

## Impact of Corona Virus (COVID-19) Pandemic on Small and Medium Scale Enterprises (SMEs) in Nigeria: A Critical Case Study

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**Abstract:** The aim of this study is to investigate the impact of COVID-19 pandemic on selected small and medium enterprises in Nigeria, with a view to ascertaining the impact of lockdown on SMEs engaging in three essentials- food and consumables, pharmaceuticals, oil and gas in Sango-Ota industrial area of Ogun state, Nigeria. Data were collected with the administration of structured set of questionnaire on 100 SMEs which were selected purposively. Findings from the analysis showed that the enterprises experienced moderate reduction in production and sales during the lockdown. However, the surveyed enterprises experienced a spike in reduction of contracts and deliveries. In view of the above, the study makes the following recommendations for the policy makers and all stakeholders in SMEs in Nigeria that: pandemic is still ongoing, a spike reduction in operations and sales of SMEs will metamorphose into cash-trap. This would increase the vulnerability of SMEs in Nigeria to other external shocks. Therefore, the government should set aside emergency fund targeting SMEs in the country. Deferment of taxes or waiver of taxes, lower of interest rate could also be embarked on by the appropriate policy makers to make SMEs remain afloat during and after COVID-19 pandemic.

**Keywords:** COVID-19; Pandemic; SMEs; Essentials; Sango-Ota; Nigeria

**JEL Classification:** M20; M21

### 1. Introduction

Development of small and medium scale enterprises has been a focal point of the various governments of the world, because SMEs have flexible configurations and immensely contributed to nation building respectively (Aderemi *et al.* 2019; Tehseen & Ramayah, 2015; Kayadibi *et al.*, 2013; Khalique *et al.*, 2011). Generally, the World Bank classified SMEs as businesses with maximum of 300 workers.

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Meanwhile, in Nigeria's context, small and medium scale enterprises are conceptualized as business entities that have less than 50 employees. Basically, these enterprises possess investment in machinery and equipment that is less or equal to six hundred thousand naira and independently owned and operated with a view to generating job opportunities and meeting sales standard (CBN, 2018). These business entities constituted about 90% of businesses in Nigeria (Gbandi & Amisah, 2014). National Bureau of Statistics (NBS) estimated numbers of SMEs in Nigeria to be 41.4 million. The unique nature of SMEs lies in the utilization of raw materials from local sources, creation of employment, motivation for rural development, entrepreneurship development, mobilization of local savings and platform for self-employment.

However, devastating effects of COVID-19 pandemic on both human and material resources in early 2020 cannot be forgotten in a hurry. The Wuhan-COVID-19 emerged in 2019 in China like the way Ebola did in West Africa in 2014. But, COVID-19 resulted into global pandemic- which spread across the globe without obstruction (WHO, 2020). This novel virus sparked off various restrictions to movement of people, goods and services. The closure of factories alongside reduction in production was not left out due to the stay-indoors orders. This invariably reverberated its effect to activities of SMEs globally.

In the recent time, the novel COVID-19 has motivated research from different fields, ranging from medical, pharmaceuticals, economic, political and social arena in conceptualizing possible multiplier effects of COVID-19 on the global economy. Small and medium-sized enterprises (SMES) are backbone of developing economies. In Nigeria, SMEs have been identified as the drivers of the economy due to their capacity to stimulate productivity, provide employment opportunities and improve welfare of the people (Abosede & Onakoya, 2013; Ariyo, 2005). This is one of the reasons why studies about impact of COVID-19 on SMEs in Nigerian cannot be ignored in the phase of a global pandemic.

