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Economic Recession and Performance of Small and Medium-Sized Enterprises (SMEs) in Nigeria: A Literature Review

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Abstract

Small and Medium-sized Enterprises (SMEs) are widely acknowledged as pivotal to economic growth, job creation, and poverty alleviation in developing economies. However, their performance is highly susceptible to macroeconomic shocks, particularly during periods of economic recession. This paper examined the effect of economic recession on the performance of SMEs in Nigeria, drawing insights from global, African, and Nigerian experiences. The study adopted a qualitative, exploratory approach anchored in relevant theoretical framework based on the Resource-Based View (RBV) and Contingency Theory, and synthesized empirical evidence from both developed and developing economies. This study conceptually linked three critical indicators of economic recession; exchange rate volatility, inflation, and interest rate fluctuations to SMEs performance, particularly in areas of profitability, business continuity, and sales turnover. Findings from reviewed literature indicated that while SMEs globally are affected by recession, those in developing economies like Nigeria are more vulnerable due to weak institutional support, limited access to finance, and infrastructural deficits. Furthermore, SME-focused stimulus programs and targeted fiscal interventions employed in developed countries offer valuable insights for developing successful recovery plans, but seem to be lacking in Nigeria. The paper concluded that enhancing policy responsiveness, promoting financial inclusion, and building resilience through innovation and digital adaptation are crucial for improving SMEs operational outcomes during economic downturns. The study recommended the implementation of tailored support programs that reflect Nigeria's unique economic realities to cushion the impact of recessions on Nigeria's SME sector.

Keywords: Economic Recession, SMEs, Performance, Nigeria

Introduction

Economic recessions are recurring events that have continuously influenced global, regional, and national economies. Generally marked by decreases in gross domestic product (GDP), rising unemployment rates, inflationary pressures, and widespread financial turmoil; recessions frequently have a greater impact on vulnerable sectors of the economy, particularly small and medium-sized enterprises (SMEs) (Kose, Nagle, Ohnsorge, & Sugawara, 2020). These economic shocks can arise from diverse causes, including collapses in financial markets, health emergencies like the COVID-19 pandemic, and fluctuations in commodity prices, especially in resource-dependent economies (Kose et al., 2020; Verick & Islam, 2010; World Bank, 2022).

Globally, small and medium-sized enterprises (SMEs) are vital contributors to employment, innovation, and economic stability. However, these enterprises are also among the most vulnerable to economic recessions due to their limited access to financial reserves, reduced market power, and often fragile supply chains. The 2008-2009 Global Financial Crisis (GFC) and the COVID-19 pandemic exposed critical vulnerabilities in SME ecosystems globally, highlighting the importance of strong policy responses and focused support measure. During such downturns, SMEs typically face reduced demand, restricted credit access, rising operational costs, and supply chain disruptions. In the GFC, SMEs in Organisation for Economic Cooperation and Development (OECD) countries suffered major declines in turnover and employment, with many shutting down, due to liquidity constraints and debt burdens (OECD, 2020). Similarly, over 50%

of SMEs globally were at risk of permanent shutdown early in the COVID-19 crisis (World Bank, 2020).

The pace of recovery has varied across countries, shaped by policy responses and structural conditions. In Europe, nations like Germany, France, and the UK implemented targeted recovery strategies, including tax relief, employment subsidies, and credit support (Kolluru, Hyams-Ssekasi, & Rao, 2021). Germany recovered quickly with programs like "short-time work," while Italy and Spain experienced slower recoveries due to weaker policy responses. These international experiences highlight the importance of context-sensitive frameworks that reflect country-specific economic and institutional realities.

In Africa, the economic and institutional realities present a different picture. African economies often experience compounded challenges during global downturns due to their dependence on commodity exports, underdeveloped infrastructure, shallow financial systems, and high levels of informality. In South Africa, for example, the impact of the 2008 GFC and the COVID-19 pandemic led to major SMEs layoffs, credit constraints, and rising insolvency. Although government stimulus packages were deployed, including a COVID-19 loan guarantee scheme for SMEs, but uptake was low due to stringent qualification criteria and lack of financial documentation among informal businesses (OECD, 2022). Similarly, in Kenya, SMEs faced reduced consumer demand, supply chain disruptions, and limited liquidity during recessionary periods. The government's response, through the "Post-COVID-19 Economic Stimulus Programme," included payroll support and e-commerce training initiatives. However, weak digital infrastructure and bureaucratic delays limited the program's effectiveness (KNBS, 2021). In Ghana, recessionary effects were felt through macroeconomic instability, inflation surges, and exchange rate fluctuations, which constrained SMEs' operating environments. Government interventions focused on concessional loan schemes like the Coronavirus Alleviation Programme Business Support Scheme (CAP-BuSS), yet many micro-enterprises in the informal sector were excluded due to registration and tax compliance issues (AfDB, 2021). In Ethiopia, the pandemic-triggered slowdown magnified existing economic vulnerabilities. SMEs in retail, hospitality, and transport were hardest hit. Although policy measures included tax waivers and debt repayment holidays; their reach was limited in rural and informal settings (World Bank, 2022). These examples show that across African economies, while interventions were launched, they were often reactive, underfunded, or not effectively targeted at the most vulnerable SME segments.

