

# Impact of COVID-19 on Nigerian MSMEs

May 2020

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# Executive Summary

## Executive Summary

**Background:** FATE Foundation in partnership with BudgIt Nigeria designed and disseminated a survey to better understand the impact of the COVID-19 pandemic on Nigerian Micro, Small and Medium Enterprises (MSMEs) businesses in Nigeria with the goal of engaging relevant stakeholders within the entrepreneurship ecosystem around designing solutions and interventions to support Nigerian MSMEs during and post COVID-19. The survey was targeted at micro, small and medium businesses across the 36 states in Nigeria including the FCT.

**Survey Respondents:** We received 1943 responses of which 80% were micro business entrepreneurs. A large number of the respondents were entrepreneurs operating in the agricultural sector (21.8%), fashion (14.3%), service (12.3%) and manufacturing (6.6%). 44.7% of the respondents were young people aged 18 – 35.

**Overall Impact of COVID-19:** 94.3% reported being negatively impacted by the pandemic particularly in the areas of Cashflow (72.1%), Sales (67.7%) and Revenue (59.2%). Despite the negative impacts of the pandemic, 47.1% of respondents were positive that their businesses will survive the pandemic with 22.8% being unsure while 30% indicated that their businesses will not survive the pandemic.

**Financial Impact/Cashflow:** Expectedly, a lot of the businesses had their cashflow impacted. Only 13.2% of businesses reported having enough cashflow to run their businesses for 1 – 3 months. 33.3% had enough cashflow to stay operational for 1 – 4 weeks and 27.6% for just 1 – 7 days. Most of the businesses (53.7%) reported turning to their cash reserves to survive this period while 13.8% reported looking to access loans and 9.7% were looking to family and friends for support.

**Jobs/Employment:** 80.4% of the businesses reported that they were likely to lay off staff citing prolonged period of the pandemic (24.4%), inability to pay staff (22.6%), poor sales (18.2%) and restricted movement (17.1%) as top reasons influencing their decision to lay off staff. 82.8% of the businesses indicated that they will likely lay off 1 – 5 employees.

**Key Areas of Support:** Most businesses reported needing support with Cashflow (72.1%) and Sales (67.7%) and will like the Government to provide support in the area of funding (89.4%) and access to markets (33.8%). Similarly, 74% of the businesses will like the private sector/enterprise support organizations to provide funding and business support (62.9%).

**Opportunities:** A number of the respondents were able to identify opportunities despite the negative impacts of the pandemic such as creation of new products/services (49.7%), expansion/diversification (42.3%), innovation/disruption (39.3%) and partnerships (34.8%).

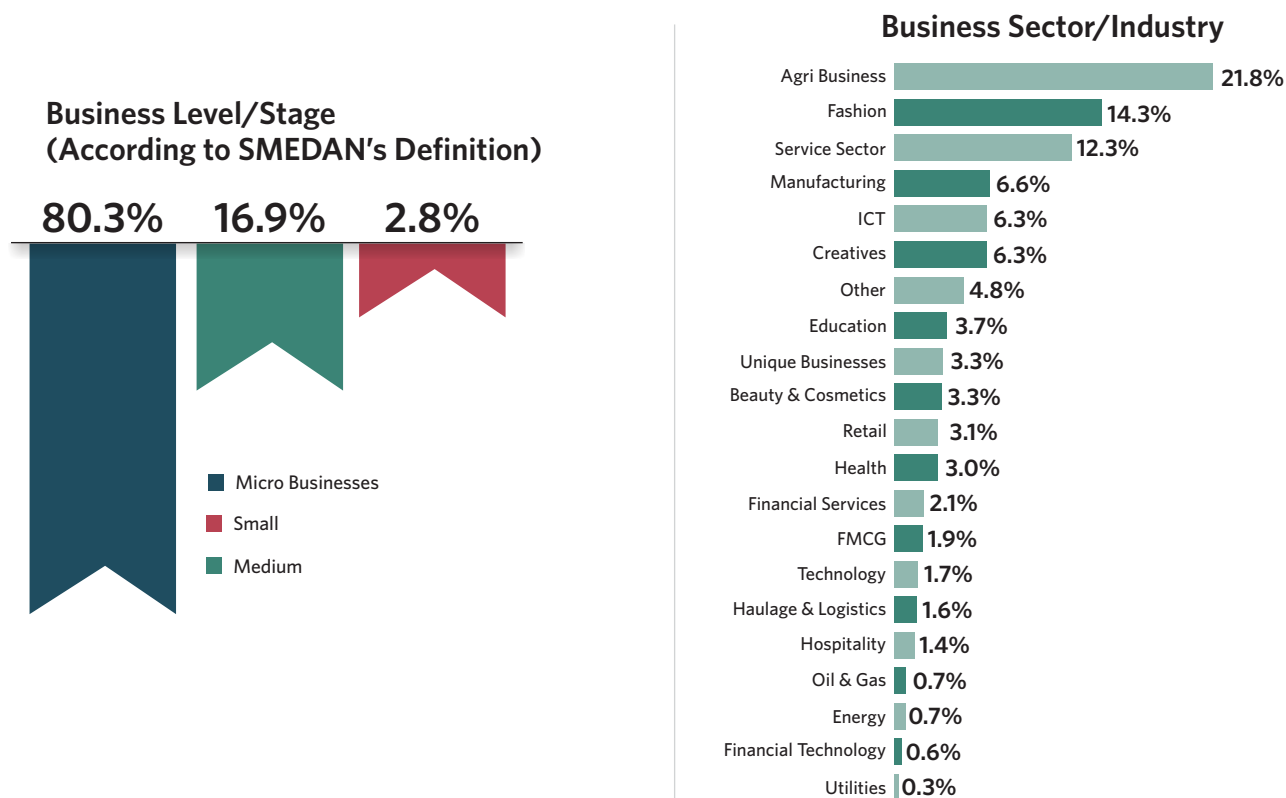
**Summary Recommendations:** Key recommendations on strategies to build and enable MSME resilience should include flexible financing programmes, virtual business support services, and non-financial support through regulatory reliefs and programmes which support vulnerable segments such as women and young entrepreneurs.

