

A woman with red braids is holding a white sign with the word 'OPEN' in large, dark blue letters. The sign is suspended by two thin white strings. The background is a blurred city street at night with warm lights.

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THE IMPACT OF
COVID-19
ON NIGERIAN MSMEs



This brief achieves two objectives: It presents a set of policy recommendations to support the survival of micro, small, and medium scale enterprises (MSMEs) in Nigeria from the economic shock of COVID-19 pandemic.

Second, it recommends a policy mix to promote transitioning to a situation where these enterprises can resume near-normal business activities long before the health crisis is full resolved. But first, it addresses the relevant question of how are MSMEs so special? Because of the numerous worthy and competing economic challenges facing governments and society right now, it is just not enough to simply suggest prioritization of the needs of MSMEs and recommend a rescue package without some strong justification. The argument is that micro, small, and medium scale enterprises are special because, in addition to generating half of Nigeria's national income, this business cluster accounts for 77 percent of

Nigerian's labor force. Could there be a stronger justification for support than this? Moreover, MSMEs contribute over 55 percent of Nigeria's non-oil output. That is a nontrivial component of Nigeria's gross domestic product (GDP). But that is not all. Micro and small business enterprises are the feedstock of business incubation everywhere. Most innovators start small before scaling up. Even the world-renowned sports brand Nike had to be nurtured, as was Microsoft begotten in a garage by Bill Gates and Paul Allen. Although much remains to be learned about the survival rate of Nigeria's MSMEs as well as the proportion of this category of enterprises which transition to the desired

scale, there is less doubt about their standing as the bedrock of entrepreneurship in Nigeria. Collectively, they provide the springboard upon which the “young Turks cut their teeth” at enterprise, and the crucible on which young entrepreneurs get a solid feel for Nigeria's business environment. Moreover, in lean economic times and with proper intervention, micro and small business enterprises can show remarkable resilience.

The survey data analyzed, and which forms the basis of the resulting conclusions and policy recommendations targeted MSMEs in April 2020, the early months of the total lockdown. Thus, they reflect opinions held

early in the lockdown before the more expansive impact of the various combat measures on the economic fabric have been fully recognized. Nonetheless, the resulting conclusions have benefitted from hindsight and so mitigates any resulting bias. The survey responses were overwhelmingly from microenterprises, characterized by modest asset base of not more than 10 million naira and/or employing no more than ten people.

We should emphasize that this characterization is limiting in that it understates the overall economic benefits of microenterprises including their effects on prosperity and national competitiveness. By ignoring turnover in the characterization of microenterprises, the official definition underrates the efficiency implications of

leveraging sizable turnover on a lean asset base. Therefore, larger size is not necessarily better. In fact, in a progressive capitalist system, it is not just the size of firms that matter. Rather it is the number and size distribution of firms in an industry which are crucial for efficiency or long-run competitiveness.

Sometimes, a market is best served by a mix of small and large firms. Other times, by a few large firms will suffice as in an oligopoly (the beer industry in Nigeria for example), or numerous small firms like the fashion or entertainment industry including Nollywood. In rare occasions, it may be one firm, a monopoly, as in the Transmission

Company of Nigeria that is the national carrier wheeling electricity from the many generating companies (GENCOs) to the DISCOs (distribution companies) who are territorial and although may not be the sole source of retail electricity in their market, nonetheless are unique in the supply of a brand of electricity, grid power.

The matter of size distribution of firms in a market is ultimately about how large is the demand for goods and services in that market and the know how required to meet those needs. Hence, it is not accidental that conditional on the prevailing business milieu, micro is the dominant firm size for surviving in the choppy waters that is the Nigerian business environment. That alone

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is a vivid proof of the vitality of this class of enterprises. Furthermore, where effectively managed, their relatively low fixed overheads can be an additional source of agility. Therefore, the overall potential productivity gains from such lean operations can deliver huge economic benefits for this country through becoming internationally competitive in its niche market.

Up until now, international competitiveness remains an elusive term in our industrial sector where size effects demand supporting infrastructure that is still neither readily nor reliably available at the proper scale. On the other hand, whereas the industrial sector lags, a great deal of hope is pinned on MSMEs. But their niche market is open to competition from the Philippines, Vietnam,

Bangladesh, Pakistan, Sri Lanka, Tanzania, Rwanda, Ghana, Namibia, Kenya, Togo, and Honduras in the trade for textiles, fashion accessories, clothing, hides, skins and leather products. Other competitive forces come from India, the USA, South Africa, and South Korea in the music and film (i.e. entertainment) industry. Similarly, there are competitive threats from yet other jurisdictions where multinationals set up part of their global operations to take advantage of favorable labor conditions and potential talents. Examples of notable participants in such co-locations include Google, Facebook, Andela, and other internet-based services. Thus far, their presence in Nigeria are unsurprisingly and to our point, through MSMEs.

