efforts being made to grasp the magnitude of the pandemic and its impact on the global economy, data-driven conclusions are still ambiguous due to the fast pace at which societies are suffering from, reacting, and adapting to the current reality.

Unlike previous crises in history, the COVID-19 pandemic and subsequent global financial downturn were caused by a factor that is exogenous to the economy. However, due to its ability to paralyse businesses and suppress consumer demand, the pandemic has thrown the global economy into a financial catastrophe. This report sheds light on the immediate impact on Nigerian businesses and the actions that founders and investors were forced to take to ensure their companies have a fighting chance. These actions include strategies to mitigate the debilitating drop in revenues and adapt to the 'new normal' by broadening their existing business models or pivoting to new models.

The report explores how entrepreneurs and investors have been forced to look at market trends and redirect their resources to operations and market segments that are less likely to suffer from shocks. The saying, "never let a good crisis go to waste", is more pertinent than ever and reminds us of the urgency to search for alternative avenues and solutions that can survive in a constantly evolving world. Innovation is often considered a byproduct of crises, and so far, the solutions emerging from the response to the pandemic have the potential to persist in the future—though it may be too early to predict the lasting behavioural changes that will survive in a post-COVID-19 era.

In the event that a solution to the virus appears on the market sooner rather than later, it is possible that people will simply return to previous ways of living and conducting business. However in the meantime, while no solutions exist, we want to shed light on some of the changes that could outlast the crisis and have a lasting impact on innovation in Nigeria.

Ecosystem Chain Reaction



Setting the scene

In March 2020, as news about the virus spread rapidly across Italy, Spain, France, and the rest of Europe, many services were forced to be rendered either remotely or under strict regulations. Restrictions to the movement of goods and people applied to restaurants, bars, entertainment facilities, public transport, and travel within borders or internationally. The fear of the virus spreading, coupled with lockdown measures, caused a decline in the demand for non-essential goods and forced providers to find alternative methods of delivering essential goods and services. As a result, many sectors relying on physical interaction, such as hospitality, mobility, and real estate, became victims of a domino effect brought on by an unpredictable public health crisis. On the other hand, actors operating in industries such as e-commerce, digital financial services (DFS), e-learning, telemedicine, and medical distribution, were presented with an opportunity to prove their ability to replace or complement obsolete models.

According to data from the Africa Centres for Disease Control and Prevention, the number of confirmed COVID-19 cases and deaths in Nigeria pales in comparison to other countries on the continent. However, the pandemic has aggravated a number of pre-existing socio-economic conditions in Nigeria:

- The collapse of consumer demand and economic stagnation;
- Growing youth unemployment and underemployment;
- Food insecurity caused by supply chain disruptions;
- Oil prices crashing globally, and;
- Commodity price slump.

International Rescue Committee; Norwegian Refugee Council; The CIA World Factbook.

To mitigate the impact of the public health crisis and pre-existing challenging socio-economic conditions, the Nigerian government has partnered with the private sector and startup ecosystem builders to implement capacity building programmes aimed at creating skills and funding initiatives in the healthcare and education sector; but the demand far exceeds the supply.

According to the The National Bureau of Statistics,[1] 40% of the Nigerian population already lived below the national poverty line before the pandemic and several million people just marginally above it, thus, indicating that the impact of the crisis could be catastrophic and jeopardise the effort the government has made to economically empower the population

Additionally, the peril of a food security crisis lurks—mainly due to a wide disruption of global supply chains and pests—which threatens agricultural yields and harvests of millions of farmers across the country. Addressing the 265 million people facing acute food insecurity globally, World Food Programme's Chief Economist, Arif Husain, explains that COVID-19, "is a hammer blow for millions more who can only eat if they earn a wage".[2]

[1] The National Bureau of Statistics (2020), "2019 Poverty and Inequality in Nigeria"
[2] United Nations World Food Programme (2020), "COVID-19 Will Double Number of People Facing Food Crises Unless Swift Action is Taken"

The African Union also estimates the potential loss of over 20 million jobs across Africa, especially among the youth. Data by the International Labour Organisation (ILO)[3] predicts working hour reductions for over 300 million jobs globally, with 81% of informal workers' income in Africa being damaged. Unemployment remains a critical issue in Nigeria as the recently published National Sustainability Plan[4] estimates an increase in the unemployment rate from 23.1% (or 20.9 million people) at the end of 2018 to 33.6% (or 39.4 million people) at the end of 2020. Recent estimates by McKinsey & Co.[5], built on data from the ILO and World Bank, also supports this trend, stressing the need to urgently stimulate specific sectors in order to avoid mass un- and underemployment.

Finally, with a tax-to-GDP ratio of just above 5%[6]—largely derived from hydrocarbon taxes—Nigeria is specifically susceptible to the contraction of consumer demand, which could lead to a lower tax collection rate for the government as businesses see their revenues drop. For example, tax revenues for Lagos State dropped by 30% since the beginning of the crisis, and other states will face a similar challenge. Drained resources will damage the governmental financial stimulus which is urgently needed to keep businesses afloat. This creates a vicious cycle, whereby declining consumer demand leads to decreased revenues, which results in less tax revenue. Ultimately, the impact of these different factors could directly affect the public sector's ability to intervene.