# Survey Approach

## Survey Approach

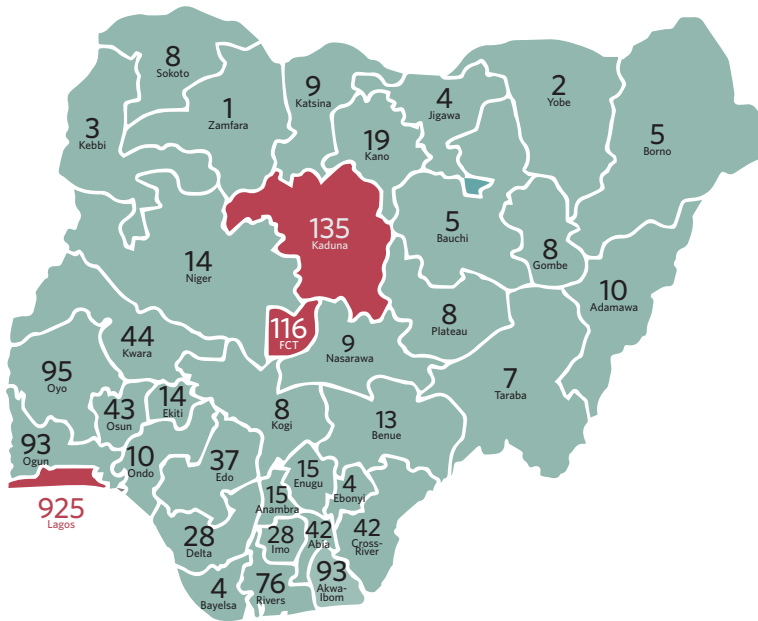
**Methodology:** The online survey was which was targeted at Nigerian Micro, Small and Medium Enterprises (MSMEs) was shared via email and key social media platforms between March 28, 2020 and April 27, 2020.

**Overview Statistics of Respondents:** The demographics of the 1943 businesses who participated in the survey are described in pages 06 - 08 below:



Majority of the businesses were micro businesses which according to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) definition are businesses employing less than 10 people with an asset base less than N10million. These businesses were spread across the agricultural sector (21%), Fashion (14.3%), Service (12.3%) and Manufacturing (6.6%).

### Business Location

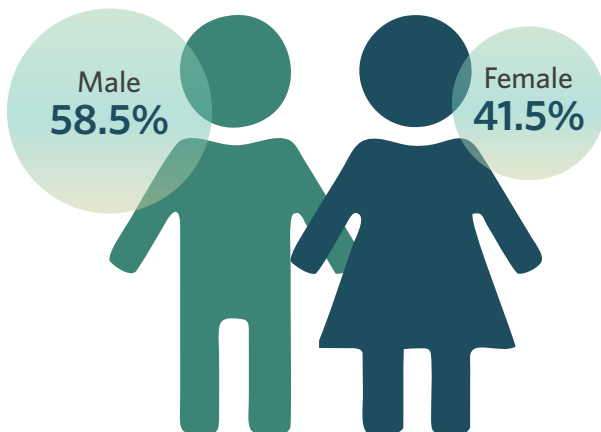


### Business Registration

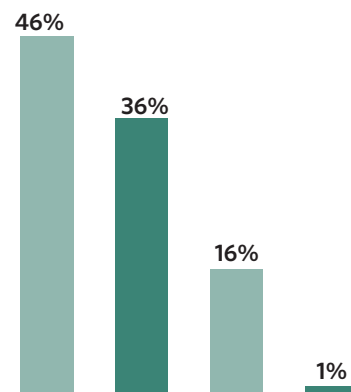


There were more respondents coming from Lagos state (48.4%) with a good number of respondents also coming from Kaduna (7.1%) and Abuja (6.1%). Over 80% of these businesses were registered.

