POLAC INTERNATIONAL JOURNAL OF ECONS & MGT SCIENCE (PIJEMS)
DEPARTMENT OF ECONOMICS & MANAGEMENT SCIENCE
NIGERIA POLICE ACADEMY, WUDIL-KANO

THE SOCIO-ECONOMIC IMPACT OF FUEL SUBSIDY REMOVAL POLICY ON NIGERIANS: A REVIEW OF ITS GAINS AND CHALLENGES

Iyamah Joy Obiageli — Department of Public Administration, Faculty of Management Sciences, Delta state university, Abraka

Mukoro Akpomurive — Department of Public Administration, Faculty of Management Sciences, Delta state university, Abraka

Abstract

The 2023 removal of the fuel subsidy in Nigeria marked a pivotal moment in the nation's economic and social trajectory. This decisive policy shift has brought multitude of economic and social impacts that warrants rigorous investigation to comprehend its far-reaching consequences on Nigerians. It is against this backdrop that this review paper seeks to examine the impact of fuel subsidy removal policy on the socio-economic conditions of Nigerians. This is with a view to be a reference to guide and provide insights for policymakers, researchers, stakeholders in understanding the dynamics of poverty in Nigeria and the potential consequences of this policy decision. To achieve this, an extensive review of relevant materials from secondary sources of data. Based on the results obtained, recommendations are made to cut the cost of governance, government should show commitment, transparency and accountability in managing funds saved from subsidy removal and government should diversify its economy to other sectors, therefore eliminating over dependency on oil.

Key words; Fuel Subsidy, Policy, Poverty, Government, Transparency

Introduction

Fuel subsidies in Nigeria have a long history, dating back several decades. They were initially introduced as a means to provide affordable fuel & alleviate the economic burden on the populace. However, over time, these subsidies became a significant drain on the national budget due to rising fuel costs, smuggling, & corruption (Abdullahi & Abubakar, 2019). The Nigerian government has periodically grappled with the need to reform or remove these subsidies as part of broader economic reforms (Adenuga, 2021). The removal of fuel subsidies has been driven by several motivations. It is often seen as a fiscal & economic reform measure aimed at reducing government expenditures, curbing corruption, & redirecting funds towards other critical sectors such as healthcare, education, & infrastructure. Additionally, it can be viewed as a response to external pressures, such as international financial institutions advocating for subsidy reforms as a condition for financial assistance (Agyire-Tettey et al., 2021).

The subsidy removal, while driven by the intent to align with global trends of fossil fuel subsidy reduction & enhance fiscal sustainability (Al Jazeera, 2023), presents a host of challenges (Osei & Turkson, 2022). Foremost among these challenges is the potential exacerbation of socioeconomic inequality, given that subsidy removal can lead to increased fuel prices & a subsequent rise in the cost of living (Agbo et al., 2022). This predicament echoes the concern raised by Ude (2023), emphasizing that while subsidy elimination might hold long-term benefits, it can strain the financial resources of households, particularly those already marginalized (Osei & Turkson, 2022). The removal of fuel subsidies in Nigeria presents a complex & pressing issue, particularly when viewed through the lens of the multi-dimensional poverty index MPI (Abdullahi & Abubakar, 2019). Fuel subsidy removal in Nigeria has been a contentious policy that has sparked debates regarding its impact on poverty. While the removal of fuel subsidies is often presented as a measure to promote economic efficiency & fiscal sustainability, it has been associated with negative consequences that exacerbate poverty in various ways. The removal of fuel subsidies often leads to an increase in fuel prices. As fuel prices rise, transportation costs go up, impacting the prices of goods & services throughout the economy. This can contribute to inflation, making basic necessities more expensive for the average citizen. In a country like Nigeria, where a significant portion of the population relies on public transportation, increased fuel prices directly affect transportation costs. This, in turn, affects the cost of commuting to work, school, or accessing essential services, placing an additional financial burden on low-income households.

The majority of Nigeria's population is engaged in the informal sector, which often relies heavily on affordable transportation for business activities. Higher fuel prices can lead to increased operating costs for small businesses & informal traders, potentially reducing their profitability & contributing to poverty. Transportation costs also impact the prices of agricultural products, as farmers rely on fuel for machinery & transportation. Increased fuel prices can result in higher production costs, which may be passed on to consumers in the form of elevated food prices. This affects not only urban consumers but also rural households heavily dependent on agriculture.

