



Effect of Fuel Subsidy Removal on Livelihoods of Small and Medium Scale Enterprise Owners in Nigeria. A Case Study of Michika Local Government Area of Adamawa State.

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ABSTRACT

The study used Michika Local Government Area in Adamawa State as a case study to investigate how the elimination of fuel subsidies affected the livelihoods of small and medium business owners in Nigeria. The study's goals are to determine how the performance of small and medium-sized businesses in Michika Local Government Area is affected by rising transportation costs brought on by the elimination of petroleum subsidies, how the performance of small and medium-sized businesses in Michika Local Government Area is affected by declining consumer purchasing power brought on by the removal of petroleum subsidies, and how the performance of small and medium-sized businesses in Michika Local Government Area is affected by rising raw material costs. The sample size is 200 respondents, and stratified random sampling is the sample technique used to select the respondents. With structured questions and interviews, the primary data is the primary source of information. The work was analyzed using the Linear Probability Model. The work's main conclusion is that, because living expenses and production costs are both high, the elimination of fuel subsidies has not yet had any beneficial effects on the general public or businesses. According to the research, the government should take prompt action to avoid putting people and businesses at risk of developing the Japanese syndrome.

Introduction

The word "subsidy" refers to the financial assistance provided by the government to organizations, sectors, or individuals in order to accomplish social and economic goals (Wenqi, Khurshid, Rauf & Calin 2022). Governments in many developing nations use fuel subsidies to encourage economic growth and make basic transportation and cooking fuels more affordable. Subsidies, however, put a tremendous burden on public coffers and can result in excessive consumption and market inefficiencies. International organizations frequently advocate for economic reform by eliminating fuel subsidies, but the effects are multifaceted.

Therefore, it is necessary to comprehend the ways in which the elimination of subsidies impacts consumer welfare, income distribution, poverty levels, inflation, political stability, and sustainability, among other facets of socioeconomic development (Idris, Kitabu, Musa, and Shehu, 2024). Customers can pay less than the current fuel prices when subsidies are in place because the government provides fuel subsidies at a discount to the market price of fossil fuels (Ovaga & Okechukwu, 2022). This means that customers will pay less per liter of the petroleum product. According to Ozili & Obiora (2023), fuel subsidies were first introduced in Nigeria in the 1970s as a response to the 1973 oil price shock.

A subsidy is a type of financial aid that the government gives to people, companies, or organizations. This assistance may come in the form of direct payments like cash or indirect ones like tax breaks. In order to serve the public interest by advancing economic policies or social welfare, subsidies are usually created to lessen particular burdens. In essence, subsidies are financial incentives that support the income of strategic or essential producers, maintain employment levels, encourage investments to lower unemployment, or help maintain lower prices (Wazakari and Tammi, 2024). In general, they are government initiatives that allow companies to make more money than they otherwise would (EISAID, 2006).

Fuel subsidies were partially eliminated in 1986. Since then, the gasoline subsidies have remained in place. In 2012, the government abruptly discontinued fuel subsidies. Following the withdrawal, there were widespread demonstrations aimed at pressuring the government to reinstate the fuel subsidy that had been reduced. Later, in 2012, the government reinstated fuel subsidies in response to the widespread protests. Since then, Nigeria has seen a sharp rise in fuel subsidy payments. However, fuel subsidization has come at a high cost over the years; estimates place the cost of fuel subsidy payments in recent decades at billions of dollars (Houeland, 2020).

Fuel subsidies are supposed to be beneficial, but their elimination has sparked debate and legislative action. President Bola Ahmed Tinubu announced in May 2023 that fuel subsidies would be eliminated entirely, signaling a dramatic change in the country's economic situation. A number of things have

happened as a result of this decision, chief among them the rise in fuel prices, which has affected how businesses operate, especially small-scale industries, which are Nigeria's main source of economic growth.

Nigeria has always struggled with the complexities of laws pertaining to gasoline subsidies because it is a developing country. Fuel subsidies have been implemented to mitigate the effects of rising fuel prices on people and businesses, particularly the Small and Medium Enterprises (SMEs) that form the foundation of Nigeria's economy.

However, the removal of fuel subsidies has been a contentious issue that often has socioeconomic consequences. The purpose of this article is to investigate how Nigeria's small and medium-sized enterprises would be impacted if gasoline subsidies were eliminated.

