

## Original Paper

# The Roles of SMEs on the Sustainable Economy Growth after Covid-19 Pandemic in Nigeria

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### Abstract

*This study purpose is to conceptual framework for sustainability developed in Small and Medium Scale Enterprises (SMEs). The study is assessing the roles and contributions made by the SMEs for the sustainability in the economy of Nigeria after the effects of Covid-19 pandemic. Covid-19 pandemic caused a major trouble on the economic, political, financial, social, religious activities most developed and developing countries. Nigeria economy was affected, and it led to many crises ranging from loss of government revenue, supply of goods and services, accessibility to credit facility by both individual and organization, loss of job, poor standard of living following restriction on human mobility and stay-at-home order by the government. The rate of poverty is at increase as a result of these crises. The overview effects has caused loss of employment opportunity creation, poor standard of living and affected the national GDP contribution to the economy sustainability. Therefore, the study recommends that the conceptual on the SMEs should focus operation of SMEs production and related businesses currently protective to the sustainable economy growth. It also recommends that Government should put in place strong and lasting infrastructure to ease activities of SMEs in Ekiti State.*

### Keywords

*Small and Medium Scale Enterprises (SMEs), economy sustainability, economic growth, capital base, Covid-19 pandemic*

## 1. Introduction

The outbreak of Covid-19 was as a result of Corona virus that spread across the countries in the world (Bartik et al., 2020). The outbreak of the pandemic has affected world economy has forecasted to a decrease in growth from 3% to 2.4% attributed to restriction on travel and decrease in demand and supply (Lemi, Bogale, & Mengesha, 2020). The Covid-19 pandemic has caused more than 93% of enterprises in the countries to be negatively affected, and thereby leading to a serious decrease in revenue generation (Le, Nguyen, Ngo, Pham, & Le, 2020). The pandemic effect in African nations economic growth was predicted to decrease of 1.8% and 2.6% contraction in worst scenario (Economic Commission for Africa, 2020).

Most countries in the world imposed Movement Control Order (MCO), an order that imposes physical and social distancing, traveling limits and international engagement (Winarsih, Indriastuti, & Fuad, 2020). Nigeria government declared restriction order and was enforced by both the Presidential Task Force (PTF) and Nigeria Centre for Disease Control (NCDC). The order was followed in Ekiti State aiming to curb the spread of the corona virus in both the state and the entire country. The order puts

restriction on travel and mobility of the citizen which caused adverse effect on the economy and businesses mainly SMEs. This effect requires more research-based evidence that shows the extent to which SMEs are affected and how government will address the effect for sustainable economy in Nigeria. Any business that physically rely on the space, during the Covid-19 pandemics which comprises of supermarket businesses, restaurants, traditional foods markets, car dealers, cinemas, and fitness centres all suffers a lot of loss. Nevertheless, this was not affects the online businesses because, the use of technology in online business provided the means for trading, marketing and exchange of goods and services which is a means of solution to kept the SMEs businesses sustainable in an advanced countries (Winarsih et al., 2020).

Development of SMEs has been a focus of the various governments in the world, because SMEs have immensely contributed to nation building before the Covid-19 outbreak (Aderemi, Adenirana, Amusa, & Ebere, 2020; Tehseen & Ramayah, 2015). In many countries, a business could be described as large business, medium business and small scale business depending on the yardstick used to determine the formation of the business (Brown, 2020; Cinar, Trott, & Simms, 2019). Considering what happens in many countries, the firm's payroll number of employees is sometimes perhaps the most criterion widely used, and other demarcation criteria that draw a line of difference between large business, medium business, and small-scale business are turnover, paid-up capital, business fixed assets, and investment products. Generally, World Bank described SMEs as businesses with 300 workers maximum but in the Nigeria context, SMEs are conceptualized as business organizations that have less than 50 workers with capital base equal to or less than six hundred thousand naira ( $\leq N600,000$ ), operated with a view to provide job opportunities, meeting sales require standard and owned independently (CBN, 2018). The SMEs businesses constituted about 90% of the total businesses in Nigeria and their number is estimated to be 41.1million according to National Bureau of Statistics (NBS) (Aderemi, Ojo, Ifeanyi, & Efunbajo, 2020; Gbandi & Amissah, 2014).