So, is the nation going to watch and do nothing whilst COVID-19 obliterates this vital engine of growth and prosperity?

COPING WITH THE PANDEMIC: CHALLENGES & NEEDS

As elsewhere, the economic shocks of COVID-19 pandemic have undoubtedly amplified the set of pre-existing hindrances to business incubation in Nigeria. An overwhelming number of respondents (approximately 95 percent) indicated that the shocks from the pandemic have adversely affected their business.

Most of the affected economic activities are distributed across the primary and tertiary sectors with agribusiness predominant. Also, many of the businesses are unable to rapidly relocate activities online. However, with adequate mentoring and support, some will be able to transition gradually to online presence. Meanwhile, only 24 percent of the respondents can operate in a virtual mode. More than half of the respondents indicate that their business is at risk of extinction whereas up to 50 percent of the employees, even amongst firms that hope to survive, confront potential layoffs. Such threat of massive layoffs from an economic segment which account for over 70 percent of the labor force is deeply concerning.

Without providing any concrete details, all the firms expressed optimism in perceived opportunities for new product, product

innovation, and diversification of economic activities post-COVID-19. Such a high level of optimism across the board—micro, small, and medium scale enterprises—augur well for government policies towards fighting the pandemic in Nigeria. A recent study from experts in the US “predicts that individuals will be more willing to stay at home during a pandemic if they expect a swift economic recovery once the virus subsides. Intuitively, they will value their health more if they know they'll be able to work in a post-pandemic world. This is why governments promise a strong economic stimulus through fiscal and monetary policies once the pandemic is over.”

Businesses have consistently cited liquidity as their biggest constraint. They point to sales, and accounts receivables which have decreased significantly, and to the struggles

to meet payroll obligations given severely limited access to credit (bank financing) to cover liquidity crunch. Only about 14 percent of microenterprises can look to loans to cover their financing needs. Others look to limited financing from friends and relatives. Overall, the biggest ask is in financing and market linkages, the latter taken to mean the reopening of supply chain links that were severed because of the lockdown. These linkages remain fragile because the lockdown is seen as continuing even in its currently limited format.

Specifically, governments are requested to provide stabilization (immediate) funding and access to market for growth, all of which deliver additional social benefits along the lines suggested by the US study cited above. **Save the firms, safeguard jobs, give hope, and grow an army of willing fighters** to end the pandemic in our sphere.

Other forms of assistance requested include regulatory forbearance and/or sharing of fixed costs and overheads. Costs such as those pertaining to retrofitting of business

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premises to become anti-SARS CoV-2 compliant, data and energy, and other likely new sources of significant variable costs and overheads as are to be expected in the new co-existential business environment where both consumers and suppliers are learning to lead a near-normal existence alongside the pandemic. Examples of possible forbearance include arrangements for deferred tax payments for qualified payers. Eligibility requirements can include a record of timely remittance of payroll taxes. Other considerations can extend to license fees and permits as well as extensions for filing and payment of tax liabilities, again subject to qualifying criteria.

Learning to coexist with the pandemic is a process, not an event. It is a conversion process about which a basic component is upskilling the proprietors of these businesses on proper recordkeeping. Keeping good records of business activities increases the likelihood of securing formal support from governments, non-state actors, non-governmental organizations, civil society, and big business (banks included). The survey data indicates that less than 60 percent of the respondents have been exposed to some form of training, business advisory sessions or mentoring prior to the shock.

Clearly, this is an area where both the private sector and the state can effectively collaborate. Training and general upskilling

to promote formalization of business activities is a win-win situation. Skilled operators are more likely to assume civic duties or at least become knowledgeable in it. Civic duties and state responsibilities are mutually beneficial relationships that can be nurtured by mentoring proprietors to keep proper business records, pay taxes, register to vote, obtain BVN (bank verification number), and national ID (identity document). Attaining such profiles facilitates mechanisms for delivering emergency assistance such as when a means-test is required for verification of eligibility before disbursing relief. Business owners should be sensitized/mentored to recognize this advantage whilst governments equally need to be attuned to the mutual advantage from having an educated workforce.

Anticipating post-modernism (the 4th industrial revolution) and the opportunity to leapfrog into the new but ever evolving knowledge economy has become a major set of perceived opportunities from the pandemic.

In this regard and as part of learning to coexist with the pandemic, MSMEs would benefit from continued support beyond the pandemic intervention fund. Examples are extensions into other non-monetary assistance such as in electronic transactions laws and regulations, and the strengthening of alternative dispute resolution mechanisms such as arbitration, all calculated towards



POLICY RECOMMENDATIONS

1. Having regard to the needs expressed by MSMEs, their importance to the national economy, and the enumerated constraints they face, we conclude that the case for preservation is strong and what should be done is uncomplicated.
2. What can be done depends of course on the state's priorities and fiscal constraints. Nonetheless, the core of our findings and the resulting recommendations are for governments at both the state and federal levels to heavily assist the “mobilize and transition” efforts of this business category.

