



10.5281/zenodo.8409907

Vol. 04 Issue 09 Sept - 2023

Manuscript ID: #01026

# FUEL SUBSIDY REMOVAL AND POVERTY IN NIGERIA: A LITERATURE REVIEW

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## ABSTRACT

Fuel subsidies in Nigeria have been a contentious issue for decades. However, the recent removal of fuel subsidy by President Bola Ahmed Tinubu led administration has resulted in a looming fuel shortage crisis and left millions of Nigerians terrified about the knock-on effects on their daily lives. Meanwhile, the removal of the fuel subsidy has led to increased prices for transportation and commodities, adding to economic hardships, businesses struggle as they are forced to spend more money on fuel consumption. Hence, this paper examined fuel subsidy removal and poverty in Nigeria. By utilizing the theory of price elasticity of demand, the paper aimed to examine the rationale behind the fuel subsidy removal, the socio-economic implications of fuel subsidy removal and suggested palliative measures to cushion the effects of fuel subsidy removal in Nigeria. By utilizing content analysis method, the paper reveals factors such as private sector participation in the importation of petroleum products, availability of petrol at all times for all Nigerians and permanently banishing queues from petrol stations across the nation and free the country from the endless pains and sufferings that come with fuel scarcity, revenue generation, stimulating economic development among others as rationales behind fuel subsidy removal. The paper equally pointed at high cost of living, high rate of crime, and increase in poverty level as people and businesses struggle for survival among other socioeconomic implications of fuel subsidy removal in Nigeria. The paper concluded by recommending rural electrification, increase in the minimum wage and food importation/distribution among other feasible palliatives as suggested measures to cushion the effects of fuel subsidy removal in Nigeria.

## KEYWORDS

Subsidy, Fuel Subsidy, Fuel Subsidy Removal, Poverty, Nigeria



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## 1. Introduction

It is no longer new, neither is it a news that Nigeria as a nation is divinely favoured with a huge abundance of natural resources, but unfortunately, these naturally endowed abundance has not translated to the wealth of the citizens. It is ironical that Nigeria, the most populous black nation and Africa's biggest economy, is a rich nation with poor citizens. Nigeria has the second largest proven oil reserve in Africa at 37.2 billion barrels, second only to Libya and it is the continent's largest producer of oil (Siddig et al., 2015; Adekoya, 2020; Olisah, 2020) producing about 1.78 million barrels per day in March, 2020 (Olisah, 2020).

Despite the abundant natural resource endowment in Nigeria and its vast arable land, the Nigerian economy is a monolithic economy (Umeji & Eleanya, 2021) depending on crude oil export for its major source of government revenue and budgetary expenditure. According to Olisah (2020) crude oil sales contribute about 90% of Nigeria's foreign exchange earnings, 60% of its revenue and 8% of gross domestic product (GDP). Besides, fuel is a very significant factor in production in every aspect of the Nigerian economy, its importance in the economy cannot be undermined. As stated by Ogubode et al., (2015) the Nigerian economy to a large extent depends on Petroleum Motor Spirit (PMS) either for transportation of goods or for service provision. To Agu, Ekwutosi and Augustine (2018) petroleum motor spirit is an important source of energy in Nigeria, the economy depends on it to drive economic activities.

According to Okwanga et al., (2015) Petroleum Motor Spirit (PMS) may not be used in the actual production of goods but it is used for their distribution; adding to their final cost of production. Hence, Nigeria is a high consumer of energy fuel. Unfortunately, with four government owned refineries with an installed capacity of 445, 000 barrels per day, more than enough to cover its domestic requirements, Nigeria is still a net importer of refined petroleum products (Onyeizugbe & Onwuka, 2020) making it the only member of the Organization of Petroleum Exporting Countries (OPEC) still importing refined fuel (Adekoya, 2020). Successive Nigerian governments, despite huge earnings from oil export, have failed in the provision of social amenities needed by its people and in poverty reduction, hence, the introduction of fuel subsidy in the mid-1980s (Agu et al., 2018) to ameliorate the suffering of the people due to the high cost of pump price of fuel.

