

Effect of COVID-19 Pandemic on Small and Medium Scale Businesses in Nigeria

Imanche, Sunday Adiyoh^{a,b}, Tian Ze^{a,*}, Tasinda Odette Tougem^a, Salisu Gidado Dalibi^{c,d}

^aHohai University Business School, College of Business Administration, Nanjing, P. R. China.

^bDepartment of Economics, Faculty of Humanities Management and Social Sciences, Federal University, Wukari., Nigeria.

^cinstitute of Project Management, Hohai University, China.

^dDepartment of Quantity Surveying, Abubakar Tafawa Balewa University, Bauchi, Nigeria.

*Corresponding Author's (Tian Ze) Email: 200316655@hhu.edu.cn

Abstract

As the world is struggling to fight off the COVID-19 pandemic, counties are witnessing unprecedented economic slowdowns and shutdowns. In Nigeria, the financial crisis is affecting the stability of small and medium scale enterprises (SMEs). As the pandemic continues to ravage the country, SMEs are struggling to survive due to the decline in the production volumes and harsh market conditions. Our findings revealed that the cessation of movement, the reduction in consumer spending power, and decrease in imports is negatively affecting Nigerian SMEs. However, there are government policies set in place to protect SMEs, but there is a need for more efforts and interventions to enable them to survive the consequence of the pandemic. However, SMEs should be more proactive in adapting to this new situation.

Keywords: COVID-19; Pandemic; Economic; Nigeria; Small and Medium Scale Enterprises

1. Introduction

The coronavirus pandemic is causing a global health emergency as well as an economic slowdown. Investment, employment, trade, and economic growth are all adversely impacted on by the crisis, and it is bound to negate the achievement of a country's financial goals. As restrictions on movement have increased, stakeholders have become increasingly apprehensive about the consequences for small and medium-sized enterprises (SMEs) in Nigeria. It has become exceedingly clear that as the health-centred response to Coronavirus increase, SMEs in Nigeria will face significant difficulties in their operations, from the increased costs of production and distribution to pressures on the supply chain. Even if COVID-19 eventually fade away, the impact on businesses will last longer than expected; hence it is necessary to investigate the effects and to formulate viable responses to enable the stability and sustainability of enterprises in Nigeria.

The focus of this study is to examine the effect of COVID-19 Pandemic on SMEs in Nigeria. The implication of COVID-19 Pandemic on Nigeria's economy, and measures that have been put in place to minimize these effects were addressed. Finally, we suggested actions that can be put in place further to mitigate the adverse effects of the crisis on SMEs.

2. Methodology

Economists scholars are also very keen to point out that SMEs in Nigeria can do better, but are struggling due to weak economic growth and poor government policies. The Nigerian government had been coming to terms with oil price decline shock from 2014, with the GDP hovering around 2.3% in 2019(Onyekwena and Ekeruche, 2020). They also noted that Consequently, highlight shows that the IMF revised the GDP growth for Nigeria in 2020 from 2.3% to 2% due to the low prices of crude oil and the restricted fiscal space. Although, without this revision, Nigeria's GDP has been on a steady decline for the last few years, as illustrated in Graph 1. These numbers cast doubt over the potential of SMEs to register meaningful growth in the market place. Besides, Nigeria's debt profile has been troublesome for stakeholders since the most recent figures show the ratio of debt service-to revenue is at 60% (Babalola, 2020). The situation is likely to worsen amid the decrease in income related to the declining oil price. These variables will exaggerate the economic effect of the COVID-19 Pandemic and make it harder for SMEs to weather to the crisis. In hindsight, many SMEs are bound to fail due to the pandemic as they were already struggling due to the prevailing

economic situation most of them are relieving their workforces presently due to COVID-19 pandemic, which will abruptly affect them critically.