In Nigeria, economic recessions are not new. The country has experienced at least three major recessions in less than two decades: the 2008–2009 global recession, the 2016 oil price crash, and the COVID-19-induced contraction in 2020 (World Bank, 2020). In each case, the adverse effects have been acutely felt by the SME sector, which forms the backbone of Nigeria's non-oil economy. SMEs in Nigeria account for over 90% of all businesses and significantly contribute to national output and employment (SMEDAN & NBS, 2021). However, these enterprises are often characterized by low capital bases, informal operations, and limited access to finance, making them highly susceptible to economic shocks (Adebisi & Gbegi, 2021).

Given their centrality to Nigeria's economic development, understanding how SMEs perform during recessions and identifying strategies that can help them survive and thrive is crucial. Asogwa and Onukwuli (2020) observed that high inflation, volatile exchange rates, and rising interest costs significantly weaken the performance of small-scale enterprises in such economies. Similarly, studies in Nigeria reveal that SMEs frequently face obstacles such as inadequate access to finance, poor infrastructure, policy inconsistency, and exposure to exchange rate volatility during recession periods (Olatunji, Abubakar, Tejideen, & Ishola, 2019; Tafamel, 2018).

Statement of the Problem

Small and medium-sized enterprises (SMEs) are widely recognized as the backbone of Nigeria's economy, contributing significantly to employment, innovation, and poverty reduction. However, their performance and sustainability are increasingly threatened by recurring economic recessions driven by rising inflation, volatile interest and exchange rates, and weakening consumer demand. Despite the growing empirical interest in how these macroeconomic shocks affect business performance, most existing studies in Nigeria tend to examine economic variables in isolation, lack robust theoretical foundations, or fail to account for the dynamic interaction between external shocks and firm-level responses (Anochie, Okereafor, & Bashir, 2023). While extensive research has been conducted on recession responses in advanced economies, particularly in the European Union (EU), there is a paucity of literature focused specifically on how SMEs in Nigeria respond to recessions. For example, Kolluru et al., (2021) analyzed the recovery strategies employed by five top EU economies (Germany, the United Kingdom, France, Italy, and Spain) following the 2008-2009 recession, and developed a recession recovery model comprising four dimensions: tax, employment, economic, and SME-specific measures. However, this model is based on structurally different economic systems and does not consider the institutional fragilities, informality, and fiscal constraints typical of developing countries like Nigeria.

Moreover, existing research like Aondona, et al. (2021) revealed a fragmented understanding of how Nigerian SMEs navigate recessionary conditions. While some studies identify marketing adaptations, cost-cutting, and innovation as survival strategies (Busari & Ogunsanwo, 2017), others point to structural constraints such as legal uncertainty and inconsistent government policies as major inhibitors of recovery (Shido-Ikwu, 2017; Benabed & Bulgaru, 2023). Despite these contributions, there remains a critical gap in synthesizing these diverse insights into a unified, context-specific recovery framework that integrates global lessons with Nigeria's unique challenges. Hence, this study represents attempt to address this gap.

Objective of the Study

The objective of this study was to review past related studies on economic recession and performance of small and medium-sized enterprises in Nigeria, and suggest practical ways to strengthen their ability to cope during recessionary periods.

Significance of the Study

The study provides insights into how inflation, interest rate fluctuations, and exchange rate volatility impact business operations, profitability, and survival. By understanding these dynamics, SME operators can make more informed decisions, adopt appropriate cost-control strategies, diversify revenue streams, and build internal resilience against future economic shocks.

Agencies such as the Central Bank of Nigeria (CBN), the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), and other economic planners will find this study useful in designing targeted policies that protect SMEs during recessions. The study identifies structural and financial challenges SMEs face, helping government bodies formulate interventions like credit support, tax relief, and regulatory reforms that are better aligned with SMEs' realities.

Financial Institutions and Lenders like banks, microfinance institutions, and development finance organizations can use the findings to better assess risk and tailor loan products for SMEs during periods of economic downturn. Understanding how macroeconomic variables affect SME repayment capacity helps in developing flexible lending models that support business continuity.