### Gender



### Age Range of Business owners

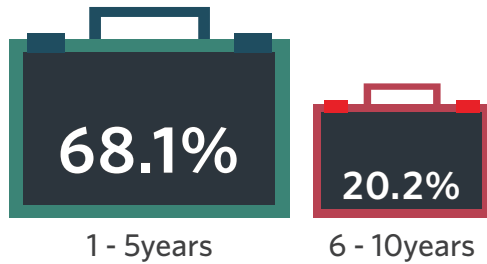


There were more male-owned businesses among the respondents with young entrepreneurs aged 18 - 35 making the largest age group at 46%.

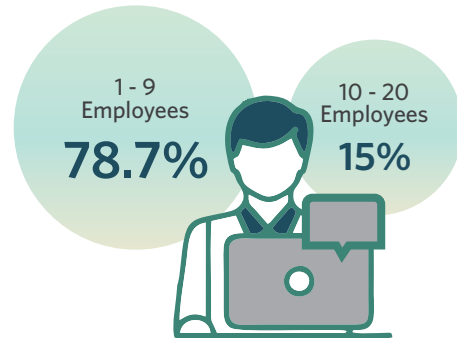
### Years in Existence



How long has your business been in existence?

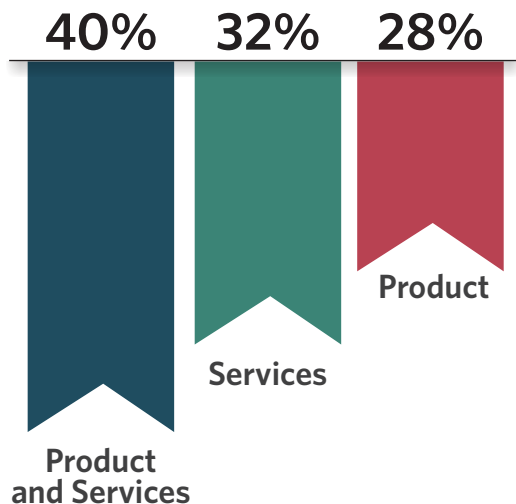


### Number of Employees



A good number of the respondents indicated their businesses had been in existence for 1 – 5 years (68.1%), and about 78% indicated that they employed between 1- 9 people emphasizing that most respondents led micro enterprises (according to the SMEDAN definition).

### Business Offerings



### Customer Segment Type



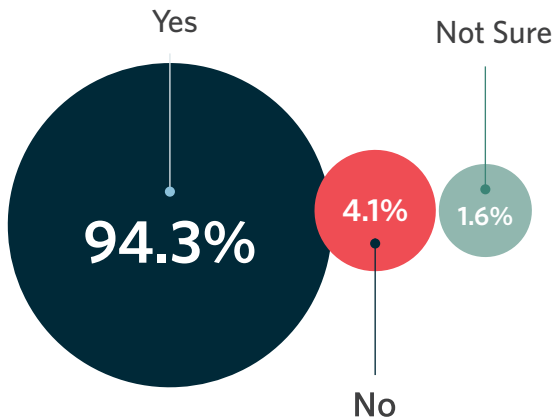
The survey showed that 40% of the respondents provided both products and services while 32% offered services alone with 28% offering products alone. More than half of the businesses however reported operating a business-to-customer relationship with 25% operating a business-to-business relationship and 9.5% catering to both businesses and customers.



