



Impact of Covid-19 on Financial Institutions, Small Business and Micro-Entrepreneurs in Nigeria

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Abstract

This study examined the impact of covid-19 on the financial institutions, small businesses and micro-entrepreneurs in Nigeria. The study used the narrative-textual case study (NTCS) method employing both descriptive and explanatory approaches. The study relied on text contents and official statistics for the purpose of analysis. The study found that Covid-19 had negative impact on small businesses and micro-entrepreneurs due to lockdown measures adopted to stop the spread of the virus, countries came up with multiple measures to cope and minimize the negative effects of the disease. Nigeria like many other countries, adopted monetary, fiscal, public and human control measures to manage the scourge of the covid-19 pandemic. The study found that, globally the stock market was negatively affected. In the United States of America, the S&P 500, which measures the performance of stocks of 500 large companies, the NASDAQ and Dow Jones Industrial average fell woefully. Germany's DAX and United Kingdom's FTSE 100 also dropped in March, 2020. The study concluded that the Nigerian Capital Market was not significantly affected. The Lockdown measures however, affected the economic activities and the banking activities in Nigeria. The study, therefore recommends that lockdown measure should be lifted, and citizens be advised to embark on strict adherence to personal hygiene and use of protective devices.

Keywords: Small Businesses, Micro-entrepreneurs, Financial Institution, Covid-19, Poverty.

Introduction

Small Businesses and Micro entrepreneurs are the pillars upon which Nigeria's economy rest on. They have been acknowledged as the driving force for the growth of the country's economy (Oke and Aluko, 2015). The Nigerian government has made concerted efforts aimed at fostering the growth of small businesses and the development of entrepreneurship in the nation. The small businesses and entrepreneurs play significant role in Nigeria's industrialization process. A sure way of ensuring the development of

entrepreneurship and growth of small business in Nigeria is the steady supply of finance to this sector. Unfortunately, lack of easy access to finance has been recognized as a main obstacle faced by the small businesses and micro-entrepreneurs in Nigeria (Afolabi, 2013).

This position is further worsened by the outbreak of Covid-19 pandemic which has transformed itself into a global economic shock. As reported by the International Labour Organization (ILO) (2020), Covid-19 is impacting not only provision of services but also consumption and investment. The

ILO (2020) reiterates that sustenance of business operations will be difficult—particularly for the small businesses, micro-entrepreneurs as well as informal and casually -employed workers.

The economic shock created by Covid-19 is novel as described by Ozili and Arun (2020) who also posit that it has “triggered a new type of recession” that is clearly distinct from the past triggers of economic and financial crisis. The 2008 world-wide financial crisis readily comes to mind here. Allen and Carletti (2010) report that the 2008 global economic recession was a result of poor monetary policy measures, weak financial regulations and high leverage in the banking sub-sector of the financial service industry. The Nigeria’s 2016 recession was a fall out of dramatic reduction in the price of crude oil in the international market, adaption of improper exchange rate (Fixed-float) regime, balance of payment deficit and weak infrastructure (Ozili and Arun, 2020).

It is clear that the decline in banking and economic activities occasioned by the massive lockdown measures in Nigeria is negatively impacting the financial institutions, small businesses and micro-entrepreneurs in the country. But the negative impact of Covid-19 is not limited to Nigeria alone. Data from the National Bureau of Statistics of China indicates that the total value added of industrial enterprises in China (Where the Covid-19 started) declined by 13.5 per cent in the first two months of 2020. While trying to save lives through lock-down and other measures, economic activities suffered setbacks impacting negatively on the performance of financial institutions, small businesses and entrepreneurs. This paper attempts to discuss the impact of Covid-19 thus far on banks, small businesses and micro-entrepreneurs in Nigeria.

