

Final report

# COVID-19 impact on Nigerian wholesale and retail trade

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## Introduction

Micro, small, and medium enterprises (MSME) in the wholesale and retail trading sector represent a major segment of the economy and source of employment in Nigeria and similar countries. They are also a key link in the supply chains that carry goods to consumers. The COVID-19 crisis has impacted wholesale and retail businesses in Nigeria and other developing countries in myriad ways for several months with lasting effects. The purpose of this research was to identify the effects of COVID-19 on traders' businesses in Lagos markets. Understanding the impact of the pandemic on MSMEs in the trading sector and the ways they adapt to it is crucial for developing policy responses that will influence both livelihoods and the price and availability of consumer goods.

The project's focus was specific to data collection to quickly address knowledge and policy gaps on impact of COVID-19. Hence, the research was not intended for short-term academic publication. To achieve the project objectives, we collected data from wholesale and retail traders in Lagos, Nigeria who we have followed since 2015. We ran high frequency phone surveys to learn about obstacles and opportunities for traders during the pandemic. We found that as a result of the pandemic, traders are interested in new strategies to cope with low demand and supply challenges. E-commerce and remote approaches to business as well as strategies to improve supply chain failures could address these issues.

## Sampling design and data collection

Data come from the Lagos Trader Survey (LTS), which is a panel survey of 1,179 wholesale and retail traders in Lagos, Nigeria who buy and sell consumer goods such as clothing, electronics, toiletries, and homewares. Traders were randomly sampled from a census of 53,000 shops in commercial areas of Lagos State, and have been followed since 2015. The data is comprised of three rounds of phone surveys with 765 traders, conducted between April 18 and July 20, 2020.

In round one, we attempted to contact 1171 traders from our LTS sample, and successfully completed interviews with 737 traders (59%). The primary reason for incomplete surveys was not being able to reach the respondent with a total of 332 respondents (75% of missing surveys) who were not reachable. In rounds two and three we attempted to contact traders from round one as well as traders not available in the first round with valid contact information. We successfully surveyed 720 out of 1038 (69%) potential respondents in round two and 679 out of 962 (71%) in round three.

All traders in the sample operate from permanent physical premises. The typical trader is male (73%), 42 years old, and has been in business for 14 years. As of 2017, traders had 1.3 shops and 1.2 paid and unpaid workers on average. In February 2020, before the pandemic hit Nigeria, their average weekly revenue was just under NGN 400,000 (approximately USD 1,030). Two-thirds of them imported goods from outside Nigeria in 2019, and therefore also embody a key step along the supply chains that serve Nigerian consumers.