Uncertain markets imply higher risk and the crisis has led to a dramatic reduction in investors appetite. Alongside the inadequate capacity of the government's financial stimuli, as investors take a more conservative approach, several businesses will be deprived of capital. While one could argue that those businesses unable to raise capital during this period are business models that will not survive the "new normal", the fact remains that many founders will face an uphill battle as they attempt to get their innovative ideas off the ground.

[3] International Labour Organization (2020), "ILO Monitor: COVID-19 and the world of work. Third edition. Updated estimates and analysis"
[4] Economic Sustainability Committee (2020), "Bouncing Back:Nigeria Economic Sustainability Plan"
[5] McKinsey & Company (2020), "Tackling COVID-19 in Africa"
[6] OECD (2019), "Revenue Statistics 2019: Tax revenue trends in the OECD"

Impact on sectors

Winners

E-commerce

Increasing use of delivery platforms for groceries and general shopping due to store closure.

Financial Technology

Store and bank closures, cash shortage and quarantine measures increased use of digital financial services

Healthcare

Need for healthcare information, doctor appointments, and pharmaceuticals incentivised telehealth and e-pharmacies

Resilient

Clean energy and utilities

Energy and utilities, esp. commercial use suffering from lower production and office energy consumption

Hospitality and events

Significant revenue loss mainly due to physical lockdown and quarantine. Surge of foodtech and online events.

Transport and logistics

Supply chain disruption and health & safety measures reducing volume.

Losers

Brick-and-mortar retail

Decline in sales due to online shopping and the unsustainable rent of high-street stores

Commercial Real estate

Progressive establishment of work-from-home trend, infrastructure and storage sharing.

Hydrocarbures

Progressive migration to distributed, shock-proof energy sources, not dependent on localised supply chains.

Impact How is COVID-19 impacting markets and industries?

The impact of the crisis on the market has not been homogeneous; decrease in demand for one product or service has turned into an opportunity for another. As cinemas shut down, streaming services like Netflix saw a rapid increase in their subscriber growth. As customers flocked to empty grocery stores, others turned to delivery services. The level of disruption has been so extreme and it urges us to prioritise the need for more systemic mechanisms around private and public partnerships that can solve everyday challenges for millions of people. This section explores the activities in some of the key industries that have been in the spotlight since March 2020.

Fintech and financial services

The financial sector is often subject to volatility and external shocks due to its dependence on the market's conditions and transaction volumes. Interconnectedness means that when the money in circulation freezes or slows down, so does the revenue of those companies benefitting from the commissions on transactions. COVID-19 has provided some benefits for the digital financial sector in predominantly cash-based economies, as they find themselves constrained by the inability to move and transact physically. This has presented a unique opportunity for businesses providing e-payment solutions, APIs, and payment gateways to both merchants and individuals. Effectively, the 'new normal' set by COVID-19 is shifting digital financial services from being an option to a necessity.

However, not all that glitters is gold, as immunity to COVID-19 did not encompass all financial technology markets. The interruption of a multitude of brick-and-mortar businesses, from food trucks to retail stores, dramatically reduced merchants sales. Some fintech businesses, such as card and Point of Sale providers, saw their revenues drop to a fraction, forcing them to quickly restructure their models and build new products. South Africa's POS scaleup, Yoco, was one of the first fintechs in the African ecosystem to announce new digital products in an attempt to adjust to a prospective future where conventional store retail will see a major contraction in favour of e-commerce. This was followed by announcements from Nigerian companies like Flutterwave, who launched "Store" to enable shops to resort to digital payments, and Paystack, whose increasing focus on supporting small businesses led to a partnership with WIX, the global website building platform.

While digital payments structures have become popular across business-to-business and business-to-consumer services, it is not the norm for many Nigerians. Over the years, fintech companies have been working to provide the large unbanked population in Nigeria with bank-like cards and affordable Point of Sale (POS) systems. The role these providers play has been a revolution in itself, by enabling large swathes of the population, that would have otherwise been reliant on cash, to be included in the formal economy.

E-commerce

The impact of COVID-19 on the brick-and-mortar model has been devastating. Lockdown and social distancing measures led to little to no foot traffic, plummeting sales to zero, with little or no runway for affected businesses to stay afloat. With several businesses declaring bankruptcy, and others implementing delivery services, e-commerce companies, such as food-tech to retail—who already had remotely managed distribution structures—saw a steep increase in online orders. The positive aspect of this uptake in e-commerce does not solely lie in the short-term financial gains for large companies like Jumia, scaleups like Max.ng, and startups such as Kwik Delivery; it underlines the possibility that we are witnessing accelerated digitisation in the retail sector. A thriving online retail industry has proven to be beneficial for complementary industries because it incentivises trust in, and reliance on a digital system. Ultimately, it is a key driver of behavioural shifts that could lead to more advancements across different sectors.

