



The Impact of Fuel Subsidy Removal and Foreign Exchange Harmonization on SMEs in Nigeria

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ABSTRACT

This rapid systematic review synthesizes emerging evidence on the impact of Nigeria's 2023 dual economic reforms, fuel subsidy removal, and foreign exchange harmonization on Small and Medium Enterprises (SMEs). Employing a PRISMA-guided methodology, we analyzed 32 academic, institutional, and industry studies from 2015 to 2025. The findings reveal that the reforms have triggered hyperinflation, soaring operational costs, foreign exchange scarcity, and prohibitive borrowing rates, severely undermining SME profitability, production capacity, and survival rates. Sectoral analysis indicates disproportionate impacts on import-dependent manufacturing SMEs, while technology and service-oriented enterprises exhibit greater resilience. Despite short-term disruptions, the reforms also present long-term opportunities for efficiency, innovation, and foreign investment. The study proposes an integrated theoretical framework combining institutional theory, resource-based view, and Schumpeterian creative destruction to explain differential firm-level outcomes. It was concluded that evidence-based policy recommendations, including targeted FX windows, credit guarantees, digital grants, and localization support, are needed to mitigate adverse effects and foster SME sustainability in Nigeria's evolving macroeconomic landscape.

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Introduction

Small and Medium Enterprises (SMEs) drive the Nigerian economy, representing over 96% of enterprises, contributing about 50% to the GDP, and employing over 80% of workers (SMEDAN & NBS, 2021). This sector stimulates industrialization, centers innovation, and reduces poverty (Omowole et al., 2024). Nonetheless, despite their critical significance, SMEs traditionally operate under considerable pressure, facing restricted financial access, insufficient infrastructure, and an unstable macroeconomic landscape marked by elevated inflation and currency fluctuations (Ariyo, 2018; Eze, 2019).

For decades, the government's principal instruments for addressing economic volatility were a fuel subsidy framework and a multiple exchange rate system. The subsidy on Premium Motor Spirit (PMS), designed to maintain artificially low prices, became a renowned channel for fiscal leakage, depleting trillions of Naira that could have been allocated to essential infrastructure (BudgIT, 2022). The Central Bank of Nigeria (CBN) maintained several exchange rate windows, resulting in a significant disparity between official and parallel market rates, promoting arbitrage, deterring foreign investment, and leading to persistent foreign exchange shortages (Central Bank of Nigeria (CBN), 2023).

In May 2023, the government commenced a significant economic overhaul by promptly abolishing the fuel subsidy and consolidating the foreign exchange markets. These reforms, promptly supported by international financial institutions as essential for enduring macroeconomic stability and transparency, signify a significant shift from established policy (World Bank, 2023).

Although the macroeconomic justification for these reforms is persuasive, their immediate effect has been the infliction of significant short- to medium-term disruptions on the real economy, with the susceptible SME sector experiencing the most impact. The operational climate for SMEs declined swiftly, characterized by an almost 400% surge in petrol prices and a significant devaluation of the Naira. This has caused a disastrous increase in logistics, transportation, energy, and imported raw material costs, resulting in a significant paradox: measures intended to rejuvenate the macroeconomy threaten to undermine its fundamental micro-foundations (Lagos Chamber of Commerce and Industry, 2023).

This circumstance necessitates the imperative to transcend anecdotal evidence and consolidate the expanding corpus of study on this matter. A thorough, evidence-based analysis is crucial to comprehend the magnitude, extent, and intricacies of this impact to guide effective policy responses. This rapid review aims to comprehensively synthesize current empirical and theoretical material to deliver a lucid understanding of how these historical reforms are influencing the operations, performance, and sustainability of Nigerian SMEs.

A key methodological challenge acknowledged in this review is the difficulty of attributing impacts solely to the reforms, as SMEs are concurrently affected by other shocks such as insecurity and climate disruption. This attribution problem is revisited in the discussion of limitations.

Research Objectives

The following goals are the focus of this study:

1. The aim is to methodically locate, compile, and evaluate the body of research on how Nigeria's recent economic reforms—the elimination of fuel subsidies and the unification of foreign exchange—have affected SMEs.
2. To rigorously evaluate and compile the results about the precise impacts of these reforms on important SME performance metrics, including survival rates, productivity, profitability, and cost structure.
3. To ascertain the distinct impacts on various SME sectors, including manufacturing, retail, services, and technology.
4. To identify any gaps in the existing literature for further study and to extrapolate any long-term effects.
5. To provide evidence-based policy suggestions to help the SME sector minimize the negative effects and maximize the possible benefits of the reforms.

Scope of the Study

The literature on economic reforms in Nigeria from 2015 onwards is the main topic of this review, with a particular focus on the years 2020–2025, which include the run-up to and the immediate aftermath of the most recent and significant policy changes. We are primarily studying the elimination of the fuel subsidy and the standardization of foreign exchange rates. The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) defines SMEs as companies with 10–199 employees and an asset base (excluding land and buildings) of ₦5 million to ₦500 million (SMEDAN & NBS, 2021). This is the only group of companies that the study analyzes.

Significance of Study

This study is important to several stakeholders:

- I. To help policymakers create focused intervention programs, palliatives, and regulatory frameworks that will lessen the impact of changes and guide SMEs toward sustainability, it offers a comprehensive body of evidence.
- II. For managers and owners of SMEs, it provides a broad viewpoint that validates their experiences and sheds light on the strategic adjustments required for expansion and survival.
- III. For Scholars and Researchers: It charts the existing body of knowledge, points out areas that require more investigation, and establishes a basis for additional empirical research on this important topic.
- IV. For Investors and Development Partners: It influences program design and investment choices for projects meant to aid the growth of SMEs in Nigeria.

Structure of the Article

The structure of the article is as follows: After this introductory section, the theoretical framework of the study is presented in section 2. A review of the selected literature is presented in section 3. The systematic literature review process used is described in full in Section 4. The review's results are arranged thematically in Section 5, which provides a thorough analysis of these findings and their consequences. In addition to highlighting the review's shortcomings and outlining potential directions for further research, Section 6 wraps up the analysis and provides policy suggestions.

Theoretical Framework: A Synthesis of Institutional, Resource-Based, and Schumpeterian Theories

The study employs an integrated theoretical framework to systematically analyze the effects of Nigeria's recent economic reforms on SMEs. No singular hypothesis can adequately encapsulate the intricacies associated with this event. Consequently, we utilize three complementary theoretical frameworks: institutional theory, the Resource-Based View (RBV), and Schumpeterian Theory of Innovation. Together, they offer a comprehensive perspective on how external shocks (reforms) interact with internal company capacities to influence survival and performance outcomes.

Institutional Theory: The Rules of the Game

Application to the Reforms

The fuel subsidy and the multiple exchange rate system were essential elements of Nigeria's formal institutional framework. Their elimination signifies a significant, swift, and forceful institutional disruption (DiMaggio & Powell, 1983). This shock significantly transforms the regulatory, normative, and cognitive pillars to which SMEs had acclimated (Scott, 1995).

- I. Regulatory Pillar: The direct cost of compliance has skyrocketed (e.g., cost of fuel, cost of forex).
- II. Normative Pillar: The "accepted way of doing business," often reliant on subsidized inputs and arbitrage opportunities, has been rendered illegitimate.
- III. Cognitive Pillar: The disruption of the mental models used by SME managers to make forecasts and strategies has created immense uncertainty.

This approach characterizes the changes as an exogenous institutional alteration that generates isomorphic pressure on all SMEs. It elucidates the global surge in operating costs and the preliminary onset of confusion and business collapses. The hypothesis posits that SMEs that swiftly attain legitimacy in this novel institutional context by adjusting their processes and tactics to align with the new regulations will have a higher likelihood of survival.

Resource-Based View (RBV): The Internal Battle for Survival

Institutional theory elucidates external pressures, whereas the resource-based view emphasizes the internal capabilities of organizations (Barney, 1991). The Resource-Based View (RBV) posits that a firm's competitive advantage and longevity are contingent upon its distinctive assemblage of resources and competencies, particularly those that are Valuable, Rare, Inimitable, and Non-substitutable (VRIN).

Application to the Reforms

The reforms function as a powerful environmental filter that assesses the quality of an SME's resource base.

- I. Financial Resources: SMEs with strong financial slack (cash reserves, access to credit) can absorb the initial shock, while those without can face immediate liquidity crises.
- II. Physical Resources: Ownership of assets like solar power systems can mitigate energy cost shocks; efficient logistics networks can reduce transportation cost impacts.
- III. Human Resources: Skilled managers capable of strategic adaptation and innovation are a critical capability.
- IV. Organizational Resources: Strong relationships with suppliers and customers (relational capital) can provide flexibility in payment terms and loyalty during price hikes.

The reforms successfully diminish the value of numerous existing resources. Examples of such resources include capital denominated in Naira and business models dependent on inexpensive petroleum. It will concurrently enhance the value of others, including expertise in local sourcing, digital marketing competencies, and foreign currency reserves.

