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FOREIGN EXCHANGE MANAGEMENTAND SUSTAINABILITY OF MICRO, SMALL, AND MEDIUM ENTERPRISES IN NIGERIA

Obinna M. Ogbuanya[1] Obianuju M Chiekezie, PhD[2]
UNIZIK Business School (UBS), Nnamdi Azikiwe University, Awka Anambra State, Nigeria. Email: ogbuanyaobinna@gmail.com.

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Abstract
This paper interrogated foreign exchange management and sustainability of Micro, Small, and Medium Enterprises in Nigeria. The small business sector in Nigeria has been characterized by high mortality within its first five years of existence, and this situation provided the motivation for the analysis in this paper. The literature for the study was reviewed from both conceptual and theoretical standpoints. The methodology for the paper was content analysis that relied on secondary sources of materials in the analysis of information for the paper. The theoretical framework for the study is the Purchasing Power Parity (PPP) theory. The paper argued that while foreign exchange management continues to suffocate small and medium enterprises, appropriate, deliberate and consistent policy frameworks from the government will go a long way to arrest the situation. The paper recommended that the government should fashion out deliberate and comprehensive policies that will encourage the manufacturing sector in order to reduce import dependence, revive the nation's industrial sector, stimulate economic growth and help the country to leverage on its God given comparative advantage among the comity of nations.

Key Words: *Foreign Exchange; Micro, Small and Medium Enterprises (MSMEs), Sustainability.*

Introduction
Nigeria is Africa's largest market and most populous country that operates a mixed economy in which essential services are provided through public-private sector initiatives. The country is also import-dependent with crude oil as its only major export. According to Okonkwo (2023), crude oil exports account for 77.24 percent of total exports in the fourth quarter of 2022. Accordingly, agricultural exports, among others, account for less than 25 percent of total exports. The nation is endowed with a vast amount of energy resources. According to the Organization of Petroleum Exporting Countries (OPEC) annual statistical bulletin for 2019, Nigeria's proven crude oil reserves and natural gas are 37.2 billion barrels and 5292 trillion standard cubic meters, respectively. Thus, Nigeria is paradoxically one of the oil-producing nations of the world and one of the highest importers of refined petroleum products. Daily Post report of March 2, 2018, quoted Dr. Maikanti Baru, former Group Managing Director of the Nigerian National Petroleum Corporation (NNPC) as saying that Nigeria is among the world's largest importer of petroleum.

Nigerian oil attracts a lot of buyers in the international market. Nigeria's export blends are light, sweet crudes and have low sulfur contents of 0.05% - 0.2% (OPEC, 2019). Also, the country is the eleventh-largest producer and the eighth-largest exporter of crude oil in the world. It typically produces over 2.4 million Barrels Per Day (BPD) of oil and natural gas liquids (OPEC, 2019). Unfortunately, for about the past decade, only 17% - 20% of domestic gasoline demand could be supplied by local refineries (Okoro, Dosunmu, Igwilo, Anawe, & Mamudu, 2017). This situation implies that whatever foreign exchange that the country receives from crude oil exports, more is needed for the importation of refined products. Another factor that contributed to the Nigerian economy depending heavily on the dollar is the fact that the oil industry in Nigeria is yet to be fully deregulated. The supply of petroleum products into the Nigerian market has been through selected government-approved private players and public organizations. The public organizations are the government agents and functionaries such as the Nigerian National Petroleum Corporation (NNPC) and its subsidiaries, the Department of Petroleum Resources (DPR), the Petroleum Products Pricing Regulatory Authority (PPPRA), and Pipeline Product and Marketing Company (PPMC) while the private sectors are the indigenous and foreign organizations (NNPC, 2012). Together, they form an oligarchy that creates a monopoly and controls the petroleum industry for their selfish interest. The non-deregulation of the oil sector has strangulated the market leading to price control and subsidy payment, which the government has tried, and is still trying to come out from. One of the most popular arguments for subsidy removal is that the savings – in terms of foreign exchange - from the subsidy blockade will be channeled into investment in critical infrastructure that will stimulate economic growth and development. The challenges of underdevelopment in Nigeria manifest not just in the lack of adequate infrastructure, and poor social service delivery, but in the ease of doing business. The business environment in Nigeria relies tremendously on foreign inputs either for local production, raw materials, service equipment, or finished products for resale to the Nigerian market. The fluctuations in the exchange rate between the naira and the dollar (ditto for other foreign currencies – British Pounds, Euro, etc.) are a major strain on the sustainability of Micro, Small, and Medium Enterprises (MSMEs).