SMEs are seen as instruments for reducing the poverty level affecting the country and improving the economy of Nigeria (Timothy Ayomitunde Aderemi et al., 2020). For both developing and developed countries, SMEs play important roles in the process of industrialization and economic growth (Larsson & Gustavsson, 2020; Le et al., 2020). Apart from increasing per capita income and output. The unique nature of SMEs is in the utilization of raw materials from local sources, provision of employment opportunities, enhance regional economic balance through industrial dispersal creation of self-employment, entrepreneurship development, motivation for development of rural area, mobilization of local savings, and generally promote effective resource utilization considered critical to engineering economic development and growth (Aderemi et al., 2020).

SMEs are recognised as instruments for economy sustainability in a way to reduce poverty level affecting the country, improve standard of living, and sustained the Nigerian economy. The rapid assessment on the spread of covid-19 has negatively affected both the supply and demand sides of SMEs performance in the area of supply of raw material, reduction of working capital created, shortage of workers, declined in consumers consumption, and operational cost increased. The impact of SMEs will investigate in order to explore the roles SMEs plays to sustaining the Nigeria economy after the Covid-19 pandemic.

After the Covid-19 pandemic outbreak, in the recent times, analysts have projected fall in aggregate demand and supply, rise government expenditure, and dwindling in exports as a result of negative effects of the lockdown in different sectors of the Nigerian economy. Furthermore, the lockdown effects is likely to encourage SMEs businesses in the country as SMEs before the Covid-19 constituted

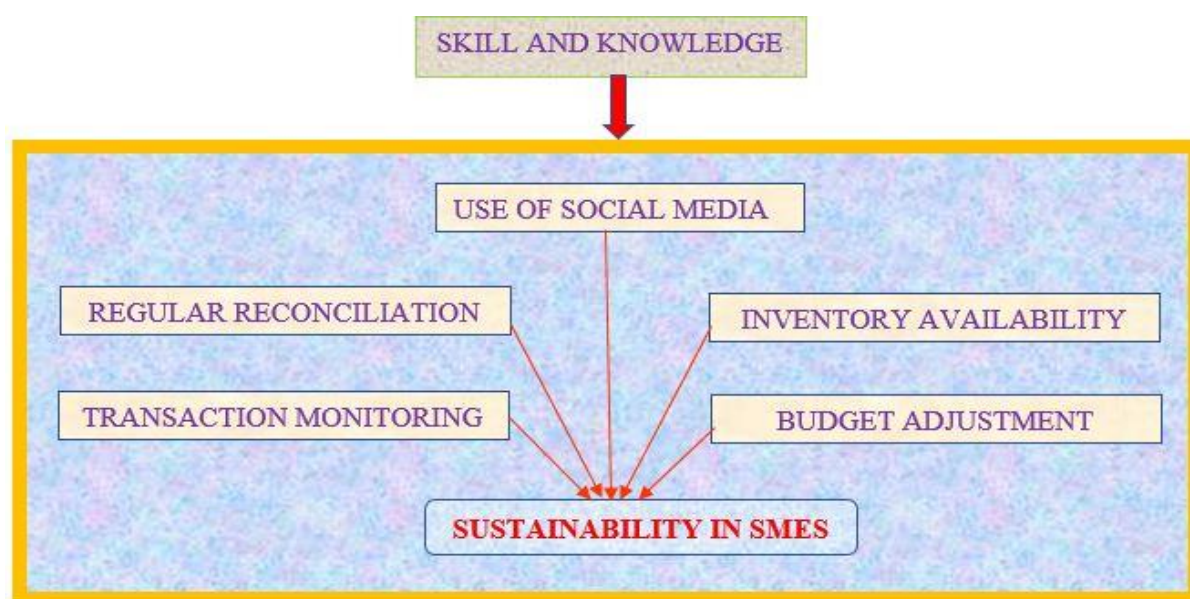
the larger percentage of businesses as they provided estimated 41.4 million enterprises making over 70% works in Nigeria (Aderemi et al., 2020).