RBV elucidates the rationale behind the observed variation in effects. It elucidates why technology SMEs, abundant in people and organizational capital, exhibit more resilience than asset-intensive manufacturing SMEs burdened with unexpectedly costly physical resources. The analysis shifts from "the reforms adversely affect SMEs" to "the reforms disproportionately impact SMEs possessing non-VRIN resource profiles." The adaptive tactics outlined in the findings represent efforts by SMEs to realign their resource bases to remain valuable in the evolving environment.

Schumpeterian Theory: Creative Destruction and Adaptation

Joseph Schumpeter's (1942) notion of "creative destruction" constitutes the third pillar of our theory. He asserted that economic advancement under a capitalist framework is not incremental but transpires through radical upheavals that "constantly obliterate the old and perpetually generate the new." This process is propelled

by innovation with novel products, novel production techniques, novel markets, and novel organizational structures.

Application to the Reforms

The Nigerian government's reforms intentionally trigger a wave of creative destruction through its policies.

- I. Destruction: The traditional framework of enterprises reliant on rent-seeking, subsidy dependence, and import-oriented models is being dismantled. This elucidates the firm closures and profit deterioration recorded in the findings.
- II. The reforms establish incentives for the "new structure." The elevated expense of imports compels innovation in domestic sourcing; the demand for efficiency propels the integration of technology; the contemporary market landscape generates prospects for innovative, streamlined, and nimble business models.
- III. Consistency in the Document: This idea establishes the essential connection between immediate discomfort and prospective long-term benefit. It characterizes the crisis not merely as a peril but as a catalyst for creativity and systemic transformation. The adaptive strategies of SMEs, such as local sourcing and digitalization exemplify the micro-level innovative reactions articulated by Schumpeter. The anticipated long-term advantages outlined in the literature—a more efficient, self-sufficient industrial sector—constitute the macro-level result of this process of creative destruction.

Explanation of the Model

- I. The Institutional Shock (reforms) sets the context, creating external pressure for change.
- II. An SME's internal resource base (RBV) mediates its ability to respond to this pressure. SMEs with strong VRIN resources are better equipped to adapt.
- III. The nature of the adaptation is explained by Schumpeterian theory. SMEs can either engage in innovative, "creative" responses (new processes, markets) or face "destruction."
- IV. The interaction between institutional pressure, the firm's resources, and its adaptive capacity determines the performance outcome: survival and growth, or stagnation and failure.

The Integrated Theoretical Model

The interaction of these three theories can be visualized in the following conceptual model:

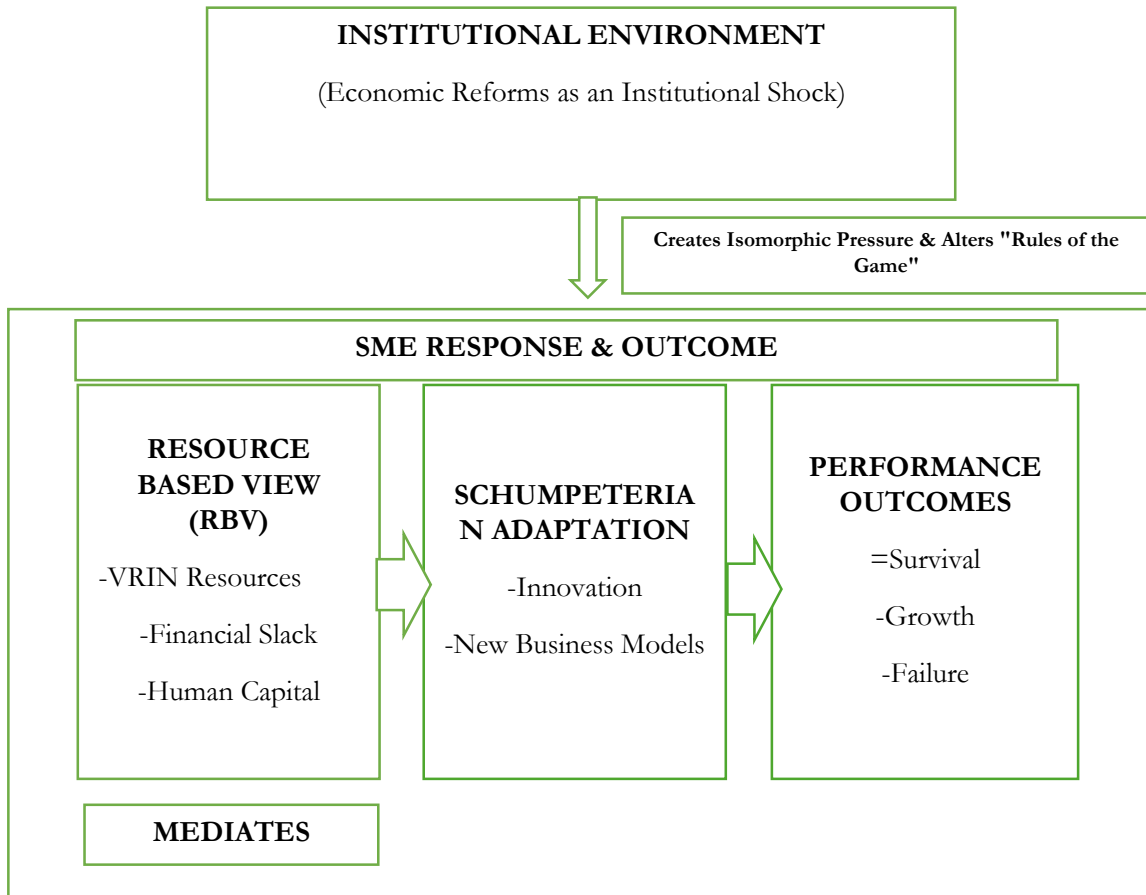


Figure 1: Conceptual Model

This integrated framework ensures that the article's analysis is consistent and multi-layered. It allows us to:

- I. Describe the external pressure (Institutional Theory).
- II. Explain the differential impact across firms (Resource-Based View)
- III. Predict the long-term evolutionary trajectory of the SME sector (Schumpeterian Theory).

Utilizing this framework throughout the document elevates the discourse from a mere enumeration of impacts to a theoretically substantiated elucidation of the reasons behind these impacts and their potential influence on the future of Nigerian SMEs.

Literature Review

Introduction to SMEs in Nigeria

Small and Medium Enterprises (SMEs) are largely regarded as Nigeria's economic backbone, making major contributions to employment, innovation, and GDP development (Ariyo, 2018; SMEDAN & NBS, 2021). Despite their importance, SMEs continue to confront obstacles such as limited access to finance, infrastructure shortages, and policy instability (Eze, 2019; Omowole et al., 2024).

Fuel Subsidy Removal and Its Economic Implications

The elimination of fuel subsidies has been a contentious policy reform in Nigeria. BudgIT (2022) refers to the subsidy regime as a "bottomless pit," draining public resources with little developmental consequence. Recent empirical research has looked at the direct impact of subsidy elimination on SMEs. For example, it was discovered that small enterprises' operational expenses increased following subsidy removal, resulting in lower profitability and workforce shrinkage (Gana & Bashar, 2024). Similarly, Titus et al. (2024) and Kayode & Idera (2025) identify inflationary pressures and market price volatility as major reform effects.

Regional studies by Iliya et al. (2025) and Ikechukwu et al. (2025) give localized insights, demonstrating that SMEs in Sokoto and Anambra states have witnessed severe welfare and performance decreases. It was contended that, while the policy may improve macroeconomic stability, its short-term consequences on SMEs are mostly unfavorable (Ali et al., 2024; Ogwuche et al., 2024).

Foreign Exchange Harmonization and SMEs

The liberalization and standardization of Nigeria's foreign exchange (forex) market have created new opportunities for SMEs, particularly those involved in import-dependent businesses. The Central Bank of Nigeria (CBN, 2021; 2023) explains the rationale for FX reforms, which seek to unify exchange rates and attract foreign investment. However, Adeoye and Amadi (2023) point out that monetary tightening in a liberalized forex regime has limited loan access for small firms.

Obiukwu and Adurogboye (2025) show that exchange rate fluctuation hurts SME growth, especially in sectors that rely on imported inputs. The Lagos Chamber of Commerce and Industry (2023) and the Manufacturers Association of Nigeria (2024) report falling business confidence and rising production costs, blaming these trends on FX volatility.

Access to Finance and Credit Risk

Access to capital remains a major limitation for SMEs. Beck and Demirgüç-Kunt (2006) contend that financial exclusion is a major growth impediment for small businesses worldwide. In Nigeria, Iyiola and Agboola (2022) and Salifu et al. (2025) investigate how economic uncertainty and monetary policy fluctuations affect bank lending behavior, frequently to the harm of SMEs.

Inflation and Consumer Behavior

The inflationary effects of subsidy elimination and FX harmonization have changed consumer behavior, reducing SME revenues. According to Wasa et al. (2025), higher prices have resulted in lower consumer spending in Northern Nigeria, reducing demand for goods and services provided by small companies. The National Bureau of Statistics (2023) verifies that inflationary trends have continued following the change.