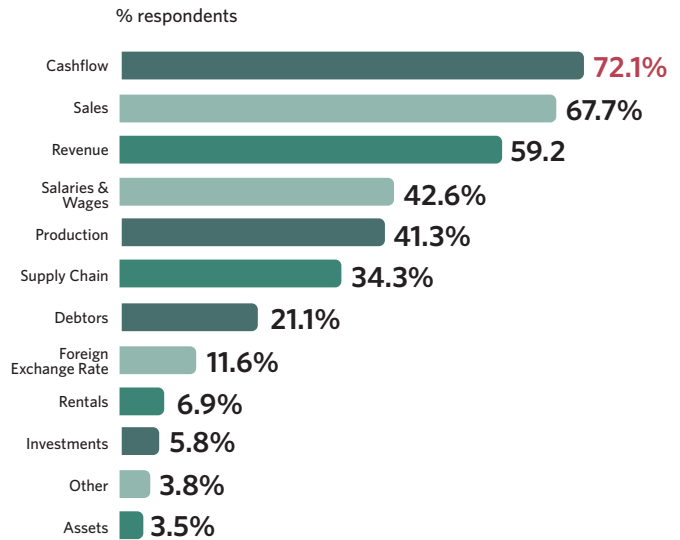
# **COVID-19 Impact on Nigerian MSMEs**

## Overall Impact

### Has COVID-19 impacted your Business?

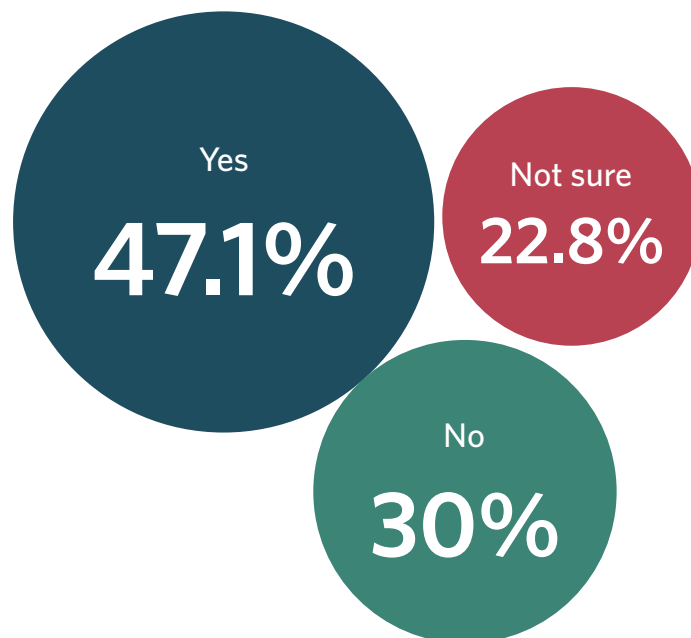


### Areas most Impacted



Respondents could select multiple answers

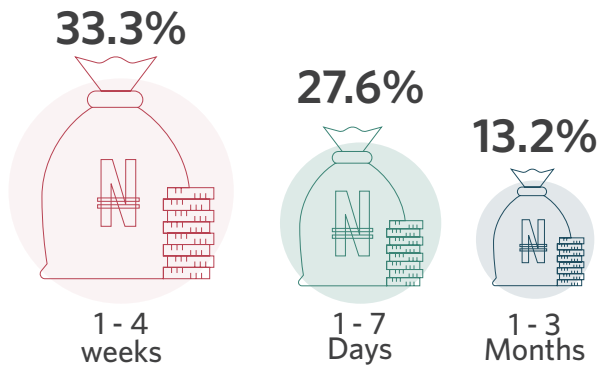
## Business Survival



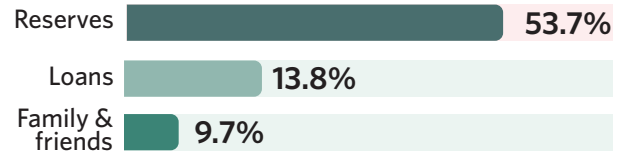
94.3% of the respondents reported being negatively impacted by the pandemic particularly in the areas of Cashflow, Sales, Revenue, Salaries & Wages etc. Despite the negative impact, about 47% of businesses felt positive that they will survive the pandemic. While 30% were certain their businesses will not survive the pandemic, 22.8% were unsure.

## Financial Impact/Cash Flow

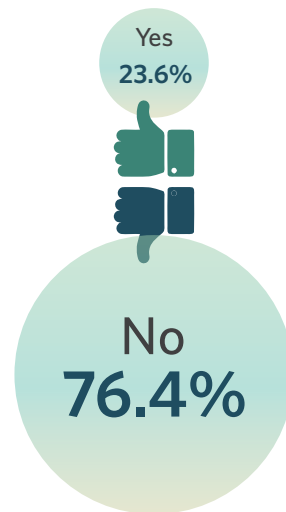
### Available Cashflow



### Source of Cashflow



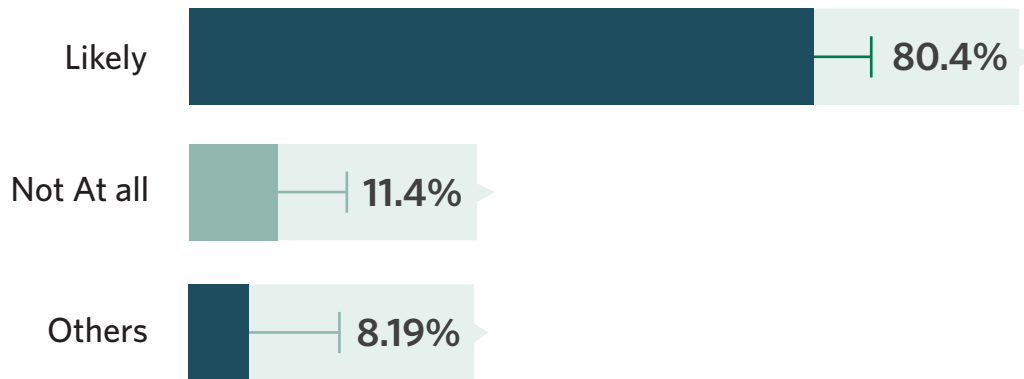
### Able to provide your product/service Virtually?



For many businesses, Cashflow is essential to survival. About 74% of the businesses reported their cashflow being significantly affected. Only 13% of the respondents stated they had enough cashflow to survive for 1 - 3 months. 33% had enough cashflow for 1 - 4 weeks and 27% for 1 - 7 days. A good number of these entrepreneurs reported that they would leverage savings and reserves (53.7%), others were looking to access loans (13.8%) or turn to family and friends (9.7%). The inability of most businesses (76.4%) to offer their products or services virtually may have contributed to worsening the tight cashflow situation.