This research problem encompasses several specific challenges & questions. The primary challenge is to comprehensively evaluate how the removal of fuel subsidies affects multidimensional poverty (Adebayo, 2020). This includes underst&ing the direct & indirect consequences on various dimensions of well-being beyond income. To what extent does fuel subsidy removal impact specific dimensions of poverty, such as access to healthcare, education, & living st&ards? Is the impact uniform across all dimensions, or are there variations?

The overarching aim of this study is to review the impacts of subsidy removal on the Nigerian economy & society (Agyire-Tettey et al., 2021). This review is paramount for policymakers, enabling them to make informed decisions that balance the short-term impacts with the long-term benefits & minimize disruptions to the vulnerable population.

Literature Review

Conceptual Issues

Fuel Subsidy: Fuel subsidies are government policies that artificially reduce the cost of various types of energy, primarily fuels such as gasoline, diesel, natural gas, & sometimes electricity, to consumers (Nweke, 2006). These subsidies are typically implemented to achieve various economic, social, or political objectives (Dagunga et al., 2020). Fuel subsidies are implemented by governments for a variety of purposes, each reflecting different economic, social, & political objectives (Abdul & Danquah, 2021). The specific purposes of fuel subsidies can vary from one country to another, & they often depend on the particular circumstances & policy goals of the government (Aliyu & Abubakar, 2022b). One of the primary purposes of fuel subsidies is to make energy more affordable for consumers, especially for low & middle-income individuals & households (Abdul & Danquah, 2021). This helps to reduce the financial burden of energy expenses on citizens (Aliyu & Abubakar, 2022b).

Fuel subsidies can be used to stabilize energy prices & prevent sudden spikes in the cost of fuel. By controlling energy prices, governments aim to minimize inflation & maintain economic stability (Aminu, 2023). Many industries & sectors, including agriculture & manufacturing, rely heavily on affordable energy. Subsidies can help support these sectors by reducing their operational costs, thus contributing to economic growth & employment (Dagunga et al., 2020). Subsidies are often seen as a means to promote social equity by ensuring that basic energy needs are met for all citizens, regardless of income levels. They can help to reduce disparities in energy access & usage (Abdul & Danquah, 2021).

In some countries, fuel subsidies are used as a tool to maintain political stability & public order. Sudden increases in energy prices can lead to public protests & civil unrest, making subsidies a way to mitigate such risks (Aliyu & Abubakar, 2022b). By reducing energy costs for businesses, fuel subsidies can stimulate economic growth & investment, which can, in turn, lead to job creation & higher tax revenues. In some cases, subsidies are used to encourage the use of cleaner energy sources or more fuel-efficient technologies (Abdul & Danquah, 2021). This promotes environmental sustainability & reduces pollution. Subsidies may be used to enhance energy security by ensuring a stable supply of essential energy resources (Dagunga et al., 2020). This can be particularly important in countries heavily dependent on energy imports. In regions with high levels of energy poverty, subsidies can help provide access to essential energy services, such as cooking, heating, & lighting, to marginalized & underserved populations (Aliyu & Abubakar, 2022b).

Some governments use fuel subsidies to support specific industries or to facilitate economic diversification efforts, particularly in countries where energy-intensive sectors play a significant role in the economy (Aminu, 2023). It's important to note that while fuel subsidies may serve these purposes, they often come with trade-offs, including fiscal burdens, market distortions, environmental consequences, & the potential to hinder the development of alternative energy sources. The effectiveness & sustainability of fuel subsidies depend on their design, transparency, & alignment with broader national & global goals (Abdul & Danquah, 2021).