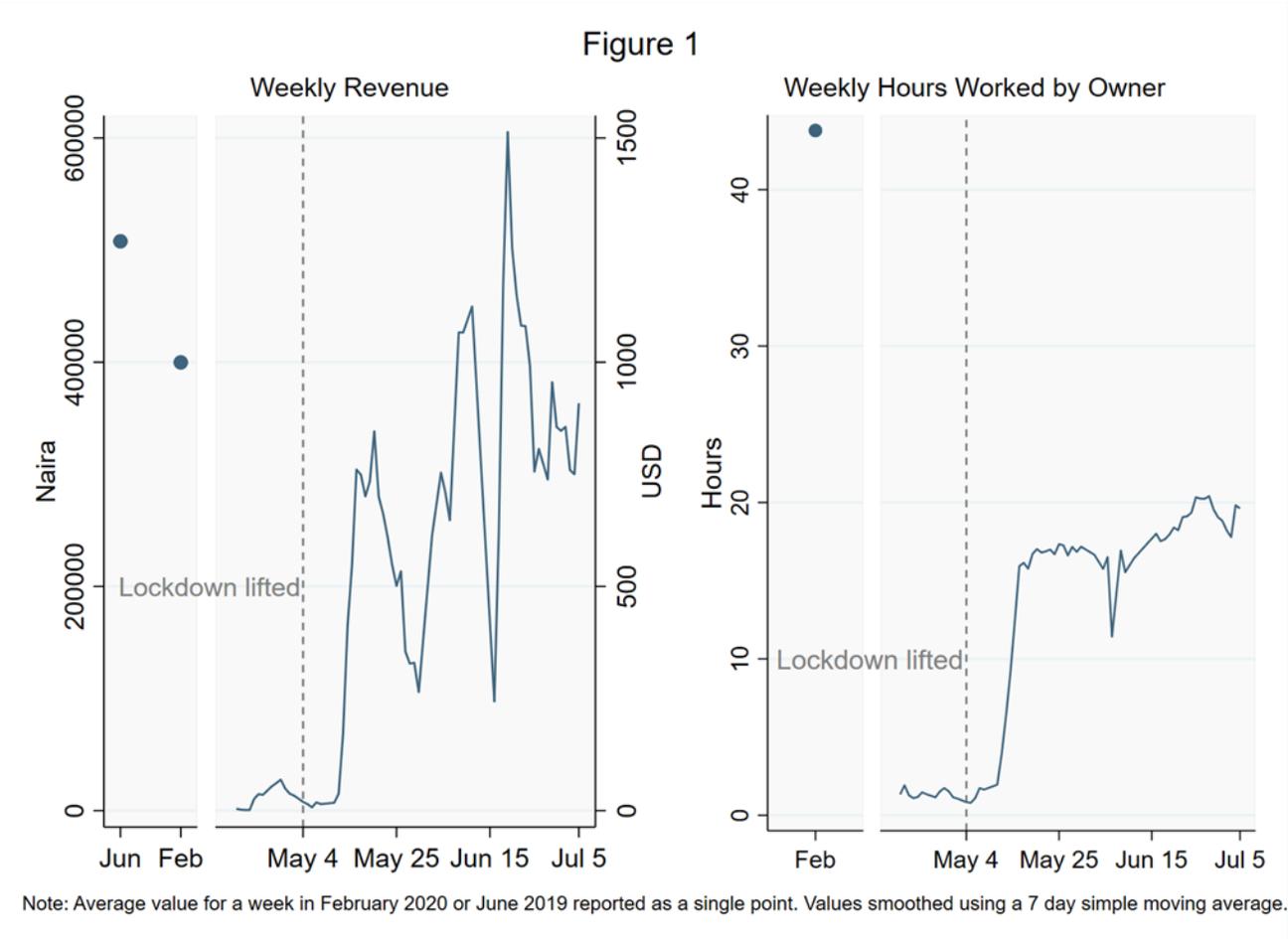
We leveraged our existing relationship - built over the years - with these traders to carry out three rounds of phone surveys. Interviews took place biweekly, and each lasted approximately half an hour. The questionnaires for each wave of the survey included a combination of repeated high frequency measurement of key indicators (e.g. business survival, revenue, and hours worked by owner and

paid/unpaid employees) to assess the status of the business and one-off modules intended to dig deeper into specific topics of interest.