Logistics and supply chain

Logistics plays a pivotal role in African markets where lower production capabilities imply that local consumer markets rely heavily on imports. A devastating aspect of COVID-19 has been its ability to trigger a chain reaction that affects the whole economy. The closure of national borders and the strict lockdown measures in Nigeria caused decreased demand and resulted in a paralysis of supply chains and major losses. For example, Kobo360, the supply chain management platform that connects informal truck drivers and trucking companies to clients, saw many of their drivers unable to be on the road or pass checkpoints.

The workers who were able to operate were asked to follow health and safety procedures, which often slowed down processes and agendas, adding to the cost of daily operations.

Education

Similar to what has been observed in the e-commerce sector, COVID-19 acted as an accelerator for the digitisation of educational content. In order to prevent students from experiencing a gap in their education, schools were forced to move to virtual classrooms, which led to the largest e-learning experiment in history. Worldwide, many universities announced the suspension of physical lectures and the intention to run video-lessons until 2021. Furthermore, as questions arise about the need to modernise educational systems worldwide, the ability of technology companies to deliver content and programmes remotely is key. However, a glaring gap in the conversation has been the barriers that many students will face. For those students without access to reliable electricity or the internet, learning will become a challenge. In Nigeria, teachers have pivoted to WhatsApp—which allows for multimedia, text, video, and voice messages—to deliver their classes and minimise disruption. ULesson, a Nigerian digital learning app, reported a fivefold growth in paying subscribers between March 2020 to August 2020.[7] This willingness to embrace digital learning platforms, and take advantage of existing services such as WhatsApp, is a step in the right direction for democratising education.

[7] Sim Shagaya (2020), https://twitter.com/SimShagaya/status/1289931348581453824?s=20

Cleantech and renewables

Energy and utility companies were partially exempt from lockdown measures and allowed to operate as usual, provided that safety measures would be put in place. Particularly due to the disruptions occurring along the supply chain and hydrocarbon production, and thanks to their contribution to providing decentralised and autonomous energy sources, photovoltaic panel developers and distributors have an essential role in providing the necessary energy supply to businesses and consumers. The disruption has also worked in favour of decentralised solutions due to the inefficiencies caused by a malfunctioning national grid and the elevated demand for domestic electricity that national utilities companies were faced with. Support initiatives were put in place to guarantee resources to key companies in the sector. Among these, Auxano, Arnergy, GVE, and Lumos were selected as part of All On's COVID-19 Solar Relief Fund[8] to provide reliable solar power for emergency health centres across the country.

Digital health

Citizens, investors, and the media have turned their attention to the role of the healthcare sector in restoring the economy and global markets. Thus, emphasising the need for a conversation around financing and supporting verticals that contribute to critical infrastructure. Due to the threat of overwhelming already strained healthcare facilities, hospitals, clinics, and private health companies have embraced collaboration to increase their capacity and reach. In this context, health-tech and digital health organisations were able to pivot quickly and adapt their service delivery to suit more COVID-19 friendly models. LifeBank, a blood delivery startup, collaborated with the Nigerian Institute of Medical Research to develop rapid testing kits and created a shared database to track the availability of medical equipment. Similarly, the biotech company 54gene collaborated with financial institutions, state governments, and renewable energy startup, Arnergy, to expand its work to enabling facilities for testing kits.[9] For the healthcare sector, COVID-19 is playing a defining role in igniting the conversation around capacity building and allocation of resources.

[8] All On (2020), "All On Announces N180 Million Covid-19 Solar Relief Fund To Power Emergency Health Care In Nigeria"
[9] 54 gene (2020), "Announcing the Launch of our COVID-19 Mobile Laboratory"

Adapting: How are entrepreneurs and investors adapting to the pandemic?

The impact of the lockdown and the implementation of safety measures have put an emphasis on the distinction between essential and non-essential goods and services. An induced behavioural change affects consumption patterns and needs, effectively reshuffling trends, markets, and societies. In order to avoid losses, Lateral Capital's Managing Partner, Rob Eloff, explains that diversification and a shift towards shock-proof industries are necessary strategies for companies and investors to avoid scenarios where revenues are grounded to zero and to distribute risk across portfolios. The pandemic is not expected to totally disrupt core habits such as the pursuit of leisure and entertainment but, "…it has been the occasion to accelerate processes and adjust priorities when it comes to identifying what industries to invest in", explains Ido Sum, Partner at the $71 million venture capital firm, TLcom Capital. "In the post-COVID-19 era, we will likely see an increased interest in critical infrastructure and essential services, which will translate into the pursuit of, and investment in, shock-proof business models—across sectors such as agriculture, energy, healthcare, and logistics—that have proven to be indispensable rather than superfluous, even in times of crises."

"The pandemic has been the occasion to accelerate processes and adjust priorities when it comes to identifying critical industries and what industries to invest in."

