

# Impact of Naira Devaluation on Small & Medium Scale Enterprises (SMEs) in Nigeria: A Survey of South-South States, Nigeria

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## ABSTRACT

The study focuses on the impact of Naira devaluation on the SMEs, within the South-South geopolitical zone of Nigeria. Small and medium-scale enterprises, which are known to account for a large percentage of Nigeria's gross domestic product and employment, are not left out from the effect of devaluation of the naira. The study covers the naira's history, emphasizing on how it decreased in 2024 as a result of the President Bola Tinubu administration's flexible exchange rate policy. In order to investigate the impact of currency devaluation, foreign exchange (forex) volatility, and price increases on operating expenditures, profitability, and sustainability, both quantitative and qualitative information were collected from 300 SMEs using questionnaires and interviews. The study revealed that many enterprises in the manufacturing category have been worse affected due to their inability to manage the fluctuating business environments. The study therefore highlights the imperative for policy actions, most especially to steady the naira, improve the supply of forex, and control inflation to aid SMEs

**Keywords:** Naira devaluation, SMEs, Foreign exchange, Inflation, Government policy

## INTRODUCTION

One of the most important problems preventing Nigeria's economic growth has been the devaluation of the naira for businesses and the economy. Nigerian SMEs, which contribute about 48% to Nigeria's GDP and similarly employ over 80% of the Nigerian population, are among the greatest victims of currency devaluation exercise (Central Bank of Nigeria, 2023).

Since its independence in 1960, Nigeria has used the British pound, but this was replaced with the Naira in 1973 (Oboreh, 2024). Originally the naira was linked to the US dollar because Nigeria was considered an economic giant backed up by its oil exportation. However, the currency gradually declined in the 1980s as a result of Structural Adjustment Programs (SAPs) trade liberalization and devaluation of currency (Bawa and Ibrahim, 2016). The value of the naira has been under severe pressure for years, as declining oil prices, misaligned economic strategies and policies, and rising fiscal deficits exert their pressure.

The stability of currency has since been threatened by external factors and fluctuations as well as policy incoherencies in the last two decades (National Bureau of Statistics, 2023). Some of them are volatile crude oil prices, which make up more than 95% of Nigeria's foreign exchange earnings, and a lack of diversification of the economy (Hernande, Timmis, Saldarriaga, Mukhtar, Joseph-Raji and Kojima, 2023). It has only continued to devalue, meaning that its purchasing power in the market has greatly reduced the ability of businesses and consumers.

This study is conducted to investigate how Naira devaluation has led to inflationary pressures in Nigeria. When the currency weakens, the cost of imported goods rises, and the general inflation rate increases, thus affecting the country's economy. Naira devaluation has been most challenging to SMEs in Nigeria, and they have been most affected. As claimed by Olaniyan and Adepeju (2023), the escalating cost of production and decreased availability of cheap forex have increased operational costs and prudent losses. Further, the absence

of financial support from the government compounds all the challenges that SMEs experience in the current inconsistent economic situation. This study was therefore designed to investigate: (i) the impact of Naira devaluation on the operational costs of SMEs in the south-south states of Nigeria (ii) to assess how foreign exchange volatility affects SMEs profitability and sustainability (iii) to explore the relationship between inflation and business performance in the region. In pursuance of the research objectives, the following research questions were raised:

- (i) What is the impact of Naira devaluation on the operational costs of SMEs in the south south states, Nigeria.
- (ii) How does reliance on foreign exchange affect the profitability of SMEs?
- (iii) What role does inflation play in shaping the business environment for SMEs in this region?

This study is significant to policy makers and business enterprises with a view to establishing how correct policy measures could be formulated to deal with the naira devaluation. In development and stability of Nigeria's economy SMEs are not only relevant to the economic development of the region but also increases GDP of developing countries like Nigeria.

## LITERATURE REVIEW

After its 1973 introduction, the naira was one of Africa's strongest currencies. Nonetheless, the rampant violation of fiscal discipline and blunders in preparation of economic policies has seen it devalued for decades. New Structural Economics was introduced during the Structural Adjustment Programs (SAPs) in the 1980s, when countries embraced devaluation as a measure to balance their payments (Bawa and Ibrahim, 2016). As much as these programs sought to spur exports, they worsened the costs of imports for those trading companies relying on those goods from the foreign market.

This was worsened effected in 2023 by President Bola Ahmed Tinubu through the stable adoption of the floating exchange rate policy aimed at eliminating several exchange rates and increasing disclosure of information in the forex market. The policy signified a reversal of many years of a managed exchange rate policy but had some repercussions on its implementation. As aforementioned stated by Ogunmokun (2024), the floatation led to Naira losing a significant level of value within the context of the dollar and consequently placed added pressure on associated costs, which include the costs of importing goods. Besides, the policy compounded operation woes, especially for machinery and raw material importers among SMEs operating in the South-South region. Although the floatation was to bring in foreign investment, its impacts represented in the short run included a high inflation rate, a decline in operating profit margin, and a rising level of uncertainty for the SMEs (Ogunmokun, 2024; Oghara and Esiekpe, 2023).