## Results

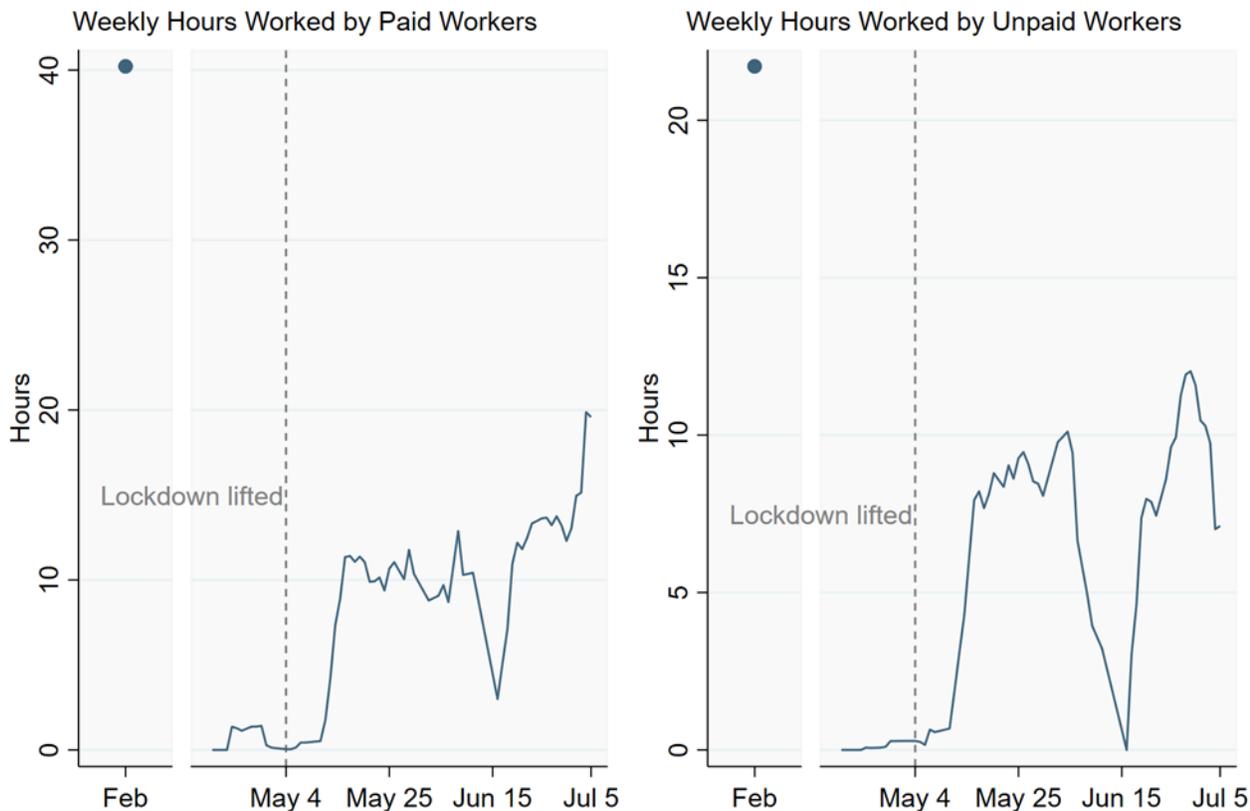
We found that COVID-19 had a large impact on trading businesses. Traders' businesses were heavily impacted by the Lagos State lockdown, which lasted from 26 March to 4 May 2020. Almost all operated in markets that closed during the lockdown. Only 15% of traders considered their businesses to be in operation, and 91% reported zero revenue in the week prior to the survey.

However, traders' businesses appear to have survived the lockdown. Since 4 May, markets have been permitted to open three days per week, from 9 am to 3 pm. From that point forward, 85% of traders consider their businesses to be currently in operation, and almost all of the remaining traders expect to reopen in the future. A minority (21%) reported zero profits in at least one week in May or June, either because they have personally chosen not to return to their shops yet, or because business is very slow.



Sales have risen substantially since the partial re-opening. Average weekly revenue rose to NGN 359,000 (USD 935) in June, which is approximately two-thirds of the average revenue in June of the previous year. Hours spent working in the business by traders themselves in June were still less than half of their pre-pandemic levels. Employment was also much lower than the pre-lockdown average.

Figure 2



Note: Average value for a week in February reported as a single point. Values smoothed using a 7 day simple moving average.

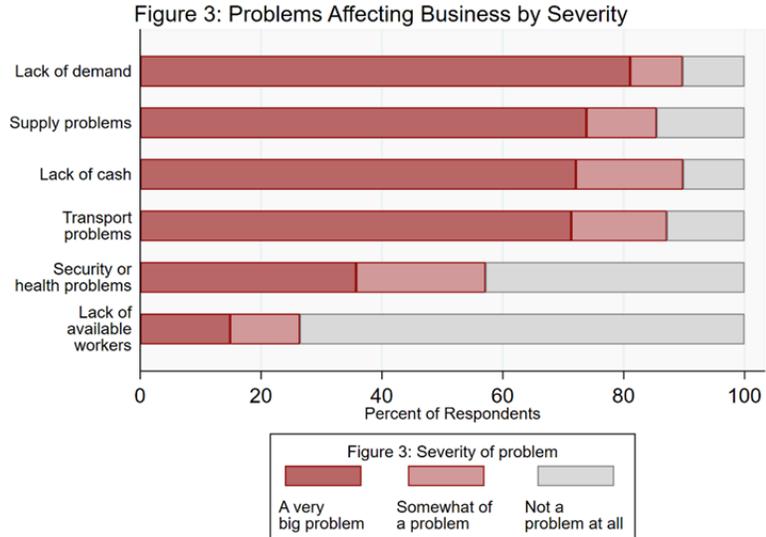
Average hours worked by all paid workers in June were down by two-thirds compared to February, from 40 hours per week total across all paid workers in the business to 13. Total hours by unpaid workers fell from an average of 22 hours in February, to only 9 hours after the lockdown was lifted.