As the global economy is currently being ravaged by the COVID-19 pandemic, its aftermath effects on both human and material resources in the world is an undeniable evidence that good health is the driving force behind the growth of economy (Meer *et al.*, 2003; Bloom and Canning, 2000). COVID-19 has brought diverse risks to various economic activities like global financial crisis of 2008 (Dang and Nguyen, 2020). No single country is exonerated from the devastating effects of this novel virus on human and economy, due to the current era of globalization. Meanwhile, Nigeria as the biggest country in Africa in terms of population and economy, has reported 8344 cases of COVID-19, and 246 fatalities as of May 27<sup>th</sup>. In order to contain further spread of this virus, the government implemented a series of measures ranging from the closure of borders against other nations. Consequently, in March 29<sup>th</sup>, the government declared a lockdown in three major states, Lagos,

Ogun and Federal Capital Territory, Abuja – halting all non-essential activities across these states. Later, other remaining states went on lockdown with a ban on interstate movement on non-essential duties.

In the recent times, various analysts have projected fall in aggregate demand and supply, dwindling in exports and rise government expenditure as the negative ripple effects of lockdown across different sectors of the Nigerian economy. However, this lockdown is more likely to make the situation dire for SMEs in the country. SMEs constitutes the larger bulk of businesses in Nigeria. According to National Bureau of Statistics (NBS), SMEs were estimated to be 41.4 million enterprises in Nigeria which provided jobs for over 70% of working population in the country (ILO, 2017). This shows that huge number of people are engaged either directly or indirectly in SMEs. Therefore, any negative economic shocks reverberated by COVID-19 pandemic on these enterprises make over 70% of the Nigerian working population vulnerable to the novel virus. In view of the above, this study aims to examine the aftermath effects of COVID-19 pandemic on Small and Medium Enterprises (SMEs) in Nigeria. The study raised this specific research questions in addressing its objective. What are the effects of COVID-19 pandemic on operations of SMEs in Nigeria? Therefore, considering the contribution of the small and medium enterprises to the employment generation and economic growth of the Nigerian economy, and the inevitable threats and shocks of COVID-19 to the all sectors of the economy, especially SMEs. This study tends to contribute to knowledge by examining how COVID-19 pandemic affected SMEs in Nigeria with a view to identifying the mitigating factors that can ensure the sustainability of the enterprises in post COVID-19 period.

## 2. Brief Review of Literature

Due to the fact that COVID-19 is novel, literature regarding its impact on other economic variables are ongoing globally. As a result of this, an effort was made here to present a panoramic review of recent studies regarding this novel virus.

Aderemi *et al.* (2020) submitted that COVID-19 spread to Africa as by-product of globalization while examining the nexus between globalization and Covid-19 pandemic vis-à-vis Africa and China.

Collins (2020) examined the impact of COVID-19 pandemic on stock market value of China, Europe and USA with an application of differential analysis. The authors submitted that the COVID-19 pandemic exacted different impacts in the stock markets the regions under study.

Ganale and Zafar (2020) appraised effects of Coronavirus (COVID-19) on Small and Medium Enterprises (SMEs) in Pakistan. The authors reported that COVID-19

caused reduction in operations, disruption in supply chain and financial crisis of majority of the selected SMEs in the country. Whereas, COVID-19 caused loss in exports order and laid off of workers in minority of the SMEs in the country. Similarly, *Chen et al.* (2018) investigated how severe acute respiratory syndrome (SARS) epidemic affected the linkage that existed between four Asian stock exchange markets and China. It was discovered from the study that a reduction in relationship between Chinese stock market and four Asian markets was fuelled by SARs epidemic. Meanwhile, Chen, Jang and Kim (2007) analyzed the relationship between SARS epidemic and hotel industry in Taiwan. The authors argued that stocks of hotel industry showed negative total mean irregular returns in Taiwan during the epidemic. Therefore, there is the need for more empirical investigations to unravel the effects of COVID-19 pandemic on small and medium enterprise in Nigeria.

### **3. Methodology and Data**

#### **3.1. Study Design**

This study made use of qualitative (primary) data. The qualitative/primary data focused on Sango-Ota in Ogun State. The choice for the location was largely emanated from the fact that Ogun State is one of the States that have huge number of SMEs in Nigeria, and was among the three states that were totally locked down by the federal government of Nigeria because of COVID-19 pandemic. In the same vein, Sango Ota is an industrial city which has a huge number of SMEs.