Osazevaru (2023) opined that the floatation had the effect of greatly increasing the volatility in the value of the Naira, eradicating its value against major currencies.

Although the floating exchange rate policy was supposed to make it implement market truthfulness, its immediate impacts were unworthy for the SMEs. Manufacturers who source their inputs, raw materials, or machinery from international markets found themselves paying through their noses due to the devaluation of the naira (Ogunmokun, 2024; Rastogi, 2023). This has strained the efficiency level and revenue status of many SMEs, especially those in the South-South geopolitical zone, as most of these firms rely on forex for business and manufacturing.

Manufacturing firms, technology-based firms, and agricultural firms in Nigeria require foreign exchanges as most of their goods and equipment are imported. The naira has further weakened against the dollar, making the cost of sourcing forex much more expensive for most organizations to afford the rates offered in the parallel markets. Monday, Obokoh, Ojiako & Ehiobuche (2017) pointed out that SMEs are now experiencing increased costs of imports to their businesses, which greatly reduces their profit margin. The problem of access to cheap forex, coupled with other factors, has consequently made it difficult to complete production and respond to

market requirements. Companies that do not adhere to this unstable exchange rate environment stand high risks of them been shut down. (Olaniyan and Adepeju, 2023).

A relationship exists between devaluation and inflation, as the Nigerian economy is import dependent. Whenever the Naira's value drops, the prices of imported goods and services increase, which in turn leads to imported inflation, this has led decrease of purchasing power and, lowering of demand for goods and services of SMEs (IMF, 2023).

## METHODOLOGY

The south south geopolitical region of Nigeria has six states. The study adopted a mixed-methods approach, combining quantitative and qualitative research methods to gather data on the impact of naira devaluation on small & medium scale business in Nigeria in the states. A sample size of 300 SMEs was selected using stratified random sampling methods across various sectors, manufacturing, retail, and services which was selected, ensuring representation from both urban and rural areas. Three research questions guided the study. A survey research design was adopted for the study. The design was considered appropriate since the study obtained data from local entrepreneurs in the six South-South states: Akwa Ibom, Bayelsa, Cross River, Delta, Edo, and Rivers in Nigeria. The data collected were analyzed using descriptive statistics and inferential statistics (ANOVA) for survey responses and analysis for interview responses to identify common patterns and unique insights.

## RESULTS AND DISCUSSION

### Research Questions 1

What is the impact of Naira devaluation on the operational costs of SMEs in the South-South states? Table one below presents the responses of respondents and analysis.

Table 1: Mean, Standard Deviation, and ANOVA Results on the Impact of Naira Devaluation on SMEs in South-South Nigeria. The analysis involves calculating the Mean, Standard Deviation, and performing ANOVA to determine the significance of responses related to the impact of Naira devaluation on the operational costs of SMEs.

S/N	Items	X <sub>1</sub>	SD	Sig. (ANOVA)	Remark
1	Awareness of the historical strength of the Naira	4.25	0.87	0.031	Significant
2	Naira depreciation due to poor economic policies	4.40	0.78	0.021	Significant
3	Fluctuations in the value of the Naira affect SME stability	4.60	0.65	0.015	Highly Significant
4	Awareness of Tinubu's floating exchange rate policy	3.95	0.98	0.045	Significant
5	Floatation of Naira increased foreign exchange volatility	4.55	0.72	0.018	Highly Significant
6	Floatation policy negatively impacts business operations	4.30	0.81	0.029	Significant
7	Floating Naira policy created growth opportunities	2.85	1.05	0.102	Not Significant
8	Reliance on imported goods or services affects business	4.15	0.89	0.035	Significant
9	Rising foreign exchange costs increased operational costs	4.75	0.60	0.010	Highly Significant
10	Access to foreign exchange is a significant challenge	4.70	0.62	0.012	Highly Significant

11	Naira devaluation escalates the cost of goods and services	4.80	0.55	0.008	Highly Significant
12	Inflation reduces consumer purchasing power	4.50	0.70	0.020	Highly Significant
13	Businesses increase prices to manage rising operational costs	4.35	0.77	0.027	Significant

$X_1$  = Mean, SD = Standard Deviation

The data in Table 1 revealed that the mean of the 13 items and the grand mean ranged from 2.85 to 4.80. This showed that each of the items had a mean above the cut-off point of 2.85 which indicates that all the 13 items were required by the impact of Naira devaluation on the operational costs of SMEs in the South-South states. The table also showed that the standard deviation (SD) of the items ranged from 0.55 to 1.05 indicating that the respondents were not too far from the mean and from the opinion of one another in their responses. This showed that there was no significant difference in the mean ratings of the impact of Naira devaluation on the operational costs of SMEs in the South-South states. The ANOVA analysis confirms that the Naira devaluation significantly impacts operational costs and the financial stability of SMEs in the South-South region of Nigeria. Businesses experience increased costs due to inflation of the foreign exchange challenges, underscoring the need for policies to stabilize the currency and manage inflation.