Ibunje (2022), reports that the continuous decline in the value of the naira constitutes a major challenge affecting the Nigerian economy, and which has brought untold hardship to Nigerians. The report continues that Nigeria consumes 95 percent of imported goods and this has contributed to the 20.35 percent inflation rate recorded in 2022. On the contrary, an export-oriented economy would ordinarily have a strong currency because the economy is not only self-sufficient but extends their markets beyond their shores thereby, earning foreign exchange in return. Thus, they will not be needing foreign exchange for importation like we do in Nigeria, leading to the weakening of our currency, and inflation, among other economic hardships that have become the commonplace realities of poor and ordinary Nigerians. The excessive reliance on factor inputs from abroad acquired through foreign currencies that are exchanged at high prices in comparison to the local currencies; the low manufacturing base of the country exacerbated by infrastructural deficit, and the nation's fruitless journey towards self-sustenance and economic diversification has continued to asphyxiate micro and small businesses.

The small business sector in Nigeria has been characterized by high mortality within its first five years of existence. According to Etim, Akpan, Inyang, and Ekikor (2022), only about five or ten percent of Micro, Small, and Medium Enterprises (MSMEs) survive, thrive and grow to maturity. The Guardian Newspaper (2017) also reported that only 20 percent of SMEs manage to survive in the country.

Given the foregoing, this paper interrogates foreign exchange management and sustainability of micro, small, and medium enterprises in Nigeria.

Literature Review

Foreign Exchange and its Management in Nigeria

Foreign exchange in its simplest form is the conversion of a country's currency to that of another country using appropriate rates. The exchange rate is the price at which a unit of a country's currency is exchanged for another country's currency at any point in time (Anyanwu, Anawude & Okoye, 2018). According to Lioudis (2022), a country's currency in a free market economy is valued according to the laws of supply and demand. In other words, a currency's value can be pegged to another country's currency, such as the U.S. dollar, or even to a basket of currencies. A country's currency value may also be set by the country's government. Foreign exchange facilitates international trade between countries through the seamless exchange of money. The market has established its own set of standards. Fixing an exchange rate method prevents confusion by providing a globally recognized standard. It eliminates conflicts between nations as the overall flow of the currency determines the foreign exchange rates.

The evolution of the foreign exchange market in Nigeria up to its present state was influenced by several factors such as the changing pattern of international trade, institutional changes in the economy, and structural shifts in production. Before the establishment of the Central Bank of Nigeria (CBN) in 1958 and the enactment of the Exchange Control Act of 1962, foreign exchange was earned by the private sector and held in balances abroad by commercial banks that acted as agents for local exporters. During this period, agricultural exports contributed the bulk of foreign exchange receipts. The fact that the Nigerian pound was tied to the British pound sterling at par, with easy convertibility, delayed the development of an active foreign exchange market. However, with the establishment of the CBN and the subsequent centralization of foreign exchange authority in the Bank, the need to develop a local foreign exchange market became paramount (CBN, 2023). The increased export of crude oil in the early 1970s, following the sharp rise in its prices, enhanced official foreign exchange receipts. The foreign exchange market experienced a boom during this period and the management of foreign exchange resources became necessary to ensure that shortages did not arise. However, it was not until 1982 that comprehensive exchange controls were applied as a result of the foreign exchange crisis that set in that year. The increasing demand for foreign exchange at a time when the supply was shrinking encouraged the development of a flourishing parallel market for foreign exchange.