Statement of the problem

In Nigeria, fuel subsidies have historically had both positive and negative effects. Its removal has had a detrimental impact on the cost of living, despite the fact that it was meant to reduce the financial strain on the government and promote economic growth. The increase in fuel prices is one of the most obvious and immediate effects, as it has a direct impact on small and medium-sized businesses' manufacturing and transportation expenses. The elimination of fuel subsidies has an impact on both manufacturing and transportation costs. The sudden rise in fuel prices brought on by the elimination of subsidies has made matters worse for the already impoverished Nigerian people, who are already dealing with high unemployment rates and other ongoing economic difficulties (Darlington & Monday, 2023).

The majority of small and medium-sized businesses (SMEs) rely on fueling their machines for business operations because of the ongoing lack of electricity throughout the nation, which is currently very challenging to provide. However, the performance of small and medium-sized businesses has been adversely affected by the constant rise in transportation costs, shifts in consumer preferences, and increases in input prices. This has resulted in a persistent increase in the price of goods and services and an impact on income distribution. People's suffering from poverty and hunger has increased as a result. Many families can barely afford three square meals due to the rise in consumer goods prices.

The rising cost of transportation makes it difficult for people to get from one place to another. Kidnapping, banditry, drug abuse, malnutrition, and prostitution are just a few of the social vices that have ultimately increased as a result of the situation (Houeland, 2020). Living standards in Nigeria have been impacted by the elimination of fuel subsidies in a number of ways. For households that heavily rely on private vehicles or public transportation, changes in fuel prices have an impact on transportation costs, which in turn affect commuting expenses. Access to necessary goods and services is restricted as a result of the rise in transportation costs, which lowers disposable income. Furthermore, cutting subsidies weakens purchasing power and disproportionately affects low- and middle-income households, which fuel inflationary pressures.

Spending on vital sectors like healthcare and education may decline as household budgets become more tight. Higher fuel prices have an effect on the labor market as well because they may result in fewer job openings or layoffs, which would leave workers with uncertain incomes and financial stress. Since the elimination of subsidies may increase food prices and have a detrimental impact on the welfare of vulnerable households, worries about food security, poverty, and income inequality may also surface (Wazakari and Tammi, 2024).

The effects of removing fuel subsidies in Nigeria at different points in time on various socioeconomic sectors have been examined in earlier research. The purpose of this study is to investigate the connection between small-scale industry dynamics and fuel subsidy policies. Numerous scholars have examined the impact of subsidy removal on small and medium-sized enterprises (SMEs) in Nigeria using various methodologies. However, this study employs a Linear Probability model to examine the impact of subsidy removal on the livelihood of SME owners in Michika Local Government Area, Adamawa State, Nigeria.

Research Questions

- i. What are the effects of increase in transportation cost as a result of petroleum subsidy removal on the performance of small and medium enterprises in Michika Local Government Area?
- ii. What are the impacts of decrease in consumer purchasing power as a result of petroleum subsidy removal on the performance of small and medium scale enterprises in Michika Local Government Area?
- iii. What are the impacts of increase in the cost of raw materials on the performance of small and medium scale enterprises in Michika Local Government Area?

Objectives of the Study

The broad objective of this study is to assess the impact of petroleum subsidy removal on the livelihood of small and medium enterprise owners in Michika Local Government Area, while the specific objectives are to:

- i. examine the effects of increase in transportation cost as a result of petroleum subsidy removal on the performance of small and medium scale businesses in Michika Local Government Area.

ii. find out the impact of decrease in consumer purchasing power as a result of petroleum subsidy removal on the performance of small and medium scale enterprises in Michika Local Government Area.

iii. investigate the impact of increase in cost of raw materials on the performance of small and medium scale enterprises in Michika Local Government Area.

Justification of the Study

The purpose of this study was to look into how the removal of petroleum subsidies affected the livelihoods of Nigerian small and medium-sized business owners. In conducting this study, the researchers concentrated on the Michika Local Government Area in Nigeria's Adamawa state. Similarly, the only variables that are coded by dummy variables 1 and 0 are transportation costs, consumer purchasing power, raw material costs, and income received at the end of the day; 1 indicates that the owner made a profit, and 0 indicates that no profit was made. The structure question determines the rank of the other variable.