### Compliance with public health measures

Support for the lockdown was high (78% approving) in spite of traders reporting their household incomes had fallen by 94%, and a majority being “very worried” about accessing necessities for their families. Almost all reported that their markets were closed, and very few visited their shops.

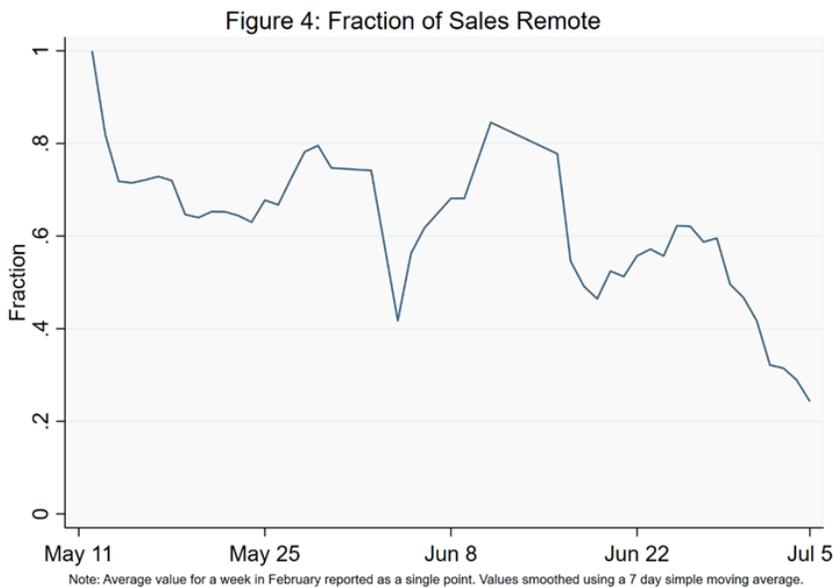
Most traders have reopened their businesses since the lockdown was relaxed. However, shops are on average open only three days per week, consistent with the terms of the remaining lockdown restrictions. Over 96% of traders report their market opening at 9 am or later and closing at 3 pm or earlier as required.

We found that compliance with public health measures was high. As of May, mask use was high in markets among both business owners and customers – traders on average estimated that 93% of people at markets were wearing masks. Hand hygiene options were also good, with over 94% of traders reporting that hand sanitizer and handwashing stations are available at the market. However, the majority of traders reported that there was no temperature control at market entrances.



### Demand challenges and coping mechanisms

There is interest in new strategies to cope with low demand and supply challenges. Traders are worried about upcoming business costs – including costs that are now due in arrears from the lockdown period – but most expected to be able to pay these costs as of June, and intended to use cash on hand rather than taking out loans or selling assets. Traders also say they are affected by low demand and transportation problems, both within Lagos to reach their shops and in receiving goods purchased from their suppliers.