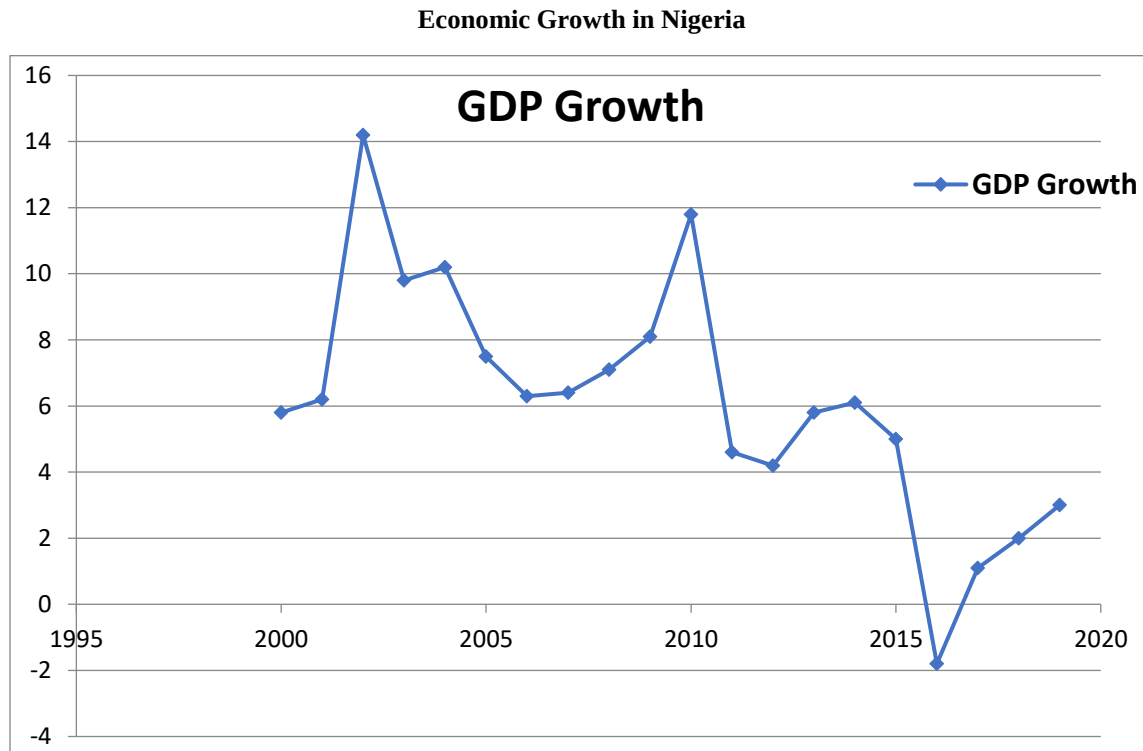


Fig.1: The GDP curve for Nigeria in the last few years. Source; Retrieved from Center for International Private Enterprise

According to Aref-Adib and Martin (2020), they researched the economic and social effects of the COVID-19 in Nigeria; their inferences can be translated in the context of SMEs. Since the revenue obtained from exports of crude oil account for 76% of the total country's earnings from foreign exchange, therefore, the fall of oil prices declined to 60% in the year 2020, this has significantly decreased export revenues in Nigeria. The decrease in oil prices alone will reduce the value of exports by 36%. As illustrated in Fig. 2, it shows the slump in global oil prices after the COVID-19 pandemic. This downfall has negatively affected Nigeria's economy in every facet. For instance, Cocoa, which is the largest agricultural export, has witnessed a significant price decrease. At the same time, Nollywood, which represents Nigeria's film industry and the second-largest employer in the nation is also going through hard times (Oji, 2020). All the film studio centres in Lagos have been on Lockdown and business are reeling from this order. It on records that this pandemic has highly hindered consumer spending. The inability to contain the spread of COVID-19 effectively will adversely affect the economy and eventually lead to the complete shutdown of micro and small business in Nigeria (Aref-Adib and Martin, 2020).