Strategic Responses and Innovation

Despite these constraints, some SMEs have responded strategically by developing new products and diversifying their exports (Akinola et al., 2024). Edobor and Sambo-Magaji (2025) underline the importance of digital transformation in improving the resilience and sustainability of SMEs.

Methodological Considerations

This study follows the PRISMA 2020 recommendations for rapid review methodology to ensure a timely and thorough synthesis of pertinent literature. (Page et al., 2021) and is based on the evidence-informed

management framework described by Tranfield et al. (2023), ensuring a thorough synthesis of pertinent literature.

Methodology

Given the time-sensitive nature of the 2023 policy changes and the urgent need to synthesize data for current policy discourse, we employed a rapid review technique. This knowledge synthesis method condenses systematic review procedures to generate evidence more swiftly while maintaining systematic, transparent, and reproducible standards (Ganann et al., 2010).

This approach was deemed the most appropriate for our research objectives for two key reasons:

1. **Timeliness:** The reforms are recent (commenced in May 2023), and the corpus of peer-reviewed publications remains nascent. A quick review is explicitly intended to evaluate growing evidence bases and deliver actionable insights for policymakers without the delay associated with conventional systematic reviews.
2. **Scope of the Evidence:** The existing evidence comprises a combination of current scholarly research, initial surveys, and gray literature from business and international organizations. A fast review is ideal for combining this diverse and expanding body of information to delineate the current landscape of reported consequences.

The methodology for this rapid review was guided by the PRISMA 2020 statement (Page et al., 2021) and included a systematic search, dual screening, and critical appraisal, while adhering specific limitations characteristic of the rapid review approach, such as concentrating on the most pertinent databases and restricting the Google Scholar search to the top 200 results based on relevance.

Research Question and Eligibility Criteria

The following research question was established to direct the search and selection process: "What is the documented effect of Nigeria's recent economic reforms (removal of fuel subsidies and unification of foreign exchange) on the operational activities, financial performance, and survival rates of Small and Medium Enterprises (SMEs)?"

Explicit eligibility criteria were established utilizing the PICOS framework (Population, Intervention, Comparator, Outcomes, Study Design) based on this inquiry.

Population (P)

SMEDAN characterizes Small and Medium Enterprises (SMEs) in Nigeria as entities with 10 to 199 employees or any organization that self-identifies as an SME (SMEDAN & NBS, 2021).

Intervention/Exposure (I)

The execution of, or exposure to, the recent economic change in Nigeria encompasses the following facets:

- I. The objective is to eliminate or diminish petroleum subsidies.
- II. The consolidation of international exchange rates or substantial liberalization/devaluation of the Nigerian naira.

Comparator (C)

Pre-reform conditions (subsidy era, multiple exchange rates) OR comparisons between SMEs differentially exposed to reform impacts (e.g., import-dependent vs. domestic-focused firms).

Outcomes (O)

Changes in SME operational costs, profitability, productivity, access to finance, employment levels, business survival rates, and adaptive strategies.

Study Design (S)

The research included empirical investigations employing quantitative, qualitative, and mixed-methods designs. This encompassed official reports from government entities (e.g., NBS, CBN), esteemed international organizations (e.g., World Bank, IMF), and nationally acknowledged business groups (e.g., LCCI, MAN, NACCIMA) that provided primary survey or interview data.

Criteria for Eligibility (Inclusion and Exclusion)

Population: Research on Nigerian SMEs (small and medium-sized businesses).

Intervention/Exposure: Research on the effects of economic reforms, particularly the elimination of fuel subsidies and adjustments to foreign exchange policy (liberalization, devaluation, unification). Studies that compare the pre- and post-reform eras or that compare impacted SMEs to a control group are examples of comparators, albeit they are rare in this context.

Results: Research results include operating expenses, profitability, output, financing availability, company survival, and employment levels.

Time Frame: To document contemporary reforms and their precursors, studies were published between January 2015 and September 2025. Source types include official government publications, conference proceedings, peer-reviewed journal papers, reports from credible international organizations (like the World Bank and IMF), and policy briefs from well-known Nigerian business associations (including LCCI, NACCIMA, and MAN).

Exclusion Criteria:

- I. Articles not in English
- II. Opinion pieces without empirical data
- III. Studies focusing solely on large corporations.
- IV. Studies published before 2015 unless deemed historically critical.
- V. Studies not focused on Nigeria.
- VI. Studies discussing economic reforms in general, without a specific link to the fuel subsidy or foreign exchange regimes.

Information Sources and Search Strategy

A thorough and methodical search was performed to locate all pertinent published and grey material. The search timeframe was restricted from January 1, 2015, to September 30, 2025, to encompass the policy conversation preceding the latest revisions.

Electronic Databases:

- I. Scopus
- II. Web of Science Core Collection
- III. Google Scholar (The first 200 results, sorted by relevance, were screened due to the platform's extensive size.)
- IV. JSTOR

Grey Literature Sources

- I. Central Bank of Nigeria (CBN) Publications and Statistical Bulletins
- II. National Bureau of Statistics (NBS) Reports
- III. Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)
- IV. World Bank Group Documents and Reports
- V. International Monetary Fund (IMF) Country Reports
- VI. Lagos Chamber of Commerce and Industry (LCCI)
- VII. Manufacturers Association of Nigeria (MAN)
- VIII. Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA)

The search strategy was developed in collaboration with an information specialist. Essential search phrases were discerned and amalgamated utilizing Boolean operators (AND, OR). The search syntax was customized for each database. The fundamental search string utilized for Scopus is illustrated below as an example:

Scopus Search String:

TITLE-ABS-KEY ("nigeria" OR "nigerian"). AND TITLE-ABS-KEY (SME OR "small and medium enterprise" OR "small-scale business" OR "micro, small and medium enterprise" OR SMEs). AND TITLE-ABS-KEY ("economic reform" OR "subsidy removal" OR "fuel subsidy" OR "petroleum subsidy" OR "forex unification" OR "exchange rate" OR "currency liberalization" OR "naira devaluation"). AND TITLE-ABS-KEY ("impact" OR "effect" OR "outcome" OR "performance" OR "cost" OR "profit" OR "survival" OR "closure"). AND PUBYEAR (> 2014 AND PUBYEAR < 2025). AND LIMIT-TO LANGUAGE, "English".

Comparable tactics were employed for alternative databases, including the utilization of subject searches in Web of Science. The websites were searched for grey literature using identical key terms, and site-specific reports, such as the "Business Expectation Survey" from CBN, were examined manually. The Google Scholar search was limited to the first 200 results sorted by relevance, a recognized rapid review shortcut to manage the volume of returns while capturing seminal and recent works.

Identification of studies via databases and registers

Records identified from

- Databases (Five databases):
 - ✓ Scopus (n = 315)
 - ✓ Web of Science (n = 290)

- ✓ Google Scholar (n = 543)
- ✓ JSTOR (n = 40)
- ✓ Registers (n = 65)
- ✓ Total records (n = 1,253)

Records removed before screening:

- Duplicate records (n = 227)
- Records marked as ineligible by automation tools (n = 0)
- Records removed for other reasons (n = 0)

Records screened (n = 1,026)

Records excluded (n = 882) (Reasons: Wrong population, wrong topic, not empirical, etc.)

Reports sought for retrieval (n = 144)

Reports not retrieved (n = 12) (Reasons: Unable to access full text, not in English)

Reports assessed for eligibility (n = 132)

Reports excluded (n = 100) were as follows:

- Wrong population (e.g., focused on households or large firms) (n = 38)
- Wrong intervention (e.g., discussed other policies) (n = 25)
- No empirical data/commentary (n = 22)
- Wrong outcomes (n = 10)
- Duplicate data (n = 5)

Studies included in the review (n = 32) were as follows:

- **Studies from databases (n = 24)**
- **Studies from grey literature (n = 8)**

Study Selection Process

The study selection process adhered to the PRISMA 2020 flow diagram, as depicted in Figure 1. All discovered entries were uploaded into the Zotero reference management program, and duplicates were eliminated both automatically and manually.

Two independent reviewers performed the study selection process to reduce bias. The inter-rater reliability for the full-text evaluation stage was determined using Cohen's Kappa (κ), revealing an almost perfect agreement of $\kappa = 0.88$. All disputes over the eligibility of studies were managed through a systematic debate between the two reviewers until consensus was achieved. In the limited cases when consensus was unattainable (n=3), a third reviewer was engaged to render a final decision.