Literature Review
Economic Recession

Economic recession is widely understood as a sustained period of negative economic growth, typically reflected in falling output, rising unemployment, declining income, and reduced consumer and business spending. While definitions vary across institutions and authors, a common thread among them is the recognition of recession as a broad-based, significant decline in economic activity. According to the International Monetary Fund (IMF, 2009), a recession is defined as a significant decline in economic activity lasting more than a few months and is visible in indicators such as GDP, real income, employment, industrial production, and wholesale-retail sales. Similarly, the National Bureau of Economic Research (NBER, 2020) characterizes it as a period of widespread economic decline that persists for more than a few months, typically captured through real GDP and other indicators.

Kose, Nagle, Ohnsorge, & Sugawara (2020) extend this view globally, identifying recessions as episodes of broad-based weakness in macroeconomic indicators like per capita income, industrial production, capital flows, and trade. From a more microeconomic and behavioural standpoint, Alshubiri, Jamil, and Elheddad (2019) define an economic recession as a prolonged phase of negative growth that diminishes investor confidence, weakens consumer spending, and reduces production output. Despite definitional differences, the constructs through which recessions are measured and understood remain consistent. The concept of economic recession encompasses more than just GDP decline, it includes a network of interconnected constructs such as inflation, interest rates, and exchange rate volatility. These indicators not only define the occurrence and intensity of a recession but also shape the operating environment for SMEs. A proper understanding of these constructs is vital for assessing recessionary impacts and formulating effective policy responses, especially in vulnerable economies like Nigeria. Thus, examining these constructs provides a strong conceptual foundation for analyzing how recessions influence the performance of small and medium-sized enterprises.

Inflation

Inflation is a key indicator of economic recession and refers to the persistent rise in the general price level of goods and services. Although inflation may result from various factors, during recessions, it often reflects supply-side disruptions, currency devaluation, or policy shocks. For SMEs, inflation increases operational costs, reduces consumer purchasing power, and erodes profit margins (Asogwa & Onukwuli, 2020). In Nigeria, inflation during recessionary periods often above double-digit levels has adversely affected SMEs' capacity to sustain input costs and maintain price competitiveness (Tafamel, 2018).

Interest Rate

Interest rates serve as a key monetary policy tool and are instrumental in either stimulating or cooling the economy. During recessions, central banks may raise rates to combat inflation or lower them to encourage borrowing and investment. However, high interest rates can restrict SMEs' access to credit, stifle investment, and hamper expansion (Musa, Abdul, & Umar, 2023). In Nigeria, SMEs frequently cite high borrowing costs and stringent collateral requirements as major constraints to survival and growth during recessions (Olatunji, Abubakar, Tejideen, & Ishola, 2019).

Exchange Rate Volatility

Exchange rate volatility is another important construct, particularly in economies like Nigeria that rely heavily on imports and foreign exchange earnings. Depreciation of the local currency leads to increased input costs, making it difficult for SMEs to maintain stable pricing or import critical raw materials. Furthermore, currency instability affects planning, forecasting, and trade competitiveness (Okeke-Ezeanyanwu, 2017). For SMEs in trade, manufacturing, and services, such volatility is particularly damaging during recessionary episodes.

Performance

Performance is a fundamental concept in management and organizational research, broadly referring to the ability of an entity whether individual, group, or organization to achieve predefined goals and objectives effectively and efficiently (Aguinis, 2019). It encompasses outcomes that are measurable, observable, and reflective of how well resources are deployed toward achieving strategic or operational targets. In the corporate context, performance often includes both financial indicators such as revenue, profitability, and return on assets, as well as non-financial metrics like customer satisfaction, innovation, and sustainability practices (Bititci et al., 2023). The increasing complexity of business environments marked by globalization, technological disruption, and economic uncertainty has led to a broader conceptualization of performance that integrates agility, adaptability, and resilience, especially in times of crisis (Neely, 2021).

In recent studies, performance is also discussed as a dynamic capability, emphasizing an organization's ability to respond to environmental changes and reposition itself competitively (Teece, 2018). Thus, performance is not static; it evolves with internal competencies and external pressures. These evolving dimensions are particularly relevant in the context of turbulent macroeconomic events, such as global recessions or pandemics, where performance is judged not only by growth, but by an organization's survival, recovery, and resilience (López-Fernández et al., 2022).