Ido Sum, Partner - TLcom Capital

Reducing growth to protect the runway

Startup companies are hardly ever structured to survive major disruptions and, certainly, not shocks of the scale of a pandemic because they tend to lack extensive cash runways. Startup financing, especially at the early stage, is traditionally aimed at supporting the company's setup costs, salaries for the founding team, and product development—these are, by definition, costs related to starting up. The economics of venture capitalism implies an allocation of capital that is based on rigorous milestones and a pre-established growth agenda. Many startups have become victims of a wave of uncertainty about the duration of the crisis, and in turn, their ability to sustain their costs with little or no revenues.

This condition, for several recently funded companies, resulted in the reconfiguration of financial targets in order to preserve their runway to survive the crisis and let the markets recover.

"As a result of the broader economic contraction, even businesses who—thanks to the wave of digitisation or their model's inherent resilience—did not lose large percentages of their customers, have been adjusting sales targets and working on their cost structure," explains Elo Umeh, Founder and CEO of marketing and consumer analytics company, Terragon. For many companies, adjusting to this new reality translated into lowering sales targets and the immediate suspension of growth plans and hiring, as well as the revision of budget allocations towards keeping day zero as far away as possible.

When is pivoting a feasible option?

Among the strategies put forward during COVID-19, survival through adaptation has become a recurring theme; often used in association with the idea of an opportunity offered by the crisis to start over, improve processes, and get rid of obsolete models. Shocks represent ground zero and the recurrence of unfavourable events is an opportunity for businesses to build flexible structures. Yet, reality often turns out to be more complex and changing a business' direction in many African countries, where bureaucracy and flexible financing sources are tangible obstacles to early-stage companies, is not always a viable option.

Pivoting is not cheap, explains Adetayo Bamiduro, Co-founder and CEO of Max.ng. "The slightest change to a product—if it has implications around target, price point, market size, or frequency of requests—can have a significant impact operationally, financially, and procedurally". The recent mass shift from ride-hailing, which has been progressively banned in major African cities like Lagos, to delivery services, has not been a simple decision for businesses. "During lockdown, simply ordering 1,000 lunch boxes for your fleet is a significant challenge,'' continues Bamiduro, addressing the inherent complexity of bringing a whole new product to life while markets are paralysed, staff forced to work remotely, and social distancing measures are in place.

Pivoting by definition involves a fresh allocation of resources to design, develop, and distribute a new product.

While lockdown measures have put mobility startups in the position to consider expanding their service to realms such as e-commerce and logistics, fintech companies—who have been providing merchant services to conventional stores and have witnessed their sales freefall—have had to restructure their offerings to digital-only solutions. This, however, does not come easy as it implies investing in either financial and technological education for their existing customers or entering in competition with other established digital financial services providers.

Cutting costs and adjusting risk

While adapting business models is an option for a limited number of businesses, in the absence of viable pivoting avenues, cutting costs remains one of the most feasible strategies for a founder to ensure their company survives a crisis. Often, layoffs and salary cuts are a direct consequence of the need to reduce expenses and monitor performances. In a non-emergency scenario, when startups raise a seed or growth round, the focus tends to be on scaling, and because there is certainty about having cash in the bank, rigorous risk assessment can be overlooked in favour of aggressive growth strategies. However, when aggressive shocks occur, the cost-benefit analysis and performance indicators become functional tools to minimise the cash burn rate. A large proportion of the interviewees admitted having been forced to restructure their workforce to safeguard the core business and team, or to rationalise the internal costs by focusing on key performance indicators and deliverables.

> *"In a non-emergency scenario, when startups raise a seed or growth round, as the focus is on scaling and there is certainty about having 'cash is in the bank', rigorous risk assessment can be overlooked in favour of aggressive growth strategies."*
>
> Adetayo Bamiduro, CEO - MAX.ng

The hidden price of firing and the lay-off paradox

Although businesses worldwide have announced layoffs, an underestimated aspect of reducing the workforce due to a revenue slump, caused by an external factor like the pandemic, is the hidden cost of re-hiring once the market returns to normality. In this sense, being ready when sales experience an uptick implies the ability to hire and train new staff quickly. To avoid or reduce layoffs, companies have adopted mixed strategies such as compensating core employees for salary cuts with equity shares, which also translates into aligned interests between employers and employees.

As the crisis forces companies to find strategies to cut costs, a perfect scenario for talent poaching is set up, as larger and safer companies continue in their resourceful hiring spree and represent a threat to smaller startups who face the need to reduce salaries and incentives. "With large corporates and tech giants still on the lookout for new hires, the question of talent retention becomes crucial for smaller startups and SMEs, especially when your tech or engineering team is based in hot spots such as San Francisco", Lagos, or Nairobi" explains Ekechi Nwokah, Founder and CEO of fintech company Migo—one of the most funded companies in the industry, having recently raised a $20 million Series B round to expand to Latin America.

Sit, contextualise, and act: navigating recurring volatility

It is not uncommon to hear people talking about crises in Nigeria. Over the past decade, the Nigerian economy has dealt with several macroeconomic shocks, including the 2008 global financial crisis, falling oil prices, the devaluation of the Naira, and now COVID-19.