Fuel Subsidy Removal in Nigeria

The removal of fuel subsidies in Nigeria has been a contentious & complex issue with significant economic, social, & political implications (Ojoye, 2019). Fuel subsidies have traditionally been a key policy in Nigeria, aimed at keeping the price of petroleum products, such as gasoline (petrol) & diesel, artificially low for consumers (Ojoye, 2019). The Nigerian government has provided these subsidies to mitigate the impact of higher fuel prices on the population, as energy costs are a significant part of household budgets (Alkire & Kovesdi, 2020). However, the removal of fuel subsidies is a topic of debate for several reasons:

a. **Fiscal Pressures**: Fuel subsidies have imposed a substantial fiscal burden on the Nigerian government. Subsidies require significant budget allocations to cover the difference between the market price of fuel & the subsidized price (Ojoye, 2019). This diverts funds from other critical public services, such as healthcare, education, & infrastructure development (Eulau & Prewitt, 1973).

b. **Market Distortions**: Subsidies can create market distortions by encouraging overconsumption of fuel (Actionaid, 2015b). This overconsumption can lead to resource inefficiencies & may contribute to environmental degradation & inefficient energy use (Eulau & Prewitt, 1973).

c. **Dependence on Oil Revenues**: Nigeria is a major oil-producing country, & fuel subsidies have contributed to a situation where the government is both a major oil producer & a major consumer (Eulau & Prewitt, 1973). This dependence on oil revenues & subsidies makes the country vulnerable to fluctuations in global oil prices (Actionaid, 2015b).

d. **Income Inequality**: The benefits of fuel subsidies are not always evenly distributed. Higher-income groups can benefit more from subsidies, while low-income groups may not experience the same level of relief (Dlakwa, 2010). Subsidies may also exacerbate income inequality (Actionaid, 2015b).

e. **Public Protests**: Fuel subsidy removal has often led to public protests & civil unrest. Sudden increases in fuel prices can lead to public dissatisfaction & political instability, making subsidy removal a politically sensitive issue (Alkire & Kovesdi, 2020).

Despite these challenges, there are arguments in favor of subsidy removal:

a. **Fiscal Responsibility**: Removing subsidies can free up government funds for critical social & economic investments (Actionaid, 2015b). This includes investments in infrastructure, education, & healthcare (Eulau & Prewitt, 1973).
b. **Market Efficiency**: Subsidy removal can lead to a more efficient allocation of resources & encourage energy conservation.
c. **Reducing Corruption**: Subsidies have sometimes been associated with corruption & misallocation of resources. Removing subsidies can help curb these issues (Dlakwa, 2010).
d. **Diversification of the Economy**: Subsidy removal can encourage economic diversification & reduce Nigeria's heavy dependence on oil revenues (Actionaid, 2015b).

Fuel subsidy removal is a complex issue that requires a delicate balance between addressing fiscal challenges, promoting economic development, & safeguarding social welfare (Dlakwa, 2010). Governments have to carefully plan & manage the process to mitigate its impact on vulnerable populations & ensure that the funds saved from subsidy removal are directed toward programs that benefit the broader population (Alkire & Kovesdi, 2020). The decision to remove or retain fuel subsidies in Nigeria continues to be a topic of policy debate & public discourse (Eulau & Prewitt, 1973).

Challenges of Fuel Subsidy Removal in Nigeria

The removal of fuel subsidies in Nigeria is associated with a range of economic, social, & political challenges. This policy decision has been a contentious & complex issue due to its potential impacts on various aspects of the country (Dlakwa, 2010). One of the immediate challenges is the potential for increased inflation & the rising cost of living for ordinary citizens (Eulau & Prewitt, 1973). When fuel subsidies are removed, fuel prices typically rise, affecting the prices of transportation, goods, & services (Heitmann, 2021). This can lead to higher overall inflation rates, which disproportionately affect low-income households (Actionaid, 2015b).

Historically, the removal of fuel subsidies in Nigeria has led to widespread protests & social unrest. Sudden increases in fuel prices can trigger public dissatisfaction, demonstrations, & strikes (Dlakwa, 2010). These protests can disrupt economic activities & pose challenges to public order & security (Actionaid, 2015b). The removal of subsidies can place additional financial burdens on households, particularly low & middle-income families (Alkire & Kovesdi, 2020). Transportation costs rise, & essential goods & services become more expensive, impacting people's ability to meet their basic needs.

Higher fuel prices can increase the operating costs of businesses, especially those dependent on transportation, agriculture, & manufacturing (Heitmann, 2021). This can reduce their competitiveness & profitability, potentially leading to layoffs & job losses (Dlakwa, 2010). The poor & vulnerable segments of the population are disproportionately affected by fuel subsidy removal. Their limited income & lack of alternatives make them highly susceptible to price increases in fuel & basic necessities.

