Enhancement of Small-Scale Businesses in Post-COVID era through Cooperatives in Nigeria

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Authors’ contributions

This work was carried out in collaboration between both authors. Both authors read and approved the final manuscript.

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ABSTRACT

Small-scale businesses are the mainstay of the Nigerian economy and the Covid-19 pandemic that is ravaging the world did not leave this sector untouched. As a result of the devastating effect of measures adopted in curbing the spread of the virus, many small businesses appear to be grappling to find their bearing. Hence, this paper examined the enhancement of small-scale businesses in the Post-Covid-19 era through cooperatives in Nigeria and seeks to establish that cooperatives remain the only essentialist and mutual option for small-scale businesses to remain relevant in a turbulent environment. The ex-post factor study revealed that many small businesses in Nigeria were badly hit by the pandemic and emerging from the aftermath of the virus has not been easy. The paper also indicated that institutional formations like cooperative societies can only help to salvage the plight of small business owners and equally has the capacity to revamp the sector. The paper concluded that the support small businesses might need to revive their business lie within cooperatives and only active involvement can enable proof. The paper, therefore, recommended among others that small business owners should endeavour to join or form cooperative societies and be active in the patronage of cooperatives services. This is because cooperative societies have been proven to have the capacity to empower and revive dying businesses. The government should be made to understand the capacity of cooperatives in economic development and adequately partner with them in incorporating small businesses into cooperative societies.

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1. INTRODUCTION

Nigeria had in the recent past been challenged by myriads of issues such as security threats, poor economic downturn, capital flight and lots more. While efforts were being made by stakeholders to bring lasting solutions to the economic and other crisis bedevilling the nation, a new but challenging twist of the Covid-19 pandemic surfaced. This has compounded Nigeria’s economic crisis and has adverse effects on the already fragile economy [1,2]. It posits that the pandemic has significantly disrupted people’s ability to produce, process, and distribute basic or essential needs [3].

World Bank [4] reports that Covid-19 presents a serious threat to human health and disrupts global developmental or economic plans of all nations through its spillovers. In order to contain the spread and associated consequences emanating from the pandemic, countries (including Nigeria) adopted a lockdown strategy, self-isolation and physical distancing approach. The unanticipated restrictions in physical, social and economic activities interrupted the ability to earn a living and affected economic sectors at various levels, thereby, threatening the livelihood sources of many people (Ibukun & Adebayo, 2021).

The United Nations Industrial Development Organization [UNIDO] (2021) posits that the Covid-19 pandemic has had a severe impact on small and medium-sized enterprises (SMEs) and the informal sector in the least developed countries. The report argues that the informal sector is being hit hard by the first and second wave of the pandemic, and that many small businesses are yet to recover from the impact. Arising from the pandemic, UNIDO’s Index of Industrial Production (IIP) showed a dramatic drop in the early part of 2020, followed by a sharp rise in early 2021 in some countries. Mozambique and Senegal saw little impact from the pandemic whereas in Bangladesh, Rwanda and Nigeria the effects on small businesses were much greater.

Nigeria’s economy was gradually recovering from the recession of 2016, before COVID-19 came. The Gross Domestic Product (GDP) growth rate improved slightly in 2019, reflecting rising services output [1]. However, Covid-19 highlighted the fragility and complexity of the nation’s socio-economic system. The pandemic crises further exacerbated the insecurity of livelihoods in Nigeria as a miasma factor. Thus, affecting disproportionally small businesses. Small businesses were made financially fragile, there were mass layoffs and closure, massive dislocation, temporarily closures due to reductions in demand; and active employment. It was reported that 94% of the fortune 1000 across the globe and businesses in Nigeria were impacted due to the Covid-19 disruptions [5-8]. This caused substantial damage to the country’s economy. The bizarre scale of containment measure across the nation, including lockdowns, movement restrictions and other non-pharmaceutical interventions pushed the country’s economy into the worst recession in four decades. Economic activities came to a standstill with investors ingurgitating the implications of disrupted supply chain, consumers confidence dropped and businesses contracted, leading to decline in growth. The real GDP contracted for two consecutive quarters (Q) by 6.1% and 3.6% in Q2 and Q3. Further, the services and industries sectors of the country experienced negative growth rates in Q2 of 2020 at -6.78% and -12.05% respectively. What is more, the agricultural sector also diminished by 0.14% against existing performance in the penultimate year [9].