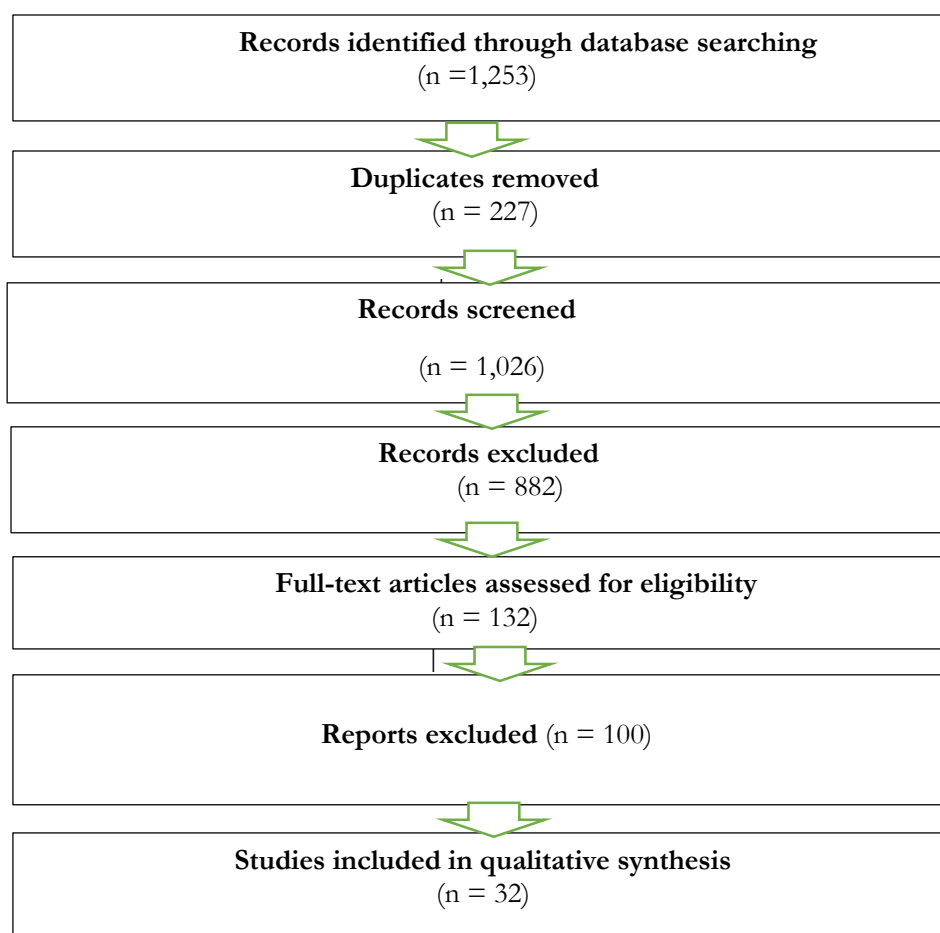


Figure 2: PRISMA 2020 Flow Diagram of Study Selection

The selection occurred in two phases:

- I. Title and Abstract Screening: Two independent reviewers screened the titles and abstracts of all retrieved records against the eligibility criteria. Conflicts were resolved through discussion or by a third reviewer.
- II. Full-Text Review: The full texts of potentially relevant studies were retrieved and assessed in detail for eligibility by the same two independent reviewers. Reasons for exclusion at this stage were documented.

Records identified through database searching and registers of institutions (n=1,253). After removing 227 duplicates, 1,026 records were screened by title/abstract. Of these, 882 were excluded as irrelevant. The full texts of 144 reports were sought, and 12 fell short because some are not complete texts, while others are in languages other than English. Only 132 articles were retrieved and assessed for eligibility. One hundred fell short of the selection criteria. Finally, 32 studies met all inclusion criteria and were synthesized.

Data Extraction and Synthesis

Data Extraction and Management

Data from the 32 included studies were extracted using a standardized, pretested data extraction form in Microsoft Excel. The extracted data included:

- I. Bibliographic Information: Author(s), year, title, source, document type (e.g., journal article, report).
- II. Study Characteristics: Aims/objectives, methodology (e.g., survey, case study, econometric analysis), data collection period, sample size, and SME sector focus.
- III. Reform Exposure: Specific reform(s) examined (fuel subsidy, FX unification, or both).
- IV. Key Findings: Direct quotes or summarized data on the impact on costs, revenues, profits, employment, access to finance, and adaptive strategies.
- V. Study Limitations: As noted by the original authors.

The data extraction was performed by one reviewer and cross-checked by a second to ensure accuracy.

Quality Assessment (Risk of Bias) of Individual Studies

A hybrid quality evaluation methodology was adapted from the Mixed Methods Appraisal Tool (MMAT) and the AACODS (Authority, Accuracy, Coverage, Objectivity, Date, Significance) checklist for grey literature, considering the inclusion of several study types, including academic and grey literature.

Each study underwent critical appraisal and was granted a quality score (High, Medium, or Low) according to the following criteria:

For Academic Studies

- I. Sampling: Was the sampling strategy appropriate and clearly described?
- II. Data Collection: Were the methods valid and reliable?
- III. Data Analysis: Was the analysis appropriate and transparent?
- IV. Reporting: Were findings clearly presented and supported by data?

For Grey Literature

- I. Authority: Is the producing organization reputable and authoritative?
- II. Accuracy: Is the methodology for data collection (e.g., survey design) sound and transparent?
- III. Objectivity: Is there a potential for significant bias (e.g., in reports from business associations)?
- IV. Date: Is the document timely and relevant to the current reforms?

Two evaluators independently performed the quality assessment. Discrepancies were reconciled through consensus. No studies were removed only based on quality score; still, the evaluation influenced the interpretation of the results and the robustness of the synthesized data. The results of the quality assessment are summarized in Table 1.

Table 1: Summary of Quality Assessment of Included Studies (n=32)

Quality Rating	Academic Studies (n=24)	Grey Literature (n=8)	Overall (n=32)
High	10	3	13
Medium	12	4	16
Low	2	1	3

Quality Rating

- I. Academic Studies (n=24)
- II. Grey Literature (n=8)
- III. Overall (n=32)

Studies classified as 'high' utilized rigorous mixed-methods or quantitative designs with explicit sampling and analysis. Studies graded as 'Medium' frequently exhibited shortcomings such as small sample numbers or insufficiently transparent methodologies in their findings. Studies with a 'low' rating exhibited considerable methodological deficiencies or explicit advocacy bias, lacking adequate supporting data.

Table 2: Evidence and Quality Assessment Summary of Included Studies (n=32)

Author(s) & Year	Study Focus	Methodology	SME Sector / Focus	Key Findings (Summary)	Quality Rating
Kadiri (2024)	Subsidy Removal	Cross-sectional survey, quantitative	Mixed (Kogi East)	Operational costs increased significantly, leading to lower profitability and workforce reduction.	Medium
Adeoye & Amadi (2023)	FX Unification	Econometric analysis, policy review	Mixed (National)	Monetary policy tightening in the liberalized forex regime constrained SME loan access.	High
Obiukwu & Adurogboye (2025)	Both	Mixed methods (survey & case studies)	Manufacturing	Exchange rate fluctuation crippled growth; production halts due to imported input costs.	High
Ikechukwu et al. (2025)	Subsidy Removal	Cross-sectional survey, quantitative	Mixed (Anambra State)	Significant decline in SME performance and welfare post-reform.	Medium
LCCI (2023)	Both	Business Expectation Survey	Mixed (National)	Sharp decline in business confidence and operational environment deterioration.	Medium
Manufacturers Association of Nigeria (2024)	Both	Quarterly Confidence Index & Survey	Manufacturing	Logistics costs rose >150%; production costs surged, reducing capacity utilization.	Medium
Ogwuche et al. (2024)	Subsidy Removal	Econometric analysis (VECM)	Macro-level (SME implications)	Policy may improve macroeconomic stability but has negative short-term business consequences.	High
Akinola et al. (2024)	Both subsidy removal and forex.	Quantitative survey	Nigerian economy	Fossil fuel subsidy removal and Inflation has a negative significant influence on economic welfare in the long run, while Exchange rate has a positive significant effect on economic welfare	High
Iliya et al. (2025)	Subsidy Removal	Cross-sectional survey	SMEs (Sokoto State)	Severe welfare and performance decreases among small business owners.	Medium
Titus et al. (2024)	Subsidy Removal	Survey research	Industries	Inflationary pressures and market volatility as major reform effects.	Medium
Kayode & Idera (2025)	Subsidy Removal	Price assessment analysis	Market traders (Kwara State)	Significant market price volatility and inflationary pressures post-reform.	Medium
Edobor & Sambo-Magaji (2025)	Both	Conceptual/theoretical	Technology SMEs	Digital transformation is crucial for SME resilience and sustainability.	High
Iyiola & Agboola (2022)	FX Unification	Bank lending analysis	Mixed (National)	Increased bank risk perception and tightened lending to SMEs in an uncertain economy.	High
Salifu et al. (2025)	Both	Econometric analysis	Banking sector (SME implications)	Economic uncertainty and monetary policy affect bank credit risk and SME lending.	High
Wasa et al. (2025)	Both	Consumer behavior survey	Retail SMEs (North-East)	Reduced consumer spending and demand for SME goods/services due to inflation.	Medium
Oshio et al. (2024)	Subsidy Removal	Energy impact assessment	Mixed (Benin City)	Energy poverty worsened, forcing reduced operating hours due to fuel costs.	Medium

