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# An Evaluation of the Impact of Covid-19 on the Working Capital of Small and Medium Enterprises (SMEs) in Nigeria

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***Abstract:***
*The outbreak of the current COVID-19 pandemic has affected many businesses all over the world. The Small and Medium Scale Enterprise (SME) is not left out. SME is one of the largest business outfits in Sub-Sahara Africa that play an important role in the development of any nation's economy. It accounts for 96% of businesses world over. It is a key source of innovation, dynamism and flexibility in industrialised and emerging economy like Nigeria. SMEs are efficient and prolific job creators, seed of big businesses that facilitate poverty reduction. In Nigeria, SMEs contribute to a whopping 48% to our national Gross Domestic Product (GDP) indirectly improving our per capita income; 84% of employment, increase value addition to raw material supply, improve export earning, enhance capacity utilization in key industries and unlock massive economic expansion.*
*In this work, the researcher evaluates the above impact by measuring the relationship between SMEs Working Capital and their performance during the on-going COVID-19. Also to assess the state of nature of SMEs resources and ways to revitalize the enterprise and customer needs with post-COVID-19 recovery priorities.*
*Data were collected from 17 major categories of SMEs through online link and via e-mail/Whatsapp correspondences. 50 responses were received in all from SMEs operators – managers, accountants, marketing/human resources managers. Descriptive and Inferential Statistics were used to analyze the data. The result $R = 0.134$, $p < 0.01$ indicated that the relationship between SMEs working capital and its performance was very insignificant during the active period of COVID-19 pandemic.*
*The pandemic has impacted the SMEs with constraints in liquidity, cash flow with increased payment delays on receivables etc. resulting in an endemic depletion in working capital. It has also led to decrease in sales, low patronage, difficulties in accessing input/raw materials, in paying staff salaries, in changing production volume and decrease in product sales price.*
*The study recommended fiat revitalization of SMEs resources and consumer needs through consistent information between SMEs stakeholders and consumers; establishing a team to focus on credit collection and supply chain for online sales and delivery and implementation of government financial assistance from IFC through FCMB and to be monitored by SMEDAN just while the COVID-19 pandemic lockdown eased out.*

***Keywords:*** *Small and Medium Scale Enterprises (SMEs), Working Capital; Cash Flow, COVID-19 Pandemic, Receivable Collections*

## 1. Introduction

The outbreak of the novel coronavirus that was first reported in Wuhan (China's most central city and the capital of Hubei Province) by Chinese Health Authorities in January 2020 has become pandemic. While health care professional across the globe strive to alleviate human suffering, economists and financial institutions are trying to address its impacts on the global economy. In fact, sizeable economic effects of the pandemic are only beginning to become apparent.

There is no gain saying the fact that this current pandemic – COVID-19 has affected many businesses all over the world. Even at government cycle, exchange of trade relations and products are badly affected. Many countries of the world are already feeling the pang of the pandemic. Consequently, companies are either currently experiencing or anticipating significant constraints on each cash and working capital including potential liquidity challenges.

Also, depending on the industry, many companies have witnessed lower revenue resulting in less cash flow along with delayed receivable collections, as needs grow to step up payables to important suppliers. Thus, companies have become much nimbler in managing inventory given the uncertainty in the supply chain (of course due to the lockdown here and there) which will also place demand on working capital. Cash flow scenarios and downsides including its impacts on foreign exchange especially during this period are even worst with Small and Medium Enterprises (SMEs) in Nigeria. Ibrahim and Ibrahim (2015) argued that though SMEs played important role in the development of a nation's economy because they provide benefits such as job creations, knowledge spillover, economic multipliers, as innovation driver etc., it is quite plausible that their working capital is affected by COVID-19. This same working capital is a major determinant of their survival and growth. Therefore, it is envisaged that this clog shall not lead to their poor financial performance.

This paper not only examine the impact of working capital management practices on the performance of SMEs in Nigeria but goes further to evaluate the disruptions of business in cash flows, supply chain, employees' working from a jurisdiction other than their usual place of work or from home or online, travel restrictions of top management staff, virtual financial close dilemma, social distancing marketing etc. all as a result of the pandemic. What then is the overall performance of the SMEs' with respect to its working capital as phases of the pandemic lockdown are being witnessed in different places in Nigeria and across the globe? Could there be any future growth opportunities or loyalty after COVID-19 is eased out even if the impact on consumers and brand are not enormous? Definitely, there could be increase in credit risk and many SMEs could increasingly go bankruptcy. The effect of the pandemic could be much felt on private SMEs as products and personnel would be badly hit. Within the last six months, airline operations became paralyzed due to COVID-19 pandemic. The British Airways for instance among others, laid of more than ten thousand staff globally due to COVID-19 travel restrictions. Many products and services were therefore affected as a result of only travel restrictions alone.