Literature Review

According to Akinlo (2013), Nigeria is impacted by both fuel prices and subsidy policies. The impact of fuel pricing policies, including the elimination of subsidies, on the Nigerian economy is examined in this study. Insights into the possible hardship experienced by vulnerable populations are provided by its analysis of the effects on government spending, fiscal sustainability, and poverty levels.

Using the discourse analysis methodology, Obiora and Ozilli's (2023) examination of the macroeconomic and microeconomic ramifications of Nigeria's 2023 fuel subsidy removal offers important insights into the possible outcomes of this policy change. They point out a number of benefits, such as releasing funds for other industries, encouraging domestic refineries, decreasing reliance on imported fuel, increasing employment, and meeting urgent public infrastructure requirements.

Their study does, however, also recognize the drawbacks, including the possibility of a short-term slowdown in economic growth, higher inflation, poverty, fuel smuggling, and job losses in the unorganized sector. It is crucial to acknowledge certain limitations, even though the study presents a thorough summary of these elements and offers policy recommendations. The lack of empirical evidence to support the assertions about the effects of eliminating fuel subsidies is a major disadvantage. Furthermore, the study doesn't go into great detail about the political and social ramifications, the difficulties of actually removing subsidies, or the possible difficulties of putting these policies into practice. The study's credibility and usefulness for policymakers would be increased by a more thorough analysis that takes into account empirical data and delves deeper into the real-world difficulties.

According to Umeji and Eleanya (2021), Nigeria's oil wealth has not resulted in an increase in living standards, even with the implementation of fuel subsidies. They argue that although eliminating the fuel subsidy might have dire consequences, these effects might be lessened if the government was open about how it would use the money saved for infrastructure improvements. Furthermore, according to Ovaga and Okechukwu (2022), fuel subsidies in Nigeria encourage corruption. In order to maintain fuel importation and the retention of fuel subsidies for their own self-serving interests, they contend that a group of dishonest people actively thwart efforts to maintain current refineries and impede the construction of new ones.

Ikenga (2023) agreed that the nation's refineries' current condition and reliance on imported oil increase the likelihood of rising fuel prices. Given that eliminating subsidies could make an underperforming domestic refining state's problems worse, the delicate balance between promoting domestic refining capacities and controlling consumer costs deserves careful consideration. Positive change could result from the projected reallocation of subsidies to public goods like infrastructure, healthcare, and education. The elimination of Nigeria's fuel subsidy is a complex issue with close ties to social justice, sustainability, political stability, and economic viability. An integrated approach that takes into account the possible trade-offs and synergies is required due to the relationship between these dimensions.

Empirical Review

A study by Idisi, Musa, Madueke, Isa, Idiege, Emmanuel, Ogunfinde, and Atteh (2024) assessed how the removal of fuel subsidies affected households' standard of living in Bwari Area Council, Federal Capital Territory-Abuja, Nigeria. Using multi-stage and random sampling methods, a sample of 80 respondents was chosen from eight communities. The data was analyzed using Garrett ranking, multiple regression, and descriptive statistics. According to the regression analysis, household size was significant at the 10% level, while age, monthly income, and primary livelihood were significant at the 1% level. The coefficient of determination (R²) shows that the independent variables account for 64% of the effect of the variables on households' income (the dependent variable) on the government's removal of fuel subsidies.

According to Garrett's ranking, the main concerns were the high cost of food (MGS, 73.2), the high cost of transportation (MGS, 67.0), and social unrest (MGS, 49.1). The majority of respondents strongly agreed, according to the findings, that the removal of fuel subsidies had a negative impact on their businesses and made it difficult to pay for children's school fees. The policy had an impact on the high cost of food, transportation, and the delivery of medical services.

Social welfare, job creation, and skill acquisition programs are necessary to reduce poverty, social unrest, and insecurity; the government should increase the salaries and wages of public and civil servants; and the government should improve the delivery of health care services. The study suggested that the

government should implement price control and improved distribution channels to curb inflation; make credit facilities more accessible to all farmers to embark on both irrigation and rain fed to curb food security; and provide public transportation to lessen the impact of the removal of fuel subsidies.