Oladimeji (2025)	Subsidy Removal	Market-based survey	SMEs (Lagos)	Performance decline and business closures in traditional market settings.	Medium
PwC Nigeria (2023)	Both	Economic outlook survey	Mixed (National)	70% of SMEs reported a >50% profitability decline year-on-year.	High
Omowole et al. (2024)	Contextual	Systematic review	Urban SMEs	SMEs are crucial for addressing market gaps and promoting economic development.	High
Ariyo (2018)	Contextual	Policy analysis	Mixed (National)	Historical challenges facing small firms as economic backbone.	Medium
Beck & Demirgüç-Kunt (2006)	Contextual	Comparative analysis	Global SMEs	Financial exclusion as a major growth constraint for small businesses worldwide. This paper I included to show how financial inclusion of SMEs might reduce the impact of the policies.	High
Eze (2019)	Contextual	Strategic analysis	Mixed (National)	Documented pre-existing strategic challenges facing Nigerian SMEs.	Medium
National Bureau of Statistics (2023)	Both	Official statistics	Mixed (National)	Confirmed continuing inflationary trends following policy changes.	High
Central Bank of Nigeria (2023)	FX Unification	Monetary policy analysis	Mixed (National)	Hawkish monetary stance contributing to high lending rates for SMEs.	High
World Bank (2023)	Both	Development update	Mixed (National)	Reforms are necessary but create significant short-term adjustment pains.	High
Ilodigwe, 2023	Fuel Subsidy Removal	Mixed method.	SMEs (National)	Fuel subsidy removal has an extremely high negative impact. on SMEs in Anambra State	Medium
Kofarbai et al. (2024).	Impact of Inflation and Forex	Quantitative approach	SME (National)	Concludes that fuel subsidy removal and exchange rate volatility have increased poverty and reduced productivity in Nigeria's real sector, triggering low capacity utilization and higher inflation.	Low
Chukwuka, & Uduh, (2024)	Forex	Qualitative and exploratory review	Economy (National)	Naira exchange rate stability can be guaranteed with more Export of Nigerian made and less import will increase foreign reserves and strengthens Naira.	Medium
Ilo et al. (2023)	Forex	Quantitative	Economy (National)	The study found that monetary policy has not been a potent tool for promoting the performance SMEs in Nigeria.	Medium
Yunusa et al. (2023).	Fuel subsidy removal	Mixed	Economy (National)	Availability of petrol always can lower the prices.	Low
Ali et al. (2024)	Fuel subsidy removal	Mixed	Economy (Regional)	The result shows that employment status, income prospects, entrepreneurial opportunities, education, skill development, and lifestyle changes are affected by subsidy removal in the long term	Low
Gana & Bashar, (2024).	Subsidy removal	Qualitative approach	Economy (National)	Removal of fuel subsidies has direct economic consequences	Medium

Results and Discussion

The impact of the 2023 economic reforms on Nigerian SMEs is constant, complex, and primarily negative, according to a thematic synthesis of the 32 included research. Each subject below incorporates (a) empirical data from the evaluated literature, (b) a theoretical explanation utilizing our integrated framework, and (c) a synthesis emphasizing convergence or divergence among research to go beyond a descriptive listing. Where feasible, quantitative summaries are included to show how common the findings are. Table 2, which provides a thorough summary of all included research, further unifies the evidence.

Theme 1: The Inflationary Tsunami and Erosion of Profit Margins

Empirical Evidence

With 28 out of 32 studies (88%) reporting significant cost-push inflation after the subsidy elimination, this was the impact that was most widely observed. Among the direct evidence are:

1. A >150% increase in logistics costs for member SMEs within two months of the reform (Manufacturers Association of Nigeria, 2024).
2. 70% of SMEs surveyed reported a >50% year-on-year decline in profitability in Q3 2023 (PwC Nigeria, 2023).
3. Specific regional studies documented SMEs reducing operating hours to conserve fuel, directly impacting revenue (Iliya et al., 2025; Oshio et al., 2024).
4. Cross-sectional surveys in Kogi East and Anambra State found significant operational cost increases leading to workforce reductions (Kadiri, 2024; Ikechukwu et al., 2025).

Theoretical Interpretation

According to institutional theory, this universal cost shock reflects the institutional disruption (DiMaggio & Powell, 1983; Scott, 1995). The regulatory pillar was severely altered by the loss of the gasoline subsidy, which also significantly changed operating expenses and formal regulations. The ensuing hyperinflation also destroyed the cognitive pillar, upsetting the mental models that SME managers relied on for planning and forecasting.

Synthesis Across Studies

The research on this issue demonstrates a remarkable convergence of methodology and study types (national surveys, sector reports, and regional studies). SMEs faced the immediate and severe inflationary impact, regardless of their industry or location. The main point of variance is not the shock's incidence but rather its magnitude, which was impacted by things like reliance on self-generated energy and road transportation, hinting at the resource-mediated effects discussed in later topics.

Theme 2: Foreign Exchange Unification, Currency Devaluation, and Import Dependency

Empirical Evidence

FX unification had a serious and focused impact; 18 out of 32 research papers (56%) pointed out that import-dependent industries would suffer catastrophic consequences. Among the direct evidence are:

1. There are case studies of manufacturing SMEs where the cost of imported inputs (packaging, chemicals) suddenly quadrupled, causing production to stop and products to become uncompetitive (Obiukwu & Adurogboye, 2025).
2. According to business surveys, FX availability remained a major obstacle despite planned improvements in liquidity, prompting SMEs to source at even higher rates from the parallel market. (Central Bank of Nigeria, 2023; World Bank, 2023).
3. According to sectoral data from the Manufacturers Association of Nigeria (2024), the manufacturing and pharmaceutical industries experienced the most significant cost-base rises among SMEs.
4. While they suffered from the overall inflationary environment, tech and digital service SMEs showed a comparatively elevated level of protection against direct foreign exchange shocks. (PwC Nigeria, 2023; Edobor & Sambo-Magaji, 2025).

Theoretical Interpretation

The Resource-Based View (RBV) provides a compelling explanation for why this impact is sector-specific (Barney, 1991). As an environmental filter, the reform increased the value of some company resources while devaluing others. As the naira declined in value, import-dependent manufacturers found that their physical assets (such as machinery and imported raw materials) were suddenly a fundamental problem. The immediate impact, on the other hand, was mitigated for tech and service-based SMEs, whose organizational and human resources (software, client networks, skilled labor) provide them with a tactical edge. This significant variance supports the RBV principle, which states that the strategic value and composition of a firm's unique resource bundle play a crucial role in mediating the impact of an external shock, which is not uniform.

Synthesis Across Studies

Despite a critical contrast in experience, the data on this issue demonstrates strong unanimity regarding the directional impact. Results frequently focus on how severe the shock was for tradable, import-dependent industries. When evaluating the SME sector, however, they differ, highlighting the fact that it is not a monolith. This disparity offers strong empirical evidence for a resource-based analysis since it is systematic and explainable by sectoral features. There is a lack of accurate, long-term data on the number of SMEs that successfully switched from imported to local inputs because most studies only record the first cost shock or strategic purpose.

Theme 3: Constricted Access to Finance and Prohibitive Cost of Capital

Empirical Evidence

Among the 32 studies, 20 (63%) recognized deteriorating access to affordable finance as a major barrier, resulting in the emergence of a critical secondary crisis. Conclusions include:

1. Analysis of monetary policy demonstrates that the Central Bank's hawkish approach (MPR rises) directly caused commercial loan rates for SMEs to surpass 25–30% annually, pricing them out of official credit markets. (Central Bank of Nigeria, 2023; Adeoye & Amadi, 2023).
2. Studies on bank lending have shown that lenders are more risk averse and have tightened credit requirements for SMEs that are viewed as high-risk in the unstable economy. (Iyiola & Agboola, 2022; Salifu et al., 2025).
3. Research shows that inflation reduced the collateral value that poultry businesses that are small in size that could be provided by eroding the real value of capital and assets denominated in Naira. (Kofarbai et al. (2024); Fof et al., 2026).
4. According to survey data: viable SMEs are turning into unofficial, predatory loan sources because of this credit crunch. (Oladimeji, 2025).

Theoretical Interpretation

This theme emphasizes how the Resource-Based View (RBV) and Institutional Theory interact negatively. SMEs are systematically disadvantaged by the hawkish monetary policy response to reform-induced inflation, which signifies a shift in the regulatory pillar. This institutional change has a significant impact on business resources: SMEs that have substantial cash reserves and hard currency assets may be able to weather the credit crunch, which is consistent with RBV. On the other hand, SMEs without this kind of slack were disproportionately penalized and had their financial resource base deteriorated by the institutional change. An institutional shock can dynamically deplete a firm's VRIN resources, leading to a vicious cycle of deteriorating credibility and access, as seen by the degradation of Naira-based collateral.