## 2. Aim and Objectives of the Paper

The paper is aimed at examining fuel subsidy removal and poverty in Nigeria. Whereas the highlighted objectives to be achieved includes to:

- i. Identify the rationale behind fuel subsidy removal in Nigeria
- ii. Examine the socio-economic implications of fuel subsidy removal in Nigeria.
- iii. Suggest measures to cushion the effects of fuel subsidy removal in Nigeria.

## 3. Methodology

This paper utilized content analysis in the review of relevant and related secondary materials from both online and offline sources.

## 4. Literature Review

The review of literature for this paper were done in accordance with the aim and objectives of the paper specifically under the following subheadings:

## 5. Conceptual Clarifications

Clarifying the real meaning of the following concepts are very germane for even the lame man can succinctly understand and have a better glimpse of the subject matter as follows:

### 5.1. Subsidy and Fuel Subsidy

The word Subsidy is a Latin word called *subsidium* which means reserve troops, support or assistance; from sub-near + sedēre to sit — more at SUB-SIT. Subsidy can therefore be seen as a grant of financial aid from the government used to maintain the prices of a particular item at a certain level. To subsidise is to sell a product below the cost of production, fuel subsidy, therefore, means to sell petrol below the cost of importation.

Fuel subsidy can be properly defined as government effort in paying for the difference between the pump price of fuel at the petrol station and the actual cost of importation of the product. So by paying the difference, the government enables fuel to be sold at a lower price so as to help ease the burden of its people especially lower income group, Fuel subsidy is a grant of financial aid from the government used to maintain the low price of petroleum products (Civic Keypoint, 2023).

Subsidy exists when government helps the consumers of a particular product to pay a price lower than the prevailing market price of that commodity (Kadiri & Lawal, 2016). Some authors like Agu et al., (2018) see it as a kind of market manipulation whereby government fixes the price of the commodity below its actual market price and pay the difference to the retailers. In this case, the government fixes the pump price of fuel below the actual market price and the difference is paid to the importers and marketers by the government.

### 5.2. Fuel Subsidy Removal

Removal of fuel subsidy simply means the government not paying for the difference between pump price and the actual cost of importing fuel anymore. It technically means full deregulation of the downstream sector to pave way for vibrant competition by other interested investors. With the removal of fuel subsidy, fuel will have to be sold in accordance with the prevailing market price based on the actual cost of importation.

### 5.3. The Concept of Poverty

For the sake of this paper, poverty will best be understood from both the sociological and economic perspectives. Hence, Crossman (2019) sees poverty as a social condition that is characterized by the lack of resources necessary for basic survival or necessary to meet a certain minimum level of living standards expected for the place where one lives. This means that the income level that determines poverty level is different from place to place, so social scientists like Sociologists and Economists believe in this sense that poverty is best defined by conditions of existence, like lack of access to food, clothing, and shelter. People in poverty conditions typically experience persistent hunger or starvation, inadequate or absent of quality education and health care, and are usually alienated from mainstream society. Meanwhile, this paper attempted to examine the connections that poverty has with the removal of fuel subsidy and especially in Nigeria.

### 5.4. History of Fuel Subsidy Removal in Nigeria

The Nigerian economy has been subsidized in various ways for many years and this includes fuel, education, electricity, forex etc. Fuel subsidies began in the 1970s and became institutionalised in

1977, following the promulgation of the Price Control Act which made it illegal for some products (including petrol) to be sold above the regulated price. While the concept of subsidy itself is noble, its administration in Nigeria has been plagued with serious allegations of corruption and mismanagement.

On another account, the history of the fuel subsidy in Nigeria dates back to April 1992 when Ibrahim Babangida government raised the price of a liter of fuel from 15.3 kobo to 20 kobo. He did it again on March 31 1986, from 20kobo to 39.5kobo, on April 10 1988, from 39.5kobo to 42kobo. On January 1, 1989, he increased the price from 42kobo to 60kobo. Although, according to Mr. Oyegoke Adeola of the Mace News, the regime said the increase in price was for private vehicles only, but the price remained 42kobo for commercial vehicles.

