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Assessment Of Covid-19 Impact On Small And Medium Enterprises

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Abstract

The coronavirus (COVID-19) is having a tremendous impact on global trade and the businesses that drive it. With countries in various stages of lockdown or loosening confinement periods, it is becoming clear that the pandemic has particularly impacted on small and medium enterprises (SMEs). Based on the information gathered, it was revealed that during this pandemic, most of enterprises have difficulties in operating, especially with small and medium enterprises where these problems are more serious than for other enterprises as a result of the considerable decline in the demand for goods. This required SMEs to embark on internet-based platforms services; this can assist them in sustaining business during these critical periods. It therefore recommended that tax breaks should be given to all SMEs by the government at all level in order to restructure their business operations.

Key words: COVID-19 Pandemic, SMEs and Consequences

Introduction

Over the years, oil has represented more than 80 percent of exports, 30 percent of banking-sector credit, and 50 percent of general government revenues. A large share of the country's non-oil industrial and service sectors also relies on foreign-exchange inflows generated by the oil industry. According World Bank (2020), the protracted slump in global oil prices has reduced Nigeria's general government revenue from an already low 8 percent of GDP in 2019 to a projected 5 percent in 2020.

However, coronavirus began in Wuhan, Hubei Province, China. Residents who lived in Wuhan had some link to a large seafood and live animal market, which suggest that the mode of transmission of coronavirus was from animal to person. The virus has been named "SARS-CoV-2" and the disease it causes has been named "coronavirus disease 2019" (abbreviated "COVID-19"). The first known patient of Coronavirus started experiencing symptoms in Wuhan, China on 1 December 2019. Since then, there have been over 800,000 reported cases around the world (Ozili, 2020). According to Olubusoye and Ogbonna (2020), the sudden drop in revenue comes just when fiscal resources are urgently needed to contain the COVID-19 outbreak and stimulate the economy, creating a financing gap that threatens to destabilize the government's fiscal position. Since the debut of COVID-19 in Nigeria on 27th February 2020, the Nigerian economy appeared to have entered turbulence. Thirteen days after its importation from Italy, precisely March 11 2020, the World Health Organization (WHO) declared COVID-19 a global pandemic
The Covid-19 pandemic has caused unprecedented panic, and disruptions both for the public and private sectors. The crisis is considered an existential threat to the global economy with governments and businesses grappling with the effects. There has been growing apprehension as to the eventual impact of the pandemic especially for economies. While the health impact of the crisis is substantial, the economic effects are no less devastating especially for businesses (Lola, 2020).

The COVID-19 pandemic has posed a serious challenge to the world, necessitating countries around the world to adopt stringent measures such as complete or partial lockdowns in order to contain the spread of the disease and this has had adverse implications on national economies and rural livelihoods. The Federal Government of Nigeria (FGN) had to close its land, sea and air borders and implemented a total lockdown in states and cities with very high infection rates across the country. Consequently, state governments have followed suit. These measures have had its toll on individuals, households, small and medium scale enterprises (SMEs) and large corporations. In order to cushion the effect of the pandemic on the citizens, the federal government had announced a number of responses: N500 billion Covid-19 Crisis Intervention Fund, 50 billion Naira CBN intervention fund for households and SMEs, 20,000 Naira four months conditional cash transfer to the country's poorest, reduction in price of fertilizers as subsidy to farmers etc.

Most of these SMEs operate on a day to day level and so this entire pandemic situation has been nothing short of a nightmare for them. Their investments for the first half of this year have all but washed down the drain in one failed swoop. In the manufacturing sector, as factories and cities have been shut down and a large portion of the labour force demobilized.

Perishable products have gone to waste in warehouses or been sold off at pittances. Distribution of non-perishable goods is practically at a halt and transportation businesses are stuck with vehicles in their parks all day long. As if all these are not enough, there are increasing reports of looting in various states and as much as this development affects us all as a nation, it makes an already bad financial situation worse for the SMEs in this country. Majority of these small businesses are understandably ill-equipped to handle a crisis of this scale, and so for many the focus has rapidly switched from profit-making to survival mode.