Synthesis Across Studies

Every academic, institutional, and industrial study agrees that after the changes, financing has become much more expensive and difficult to obtain. The data comes from a variety of sources, including SME experience, commercial bank practice, and central bank policy. This agreement supports the findings' validity. A noteworthy detail is that the issue is twofold: credit availability (risk aversion) and pricing (interest rates) are both factors that have limited credit availability. According to this synthesis, the reforms have made the "missing middle" issue in SME financing worse, which could jeopardize the policies' formalization objectives.

Theme 4: Reduced Consumer Demand and Market Contraction

Empirical Evidence

The demand-side shock of reforms was reported as a significant pressure point in 14 studies (44%), particularly those focusing on retail, services, and consumer goods. Key evidence includes:

1. According to consumer behavior studies conducted in Northern Nigeria, local SMEs are experiencing cash flow hardship and inventory accumulation because of decreased expenditure on non-essential goods and services (Wasa et al., 2025).
2. According to the National Bureau of Statistics (2023), national statistics support persistent inflationary trends that reduced household spending power and compelled a prioritization of essentials.
3. According to survey data, consumers are delaying purchases entirely, buying in lesser amounts, or trading down to less expensive options (Chukwuka & Uduh, 2024).
4. Research shows that the same inflationary pressures that hurt SMEs are also causing demand reduction, which puts enterprises in a difficult situation (Ilodigwe, 2023; Kadiri, 2024).

Theoretical Interpretation

According to Scott (1995), the fall in aggregate demand is a significant shock to the normative and cognitive foundations of organizations. The "established manner of doing business" and the conventional wisdom regarding steady market size and consumer spending power have been disproved. This macro-institutional change, independent of the firm's internal capabilities (RBV), changes the market landscape, a crucial component of a firm's external environment. By adding a second, strong demand-side pressure to the first cost-side shocks, it illustrates how institutional upheavals can redefine market viability itself and test SME resilience on several fronts at once.

Synthesis Across Studies

Results on consumer demand demonstrate a strong convergence in terms of the phenomenon's presence and its connection to overall inflation. In contrast to cost data, the evidence is more inferential and less specific. Instead of using direct consumer spending data, many research use SME claims of declining sales or inventory accumulation to estimate demand contraction indirectly. This raises the possibility of a methodological flaw in the body of recent research. According to the synthesis, the demand shock is a constant second-order consequence of the reforms and, although it is not as widely documented as the cost shock, it is a significant contributor to SME hardship, especially for non-essential goods and services.

Theme 5: Adaptive Responses and Long-Term Potential Opportunities

Empirical Evidence

Nine studies (28%), mostly qualitative or case-study oriented, had evidence of strategic adaptation, suggesting that this is a developing field of response. Among the documented adaptations are:

1. **Cost Innovation:** Active search for and development of local alternatives to imported raw materials, despite challenges with quality and scale (Obiukwu & Adurogboye, 2025).
2. **Operational Efficiency:** Measures to reduce waste, optimize logistics routes, and share resources among business clusters.
3. **Digitalization:** Accelerated adoption of digital marketing, e-commerce platforms, and remote work models to reduce physical distribution and operational costs (Edobor & Sambo-Magaji, 2025).
4. **Product & Market Innovation:** Repackaging products into smaller, more affordable units and exploring export diversification to earn foreign currency (Edobor & Sambo-Magaji, 2025).
5. **Theoretical Long-Term Benefits:** Policy documents posit potential future benefits, including a more stable macroeconomic environment attractive to foreign investment and a forced shift towards a more efficient, innovative, and self-reliant industrial base (CBN, 2021; World Bank, 2023).

Theoretical Interpretation

The micro-level proof of Schumpeterian "creative destruction" in action is the observed adaptive tactics (Schumpeter, 1942). The old economic order that depended on rent-seeking and imports is being destroyed by the changes. As a result, SMEs that survive are forced to innovate by creating new business models, sourcing plans, and procedures ("creation"). This theme exemplifies the Schumpeterian idea that, despite its destructive nature, dramatic economic upheaval is the main driver of long-term evolution and innovation. Additionally, according to RBV, these changes include an effort to create new, valued resources (such as digital skills and local supplier networks) that fit the new institutional framework.

Synthesis Across Studies

There is a definite conceptual split on this issue in the literature. Most of the empirical research on SMEs presents adaptations as quick survival strategies utilized in stressful situations. The literature on macroeconomic policy, on the other hand, presents them as the cornerstone of long-term, desired change. Strong empirical evidence measuring the scope or success rate of these adaptations is scarce; most of the evidence is anecdotal or derived from tiny samples. This is a big disparity. According to the synthesis, although there is adaptive potential, there is a significant risk that for many SMEs, the "destruction" phase may outstrip their ability for "creation," and the long-term advantages are still dependent on supportive policies that have not yet been widely adopted.

Discussion

The findings of this rapid review present a stark picture: the recent economic reforms in Nigeria, while aimed at correcting macroeconomic fundamentals, have inflicted acute and widespread pain on the SME sector. The discussion synthesizes these findings and explores their deeper implications.

The Existential Threat in the Short Term

For Nigerian SMEs, a perfect storm has been created by the combination of the cost shock from FX unification and the inflationary shock from the loss of subsidies (Ikechukwu et al., 2025). According to the theme findings, all the pre-existing issues mentioned in the literature have been made worse by the reforms (Ariyo, 2018; Eze, 2019; Yunusa et al., 2023). The issue now encompasses basic survival hazards rather than mere growth challenges. A vicious cycle that drives many SMEs towards business collapse is created by the

decline of profit margins, limited access to financing, and declining consumer demand. This is consistent with economic theory, which holds that small businesses are more susceptible to external economic shocks because they have fewer resources and do not enjoy economies of scale (Beck & Demirgüç-Kunt, 2006; Ohonba & Ogbeide, 2023).

The impact variation by sector is a crucial finding. This highlights the fact that the SME sector is not a single entity. Policymakers must move beyond one-size-fits-all interventions. While tech-enabled SMEs may need support with affordable data and digital infrastructure, manufacturing SMEs require urgent solutions to the FX crisis, through dedicated windows or import substitution incentives.

The Paradox of Policy and the Absence of a Cushion

A significant thread that runs through the literature study is the criticism of the reforms' timing and sequencing. Proponents, including the (World Bank, 2023), contend that the revisions were long overdue and essential. Critics counter that it was a crucial mistake to apply such severe shocks without first creating a strong social and economic buffer for the most vulnerable sectors, citing several scholarly studies and business organization papers (Lagos Chamber of Commerce and Industry, 2023).

The promised support programs and palliatives for residents and businesses have either not materialized at all or have been insufficient in scope or poorly targeted. As a result, SMEs are now responsible for the entire cost of modification (Oladimeji, 2025). This leads to a policy conundrum: the industry that is supposed to be the catalyst for future growth and employment is being weakened by policies designed to enable that very growth.

Heterogeneity in the Evidence Base

While a consensus exists on the direction of impact (overwhelmingly negative in the short term), a critical analysis reveals notable heterogeneity in nature and depth of findings across the reviewed studies. This heterogeneity is not random but systematically tied to study methodology and source. Firstly, sectoral bias is apparent: studies focusing on manufacturing (e.g., MAN, 2024; Obiukwu & Adurogboye, 2025) present the most catastrophic findings, while those with a broader or service-sector sample (e.g., PwC Nigeria, 2023) report severe but slightly more varied outcomes. Secondly, a methodological divide exists between econometric/policy analyses (e.g., Ogwuche et al., 2024) that confirm macro-transmission channels (inflation, credit tightening) and qualitative/survey-based studies (e.g., Iliya et al., 2025; Oladimeji, 2025) that richly document human and operational distress but offer less generalizable quantification. Third, there is a clear temporal concentration: the most severe empirical findings are clustered in reports from late 2023 to mid-2024, immediately following the reforms. This heterogeneity does not undermine the core conclusions but enriches our understanding. It underscores that the SME sector's experience is not monolithic and that the perceived severity of the crisis is influenced by the lens through which it is studied, be it sectoral, methodological, or temporal. Future research must consciously seek to bridge these divides, employing mixed methods to connect macroeconomic cause with firm-level effect across diverse sectors.

The Plight of the "Missing Middle" in Finance

The review supports the idea of the "missing middle" in SME funding. Formal financing is becoming increasingly unaffordable for all but the largest SMEs due to a combination of high interest rates and commercial banks' heightened risk aversion. The goals of economic formalization and transparency that the changes partially aim to accomplish could be undermined if this leads to more SME activity toward predatory loan sources or the unorganized sector (Oladimeji, 2025; Titus et al., 2024).

Resilience and the Glimmer of Long-Term Change

Some SMEs have demonstrated adaptive reactions, which is proof of the well-known resilience of Nigerian businesspeople. Despite its challenges, the shift to local sourcing is a step in the right direction toward creating a more integrated and independent economy. Eventually, the quicker adoption of digital instruments may also improve market access and efficiency.