The exchange control system was unable to evolve an appropriate mechanism for foreign exchange allocation in consonance with the goal of internal balance. This led to the introduction of the Second-tier Foreign Exchange Market (SFEM) in September 1986 (CBN, 2023). Under SFEM, the determination of the Naira exchange rate and allocation of foreign exchange were based on market forces. To enlarge the scope of the Foreign Exchange Market Bureau de Change was introduced in 1989 for dealing in privately sourced foreign exchange. As a result of volatility in rates, further reforms were introduced in the Foreign Exchange Market in 1994. These included the formal pegging of the naira exchange rate, the centralization of foreign exchange in the CBN, the restriction of Bureau de Change to buy foreign exchange as agents of the CBN, the reaffirmation of the illegality of the parallel market and the discontinuation of open accounts and bills for collection as means of payments sectors. The Foreign Exchange Market was liberalized in 1995 with the introduction of an Autonomous Foreign Exchange Market (AFEM) for the sale of foreign exchange to end-users by the CBN through selected authorized dealers at market-determined exchange rates. In addition, Bureau de Change was once more accorded the status of authorized buyers and sellers of foreign exchange. The Foreign Exchange Market was further liberalized in October 1999 with the introduction of an Interbank Foreign Exchange Market (IFEM).

The Central Bank of Nigeria adopted the Retail Dutch Auction System (RDAS), Wholesale Dutch Auction System (WDAS), and Interbank Rate System Regime between 2002 and 2015. The RDAS and WDAS entailed auctions twice a week, with the RDAS intervention being directly to the customers while the WDAS was to the banks to be sold to the customers. In 2015, the Interbank Rate System Regime was introduced where the Bank intervened as the need arose. In 2016 the Bank introduced the managed floating system due to increased demand pressure. Under the new regime, the value of the naira in the inter-bank FX market is largely driven by the forces of demand and supply.

Micro, Small and Medium Enterprises (MSMEs) in Nigeria

Situating a business within the category of Micro, Small, and Medium Enterprises (MSMEs) is largely country-specific. That is, what is defined as a micro or small business in Nigeria might differ from other countries. In Nigeria, Micro Small, and Medium Enterprises (MSMEs) are generally referred to as enterprises with up to 200 employees (Invoice Nigeria, 2023). Giving a breakdown of the above assertion, micro-enterprises have between one and nine employees; small enterprises have between 10 and 49 employees, while medium enterprises have between 50 and 199 employees (SMEDAN, 2018). Micro, small, and medium enterprises (MSMEs) play a big role in the Nigerian economy and economies around the globe. MSMEs outnumber large companies by a wide margin and also employ many more people. They are important for economic and social reasons, given the sector's role in employment. SMEs are also said to be responsible for driving innovation and competition in many economic sectors. In Nigeria, most micro businesses are often owned and managed by sole operators. Otaru (2022) argued that Nigeria in 2020 has at least, 39,654,385 Micro, Small, and Medium Enterprises (MSMEs) that are operational in the country as against 41,543,028 million that were in existence in 2017, thus indicating a decrease of 4.5 percent. This figure accounts for more than 90 percent of total jobs in the country and more than 55.5 percent of the gross domestic product, GDP, as well as about 7.27 percent of goods and services exported out of the country. Based on the total numbers of MSMEs in Nigeria, Micro Enterprises account for 99.8 percent of the total MSMEs with Lagos, Oyo, and Kano State being the top three states in Nigeria with the highest number of MSMEs.

MSMEs are agents of socio-economic transformation and industrialization in many economies the world over. As has become well established, they present a vital platform for boosting technical, technological, and entrepreneurial capacities amongst critical segments of the populace. MSMEs also offer opportunities to drive jobs and wealth creation as well as income re-distribution within society. Also, MSMEs play significant roles in the transition from agriculture-based economies to industrial ones, providing opportunities for value chain linkages that generate sustainable livelihoods for the bottom-of-the-pyramid citizenry. MSMEs are responsible for most of the advances in new products and processes, provide most of the employment opportunities but are also a key indicator of the overall performance of an economy. They help to absorb productive resources at all levels of the economy and add to the formation of flexible economic systems in which small and large firms are interlinked. Such linkages are very crucial for the attraction of foreign investment which further unveils them as the distinctive mainstay of the economy that requires befitting attention.