Since the lockdown became our new normal, most of these SMEs have been unable to lay their hands on the raw materials needed for their operation. Some are already shutting down since there is no material for production. Lots of containers have been delayed at the seaports and shipping dates have been repeatedly postponed on account of COVID 19. Even micro businesses that buy and sell cannot get supply of the goods they buy because most of them mainly imported their goods from China.

For some of the SMEs, there is complete shutdown of business activities and this has continued to affect negatively for the businesses. In essence, while there is decline in income for some of the SMEs, unfortunately there are costs that would still be paid for, such as rents and other fixed costs. The literature on the Small and Medium Enterprises (SMEs) effect of Covid-19 is still scant because as the pandemic is still increasing across the world with other regions becoming epic centres. In review of past course of events, this provides the reason for the study on COVID-19 pandemic and its consequence on SMEs.

Literature Review

Basic macroeconomic consequences of past pandemics such as 1918 influenza included: (i) low sales due to customer sentiments, (ii) high cost to the service sector since they are most affected by facemask and social distancing, and (iii) strain on economic activities, among others (Boissay & Rungcharoenkitkul, 2020; Barro, Ursua & Weng, 2020).

The role of small and medium enterprises (SMEs) and its contribution to real economy is well recognized, and great evidence is reported in the international literature. Based on prior experience and empirical evidence, entrepreneurship, and SMEs in particular, can quickly identify and commercialize new market trends. Especially, in turbulent times when opportunities are increasing, and where convex policies and strategies may work better for regulators and entrepreneurs. Nowadays, as covid-19 moves from a public health pandemic to an economic crisis, it would be of great interest for entrepreneurs, employees, managers, and policy decision-makers to identify major trends under and after covid-19, forecast how SMEs in the globe will react, and where to spend our energies (Konstantinos, 2020).

There are several ways the coronavirus pandemic affects the economy, especially SMEs, on both the supply and demand sides. On the supply side, companies experience a reduction in the supply of labour, as workers are unwell or need to look after children or other dependents while schools are closed and movements of people are restricted. Furthermore, supply chains are interrupted leading to shortages of parts and intermediate goods. The impact of the virus could have potential spill-overs into financial markets, with further reduced confidence and a reduction of credit. These are affecting both larger and smaller firms. However, the effect on SMEs is especially severe, particularly because of higher levels of vulnerability and lower resilience related to their size.

On the demand side, a dramatic and sudden loss of demand and revenue for SMEs severely affects their ability to function, and/or causes severe liquidity shortages. Furthermore, consumers experience loss of income, fear of contagion and heightened uncertainty, which in turn reduces spending and consumption. These effects are compounded because workers are laid off and firms are not able to pay salaries. Some sectors, such as tourism and transportation, are particularly affected, also contributing to reduced business and consumer confidence. More generally, SMEs are likely to be more vulnerable to 'social distancing' than other companies (Lucia & Stephen, 2020).

In all OECD countries, SMEs account for the vast majority of companies, value added and employment. However, in some regions and sectors that have particularly felt the impacts of the situation, the prevalence of SMEs is even higher. For example, in some of the most affected regions, like Northern Italy, the significance of SMEs within the economic structure is even more critically important. Likewise, SMEs are strongly represented in sectors such as tourism and transportation, which are significantly affected by the virus and the measures taken to contain it, as well as fashion and food where short delivery times are of essence.

SMEs often have a more limited number of suppliers. In some cases, this may shelter them from the shock. At the beginning of the pandemic outbreak in China, this appeared to be the case with German SMEs operating more in regional supply chains and therefore less affected by developments in Asia. In other cases, SMEs may rely on suppliers from countries and regions with more COVID-19 cases, increasing their vulnerability. Similarly, obstacles in transportation by sea, road or air affect these SMEs. Some SMEs are particularly vulnerable to the disruption of business networks and supply chains, with connections with larger operators (e.g. MNEs) and the outsourcing of many business services critical to their performance. Over the longer term, it may be difficult for many SMEs to re-build connections with former networks, once supply chains are disrupted and former partners have set up new alliances and business contracts. Businesses, including SMEs, will bear the brunt of a reduction in global demand for their products and services. This impact may particularly be felt in specific sectors such as tourism, but also amongst those SMEs catering for local markets where containment measures have been introduced (OECD, 2020).