## Jobs/Employment

### Likely to lay off Staff

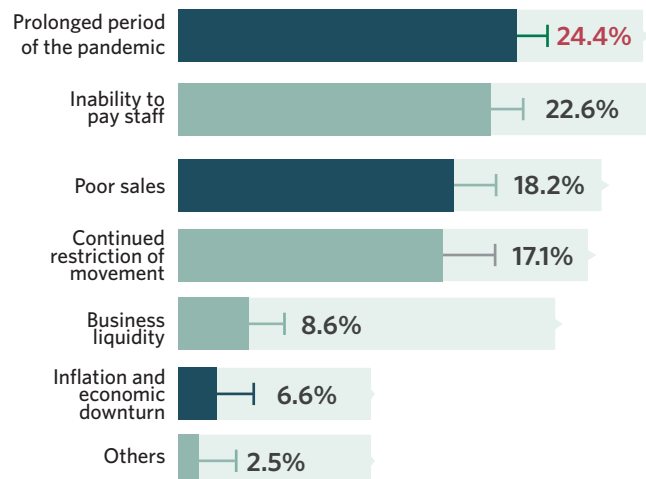


### Factors influencing lay offs

% no of businesses that  
will lay off staff



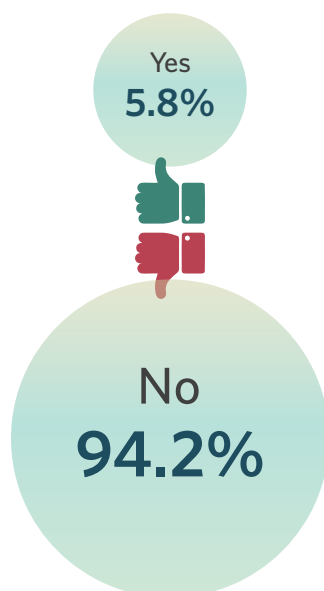
% respondents



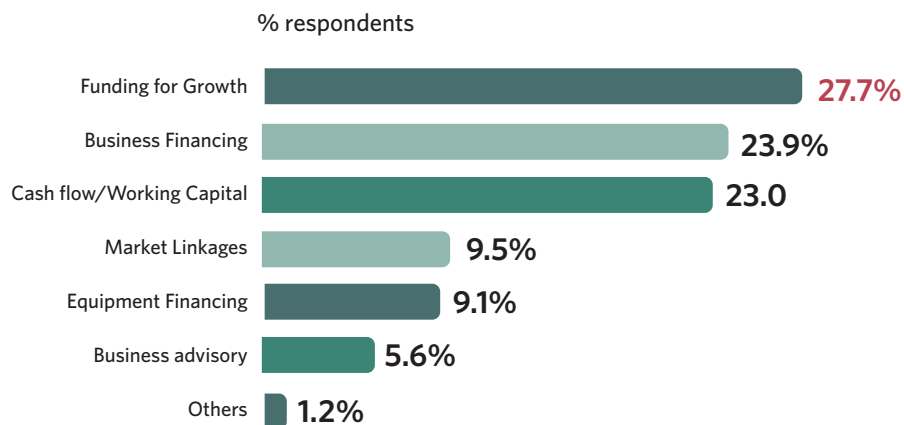
About 80% of businesses reported that they were likely to lay off employees mainly because of prolonged periods of the pandemic, inability to pay staff, poor sales and restriction of movement. 82.8% of the businesses also reported that they will likely lay off between 1 – 5 employees.

## Key Areas of Support

Are you presently receiving any form of business support?



## Urgent support needed

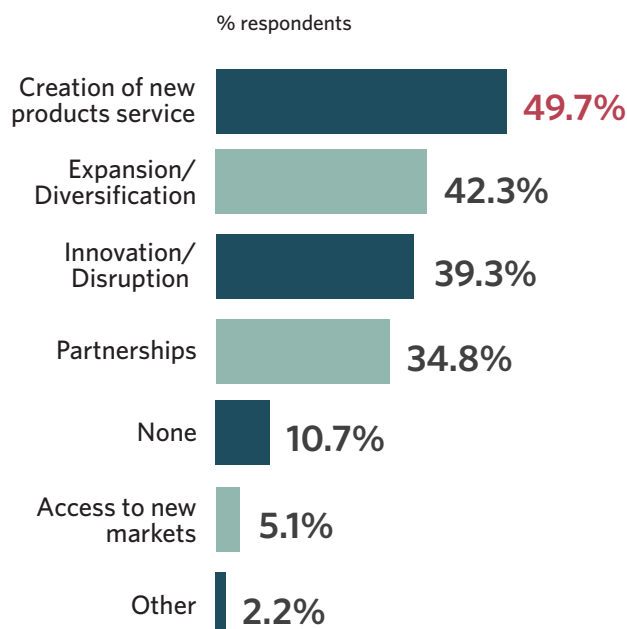


Most of the entrepreneurs reported that they were not receiving any form of support as at the time of developing this report and stated Cashflow, Sales, Revenue, Salaries & Wages as areas where they urgently needed support.

# **Opportunities and Recommendations**

## Opportunities and Recommendations

### Opportunities MSMEs see In spite of the COVID-19 pandemic



Respondents could select multiple answers

## The Case for Resilience

Nigeria's micro, small and medium enterprises (MSMEs) are the socio-economic engine of the country. According to the 2017 MSME Survey carried out by the Nigerian Bureau of Statistics and the Small and Medium Enterprise Agency of Nigeria (NBS/SMEDAN) MSME study, they account for 76.5% of total workforce and 49.78% of the country's Gross Domestic Production.