On December 19, 1989, it moved to a uniform price of 60kobo. On March 6, 1991, the price of a liter of fuel was increased from 60k to 70kobo and that was the price when he stepped aside in August 1993. Chief Ernest Shonekan increased the price of a liter of fuel from 70k to N5 on November 8, 1993 but a hectic mass protest, saw Abacha take over power. The incoming Abacha regime reduced the increment to N3.25 on November 22, 1993.

On October 2nd 1994, the Abacha junta increased the price of fuel to N15, from N3.25 but after massive street protests, the regime reduced the increment to N11 on October 4, 1994. That was the price till Abacha passed on and the Abdulsalami Abubakar caretaker regime raised the price from N11 to N25 on December 20 1998 and after days of sustained protests, it was forced to reduce the increment to N20 on January 6, 1999.

The Obasanjo's presidency adopted fuel subsidy as the bedrock of its economic policy, for no sooner than it was sworn in than it effected an increment to N30 on June 1, 2000 but protests and mass rejection forced it to reduce the increment to N25 on June 8, 2000 and further down to N22 on June 13, 2000. The regime was again to increase the price to N26 on January 1, 2002 and again to N40 on June 23, 2003. He was to raise it up to N70 by the time he left in May 2009 but the incoming Yar'Adua regime reduced it to N65, after general protest against the new price regime.

In January 2012, President Goodluck Jonathan increased the pump price of petrol from N65 to N141 but he was forced to reduce it to N97 per litre, due to Labour strike. In January 2015, due to the fall in crude oil price in the international market, the federal government slashed the pump price of Premium Motor Spirit (PMS), otherwise known as petrol, from N97 to N87 per litre. Finally, on May 11, 2016, President Muhammadu Buhari announced that the Federal Government would no longer be paying any subsidy on oil; the price was therefore increased from N87 to N145.

Thirteen years after diesel was deregulated, kerosene subsidy was removed in 2016. However, the subsidy on Petroleum Motor Spirit (PMS) has proven to be the biggest challenge to the managers of the Nigerian economy. On an annual basis, a substantial portion of the national inflow is committed to funding the subsidy scheme. Of course there are good reasons for the astronomical growth in subsidy amount - price of crude oil in the international market, volume of PMS consumed albeit debatable, and Naira devaluation are some of the drivers. In view of the significance of the amount committed to funding the subsidy regime, there is a need to have a close look at this scheme.

According to Garba (2023), the historical antecedent of subsidy removal on petrol in Nigeria is marked by a series of policy shifts, attempts, and controversies. He asserts that the Nigerian government has implemented and reversed subsidy removal multiple times over the years. For instance, in the year 1988, the government introduced a subsidy on petroleum products to stabilise

fuel prices and make them affordable for the general population. This was in response to protests against price increases.

Then in the year 1999, the then President Olusegun Obasanjo attempted to deregulate the downstream sector of the oil industry, which included removing fuel subsidies. However, due to public resistance and protests, the plan was abandoned. The story was not different as the President Goodluck Jonathan administration in January 2012, announced a partial removal of fuel subsidies, leading to a sharp increase in fuel prices. This move sparked widespread protests across the country, known as the “Occupy Nigeria” protests. Eventually, the government bowed to pressure and rescinded its decision.

Likewise, in the month of May 2016, the President Muhammadu Buhari led administration announced the complete removal of fuel subsidy. This led to a significant increase in fuel prices, which resulted in nationwide protests. The government argued that removing the subsidy was necessary to address corruption, inefficiency, and the drain on public finances. However, due to the public backlash, the decision was reversed, and subsidies were partially reinstated.

Garba (2023) further opines that the issue of subsidy removal has remained a topical and recurrent issue of debate and discussion in Nigeria. While no full removal has taken place since 2016, there have been discussions and considerations by successive governments regarding subsidy reforms and finding alternatives to address the fiscal challenges associated with the subsidy regime. Consequently, the newly sworn in administration in Nigeria under the leadership of President Bola Ahmed Tinubu squarely and openly addressed the issue as he announced at Eagle Square while delivering his inaugural speech that said, “...Fuel subsidy is gone! Subsidy can no longer justify its ever increasing cost in wake of dying resource...”. And within a couple of hours, Fuel pump price was set at N540 per litre.