SMEs may have less resilience and flexibility in dealing with the costs these shocks entail. Costs for prevention as well as requested changes in work processes, such as the shift to teleworking, may be relatively higher for SMEs given their smaller size, but also, in many instances, the low level of digitalization and difficulties in accessing and adopting technologies. If production is reduced in response to the developments, the costs of underutilized labour and capital weigh greater on SMEs than larger firms. Furthermore, SMEs may find it harder to obtain information not only on measures to halt the spread of the virus, but also on possible business strategies to lighten the shock, and government initiatives available to provide support.

Given the limited resources of SMEs, and existing obstacles in accessing capital, the period over which SMEs can survive the shock is more restricted than for larger firms. Research in the United States suggests that 50% of small businesses are operating with fewer than 15 days in buffer cash and that even healthy SMEs have less than two month cash reserves (Federal Reserve Bank of New York, 2020). As the OECD signals, there is a risk that otherwise solvent firms, particularly SMEs, could go bankrupt while containment measures are in force (OECD, 2020).

Covid-19 and Technological opportunity for SMEs

With technology playing vital roles in business operations, the Covid-19 has presented even more opportunity for SMEs to deploy skills and technology tools. Most (74%) of the respondents reported that they have resorted to technology in their business. This includes digital marketing, brand promotion, delivery, payments systems etc (Lola, 2020).

Also, with the uncertainties and dynamics of the period, majority (88%) of the SMEs are re-thinking their business models. The SMEs are taking decisions to fit the emerging realities. In spite of the huge challenges SMEs are facing this period and with about 93% of the respondents reporting decline in income, it is interesting to note that majority of them (83%) believe their businesses will survive even after this period. This clearly shows the resilience and doggedness of Nigerian SMEs. While this is indeed the right mindset at this period, SMEs must be willing to learn appropriate strategy required for businesses to thrive and be prepared to implement such processes and practices that will make their businesses truly thrive

According to Lola, (2020), SMEs reported having logistics issues (49%) and about 36% noted having challenges with their production. Supply chain networks have been disrupted globally and as evidence suggests, the supply chain of SMEs have been impacted negatively by the current crisis. This disruption has increased the cost of business especially for businesses that have not closed. Other aspects of business operations affected include salaries (26%), customer services (23%), payments (20%), investments (9%) and foreign exchange (7%). With dwindling income and wages for employees, more than half (55%) of the SMEs are considering laying off employees. Even for the 44% that has no plans of lying off their workers, reduced productivity and income are making them think of salary reduction while the situation persists

SMEs are exploring innovative ways and means of cushioning the effects of these challenging times. Majority of them have had a rapid response to the pandemic and have taken measures to thrive. They have shifted focus towards crisis management with emphasis on measures which will likely evolve after the crisis. The SMEs see great value in collaboration and partnerships (45%). About 25% of the SMEs are also reducing their production processes to cut costs. 24% of the SMEs are offering price slashes and promotion. Interestingly, the COVID-alligned SMEs have increased their production to meet market demands. Some are making diversification plans while there is aggressive online marketing to boost sales and patronage.