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The steps being taken, and the associated resource mobilization required to position the firms to accommodate the new anti-SARS CoV-2 business reopening rules is what we refer to as mobilization. The process of learning to do business in the novel and changed environment is referred to as the transition.

3. MSMEs do not appear to be asking for handouts. They want catalytic assistance. A "catalytic converter" in an internal combustion engine reduces toxic pollutants in the emitted gas and thus makes the gas less obnoxious. Likewise, government assistance through providing bridging finance mitigates the impact of COVID-19 on this class of enterprises and boosts their transitioning to the new reality of coexisting with the pandemic. Government's assistance makes the impact of COVID-19 less toxic to MSMEs.

4. An important part of the transition pertains to retrofitting of business spaces to make it safe for everyone. Thereby, restoring sales, revenue, and enhancing the safety of employees. As majority shareholders in the labor force, improvements in the health of MSME component of the labor force is representative of the aggregate labor force. What is good for MSMEs is good for Nigeria.

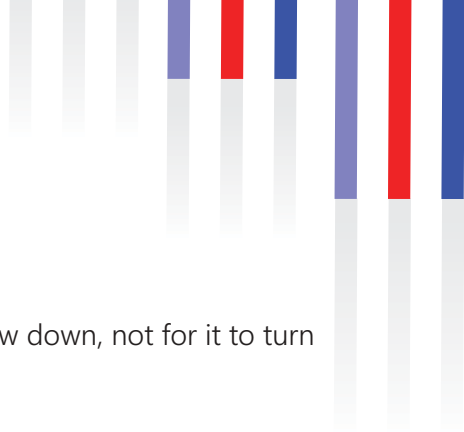
5. Given the physical scale at which these enterprises typically operate, the per

business unit cost of compliance is not daunting. On the other hand, the aggregate benefit to the economy is sizable and thus cannot be dismissed lightly.

6. Traditional business support hot lines have been hampered by MSMEs clinics across the country staying currently inactive due to the lockdown even though their services have never been in more demand than it is presently. Perhaps therefore, the relevant authorities could consider a mixture of retrofitting some of the clinics for anti-SARS CoV-2 compliance, and initiating a program of transition to virtual delivery for others, depending on the locale of the patrons.

7. Typological analysis of the impact suggests that the economic shock from the pandemic can be addressed chiefly through developing resilience, jump-starting consumer spending, and innovating around supply-chain shocks induced by the pandemic.

8. Lessening, if not **eliminating completely, major impediments in the supply chain segment of the value chain** is the wonder drug (an elixir) to curb inflationary pressures originating from supply shocks. Because prices are sticky downwards (i.e. when they rise, they seldomly come down), inflation can materialize even without any significant change in the quantity of money in circulation. Therefore, tightening monetary policy solely, even if it were to be feasible



which is doubtful given the size of public sector borrowing requirements, would be insufficient to insulate the economy from inflationary pressures.

Realistically, excess demand or simply shortage of goods and services can be a major causal factor of inflationary pressures. When was the last time anyone experienced prices of commodities go down despite periodic economic downturns? One can safely wager that in a national survey over this question, the overwhelming response based on the life-time experiences of most consumers would be that rarely, if ever, have they witnessed a general price drop. The best you can expect is for the rate of

increases to slow down, not for it to turn negative.

9. Repeatedly we have emphasized the importance of developing resilience as a sustainable means of restoring stability to MSMEs and ensuring that this vital class is not decimated by the economic shocks of the pandemic. The recurring emphasis also recaps the importance of providing bridging finance within an incentive compatible framework. Incentive-compatible means that the intervention mechanism would be fool-proof and not subject to gaming by unscrupulous impostors posing as beleaguered MSMEs and thus seeking to derail the noble intentions.



10. However, the mechanism must be quickly disbursing to indeed be the **MSME-catalytic converter** intended. As explained earlier, the intervention relief is metaphorically a “catalytic converter” because by providing the bridging finance, government is boosting MSMEs whilst suppressing the economically toxic or undesirable effects of the pandemic on the very same MSMEs. Thus, it is a redox reaction to the pandemic problem.

11. During the complete lockdown, economic activities were reduced to near subzero freezing temperature. Near subzero because some essential services

were weakly operational. Nonetheless, the survey suggests that if the partial lockdown continues even in its present adjusted format, but with no appreciable support to MSMEs for transitioning to resilience, over 50 percent of the country's workforce will be out of gainful employment; this view from over 80 percent of the respondents.

From a sector which holds over 70 percent of the workforce in a young demography like Nigeria, such an outlook is a ticking social timebomb and thus politically untenable. The leadership must find such risk exposure politically unacceptable.





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