Consequently, governments may make different choices when designing between the preservation of existing business and net new creation. However, Cooperative model intervention in rebuilding is a quick path to recovery [10]. However, the last twenty-six months have witnessed enormous human and corporate efforts towards finding strategies that would help many economies bounce back. Nigeria is not left out of this discourse and there are pointers to the formulation of institutional arrangements in form of cooperatives. This is because cooperative societies are perceived as having the capacity to revamp dwindling economic misfortunes and enhancing livelihood [11].

Cooperative businesses are private, community-owned firms that bring together customers and owners, buyers and sellers in a democratic governance system. Cooperative has proven to have the capability to address the broader economic issues of under or overproduction,
Cooperatives aid in the correction of market failures and the filling of gaps that other private enterprises overlook (Nembhard, 2014).

Cooperatives play an important role in the global economy and in 2016 alone and still counting, over 300 largest cooperatives and mutuals in the world had a total turnover of US$2,164 trillion, compared to US$2,018 trillion in 2015 (European Parliament, 2019). It was also established that there are about 3 million cooperatives worldwide, which together provide jobs for some 280 million persons or 10% of the world's employed population (European Parliament, 2019). This informs of the enormous benefits that can be accruing from cooperative societies. Cooperatives respond to public health epidemics such as AIDS (Switzerland, Vietnam), the relief and reconstruction efforts after natural disasters (Japan, Australia) and in post-conflict settings (Srilanka, Rwanda) and supply of food items on credit terms (Nigeria) and many more in printable records [12] (Authors Consult, 2022.).

Cooperative has been adjudged a veritable tool for the actualization of desired goals. In spite of the enormous and recognised advantage, available evidence has shown that the cooperative participation level in Nigeria is still low and this has had adverse effects on many businesses and individuals [13,14]. Sometimes where they seem to show interest, they end up not being active or committed to the cooperative's patronage [15]. The non-participation in cooperative activities may not only affect the operation of small businesses but could threaten their contribution to the nation's gross domestic product (GDP). Most studies on cooperatives focused on members small scale business development, membership development and other non related studies on enhancement of SME in post Covid-19 through cooperative, thus leaving a considerable knowledge gap.

It is against this background that this paper examines the enhancement of small-scale businesses in the post-Covid era through cooperatives in Nigeria. Specifically, the paper seeks to establish and bring to fore the essentialist benefits of cooperative institutions as a mutual option to small businesses enhancement and provide relevant information for informed policies to economic development [16-18].

2. CONCEPTUAL CLARIFICATIONS

2.1 Small-Scale Businesses

Small-scale businesses or small-scale enterprises (SSE’s) are used interchangeably with small and medium enterprises (SME’s) in this paper. Globally, there is no single criterion for determining whether a business is small or medium-sized. However, evidence from the literature indicates that when defining small scale businesses, quantifiable measures such as the number of people employed by the enterprises, investment outlay, annual turnover (sales), and asset value of the enterprises, or a combination of these measures, are commonly used [19,20]. Several attempts have as well been made in defining what these forms of businesses mean and they are mainly on the organization or country of operation. The European Union’s member states have long had their definitions of what constitutes a small business. In Germany, for example, the traditional definition limits small and medium-sized businesses to two hundred and fifty (250) employees, whereas in Belgium, the limit is one hundred (100). The EU recently standardized the notion by classifying businesses with fewer than ten (10) people as micro,’ those with fewer than fifty (50), and those with fewer than two hundred and fifty (250) employees as ‘medium.’ In the United States, any business with fewer than one hundred (100) people is considered ‘small,’ while those with fewer than five hundred (500) employees are considered ‘medium scale’ [21]. From the foregoing, it can be deduced that small scale enterprises are businesses with the capacity of employing less than 500 employees at a time. In Nigeria however, the Central Bank of Nigeria [CBN] [1] described SMEs as enterprises with asset base (excluding land) of between 5 million and 500 million and labour force of between 11 and 300.

2.2 Post Covid-19

Covid-19 is an infectious disease that was unknown before the 2019 outbreak in the Hubai province of Wuhan, China (World Health Organization - WHO, 2019). The alarming levels of inaction towards the virus made the World Health Organization to declare Covid-19 a global pandemic [22]. A pandemic is a simultaneous global transmission of diseases or viruses that cut across boundaries and continents [23].
Nigeria was one of the few African countries to register the first Covid-19 cases, and hence one of the countries that suffered severe economic difficulties as a result of the pandemic. The country's first Covid-19 case was reported on February 27th, 2020, and by late June 2020, the total number of confirmed cases had surpassed 30,000 [24]. Physical separation and mobility limitations were implemented by the Federal and State governments as part of the containment measures [25]. This led to the closure of all schools, land and air borders to all travellers, a ban on public and social gatherings, as well as suspension of passenger rail services within the country [26].