Given that 94.2% of our survey respondents stated not receiving any support at the time of completing the survey, the COVID-19 pandemic presents a major crisis for most Nigerian businesses who were already challenged by a recent recession and slowing economic growth.

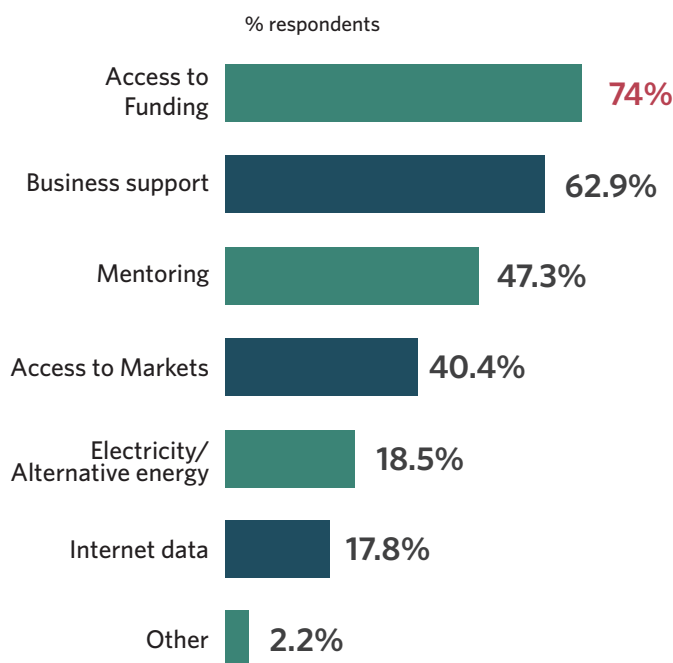
Effectively supporting them should be a priority path as stakeholders work towards economic recovery and slowing down job loss. Despite the depressing data from this survey, it is encouraging to note that about 49.7% of entrepreneurs surveyed see opportunities to create new products/services while about 42.3% of them see opportunities to expand/diversify their businesses.

It is against this ray of optimism that we outline the following recommendations for the government and key entrepreneurship ecosystem stakeholders who are designing policies and business support programmes to build and enable resilience for Nigerian entrepreneurs.

Resilience is as much a tool for surviving during crisis as it is for thriving and now more than ever, programme design and intervention strategies for Nigerian MSMEs must be aimed at helping them build resilience in the immediate to long term.



How would you like the private sector/enterprise support organizations to support you at this time?



Respondents could select multiple answers

## Building Resilience through MSME Support Programmes

These recommendations are specifically targeted at private and development sector organisations looking to provide capacity building and business support services for Nigerian MSMEs such as Enterprise Support Organisations, Business Development Service Providers, Incubators, Accelerators and Business Membership Organisations. These organisations are very crucial in providing awareness, technical assistance, and facilitating access to critical financial and non-financial resources for Nigerian entrepreneurs at this time.

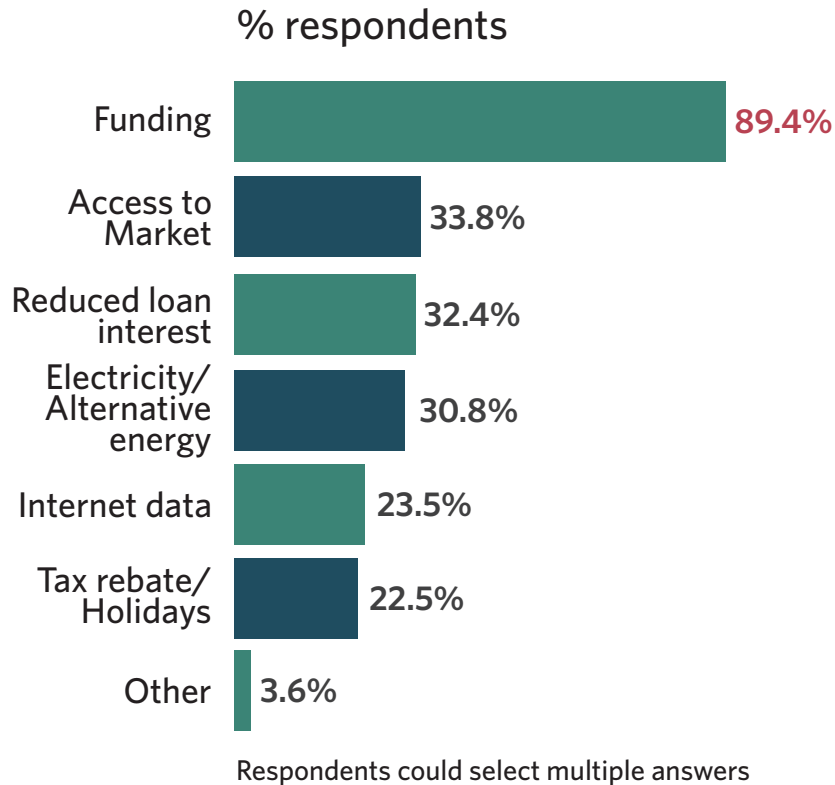
- **Facilitating Access to Flexible Financing Support:**  
Access to finance was the top need area indicated by 74% of our survey respondents. For ecosystem stakeholders who are able to provide financing opportunities, developing financial support packages through grants, interest-free loans and bridge financing to meet critical needs such as salaries and working capital are particularly important at this time. **The funds must be easy to access, clear in their terms and prompt to disburse.** Given the low rate of financial literacy among Nigerian MSMEs according to the 2018 FATE Foundation Financial Literacy survey, a key aspect of facilitating access to financing support must include tools and guides to help entrepreneurs access available funding. These tools can include:
  - Business Plan Guides
  - Cashflow and Financial Projection Templates
  - Letter of Application Templates