The way in which fuel subsidy removal is implemented, including the transparency of the decisionmaking process & the timing of the removal, can impact how the public perceives the policy & the extent of social unrest it triggers (Actionaid, 2015b). The removal of fuel subsidies can result in political backlash against the government (Heitmann, 2021). Political opposition & criticism from various interest groups may intensify, which can further destabilize the political environment. Even if subsidies are removed, the sustainability of these reforms can be challenging (Dlakwa, 2010). Subsequent governments may face pressure to reintroduce subsidies during periods of economic stress or public outcry (Alkire & Kovesdi, 2020).

The government needs to establish effective social safety nets & mechanisms to cushion the impact of subsidy removal on the poor & vulnerable (Olanrewaju, 2020). Designing & implementing such safety nets require careful planning & resources (Actionaid, 2015b). Removing subsidies exposes the economy to fluctuations in global oil prices. Nigeria is an oil-dependent economy, & international oil price volatility can directly impact the domestic fuel market. The process of subsidy removal should be accompanied by measures to ensure transparency & accountability in the use of the funds saved from subsidy removal (Heitmann, 2021). This can be a challenge in addressing corruption & misallocation of resources (Olanrewaju, 2020).

Addressing these challenges requires a comprehensive & well-planned approach (Heitmann, 2021). Policymakers need to carefully consider the social, economic, & political implications of fuel subsidy removal & develop strategies to mitigate the negative impacts on vulnerable populations (Howard, 1982). Additionally, communicating the rationale for subsidy removal & the intended use of the funds saved is crucial for gaining public acceptance & support for the reform (Actionaid, 2015b).

Impact of Fuel Subsidy

The impact of fuel subsidy policies can be multifaceted & complex, affecting various aspects of an economy & society (Aliyu & Abubakar, 2022b). While these policies aim to achieve certain objectives, such as making fuel more affordable for consumers, they often come with significant trade-offs & consequences. Here are some of the key impacts of fuel subsidy policies:

a. **Fiscal Impact:** Subsidies can place a substantial fiscal burden on governments. They must cover the difference between the market price of fuel & the subsidized price, leading to substantial budgetary outlays (Abdul & Danquah, 2021). The funds allocated to fuel subsidies could be redirected to other critical areas, such as infrastructure, healthcare, education, & social welfare programs (Dagunga et al., 2020). These funds may offer more sustainable & long-term benefits to the population (Abdul & Danquah, 2021).
b. **Market Distortions**: Subsidies create artificially low prices for energy, which can encourage overconsumption. Consumers may be less inclined to adopt energy-efficient practices or alternative, cleaner energy sources. Subsidies can lead to inefficient use of energy resources, as consumers & industries may not have incentives to optimize their energy usage.
c. **Environmental Consequences**: Low energy prices resulting from subsidies can lead to increased consumption of fossil fuels, contributing to higher carbon emissions & environmental degradation (Abdul & Danquah, 2021). This can conflict with sustainability & climate goals. Subsidies can discourage investments in energy efficiency, as consumers & industries may not have the economic incentive to adopt more efficient technologies (Aliyu & Abubakar, 2022b).

d. **Dependency**: Subsidies can foster dependency on cheap fossil fuels & hinder the transition to cleaner & more sustainable energy sources (Dagunga et al., 2020). This can delay progress toward environmental & climate objectives. Countries heavily dependent on fuel subsidies may become vulnerable to fluctuations in global energy prices. This can expose their economies to risks associated with energy price volatility (Aminu, 2023).

e. **Income Distribution**: The distribution of subsidy benefits may not always align with socioeconomic needs. Subsidies can sometimes benefit higher-income groups more than the intended low-income beneficiaries (Abdul & Danquah, 2021). In some cases, subsidies can exacerbate income inequality, as a significant portion of the subsidies may go to wealthier segments of the population (Dagunga et al., 2020).
f. **Macroeconomic Stability**: Subsidies can be used to control inflation by keeping energy prices low (Omotosho & Babatunde, 2019). However, this can create distortions in the market & hinder more natural price adjustments (Aliyu & Abubakar, 2022b). In countries that heavily subsidize fuel, the need to allocate substantial funds for subsidies can exert pressure on the exchange rate, potentially leading to currency devaluation (Abdul & Danquah, 2021).
g. **Economi Efficiency**: Subsidies can distort the allocation of resources, as investments & consumption patterns may not align with economic efficiency. This can impede economic growth & development (Abdul & Danquah, 2021).
h. **Economic Diversification**: Energy-Intensive Sectors: Subsidies may disproportionately support energy-intensive sectors of the economy, limiting economic diversification efforts & discouraging the development of non-energy sectors (Abayomi, 2023).