When applied to small and medium-sized enterprises (SMEs), performance takes on additional significance due to the structural vulnerabilities and resource limitations of such firms. Unlike large corporations with diversified portfolios and buffers, SMEs often rely on limited capital, fewer employees, and local market presence. As a result, their performance metrics must account for their scale, informality, and sectoral diversity (Adebisi & Gbegi, 2021). SME performance is usually assessed through indicators such as profitability, survival rate, business continuity, productivity, and market expansion (Tafamel, 2018; Musa, Abdul, & Umar, 2023). However, recent studies emphasize that in recessionary or uncertain contexts, resilience and adaptability become core components of performance (Abiodun & Adekoya, 2023). Performance in such settings may also include the ability to innovate, maintain employment, shift operational models, and secure alternative funding sources.

Moreover, external macroeconomic factors such as interest rate fluctuations, inflation, and exchange rate volatility can significantly impact the performance of SMEs by influencing cost structures, access to finance, and customer demand (Asogwa & Onukwuli, 2020). Therefore, any meaningful assessment of SME performance during periods of economic downturn must consider these contextual variables alongside internal firm dynamics. Therefore, assessing performance through indicators such as profitability, business survival, and sales volume/turnover provides a comprehensive view of how SMEs respond to and recover from economic disruptions. These indicators are critical for guiding policy, institutional support, and strategic planning aimed at enhancing SME resilience in challenging economic environments.

Profitability

Profitability is a core financial indicator that reflects a firm's ability to generate surplus income after deducting all operational expenses. It serves as a direct measure of business viability and resource efficiency. Profitability is often used to evaluate the economic health of SMEs, particularly in recessionary contexts where cost pressures and declining demand reduce margins (Olatunji et al., 2019). During economic recessions, profitability is usually constrained due to reduced sales, rising costs, and inflationary pressures (Tafamel, 2018). Studies have shown that declining profitability is often the first sign of business distress among SMEs, especially in highly volatile economies like Nigeria (Okeke-Ezeanyanwu, 2017).

Business Survival

Survival refers to the ability of an SME to continue operations over time, especially in the face of adverse conditions such as economic recessions, financial crises, or regulatory changes. Business survival is particularly critical for micro and informal SMEs, which often lack buffers such as credit access or insurance. In developing economies, SME performance is often evaluated by their ability to survive over a 3–5-year period, especially during recessions when business closures spike (Ogundipe, 2021). High rates of SME failure in Nigeria during economic downturns underscore the importance of survival as a performance metric (Busari & Ogunsanwo, 2017).

Sales Volume/Turnover (Revenue Generation)

Sales turnover, or revenue generation, is a widely used performance indicator that measures the total value of goods or services sold within a given period. It reflects demand for the SME's offerings and serves as a proxy for market performance and competitiveness. Sales turnover is a dynamic indicator of SME performance that reflects consumer behaviour and market trends, especially under macroeconomic constraints (Asogwa & Onukwuli, 2020). Recessionary conditions often lead to a drop in consumer demand, thereby reducing turnover for

SMEs (Musa et al., 2023). Declining sales not only affect profitability but also limit reinvestment capacity and staff retention.

Small and Medium-Sized Enterprises (SMEs)

Small and medium-sized enterprises (SMEs) represent a vital component of national economies, particularly in developing countries where they serve as key drivers of employment, innovation, and inclusive growth. Though there is no universally agreed definition of SMEs, they are commonly categorized based on criteria such as number of employees, annual turnover, and asset base, which vary across countries and institutions. For instance, the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) defines a small enterprise as one with between 10 and 49 employees and a medium-sized enterprise as one employing between 50 and 199 people (SMEDAN & NBS, 2021).

Table 1: Classification of MSMEs in Nigeria

S/N	Category	Employment	Turnover (N million)
1	Micro Enterprises	3-9	3-25 million
2	Small Enterprises	10-49	25+ but less than 100
3	Medium	50-199	100+ but less than 1000

Source: Omonona, et al. (2023)

Globally, SMEs account for over 90% of businesses and contribute significantly to GDP and employment. In Sub-Saharan Africa, they generate about 80% of jobs and play a central role in local value chains (OECD, 2022). In Nigeria, SMEs are estimated to contribute about 48% to the national GDP and comprise over 90% of businesses in the formal and informal sectors (SMEDAN & NBS, 2021). Their widespread presence across rural and urban communities makes them instrumental in driving grassroots economic development and poverty reduction (Akinyemi, 2022). The significance of SMEs is not solely economic; they also foster resilience and adaptability in times of crisis. As shown during the COVID-19 pandemic and subsequent economic downturns, SMEs demonstrated a capacity to innovate and respond to local needs despite constrained resources (Abiodun & Adekoya, 2023). However, their small size and limited capital often leave them vulnerable to systemic shocks such as economic recessions, inflation, and currency volatility (Musa, Abdul, & Umar, 2023).