In the light of the above, this paper shall evaluate the consequences of the pandemic on the performance of SMEs relative to its working capital (cash flows, payment receivable, stock level/inventory etc.) in South-West Nigeria. Also, it shall focus on the state of nature of and how SMEs resources (human, financial, materials etc.) and supply chain are impacted during the pandemic. Mutually exclusives, the paper shall find how consumer needs can be revitalized with recovery priorities while keeping or observing COVID-19 protocols to obtain and analyze data.

*1.1. Statement of the Problem*

Working Capital Management practices are of significant value to SMEs because it brings about operational efficiency and increase sales, attract customers' patronage and help to strengthen long term relationship with customers. It also contributes a whopping 48% to our national GDP. These function and importance of SMEs is no more as a result of the contemporary and serious challenge of COVID-19 pandemic.

Hitherto, managers of SMEs could no longer manage their working capitals effectively and efficiently nor maximize their profits due to several shortcomings of the uncertainty or the astonishing pandemic. Inability to manage working capital now has resulted in attendant cash flow, job losses, low sales, doubtful or fake and perishable products, switch-off from profit making to survival mode, etc. However, all the efforts and interventions being sought by SME managers have proved abortive, first due to trade and travel restrictions and snail-speed or gradual easing of the lockdown. Therefore, this work shall fill the gap by examining the impact of the pandemic on the working capitals of SMEs and its overall performance regardless of government Emergency Economic Stimulus or World Bank Assistance, 2020. Has the pandemic affected the major resources and supply chain of SME? And is it possible to revitalize the needs of customers and their loyalty with recovery priorities?

*1.2. Objectives of the Study*

The broad objective of this study is to evaluate the impact of COVID-19 pandemic on the working capital of SMEs and therefore its performance in South-West Zone of Nigeria.

The specific objectives are:

- To determine the relationship that exist between cash flow management practices and other related attributes and the performance of SMEs in the last six months of the pandemic.
- To evaluate the state of nature of all resources (human and material) especially with the difficulties in sourcing raw materials/marketing of the product of SMEs during the COVID-19 pandemic.
- To assess the impact of the pandemic on the trade chain in order to revitalize the enterprise for consumer protection and needs.
- To suggest post-COVID-19 recovery priorities for SMEs in Nigeria.

*1.3. The Study Hypothesis*

Following the above statement and research objectives, the below hypothesis are constructed:

- ${}^{1}H_0$ : The relationship between working capital (cash flow and other attributes) management practices and performance of SMEs during COVID-19 pandemic is not significant.
- ${}^{2}H_0$ : SMEs resources are not affected during COVID-19 pandemic.
- ${}^{3}H_0$ : Revitalization of Consumer needs under SMEs does not suggest post-COVID-19 recovery priorities.

**2. Literature Review**

The Small and Medium Scale Enterprises (SMEs) have been a key source of dynamism, innovation and flexibility in advanced industrialized countries, as well as in emerging countries. They are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic growth. Even in the developed industrial economies, it is the SMEs sector rather than multinationals that is the largest employer of workers, Abimbola and Jegede (2017). They facilitate poverty reduction through fiscal transfers and income from employment and firm ownership. Comparatively, most SMEs are not registered under the Corporate Affairs Commission (CAC) and SMEDAN as corporate bodies, but as sole proprietorship. Hence, their procedures seem very simple and a bit easier. Partly due to this phenomenon, SMEs has outnumbered all other forms of business and could be found almost everywhere across the country.

SMEs are viewed as essential elements of any healthy economy especially in developing countries like Nigeria. It is viewed to promote enterprise and culture which in turn leads to job creation within the economy. SME is gaining widespread recognition in Nigeria due to the diversification of the economy from crude oil to other sectors. Storey (1994) argued that SMEs constitute majority of enterprise in all economies of the world. In spite of their numbers and significance, recent studies showed that 60% of the SMEs fail within the first-five year of operation, Boachie-mensah and

Marfo-Yiadom, (2005). Majority of them face unique problems of inadequate plan and control of financial resources toward current assets and liabilities. These in turn affect their growth and profitability and hence diminish their ability to contribute effectively to sustainable development aside the contemporary COVID-19 pandemic issue. Other problems include lack of technical skills, low level of education, poor marketing information, inhibitive regulatory environment, lack of access to technology and inefficient working capital management (Kaya and Alpkan, 2012). Okpara (2010) added and reported that most SME operators do not also have sufficient financial management skills such as bookkeeping, cash and inventory management skills, hence they end up losing track of their daily transactions and cannot account for their expenses and profits at the end of the month which can even threaten their working capital in such a way as to enjoy maximum profit (Geoffrey, 1969) and to remain stable.