"Unpredictability is a key obstacle to growth, and it impedes long-term planning," explains Chinaza Onuzo, Vice President at Africa Capital Alliance, a diverse and long-standing investment fund in Nigeria.

"The striking difference between curricular crises in Nigeria and this one is the breadth of the impact and the rarity," Chinaza continues. "When oil prices plunge, although shocks are felt across the board, several sectors remain intact, but COVID-19 has led to social paralysis—with a high degree of uncertainty around the time normality will be restored". This paralysis has negatively affected most industries as risk frameworks have hardly ever been able to account for and shield themselves from black swans such as this one.

"Context, however, is key", explains Tokunboh Ishmael, Managing Partner at Alitheia, a private equity investment and advisory firm in Nigeria; "and so is acknowledging the progress that has been made in the past to increase resilience. Examples of this progress are evident in the slow but steady move towards recognising the role of, and investing in, sectors such as agriculture, financial services, and talent, as well as the increasing focus on locally produced goods". In addition to this, Tokunboh explains how, from digital financial services to e-commerce, telehealth, and the future of work, there appears to be an aggressive trend towards conceiving digitisation as the immunising factor against shocks of this nature. "While technology has historically been associated with attributes such as efficiency and transparency", Tokunboh continues, "the search of viable, investable businesses, and the excessive emphasis on digital solutions may result in an oversimplification of the elements of success and, in turn, careless investments."

Working remotely: costs and consequences

The unpredictability of COVID-19 caused administrations worldwide to adopt drastic containment measures to minimise the number of people affected. This translated into an immediate shift from working in the office to work(ing) from home (WFH), which has now become the common denominator of a vivid debate on labour rights, work-life balance, efficiency, and monitoring strategies.

For those businesses that can afford to, reducing the staff working on-site comes with challenges and opportunities. By presenting a unique testbed to explore WFH, the crisis intensified the discussion surrounding what is possible in matters such as digital infrastructure and remote communications within and between companies. "Businesses like ours, who are predominantly digital, are beginning to adapt to a future of work where WFH becomes the primary mode…though periodical gatherings are surely needed," explains Elo Umeh, CEO of Terragon.

This also calls for a conversation around the psychological and social impact of transferring the workplace into the employee's home; that is, the realm of private life, which ultimately results in the need to assess costs and consider appropriate policies and regulation. In order to ensure the effectiveness of WFH, businesses should be prepared to adjust their costs and develop strategies to guarantee the safety of their employees. These strategies range from covering broadband and data costs, to providing the staff with working stations, insurance, meals, and so on. However, for parents and families without childcare, homeschooling while working from home presents a unique challenge that cannot be solved solely with technology.

The informal sector

While the formal economy and, particularly, organisations that rely on physical presence have had to comply with lockdown procedures, several informal workers—among whom include agents and street vendors—were not confined to their home due to a variety of factors. "With 75% of agents still actively working, and traditional banks being forced to shut down or work with a reduced schedule, the pandemic presented an opportunity for agents to strengthen trust and ties with their customers and network," explains Jay Alabraba, Co-founder of Paga, Nigeria's leading digital financial service provider.

With an estimated population of over 5 million across Lagos only, the informal sector accounts for a large portion of Nigeria's most populous city.[10] Lacking essentially all forms of safety nets and social security, informal workers have been unable to remain absent from their jobs for a sustained period, if at all. Additionally, agents, vendors, riders, and truck drivers often do not enjoy the same benefits provided to core team members. This is due to the fact that these platforms often operate as marketplaces between companies and contractors, or in the case of physical agents they are seen as distribution partners, hence they do not have the same benefits as full-time staff.

"While salaried workers are likely to suffer from lay-offs and pay cuts, there is a whole layer of informal workers that do not abide the same rules and do not enjoy the same benefits as formal employees. Lockdown and safeguard measures need to account for these segments of the population."

Ekechi Nwokah, CEO - Migo

[10] The Africa Report (2020), "Coronavirus: Nigeria's Informal Economy Hit Hard"