#### **3.2. The Study Area**

Sango-Ota is veritable industrial city in Ogun State, Nigeria, with an estimated population of 163,783 in the last 2006 census. Sango-Ota is the capital of the Ado-Odo Ota Local Government Area. The Local Government has the largest number of industries in the state. The local government contributes the highest internally generated revenues in Ogun state. Sango-Ota has one of the largest concentration of industries in Nigeria. In addition, Sango-Ota is equally known as the home of former Nigerian president Olusegun Obasanjo as a result of his popular farm in the city. Also, the mega church of Winners' Chapel, the Africa Leadership Forum and the popular Canaanland University are located in the Sango-Ota axis.

#### **3.3. Materials and Method of Analysis**

In addressing the objectives of this study, the following variables were included in the work: sectoral distribution, status of enterprise by ownership structure, classification of enterprises (annual sales turnover and employment size), SMEs'

target market (within city, national level or export), operations affected due to COVID-19 and lock down, national level operations and export affected, supply chain disruption and employees laid off by enterprises. The study was analyzed with the aid of appropriate tables.

Consequently, 115 SMEs that are involved in essential goods and services ranging from foods, pharmaceuticals, filling stations and gas stations were purposively selected because enterprises that involved in essential goods and services were allowed to operate during COVID-19 lockdown. Furthermore, 50 SMEs involved in food and consumables, 35 SMEs in pharmaceuticals and 30 SMEs in oil and gas were purposively selected for the study.

#### 4. Analysis and Presentation of Data

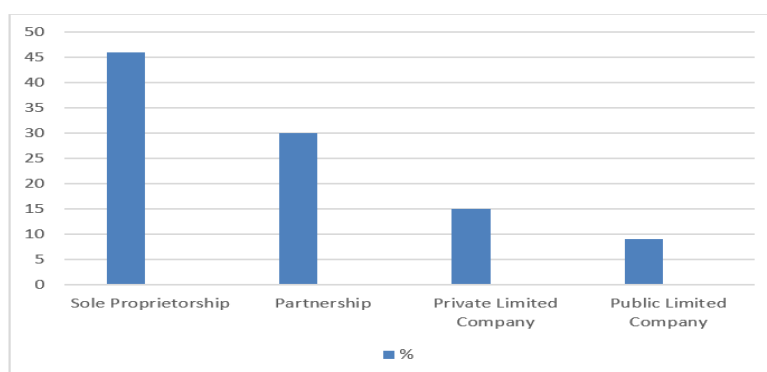
##### 4.1. Section A: Background Information about the Surveyed SMEs

**Table 1. Classification of Respondents by Sector/Business**

Sector/Business	Frequency	Percentage (%)	Valid %	Cumulative %
Food and Consumables	50	43	43	43
Pharmaceuticals	35	31	31	74
Oil and Gas	30	26	26	100
Total	115	100.0	100.0	

*Source: Field Work (2020)*

Table 1 shows that 50(43%) of the respondents are SMEs engaging in food and consumables, 35(31%) are SMEs engaging pharmaceuticals and 30(26%) are involved in oil and gas. This shows that SMEs in food and consumables dominate the survey.



**Figure 1. Status of Enterprise by Ownership Structure**

*Source: Field Work (2020)*

Figure 1 shows the classification of the SMEs in terms of ownership structure. 46% of the SMEs identified as sole proprietorship, 30% as partnership, and 15% as private limited company while 9% as public limited company. This implies that the majority of businesses in the survey are one man business.