Most economies, particularly those of developing countries like Nigeria, march on the shoulders of small and medium-sized businesses. This is because MSMEs are characterized by dynamism, innovations, and efficiency, and their small size allows for a faster decision-making process. The benefits of MSMEs to any economy are easily apparent, they include:

a. Contribution to the economy in terms of output of goods and services;
b. Creation of jobs at relatively low capital cost, especially in the fast-growing service sector;
c. Provide a vehicle for reducing income disparities;
d. Develop a pool of skilled and semi-skilled workers as a basis for future industrial expansion;
e. Improve forward and backward linkages between economically, socially, and geographically diverse sectors of the economy;
f. Provide opportunities for developing and adapting appropriate technological approaches;
g. Offer an excellent breeding ground for entrepreneurial and managerial talent, the critical shortage of which is often a great handicap to economic development, among others.

SMEs are believed to be the engine room for the development of any economy because they form the bulk of business activities in a growing economy like that of Nigeria. Akeem (2021) identified some of the ways that MSMEs drive economic growth in a country like Nigeria, which are:

1. MSMEs create a breeding ground for entrepreneurs and managerial talents as there is limited space for these in large corporations. Therefore, they create a way for economic development.
2. MSMEs train and grow their employees into skilled and semi-skilled workers to prepare them for future industrial expansions. Therefore, in doing this, they create more skilled labor for the economy.
3. Their business and employment create a medium for reducing income disparities among labor in the economy
4. They create employment opportunities at a relatively low capital cost, therefore reducing unemployment in the country
5. MSMEs contribute to the overall production of goods and services in the economy
6. They adopt risky and appropriate approaches, therefore giving opportunity for other corporations to implement the same, seeing that it works.
7. They improve the link between the economic, geographic, and social sectors of the economy.

Foreign Exchange, Import Dependence, and Sustainability of MSMEs in Nigeria

In international relations, there is the general notion that no nation is an island. This implies that no country can survive on its own without relating in one way or the other with other countries. This is why we have concepts like international business, international politics, cross-border security, regional, continental, and global organizations involving multiple countries, among other frameworks through which countries of the world relate among themselves. Also, there is hardly any country on earth without a customs service. The existence of customs in these countries is a pointer to the fact that there is movement of goods and services into and out of the countries. Nigeria is not an exception. An import is a good or service bought into one country that was produced in another (Segal, 2023). Imports and exports are the components of international trade. If the value of a country's imports exceeds the value of its exports, the country has a negative balance of trade, also known as a trade deficit. Countries are most likely to import goods or services that their domestic industries cannot produce as efficiently or cheaply as the exporting country. Countries may also import raw materials or commodities that are not available within their borders.

According to the National Bureau of Statistics (2023), Nigeria's total trade in the first quarter of 2023 stood at N12.1 trillion of which total exports stood at N6.5 trillion and total imports amounted to N5.6 trillion. In its foreign trade in goods statistics for the first quarter of 2023, total exports increased by 2 percent but declined by 8.66 percent when compared to the amount recorded in the fourth quarter of 2022 (N6.3 trillion) and the corresponding quarter in 2022 (N7.1 trillion) respectively. In the same vein, total imports increased by 3.67 percent in the first quarter of 2023 compared to the value recorded in the fourth quarter of 2022 (N5.4 trillion). Still, they then again declined by 25.83 percent when compared to the value recorded in the corresponding quarter of 2022 (N7.5 trillion). The top imports of Nigeria are refined petroleum ($11.3B), wheat ($3.32B), cars ($2.42B), packaged medicaments (972M), and Broadcasting Equipment ($934M). The top countries that produce and export most of Nigeria's imported goods are China ($21.9B), India ($4.75B), Netherlands (4.58B), United States of America ($4.42B) and Belgium ($2.34B) (NBS, 2023). Also, Nigeria's top five export destinations in the first quarter of 2023 were the Netherlands with N837.65 billion or 12.91 percent, the United States of America with N579.35 billion or 8.93 percent, Spain with N488.17 billion or 7.53 percent, France with N487.34 billion or 7.51 percent and India with N456.69 billion or 7.04 percent of total exports. Altogether, exports to the top five countries amounted to 43.92 percent of the total value of exports. 'Petroleum oils and oils obtained from bituminous minerals, crude' with N5.1 trillion representing 79.37 percent remains the commodity with the largest export values in the period under review, followed by 'Natural gas, liquefied' with N622.36 billion accounting for 9.59 percent, and 'Urea, whether or not in aqueous solution' with N146.79 billion or 2.26 percent of total exports (NBS, 2023).