The impact of fuel subsidies can vary significantly depending on how the policies are designed, implemented, & managed (Aliyu & Abubakar, 2022b). Policymakers need to consider the tradeoffs & consequences when formulating subsidy policies & explore alternatives that promote economic, social, & environmental sustainability (Aminu, 2023). It's essential to note that while fuel subsidies have legitimate objectives; their consequences often raise complex economic, social, & environmental challenges (Abayomi, 2023). The design & implementation of subsidy policies require careful consideration to balance the intended benefits with their overall impact on a country's economy & society (Abdul & Danquah, 2021). The sustainability & effectiveness of such policies often depend on their transparency, targeted approach, & the broader energy & economic context of the country in question (Abayomi, 2023).

The Immediate & Long-Term Effects of Fuel Subsidy Removal on Multidimensional Poverty in Nigeria

Research on the immediate & long-term effects of fuel subsidy removal on multidimensional poverty in Nigeria provides valuable insights into the complex relationship between economic policy & societal well-being. Fuel subsidy removal, a policy decision with significant socioeconomic implications, has been a subject of extensive investigation.

Immediate Effects: In the short term, the removal of fuel subsidies can lead to an increase in the cost of living, impacting the vulnerable population disproportionately. Studies such as Adebayo (2020) & Abdullahi & Abubakar (2019) highlight the immediate challenges faced by households as they grapple with rising fuel prices, affecting transportation costs, food prices, & overall household expenditures.

Long-Term Effects: Over the long term, the consequences of fuel subsidy removal extend beyond economic factors. Agyire-Tettey et al. (2021) emphasizes the long-term impact on access to essential services, such as healthcare & education. Adusah-Poku et al. (2021) contributes insights into the multidimensional aspects of poverty affected by the policy, emphasizing the importance of considering disparities between urban & rural areas & income inequality.

The global relevance of Nigeria's experience is emphasized by Agyire-Tettey et al. (2021) & Adusah-Poku et al. (2021), who highlight that similar decisions on subsidies & economic reforms are faced by many countries worldwide. The study provides lessons & insights for international policymakers & researchers.

Understanding both the immediate & long-term effects is crucial for informed policy-making, as discussed by Abdullahi & Abubakar (2019). The research contributes to data-driven policy formulation, providing empirical evidence on the impacts of fuel subsidy removal, as stressed by Adusah-Poku et al. (2021). The study aims to guide targeted poverty alleviation programs & strategies by investigating how fuel subsidy removal affects multidimensional poverty dimensions, as argued by Adebayo (2020).

In conclusion, the immediate & long-term effects of fuel subsidy removal on multidimensional poverty in Nigeria have far-reaching implications, & research by various authors contributes to a nuanced underst&ing of these complexities. These studies underscore the importance of considering both the short-term challenges & the enduring impacts on various aspects of societal well-being.

Conclusion and Recommendations

The 2023 removal of the fuel subsidy in Nigeria marked a crucial moment in the nation's economic & social sphere. This decisive policy has brought untold hardship to Nigerians & has driven more people into multi-dimensional poverty. The Nigerian government is gradually losing public trust due to these policy effects. However, the government’s commitment to well thought out policies, transparency, accountability & good governance will give Nigerians sense of hope & ease the ‘baby steps of pain’ associated with the subsidy removal.

The study recommends that:

a. The government must curb the cost of governance such as cutting down the outrageous allowances of law makers & other government officials, wasteful government expenditures
& budget padding
b. Government should consider increasing minimum wage, this will mitigate the impact of inflation & the rising cost living
c. Government must show commitment, transparency & accountability in governance especially in the management of funds saved from subsidy removal.
d. Government should diversify its economy away from overdependency on oil & invest more into other sectors of the economy such as agriculture.
e. The government should embark on social safety net schemes to support people living below the poverty line as a result of subsidy removal. This could include healthcare & food subsidies, & conditional cash transfers.