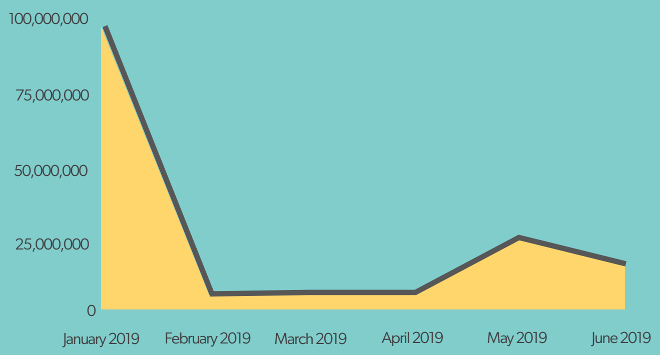
State of funding

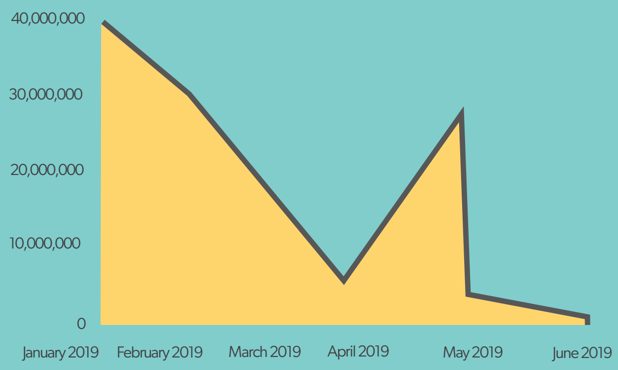
Funding data is used as a proxy to measure an ecosystem's performance. Since the beginning of the crisis, there has been active debate and discussion in the media around its impact on investor appetite. While several organisations have been publishing projections, data does not show enough evidence of a slowdown or plunge in funding. However, our interviews highlight a change in investor behaviour, which is likely to affect trends in capital deployment over the course of 2020 and subsequent years.

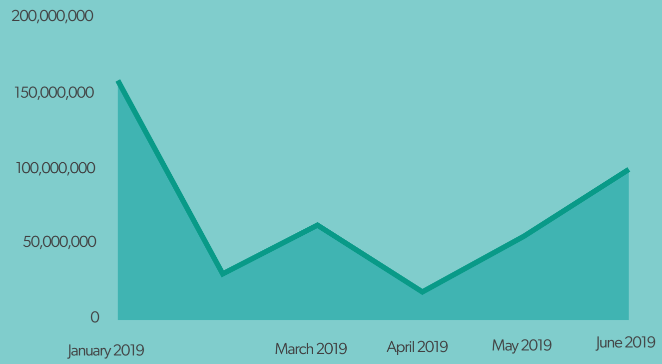
Funding comparisons can also be inaccurate as data for H1 2019 and 2020 show a similar month-on-month trend. According to deal activity recorded by Briter Intelligence, over $100 million was announced since January 2020 compared to ca. $160 million raised over the same period in 2019. January 2019's peak was almost entirely due to Andela's $100 million Series D, and the rest of the semester shows lower traction when it comes to disclosed deals.

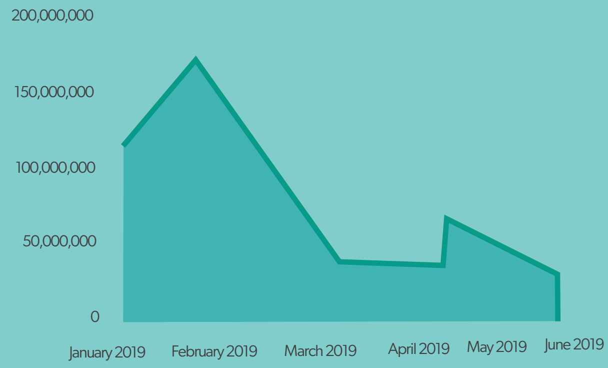
Nigeria: Q1 and Q2 2019 - 2020 vs Africa Q1 and Q2 2019 - 2020

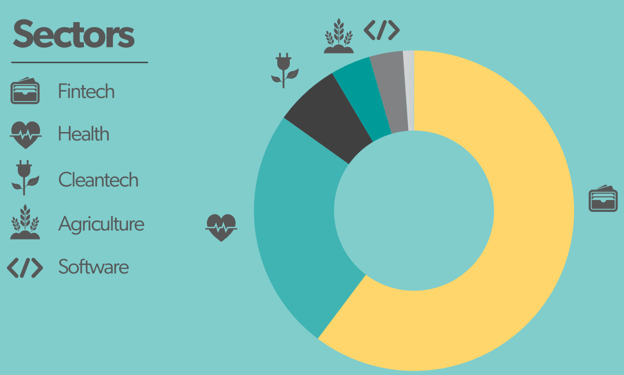
Nigeria Africa

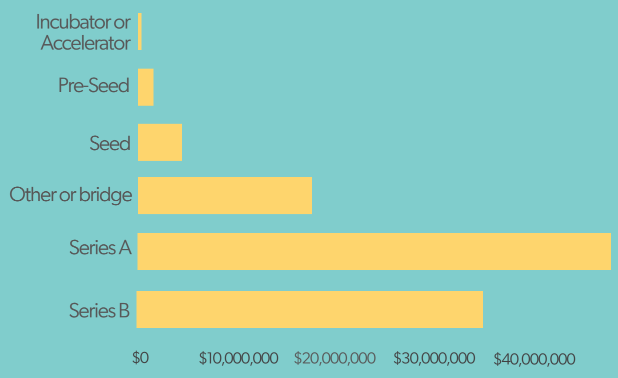












Investors' behaviour

There are two aspects of the investment landscape and investor relations that this report explores: (i) their role in managing and protecting their existing portfolio and (ii) their approach to further investments. Briter Bridges' latest data on the state of funding as of the end of Q2 2020 identifies slightly over $500 million in disclosed deals, across the continent with the top 7 Nigerian deals topping just below $100 million in funding, or 20% of total investment as of the end of H1 2020. These are, respectively, Flutterwave, 54Gene, BitFxt, TradeDepot, Helium Health, Aella Credit, and Tomato Jos.

