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RESEARCH ARTICLE

THE IMPACT OF INDIVIDUAL POLICY INTERVENTION ON THE SURVIVAL OF SMES IN NIGERIA

Hussain Adedayo Salaudeen[1], Sunday Adebayo Alayemi[2], Abubakar Sadiq Mohammed[3], Ganiyu Olusoji Salami[4], Muhammed Olayemi Ijaiya[5]

[1, 2&5] Department of Accountancy, School of Business and Management Studies, the Federal Polytechnic, Offa, Kwara State, Nigeria

[3]Department of Business Administration, School of Business and Management Studies, the Federal Polytechnic, Offa, Kwara State, Nigeria

[4]Department of Accountancy, Gateway Polytechnic, Saapade, Ogun State, Nigeria

Corresponding Author's email: salaudeenhussain82@gmail.com

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ABSTRACT

This study aims to evaluate the impact of individual policy intervention on SMEs survival during COVID-19. Questionnaire was employed to gather data from the 266 selected SMEs in Nigeria. The cross sectional dataset comprising 266 firm-year observations was analyzed using both descriptive and Principal Component Analysis (PCA) techniques. The results show that, among all the intervention policies implemented, extension of credit facilities to private sector has the highest impacts on SMEs survival thus it is the most important policy intervention in relation with SMEs survival. The study also found that the Agri-Business/Small and Medium Enterprise Investment Scheme (AGSMEIS) is the second most important policy intervention. The findings are important because it provide valuable insights for policymakers on the prioritization of policy interventions, particularly the extension of credit facilities to the private sector and AGSMEIS, to enhance the resilience of SMEs during economic shocks.

KEYWORDS

Policy Interventions, Covid-19, Survival, SMEs

Introduction

Policy interventions were introduced at the height of the novel COVID-19 to stem the tides of its toll on businesses in particular and economy at large. The interventions were preceded by lock down measure which was put in place to further stop the spread of the virus. The lock down measure affected businesses in a way. For instance, business operations and global supply chain stood still, exposing businesses, most especially the small and medium-sized enterprises (SMEs) to liquidity problems (Oyedele, 2020; Tse, Mathews, Tan,Sato & Pongpanich, 2016; International Trade Center, 2020). As a result, a substantial number of individuals lost their jobs temporarily or permanently, thus compounding the existing woes of unemployment in the country. Policy interventions became necessary as there was the need to help the affected businesses back on their feet.

The increased attention on policy interventions globally requires that the black box of the overall policy interventions be opened in a bid to

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understanding how they impacted the survival of SMEs in practice. Studies have been conducted and the results have shown that the intervention policy significantly impacted the performance of business. For instance, a study conducted by Gourinchas and Kalemli-Özcan (2020) estimated an average SME bankruptcy rate of 12.1% in the absence of any policy intervention. Again, according to the survey conducted by OECD (2020), more than 40% of SMEs would have liquidity problem and may likely cease operation had there be no interventions. However, to the best of our knowledge, no prior study has attempted to establish the effect of individual policy interventions on the survival of SMEs. The study contends that understanding the impact of individual policy interventions on firms' survival will assist or guide policy makers on the choice of policy interventions in a similar situation like the COVID-19 pandemic.

Literature Review

The Impact of Policy Interventions on SMEs Survival during COVID-19

Policy intervention has been a dependable tool employed by government when confronted with issues that require immediate solution. It was not surprising when the Nigerian government introduced interventions at the height of the COVID-19 pandemic. Previous literature has documented that some sort of government interventions are necessary for economic stability. For instance, OECD (2020) contended that policy interventions prevented a substantial number of SMEs from collapsing. A study conducted by Gourinchas and Kalemli-Özcan (2020) established that without policy intervention, bankruptcy rate of SMEs would be hovering around 12.1%. This was affirmed by the study of Belghitar *et al* (2020) who investigated the effect of covd-19 pandemic on the performance of 42,000 SMEs in the United Kingdom. The study revealed that close to 60% of the sampled SMEs would report negative earnings without intervention or aid from the UK government. In Nigeria, studies have revealed that over 90% of the SMEs were affected owing to the lockdown policy introduced by federal government. For instance, the study of Aladeji (2020) established that businesses most especially the SMEs were severely affected during the COVID-19 as many of them could not pay rent, salaries of their staff and loans.

However, despite the effectiveness of interventions, some concerns have been raised from other quarters bothering on bureaucratic hassles. For instance, it was reported that SMEs faced challenges accessing some of the interventions (Oyedele, 2020; Bartik et al., 2020). In particular, a circular issued to DMBs and the general public on guidelines for the implementation of the 50 billion naira targeted credit facility contains stringent requirements. Some also argued that loans, moratorium on loan and interest, and suspension of interest are mainly a short term solution to the liquidity constraints of SMEs. Despite the aforementioned challenges, the study aligns with the empirical findings which have demonstrated that policy intervention have impacted positively on the survival of businesses.