Meanwhile, only history can juxtapose between the later and the former as Nigeria Labour Congress and affiliated Unions had warmed up to begin industrial actions, but later shielded their sword and after series of dialogue between government and the unions, averted the intended strike action. It’s then important to note that the subsidy removal on petrol in Nigeria has been a highly controversial and politically sensitive topic. The debate surrounding it is multifaceted, involving economic considerations, social implications, and political factors. The decision to remove or retain subsidies on petrol in Nigeria has also often been influenced by a range of factors, including public sentiment, international oil prices, government finances, and the overall stability of the country.

### **5.5. Theoretical Framework: Price Elasticity of Demand Theory**

This paper is premised on the theory of price elasticity of demand propounded by Professor Alfred Marshall in 1890. According to Marshall, the elasticity or responsiveness of demand in a market is great or small according as the amount demanded increases much or little for a given fall in price and diminishes much or little for a given rise in price. This means that the Elasticity of Demand is the statistical explanation of the proportional change in demand due to the factors that affect it. It is the responsiveness of demand due to change in price. Price elasticity of demand theory explains both the conditions of whether an increase in price or decrease in it has its effect on the quantity demanded less and more as the case may be.

Despite the fact that this theory has been criticized by a well-known American economist Professor Samuelson who regards the concept of elasticity as essentially arbitrary and of ‘no consequence’ and as a ‘mental exercise for beginning students’, it is still of great relevance to this paper in terms of both

sociological and economic analysis as it serves as a tool for explaining certain economic policies such as removal of fuel subsidy with its multiplier effects on poverty level in Nigeria.

On the other hand, the concept of elasticity of demand explains the paradox of poverty amidst plenty supplies (of Petroleum product (fuel)). The removal of fuel subsidy, leading to increase in the price of PMS has made possible enough availability of PMS but decrease in demand for it as people cannot afford to buy more to their satisfaction.

Furthermore, the high rate of inflation occasioned by the fuel subsidy removal might spell economic disaster instead of bringing prosperity among producers of goods and services because an abundance supply of commodities will bring less and not more money to the manufacturers as a result of high cost of transportation amidst other high cost of means of livelihood arising from removal of fuel subsidy. Poverty becomes inevitable in this regard.

## **6. Rationale behind Fuel Subsidy Removal**

As every action has a propelling forces behind, so there are reasons behind every proactive government policy. Hence, the policy of fuel subsidy removal has an underneath reasons as the government sees it as a stimulator of economic growth and development. For instance, the huge fund which is hitherto used to pay for subsidy will become available to the government for the development of the much needed infrastructure in the country, especially in the healthcare, education and transport sectors among others. If this is done, every citizen of the country will benefit.

Furthermore, deregulation of the downstream oil sector will attract private sector investments, more especially foreign direct investments, to the sector. Before now investors are not attracted to the sector as they fear they may not be able to recoup their investment at government controlled prices. Foreign direct investment in the sector will create employment opportunities for the large number of unemployed Nigerians and also generate revenue to the government in the form of taxation and levies.

Availability of foreign exchange with the Central Bank of Nigeria will be another result of fuel subsidy removal. A steady flow of foreign exchange to the Central bank will lead to a single foreign exchange rate regime in the country thereby stabilizing the foreign exchange market and eliminating the black market. Foreign exchange will become easily accessible for importation of goods and machineries (Umeji & Eleanyi, 2021).

Removal of fuel subsidy was also seen to help removing the distortions in the market. It will bring an end to smuggling of petroleum products to neighbouring countries. Due to higher price of petroleum products in the neighbouring countries, fuel that are meant for domestic use in Nigeria are smuggled across border to be sold at higher prices causing scarcity in the country. The erstwhile Governor of Central Bank of Nigeria and the former Emir of Kano. Sanusi Lamido Sanusi in listing the benefits of fuel subsidy removal (Onwuamaeze & Ekeghe, 2020) said that Nigeria is the only oil exporting country that does not ripe the benefits of crude oil price rise in the international market because it fixes the price of refined products that it does not produce. So whatever it gains in high price of crude oil it losses to high price of refined products that it imports. This is so because as price of crude oil goes up the price of refined products will go up also. Therefore, removal of fuel subsidy will eliminate such revenue losses to the Nigerian government.