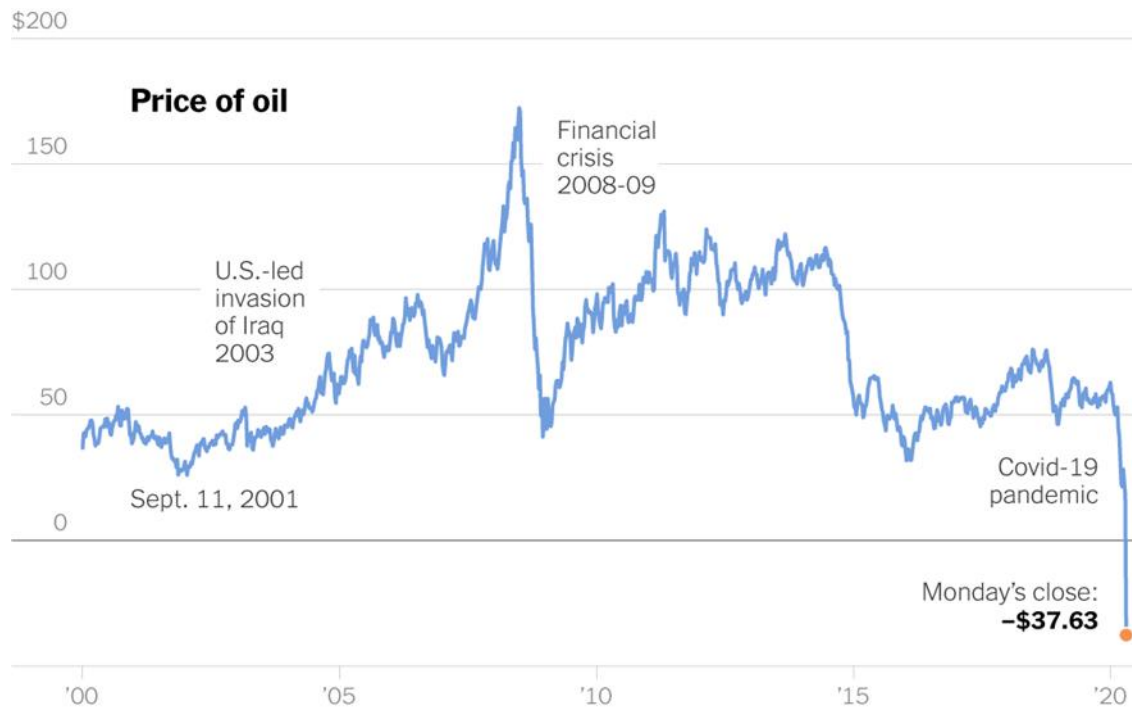


Fig. 2: The slump in global oil prices after the COVID-19 Pandemic (Reed and Krauss, 2020).

A report by the Sun Business Network (SBN) pays particular focus to the effect of coronavirus on SME's operating in Nigeria's food industry. As the restrictions enforced to reduce the spread of the virus roll on, the medium to long term impact on SMEs is worrying. There is concern about the negative consequences of COVID-19 pandemic on companies in Nigeria's food networks (Sun Business Network, 2020). These are the SMEs that produce, process, market, transport, and sell the food products and associated services that many people depend upon in Nigeria. The most explicit impacts are price shocks and food shortages for consumers who rely on these SMEs, while bankruptcies and unemployment will be rampant in these already weak enterprises soonest (Adekoya and Aibangbee, 2020; Sun Business Network, 2020). The SMEs surveyed in the report revealed accessing inputs, particularly farm products, was becoming a hindrance to business operations. Challenges about demand and supply have also hindered the ability to repay loans and renew leases. The report added that as the level of production decreases, money begins to get depleted. However, some SMEs have already started to reduce their workforces.

Consequently, most small-scale industries have decreased work hours and salaries for Staff (SBN, 2020). The eventual outcome of this pandemic and economy lockdown is that the SMEs will have no option than to sack all their Staff. As the study pointed, it is believed that this will happen in the short-term if the situation does not improve.

The uncertainty in Nigeria's financial market has consequences for the actual economy, and hence SMEs (Ekeruche, 2020). The author agreed that as businesses lose capital and investors lose money, the spending by both companies and individuals is likely to reduce. It means that fewer investors will be willing to pump money to enable the sustainability of SMEs while the decreased consumer spending power automatically reduces the income of SMEs. Similarly, the most direct effect on SMEs will be due to the cessation of movement within Nigeria and globally. The temporary closure of non-essential enterprises will decrease output and production. For instance, the report pointed out that one should consider the negative effect of the closing of a fabric manufacturer in China that produces raw material for almost all textile mills in Nigerian line. In this case, the Nigerian business will be forced to stop operations or operate at minimal capacity at best. Also, the stay-at-home rules and the uncertainty accompanied by the pandemic means the non-essential goods will be less demanded. Therefore, this trend will continue to spells doom for SMEs as most deal with non-essential goods.

There has been a concern on how the reduction in exports will hit traders in Nigeria (Sanni, 2020). The concerns emanated from Nigeria's over-dependency on foreign goods over home-based products. Research experts believe that Nigerian traders will encounter several challenges due to the COVID-19 pandemic. Since the market is in a panic state, the production process of goods will be affected, and this will be translated to inflation and scarcity in

the market. He also noted that the overdependence on imports means that Nigeria virtually produces nothing, which implies that the output of SMEs is bound to reduce hence harming their sustainability.