This study will contribute to the field of knowledge after considering the possible contributions of SMEs to wealth creation, job creation, and poverty alleviate as well as addressing the negative effects of Covid-19 pandemic on operations of SMEs in the Nigerian economy with the understanding to ensure sustainable economic growth in post Covid-19 period in Nigeria.

## 2. Literature Review

### 2.1 Small and Medium Enterprises (SMEs)

The term SMEs is used interchangeably in many studies, there is no general definition of SMEs. The country geographical placement and legislation influence described SMEs based on these three categories which are, micro enterprises, small enterprises, and medium enterprises (Le et al., 2020). The factors that differentiate are the total assets, number of employees, and annual turnover level (Leopoulos, 2006). Enterprises are any organizations including businesses, non-profits, and government agencies (Le et al., 2020; Ondiek & Onono, 2016). It is either a business or a company while businesses are an organizations or enterprising entities engaged in commercial, industrial or professional activities. A business can be a profit making or non-profit making organizations (Ondiek & Onono, 2016).



**Figure 1. Conceptual Framework of SMEs Sustainability**

**Source:** Adapted (Winarsih et al., 2020).

The designing of sustainability framework is important to SMEs to enhance patronage and busting SMEs businesses after the effect of Covid-19 pandemic so that more business knowledge will be facilitated, and business information will be transformed to create wealth for SMEs operators. This framework will bring enlightenment to the operations of SMEs business as a sustainable means for survival of the Nigeria economy after the effect of Covid-19 outbreaks.

## 2.2 Sustainability in SMEs

In effect of Covid-19, the steps taken to create wealth for economic growth sustainability in SMEs, are, the use of social media to promote businesses and products. Using this will require internet for online connectivity with customers and for advertising of the products (Saurombe, 2020). It also involves using of business software for fast business transaction in terms of billing and payment. Priority to budget adjustment should be encouraged to keep the business running with the anticipated Covid-19 risk involvement. Business owners are to ensure referring to income and expenditure budget items for realization of sales and operational expenses in order to keep profit margins controllable (Eme, Chukwurah, & Emmanuel, 2015; Winarsih et al., 2020). Regular reconciliation to monitoring the business transactions since most of the transactions are through commercial banks alongside with periodic inventory taking which will help the business owner to appraise the business performance in terms of income generated and product needs by the customer (van Hengel, Budding, & Groot, 2014).

## 2.3 Factors Affecting the Growth and Survival of SMEs

A theoretical model of sustainable development of SMEs in Australia was proposed with two major factors which are internal and external factors (Le et al., 2020; Parisa Salimzadeh, Courvisanos, & Nayak, 2013). Internal factors the one cause within the business which are controllable by the business owner, e.g., employee's performance, products design and marketing strategies, internal control systems. The external factors affecting SMEs businesses are from environment where the SMEs operates which includes customers' demands, government policies and other stakeholders' interest (Parisa Salimzadeh et al., 2013).

The factors affecting the growth of SMEs in Nigeria and mostly in Ekiti State before the Covid-19 pandemic are mostly external factors which are environmental factor outside the SMEs business that includes business environment, legal system, policies of both state and federal government, and markets and customers' demands. The source of funds can be either internal or external and this is a very key factor to the survival of SMEs businesses after the Covid-19 pandemic. It is internal if the SMEs owners has savings to plough back to the business and it external if fund are sourcing from outside the business either from banks, friends and other financial institutions which government should address through the financial policy to encourage availability of source of finance for the SMEs in the country for the SMEs sustainable contribution to economy growth.