Literature Review

The contributions of small businesses and micro-entrepreneurs to the development of Nigeria’s national economy cannot be over-emphasized. Imafidon and Itoya (2014) observed that contributions of small scale businesses in the industrialization process of Nigeria is very glaring. And this is not just a new development. Osuagwu (2001) points to the fact that 10% of total manufacturing output and 70% of industrial employment are made by the Small and Medium Enterprises (SMEs) in Nigeria. However, Imafidon and Itoya (2014) identified financial constraints as a main challenge faced by Micro and Small Scale businesses in Nigeria.

This situation is further aggravated by the outbreak of Covid-19 (Otherwise known as Coronavirus) pandemic. ILO (2020) observes that the impact of Covid-19 goes beyond the health concerns of the frontline health workers and their families to economic impact across three key areas:

- i. Job Quantity
- ii. The Quality of Work, and
- iii. Effects on the vulnerable, such as micro-entrepreneurs and labour market outcomes.

ILO’s preliminary estimates of increase in unemployment is between 5.3 million (“Low” Scenario) and 24.7 million (“High” Scenario) from a base level of 188 million in 2019. The “Mid” Scenario meant an increase of 13 million (7.4 Million in High – income countries). These figures are scaring when compared to 22 million increase in unemployment during the entirety of 2008/2009 global financial crisis. In Nigeria, the commercial banks and some other businesses are already contemplating job lay-offs as a result of the Covid-19 pandemic. The decline in economic activities as a result of covid-19 pandemic will not only affect banks but also entrepreneurship development. Entrepreneurship play

significant role in free enterprise economy (Popoola 2014).

In Nigeria, poverty level is already high with 40.1 per cent of total population classified as poor (NBS, 2020). That is, on the average, four (4) out of every ten (10) Nigerian Live below the poverty line-having real per capita

expenditures below 137,430 Naira in a year. By extension, this means that more than 82.9 million Nigerians are poor by Nigeria's National Standards. Table 1 below shows Nigeria's poverty head count rate per state.

Table 1: Poverty Head Count Rate per state in Nigeria (Percentage of Population 2019)

S/N	State	% of Poverty Rate	S/No	State	% of Poverty Rate
1.	Sokoto	87.73	19.	Cross River	36.3
2.	Taraba	87.72	20.	Benue	32.9
3.	Jigawa	87.02	21.	Abia	30.7
4.	Ebonyi	79.76	22.	Imo	28.9
5.	Adamawa	75.41	23.	Kogi	28.5
6.	Zamfara	73.98	24.	Ekiti	28.0
7.	Yobe	72.34	25.	Akwa Ibom	26.8
8.	Niger	66.11	26.	Rivers	23.9
9.	Gombe	62.31	27.	Bayelsa	22.6
10.	Bauchi	61.53	28.	Kwara	20.4
11.	Enugu	58.13	29.	Anambra	14.8
12.	Nasarawa	57.3	30.	Ondo	12.5
13.	Katsina	56.42	31.	Edo	12.0
14.	Kano	55.1	32.	Oyo	9.8
15.	Plateau	55.1	33.	Ogun	9.3
16.	Kebbi	50.2	34.	Osun	8.5
17.	Kaduna	43.5	35.	Delta	6.0
18.	FCT	38.7	36.	Lagos	4.5

Source: National Bureau of Statistics - 2020

It is clear from table 1, that 18 states of the Nigerian federation are above the National Average of 40.1 per cent, with seven states recording above 70%. It is to be noted that Borno State is not covered by this survey. Mamoman (2008) identified inadequate capital, obsolete technology lack of

incentives and lack of sufficient infrastructural facilities as some of the problems affecting entrepreneurship development. The outbreak of Covid-19 and the attendant issues associated with lockdowns and weakening economic activities will only add more problems to small business owners and micro-entrepreneurs.

Table 2: Estimated Decline in labour income and increase in Poverty Level.

Income group	Low	Mild	High
Labour income (US\$ billion)	-860	-1,720	-3,440
Extreme and moderate working poverty (millions)			
World	8.8	20.1	35.0
Low income	1.2	2.9	5.0
Lower-middle income	3.7	8.5	14.8
Upper-middle income	3.6	8.3	14.5

Source: International Labour Organization ILO-2020

This analysis excludes potential impacts on working poverty in advanced countries.