In her research on the elimination of fuel subsidies and their detrimental effects on small and medium-sized businesses in Anambra State, Ildigwe (2023) found that fuel subsidies have benefited SMEs' operations in Nigeria by lowering the amount of money they spend on fuel. Therefore, there is no question that the removal has had a detrimental impact on the operations and activities of SMEs nationwide. In-depth interviews (IDI) and a structured questionnaire were employed in this mixed-method study to gather data from 105 SMEs that were carefully chosen from the state's 21 LGAs. The Statistical Package for Social Sciences was used to process the data that was gathered for the study (SPSS).

Descriptive statistics were used to analyze the quantitative data results. According to the study, SMEs in Anambra State suffer greatly when fuel subsidies are eliminated. Increased production costs, lower profit due to high overhead costs, low sales and income due to low patronage, and financial strain in SMEs' general operations are some of the negative effects of eliminating fuel subsidies on SMEs, according to the study. Therefore, the study suggests that the Federal Government implement strategic planning and policies that can counteract the detrimental effects of eliminating fuel subsidies. This will help SMEs prosper and continue to operate without many challenges even if fuel subsidies are removed.

Okwa, Okwonu, and Owoyi (2024) investigated how the elimination of fuel subsidies affected consumer goods in a few Nigerian states. The study's research design was a cross-sectional procedure using the descriptive survey method, and its theoretical framework for analysis was the rentier state theory. The frequency distribution and basic percentages were used in the study to examine the effects of eliminating fuel subsidies. The developed hypotheses were tested at a significance level of 5% using the Wilcoxon signed-rank test. According to the study, the elimination of the fuel subsidy raised the price of consumer goods because it affected factors like housing rent and transportation, which typically affect the cost of goods, resulting in a lower standard of living for Nigerians.

The advantages and difficulties of eliminating fuel subsidies for Nigeria's economy in the fourth republic are examined by Ikenga and Oluka (2023). To gather data for the study, a qualitative approach was used in conjunction with descriptive analysis. Neoliberalism theory serves as the theoretical foundation for the investigation. The study came to the conclusion that numerous attempts by past administrations to change the fuel subsidy policy had a significant detrimental impact on the populace due to rising costs for food, transportation, and petroleum products.

Accordingly, the study suggested that the central government should give particular consideration to how the policy affects the general public by offering palliatives to lessen suffering and by providing a consistent supply of electricity, as well as facilities and infrastructure to mitigate its effects on the populace.

Methodology

Description of the Study Area

Michika is a Local Government Area in Adamawa state in Northeastern Nigeria. The major tribe in Michika is the Higgi, or Kamwe. Michika is a cosmopolitan town with branches of many banks, a college of health technology, a technical college, and many secondary schools. There are about 26 chiefdoms and 801 villages around the mountain. Other tribes also reside in the cities and towns, such as Bura, Kilba, and Margi. The Michika people are the group of people who occupy the central slopes of the Mandara Mountains in the central and Western part of Africa. The ancestral land of the Kamwe people stretches from Mubi in the Southern axis of Mandara Mountains to Shuwa and Koppa in Madagali Local Government Area of Adamawa State, Nigeria to the North. Westwards, it extends from Samuwa in Lassa, Askira/ Uba Local Government Area of Borno State Nigeria to the Republic of Cameroon in the East as far as Magode and Rhumisiki towns. The ancestral land of the Kamwe people lies between Latitude of 10.6216 (10° 37') Longitude of 13.3897 (13° 23') and Altitude (feet) 1702 (518). In terms of land mass, the Kamwe inhabits an area of about 2714.6 square Kilometres. In diameter, it is approximately 56.32KM from Lassa to Magode from the west to the east. It is also about 48.2KM from Koppa/Shuwa to Ghye (Zah). The Kamweland like other parts of Central Nigeria and Northern Cameroon is located in the Sudan savanna. Most of the Kamwe people are farmers since the society is an agrarian society. With improvements in transport and technology, many Kamwe people have taken to commercial activities. In fact, many literatures and texts have described the Kamwe people as the 'Igbo' of Northern Nigeria. This is because of the enterprising and industrious nature of the Kamwe people. (Dada, Mangoro, and Williams, 2005).

Population size

The population size for the study is the entire small and medium enterprises in Michika Local Government area of Adamawa State.