Additionally, SMEs in developing countries face persistent challenges including limited access to finance, weak infrastructure, regulatory burdens, and inadequate managerial skills (Adebisi & Gbegi, 2021). These structural constraints hinder their ability to scale, diversify, or integrate into global markets. Therefore, understanding the dynamics of SME performance particularly in recessionary environments requires a contextual appreciation of their structural limitations and strategic responses. Recent discourse also emphasizes the heterogeneity of SMEs. While many are micro or informal enterprises with survivalist motives, others are growth-oriented with high potential for innovation and export competitiveness. As such, research on SMEs must account for differences in size, sector, ownership structure, and market orientation (OECD, 2022). In doing so, policies can be better tailored to meet the specific needs of different SME categories.

Economic Recession and Performance of SMEs in Nigeria

The relationship between economic recession and the performance of small and medium-sized enterprises (SMEs) in Nigeria is one characterized by significant vulnerability and disruption. Economic recessions typically lead to a decline in aggregate demand, increased inflation, currency depreciation, and tighter credit conditions; all of which negatively affect SME operations. In Nigeria, these downturns have historically exposed the structural fragilities of SMEs, including their limited financial buffers, dependence on volatile supply chains, and restricted access to formal credit (Adebisi & Gbegi, 2021; Musa, Abdul, & Umar, 2023).

One of the immediate consequences of a recession is a drop in consumer spending, which directly reduces sales revenue for SMEs. During Nigeria's 2016 economic downturn, a large proportion of SMEs reported significant revenue losses, with many unable to cover operating expenses or maintain profitability (SMEDAN & NBS, 2021). Tafamel (2018) highlighted that profitability margins among SMEs shrank dramatically due to increased input costs caused by inflation and a weakened naira. The impact was especially severe for microenterprises and informal businesses that operate with minimal financial reserves. In addition to declining revenues, recessionary conditions often result in credit tightening. During periods of economic contraction, financial institutions typically become more risk-averse, leading to reduced lending to SMEs. The Central Bank of Nigeria's monetary tightening policies, intended to curb inflation, have often resulted in higher interest rates, further discouraging borrowing. As reported by Musa et al. (2023), a majority of SMEs in Abuja cited access to finance as a primary constraint during recession periods, with many unable to meet collateral or documentation requirements imposed by banks. This credit crunch hinders investment, disrupts cash flow, and limits the ability of SMEs to scale operations or weather the economic storm.

Exchange rate volatility is another channel through which recessions affect SMEs in Nigeria. Given the country's heavy reliance on imported raw materials, currency depreciation significantly raises the cost of production. Okeke-Ezeanyanwu (2017) documented that SMEs operating in trade and manufacturing sectors experienced input cost increases of up to 30% following the devaluation of the naira. These cost pressures are rarely transferable to consumers in the form of higher prices due to weakened demand, thereby compressing profit margins and threatening business continuity.

The combined effects of reduced profitability, restricted credit, and elevated input costs have led to increased rates of business closure and reduced survival among Nigerian SMEs during recession periods. According to Busari and Ogunsanwo (2017), as many as one-third of small businesses in selected states shut down during the 2016 recession. A more recent study by Ogundipe (2021) showed that nearly 22% of SMEs failed within six months of the onset of the COVID-19 recession in 2020, primarily due to financial constraints and market shocks.

Despite these challenges, some SMEs have demonstrated resilience by adopting survival strategies such as cost minimization, product diversification, local sourcing of inputs, and digital transformation. Akinyemi (2022) observed that SMEs leveraging informal financial networks and mobile commerce platforms were better positioned to adapt during crises. Similarly, Abiodun and Adekoya (2023) found that manufacturing SMEs that embraced digital tools for inventory and customer management were able to partially mitigate recession impacts. However, the ability to adapt remains uneven, as many SMEs lack the digital infrastructure, training, or institutional support required for such transitions.

In summary, economic recessions exert a strongly negative influence on the performance of SMEs in Nigeria. They compromise key performance indicators such as profitability, business continuity, and revenue generation, while exposing long-standing structural weaknesses in the SME ecosystem. Although some firms manage to adapt and survive, the vast majority remain vulnerable in the absence of targeted, sustained, and inclusive policy support.

Empirical Review

Ebinum & Ehiedu (2025), investigated the effect of inflationary trends on the growth of small and medium enterprises (SMEs) in Nigeria, with particular emphasis on the period spanning from 1990 to 2024. The study adopted an ex-post facto research design, utilizing annual secondary time series data obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin and National Bureau of Statistics (NBS) annual reports. The Autoregressive Distributed Lag (ARDL) bounds testing methodology was employed using E-Views 9.0 to assess both short-run dynamics and long-run equilibrium relationships. The results revealed that while inflation may influence the broader economic environment, it does not independently serve as a primary driver or inhibitor of SME performance in Nigeria. The study concludes that inflation-targeted policies alone may be insufficient to drive meaningful growth in the SME sector. It recommended that policymakers focus more on comprehensive and SME-specific strategies aimed at enhancing resilience, innovation, and productivity.