### *2.1. Theoretical Review on Working Capital*

The theory of working capital management contends that if working capital is managed according to prescriptive theory then it would be expected that businesses would invest in working capital, finance working capital, monitor factors that influence working capital, manage cash, accounts receivable, inventory, accounts payable, the cash conversion cycle (aggregative approach), and measure and analyze performance to ensure that the long term (fixed) assets are utilized effectively and efficiently. For this purpose, the following two most important theories have much with this study.

#### 2.1.1. A Cash-Flow Theory of Stock Valuation

First we try to define and explain the types and uses of Cash Flow before going to Cash Flow Theory of Stock Valuation.

Cash Flow (CF) is the increase or decrease in the amount of money a business, institution, or individual has. In finance, the term is used to describe the amount of cash (currency) that is generated or consumed in a given time period. There are many types of CF, with various important uses for running a business and performing financial analysis.

#### 2.1.2. Types of Cash Flow

- Cash from Operating Activities – Cash that is generated by a company's core business activities – does not include CF from investing. This is found on the company's Statement of Cash Flows (the first section).
- Free Cash Flow to Equity (FCFE) – FCFE represents the cash that's available after reinvestment back into the business (capital expenditures). Read more about FCFE.
- Free Cash Flow to the Firm (FCFF) – This is a measure that assumes a company has no leverage (debt). It is used in financial modeling and valuation. Read more about FCFF.
- Net Change in Cash – The change in the amount of cash flow from one accounting period to the next. This is found at the bottom of the Cash Flow Statement.

#### 2.1.3. Uses of Cash Flow

Cash Flow has many uses in both operating a business and in performing financial analysis. In fact, it's one of the most important metrics in all of finance and accounting. The most common cash metrics and uses of CF are in (i) calculating Net Present Value, (ii) determining Internal Rate of Return; (iii) assessing liquidity; (iv) measuring Cash Flow Yield; (v) calculating Cash Flow per Share; (vi) calculating Price per Cash Flow and Cash Conversion Ratio (vii) measure shortfall in order to fund capital assets and (ix) to fund dividend payments and capital expenditure or reinvestment for growth of the business.

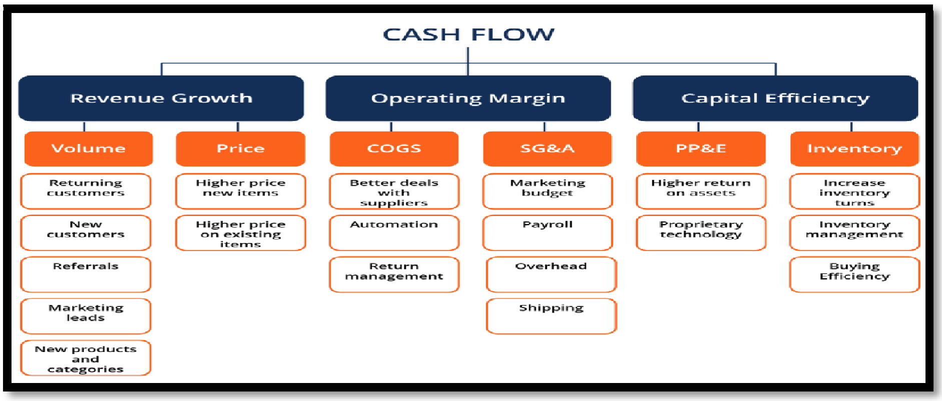


*Figure 1: Cash Flow Diagram*
*Source: eFinance Management.com*

A Cash-flow theory says that the value of the stock is the present value of the future net cash flows. And this Net Cash-Flow is the cash-flow between the firm and its stockholders. A positive net cash-flow represents a cash payment by the firm to the stockholders, while a negative net cash-flow represents a cash payment by the stockholders to the firm.

In financial markets, stock valuation is the method of calculating theoretical values of companies and their stocks. The main use of these methods is to predict future market prices, or more generally, potential market prices, and thus to profit from price movement – stocks that are judged *undervalued* (with respect to their theoretical value) are bought, while stocks that are judged *overvalued* are sold, in the expectation that undervalued stocks will overall rise in value, while overvalued stocks will generally decrease in value.

In the view of fundamental analysis, stock valuation based on fundamentals aims to give an estimate of the intrinsic value of a stock, based on predictions of the future cash flows and profitability of the business. Fundamental analysis may be replaced or augmented by market criteria – what the market will pay for the stock, disregarding intrinsic value. These can be combined as "predictions of future cash flows/profits (fundamental)", together with "what will the market pay for these profits?" These can be seen as "supply and demand" sides – what underlies the supply (of stock), and what drives the (market) demand for stock?

