

Nigeria's small businesses feel squeeze after petrol subsidy scrapped

In a small factory in Nigeria's northern Kano city, Muhammad Khamis Umar stares at stacks of plastic products that have not been sold for over a week since new president Bola Tinubu scrapped a fuel subsidy, sharply driving up the cost of petrol.



Shola Ojo, a Nigerian welder, works with his co-worker on a metal door in his workshop in Lagos, Nigeria, 3 June 2023. Reuters/Seun Sanmi

Most of Umar's customers came from across Nigeria's northern states to buy plastic plates, bowls and buckets in bulk, but demand has fallen since transport fares and the cost of filling a vehicle's tank surged after gasoline prices nearly tripled on 31 May.

"More than 80% of my customers have stopped coming to take products from us because of the high cost of transportation," said Umar, whose clients are small traders, some from Kano state, after which the city is named.

Before the fuel subsidy removal Umar could hardly cope with demand and customers would wait hours for orders. He imported new machines from China in February to ramp up production.

Now, customers have slowed to a trickle, he has cut production to 40% capacity. Daily sales fell from a high of one million naira (\$2,146) to 50,000 naira, Umar said.

"As you can see I am literally out of business," the 50-year-old said, pointing to the new machines laying idle on a visit to his factory.

Many in Africa's biggest economy earn a living from small and informal businesses but grid power is patchy. That means that businesses and households rely on petrol generators for electricity.

For decades, the popular fuel subsidy kept prices low but drained billions of dollars from the coffers of Africa's biggest oil producer, which nonetheless grapples with high rates of poverty.

The subsidy removal angered labour unions but they have suspended an indefinite strike after talks with the government. The unions want a more than six-fold rise in monthly minimum wage from 30,000 naira, among a raft of demands.

In the federal capital Abuja, hair stylist Tina Doofan Orji has seen fewer clients after she raised prices by more than half to make up for higher petrol costs.

She can use up to 25 litres daily for a generator to power her salon, which now costs nearly three times what she used to pay. But passing on the costs to clients has been hard.

"They wont pay, they won't accept," she said, adding that some customers told her they were prioritising food and school fees over styling their hair.

Economic analysts expect to see the impact of higher petrol costs in the June inflation rate, which is already near a two-decade high. Farmers also face higher costs to take produce to markets, which will lead to higher food prices, analysts said.

In Kano, Umar pondered the future of his business.

"Once we exhaust the raw materials at our disposal, we will completely stop production unless things change," he said.

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