Burodo, Magaji, & Dakingari (2024), examined the effect of inflation on the performance of small and medium enterprises (SMEs) in Katsina State. The study used a descriptive survey research design. The population comprised 7,372 registered SMEs operating in Katsina State and a sample size of 379 was determined using Taro Yamane formula. The paper utilized multiple regression analysis to establish the relationship between the independent and the dependent variables. The results from the analysis indicated a negative relationship between the independent variables (uncertainty about future prices and exchange rate fluctuations) and the dependent variable (SMEs performance) denoting that as uncertainty about future prices and exchange rate fluctuations increase, SMEs growth decreases. The study therefore recommended that strategies should be implemented to reduce uncertainty about future prices by implementing regulatory measures that ensure price stability.

Musa, Abdul, & Umar (2023) conducted a quantitative survey-based study of 150 SMEs in Abuja, employing structured questionnaire and regression analysis to examine the influence of economic and legal factors. Their results showed that inflation and rising interest rates significantly reduced SMEs' access to credit and productivity levels, especially for small firms without collateral or formal credit histories.

Abiodun & Adekoya (2023) conducted a survey of 135 SMEs in Nigeria's manufacturing sector to assess the role of digital transformation during recession. Using a structured questionnaire and multiple regression analysis, they found that SMEs that adopted digital tools for inventory, sales, and customer management experienced less performance decline during the 2020 recession.

In Ghana, Rasheed, Ishaq, & Malik (2022) used regression and correlation analysis over 2000–2020 data to reveal a significant negative correlation between exchange rate volatility and economic growth, indirectly suggesting SME performance would be similarly affected.

In sub-Saharan Africa, Atiase, Agbanyo, Ganza, Sambian, & Ameh (2022), in their longitudinal study covering 20 countries used a deductive design and found that policy consistency, tax frameworks, training, R&D, and accounting systems predict SME financial resilience. From South Africa, Grey (2023) examined 200 SMEs via structured surveys and found that sudden interest rate hikes after global recessions led to capital shortages and increased defaults. In developed economies, a study of 250 UK SMEs used GARCH modeling to demonstrate that unexpected inflation spikes following recessions significantly reduce SME growth rates (Smith & Jones, 2022).

Akinyemi (2022) used a qualitative case study approach focusing on informal SMEs operating in Lagos slums. Through interviews and field observations, he discovered that informality and embedded social networks served as critical buffers against economic shocks. SMEs with access to communal lending or barter arrangements showed greater resilience than those dependent on formal financial systems.

Adebisi & Gbegi (2021) used a cross-sectional research design to survey 200 SMEs across three southwestern Nigerian states. Data were analyzed using descriptive and inferential statistics. They found a strong negative relationship between macroeconomic instability especially exchange rate fluctuations and SME survival. Their findings highlighted that poor access to foreign exchange, in combination with high inflation, eroded profitability and led to downsizing.

Ogundipe (2021) adopted a mixed-methods approach combining surveys and interviews with 120 SME operators across Lagos and Ogun States. His findings showed that those SMEs that quickly adopted digital platforms or diversified into recession-proof sectors were more likely to survive the economic downturn, confirming the importance of adaptability and innovation.

In a multi-state survey study, Asogwa and Onukwuli (2020) examined the effects of macroeconomic factors on SME performance using a sample of 250 respondents. Employing regression analysis, they concluded that inflation, poor infrastructure, and weak institutional support were major inhibitors to SME income and profitability during recessionary periods.

Olatunji, Abubakar, Tejideen, & Ishola (2019) used a survey research design to assess the operational dynamics of SMEs in Molete Market, Ibadan, during the 2016 recession. They administered 120 structured questionnaires and analyzed the results with SPSS. The study found that most SMEs experienced severe demand contraction, limited credit access, and increased operating expenses, all of which significantly impaired business performance.

In a descriptive study focused on Benin City, Tafamel (2018) surveyed 100 SMEs to understand the effect of the 2016 recession on business operations. Using descriptive statistics and trend analysis, the study concluded that inflation and operational cost increases significantly impaired profit margins, making it difficult for firms to reinvest or retain staff.