*2.2. Traditional Theory of Capital Structure*

The Traditional Theory of Capital Structure states that when the Weighted Average Cost of Capital (WACC) is minimized, and the market value of assets is maximized, an optimal structure of capital exists. This is achieved by utilizing a mix of both equity and debt capital. This point occurs where the marginal cost of debt and the marginal cost of equity are equated, and any other mix of debt and equity financing where the two are not equated allows an opportunity to increase firm value by increasing or decreasing the firm's leverage.

The Traditional approach to capital structure suggests that there exist an optimal debt to equity ratio where the overall cost of capital is the minimum and market value of the firm is the maximum. On either side of this point, changes in the financing mix can bring positive change to the value of the firm. Before this point, the marginal cost of debt is less than a cost of equity and after this point vice-versa.

Also the Traditional Theory of Capital Structure says that a firm's value increases to a certain level of debt capital, after which it tends to remain constant and eventually begins to decrease if there is too much borrowing. This decrease in value after the debt tipping point happens because of overleveraging. On the other hand, a company with zero leverage will have a WACC equal to its cost of equity financing and can reduce its WACC by adding debt up to the point where the marginal cost of debt equals the marginal cost of equity financing. In essence, the firm faces a trade-off between the values of increased leverage against the increasing costs of debt as borrowing costs rise to offset the increase value. Beyond this point, any additional debt will cause the market value and to increase the cost of capital. A blend of equity and debt financing can lead to a firm's optimal capital structure.

The Traditional Theory of Capital structure tells us that wealth is not just created through investments in assets that yield a positive return on investment; purchasing those assets with an optimal blend of equity and debt is just as important. Several assumptions are at work when this theory is employed, which together imply that the cost of capital depends upon the degree of leverage. For example, there are only debt and equity financing available for the firm, the firm pays all of its earnings as a dividend, the firm's total assets and revenues are fixed and do not change, the firm's financing is fixed and does not change, investors behave rationally, and there are no taxes. Based on this list of assumptions, it is probably easy to see why there are several critics.

The traditional theory can be contrasted with the Modigliani and Miller (MM) theory, which argues that if financial markets are efficient, then debt and equity finance will be essentially interchangeable and that other forces will indicate the optimal capital structure of a firm, such as corporate tax rates and tax deductibility of interest payments.

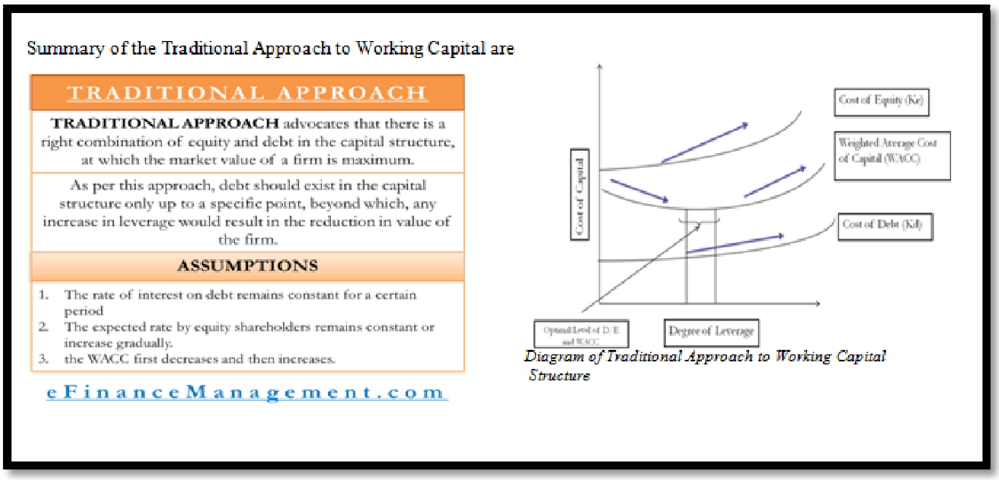


*Figure 2*

The above theories clearly explain the importance of Working Capital and how it can influence the performance and profitability of SMEs in various economic situations.

*2.3. The impact of COVID-19 on SMEs in Nigeria – An Overview*

This pandemic has given virtually every one of us more than enough challenges to grapple with. Schools have been closed for nearly four months now and on top of the financial strain they currently shoulder, parents have been forced to either homeschool their kids or watch them idle away the days. And even as some countries have begun to ease the lockdown, the ripple effects of this crisis have jolted us all jarringly.

Ours is one of the largest economies in Sub-Saharan Africa and even though Nigeria relies majorly on oil, her economy is also sustained largely by small and medium scale enterprises. SMEs in Nigeria are non-subsidiary, independent firms/organizations which employ fewer numbers of employees with an annual turnover not exceeding Five Hundred Thousand Naira (N500,000.00). The attraction to the owners of SMEs in Nigeria lies in the fact that these kinds of businesses are less capital intensive as well as highly flexible in filling the need in various niche markets.