- Business Support Hot Lines and Virtual Advisors:**  
 As MSMEs try to navigate this crisis and make business decisions, having free access to advisors and professionals in key areas such as financial planning, tax advisory, legal and people management are important and much needed services. Over 62% of our survey respondents noted business support as a much needed support at this time. Given movement restrictions due to the lock down and social distancing guidelines, enterprise support organisations can set up business support service phone lines and digital assistants for entrepreneurs to get answers to questions for their road to recovery such as:
  - Available government support programmes that fit their needs
  - Funding opportunities and application guidelines
  - Financial planning and cashflow management strategies
  - Business model adaptation strategies
  - Managing tax and regulatory matters during the crisis
- Bridging the Information Gap:** As middle men between entrepreneurs and government, the key role support organisations can play is helping entrepreneurs process the many sources of information and disseminating that in language and form that is easily accessible and understandable by their target entrepreneurial groups. Nowhere is this more important than information regarding policy reviews such as tax holidays and industry related tax breaks, financial and non-financial relief and palliative programs for MSMEs.
- Riding the Digital Wave:** One of the highpoints of the lockdown is the role of technology in helping MSMEs innovate. According to a May 2020 Facebook State of Small Business report, 79% of Small and Medium businesses say they are adapting their businesses using digital tools to continue to meet the needs of their customers. The private sector and enterprise support organisations can and should enable MSMEs ride this digital transformation wave by providing digital literacy support and teaching them about:
  - Building their online business presence and engaging with customers and stakeholders.
  - Online market places to get new customers while also selling their products and services.
  - Applications that are available to help them improve their operational efficiency particularly those that enable book keeping and financial management.
  - Payment channels, platforms and gateways to reduce cash transactions and facilitate digital payments.
  - Pointers to platforms that provide the above for free and/or significantly discounted rates for MSMEs.
- Preparing to Reopen:** As parts of the country look to start relaxing lockdown measures, MSMEs particularly those with physical operations will need to be guided on how to gradually start their businesses, adapt and commence operations in a safe and sustainable way. Enterprise Support Organizations should provide appropriate guidelines on:
  - Conducting a cost benefit analysis or scenario planning to determining when to reopen and how.
  - Understanding specific federal and state guidelines on easing lockdown and restrictions/guidelines from the National Center for Diseases and Control (NCDC).
  - Industry related guidelines and measures for specific sectors with respect to social distancing measures.
  - Developing health and safety policies and protocols to protect their staff, customers and other stakeholders including how to identify and address a suspected COVID-19 case should it occur.
  - Communicating reopening strategies with their key internal and external stakeholders.



## How would you like the government to support you at this time?



### Enabling Resilience Through Targeted Policy Design

To date, the federal government has introduced a number of policies and programmes to support Nigeria's MSMEs. The following recommendations are targeted at Federal and State level agencies and parastatals with the mandate of supporting and enabling Nigerian MSMEs.

- **Enabling Financial and Non-Financial Support to Reduce Cashflow Burdens:** The federal government through the Central Bank of Nigeria has set up the N50 billion Targeted Credit Facility (TCF) as a stimulus package to support households and Micro, Small and Medium Enterprises (MSMEs). It is safe to infer that this fund may not be sufficient to support the over 41 million Nigerian MSMEs. Governments at the federal and state level will need to establish more COVID-19 MSME funds including:
  - **Grants:** Setting up grant programmes in partnership with private and development sector partners which can be targeted at vulnerable MSME segments such as young, female, and micro entrepreneurs.
  - **Low-Interest Financing:** Working with Development Finance partners to set up targeted sector resilience funds to support essential sectors and industries significantly impacted by the crisis and attendant lockdown.