Another area of focus is the economic policies that have been put in place to ensure the SME's can be able to withstand this pandemic. The Central Bank of Nigeria (CBN) is looking forward to mitigating the economic effect of coronavirus by loaning money to industries, business, and individuals that have felt the biggest brunt of the pandemic (Ekeruche, 2020). This total stimulus package is valued at 9 billion USD. It comprised of loans of up to 129 million USD to hoteliers, households, and airlines, 387 million USD to the healthcare industry, and 2.6 billion USD designated for the manufacturing industry (Adekoya and Aibangbee, 2020). The loans are given at a 5% interest rate. At the same time, the government is holding the repayment of intervention funds given to SMEs. The basis of the loans by the CBN is to help the vital sectors survive, and particularly it wants the pharmaceutical and manufacturing sectors to tap into local production to decrease the dependency on foreign exchange for imports. However, the Nigerian government has not articulated any critical plans, and there are queries whether the loans by CBN will be sufficient to stop the closure of SMEs. Consequently, businesses will need more loan support from the government to stay afloat. At the same, taking up too many loans will be hard for some companies, and if the pandemic persists, CBN will have to acknowledge that most of these loans will become bailouts that do not have repayments.

There may arise an impending recession in Nigeria due to the economic effects of the COVID-19 pandemic (Adekoya and Aibangbee, 2020). Considering that around 46% of the country's economic output comes from the informal sector, the recession is inevitable. Workers in the informal industries cannot stay at home while maintaining productivity. However, the policies for working cannot hold for these workers hence spelling demise. Within the formal sector, employees who do not have the aptitude for working remotely due to lack of networking technology would not be able to work remotely (Adenomon et al., 2020). In general, the fall in productivity will instigate the recession. Also, a restriction of travel will bring forth a significant decline in income, consumer spending, and economic output (Ozili and Arun, 2020).

In contrast, most economic slowdowns are either caused by financial or shocks in the supply and demand chain; the coronavirus pandemic will bring forth these shocks as a single package. The shocks to the financial system would manifest as disruptions in the financial markets. At the same time, the demand and supply chain will originate from the uncertainties and restrictions of movement that will reduce and spending among consumers, closure of factories and providers of services. The combination of these effects will be fatal on the Nigerian economy. Meanwhile, the moves being made by the country's, Central bank may minimize the economic impact of the pandemic, the COVID-19 is an emergency that affects public health. This impact is because the country has a weak healthcare system that is susceptible to disease outbreaks, the economy will continue to crash if the pandemic persists.

There is also consensus among experts that the approach by the CBN is wrong as the loans will not be of much use to the SMEs if the situation does not improve soon. The Coronavirus pandemic should serve as a wake-up call to policymakers about the need for proper economic planning in Nigeria (Ekeruche, 2020). The sudden outbreak of the virus had made it difficult for Nigerians to rely on imports as the source of input for SMEs. They also suggest for a more inclusive strategy that includes many sectors, which consists of the trade, finance, and health industries, to examine the systemic problems that make the nation less irrepressible to market shocks and restrict the scope of government interventions. In the long run, policymakers need to make tough decisions, which include strategies to combat diversifications of Nigeria's revenue collection from oil and ensuring adequate funding of the health care sector that enable the economy to get better from hard situations in the future quickly. Although there are disadvantages associated with the COVID-19 pandemic, the current crisis has provided a platform for recovery and structural reforms (Lenon, 2020). The CBN should be at the forefront of facilitating credit to sectors with the ability to spur local production. These are sectors that can locally source their inputs to meet local demands. Also, the government should look towards reinforcing the country's social infrastructure. Social support is vital to the empowerment of SMEs. Beyond this crisis, there should be an enhanced awareness of the agricultural sector, and conversations about food security are bound to increase. In response, the government should focus credit on the healthcare industry to decrease medical; tourism because these sectors are vital for the country's economic recovery (Adekoya and Aibangbee, 2020).

3. Discussion and Analysis

This research paper reveals that the economic effect of COVID-19 pandemic will be detrimental to the survival of SMEs in Nigeria. In light of the Pandemic, policymakers set measures to boost aggregate demand in the country through a rise in government spending along with tax cuts for enterprises. The public budget rose from \$ 24.53 billion

in 2019 to \$24.92 billion in 2020; this represents 11% of the country's GDP (Onyekwena and Ekeruche, 2020). Small enterprises have given tax holiday from paying the corporation tax. They reported that while the tax level for medium-sized enterprises has reduced to 20% from the previous 30%. Nevertheless, except for government purchases, the Coronavirus pandemic is making all features of aggregate demand to overcome, as illustrated in Fig. 3.