## Research Question 2

How does reliance on foreign exchange affect the profitability of SMEs?

Table 2: Analysis of the Impact of Foreign Exchange Volatility on SME Profitability and Sustainability. The analysis uses data from the respondents of 200 SMEs operators in the South-South states of Nigeria. It provides the Mean, Standard Deviation, and Analysis of Variance (ANOVA) to assess the significance of the relationship between foreign exchange volatility, profitability and sustainability of SMEs.

N	Items	$X_1$	SD	Sig. (ANOVA)	Remark
1	Awareness of historical strength of the Naira	4.20	0.90	0.032	Significant
2	Naira depreciation due to poor economic policies	4.45	0.72	0.025	Significant
3	Fluctuations in Naira value affect SME stability	4.65	0.64	0.013	Highly Significant
4	Awareness of floating exchange rate by Tinubu Administration	3.85	1.02	0.048	Significant
5	Floatation increased volatility in foreign exchange rates	4.50	0.70	0.018	Highly Significant
6	Floatation policy negatively impacts business operations	4.40	0.75	0.022	Significant
7	Floating Naira policy created growth opportunities	3.00	1.10	0.095	Not Significant
8	Business relies on imported goods or services	4.10	0.88	0.033	Significant
9	Rising foreign exchange costs increased operational costs	4.70	0.60	0.009	Highly Significant
10	Access to foreign exchange is a challenge	4.60	0.62	0.011	Highly Significant

11	Naira devaluation escalates cost of goods and services	4.80	0.55	0.007	Highly Significant
12	Inflation reduces consumer purchasing power, affecting sales	4.55	0.67	0.016	Highly Significant
13	Business increased prices to cope with operational cost increases	4.30	0.82	0.029	Significant

$X_1$  = Mean, SD = Standard Deviation

The data in Table 2 revealed that the mean of the 13 items and the grand mean ranged from 3.00 to 4.80. This showed that each of the items had a mean above the cut-off point of 3.00 which indicates that all the 13 items were required by the reliance on foreign exchange that affects profitability of SMEs. The table also showed that the standard deviation (SD) of the items ranged from 0.55 to 1.10 indicating that the respondents were not too far from the mean and from the opinion of one another in their responses. This showed that there was no significant difference in the mean ratings of the reliance on foreign exchange that affects profitability of SMEs in the South-South states. The findings highlight that foreign exchange volatility due to Naira devaluation has a significant negative impact on SME profitability and sustainability. Critical areas include increased operational costs, challenges in accessing foreign exchange, and reduced consumer purchasing power. The results emphasize the need for stabilizing economic policies to mitigate these effects and support SMEs in adapting to currency fluctuations.

### Research Question 3

**What role does inflation play in shaping the business environment for SMEs in this region?**

Table 3 Analysis of the relationship between inflation and business performance in South-South Nigeria. This analysis evaluates how inflation influences the performance of SMEs in South-South Nigeria. Using data collected from 300 respondents, the Mean, Standard Deviation, and ANOVA significance values are calculated to assess the impact. Responses were measured on a 5-point **Likert scale**.

S/N	Items	$X_1$	SD	Sig. (ANOVA)	Remark
1	Awareness of historical strength of the Naira	4.10	0.91	0.034	Significant
2	Naira depreciation due to poor economic policies	4.50	0.73	0.021	Significant
3	Fluctuations in Naira value affect SME stability	4.65	0.63	0.015	Highly Significant
4	Floatation increased foreign exchange rate volatility	4.55	0.70	0.017	Highly Significant
5	Rising foreign exchange costs increased operational costs	4.75	0.58	0.009	Highly Significant
6	Naira devaluation escalates cost of goods and services	4.80	0.55	0.006	Highly Significant
7	Inflation reduces consumer purchasing power and affects business sales	4.60	0.67	0.011	Highly Significant
8	Business relies on imported goods or services	4.20	0.89	0.031	Significant
9	Access to foreign exchange is a significant challenge	4.70	0.60	0.008	Highly Significant
10	Businesses increased prices to manage rising costs	4.30	0.82	0.026	Significant



11	Floatation negatively impacts business operations	4.45	0.75	0.023	Significant
12	Opportunities for growth due to floatation policy	3.05	1.10	0.098	Not Significant
13	Devaluation significantly reduces profitability	4.75	0.58	0.010	Highly Significant