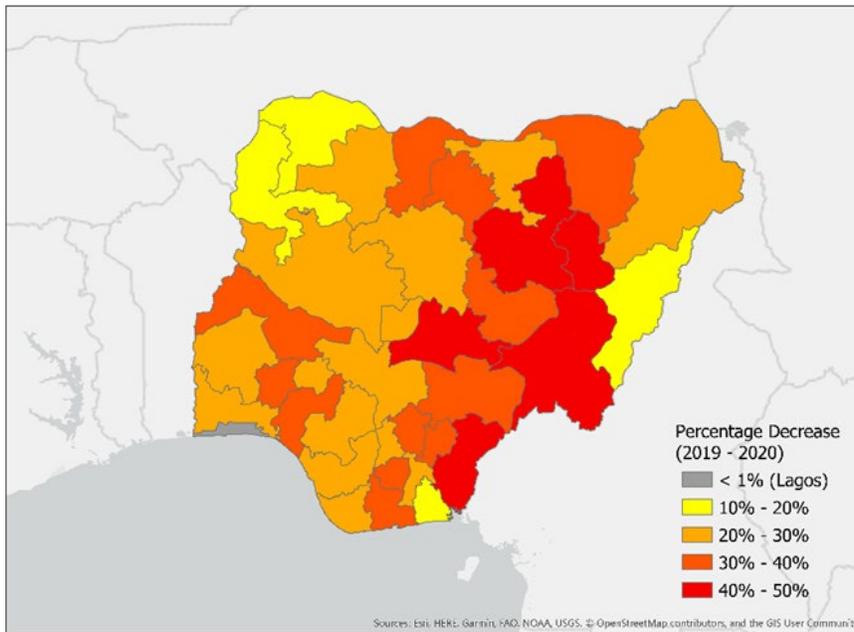
The majority of traders have already increased or plan to increase their prices. Few intend to change their line of business for the time being. There is widespread interest in e-commerce and new remote approaches to business. Most are interested in increasing their use of electronic payment methods relative to cash and a quarter is interested in sourcing goods online. Forty-two percent are finding new ways to deliver their goods to consumers. Over 80% say they plan to sell through social media in the next six

months, and 48% plan to sell online in the next six months, compared to only 62% and 11%, respectively, who have done so in the past.

In May, traders reported that the majority of their sales were done remotely. That number has since fallen in June and July, suggesting that traders are returning to their normal business patterns as customer mobility has increased, rather than pursuing new remote sales and delivery strategies on a large scale.

This may in part be due to traders' general optimism about the speed with which they will be able to return to their usual ways of doing business. When interviewed in June, the large majority of traders said they expected business to return to normal within a month, including the lifting of restrictions on domestic and international travel.

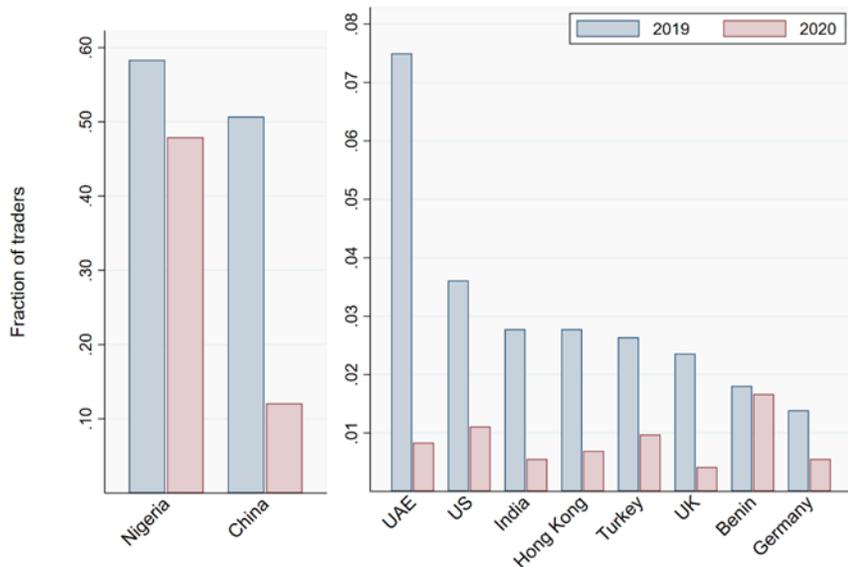
Figure 5: Percentage Decrease in Traders with Customers in Each State (2019 - 2020)



Lagos traders serve demand from throughout Nigeria, and so were heavily impacted by the ban on interstate travel that was in place until July. Traders are less likely to report having customers from outside Lagos in 2020 compared to 2019. In 2019, 44% of traders' sales were from outside Lagos. In 2020 only 26% of their (reduced) sales came from outside Lagos. Customers from out of state are substantially less likely to travel to Lagos to buy in-person. These numbers are likely to shift now that the ban on interstate travel has been lifted.