Moreover, Civic Keypoint, (2023) highlighted the following as benefits why fuel subsidy in Nigeria has to be removed:

Firstly, fuel subsidy removal will ensure private sector participation in the importation of petroleum products which will free up the market, empower many Nigerians and also allow the government to focus on other key sectors of the economy.

Secondly, it will ensure the ready availability of petrol at all times for all Nigerians as Nigeria will be saturated with petrol and there will be no diversion by marketers, and thereby curbing the greed for higher profits and sabotage by a few players in the oil industry which will positively affect the economy.

Thirdly, fuel subsidy removal will also ensure competition in the industry and market forces will drive down the price of petrol in the long run as witnessed in the telecoms sector for the benefit of Nigerians and thereby permanently banish queues from petrol stations across the nation and free the country from the endless pains and sufferings that come with fuel scarcity, which makes Nigerians line up in petrol stations for a day.

Pricewaterhousecoopers (2023) attempted to comprehensively examine both the short and long term benefits of the removal of fuel subsidy on the economy at large as follows:

***Reduces government borrowing and the associated huge deficit:*** Fuel subsidy has been a major source of government expenditure in Nigeria, with huge sums being spent annually to keep petrol prices artificially low. This has led to the government borrowing heavily to finance the subsidy, which in turn increases the country's deficit. By removing the subsidy, the government can reduce its borrowing and the associated huge deficit, freeing up resources for other important sectors.

***Free resources for investment in other critical sectors:*** With the removal of fuel subsidy, the government can free up resources that would have been spent on the subsidy to invest in other critical sectors such as education, healthcare, security and infrastructure. This will not only improve the standard of living for citizens but also enhance economic growth.

***Reduce/remove incentive for smuggling and associated security risk:*** Subsidy has created a huge incentive for smuggling of fuel to neighbouring countries where they can be sold at higher prices. This has resulted in security risks, as smuggling has also led to illegal refining, pipeline vandalism, and other criminal activities. By removing the subsidy, the incentive for smuggling will be reduced or eliminated, which will lead to a reduction in security risks associated with fuel smuggling.

***Stronger Naira and decline in imported inflation:*** The massive importation of fuel increases the demand for foreign exchange. One of the medium to long term impacts of the subsidy removal is the reduction of fuel purportedly consumed in Nigeria, as cheap, subsidised fuel will no longer be available for smuggling. This reduced volume will translate to a reduction in demand for foreign exchange which will lead to a stronger Naira. This will also reduce imported inflation and its pass-through effect, as the cost of importing petroleum products is a major contributor to inflation in Nigeria.

***Investment flow to the downstream sector:*** Removal of subsidy will create an enabling environment for private sector investment in the downstream sector, leading to the development of local refineries and the creation of jobs. This will enhance the country's energy security and reduce dependence on imported petroleum products.

***More profitable downstream players:*** Along with the increase in investment flow to the downstream sector, deregulation of the downstream sector will stimulate increased activities that will lead to more

profitable downstream companies. This will result in improved tax revenue both from the companies, their employees, vendors and other players across the value chain.

**Product availability:** Removal of subsidy will incentivise private sector investment in the downstream sector, leading to increased local refining capacity and improved product availability.

**Improved sovereign credit rating:** Nigeria's sovereign credit rating has been adversely affected by its low revenue, high debt levels, rising deficit, and vulnerability to oil price shocks. Removal of the subsidy will increase government's revenue, reduce borrowing and the associated deficit, leading to an improvement in the country's sovereign credit rating and lower cost of borrowing.