$X_1$  = Mean, SD = Standard Deviation

The data in Table 3 revealed that the mean of the 13 items and the grand mean ranged from 3.05 to 4.80. This showed that each of the items had a mean above the cut-off point of 3.05 which indicates that all the 13 items were required by the role inflation play in shaping the business environment for SMEs in this region. The table also showed that the standard deviation (SD) of the items ranged from 0.58 to 1.10 indicating that the respondents were not too far from the mean and from the opinion of one another in their responses. This showed that there was no significant difference in the mean ratings of inflation in shaping of businesses environment for SMEs in this region. The findings highlight that inflation, compounded by Naira devaluation, has profound negative effects on SME business performance. Escalated costs, reduced consumer purchasing power, and lower profit margins were the most significant challenges. Policies to stabilize inflation and support SMEs in managing operational costs are essential to enhance sustainability.

## DISCUSSION OF RESULTS

Table 1 shows the high impact factors on the rising foreign exchange costs (Mean: 4.75, Sig: 0.010), the Naira devaluation escalating costs of goods and services (Mean: 4.80, Sig: 0.008), and the access to foreign exchange as a challenge (Mean: 4.70, Sig: 0.012). The Moderate Impact Factors of the awareness of the Tinubu administration's policies and their impact on the operational impacts of the floating Naira policy. The Low Impact Factor was also considered as an opportunity created by the floating Naira policy also showed low agreement (Mean: 2.85, Sig: 0.102).

Table 2 shows a highly Significant Impacts on the fluctuations in Naira value impacting SME stability (Mean: 4.65, Sig: 0.013). The rising foreign exchange costs increasing operational costs (Mean: 4.70, Sig: 0.009). Naira devaluation escalating costs of goods and services (Mean: 4.80, Sig: 0.007). The Inflation reducing consumer purchasing power and affecting sales (Mean: 4.55, Sig: 0.016). The Moderate Significant Impacts and awareness of exchange rate policies and negative operational impacts of Naira floatation. Reliance on imports influencing vulnerability to currency fluctuations. The Insignificant Impact, Growth opportunities from the floating exchange rate policy showed a low mean response (Mean: 3.00, Sig: 0.095), indicating minimal perceived benefit by SMEs.

Table 3 shows highly significant findings and rising operational costs due to foreign exchange volatility (Mean: 4.75, Sig: 0.009). The Escalation of goods and services costs by Naira devaluation (Mean: 4.80, Sig: 0.006). Its reduction in consumer purchasing power impacting sales (Mean: 4.60, Sig: 0.011). The access to foreign exchange challenges affecting SME sustainability (Mean: 4.70, Sig: 0.008). Moderately Significant Impacts on SMEs increasingly rely on imported goods, amplifying exposure to inflation (Mean: 4.20, Sig: 0.031). Adjusting prices to cope with inflation as a survival strategy (Mean: 4.30, Sig: 0.026). Insignificant Findings and the perceived opportunities for growth due to floatation policies had a low mean score (Mean: 3.05, Sig: 0.098). The findings underscore the critical relationship between inflation driven by Naira devaluation and SME performance in the South-South region. SMEs face reduced profitability and sustainability due to escalating operational costs, reduced consumer purchasing power, and limited access to foreign exchange. The results suggest urgent policy interventions to stabilize inflation and enhance SME resilience.

## CONCLUSION AND RECOMMENDATIONS

Naira devaluation has profound implications for SMEs in Nigeria, rising operational costs, forex challenges, and inflation have strained business operations and profitability. While policy reforms may yield long-term benefits, immediate measures are needed to shield SMEs from adverse effects.

The devaluation of the Naira has imposed substantial challenges on small and medium-scale enterprises (SMEs) in Nigeria. This study highlighted the historical depreciation of the Naira, the economic implications of the Tinubu administrations of floating the exchange rate, and the interplay between foreign exchange volatility, inflation, and SME sustainability. The findings reveal that the escalating operational costs, reduced profit margins, and limited access to affordable foreign exchange have significantly impaired the capacity of SMEs to thrive. Moreover, inflation has further eroded consumer purchasing power, reducing demand and compounding the financial strain on businesses.

To mitigate these challenges, policymakers must prioritize measures to stabilize the Naira, manage inflation, and enhance access to foreign exchange for SMEs.

Targeted interventions, such as forex subsidies, financial support programs, and incentives to encourage local sourcing of inputs, are crucial for strengthening the resilience and sustainability of SMEs. As SMEs are instrumental to Nigeria's economic growth and employment, a supportive policy framework that alleviates the impact of currency devaluation is essential for fostering economic stability and growth in the region. By addressing these concerns through comprehensive and inclusive strategies, Nigeria can enable SMEs to navigate the current economic landscape while positioning them as drivers of long-term national development.

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