Theoretical Review

The Keynesian economic theory and Economic interventionism also called state interventionism are the theories widely used to explain government interventions in economic activities. Consequently, studies had relied on these theories while studying government's interventions and their implications on economic growth. This study perceived Keynesian economic theory and economic interventionism as overlapping theories that provide consistent insights into the need for state interventions in correcting market and economic failures. The models indicate that the intervention of state is necessary in certain situations to improve economic growth. These theories are considered more appropriate for this study because they possess the required power to describe the reasons for state interventions in economic activities. Consequently, these two theories- Keynesian economic theory and Economic interventionism were reviewed.

Keynesian Economic Theory

The theory was developed by British economist by name John Maynard Keynes in the 1940s. Keynesian economic theory is deep rooted in economic cycles of boom-and-bust inherent in free-market economies. He advanced that government intervention is needed to stabilize economies. The ideation that economies experience times of prosperity (i.e. booms cycles and times of recession (bust cycles) are enough reasons for government not to stay idle. Keynes advanced that government needs to closely monitor three metrics: interest rates, taxes, and social programs in order to stabilize the economy. His arguments on these metrics are premised on the fact that they play crucial role in economic prosperity and stability. The theory proposed two (2) actions or models. The first model is that during the period of prosperity, government needs to intervene by increasing tax and interest rates while spending on social programs should be reduced. Increasing interest and tax rates is necessary to mop up excess liquidity from the system and to discourage too much investment in public and private sectors. According to the theory, too much investment could lead to a reduction in the money supply and a severe recession. Reduction in government spending on social programs is necessary because they would no longer be as needed during the boom cycles.

The second model is that tax and interest rates be decreased while spending on social programs need to be increased during economic bust. During recession or economic down time, investment is needed to stimulate the economy. The fastest way to increase or encourage investments is to reduce tax rate on individuals and businesses and interest rate as these actions would not only allow private sectors to have additional financial capital to invest in projects but also encourage borrowing and thus help drive the economy out of the burst. Social program spending on the other hand needs to be increased as this action would stimulate the job market with an influx of skilled labour. A critical look at the interventions implemented by the government revealed that the initiators of the policy borrowed a leaf from the Keynesian economic theory as the interventions fit into the postulations of the theory. For instance, part of the intervention policy introduced by the government includes extension of moratorium on debt, reduction and suspension of interest rates, reduction and deferrals in taxes, increase spending on social program such as the creation of 50 billion naira credit facility for affected SMEs; one trillion naira loans to boost local manufacturing and production across critical sectors are akin to the propositions of the theory. This theory is the underpinning theory for this study.

State Interventionism Theory

The theory examines the justifications for government interfering with policies or economic choices made by another independent

government firms either by the use of threat, force or coercion. In this instance, the intervener forced the intervened to change its political, cultural and economic situation. By indication, the theory is a part of political philosophy as it is commonly associated with one independent government interfering in the affairs of another independent government. Overtime, the theory was extended to cover other areas such as business, medical and environmental ethics. In the business or social policy parlance, the theory was domesticated to suit or justify the need for government interventions in the economy or market process. State interventionism otherwise referred to as economic interventionism or hampered market economy is economic policy position encouraging government intervention in the market process. The theory is intended to address the decision making problems with regards to the timing of interventions. The theory is premised on the knowledge that to achieve the desired outcome, timing of an intervention is important. Therefore, addressing the question of when it is desirable not to interfere and when it is appropriate to do so is the foundation upon which the theory rests. The intervention policies issued by the government at the height of the novel COVID-19 satisfied the timing condition of the theory. It was appropriate for government to intervene in the economic and market process through policies to keep the economy afloat and to save businesses from imminent collapse.