- **Non-Financial Support Through Regulatory Reliefs:**
  - **Tax Deferrals and Relief Programmes:** The Federal, State and Local Government Tax Revenue agencies can introduce deferrals on tax payments, delay collection of licenses and permit fees and implement tax filing extensions for business related taxes as the lockdown continues to go on. For example, the Lagos State Internal Revenue Service (LIRS) recently announced the extension of the deadline for filing personal income tax returns by 2 months.
  - **Provide Payroll support to enable MSMEs keep paying salaries:** Given that MSMEs provide up to 70% of employment support, a payroll support incentive particularly targeted at MSMEs who have been compliant with remitting their Personal Income Tax would be a welcome incentive for businesses to try to retain their employees and keep them on payroll.
- **Easing Access to Finance:** In addition to concerns about the sufficiency of the established COVID-19 Intervention Funds for Nigerian MSMEs, easing accessibility to financing programmes has to be a key criterion for success. For instance, a major application criterion for accessing the TCF fund is the “BVN number” and this might be an impediment for unregistered micro businesses who do not have bank accounts and BVN numbers. Funds must be designed in such a way that it takes into consideration the dynamics of the different types of MSMEs particularly those within the micro segment who operate in the informal sector; may not speak English as their first language; have limited digital literacy and internet capabilities to access the online funds and; be unaware of the different policy programmes and opportunities to support them at this time.
- **Data & Internet Infrastructure:** As more entrepreneurs go online, the need for internet use would likely surge. A strong opportunity for the federal and state governments will be to explore policies and regulatory considerations that help to enable internet penetration particularly high speed internet access for non-urban and city segments.
- **Remote MSME Clinics:** Over the last two years, the Presidency has organized MSME Clinics that serve as one-stop shops for MSMEs to interact directly with key agencies such as the Corporate Affairs Commission (CAC), the National Agency for Food Drug, Administration and Control (NAFDAC) and the Standards Organisation of Nigeria (SON). This period presents a good opportunity for the government to invest in strengthening SMEDAN's capacity to arrange remote MSME clinics across the country that mirror the objectives of the physical ones but help to link MSMEs directly with key officials within these agencies to address regulatory constraints that they face.

### Protecting Vulnerable MSME Segments

These recommendations will be incomplete without addressing important segments of the MSME population who may particularly be vulnerable to the negative effects of this crisis.

- **Young Entrepreneurs:** Almost half of the respondents on our survey were young people aged 18 - 35. We recommend deliberate strategies including financial and non-financial support to spur and support innovative business ideas and enable them transition this to viable business models.
- **Women Entrepreneurs:** According to the 2017 NBS/SMEDAN data, over 48.7% micro entrepreneurs are women. The COVID-19 pandemic has negatively impacted key sectors such as education, retail, accommodation (hospitality) and manufacturing where women are more dominant as stated in the 2017 survey. A gender-lensed approach to empowering female entrepreneurs should be a key priority for ecosystem stakeholders looking to support MSMEs through the recovery process.
- **Micro Entrepreneurs in the Informal Sector:** Micro entrepreneurs make up 99.8% of businesses with most of them operating in the informal sector and only about 2.1% of them are in compliance with business registration directives. This means that financial relief packages must explore a wide range of payment channels including digital payments while also ensuring that they can be reached through a wide range of digital and traditional media platforms (including Radio) which also use local languages.

## Acknowledgments

We would like to acknowledge the 1943 respondents who took part in this survey and the following who worked on the report: Adenike Adeyemi, Amaka Nwaokolo, Kingsley Effiong, Itoro Udo, Gabriel Okeowo, Ojiugo Uche, Segun Adeniyi, Olaniyi Olaleye and Damilola Onemano.

We also appreciate the support of Facebook and the Nigerian Economic Summit Group (NESG).

For any enquiries about this report, please email [policy@fatefoundation.org](mailto:policy@fatefoundation.org)

## About FATE Foundation

FATE Foundation is Nigeria's foremost enterprise development organization. We were founded in 2000 by Mr. Fola Adeola (Founder & Pioneer MD/CEO, GTBank) to harness the strong entrepreneurial culture of Nigerians by providing the business incubation, growth and accelerator support required to fully explore their innovative potential.

Our goal is to enable aspiring and emerging Nigerian entrepreneurs start, grow and scale their businesses while also facilitating the development of an enabling business environment and thriving ecosystem.

Through our research and policy advocacy strategies, we drive conversations around key entrepreneurship issues using data backed information as means to influence policy design and implementation.

Our annual research reports which examine key thematic areas impacting micro, small and medium enterprises are deliberated on by entrepreneurship ecosystem stakeholders at our annual policy dialogue programme, and outcomes of the conversations enable us to collaborate with public and private sector ecosystem stakeholders to drive policy changes.

To view our research publications to date, please visit [www.fatefoundation.org/research/](http://www.fatefoundation.org/research/)

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## About BudgIT

BudgIT works to redefine participatory governance. BudgIT's innovation within the public circles comes with a creative use of government data by either presenting them in simple tweets, interactive format or infographic displays.

BudgIT serves as the bridge by using creative methods to deliver Nigeria's budgets to larger sections of the populace. We believe that in a democracy, every responsible citizen has the right to know how communal wealth is being expended in the delivery of public infrastructure and services.

We also believe that government institutions, media and civil society need support to transform. BudgIT now serves as the bridge to use creative methods using visual intelligence, info-graphic display and online interface expertise to deliver Nigeria budgets to every respected citizen.

Equality and open access to governance are entrenched in democracy and its institutions and as such, budgetary information as a vital asset needs to be understandable and accessible to all Nigerians.