**Leverage on The African Continental Free Trade Area (AfCFTA) to legally export refined products rather than crude oil to other African countries:** The AfCFTA agreement provides a platform for Nigeria to competitively export refined petroleum products to other African countries. With the removal of fuel subsidy, Nigeria can leverage the AfCFTA agreement to increase its exports of refined products, generating foreign exchange and enhancing economic growth.

In their own submission, Azel de Granado et al., (2012) argue that subsidy is more beneficial to the rich than the poor as it is consumption based making the rich richer and the poor poorer, thereby increasing inequality in the society. Subsidy, no matter its good intentions, is hardly an efficient developmental policy tool especially if the government fixed price is below the marginal cost of production. Therefore, the whole society will be better off if such subsidy is removed.

## 7. Socio-Economic Implications of Fuel Subsidy Removal in Nigeria

According to Akintayo (2023), since the announcement of the removal of fuel subsidy by President Asiwaju Bola Ahmed Tinubu on 29 May, 2023, the aftermath of it on the citizens have been traumatizing. Akintayo (2023) stated that now that the price of petrol is up to ₦617, transportation costs, prices of food and other items have shot up tremendously, eliciting anger among workers and the public at large.

High cost of living has skyrocketed, for instance, transport fares have shot up by over 200 percent since subsidy removal. Prices of food items and others have all witnessed phenomenal increases. Akintayo (2023) reported that a civil servant, Omolola Ayodele, told The PUNCH correspondent that life had been unbearable for her family since May 29. "This is the worst we have experienced in like 10 years. No salary increment accompanied by the removal of fuel subsidy especially for State and Private Workers. This is the height of suffering because life has never been this hard. We can no longer eat to our satisfaction. I have a family of six, and you can imagine that I am a civil servant and my husband is into a small-scale business". The transportation fare across both the rural and urban areas in Nigeria has skyrocketed beyond a bearable line to especially the common man and the less privileged in the society (Akintayo, 2023).

Reports indicate that prices of petroleum products have nearly doubled in neighbouring countries like Cameroon, Benin Republic, and Niger, following the removal of the subsidy in Nigeria. Cheap petrol from Nigeria was regularly smuggled to as far as Sudan, making it difficult for Nigerian authorities to save enough to provide services to the people (Akintayo, 2023). The impact of the subsidy removal is also being felt by the tertiary institutions, such as students of the Prince Abubakar Audu University, Anyigba, University of Lagos, Akoka; Usmanu Danfodio University, Sokoto; Ahmadu Bello University, Zaria, University of Nigeria, Nsukka, The Polytechnic Ibadan, Oyo State, among a host of

others in the country, are lamenting the consequences of the removal as they reported that transport fares for returning to campus has doubled (Akintayo, 2023).

Furthermore, in their own submissions, Ozili and Obiora (2023) highlighted and discussed the following socio-economic implications of fuel subsidy removal in Nigeria:

#### **i. Increase in poverty and vulnerability**

Since the removal of fuel subsidy leads to inflation in the country, it will increase poverty in the short term (Raji, 2018). It will lead to immediate pain and hunger for families. At the individual level, the removal of fuel subsidy, and without any palliatives, could lead to fewer disposable income, fewer food in the land, and fewer medicine for sick people, and inability to afford basic education in several parts of the country especially in the Northern region of Nigeria. More families may go hungry, more children will cry in hunger and more parents will cry at their children's despair (Ozili & Obiora, 2023). The poor and middle-class consumers will witness a fall in their purchasing power, and small businesses will find their profit margins squeezed because they will face higher costs and reduced sales volumes. And if they attempt to pass on the cost to consumers, consumers might refuse to buy or they will reduce the quantity purchased, thereby leading to low business patronage. Furthermore, the fuel subsidy removal could affect poor vulnerable groups disproportionately if there are no economic safety nets or social assistance programmes that can alleviate the economic hardship caused by the fuel subsidy removal (Ozili & Obiora, 2023).