## 2.4 Government Policies

Before the Covid-19 pandemic, the evaluation of any country economic conditions have recognized that survival of SMEs through implementation of policies and programs of government has to be made favourable because the country's economic growth depends on the SMEs (OECD, 2009). Therefore, government must consider the effect of Covid-19 pandemic and make preferential policies and programs promptly by removing high tax rate, complex administrative procedures, and complicated law system because it have negative effect on the SMEs businesses. The desire of government to provide safe working conditions for people to operate, invest, and form SMEs will bring sustainability economy performance in the country. Therefore, government policies and programs play an important role in the SMEs development and survival in the context of post Covid-19 pandemic.

## 2.5 Policies of Banks and Other Financial Institutions

There are a lot of difficulties in accessing bank facilities by the SMEs in most of the developing countries due to lack of available collateral security, low profitability index and high-risk repayment capability. Many SMEs are faced with these difficulties in context of the Covid-19 pandemic to accessing funds to finance and restore their businesses. Banking sector should have a considerable

interest rates for the SMEs production and survival as well as giving encouragement to new SMEs to operate in the country in order for the country to have a sustainable economic development after the Covid-19 pandemic.

### *2.6 Support of Professional and Big Organization*

The support of big companies and other professional organizations from the country and other foreign nations could create an enabling environment by organizing programmes and promoting activities to support SMEs, acting in between the SMEs and the government to formulate policies that will support the SMEs survival and assist to raise funds with their reputation. It is considered largely that Covid-19 has a direct impact on SMEs businesses (Le et al., 2020). Based on this overview, the study adapted the theoretical model of research on sustainable development of SMEs by Salimzadeh, Courvisanos & Raveendranath (2013). The model focuses on government roles and external factor contribution to the growth and survival of the SMEs. Therefore, it can be seen that government policies and other stakeholders have an impact on the growth and survival of SMEs based on the overview presented.

## **3. Conclusion**

The effect of Covid-19 has affected the sustainability in SMEs but previous SMEs operators and intended new SMEs operators are to be encouraged and motivated through the stakeholders and government intervention. Government policy has a direct influence on the growth and survival of SMEs, the financial institution regulation policies has a direct influence on the growth and survival of SMEs, funds and grants support from government has a direct influence on the growth and survival of SMEs, fund and grants support from other source apart from government has a direct influence on the growth and survival of SMEs, role of professional organization has a direct influence on the growth and survival of SMEs and skill and knowledge has a direct influence on the growth and survival of SMEs (Le et al., 2020). All these are achievable in Nigeria if there are good government policies supporting the stakeholders and government in providing the increase in the existence of SMEs.

This conceptual study is to address the effect of Covid-19 in Nigeria and provide recommendations for sustainable SMEs businesses in boosting the Nigeria economy by encouraging both the existing and intending SMEs operators so that they will have a positive impact in formulating and increasing the SMEs business sustainability.

## **4. Suggestion for Future Research**

This study has conceptualized the roles of SMEs on the sustainable economy growth after Covid-19 pandemic in Nigeria. Further study can work on this study area by designing, elaborating and validating it in creating an in-depth study through qualitative or quantitative methodology to collaborate this study and suggest likely effect of the SMEs businesses on sustainable goal of government in Nigeria. This study suggests the use of qualitative methodology so that the study can systematically investigate the phenomena by collecting qualifiable data and performing statistical computation through the use of exploratory methods on the operations of SMEs in Ekiti State, Nigeria. The choice for the location was basically emanated from the fact that Ekiti State is one of the states that had cases of Covid-19 at the early stage of the pandemic in Nigeria. Government enforced the MCO strictly and this affected a large number of SMEs in the state due to total lockdown by the government because of the Covid-19 pandemic. Ekiti State in Southwestern Nigeria is the study area, the state is more populated with SMEs businesses than corporate organizations. Many of the SMEs are into

production, buying and selling, transportation, subsistence agricultures, and artisans.

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