The extreme control measures left many Nigerians: especially artisans, farmers, businesses and other economic activities frustrated. Human Rights Watch [HRW] (2021) posits that the Covid-19 crisis has had a devastating economic impact in Nigeria, and the World Bank [4] predicts that the pandemic will push additional 10.9 million Nigerians into poverty by Year 2022. These alarming statistics informs of the danger confronting the nation, especially, as precipitated by the pandemic. Many economic activities were dealt with. This cut across farming, SME’s, artisans, mining, service, industries and many other sectors. Emerging from the aftermath of the lockdown and other policies, many businesses have not bounced back [9].

2.3 Cooperative

Cooperatives are multi-faceted phenomenon [27]. A cooperative society is commonly described as a business voluntarily organized, operating at cost, which is owned, capitalized and controlled by member patrons as users, sharing risks and benefits proportional to their participation [28]. Cooperatives as an autonomous associations of persons achieve their economic, social and cultural objectives through a jointly-owned and democratically controlled enterprises and there exist three concepts that differentiate cooperatives from other forms of business [29,30] which are ownership and control of the organization (member patrons), return on investment as shared on equal basis, and returns on the owners equity invested capital is limited [27,28]. The cardinal function of a cooperative society is the dual goals of social and economic support it provides to members [31].

Cooperative has flexible peculiarities in which it could be organized in many instances (health, professional, consumer, consumer shops, producers, insurance, banking, farmers) and many more. Unlike other traditional company divisions, the cooperative business operation is not a free-for-all. This is because it places a greater emphasis on people than on capital; thus, a cooperative is a people-oriented venture rather than a profit-oriented one [32]. Members benefit from each other's efforts. Instead of maximizing profit, which may be the goal of other types of business organizations, cooperative enterprises satisfy the needs and interests of their members.

The legal framework for cooperatives in Nigeria consist of the Nigeria cooperative societies Act CAP. NO.98, 2004 which is the supreme legislation on cooperative societies. There are other legal sources for the rules and regulations for the formation, operation, procedures, organization, work of cooperatives that protect and preserve cooperative character which consists of the laws and rules made under it such as state cooperative law and regulations and bye-laws of individual cooperative societies [33].

2.4 Small-Scale Businesses and Covid-19 Disruption

The small-scale business sector is the mainstay of the Nigerian economy and has been recognised as an integral component of economic development and a crucial element in the effort to lift many out of poverty [20]. They are businesses with employees’ capacity of less than 500 and whose impact sustains a nation’s economy. They are the main instrument of growth and employment in most developing economies, especially Nigeria [1].

Small and Medium Scale Enterprises employ over 60% of India’s workforce after agriculture and accounts for about 39% of the manufacturing output and 33% of the total export of the country [34,21]. The sector represent about 90% of industrial production and account for over 81% of national industrial employment if the threshold is set at 10-50 employees [22,35].

By virtue of the prominent role they play in the sustenance of Nigeria economy, the operational enhancement of such enterprises is expected to be given every necessary support bearing in mind their great benefits. While they were yet to receive the needed support and attention that
could help to revamp their fortunes, the pandemic surfaced to challenge their financial and corporate existence [36].

Segal and Gerstel [37] forecast that economic growth will slow starting in March 2020, with no specific end date, and that some nations would enter a recession. The Covid-19 epidemic will most likely have a devastating impact on small and medium-sized businesses. However, the mechanisms and amount of the impact were unclear, and the consequences of economic hardship, rising food and non-food prices, inflation, and other factors support the projections [38].

As nations were grappling on how to contain the ravaging dreaded Covid-19 pandemic, measures such as physical distancing and closure of public places were adopted. These measures, while essential, had negative ripple effects across all sectors and segments of the country (Obiakor, 2020). Micro and small businesses experienced a larger decline in business activity compared to medium and large firms [39]. This could be because a lot of micro and small enterprises in the country temporarily ceased operations due to their inability to conduct preventive health measures such as establishing physical separation, providing sanitizers, water, and soap for consumers [22]. With the mixture of falling oil prices in the world market, there has been an economic deceleration in Nigeria which do not only led to a fall in the demand for oil products but also economic activities contracted and consumers confidence declined [40]. The most hit are the small business and many are yet to recover from the pandemic shock.

