

Impact of COVID-19 Pandemic on Performance of SMEs in Kaduna Metropolis - Nigeria

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Article DOI: 10.48028/iiprds/esjprcd.v10.i1.01

Abstract

The study examined the impact of COVID-19 pandemic on selected small and medium enterprises in Kaduna Metropolis - Nigeria. Three essentials- food and consumables, pharmaceuticals, oil and gas in Kaduna metropolis were purposively sampled. Data were collected with the administration of structured set of questionnaire on 110 SMEs which were selected purposively. Results indicated that the enterprises experienced moderate reduction in production and sales during the lockdown. It was also reported that the enterprises experienced a spike in reduction of contracts and deliveries. In the light of the foregoing, it was recommended that policy makers and all stakeholders in SMEs in Nigeria 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, Performances, SMEs, Kaduna Metropolis*

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Background to the Study

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 and Ramayah, 2015; Kayadibi *et al.*, 2013; Khalique *et al.*, 2011). Generally, the World Bank classified SMEs as businesses with maximum of 300 workers.

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 and Amissah, 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.

Economic crises or recessions are often caused by market corrections (Hart and Tindall, 2009; Jones, 2016), market failure (Stiglitz, 2008; Chauffour and Farole, 2009; Petrakos, 2014), external trade and price shocks (Ros, 1987; Mendis, 2002; Gomulka and Lane, 1997; Francois and Woerz, 2009), political instability (Aisen and Veiga, 2013; Gasiorowski, 1995; Lagravinese, 2015), civil unrest through protests (Bermeo and Bartels, 2014; Giugni and Grasso, 2016; Grasso and Giugni, 2016; Bernburg, 2016).

Recessions are not new in Nigeria. During the 2016 recession, the monetary authority in Nigeria defended the local currency from forced devaluation against the dollar and adopted a managed float foreign exchange system, which worked well from 2016 to 2019. In the aftermath of the 2016 recession in Nigeria, it was almost widely believed that unexpected and sustained decline in oil price was the most important cause of recessions in Nigeria. But in 2020, nobody thought that a public health crisis could trigger an economic crisis in the country. What made the 2020 economic crisis different from other economic crises or recessions in Nigeria was that most economic agents, who should have helped to revive the economy, were unable to engage in economic activities due to fear of contracting the COVID-19 disease, while other economic agents did not engage in economic activities when the government imposed and enforced its social distancing policy and movement lockdown in Abuja, Lagos and Ogun states on the 30th March of 2020.

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 and 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 27th. 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 29th, 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 numbers 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.

Literature Review

The COVID-19 pandemic affected the global economy in two ways. One, the spread of the virus encouraged social distancing which led to the shutdown of financial markets, corporate offices, businesses and events. Two, the rate at which the virus was spreading, and the

heightened uncertainty about how bad the situation could get, led to flight to safety in consumption and investment among consumers and investors (Ozili and Arun, 2020).² There was a general consensus among top economists that the coronavirus pandemic would plunge the world into a global recession.³ Top IMF economists such as Gita Gopinath and Kristalina Georgieva stated that the COVID-19 pandemic would trigger a global recession.

In financial markets, global stock markets erased about US\$6 trillion in wealth in one week from 24th to 28th of February. The S&P 500 index also lost over \$5 trillion in value in the same week in the US while the S&P 500's largest 10 companies experienced a combined loss of over \$1.4trillion⁴ due to fear and uncertainty among investors about how the pandemic would affect firms' profit. The travel restriction imposed on the movement of people in many countries led to massive losses for businesses in the events industry, aviation industry, entertainment industry, hospitality industry and the sports industry. The combined loss globally was estimated to be over \$4 trillion. Several governments in developed countries, such as the U.S. and U.K., responded by offering fiscal stimulus package including social welfare payments to citizens while the monetary authorities offered loan relief to help businesses during the pandemic. There were also spillovers to poor and developing countries that had a weak public health infrastructure and non-existing social welfare programs.