Empirical Studies

Studies have been writing on the economic consequences/challenges faced with recent coronavirus and found to have significant direct and indirect economic consequences on all the economic agents-governments' organizations, individual and households. Fornaro and Wolf (2020) evaluated the impact of Covid-19 on macroeconomic policy in order to assess the macroeconomic implications of the pandemic. The virus also depressed the global demand. They found that social distancing impaired the ability of households to spend; corona virus caused a fall in demand and involuntary unemployment. The study concluded that the coronavirus would cause a short-lived negative supply shock. Adesoji and Simplice (2020) study presents an early review of the macroeconomic impact of the Covid-19 pandemic in Nigeria. The aggregate supply and aggregate demand (AS-AD) model provides the theoretical motivation for the study. The study found that the Covid-19 pandemic has insignificant negative impacts on basic macroeconomic variables in Nigeria such as inflation, employment, exchange rate, GDP growth, among others. Loayza and Pennings (2020) examined the conduct of macroeconomic policy in the time of Covid-19 in for developing countries. Their study found that; factors such as lower health care capacity, larger informal sectors, shallower financial markets, less fiscal space, and poorer governance are likely to stymie the gains of sundry containment measures taken, and that; the human and economic costs of the COVID -19 are likely to be higher in developing countries because of the structure of their economies which aggravates the impact of shutdowns and reduction in economic activities. Ozili (2020) analyzed the Covid-19 spillovers to Nigeria and the structural weaknesses in Nigeria's infrastructure that helped bring on the current economic crisis and discuss prospects for reform. It found that the spillover of COVID-19 pandemic into Nigeria coupled with declining oil price, which were external shocks, caused the economic crisis in Nigeria in 2020 and these structural problems in Nigeria at the time prolonged the economic crisis. Boissay and Rungcharoenkitkul (2020) reviewed the macroeconomic effect of COVID -19 using the US data, most especially relative to past pandemics. Their study found that the economic cost of the COVID -19 pandemic can be proxied by GDP foregone, most especially based on the comparison between the current GDP forecast and the COVID -19 outlook. In the light of the April 8th U.S data, the study estimated that COVID -19 would lead to output loss which ranged between 5-9 percent for the United States and between 4 and 4.5 percent for the global economy. Dingl and Neiman (2020) analyzed the employment effect of COVID -19 on U.S labour force due to the cliché of social distancing and work from home which have become the new normal during the pandemic. The study found that only about 34% of jobs can plausibly be performed at home and this accounts for about 44% of all wages. The study concluded that, due to COVID -19, many employees are unable to travel to work. Hence, identifying which jobs cannot be performed from home would be useful for policy makers to target social insurance payment to those that need them. KPMG (2020) examined the economic impact of COVID -19 in Nigeria with emphasis on business activities. The study found that the pandemic has a twin shock on the Nigerian oil-dependent economy, namely, global and domestic shocks as well as oil price shock. Thus, that unlike the threat of Ebola, Zika and SARS viruses which faded with time, the social-economic impact of the pandemic might still persist well after the virus had been conquered. World Bank (2020) study projected a grave macroeconomic effect of the pandemic on the region which includes a decline in economic growth of Sub-Saharan Africa from 2.4 percent in 2019 to -2.1 and -5.1 in 2020 which might lead to a possible recession in the region. Output loss in the region was estimated to be between US$37 billion and US$79 billion while the region's three largest economies—Nigeria, South Africa, and Angola—would witness persistent weak growth and investment consequent upon the fluctuations in commodity prices. Olure-Bank et al (2020) examined the current rampage coronavirus global pandemic to understand the facts, the figures, the issues surrounding it, the preventive mechanisms, the controls, and its abuses, the viewpoints of the World Health Organization on those issues, and the economic implication for Nigeria. The situation analysis study (SAS) was adopted via critical analysis design. Data were analyzed through qualitative (theoretical) review of literature on the subject matter. Results indicate that the lockdown responses to the outbreak of the disease have multiplier effects for Nigeria's economy that may lead to ugly consequences like fall in aggregate demand and corresponding unemployment if not recession (if not depression).

Conclusion and Recommendations

The COVID-19 pandemic however, is bad experience that warns our government at all level to change, hence the outbreak has made impossible for us to depends on foreign health care services and more difficult to solicit for international support given the global demand for medical supplies and equipment. The world of work is being profoundly affected by the global virus pandemic. The crisis has already transformed into an economic and labour market shock, impacting all businesses regardless of their size. During this difficult time, it is important that jobs are preserved, enterprises remain sustainable, workers and their families affected are protected, in particular the most vulnerable, and those in the informal economy.

During this pandemic, most enterprises have difficulty in operating, especially with small and medium enterprises where these problems are more serious than for other enterprises as a result of the considerable decline in the demand for goods and services. In fact, SMEs with their limited ability to counterattack the involved risks and afford the costs due to the slowed down business activities, are facing funds and liquidity problems. As SMEs are severely hurt last 5month periods, they are unable to service their clientele, to pay salary to their employees and be compliant to their commitment with their suppliers. Consequently, many small and medium sized enterprises are expected to go out of business under and after covid-19.

Based on this, Small and Medium Enterprises should embark on Internet-based platforms service provisions; this can assist them in sustaining business during these critical periods. on the other hand, tax breaks should be given to all SMEs by the government at all level in order to restructure their business operations.

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The Impact of Covid-19 on Entrepreneurship and SMES Editorials: 2020 Vol: 26 Issue: 2