From table 2, it can be seen that the resultant decline on economic activities occasioned by Covid-19 will further add pressure on the income of workers who are either below the poverty line or close to it. According to ILO (2020), the impact of Covid-19 for the unemployment estimates increased by 8.8 million people in working poverty globally than originally thought. Both mid and high scenarios also record increases in the number of the working poor on the earlier estimates over the pre-covid-19 estimate for the year 2020.

The unfortunate thing about Covid-19 is its disproportionate impact on some segments of the society. The micro-entrepreneurs, who are already faced by lack of easy access to finance are vulnerable as the small businesses. The unemployed and the under employed will also suffer the same consequences as it happened during the 2008/2009 global financial crisis. Unfortunately the Nigerian government policies on loans and credit facilities do not significantly impact on entrepreneurship development (Tende, 2014). Covid-19 will only make matters worse.

Government around the world have taken step to address the negative effect of covid-19 pandemic. In Ghana, the Bank of Ghana took proactive measures to ensure the

maintenance of stability in the market. Some of the steps taken by Bank of Ghana include reduction in monetary policy rate from 16% to 14.5%. This is said to be the lowest in more than 7 years. Also there is a decrease of 2% in primary reserve requirement (from 10% to 8%) and 1.5% reduction of capital conservation buffer for banks from 3% to 1.5%. all these measures are aimed at providing the banks with more liquidity.

The wide spread of Covid-19 has resulted in disruptions of work and inconveniences to both the bank employees and bank management in many countries. In Nigeria, as in many other countries, bank employees were required to work from home as many bank branches shut its doors to customers in order to avoid physical contact. What this means, is that banks have to incur additional costs in procuring laptops, servers and some other equipment needed for smooth banking operations. There are also reported incidences of global rise in cyber-attacks and electronic fraud since the Covid-19 scare.

According to Moody global default rates are expected to rise due to Covid-19 pandemic. The increasing spread of corona virus disease will impact negatively on many banks as a result of disruptions in supply chains, tourism and domestic consumption. This will negatively affect their earnings, liquidity and their capacity to grant loans to applicants. Although, banks in Nigeria and Ghana have had their capitals shore-up, from

recapitalization reforms, Covid-19 is likely to put a downward pressure on their capital. Risk-weighted Assets (RWA) could be impacted as a result of higher charges from increased counterparty risks. Expected rise in provisions for bad and doubtful debts could also increase the credit risks as a result of Covid-19.

As obscene by Sansa (2020) Covid-19 has impacted financial markets globally, as share prices dropped significantly. The Dow and S & P report a drop in the share prices of companies in the United States of America by over 20%. The trend of market price of Nikkie who trades with Tokyo stock exchange also experienced the volatility of share price dropping trend since the Covid-19 outbreak. The world economic forum (2020) also notes that Covid-19 pandemic could impact the global economy in a more severe manner than the financial crisis of 2007-2008.

Methodology

The study used Narrative-Textual Case Study (NTCS) method employing both descriptive and explanatory approaches. The NTCS method is suitable in circumstances where data set are scarce as in the case of Covid-19. This is understandable, since this corona virus is a new disease and the world is still trying to understand its nature. The NTCS as a social science research method that makes use of data, information and research materials available and accessible through the internet facilities, and other information and communication facilities such as World Wide Web (www) and so on.

This research is essentially descriptive and non-empirical since information collected do not necessarily require a change of environment. The study relied on text content and available official statistics for the purpose of analysis.

Findings and Discussions

In reaction to the Covid-19 pandemic, various countries have come up with multiple measures to cope and minimize the negative effects of the diseases. Ozili and Arun (2020) classify these policy measures into four broad categories: monetary, fiscal, public healthy, and human control measures. Nigeria like some other countries adopted the granting of regulatory forbearance to banks, lowering of interest rates by the apex regulatory body-the Central Bank of Nigeria (CBN). Also contained in the monetary policy measure is the granting of sustained flow of credit to banks, small and medium enterprises as well as individuals.