As much as these small businesses are often neglected by the bigger dogs in the game, they are quite literally the backbone of practically all developed economies because they contribute immensely to employment, economic and Diagram (export growth in these nations. In fact, SMEs in Nigeria contribute a whopping 48% of our national GDP, account for 96% of businesses and provide 84% of employment of our citizens. With a total number of about 17.4 million, they account for about 50% of industrial jobs and nearly 90% of the manufacturing sector, in terms of the number of enterprises.

According to the 2010 Survey report on SMEs in Nigeria conducted by the National Bureau of Statistics, the SME sector in Nigeria is strategically positioned to absorb up to 80 percent of jobs, improve per capita income, increase value addition to raw materials supply, improve export earnings, enhance capacity utilization in key industries and unlock massive economic expansion and GDP growth.

These SMEs also play an important role in the political economy because they help to promote and strengthen reforms. They sum up the commercial activities in our country regardless of the sector involved because they produce what we need, transport them to consumers all over the country and do all the other necessary tasks in between. They perform all these tasks despite challenges such as inadequate working capital, stiff competition from larger companies, difficulties in sourcing raw materials, low capacity utilization, lack of management strategies and the poor educational background of operators.

Despite the significant contribution of SMEs to the Nigerian economy, many challenges still persist and hinder the massive development of this sector. When bank loans are given, most of them find it hard to access the funds as a result of insufficient collateral. Hitherto, all these challenges were before the current pandemic that brought all of us to our knees.

With domestic and international restrictions on movement hampering trade and travel, most of these businesses have had to stop, reduce or alter their operations. Productivity has become even challenging, and the effects of this pandemic will likely linger long after the crisis has been averted, especially on SMEs and the labour market.

Since the lockdown became our new normal, most of these SMEs have been unable to lay their hands on the raw materials they need. Some are already shutting down since there is no material for production. Lots of containers have been delayed at the seaports and shipping dates have been repeatedly postponed on account of COVID 19. Even micro businesses that buy and sell cannot get supply of the goods they buy because most of them are majorly imported from China. Perishable products have gone to waste in warehouses or been sold off at pittances. Distribution of non-perishable goods is practically at a halt and transportation businesses are stuck with vehicles in their parks all day long. As if all these are not enough, there are increasing reports of looting in various states and as much as this development affects us all as a nation, it makes an already bad financial situation worse for the SMEs in this country.

If we are to make any real headway after this pandemic, it is crucial that the SMEs business sector receive all the help it may need. Government should be keen to keep SMEs in Nigeria afloat because, given their significance to the Nigerian economy, support for these businesses cannot be over-emphasized. This could be done through tax relief to all their resources so that product and services will not be undermined by product scarcity and increased unemployment. This could be part of the Emergency Economic Stimulus Bill 2020.

### *2.4. The Effect of Working Capital Management Practices on SMEs – Empirical Review*

Working Capital Management (WCM) has been defined by various authors in Financial Management. According to Eljelly (2004), WCM is an essential ingredient in any organization that eliminates the risk of inability to meet short-term obligations and avoid excessive investment in the assets. Filbesck and Krueger (2005) also indicated that success of any business depends on effective management of inventories, receivables and payables. Afza and Nasir (2010) declared that continuous management of working capital can assists firms to balance between risk and efficiency. Organisational survival is not certain despite companies earning profit unless they meet their short-term obligation. The three main focuses of corporate finance are three decision processes: capital structure decision, capital budgeting decision and working capital management. WCM is considered a life-giving force for any economic unit and the most important function of corporate management. Working Capital does not only affect profit making organisations but also non-profit making ones. According to Mukhopadhyay (2004), working capital is the most crucial factor for maintaining liquidity, survival, solvency and profitability of businesses across any country. Further, Sadiq (2017) asserted that if WCM is not given due consideration, firms are likely to fail and face bankruptcy. The importance of WCM's efficiency is therefore inevitable especially during this current pandemic. Although working capital is described as the difference between current assets and current liabilities, its continual operations would only make the firm to eliminate its debit risk and improve its efficiency. Working capital has now become an interesting construct that has attracted the mind of researchers, scholars and accountants globally, particularly in Nigeria and at this nick of time, where Small Scale Enterprises find it difficult to access funds. As a consequence, Kargar Blumenthal (1994) maintained that small and medium firms face difficulties in the management of their working capital. Hence, most SMEs in Nigeria are now at the mercy of International Financial Corporation (IFC - a member of the World Bank Group) through the First City Monument Bank (FCMB that is expected to extend and expand lending to SMEs so that they can sustain business activities disrupted by COVID-19 pandemic. Recent World Bank report has indicated that a loan of $50 million has been granted to FCMB through IFC. It is stated in its June, 2020 News Bulletin as: "Lagos, Nigeria, June 25, 2020" — IFC, a member of the World Bank Group, today announced a $50 million loan to Nigeria's First City Monument Bank (FCMB) Limited to help it expand lending to small and medium enterprises (SMEs) so they can sustain business activities disrupted by the COVID-19 pandemic.