References

Abayomi, O. (2023), Consequences of fuel subsidy removal on Nigeria’s balance of trade, Kaduna Polytechnic & a Free Trade Fellow at Ominira Initiative. Published at Vanguard Newspaper & retrieved on 17th August, 2023

Abdul, I. & Danquah, M. (2021). The welfare effects of financial inclusion in Ghana: An exploration based on a multidimensional measure of financial inclusion. Series/Report no.: WIDER Working Paper No. 2021/146.

Abdullahi, A.A., & Abubakar, A.D. (2019). Why it is difficult to eradicate malaria in Sub-Sahara Africa. Perspectives on Global Development & Technology, 18(3), 269-285. https://doi.org/10.1163/15691497-12341516

Actionaid, (2015b). Corruption & Poverty in Nigeria: a report. Retrieved from https://nigeria.actionaid.org/publications/2015/poverty-&-corruptionnigeriareport#downloads

Adebayo, A. (2020) Detrimental Effects of Policy Inconsistency on Development, Economic Intelligence Unit, Planning & Budget Ministry, Osun State, Nigeria.

Adebayo, A. (2020). "Fuel Subsidy Removal & Its Economic Implications on Nigerian Households."

Adenuga, A. (2021, May 12). 80.4% of Nigerian employment in informal sector, says W'Bank. The Punch. Retrieved from https://punchng.com/80-4-of-nigerian-employment-ininformalsector-sayswbank/?amp

Adusah-Poku, F., Adjei-Mantey, K., Kwakwa, P. A. (2021). Are energy-poor households also poor? Evidence from Ghana. https://doi.org/10.1002/pop4.301.

Agbo, J., Aiwerie, O., Njoku, C., Onu, N., Elekwa, E., & Nwisi, R. (2022, October 10). Floods wash away $15m rice farm as communities, market submerge. The Nation. Retrieved from https://thenationonlineng.net/floods-wash-away-15m-rice-farm-as-communtiesmarketsubmerge/

Agyire-Tettey, F., Asuman, D., Ackah, C. G., Tsiboe-Darko, A. (2021). Multidimensional Child Poverty in Ghana: Measurements, Determinants, & Inequalities Child Indicators Research volume 14, pages957–979 (2021).

Aliyu, M.B. & Abubakar, A.D. (2022b). Exploring the implications of forced displacement on Sustainable Development Goals (SDGs) in Nigeria: Evidence from the lived experience of Internally Displaced Persons (IDPs) in Maiduguri, Borno State, Nigeria. International Journal of Intellectual Discourse, 5(1): 293-306

Alkire, S. & Kovesdi, F. (2020). Multidimensional Poverty across Ethnic Groups: Disaggregating the Global MPI. Oxford Poverty & Human Development Initiative (OPHI), University of Oxford (2020).

Aminu, N. (2023, June 28). Reducing cost of governance, a necessity for economic stability. Daily Trust. Retrieved from https://dailytrust.com/reducing-cost-of-governance-a-necessityforeconomic-stability/

Dagunga, G., Ayamga, M., Danso-Abbeam, G. (2020). To what extent should farm households diversify? Implications on multidimensional poverty in Ghana.

Dlakwa H.D (2010), Concepts & Models in Public Policy Formulation & Analysis. Published by Pyla-Mak Services Ltd, Kaduna.

Eulau, H. & Prewitt, K., (1973) Labyrinths of Democracy, Bobbs Merrill, Indianapolis.
Evaluation Instruments for Literacy Programmes in Muller & Dietrich, (Ed)

Heitmann, A. (2021, July 29). Disparities in education in Nigeria. The Borgen Project. Retrived from https://borgenproject.org/disparities-in-education-in-nigeria

Nweke, E. (2006). Public Policy Analysis: A Strategic Approach. Enugu: John Jacobs Publishers. Pg. 19-27

Ojoye, T. (2019, May 10). B&its tax us before allowing us access to our farms – NorthWest farmers. Punch. Retrieved from https://punchng.com/b&its-tax-us-before-allowing-usaccessto-our-farms-nwest-farmers/

Osei, K. B., Turkson, D. (2022). Cash transfer & multidimensional child poverty: evidence from Ghana, International Journal of Social Economics ISSN: 0306-8293.