The prominent fiscal measures adopted by the Nigerian Federal and the state government is the provision of palliatives to the vulnerable persons and communities and stimulus packages to the organizations and sectors that are most affected by the Corona virus pandemic.

The public health measures are principally preventive measures aimed at curtailing the spread of the virus. These are social distancing policy, the use of face masks and lock-down (stay at home) policy. Most states of the federation applied the stay at home policy with few days/hours allowances for people to go out and buy foodstuff/essential materials. The Federal government specifically instructed residents of Lagos and Ogun States as well as the Federal Capital Territory to stay at home. All the states prohibited inter-state travels in order to prevent the spread (7) of covid-19. Later the presidential order on lock-down was extended to Kano to reduce the community transmission in that state by half.

The Human Control measures of Nigeria's national response measures include Visa denial and suspension, closure of all borders-air, land and sea and the closure of all public and private academic institutions (Primary, Secondary and Tertiary). The

Presidential Task Force (PTF) on Covid-19 is charged with the responsibility of working out the modalities of implementing the national guideline on the control of the spread of Covid-19.

The Central Bank of Nigeria reports that Nigeria's total increase in Direct Spending amounts to 3.5tn Naira with 2.3 per cent of the GDP. Also as can be seen from table 3 below, Nigeria's Fiscal support through loans and guarantees amounts to \$6.9bn which is 7.5 per cent of the GDP.

Table 3: Fiscal Policy Measures of Mitigating the Spread of COVID-19

Countries	Increase of Direct Spending	% of GDP	Fiscal Assistance through loans & Guarantees	% of GDP
USA	USD \$484bn	2.4	USD2.3tn	9.3
UK	GBP 350bn	11.8	GBP330bn	10.7
Czech Rep.	CZK 100bn	1.8	CZK900bn	15.9
India	1.7 lakh crore	967	\$1 billion	0.04
Nigeria	NGN3.5tn	2.3	\$6.9bn	7.5

Source: CBN Press Release.

Table 3 above contains certain data on fiscal policy measures announced aimed at mitigating the spread of Covid-19. While that of India is World Bank loan as was reported. Seen by many as unthinkable, Covid-19 came as a black swan event akin to an outbreak of world war that had a devastating effect on both the health and industrial sectors of many countries. In fact, it has not only affected the health care sector, it has a ripple effect on every aspect of human existence. The financial service industry is not left out of the negative effect of Covid-19. As reported by Nicola, Alsafi, Sohrabi, Kerwan, Al-Jabir, Iosifidis, Agha, and Agha (2020), in China, initially the effect of Lockdown led to serious decrease in product supply from their factories, while self-isolation and quarantine measures resulted in demand decrease for products and services and even in the consumption patterns. But as China recovered fast enough from the disease,

Covid-19 spread to other countries thereby strengthening China's trade negotiating power against the likes of United States of America. Globally, the stock market was also affected, in the United States, the S& P 500, which is the stock market index that measures the performance of stocks of 500 large companies, the Nasdaq and Dow Jones industrial average fell drastically. Nicola et al (2020) note that the United States government had to secure the Corona Virus Aid, Relief and Economic Security (CARES) Act to see the indexes rising by 7.3%, 7.73% and 7.33% respectively. Europe's bond yields declined as 10-years US Treasury bond yields went down to 0.67%. Germany's DAX and UK's FTSE 100 also dropped in March, 2020. However, Nigeria's capital Market has not been heavily threatened by Covid-19 as it occasionally record Marginal gains in its daily trading. For example the Nigeria capital market close on a positive note (0.29%) on 18th may, 2020.

The effect of Covid-19 pandemic has got some banks contemplating reduction in the workforce. It is heartwarming to the labour unions and bank workers, that the Central Bank of Nigeria has allayed the fears of workers on possibility of lay-offs. Although the stay-at-home order in Nigeria will mean a decrease in the rate of economic and banking activities, it is to note that central banks in some countries have embarked on active fiscal monetary policy to stimulate their economy and labour demand.