Empirical Review

The restrictive measures put in place to curb further spread of COVID-19 affected business operations and global supply chain. Businesses, especially SMEs were exposed to liquidity problem due to lack of business activities. Bartik *et al*. (2020) document that at the height of COVID-19, SMEs experienced devastating financial problems, leading to massive layoffs and closure. Similarly, a study conducted by Beraha & Duricin (2020) which assessed the impacts of covid-19 pandemic on Serbian SMEs find that SMEs were inversely affected by the pandemic. Farlie (2020) studied the effect of the pandemic on a number of active SMEs in the US. The study used nationally representative data from April 2020. It was found that within the period of three months (February to April, 2020) the size of business owners who were still operating reduced by 22%. Given this scary statistics, interventions became necessary in order to stem the tides of the toll the pandemic has had on businesses and economy at large. There are evidences that the interventions have saved businesses from imminent collapse. For instance, with sample of over 42,000 SMEs across 28 sectors in the UK across, Belghitar, Moro & Radic (2021) find that close to 60% of the sampled SMEs would report negative earnings without intervention or aid from the UK government. The study of Kargar *et al* (2020) finds that the liquidity position of firms in corporate bond market became bad during covid-19. In a similar fashion, Lu, Wu, Peng & Lu (2020) assessed the effect of lockdowns at the height of COVID-19 on SMEs in China. Again the study found that lack of materials, disruption in the supply chain, reduced demand for products and services and cash flow crunch were the major issues faced by SMEs as a result of the lockdown measure enforced by the Chinese Authorities. Enesi & Ibrahim (2021) conducted a study on the effect of COVID-19 Pandemic on the performance of Small and Medium Business Enterprises. The study found that loss of staff as a result of salary reduction, low revenue generation, inability to repay loans and rent are some of the challenges faced by SMEs. Elsewhere, Aladedeji (2020) examined the impact and survival strategies of small businesses in Nigeria during the COVID-19 crisis. Like the works of Enesi & Ibrahim (2021), the study adopted quantitative research technique. Primary data was sourced through the administration of questionnaire to 360 SME owners in Lagos. The study again found out that reduction in revenue, reduction in salary, inability to pay rent and loan are some of the challenges faced by SMEs during COVID-19 period.

Methodology

All the SMEs in Nigeria constitute the population for the study. Purposive sampling technique was used to select 350 out of the over 39,000.000 SMEs in Nigeria. The sample size satisfies the rule of thumb proposed by Roscoe (1975). A sample size between 30 and 500 is adequate (Roscoe, 1975). Questionnaire was the main instrument employed in gathering primary data. Three hundred and fifty (350) questionnaires were distributed to respondents who are the owners of the selected SMEs. However, 289 were returned while 23 out of the returned questionnaires were removed because they had up to 15% missing data leaving out 266 usable returned questionnaires. To confirm the adequacy of the study sample as well as the appropriateness of the data analysis technique used for this study, Kaiser-Meyer-Olkin (KMO) test and Bartlett's test of sphericity (BTS) were employed. The primary data gathered through questionnaires was analyzed using principal component analysis (PCA).

Model Specification

$$PF_{it} = \beta 0 + \beta 1 Pol_{it} + \varepsilon_{it} \quad (1)$$

where:

Subscripts = Index of SMEs *i*, and time *t*,
PF = Survival,
β0 = model intercept;
β1 = slope coefficient;
Polit = Policy Interventions;
ε =error term

RESULTS AND DISCUSSION

Descriptive Statistics

Table 1 ***Demographic Statistics of Respondents' SMEs***

Item		Frequency	Percent	Cumulative Percent
Industry which your business belongs to	Trading	76	28.5	28.5
	Agricultural	47	17.67	46.17
	Services	99	37.2	83.37
	Others	44	16.54	100.0
	Total	266	100.0	
Age of Operation of the Business	0-3 years	83	31.20	31.20
	4-6 years	67	25.18	56.38
	7-10 years	51	19.17	75.55
	Above 10 years	65	24.43	100.0
	Total	266	100.0	
Number of Employee	1-5	92	34.59	34.59
	6-10	77	28.95	63.54
	11-20	59	22.18	85.72
	Above 20	38	14.29	100.0
	Total	266	100.0	

Source: Authors Computation, 2024

The profile of the respondents as depicted in the Table 1 above shows that bulk of the respondents' are in the service sector with 37.2%, followed by those in trading and agricultural sector with 28.5% and 17.67% respectively. Eighty three (83) of the SMEs have been operating between 0-3 years constituting 31.2%. Similarly, 24.43% of the SMEs have been operation for over ten (10) years.

Preliminary Diagnostic Test

Table 2 Reliability Analysis for the Research Instrument

Factor	Number of Items	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items
Business Survival	8	0.796	0.798
Policy Intervention	7	0.882	0.884

Source: Fieldwork, 2024

Reliability analysis is conducted to test for and determine the internal consistency of the measures using Cronbach's Alpha technique. Studies have used have used a benchmark value of above 50% as acceptable value. In line with the prior studies, this study used a reliability coefficient of 0.70 as the benchmark for acceptability. As shown in the Table 2, the Cronbach's Alpha (α) reliability test score of 0.796 and 0.882 surpassed the threshold. Therefore the measures are reliable.