## Restocking and importing

Figure 6: Fraction of Traders Sourcing from Country by Year



Supply chain failures are likely to be an ongoing problem.

Challenges with restocking have been an ongoing issue, before, during, and after the Lagos lockdown. Most traders report that restocking became a problem well before the lockdown, in January or February 2020. Three-quarters say that supply challenges are a major problem.

As of May, traders on average had one month's worth of goods in stock. Only 64% had successfully purchased any goods for their business so far in 2020, while all did so in 2019. Most have at least

attempted to source in 2020, with common problems cited including transportation difficulties and suppliers being out of stock. Traders are facing these challenges when attempting to source domestically, as well as internationally.

Traders report a bigger drop in importing than in purchasing overall, but domestic sourcing does not appear to be a good substitute for international sourcing. Only a few traders who did not buy domestically in 2019 have started doing so in 2020.

Even for domestic sourcing, the number and total value of purchases have fallen by well over half compared to a comparable period in 2020. Importing has taken a very large hit – for instance, over half of interviewed traders sourced from China in 2019, while only about 12% did so in 2020. This is likely due to a combination of factors including supply problems in China, transportation challenges, travel bans, and low demand. About a quarter of traders who sourced from China in 2019 traveled there in person to buy, while only 5% of those who bought in 2020 have done so.

To address these difficulties, traders plan to find new suppliers (29%) and add new products (43%), but fewer expect to change the countries they source from (8%), stop selling any current products (7%) or to fully change their line of business (12%).

## Policy implications and recommendations

Several findings from our interviews early in the pandemic are relevant for Nigerian and other developing country policymakers to take into consideration.

1. While small businesses in the wholesale and retail trading sector were heavily and directly impacted by the lockdown, they continued to be deeply affected by other policy choices and the indirect economic consequences of those policies and the pandemic itself. Even after the lockdown was lifted, trading firms struggled with low demand and being cut off in the supply

chain from both suppliers and customers (the former due to international travel restrictions and disruptions in source countries and trade logistics, the latter due to domestic travel restrictions). Policymakers should consider that the need to support small business recovery long outlasts the immediate policies that prevent businesses from operating.

2. For most small trading businesses, the line between business and personal finances is blurred. One of the major consequences of the lockdown was that traders relied on their savings and business capital to sustain their families during the time when no income was coming in. This means that they may lack the cash needed to restart their businesses and cover large upfront costs for purchasing stock or paying rent. We find that very few traders have or plan to access formal sources of credit. The large one-time shock to capital may force otherwise healthy and profitable businesses to close if they don't have the liquidity to cover current costs. Policymakers may wish to consider making one-time "recovery" loans available at interest rates and to groups of borrowers who would not typically have access to funds.
3. Although traders expressed strong interest in e-commerce and e-payments strategies that would facilitate doing business remotely, short-term take-up of these technologies appears low. Given that the lockdown and customers' reluctance to shop in person provided a fairly strong incentive to make use of these strategies, this suggests that there are barriers to adoption or use that are difficult for individual businesses to overcome. Further investigation into the nature of these barriers and potential policy solutions is called for.

## Conclusion

Our results from phone surveys from April to June 2020 indicate potentially persistent effects of COVID-19 on Lagos traders' business. As of June, hours worked by both traders and their employees were less than half of their February levels, and weekly revenue was down by over 30% from June 2019. Additionally, interstate travel bans significantly decreased the number of customers coming from out of state. Despite these challenges, traders had a high level of compliance with initial COVID-19 safety measures, and have for the most part gone back to their normal business practices post-lockdown. However, the longer-run effects of supply chain issues and low demand are still unknown. In ongoing work, we are following up with this same group of wholesale and retail firms to understand how their sourcing and selling strategies evolved in the second half of 2020.

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