Similarly, Okeke-Ezeanyanwu (2017) carried out a case study of viable SMEs in Anambra State. The research utilized interviews and structured questionnaires with 80 SME owners and managers. The study reported that currency depreciation due to recession led to increased import costs, affecting SMEs reliant on foreign raw materials. As a result, many businesses either scaled down production or shut down completely.

Busari & Ogunsanwo (2017) employed a qualitative method using semi-structured interviews and document reviews to explore survival strategies among SMEs during the 2016 economic downturn. Their study revealed that the majority of SMEs lacked formal coping mechanisms and had limited access to government support. The few that survived did so by cutting costs, reducing staff, or relying on informal financial networks.

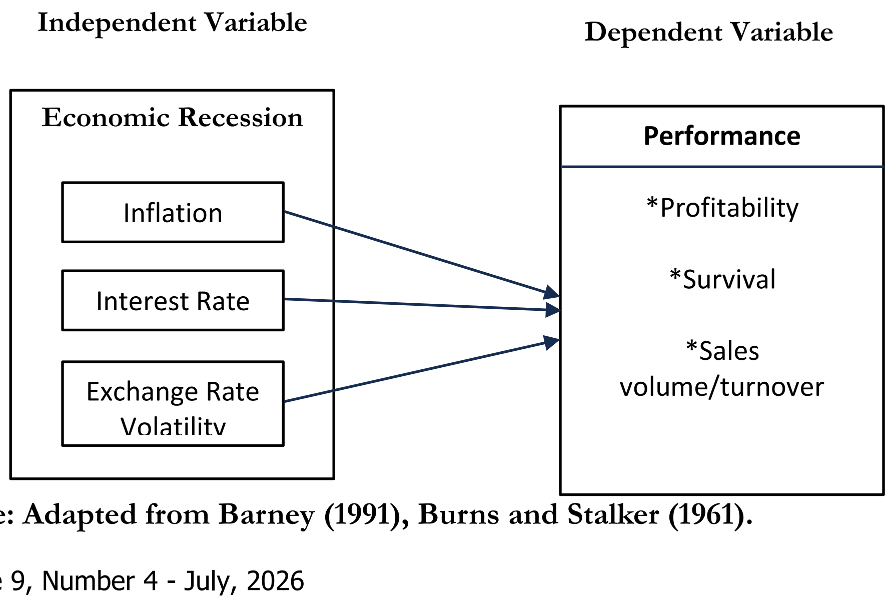
Altogether, these findings reinforce that macroeconomic instability harms SME performance not only in Nigeria but across varying economic environments. However, firm-specific attributes such as digital capabilities, strong internal systems, adaptability, and informal networks can moderate these impacts. The diverse research methodologies from case studies and qualitative interviews to econometric modeling and panel data analysis add robustness to these conclusions.

This international and regional empirical evidence supports the development of a conceptual model where performance of SMEs, measured by indicators such as profitability, business survival, and sales turnover, is affected by inflation, interest rates, and exchange rate volatility.

Conceptual Model of the Study

The conceptual framework shows macroeconomic variables (inflation, interest rate and exchange rate volatility), used here as proxies for the dependent variable (economic recession) as external environmental forces that exert pressure on SMEs during recessionary periods, directly impacting their performance outcomes.

Figure 1: Research Model (2025)



Source: Adapted from Barney (1991), Burns and Stalker (1961).

Theoretical Framework

The Resource-Based Theory

The Resource-Based View (RBV), popularized by Barney (1991), posits that firms gain and sustain competitive advantage through the strategic use of internal resources that are valuable, rare, inimitable, and non-substitutable. The theory builds on earlier contributions by Penrose (1959) & Wernerfelt (1984), who emphasized the role of internal firm capabilities in driving performance. In the context of SMEs during recessions, the RBV suggests that enterprises that possess strong internal resources, such as financial resilience, managerial expertise, innovative practices, or efficient supply chains are more likely to withstand economic shocks. This is particularly relevant in Nigeria, where many SMEs operate in volatile environments with limited institutional support. Those that can leverage their internal strengths, for example by adopting digital platforms or locally sourcing inputs, often report better performance outcomes despite external constraints (Akinyemi, 2022; Adebisi & Gbegi, 2021).

However, the RBV has its limitations. Critics argue that it is overly inward-looking and does not adequately address the influence of external environmental factors such as inflation, interest rates, or exchange rate volatility key variables in any analysis of recession impacts (Priem & Butler, 2001). Despite this, its focus on resource differentiation remains relevant, especially when comparing SME responses to the same economic conditions. The RBV, therefore, helps to explain why some SMEs in Nigeria remain resilient while others collapse under similar macroeconomic pressures.