Fig. 3 showing how the COVID-19 pandemic affects the components of aggregate demand (Source; Image Retrieved from Brookings)

Due to COVID-19 pandemic, SMEs in Nigeria is bound to be affected by the reduction in household consumption and aggregate demand. The decline in Nigeria's household consumption will result from three factors. First is the restriction of movement that will force consumers to spend on essential services and goods mainly. Second is the reduced expectation on future income, especially for workers in the informal sector and gig economy who work on a short-term basis (Obiakor and Adeniran, 2020). The third factor is the dilution wealth due to the reduction of assets like real estate and stocks. Nigeria's federal government has enforced a lockdown in Ogun and Lagos states, and Abuja as these areas have the most significant number of COVID-19 cases. Also, regional governments have followed this move and imposed cessation of movement in their respective regions. Nigeria has a large informal sector and the flourishing gig economy, which contribute significantly to the country's economic output. The cessation of movement has not only decreased the uptake of non-essential goods. Still, they have also reduced the capacity of these groups to generate income hence decreasing the consumption budget (Nseobot et al., 2020). As a result, the SMEs that are still operating will register steep declines in revenue; this will forcefully trim down their workforces. The move will be detrimental to Nigeria's economy, considering that SMEs contribute around 46% of the country's GDP as illustrated in Fig. 2.

Also, SMEs would be impeded by the lack of investments. Investments in Nigeria will be curtailed mainly due to the uncertainty that has accompanied the pandemic, the poor insight into how long the Pandemic will last, the effectiveness of economic policies, and the reaction of the economy to these policies. Also, there are negative sentiments among investors and a rapid decline in stock prices as the Nigerian Stock Exchange has recorded one of the most unsatisfactory performances since the economic crisis of 2008-09 (Adenomon et al., 2020). This downfall means that the wealth of investors has been eroded and no one is looking to place money in the market. Considering the uncertainty that is related to the Coronavirus crisis and the weak forecast on investment projects, chances are high that investors will hold-off investment decision. In turn, SMEs may not see any injection from investors, at least in the short-run. While the Nigerian government has introduced fiscal measures to safeguard the economy and SMEs from the effects of the Covid-19 pandemic, there is a need to deploy other recovery plans. The strategies are aimed at stimulating demand at the Nigerian economy since steady cash flow is vital for the survival of SMEs. Firstly, while a cash transfer program has been set up, the federal government should enhance measures towards increasing the efficiency of mechanisms used to distribute these funds to ensure the businesses that are worst-hit by the crisis are

reached (Anthony, 2020). Secondly, the State Inland Revenue Services (SIRS) along with The Federal Inland Revenue Service (FIRS) should forego payments on corporate income and personal tax for the second and third quarter of 2020, especially considering the pandemic has depleted the profits and revenues of enterprises and households. Third, the decision by the CBN to elevate the cash reserve ratio of banks from 22.5% to 27.5% at the start of the years should be revised to enable banks to have the liquidity to provide credit for SMEs (Akpoveta, and Joy, 2020).

The SMEs also need to play an important role to ensure their survival. The first step is to gain a more profound comprehension of the issues that Nigerian SMEs are encountering. The government should then work with the SMEs to highlight immediate mitigation efforts to reduce the impact and enable them to ride out the Coronavirus storm in a manner that can enhance their probability of surviving (Ataguba, 2020). The main focus has to be on concerted efforts that pit in all crucial stakeholders and interest to ensure that SMEs are reinforced and are made more resilient.

In a nutshell, SMEs must straightaway analyze their cash flow and strategize for a scope of situations whereby they look at all fixed and variable expenses. Lenders and other financiers can assist in the cash flow issues of SMEs. However, they will be focused on what enterprises are doing to manage their current cash flows (Adekoya and Aibangbee, 2020). For SMEs to survive, their approach must be ruthless. Also, this is not a period for SMEs to cut off supplier relationship but instead keep the supply networks as open as possible to leverage new supplier relationships if the enterprises can access the services that enable them to map out suppliers in the market (Ataguba, 2020). Besides, operating models have to transform quickly in these dire conditions, and the digitization of the vital process will have to be a feature of SMEs soon. SMEs also need to pursue e-commerce channels for direct sales and platforms to share digital spaces to reduce the costs of operation.

4. Conclusion

The COVID-19 pandemic has brought about many challenges to Nigeria's healthcare sector and the economy. Concerning the economic impact, small and medium-sized businesses are feeling the biggest brunt of the pandemic as they are struggling to survive in the current market conditions. The restrictions of movements have forced many companies to either scale down operations or close altogether. Besides, the reduction of consumer spending power means that Nigerians can only spend on essential goods. Also, SMEs in Nigeria mainly rely on imports for inputs, and this has led to a drastic reduction in production capacity as the pandemic has hampered global trade. While there is a consensus that the government needs to do more to protect SMEs from the effects of the Pandemic, businesses also need to play their part to ensure their survival. In particular, SMEs should change their business models to become more online-based. Finally, the resilience of SMEs is vital to the recovery of the Nigerian economy from the pandemic as they form the country's economic backbone.

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