There are five main ways through which the COVID-19 pandemic spilled over into Nigeria. One, the COVID-19 pandemic affected borrowers' capacity to service loans, which gave rise to NPLs that depressed banks' earnings and eventually impaired bank soundness and stability. Subsequently, banks were reluctant to lend as more and more borrowers struggled to repay the loans granted to them before the COVID-19 outbreak. Two, there were oil demand shocks which was reflected in the sharp decline in oil price. The most visible and immediate spillover was the drop in the price of crude oil, which dropped from nearly US\$60 per barrel to as low as US\$30 per barrel in March.

During the pandemic, people were no longer traveling and this led to a sustained fall in the demand for aviation fuel and automobile fuel which affected Nigeria's net oil revenue, and eventually affected Nigeria's foreign reserve. Three, there were supply shocks in the global supply chain as many importers shut down their factories and closed their borders particularly China. Nigeria was severely affected because Nigeria is an import-dependent country and as a result Nigeria witnessed shortage of crucial supplies like pharmaceutical supplies, spare parts, and finished goods from China. Four, the national budget was also affected. The budget was initially planned with an oil price of US\$57 per barrel. The fall in oil price to US\$30 per barrel meant that the budget became obsolete and a new budget had to be formed that was repriced with the low oil price.

Finally, the COVID-19 pandemic affected the Nigerian stock market. Major market indices in the stock market plunged when investors pulled out their investments into so-called safe havens like US Treasury bonds. Stock market investors lost over NGN2.3 trillion (US\$5.9bn) barely three weeks after the first case of coronavirus was confirmed and announced in Nigeria on January 28, 2020. The market capitalization of listed equities, which was valued at

NGN13.657 trillion (US\$35.2bn) on Friday, February 28, 2020 depreciated by NGN2.349 trillion to NGN11.308 trillion (US\$29.1bn) on Monday 23 March 2020. The All-share index closed at 21,700.98 from 26,216.46 representing 4,515.48 points or 20.8 per cent drop.

Methodology

This study made use of qualitative (primary) data where Kaduna metropolis was studied. The choice for the location was due to the concentration of SMEs in the area, and was among the states that were hardly hit by the epidemic. 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. In this regard, 110 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. Percentage and frequency counts were used in the analysis of data.

Results

Table 1: 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	44	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	110	100	100	

Source: Field Survey, (2020)

Details from Table 1, shows respondents opinions on whether operations were affected due to COVID-19 and the consequent lockdown imposed. It indicated that 10% respondents 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 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 of SMEs in terms of reduction in production.

Table 2: 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	43	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	110			

Source: Field Survey, (2020)

Result from table 2, shows that 6% of the respondents reported that the lockdown due to COVID-19 pandemic has not reduced their sales, 34% claimed that it has reduced 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 3: 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	33	33	33	100
Total	110	100	100	

Source: Field Survey (2020)

From table 3, 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 4: 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	60	57	57	71
To an extreme extent	34	29	29	100
Total	110	100	100	

Source: Field Survey (2020)

Result from Table 4 shows that 3% of respondents 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 Kaduna metropolis.

Conclusion

This study ascertained the impact of COVID-19 pandemic on selected SMEs in Kaduna metropolis, Kaduna State, Nigeria. The economic downturn in Nigeria was triggered by a combination of declining oil price and spillovers from the COVID-19 outbreak, which not only led to a fall in the demand for oil products but also stopped economic activities from taking place when social distancing policies were enforced. The government responded to the crisis by providing financial assistance to businesses, not to households that were affected by the outbreak. The monetary authority adopted accommodative monetary policies and offered a targeted 3.5trillion loan support to some sectors. 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.

Recommendation

In the light of the foregoing, it is recommended that the policy makers and all stakeholders in SMEs 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 in Kaduna State and Nigeria at large.

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