Sample size and Sampling Technique

The sample size for the work is 40 SME owners' from each of these enterprises: bakery factory, pure water factory, Keke-Napep business, provision store and Fadama III farmers respectively. That is 200 respondents. Using Stratified Random sampling.

Data Collection

The data used for this work is gotten mainly by primary data using well-structured Questionnaire and interview.

Analysis Technique

The method of analysis for this work is Linear Probability Model. The reason why Linear Probability Model is preferred to Logit and Tobit Model is that all the variables are dummy variable except in the aspect of ranking of others.

Model Specification

The model specification for this work is revenue function model and is given thus;

Income = f(transportation cost, raw material cost, purchasing power of consumer)

$$Y = F(TC, RW, PP)$$

$$Y = F(\beta_0 + \beta_1TC + \beta_2RW + \beta_3PP + \mu)$$

Where,

Y = income, TC = transportation cost, RW= raw material cost and PP = purchasing power of consumer

$\beta_0, \beta_1, \beta_2, \beta_3$ are parameters

μ is error term.

Results and Discussion

This section shows the result and the discussion of the finding based on the data and the interview gotten from the respondents in the study area.

Dependent Variable: Y

Method: Least Squares

Included observations: 200

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.533761	0.072491	21.15797	0.0000
RW	-0.083202	0.030695	-2.710633	0.0073
TC	-0.302360	0.021122	-14.31498	0.0000
PP	-0.002078	0.016420	-0.126541	0.8994
R-squared	0.641846	Mean dependent var		0.750000
Adjusted R-squared	0.636364	S.D. dependent var		0.434099
S.E. of regression	0.261772	Akaike info criterion		0.177110
Sum squared resid	13.43079	Schwarz criterion		0.243076
Log likelihood	-13.71097	Hannan-Quinn criter.		0.203805
F-statistic	117.0833	Durbin-Watson stat		0.193362
Prob(F-statistic)	0.000000			

From the table above table, holding all other variables are held constant, a 1% increase in transportation costs due to subsidies will result in an 8.3% drop in the probability income of small and medium-sized business owners in the Michika Local Government area. This difference is statistically significant at the 5% level. If all other remain remain unchanged, a 1% increase in the cost of raw materials will likely result in a 30.2% drop in SME owners' income, which is statistically significant at the 5% level. Even though it is not statistically significant, an increase in the consumer purchasing power of SME owners in the study area will likely result in a 0.02% drop in respondents' income when all other factors are held constant.

Since many SME owners have other sources of income, such as borrowing from friends or family, receiving palliative care from the government or non-governmental organizations, or even farming, this variable will not have an impact on their income. The independent variable's influence on the dependent variable was explained by 64% of the R square. The removal of fuel subsidies has a significant impact on the livelihood of small business owners in Adamawa State's Michika Local Government Area, according to the highly significant F statistics.

These results are consistent with the findings of Idisi et al. (2023), who claim that the removal of fuel subsidies will have a significant effect on Nigerian citizens, including business owners, as their production costs will rise sharply, as is the case in the study area.

Conclusion and Recommendation

Throughout Nigeria's history, the government and people have been at odds over whether or not to eliminate the fuel subsidy. However, now that the issue has been resolved, the masses are suffering while the other parties are celebrating. The study examined how the elimination of fuel subsidies affected the livelihoods of small and medium-sized business owners in Adamawa state's Michika Local Government Area and found that while their income decreased as production costs rose, their consumption was not significantly impacted because some of them had other sources of income.

In conclusion, Nigerian industries and the general public have not yet benefited from the removal of fuel subsidies; only the government has. Therefore, the study suggested that the government take more initiative to lessen the suffering of both individuals and businesses so that many of them won't leave Nigeria in search of better opportunities abroad.

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Questionnaire

1. Sex

Male

Female

2. Educational level

Primary

Secondary

Tertiary

3. Kind of business engage in

Keke-Napep

Provision store

Fadama III

Pure water factory

Bakery factory

4. Cost of transportation spends monthly

1,000 -100,000

101,000 -200,000

201,000 -300,000

301,000 and above

5. Cost of raw material spends monthly

10,000 -350,000

351,000 -700,000

701,000 and above

6. My income is affected now than before as a result of fuel subsidy removal

Yes

No

7. Is your family standard of living affected as a result of fuel subsidy removal?

Yes

No