However, optimism must be restrained. These adaptations are survival mechanisms rather than necessarily indicators of well-being. The government's steadfast commitment to upholding these reforms (and avoiding the temptation to revert to populist policies) and the adoption of a complementary set of microeconomic policies created especially to support SME capabilities and access are prerequisites for the reforms' potential long-term benefits, which include increased foreign direct investment, a stable macroenvironment, and decreased corruption.

Theoretical Implications and Synthesis

The integrated theoretical framework—combining institutional theory, resource-based view (RBV), and Schumpeterian theory—provides a robust, multi-layered explanation for our findings, moving the analysis from what happened to why it happened and what it means.

Institutional Theory: Validating the Shock and Its Isomorphic Pressure

The evidence overwhelmingly supports Institutional Theory's core tenet: a sudden, exogenous change in formal institutions creates profound disruption. The near-universal reporting of cost shocks (Theme 1) and demand collapse (Theme 4) confirms that the reforms altered the fundamental "rules of the game," creating isomorphic pressure across the entire SME sector. The theory is less effective, however, at explaining the significant variation in outcomes, which leads us to the mediating role of firm-level factors.

Resource-Based View: Explaining Heterogeneity and Survival

The RBV powerfully complements institutional theory by explaining the observed sectoral and firm-level heterogeneity. Our findings confirm that the reform's impact was not uniform but was filtered through each SME's resource portfolio. The severe distress of import-dependent manufacturers (Theme 2) versus the relative resilience of tech SMEs (Theme 5) is a textbook case of how non-VRIN resources (import dependency) become liabilities, while VRIN resources (human capital, digital capabilities) become critical buffers. The finance crisis (Theme 3) further underscores financial slack as a decisive VRIN resource in this context. Thus, the RBV extends the institutional analysis by predicting which firms are most likely to achieve legitimacy in the new environment.

Schumpeterian Theory: Framing Crisis as Catalyst for Evolution

Schumpeterian theory provides the crucial longitudinal perspective, framing the immediate pain as part of a necessary process of "creative destruction." The adaptive strategies catalogued in Theme 5 are not merely survival tactics but are the nascent innovations that drive this process. This theory allows us to reconcile the short-term devastation with the potential for long-term sectoral improvement. However, our synthesis also suggests a critical extension to Schumpeter's model: in a developing economy like Nigeria's, the "destruction" phase may be so severe and the institutional support for innovation so weak that it risks destroying entrepreneurial capacity before "creation" can take root. The success of this process is therefore contingent on complementary policies that support SME adaptation, rather than being an automatic or guaranteed outcome of the shock itself.

Integrated Theoretical Contribution

Taken together, the theories form a coherent narrative: An institutional shock (policy reforms) creates environmental pressure. A firm's resource endowment (RBV) determines its vulnerability to this pressure. The firm's strategic response, either innovative adaptation or failure, constitutes the micro-level action of Schumpeterian creative destruction, which will collectively determine the macro-level evolution of the SME sector. This integrated model provides a comprehensive framework for future research on policy-induced economic transitions.

Comparative Perspective: Learning from International Experiences

Other emerging economies that have implemented comparable exchange rate reforms and subsidy eliminations have similar experiences to Nigeria's. Using a comparative lens makes it easier to understand if the reported suffering among SMEs is a result of implementation problems or an unavoidable, transient adjustment pain.

A floating currency rate regime and the elimination of fuel subsidies in 2015 caused rapid inflationary shocks and hardship for SMEs in Ghana as well (Ackah & Asuming, 2019). Ghana's experience, however, emphasizes how important sequencing and complementing assistance are. By creating the Ghana Enterprise Agency and allocating cash for SME energy efficiency alongside reform announcements, the policy shock's purely extractive nature was lessened, and some savings were redirected back into the industry (Acheampong, T., & Ackah, I., 2015). Yet, Nigeria has not had this prominent, well-publicized reinvestment route.

An IMF program that devalued Egypt's currency and reduced subsidies in 2016 caused a sharp but brief increase in inflation. The simultaneous influx of tourists and foreign direct investment after the devaluation, which increased FX liquidity faster than in Nigeria, was a crucial differentiator (World Bank, 2017). This implies that the duration of the FX shock for import-dependent SMEs would depend on the economy's capacity to draw in swift compensating capital flows, which is difficult for Nigeria given ongoing security worries.

Indonesia is frequently mentioned as a successful example of fuel subsidy reform in 2014-2015 because of their meticulous compensation and communication plan. To protect the poorest households, the government expanded a well-targeted conditional cash transfer program and initiated a massive public awareness campaign (Dartanto, 2013). This helped to partially sustain domestic demand for small businesses (Dartanto, 2013). In contrast, the Nigerian implementation was criticized for its abruptness and initially ambiguous palliative approach.

These comparisons highlight a recurring theme: while the macroeconomic justification for these reforms is acknowledged, the effectiveness of ancillary policies, open communication, targeted social protection, and direct business support has a significant impact on the socioeconomic consequences and sectoral resilience. The reason Nigeria's current SME issue seems more severe is not necessarily because the reforms were incorrect; rather, it is because the strategic reinvestment and structural cushioning elements that are present in other national examples have lagged or disappeared.

Resolution of Research Objectives

This review sets out with five specific objectives. Synthesis allows us to state the degree to which each has been achieved:

1. To systematically locate, compile, and evaluate literature on the reforms' impact on SMEs.

Status: Fully Achieved.

Our PRISMA-guided rapid review identified, screened, and synthesized 32 pertinent studies from academic and grey literature, providing a comprehensive evidence base as of 2025.

2. To evaluate the precise impacts on SME performance metrics (profitability, costs, survival).

Status: Partially Achieved

We have robustly documented severe negative impacts on costs (28 studies) and profitability (e.g., PwC Nigeria, 2023). However, conclusive data on definitive survival rates and closures remains scarce, with most evidence being cross-sectional or self-reported. Longitudinal tracking of a cohort of SMEs is needed to fully answer this objective.

3. To ascertain distinct impacts across different SME sectors

Status: Fully Achieved

The review clearly delineates a sectoral hierarchy of impact. Manufacturing and import-dependent retail SMEs are most severely affected (Themes 2 & 3), while tech and digital service SMEs demonstrate greater resilience, though not immunity (Themes 2 & 5). This sectoral analysis is a key contribution.

4. To identify literature gaps and extrapolate long-term effects.

Status: Partially Achieved

We have identified critical gaps: a lack of longitudinal studies, limited quantitative data on adaptation success rates, and thin research on the interaction between reforms and pre-existing challenges like insecurity. Extrapolation of long-term effects remains necessarily speculative; the evidence strongly confirms short-term pain but can only theorize, based on Schumpeterian logic, about potential long-term efficiency gains.

5. Providing evidence-based policy suggestions

Status: Fully Achieved

The policy recommendations in Section 6 are directly derived from the synthesized findings, addressing the specific pain points identified: targeted FX access for manufacturers, credit guarantees addressing the finance gap, and palliative schemes informed by documented profit margin erosion.

Critical Evaluation: Could the Reforms Have Been Sequenced Differently?

Given the magnitude of the shock described in this assessment, it is inevitable that the crucial question of whether the Nigerian government could have lessened the disastrous effects on SMEs by implementing these painful but necessary reforms in a more phased or strategically ordered manner is brought up. Based on political economy and macroeconomic theory, a retrospective study proposes three different routes, each with unique trade-offs.

The "Gradualist" Alternative: Phasing the Subsidy Removal

The implementation of a pre-planned, multi-year strategy of gradual subsidy reductions could have been preferable than an abrupt removal. SMEs would have had time to modify their business models, look for energy-efficient alternatives, and renegotiate supplier contracts if this strategy had been implemented in limited form during earlier governments (such as the partial removal under President Goodluck Jonathan in 2012) (Iyare, 2023). According to the Manufacturers Association of Nigeria (2024), it may have prevented the

near-paralysis of logistics-dependent enterprises by mitigating the inflationary spike. Given Nigeria's history of unsuccessful progressive subsidy elimination, the approach's main fault is that it prolongs political vulnerability, encourages speculative stockpiling, and gives vested interests the opportunity to organize against each small move (BudgIT, 2022; Onuoha, 2023). The political economy reality indicates that the established subsidy lobby could only be overcome with a decisive, "big bang" strategy (World Bank, 2023). The extensive loss of profit margins and closures documented in numerous studies, however, demonstrate how the government's inability to provide a strong, prompt compensatory framework transformed a politically required shock into an economically disastrous one for SMEs (PwC Nigeria, 2023; Oladimeji, 2025).