During our interviews, a number of the discussions centred around the obstacles that have led to the assumption that funding volumes will shrink in the remaining months of 2020. These elements range from risk framework adjustments to the drop in cash supply and valuations, as well as the inability to carry out thorough due diligence due to the restrictions of movement. As TPG Growth Partner and Endeavor Nigeria Board Member, Yemi Lalude, concisely put it: "Opportunities cannot be properly gauged as physical interactions are on hold, and this translates into slower processes and capital deployment, as well as a more conservative approach by investors as markets remain uncertain.

Risk assessment and conservative funding appetite

Doing business in emerging markets like Nigeria requires an understanding of the socio-political and infrastructural context, where facilities such as credit for SMEs or safety nets are not always guaranteed. Due to this, Abubakar Suleiman, Managing Director of Sterling Bank Nigeria explains, "International accounting standards used by investors such as EBITDA often do not account for hidden, context-based risk variables that could undermine potential investees."

When preparing risk frameworks for startup evaluation, until recently, many investors did not expect founders to put forward a plausible strategy in case of disruptions, such as a global pandemic that has the potential to capsize a billion-dollar company's core model overnight. As a matter of fact, contract law protects parties in case of extraordinary external disruptions under the force majeure clause, which has played a major role in the debate surrounding business performances.

"In a post-COVID-19 era, especially until markets recover from uncertainty, a fundamental prerogative that founders will need to answer for will be stress tests and the ability to understand how to distribute or absorb risk."

Rob Eloff, Managing Partner
Lateral Capital

Market uncertainty, the inability to travel to meet with founders and carry out due diligence, and the realisation of unforeseen weaknesses in risk frameworks, left investors unprepared for the impact COVID-19 had on the market and led to an introspective choice to focus on their portfolio companies and freeze deal flow.

"While scouting remains active, for several investors, the focus and resources have turned towards existing portfolio for the time being"

Matthieu Marchand, Partech Partners

Due diligence

Social distancing and travel restrictions have forced investors to switch to digital due diligence, which has come with limits and biases that slow down the decision-making process. This is especially true for later stage deal transactions, which entail a high degree of complexity. In this sense, while early-stage companies may not always require in-person due diligence before capital is committed and deployed, in most cases, growth-stage companies are subject to more rigorous protocols and could see their fundraising process slow down dramatically. Additionally, in the absence of the fundamental vetting protocol that investors rely on to assess the reliability of a potential deal, in the pursuit of elements of trustworthiness, investors have been forced to seek proxies—such as the presence of known investors in previous deals.

The economic contraction, investors conservative turn, and market uncertainty are among the key factors causing valuations to fall. Sudden devaluations bear several implications when it comes to fundraising. On one hand, terms will automatically turn in favour of investors; on the other hand, a deflated market could represent an opportunity for investors with available cash to invest.

Slower processes and the risk of raising for survival

Finally, there is a constant dilemma revolving around identifying the best time to raise capital. When it comes to startups, the conversation is dominated by sophisticated software, processes, or machinery that require a certain amount of capital injection to get off the ground. For both early and growth-stage entrepreneurs, this translates into securing the minimum amount of funding needed to sustain their team, product development, marketing, and acquisition plans for a period of time—typically ranging from 6 to 18 months.

When the World Health Organisation officially declared the crisis a pandemic, many investors reacted by freezing or channelling funding into their portfolios, leading to interruption in several fundraising processes negotiating terms due to the change in market conditions. As a result, businesses that had been banking on a capital injection in order to survive were now thrown on the edge of bankruptcy, left only with the ability to adopt emergency cost reduction strategies to minimise exhausting their cash runway.

Capacity building

Crises are the moment when institutional support is needed the most. “In these cases, as the private sector suffers significant damage, the government becomes a shock absorber for people and businesses to remain afloat”, explains Olatubosun Alake, Special Adviser on Innovation and Technology to the Governor of Lagos State. Although lockdown measures have gradually eased as of early August 2020, businesses and individuals remain threatened by the knock-on effects of the crisis, such as stagnant sales and customer demand, barriers to access to capital, and limited incentives to support critical infrastructure and unemployed workers.

Table 1: Examples of incentives and initiatives led by the Government

Fiscal Policy	Renewable energy and utilities; Residential Rent; Baby products; Oil and gas; Transport; Education; Food production and agricultural businesses; Healthcare and health-tech
Financial stimulus	NGN 100 Billion: Intervention funds for selected sectors, implemented through commercial banks; NGN 50 Billion: Funds dedicated to households and SMEs, implemented through designated microfinance institutions.
Innovation funds	$500 million AfDB-supported Fund dedicated to technology and creative industries; $20 million Bank of Industry-led Technology Fund dedicated to young innovators; NGN90 billion by Central Bank of Nigeriaa soft loan facility for small scale agricultu-re enterprises.
Ecosystem support	ICT infrastructure development to reduce capital expenditure and costs for critical centres across Lagos, such as primary healthcare centres and schools; Partnership-driven programmes aimed at developing local talent in ICT, STEM, and technology skills.