**Table 2. Classification of Enterprises (Annual Sales Turnover)**

Annual Sales Turnover (Naira)	Frequency	Percentage (%)	Valid %	Cumulative %
1 million	23	20	20	20
2 million	38	33	33	53
3-5 million	40	35	35	88
6-10 million	11	10	10	98
11million and above	3	2	2	100
Total	115	100	100	

*Source: Field Work (2020)*

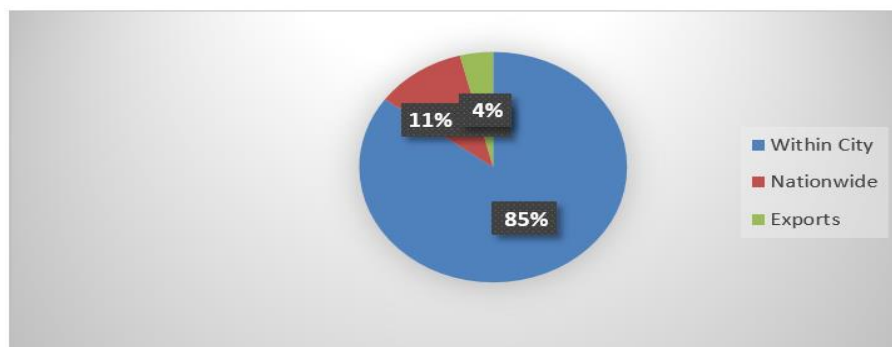
As shown in table 2, the respondents with annual sales turnover of 1 million is 20%. 33% has 2 million turnover, 35% has annual turnover of 3-5 million. 10% has 6-10 million annual turnover, whereas 2% has 11 million and above. This shows that majority of SMEs in the study have a range of 3 million to 6 million as annual turnover.

**Table 3. Classification of Enterprises (Employment Size)**

Employment Size (workers)	Frequency	Percentage (%)	Valid %	Cumulative %
1-5	28	24	24	24
6-10	32	28	28	52
11-20	31	27	27	79
21-40	15	13	13	92
41-50	2	2	2	94
51 and above	7	6	6	100
Total	115	100	100	

*Source: Field Work (2020)*

Table 3 shows employment capacity of the surveyed SMEs. 24% of the enterprises has between 1 and 5 employees, 28% has between 6 and 10 employees, 27% has between 11 and 20 employees, 13% has between 21 and 40 employees, then 2% has between 41 to 50 employees and 6% has 51 workers and above. This implies that the majority of the enterprises have a number of workforce between 6 and 20 people.



**Figure 2. SMEs' Market (Within City, National Level or Export)**

*Source: Field Work (2020)*

Figure 2 shows that 85% of the enterprises have target market within Sango-Ota, 11% of the SMEs sell their products and services nationwide while 4% of the SMEs extend the sales of their products and services beyond the borders of Nigeria due to the proximity of Sango-Ota/Idi-Oroko to the Republic of Benin.

#### 4.2. Section B: Impact of COVID-19 Pandemic on the Surveyed SMEs

**Table 4. Operations Affected due to COVID-19 and Lock down (Production)**

Reduction in Production	Frequency	Percentage (%)	Valid %	Cumulative %
Not at all	12	10	10	10
To a slight extent	36	31	31	41
To a moderate extent	49	43	43	84
To a considerable extent	6	5	5	89
To a great extent	9	8	8	97
To an extreme extent	3	3	3	100
Total	115	100	100	

*Source: Field Work (2020)*

From table 4, 10% reported that the lockdown due to COVID-19 pandemic has not reduced their production, 31% claimed that it has reduced it slightly, 43% asserted that it has reduced it moderately, 5% to a considerable extent, 8% to a great extent and 3% retorted that it has reduced the production in an extreme manner. This implies that lockdown due to COVID-19 pandemic has moderately affected operation SMEs in terms of reduction in production.