The International Labour Organization (ILO 2020) reports that Canada, Australia and United States are among the countries that have cut interest rates. Some countries, such as South Korea have decided to give special support packages while Italy has announced a tax break and waivers for contributions on social security.

Many countries have decided to offer financial assistance to some sectors. For example, China provided a subsidized 300 billion Yuan as Credit facility to enable the production of face masks and other health items. The UK, Ireland and South Korea have all announced financial support to affected sectors. The German government announced an “Unlimited” financial assistance to small and medium enterprises to cushion the effect of Covid-19.

Potential Effect of CBN Policy Measure

In its response to the negative impact of Covid-19 on the economy, Central Bank of Nigeria (CBN) said it is providing a combined stimulus package of about N3.5 trillion in targeted measures to health care providers, households, businesses and manufacturers. This monetary measure is aimed at supporting the Federal government in its fight against Covid-19, and also to strengthen Nigerian economy by building a resilient and self-reliant economy.

Although the CBN responds to the pandemic in several ways, the one that readily come to mind here is the enhancement of cheap and long-term credit facilities to the Micro, Small and Medium-Scale enterprises (MSMEs). The CBN unveiled a framework that will enable the integration of a non-interest window in its intervention programmes aimed at supporting the MSMEs and active poor households that have been negatively affected by the Covid-19 pandemic.

The CBN’s guidelines on Non-interest windows define it as follows:

Part of a conventional financial institution (which may be a branch or a dedicated unit) that provides fund management (investment accounts), financing, investment and other banking services that are Shariah – Compliant”.

An interest free loan will go a long way in providing, the much needed liquidity and capital for businesses at this difficult times brought about by the Covid-19 pandemic.

Furthermore, as part of Nigerian government commitment to revamping the nation’s agricultural sector, the CBN will be deploying the sum of N432 billion to fund the value chain of nine commodities during the 2020 wet farming season. The objective of all these measures is to avert economic recession that may result due to the effect of Covid-19 pandemic. CBN notes that this loan effort will enable more than 1.1 million farmers to cultivate more than one million hectares of arable a land and produce more than 8 million metric tons of assorted products.

Conclusion and Recommendations

This paper attempts to discuss the impact thus far, of Covid-19 on financial institutions, small businesses and micro-entrepreneurs in Nigeria. Although, the research study is limited by availability of data set due to the short period of the disease outbreak, it has been able to establish that small businesses

and micro-entrepreneurs are at the receiving end as a result of the pandemic.

Expectedly, the decrease in economic and banking activities due to the lockdown measures have had and still having negative impacts on the profitability of the financial institutions. Since the small businesses and micro-entrepreneurs depend on banks for their funding needs, the negative impact on them is obvious. It is to be noted though, that use of modern technology in banking and financial transactions has mitigated to some extent, the negative effect of the pandemic on the financial institutions. Little wonder, the Nigerian Capital Market has not been badly hit by the effect of the pandemic.

Aside from the lock-down measure, the Nigerian government introduced some policy measures to curb the spread of Covid-19 pandemic. These measures, especially, social distancing and stay at home policies hurts the economy because of decrease in the level of economic activities. Some critics of these policies are of the opinion that they are contradictory as the accommodative monetary policy aimed at encouraging activities, while lock-downs or stay at home and social distancing policies limit economic activities.

It is the view here that the lockdown measure be lifted, and citizens be advised to embark on strict adherence to protective measures of personal hygiene and use of protective devices-such as face mask. This recommendation is on the basis of the fact that, the use of preventive measures of hand washing, the use of sanitizers, face masks and social distancing practices is sure proof of keeping the virus away from humans. Social assistance benefits should be used as in some countries to boost the economy. Financial support and tax relief should be extended to small businesses. A guarantee system for up to 90% of loan values to small businesses and

micro-entrepreneurs be introduced to support them.

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