Recommendations

COVID-19 has thrown the global economy into chaos and uncertainty. More than 6 months into the pandemic, data and trends are now emerging, but the long-term implications are yet to be seen as founders tap into their reserves, and investors and institutional lenders deploy emergency funding to ensure that businesses continue to operate for as long as they can. Governments worldwide are collaborating to gather the necessary data to make informed decisions to address the crisis; however, the coming months will be crucial to understanding the real magnitude of the impact of this pandemic.

Our interviews with government officials highlighted a number of key areas the Nigerian government is focusing on—primarily around building local capacity, which places an emphasis on talent upskilling, production, and infrastructure. However, engaging with other stakeholders such as entrepreneurs and private investors has revealed what areas are ripe for policy measures and implementation. Despite the number of resources that have already been allocated, aside from financial and fiscal incentives, there is an opportunity to strengthen public-private partnerships that can lead to innovative solutions.

Guaranteeing support to key businesses

When revenues fall to zero, cutting costs may not be enough to keep businesses alive for a sustained period. This is especially true for startups that are not yet financially sustainable, as they rely on external financing to continue to build products and deploy their solutions. While financial stimuli is beneficial to businesses with an established presence in the market, alternative financing facilities are needed to support those entrepreneurs who do not meet the Central Bank's disbursement criteria.

Planning and building a shock-proof economy

The introduction to this report explains the complex scenario Nigeria currently faces. A vast economy which has historically been heavily reliant on hydrocarbons—with a high percentage of its population living under the national poverty line—is less equipped to face a global health crisis which threatens millions of jobs. Distributing risk is critical and the recommendations arising from this report's interviewees seem to point in three main directions: diversify, invest in local capacity, and focus on critical sectors.

COVID-19 has caused local and national administrations to explore alternatives approaches to traditional methods and ignited a conversation around import-substitution strategies explored by other countries to increase production capacity and decrease dependence on imported goods and capital. These include experimenting with public-private partnerships—such as the collaboration between hospitals and digital health or medical supply chain start-ups—and financial vehicles especially focused on boosting local production and service capacity.

Finally, the government has identified key areas to address, such as building infrastructure and facilities to support critical areas such as healthcare, food production, energy and education; and partnering with corporations and vocational institutes to foster local talent and develop relevant skills.

Diversify: despite a steady shift towards sectors such as agriculture and financial services, Nigeria's GDP is significantly dependent on commodities. The decline in oil and gas prices, which tipped as soon as lockdown measures went into force, has accelerated the conversation around boosting other critical sectors of the economy which have shown signs of growth and resilience in recent years, such as agriculture, financial services, and services.

Invest in local capacity: According to the Brookings Institute, "the share of intra-African exports as a percentage of total African exports has increased from about 10% in 1995 to around 17% in 2017." African economies have an opportunity to bolster local production capacity and push, with initiatives such as the African Continental Free Trade Area (AfCFTA) which aims to promote a conducive cross-border business climate. As global supply chains are disrupted by the pandemic, resulting in the obstruction of the importation of critical goods, the value of propelling local production has become evident and has led to the recognition that more investment at the national and state-level is needed.

Rethink dependence on foreign capital: While bank loans and debt financing are made available to hedge the collapse of consumer demand and the bankruptcy of thousands of businesses, the decrease in investment activity has had a dual effect: (i) companies are left looking for equity funding without capital or forced to wait longer, and (ii) widespread conversations about the need for increased local capital in an effort to reduce dependence on foreign markets.

> "One of the perks of the crisis has been the urge towards financial literacy, due to the need to learn about management, savings, cashflow."
>
> **Bolaji Balogun, CEO Chapel Hill**

Conclusion

A black swan is defined as a high-profile, hard-to-predict, and rare event that acts beyond the realm of normal expectations in history, science, finance, and technology. COVID-19, by catching the whole world unprepared and unable to predict the scale of the pandemic, fits this description. By directly engaging with some of Nigeria's industry leaders, this study has attempted to synthesise the impact that the pandemic has had on business, the economy, and society. This approach allowed us to identify the immediate measures that entrepreneurs, investors, and government agencies deemed appropriate to navigate lockdown measures and market uncertainty. It also served as an exercise to explore the implications that arise from matters such as pivoting, firing, and underplaying risk assessment and sustainability when raising funds.

The interviews with government agencies highlighted the government's increasing focus on capacity building interventions, particularly in the realms of 1) internal production power, 2) talent creation and 3) infrastructure; with significant resources being allocated to ICT investments and critical sectors, such as primary care centres. So far, support to businesses has been implemented in the form of financial or fiscal stimuli, primarily across sectors that are considered critical for the economy. Meanwhile, the effects of the crisis led to increased interest in digital education and online event platforms, and public-private partnerships in the healthcare industry also emphasised the importance of collaboration. As the fear of future outbreaks keeps projections that signal a return to normality well into 2021, data-driven policy reform and strategic collaborations remain critical areas for businesses and administrations to focus on.