**Table 5. Operations Affected due to COVID-19 and Lock down (Sales)**

Reduction in Sales	Frequency	Percentage (%)	Valid %	Cumulative %
Not at all	7	6	6	6
To a slight extent	39	34	34	40
To a moderate extent	48	42	42	82
To a considerable extent	13	11	11	93
To a great extent	6	5	5	98
To an extreme extent	2	2	2	100
Total	115			

*Source Field Work (2020)*

From table 5, it could be inferred that 6% reported that the lockdown due to COVID-19 pandemic has not reduced their sales, 34% claimed that it has reduced it slightly, 42% asserted that it has reduced it to a moderate extent, 11% to a considerable extent, 5% to a great extent and 2% retorted that it has reduced sales extremely. This implies that majority of the SMEs experienced moderate reduction in sales due to COVID-19 pandemic/lockdown.

**Table 6. Operations Affected due to COVID-19 and Lock down (Deliveries)**

Reduction in Deliveries	Frequency	Percentage (%)	Valid %	Cumulative %
Not at all	2	2	2	2
To a slight extent	8	7	7	9
To a moderate extent	7	6	6	15
To a considerable extent	14	12	12	27
To a great extent	46	40	40	67
To an extreme extent	38	33	33	100
Total	115	100	100	

*Source: Field Work (2020)*

From table 6, it could be inferred that 2% reported that the lockdown due to COVID-19 pandemic has not reduced their deliveries, 7% claimed that it has reduced it slightly, 6% asserted that it has reduced it to a moderate extent, 12% to a considerable extent, 40% to a great extent and 33% submitted that it has reduced sales extremely. This implies that majority of the SMEs experienced a huge reduction in deliveries due to COVID-19 pandemic/lockdown.



**Table 7. Operations Affected due to COVID-19 and Lock down (Contracts)**

Reduction in Contracts	Frequency	Percentage (%)	Valid %	Cumulative %
Not at all	3	3	3	3
To a slight extent	2	2	2	5
To a moderate extent	5	4	4	9
To a considerable extent	6	5	5	14
To a great extent	65	57	57	71
To an extreme extent	34	29	29	100
Total	115	100	100	

*Source: Field Work (2020)*

3% of respondents in table 7 indicated that the lockdown due to COVID-19 pandemic has not reduced their contracts, 2% reported that it has reduced it slightly, 4% asserted that it has reduced it to a moderate extent, 5% to a considerable extent, 57% to a great extent and 29% submitted that it has reduced sales extremely. This implies that lockdown due to COVID-19 pandemic led to huge reduction in contracts in majority of the SMEs in the studied area.

## 5. Summary, Conclusion and Recommendation

This study was carried out with a core objective of investigating the impact of COVID-19 pandemic on selected small and medium enterprises in Nigeria, with a view to ascertaining the impact of lockdown on SMEs engaging in three essentials-food and consumables, pharmaceuticals, oil and gas in Sango-Ota industrial area of Ogun state, Nigeria. Data were collected with the administration of structured set of questionnaire on 100 SMEs which were selected purposively. Findings from the analysis showed that the enterprises experienced moderate reduction in production and sales during the lockdown. The reason why there was no spike in reduction in these operations might have been as a result essential commodities and services in which these enterprises engaged in. However, the surveyed enterprises experienced a spike in reduction of contracts and deliveries. The reason for this finding might have been as a result of total closure of other enterprises engaging in non-essential products and services due to stay at home government's order.

In view of the above, the study makes the following recommendations for the policy makers and all stakeholders in SMEs in Nigeria that: pandemic is still ongoing, a spike reduction in operations and sales of SMEs will metamorphose into cash-trap. This would increase the vulnerability of SMEs in Nigeria to other external shocks. Therefore, the government should set aside emergency fund targeting SMEs in the country. Deferment of taxes or waiver of taxes, lower interest rate could also be embarked on by the appropriate policy makers to make SMEs remain afloat during and after COVID-19 pandemic.

### 5.1. Limitation of the Study

This study focused on Sango-Ota industrial suburb of Ogun state, Nigeria. This study was limited to this area due to restriction of movement and largely lack of funding. Hence, its generalization is limited. However, to increase and improve the generalization of this study in Nigeria and Africa by extension, if **FUNDED** the authors could carry out further studies in all Local Governments of Ogun state, all states in Nigeria or all countries in Africa.

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