The "FX-First" Alternative: Unifying Exchange Rates Before Removing Subsidies

Prior to addressing the subsidy, it is possible that implementing FX unification first would have restored investor confidence, strengthened the Naira, and expanded foreign reserves. Additionally, a more stable currency would have lessened the impact of later increases in gasoline prices on SMEs that rely on imports. It may have drawn the foreign investment required to fund social safety nets or a portion of the phase-out of subsidies, an advantage that IMF stabilization programs have hypothesized (IMF, 2020). One problem with this sequence is that it ignores the basic fiscal reasoning behind the revisions. The fuel subsidy was a huge drain on reserves in dollars. Its cost in Naira terms would have skyrocketed if it had continued under a single, market-driven currency rate, leading to a deeper, more uncontrollable depreciation and an even worse fiscal crisis (CBN, 2021). The identical distortions and arbitrage possibilities that the changes sought to address would have been sustained if the CBN had been compelled to defend an unsustainable peg (Adeoye & Amadi, 2023). This might have resulted in longer lasting and more severe FX deficit for SMEs.

The "Cushion-First" Alternative: Building Institutional Capacity Ahead of Time

The lack of institutional framework that precedes the reforms is the most convincing criticism, not the reforms themselves. Indonesia's 2014–2015 reform serves as an example of an ideal sequence that would have included: (1) creating and testing a reliable digital cash transfer system for vulnerable households; (2) capitalizing and streamlining development finance institution (DFI) windows for SME liquidity and energy transition loans; and (3) initiating a significant public campaign on local sourcing and efficiency months prior to the reforms (Dartanto, 2013; Beaton & Lontoh (2010)). Its primary benefit is that it would have produced the "soft landing" seen in comparable circumstances, maintaining aggregate demand and giving SMEs a concrete lifeline and adaptation toolset, which could have prevented the demand-side collapse documented by Wasa et al. (2025). This has a severe problem in that the Nigerian state's weak institutional capacity made such a deliberate, capacity-building strategy a luxury due to the pressing pressures of the budgetary and balance of payments crises (World Bank, 2023). The potential for preparatory activity was limited because the changes were conducted from a position of extreme economic vulnerability rather than strength.

The absence of contemporaneous, practical support measures seriously hampered the implementation of the simultaneous "big bang" strategy, which was the only politically viable way to overthrow the status quo (LCCI, 2023). The sequencing of changes was not the main cause of the critical failure; rather, it was the asynchronous application of shock and support. According to Schumpeter (1942), the government provided the "creative destruction" but neglected to simultaneously activate the "creative" institutions that would have directed the damage in the direction of productive restoration. As our theme synthesis indicates, this has meant that the SME sector has had to shoulder the full, unmitigated cost of adjustment, turning a necessary economic correction into an existential threat for a substantial number of the country's entrepreneurs. To protect the economy's productive base, future reformers in comparable situations must view the

implementation of mitigation frameworks, such as targeted SME grants, active DFI lending, and expanded social protection, as an essential, non-negotiable part of the reform package itself, to be introduced concurrently with the shock.

Challenges of Attribution and Limitation of Evidence

A notable limitation of this analysis, along with the primary papers it synthesizes, is the difficulty in definitively attributing all identified adverse effects solely to the removal of fuel subsidies and the evidence of foreign currency rate unification. The Nigerian economy is also facing significant challenges, including internal security concerns and agricultural disruptions, which negatively impact SME operations. Furthermore, the relative novelty of the reforms suggests that the current research mostly consists of rapid assessments and first surveys. While crucial for recording immediate impacts, these studies sometimes lack the longitudinal depth and methodological rigor required to conclusively establish causality or to describe long-term adaptation trajectories. This necessitates a meticulous examination of the outcomes.

Conclusion and Recommendations

This systematic literature review thoroughly summarizes how Nigeria's recent economic reforms affect its SME sector. The data unmistakably and overwhelmingly shows that eliminating the fuel subsidy and standardizing foreign exchange rates significantly harm SMEs in the short to medium term. These reforms drive many SMEs toward bankruptcy by triggering hyperinflation, increasing operating expenses, crippling import-dependent enterprises, limiting financing access, and stifling consumer demand.

From a macroeconomic standpoint, the reforms make sense conceptually, and they might eventually result in advantages like a more stable and transparent economy, but for the SME sector, these advantages are still hypothetical. Existential peril is the current reality. Without urgent, deliberate, and well-executed government intervention, the reforms risk crippling the primary engine of Nigeria's economic growth, employment, and poverty reduction, thereby undermining their own ultimate objectives.

Policy Recommendations

The following comprehensive policy recommendations are put forth by this study considering the synthesized findings; each of these proposals directly addresses the review's identified pain points and evidence gaps.

Establish a Targeted, Transparent FX Access Window for Critical Productive SMEs

With case studies demonstrating production halts due to inaccessible forex for raw materials, our synthesis revealed that 18 out of 32 studies documented severe, frequently catastrophic impacts of FX unification on import-dependent manufacturing SMEs (Obiukwu & Adurogboye, 2025; Manufacturers Association of Nigeria, 2024). For confirmed SMEs in manufacturing, healthcare, and agriculture, the Central Bank of Nigeria should set up a clear, dedicated foreign exchange window right away. To maintain transparency and avoid the arbitrage that afflicted earlier regimes, access should be restricted to verified import papers for necessary inputs that are not available locally, with allocations made public. For a crucial fraction of SMEs, this directly solves the most pressing limitation found.

Launch a Large-Scale, Digitally Delivered Conditional Grant Program for High-Impact Sectors

A serious liquidity problem that cannot be resolved by debt is demonstrated by the widespread finding of significant profit margin erosion, with 70% of SMEs in a national survey reporting a decrease in profitability of more than 50% (PwC Nigeria, 2023) and evidence of SMEs cutting back on operational hours to save

gasoline (Iliya et al., 2025). The government should allocate a significant amount of the savings from subsidies to non-repayable conditional grants that are given to SMEs in the most vulnerable industries (transport, manufacturing, and small-scale retail) through validated digital platforms. To directly alleviate the operational cost shock reported in 28 of the 32 examined studies, grants should be specifically linked to preserving employment or purchasing energy-efficient equipment.

Radically Scale Up Public Credit Guarantees to Unlock Affordable SME Lending

In 20 out of 32 investigations, the main obstacle to survival was credit limits. Effective SME lending rates exceeded 25–30% because of monetary policy tightening, according to high-quality studies (Central Bank of Nigeria, 2023; Adeoye & Amadi, 2023), while bank behavior study revealed increased risk aversion (Iyiola & Agboola, 2022). A significant recapitalization of the current SMEs Credit Guarantee Scheme is necessary. For loans intended for investments that boost productivity (such as renewable energy systems or locally sourced machinery), the government should raise the guarantee cover to 60–80%. Additionally, it should collaborate with fintech platforms to expedite the application and disbursement process. This immediately addresses the "missing middle" financing gap that the changes have made worse.

Execute a Coordinated National Initiative for SME Input Localization and Digital Transition

While only 9 studies documented adaptive strategies, those that did highlighted local sourcing and digitalization as key survival mechanisms (Obiukwu & Adurogboye, 2025; Edobor & Sambo-Magaji, 2025). However, these adaptations were described as nascent and challenging. A coordinated program led by SMEDAN and the Ministry of Industry, Trade, and Investment should provide: (a) technical and matching-grant support for SME clusters to develop local raw material supply chains; and (b) subsidized training and software access for digital accounting, marketing, and e-commerce adoption. This builds upon the Schumpeterian "creative" responses observed, helping systematize and scale micro-level innovations into sectoral resilience.

Mandate and Fund a Multi-Year SME Impact Monitoring Framework

The cross-sectional, emerging nature of the evidence base is a major drawback of this review. Longitudinal data monitoring SME survival, adaption success, and the practical efficacy of any government measures is critically lacking. To track important performance indicators on a quarterly basis, the government should request SMEDAN and the National Bureau of Statistics (NBS) to create a longitudinal panel survey of at least 5,000 SMEs. To quantify the long-term consequences of the changes, go beyond anecdotal evidence, and facilitate truly evidence-based policy adjustment, this data is crucial. The subsidy savings should contain ring-fenced funding for this.

Limitations of the Study

There are certain restrictions on this review. First, the corpus of peer-reviewed empirical literature is still in its infancy because the reforms were only implemented in May 2023. A substantial portion of the information was based on preliminary surveys and business association reports, which are useful but might not be as thorough as long-term academic research. Second, even though the SLR approach is rigorous, it depends on the caliber and accessibility of the body of current literature. Lastly, because the economic situation is dynamic, the results are a snapshot in time and could change.

Suggestions for Future Research

Future research should focus on:

Monitoring a group of SMEs for the next two to five years to measure performance trends, survival rates, and adaptation tactics experimentally. In-depth quantitative and qualitative research on the precise effects on subsectors such as retail, fintech, and agro-processing. Studies evaluate the effectiveness of any support or palliative care initiatives implemented. Analyzing Nigeria's experience in comparison to other African nations that have implemented comparable economic reforms is known as comparative studies. In summary, Nigeria's economic reforms are a risky move given the country's propensity for entrepreneurship. There is nothing more at risk. Whether this heart is reinforced to pump energy into the economy or weakened, with disastrous consequences for national stability and prosperity, will depend on the government's next actions.

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