The loan, made through IFC's COVID-19 fast-track financing support package, reflects IFC's commitment to Nigeria's private sector following the severe challenges brought by the health and economic crisis. The funds will allow FCMB to support hundreds of businesses with trade financing and working capital loans.

FCMB's Chief Executive, Adam Nuru, said, "IFC's loan facility will allow us to keep credit flowing to SMEs as well as corporate companies across all sectors of Nigeria's economy, including in the health, pharmaceutical, food and trading industries." With this, SMEs can soft-land to revamp its working capital.

| Author (s)/Year | Research Topic Variables | Methodology | Findings/Result | Gap |
|---|---|---|---|---|
| Abimbola and Kolawole (2017) | Effect of Working Capital Management Practices on the performance of SMEs in Oyo State, Nigeria | Measures of Central Tendency, Regression Analysis/Rank Correlation Coefficient Statistics were used to analyze the data | Positive relationship between SMEs' performance and Cash and Trade Credit Management Practices | The work was only limited to relationship between Cash and Trade Management Practices and firm's performance |
| Fasesin et al (2017) | Working Capital Management and its Influence on the Performance of SMEs in Osun State | Purposive Sampling Technique and employment of both Descriptive and Inferential Statistics to analyze the data | Insignificant positive influence of WCM on SSEs performance. It concluded that WCM are weak predicators of SMEs. | The work did not discuss supply chain and inventory turnover. |
| Kehinde, J S (2011) | Effective Working Capital Management in SMEs | Adopted Standard Working Capital Ratios | Result showed that firms exhibited low debt recovery over credit payment. | The study was limited to only working capital position and credit policy. |
| Sadiq (2017) | Impact of Working Capital on SMEs Performance in Nigeria | Data analysed using Regression/Ordinary Least Square | Results show that account payable period, and cash conversion cycle have positive effect on performance while account receivables period and inventories turnover in days has negative relationship with performance. | The work was only limited to relationship between WCM, efficiency; profitability and firm's performance. |
| Kosgey and Njiru (2016) | Influence of WCM on SMEs profitability in Kenya | Data was analysed using both descriptive and inferential statistics | Results reveal that WCM has significant influence on SMEs financial performance | It was only carried out with limitation to SMEs growth and solvency. No indication of business risk uncertainty. |
| Snober (2014 | Effect of WCM on SME profitability in Pakistan | Panel data regression analysis was used | Results show that SMEs with shorter inventory holding period, shorter accounts receivable period and shorter accounts payable period are more profitable and create value | The study was limited to only working capital position and shorter accounts and receivable period |
| Afeef , M. (2011) | Analyzing the Impact of Working Capital Management on the Profitability of SME's in Pakistan | Multiple Regression analysis was employed in the study to explore the combined effect of the variables of working capital management on profitability. | SMEs listed in Karachi Stock Exchange for a period of six years from 2003 to 2008. The result indicated that there was no empirical relationship between Working Capital Management and Profitability | The study was limited to only working capital variables and profitability. |
| Gorondutse et al (2017) | The effect of Working Capital Management on SMEs profitability in Malaysia | Panel data regression analysis was used to analyze secondary data from Companies Commission of Malaysia, between 2016 -2012 | The results also established a positive effect of Net Operating Profit on Cash Conversion Cycle. | Study was concentrated only on Stock Turn-over in Days, Days of Account and Cash Conversion Cycle on SMEs' beneficiaries, ROA, ROI etc. |

*Table 1: Empirical Evidence from Literature*
*Source: Author's Desktop Research, 2020*

**3. Methodology**

As earlier mentioned, the purpose of the study is to evaluate the effect of COVID-19 pandemic on the working capital of SMEs and therefore its performance.

The research design of the study is quantitative research design. It involves collection and analysis of demographic and operational attributes data under each firm of the main SME category. The research design was also used to enable the researcher apply appropriate statistical tools to arrive at valid conclusion.

Data were collected through a pilot-tested questionnaire items (basically on demographic, working capital attributes and on the pandemic issues variables). It was sent online via a link to e-mail addresses and/or Whatsapp platform of seventeen (17) notable fast-growing SMEs of different categories in South-West Nigeria. This method was adopted due to COVID-19 protocols typically among which are lockdown and travel restrictions.