Table 3 Kaiser-Meyer-Olkin (KMO) and Bartlett's Test of Sphericity (BTS)

Kaiser-Meyer-Olkin (KMO) Measures of sampling Adequacy	0.866
Bartlett's Test of Sphericity Approx Chi-square	456.608
Degree of freedom (diff)	21
P-Value (Sig)	0.000

Source: Authors Computation, 2024

The study carried out further test to ascertain the appropriateness or otherwise of the use of Principal Component Analysis (PCA). Bartlett's Test of Sphericity (BTS) has been the popular method used in studies of this nature. For PCA to be considered appropriate, the p-value of the Bartlett's Test of Sphericity should be lesser than 5% level of significance (Field, 2005. As shown in Table 3, the p-value of the BTS test of 0.000 fulfils the condition as stated by field (2005). In line with the result, PCA is considered appropriate for this study hence the decision to employ PCA for the analysis.

In addition, the adequacy of the sample size needed to be established to ensure robust findings. Kaiser-Meyer-Olkin (KMO) test was employed for that purpose. A sample for a study is considered adequate only if the measured KMO for the set of a variable is >0.50 (Field, 2005). Again, as shown in Table 3, the KMO is 0.866 which is greater than 0.5. The sample size used in this study is therefore considered adequate.

Factor Analysis

Exploratory Factor Analysis (EFA) through principal component analysis (PCA) was employed to find uncorrelated linear combinations of observed variables. Factor loadings of factor analysis are used to indicate the correlation between every attribute and each score. The principle behind the process is that, a factor loading of 0.7 or higher indicates that the factor sufficiently captures the variance of that variable. In other words the higher the factor loading the more significant the attribute was in explaining the factor matrix (Hair *et al*., 2019, Tabachnick & Fidell, 2014). In line with Hair *et al*., (2019), the factors were ranked on the basis of their factor loadings.

Discussion of the findings

In line with the arguments by Tabachnick & Fidell, (2014); and Hair *et al*., (2019, the importance of each policy intervention was determined by the value associated with its factor loading in descending order. That is, the item with the highest factor loading is considered more important and thus has the most significant impact on the dependent variable, followed by the next highest value and so on. The results as presented in appendix 1 suggest that the directive by the CBN to deposit banks to extend more credit to private sector at the height of the COVID-19 pandemic is the most important policy intervention. This is because it had the most significant impact on survival of SMEs with the highest factor loading of .800. This is also supported by the scree plot as presented in appendix 2. The scree plot shows that the extension of more credit to private sector by deposit money banks is the only factor loaded with an eigen value of greater than 1 and that it explains 59.06% of the total variance in the survival of SMEs. This is then followed by the Agri-Business/Small and Medium Enterprise Investment Scheme (AGSMEIS) with a factor loading of .795. The reduction of interest rate on intervention loans from 9% to 5% by the CBN is the third most important policy intervention with a factor loading of .790 while the creation and disbursement of Fifty Billion Naira (N50 Billion) credit facility to affected SMEs is the fourth most important policy intervention with a factor loading of .780. The 1 Trillion Naira pumped into critical sectors of the economy had the lowest factor loading of .730.

Conclusion

The following conclusions were drawn from the findings: First, the policy intervention was effective as it impacted positively on the survival of SMEs in Nigeria. However, extension of credit facilities to private sector was the most important and most significant policy intervention amongst all the interventions introduced. In terms of theoretical basis, the position of the Keynesian economic theory and that of state interventionism theory are valid and applicable. This study can inform policy makers about the significance of government interventions on survival of SMEs when confronted with severe crisis such as COVID-19. Specifically, it has revealed to the benefit of policy makers the importance of credit facilities in the survival of SMEs. However, this study is limited in that its findings may not be applicable to other firms outside the context of SMEs. Future studies may consider much bigger firms that fall outside of SME classification.

Implications for Practice

The findings of this study provide some practical implications for policy maker. Since extension of credit facilities to private sector was the most important policy intervention, policy makers may prioritize such intervention in a similar situation like the COVID-19 pandemic. Another implication is that, monetary policy related interventions were more potent when compared with its fiscal policy counterparts. As evident in the results, the first and second most important policy interventions were monetary policy oriented. Again, policy makers are encouraged to pay more attention on interventions that are more monetary driven when confronted with similar situation like COVID-19 pandemic.

Recommendations

The study sought to ascertain the impact of individual policy on the survival of SMEs. The analysis showed that extension of credit facilities to private sector was the most important and most significant policy intervention. In line with the findings, the study recommended that government and other relevant stakeholders need to consider or prioritized extension of credit facilities to private sector when confronted with COVID-19 related challenges.

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