A critical analysis of our export potential shows that most of our commodity exports are raw materials and natural resources. The fact that we consume 95 percent of imported goods (Ibunje, 2022), means that the majority of our Micro, Small, and Medium Enterprises (MSMEs) are trading concerns, service organizations, and distributors of imported goods and services. This leaves them at the mercy of foreign countries, international price systems, inflation, and unstable foreign exchange rates. It is therefore

not a surprise that the contribution of the manufacturing sector to Nigeria's Gross Domestic Product (GDP) has been hovering around 10 to 20 percent year on year (Ikpoto, 2023). The manufacturing sector comprises 13 activities: oil refining; cement; food, beverages, and tobacco; textile, apparel, and footwear. Others are wood and wood products; pulp paper and paper products; chemical and pharmaceutical products; non-metallic products, electrical and electronic; basic metal and iron and steel; motor vehicles and assembly, plastic and rubber products.
The underdeveloped state of the manufacturing sector and its inability to contribute significantly to GDP, employment, and economic growth in the country leaves the country dependent on imported goods, alterations in the foreign market, and high mortality of the Small and Medium Enterprises in Nigeria. All of these have negative implications for economic growth and development.

Theoretical Foundation

The paper adopted the Purchasing Power Parity (PPP) theory as our theoretical framework. The PPP theory was propounded by a Swedish Professor, Gustav Cassel. According to the argument of this theory, the rate of exchange between two countries depends upon the relative purchasing power of their respective currencies. Thait is, the equilibrium rate of exchange is determined by the equality of the purchasing power of two inconvertible paper currencies. It implies that the rate of exchange between two inconvertible paper currencies is determined by the internal price levels in two countries. Such will be the rate which equates the two purchasing powers. For example, if a certain assortment of goods can be had for £1 in Britain and a similar assortment with Rs. 80 in India, then it is clear that the purchasing power of £ 1 in Britain is equal to the purchasing power of Rs. 80 in India. Thus, the rate of exchange, according to purchasing power parity theory, will be £1 = Rs. 80. Comparing the PPP in Different Countries, a broad variety of goods and services must be weighed in order to allow fair price comparisons across countries. However, owing to the large volume of data that must be obtained and the difficulty of the calculations that must be made, this one-to-one calculation is impossible to obtain. In 1968, the University of Pennsylvania, in collaboration with the United Nations, developed the International Comparison Program (ICP) to aid in this comparison (Ayantika, 2021).

For this scheme, the ICP's PPPs are based on a global price survey that measures the prices of hundreds of different products and services. International macroeconomists may use the software to forecast global production and development. The World Bank publishes a study every few years that compares the competitiveness and prosperity of different countries in PPP and US dollars. 3 Weights based on PPP metrics are used by both the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD) to make estimates and policy recommendations.

Conclusion and Recommendations

The PPP is an indication of the strength of a country's economy that is reflected in the strength of its currency. It has been argued in this paper that Nigeria's excessive reliance on imports puts the country in a disadvantaged position. In view of the foregoing, we recommend that the government should fashion out deliberate and comprehensive policies that will encourage the manufacturing sector in order to reduce import dependence, revive the nation's industrial sector, stimulate economic growth and help the country to leverage on its God given comparative advantage among the comity of nations. In conclusion, the paper agrees that while foreign exchange volatility continues to suffocate small and medium enterprises, appropriate, deliberate and consistent policy frameworks from the government will go a long way to arrest the situation.

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