A total of 50 SMEs respondents was received. The online questionnaire was directed to the Managers, Financial Desk Officers as well as either the Human Resources or Marketing Managers of the SMEs. The categories of the fast-growing SMEs included: the Food and Restaurants; Fashion and Style; Media and Entertainment; Beauty and Wellness and Integrated Farms and Livestock/Cottage Industries, as well as Travel Agency.

The data were analysed using both descriptive and inferential statistics – Spearman Rank Correlation Coefficient and Measures of Central Tendency were used.

**4. Empirical Results and Discussion**

*4.1. Relationship between Cash Flow Management Practices and Performance of SMEs during COVID-19 pandemic*

The result analysed using the Spearman Rank Correlation Coefficients is as indicated in Table 2. The result reveal that there was a very poor and insignificant correlation between WCM practices and measurement of SME performance during the period evaluated (R = 0.134 p < 0.01 level). This implied that there was no efficient management of the working capital and therefore, SMEs' performance was poor. In fact, some ran into bankruptcy without any solvency. This could be attributed majorly to COVID-19 pandemic sharp and unexpected disruptions.

| Paramete r | Variables | Performance | | Working Capital |
|---|---|---|---|---|
| Spearman Rank Correlation | SMEs Performance during COVID-19 | r @ 2tailed | 1.000 | - |
| | Working Capital Management | r @ 2tailed | 0.134 | 1.000 0.000 |
| | Correlation was insignificant at 0.01 level | | | |

*Table 2: Spearman Rank Correlation Coefficient between Cash Flow and SMEs Performance.*
*Source: Field Survey, 2020*

*4.2. The Effect of COVID-19 on SMEs Resources*

A descriptive survey was carried out and measures of central tendency were the main tool used to clean and analyze the data collected through link, e-mail and WhatsApp.

As earlier mentioned, 50 responses were received with most being from micro or small-sized firms. Respondents were primarily firms in the Food Processing and Fast-Food Restaurants and Farm Settlement Sector (dealing in Cash Crops, Livestock, Fruits, Grains and Vegetables). Others are in the Fashion and Style, Media and Entertainment/Photography, Beauty and Wellness as well as Rental Services and Mall category of SMEs.

92% reported being impacted by the pandemic mainly via decreased sales/patronage (81% segmented), difficulty accessing inputs (47% segmented) and difficulty paying staff (44% segmented) of the impacted SMEs; 56% reported the impact was very severe and likely to cause business closure, while 44% described it as considerable or manageable but would be difficult to recover if no financial intervention such as from the IFC is put in place.

Also, it was evaluated from questionnaire items, that the impact has led 75.7% of SMEs firms to changing their production volume as a result of the pandemic. 19% have considered stopping production while 5% reported a small decrease in their production volume, hence opted out for change in product price to a moderate of (15-30%) decrease.
Some comments added by some respondents are quoted as below:

> "Due to this pandemic, some of my clients have disappeared and already disloyal to my product. In fact, some of my customers have patronized nearby firms due to travel restrictions and lockdown"
>
> "Our product beneficiaries are children in schools and as the schools are closed, we are unable to reach them. Our dairy products got wasted and there was automatic decrease in sales and stock value"
>
> "My rental service was restricted. Ceremonies were banned and there was low patronage to rentage of Hall, Chairs, Tables Industrial Cookers, Serving Plates, Wears, Decoration/Event Planning etc. I could not cope with the situation because of COVID-19 and therefore downsized up to 67% of my staff. Despite all these, electricity bill and other utility services were charged, while some leaked away, creating a wide debit note"

*4.3. Supply Chain and Revitalization of Customers' Needs with Recovery Priorities after COVID-19*

In the last six month, SMEs in the South-West Nigeria are already bearing the brunt of reduction in global demand for their products and services. 83.2% of the SMEs had experienced shortages of supplies as well as transportation and distribution disruption. Hence, about 23% (as segmented) anticipated a change in the production focus (for instance, some SMEs especially on manufacturing, household liquid/equipment – now focus on production of sanitizers and wash-hand machines.

67% of the respondents generally noted that the coronavirus pandemic affects their economy both on the supply and demand sides. Most SMEs companies experienced a reduction in the supply of labour, as workers are unwell or need to look after children or other dependents while schools are closed and movement of people are restricted. It was stressed that measures to contain the disease by lockdowns and quarantines lead to further and more severe drops in capacity utilization. Furthermore, the supply chains are interrupted leading to shortages of part and intermediate goods. On the demand side, the respondents stressed that during the touch COVID-19 period, there was a dramatic and sudden loss of demand and revenue of SMEs which severely affected their ability to function, and/or caused severe liquidity shortages. Mutually exclusives, consumers also experienced loss of income, fear of contagion and heightened uncertainty, which in turn reduces spending and consumption.