#### **ii. Rise in crime and criminal behaviour**

Another negative microeconomic implication of the removal of fuel subsidy is the potential for crime to increase (Shagali & Yusuf, 2022). The increase in the price of petrol following the removal of fuel subsidy might lead to other forms of crime such as theft of petrol from refinery warehouses, people's cars, and residential houses and from people's electric generator. The crime rate could worsen as more Nigerians struggle to make ends meet (Ozili & Obiora, 2023).<sup>9</sup>

#### **iii. Loss of job in the informal sector**

The removal of fuel subsidy will lead to job loss in the informal sector that rely mostly on PMS or petrol (Houeland, 2022). The formal sector uses mostly diesel for their activities while the informal sector relies mostly on petrol. According to Ozili and Obiora (2023), the rise in petrol prices would lead to the shutdown of small businesses that cannot afford the rising cost of petrol and whose profit margins have been completely eroded by fuel subsidy removal in the formal sector.

#### **iv. Social and cultural implications**

Historically, Nigerian households have a culture of coping with pain, and this is evident in the little number of protests that have taken place in the last 10 years. Therefore, it is expected that Nigerian households would cope with the adverse price effect of the fuel subsidy removal, and their coping culture could manifest through the immediate change in consumption and spending behaviour (Ozili & Obiora, 2023).

It can lead to a reduction in transportation expenses as many people will avoid unnecessary movements and travels while others prefer trekking to some places within their reach. Households will avoid impulse purchases as a coping strategy, while some will avoid luxury purchases and unnecessary social gatherings that require the spending of money. This can also reflect in adjustments in burial rites and marital ceremonies of some cultures to cut down expenses. These cultural practices and societal norms could influence people's reactions to the policy change.

## 8. Measures to Cushion the Effects of Fuel Subsidy Removal in Nigeria

As Nigeria bids farewell to fuel subsidy, a critical question emerges, which is how can the nation navigate the potential aftermath and mitigate the far-reaching effects of this momentous decision? The removal of fuel subsidy, while intended to foster economic growth and address structural inefficiencies, presents both challenges and opportunities. With the potential for increased fuel prices, inflationary pressures, and socioeconomic disparities, it becomes imperative for the government and stakeholders to adopt comprehensive strategies that soften the blow and safeguard the interests of the most vulnerable segments of society. In light of this, Iwuzo (2023) suggested the following measures that the Nigerian government can adopt to cushion the socio-economic effects of the removal of fuel subsidy specifically on Nigerian citizens.

### Introduction of transportation vouchers and mass transit:

Transport vouchers provide subsidies or discounts on public transportation fares, making them more affordable for commuters. Likewise, by improving and expanding public transportation networks, individuals can rely on mass transit systems instead of using their own vehicles, thereby reducing their dependence on fuel and mitigating the cost increase resulting from subsidy removal. This helps mitigate the impact of rising fuel prices and reduces the burden on individuals who heavily rely on transportation for their daily activities. More so, public transportation, especially when properly planned and implemented, can be more cost-effective than private vehicle ownership. Besides reducing the financial burden associated with purchasing fuel, it can also mitigate related costs, including vehicle maintenance, insurance, and parking fees. This cost reduction can offset the impact of increased fuel prices and help individuals cope with the subsidy removal (Iwuzo, 2023).

### Tax removal and rebate on food importation and distribution:

Removing or reducing taxes on food importation is another strategy that can help mitigate the socio-economic effect of the subsidy removal. An increase in fuel prices, which directly results from the subsidy removal, will lead to economic inflation and an increase in market prices. This may make it more difficult for minimum-wage and low-income earners to afford basic things like food. This issue can be partly addressed by reducing or removing taxes, whether temporarily or permanently, on food importation and other necessities. Lower food prices can provide relief to consumers, especially since a lot of Nigerian essentials are imported. By providing tax incentives for food importation, it becomes more economically viable to import them. This helps ensure an adequate supply of food in the market, mitigating potential shortages or price spikes that could occur due to disruptions in local production caused by increased fuel prices. Tax incentives on food imports ensure that essential food items remain affordable and accessible to the population, particularly low-income individuals who may be disproportionately affected by fuel price increases. Mitigating the impact of fuel subsidy removal on inflation is crucial. By reducing taxes on food importation, the overall cost of goods and services can be moderated. However, it is important to note that the specific design and implementation of tax removal and rebates should be carefully planned to ensure their effectiveness and prevent unintended consequences, such as revenue shortfalls or dependency on imports (Iwuzo, 2023).