Methodology

This study adopted a conceptual research design, relying solely on secondary sources to examine the relationship between economic recession and the performance of small and medium-sized enterprises (SMEs) in Nigeria. Rather than collecting primary data, the study synthesizes existing theoretical and empirical literature to explore key macroeconomic indicators such as inflation, interest rate fluctuations, and exchange rate volatility and their influence on SME performance. Relevant literature was sourced from peer-reviewed journals, institutional reports (e.g., from the World Bank, IMF, SMEDAN, and the Central Bank of Nigeria), and academic databases including Google Scholar and ScienceDirect.

To ensure recency and relevance, only studies published between 2017 and 2025 were reviewed. Selection criteria emphasized studies focusing on macroeconomic conditions and SME performance in Nigeria and comparable emerging economies. The analysis employed a thematic synthesis approach, organized around the core constructs of economic recession and SME performance. These constructs were examined using two theoretical frameworks: the Resource-Based View (RBV) and Contingency Theory. These theories provided insight into how internal firm resources and external environmental fit influence SME outcomes during economic downturns.

Result and Discussion

This paper examined the effect of economic recession, measured by inflation, interest rate, and exchange rate volatility on the performance of small and medium-sized enterprises (SMEs) in Nigeria. Drawing from theoretical perspectives and empirical literature, the findings suggest a strong negative relationship between economic recession and SMEs' performance. This position is supported by an extensive body of empirical literature from both local and international contexts.

The first major finding suggested that inflation increases the cost of inputs, disrupts pricing strategies, and reduces consumer purchasing power, thereby lowering SME profitability. This is consistent with the studies of Tafamel (2018), Asogwa and Onukwuli (2020), and Grey (2023).

The second finding highlighted that high interest rates restrict access to credit and increase debt servicing costs for SMEs. In line with this are the results of Musa, Abdul, and Umar (2023), & Grey (2023).

Third finding: exchange rate volatility was found to increase input costs, particularly for import-dependent SMEs, and contribute to operational uncertainty. Okeke-Ezeanyanwu (2017) observed that naira depreciation during recession periods significantly raised the cost of imported raw materials, leading many SMEs to scale back or shut down. This aligns with the findings of Obiukwu & Adurogboye (2025); Rasheed, Ishaq, & Malik (2022), & Burodo, Magaji, & Dakingari (2024).

These findings are consistent with the Resource-Based View (Barney, 1991), which posits that SMEs with limited financial, managerial, or technological resources are more vulnerable to macroeconomic shocks. In contrast, firms with strong internal capabilities; such as digital infrastructure or diversified income streams can better withstand external pressures. Ogundipe (2021) demonstrated this in Lagos and Ogun States, showing that SMEs that embraced digital solutions were more resilient during the COVID-19 recession. Likewise, Abiodun & Adekoya (2023) found that manufacturing SMEs that integrated digital tools performed significantly better during downturns.

The findings from this study, supported by both national and international empirical studies, demonstrate that economic recessions adversely affect SME performance in Nigeria. However, the extent of the impact varies based on firm-specific capabilities and strategic responses.

Conclusion

This paper analysed the complex relationship between economic recession and the performance of small and medium-sized enterprises (SMEs) in Nigeria. Utilising established literature and theoretical framework based on Resource-Based View (RBV) and Contingency Theory, the study underscores the detrimental effects of key macroeconomic indicators, including inflation, interest rates, and currency rate volatility, on SME operations, profitability, and sustainability. This paper contributes to knowledge by synthesizing dispersed evidence into a coherent framework that can guide future empirical research and inform policy development aimed at enhancing SME resilience. Conclusively, the paper affirms that building the capacity of SMEs to withstand macroeconomic shocks requires more than financial support; it demands structural interventions, adaptive strategies, and policy consistency to strengthen their internal resources and responsiveness to external realities.

Recommendations

In line with the objectives of this study and the findings from reviewed literature, some key recommendations are proposed to strengthen the performance of SMEs in Nigeria during periods of economic recession.

i) Given the significant impact of inflation on SME operations, it is essential that government, and monetary authorities prioritize price stability through coordinated fiscal and monetary policies. Targeted subsidies on essential inputs and benefits, especially for SMEs in productive sectors, could serve as a mitigating shield during inflationary periods.
ii) To address the effects of interest rate volatility, there is a need to expand access to affordable and flexible credit facilities for SMEs through strengthening existing intervention funds like those domiciled with the Central Bank of Nigeria, and simplifying the application processes for small and medium-sized enterprises. Essentially, credit guarantee schemes and interest rate controls on loans for SMEs should be enhanced to reduce the financial strain experienced by SMEs during recession periods.
iii) Locally-made products should be encouraged to reduce dependency on importation to improve export earnings which would stabilize the exchange rate.

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