On revitalizing consumer needs, all the respondents (98.2%) sought opportunities to explore what the external lender would offer as phases of COVID-19 pandemic ease out. These include among others:

- Introduction of various models for online sales and delivery including the use of smartphone apps or development of online platforms
- Diversifying into production of quality alternative products, medical supplies and protective equipment (PPE, nose masks, shield etc.)
- Expanding exports
- Government support actions in the area of Financial support – virtually all the SMEs are in need of more working capitals to sustain and bear their fixed cost etc. to keep going. This is to be anchored by IFC under the auspices of SMEDAN as earlier reviewed. Types of financing preferred are:
- Short-Term Bridge Financing (3-6 months)
- Short to Medium Term Loan (1-3 years)
- Convertible Loan or Quasi Equity.
- Provision of Post-COVID-19 palliatives and other incentives
- Support to ensure continuity of workforce
- Facilitation of Domestic Transportation of Goods
- Facilitation of Re-opening of borders, trade exchange and retail outlets
- Technical Assistance Needs particularly
- Advices on sales or distribution or marketing of products
- Business resilience planning
- Advices on product reformation
- Advices on price information/stock exchange update
- Advice on workforce safety and continuity
- Advice on quality assurance and or quality control as well as optimum insurance of the SMEs.

## 5. Summary, Conclusion and Recommendation

Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries. SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide. In South Africa, SMEs account for 91% of business, 60% of employment and contribute 48% of National GDP. In Nigeria, SMEs contribute 48% of National GDP, accounts for 96% of business and 84% of employment. In short, modern SMEs has local strength and global reach.

Despite the significant contribution of SMEs to the Nigerian economy, challenges still persist that hinder the growth and development of the sector. One of the major challenges is the components of working capital. Good working capital management practices are of significant value to the performance of SMEs as it brings about operational efficiency and increased sales, attract customers' patronage and help to strengthen long term relationship with customers. Research evidences have shown mixed results on the relationship effect between working capital management and performance/profitability of SMEs. Working capital being the difference between current assets and current liabilities has to be efficiently managed so that shortening the time collecting receivables, deferring payment, keeping minimal inventory will not automatically reduce its net working capital. Therefore, this study has established that there is poor and insignificant relationship ($R = 0.134$ $p < 0.01$) between working capital and SMEs performance during COVID-19 pandemic that ravaged the world. Although similar evidences as reported by Konak and Giiner (2016) in Istanbul; Gul et al (2013) in Pakistan and Jose et al (1996) in US indicated aggressive negative relationship, they were not majorly attributed to any global crisis as we have now, but on the components of the working capital itself.

The above is indicative that certain pressing uncertainties or unforeseen variables can influence SMEs performance at any given time. The current pandemic has created constraints in liquidity and cash flow with increased payment delays on receivables etc. resulting in an endemic depletion in working capital.

It was also evidenced from the study that SMEs in South-West Nigeria are impacted by the pandemic with a decrease in sales, low patronage, and difficulties in accessing input/raw materials and constraint difficulties in paying staff. It also aggravated to changing production volume and to a forced decrease in product sales price.
Most SMEs had disruptions in supply chain and an increase in credit risk with more reported defaults, insolvencies and bankruptcies. The impact of the coronavirus pandemic on a global supply chain was a major disruption –although it was in-creditably fragile because most economies built on it outsourcing, just-in-time inventory or stock-up and thin margins. Thus, there were shortages in supplies, dramatic and sudden loss of demand as well as transportation and distribution disruption. The study also revealed that most SMEs change their production focus and recorded loss of income, fear of contagion and heightened uncertainty leading to reduced spending and consumption.

The study also revealed that SMEs in SW Nigeria was enveloped with poor liquidity because their business was having current asset in excess of current liability leading to shortage of fund. Most SMEs then became insolvent and failed because they could not access financial assistance from the financial institution during the pandemic lockdown.

Therefore, in order to upgrade and revitalize the SMEs and consumer needs respectively, it is recommended that immediate action should be taken to manage working capital risk by creating a team to facilitate open and consistent information between SMEs stakeholders and consumers and establishing a team to focus on credit collection and supply chain, create models for online sales and delivery, implement government financial sort-term loans, quasi-equity especially as recently released by the IFC – The IFC guidelines already issued by the Central Bank of Nigeria (CBN) to access the ₦50million COVID-19 credit facility as at July 21, 2020 should be strictly followed. The distribution of this facility should be anchored by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) – the agency that has the mandate to stimulate, monitor and coordinate the development of SMEs sub-sector in Nigeria.

Technical assistance in business resilience planning, customer loyalty redemption, product reformation, workforce safety and insurance as well as quality control and assurance shall be needed even after the COVID-19 pandemic easing-out.

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