### Rural electrification:

Rural electrification reduces the dependency on fuel imports and vulnerability to fluctuations in fuel prices. By developing local renewable energy sources, such as solar or wind power, rural communities can become more self-sufficient and less reliant on imported fuels. It provides access to electricity, which reduces reliance on traditional energy sources such as diesel generators or kerosene lamps.

Ultimately, this reduces the need for fuel consumption and mitigates the impact of fuel price increases resulting from subsidy removal (Iwuzo, 2023).

Access to electricity in rural areas also stimulates economic productivity. It enables the establishment and growth of small businesses, agricultural activities, and cottage industries that rely on electricity for operations. This, in turn, contributes to income generation and reduces dependence on fuel-intensive activities. Rural electrification, when powered by renewable energy sources, contributes to environmental sustainability. It reduces the reliance on fossil fuel-based power generation, leading to lower carbon emissions and improved air quality. This aligns with broader efforts to mitigate climate change and reduce the environmental impact of fuel consumption (Iwuzo, 2023).

#### **Cash transfer scheme:**

Cash transfers provide direct financial assistance to individuals and households, which can help offset the increased cost of living resulting from the removal of fuel subsidies. Beneficiaries can use the cash to cover the additional expenses associated with higher fuel prices, such as transportation costs, food, and other essential goods. It provides a regular and predictable income stream, allowing beneficiaries to smooth their consumption patterns. This means they can maintain a more stable standard of living and manage their finances better in the face of increased fuel prices, helping them cope with the economic fluctuations caused by subsidy removal (Iwuzo, 2023).

Cash transfers also contribute to establishing social safety nets, providing a form of social protection for individuals and households. Schemes like this act as a cushion during times of economic shocks, such as this subsidy removal, and help mitigate the negative impact of such shocks, particularly for vulnerable groups. This ensures that individuals do not fall into deeper poverty and can maintain a certain level of financial stability (Iwuzo, 2023).

#### **Increase in minimum wage:**

A higher minimum wage means that workers have more income at their disposal. This increased purchasing power can help individuals and households better absorb the higher fuel costs resulting from subsidy removal. They will have more financial capacity to cover transportation expenses and other essential needs. Raising the minimum wage can help reduce income inequality and address wage disparities. It ensures that low-wage workers receive a fairer share of economic growth and prosperity. By narrowing the income gap, individuals at the lower end of the wage scale are less likely to be disproportionately burdened by fuel price increases. It is important to note that the effectiveness of an increase in the minimum wage in mitigating the effects of fuel subsidy removal depends on various factors, such as the magnitude of the wage increase, the prevailing cost of living, and the overall economic conditions (Iwuzo, 2023). Additionally, careful consideration should be given to the potential impact on employment and the sustainability of businesses, particularly small and medium-sized enterprises, to ensure a balanced approach to economic stability and social welfare.

### **9. Conclusion and Recommendations**

The practice of fuel subsidy in Nigeria has been unsustainable as it has led to debt crisis in the medium to long term over the years. It is then imperative that the government re-strategises its approach and focus on targeting the poorest of the poor, and those who have been identified as being at the receiving end of it. Because targeted subsidy removal with viable palliative measures will reduce corruption, increase government savings and investment in infrastructure, and reduce poverty and hardship on the masses.

But then, the wholesale removal of fuel subsidy without an upfront laid down palliatives may not be politically feasible and the possible disruption following it may hurt the economy more than the projected benefits of fuel subsidy removal especially in the short term. We therefore recommend either a full subsidy removal with targeted palliative or a targeted subsidy scheme funded through a subsidy levy. Either of the option is likely to elicit less opposition from the citizens, the Labour Union and other key stakeholders that are historically opposed to subsidy removal in the country.

### **Conflict of Interest**

The authors declare no conflict of interest regarding this article.

### **Funding**

There is no special funding from anywhere for this paper.

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