2.5 Cooperatives and Small-Scale Business Enhancement in Post-Covid-19 Era

In many places, the income disparity is thought to have a negative impact on the population's productivity and survival. This is the case in many Nigerian communities, particularly in rural areas, where low levels of output, insufficient infrastructure, a lack of appropriate public amenities, fragile health systems, and unsatisfactory livelihoods and living standards are the norms [3]. Rural areas in most developing countries have few income-generating activities, which impacts on the poor’s overall well-being. Encouragement of institutional arrangements in the form of cooperatives is one of the suggested routes to overcome these issues. These cooperative institutions are thought to be suitable for achieving their members' socioeconomic objectives [41].

Existing studies suggest that cooperatives can help reduce market failures and improve access to financial resources without stringent interest rates or harsh conditions on small businesses [11,42,43]. Even in post-Covid-19 era, cooperatives can sustain economic activities and boost members’ wellbeing. This is in view of the fact that many Nigerians were badly hit by the pandemic and their sources of livelihood were affected. In other climes such as Italy, the United Kingdom and Malaysia, cooperatives and other mutual and social enterprises were realigning the funds devoted to supporting SSE organization during and post Covid-19 crisis to go beyond the project approach and keep a systematic approach and creating fundraising campaign for COVID relief effort and support SSE organizations [12].

This has made it imperative for stakeholders to begin to recognise the institutional arrangement of cooperatives which could provide a more satisfactory result which is the essence of man’s ability to recover, hold and gain grounds in various fields of endeavour (Akanji, 2022). Cooperatives in Nigeria, like cooperatives in other countries, have traditionally played an important role in promoting and developing economic activities. Indeed, cooperative functioning activities revolve around the promotion and support of member-owned and jointly-owned companies. Cooperatives are first and foremost enterprises and business promotion agents with prospective skills that may be used to expand sources of income [14].

Nigeria’s economy is dominated by small and medium scale enterprises in agriculture, manufacturing, commerce and industry, services, and many others and have contributed greatly to employment generation, GDP and development of the nation (Amadi, 2008). Interestingly, the SMEs are owned by individuals who belong to cooperatives where financially resources, membership support, product market and input supply, innovation, training and mentorship are obtained; hence, enhancing economic activities [16].

Cooperatives had over the years tried in giving support to these businesses, and often provide owner-members with others services. Uzoehie (2011) notes that cooperatives are a source of
funding, security and succour to many people and businesses, especially in distress times and are a valid resort for all manner of needs and expectations. The non-involvement of small business owners in cooperatives is more or less a decision for self-destruction of the venture. This is because in times of misfortune or unforeseen challenges like the one presented by the COVID-19 pandemic, the government failure to properly fulfil its duties is more of a norm, but the cooperatives presents a common front to remedy the challenges [44-46].

2.6 Theoretical Framework

The study is anchored on Dynamic Capabilities Theory which was propounded by Teece, Pisano and Shuen (1997). The assumption of the theory relates that:

1. Organisational culture, unique management process and assessment of business technology are indicators of business dynamic capabilities.
2. Businesses will have the potential to transform resources in order to meet the sustainability objectives of the fast-changing business environment, especially in times of uncertainty.

The theory acknowledges mobilization of resources to address needs and opportunities to capture the value and build capabilities for businesses whose participation in the cooperative model offers resilience opportunities in times of distress. Dynamic capabilities are built by cooperatives during the period of crisis hence its principles, the values of cooperation solidarity, and mutualism experiences increase in popularity.

3. CONCLUSION

Small scale businesses constitute a vital engine to the economic growth and development of the Nigerian economy. However, the Covid-19 pandemic came with great shock that challenged the existence of many of them. This brought about staff retrenchment, loss of investments, and makes the continuity of many businesses appear difficult. This, therefore, brings the issue of active cooperative participation to the front burner. From experts view, the survival of any small business venture or their continued sustenance of the economy is predicated on the need for cooperative participation. This is in view of the fact that since emerging from the pandemic into the new normal of living with the virus, many small business owners have not been on their fit. This paper concludes that the support for small businesses’ revival lie within cooperatives and only active involvement can enable this process.

4. RECOMMENDATIONS

In view of the foregoing, this paper recommends that;

1. Small business owners should endeavour to join cooperative societies and be active in the patronage of cooperative services. This is because cooperative societies have been proven to have the capacity to empower and revive dying businesses.
2. The government should be made to understand the capacity of cooperatives in economic development and adequately partner with them in incorporating small businesses into cooperative societies.
3. Living in the Post-covid era is the new normal and individuals should be made to understand that many things may not return to normal as usual and instead of endlessly anticipating the old ways of doing businesses, there should be innovative ideas on how to harness business opportunities posed by the pandemic in the new order.
4. The nation’s cooperative apex and the government should improve policy coherence to foster development and growth of cooperatives so they can increase their impact as economic actors.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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