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Assessing the Socioeconomic Impact of Fuel Subsidy Removal on Poverty Levels in Nigeria.

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ABSTRACT

The removal of fuel subsidies in Nigeria has had significant implications across the country, leading to an increased poverty rate. This study aims to investigate the socioeconomic impact of removing fuel subsidies on poverty levels in Nigeria. Using a qualitative approach, data were collected from household and SME surveys (n = 600), through interviews and focus group discussions. The survey results reveal that 82% of respondents experienced a decline in household income, while 74% reported a substantial increase in the consumption of certain items. Approximately 79% of low-income households resorted to coping strategies, such as reducing food consumption and adjusting their family's consumption patterns. The paper argues that the removal of subsidies has exacerbated food insecurity and increased poverty levels, particularly among low-income citizens. The findings confirm that subsidy removal disproportionately affects low-income and marginalised populations, leading to widened income disparities and an increase in poverty levels across rural and urban Nigeria. The study underscores the urgent need for targeted social safety nets, improved public transportation infrastructure, and investments in alternative energy sources to mitigate these impacts. It concludes that while removing fuel subsidies is necessary for fiscal sustainability, it must be accompanied by inclusive and compensatory policies to ensure equitable socioeconomic outcomes.

Keywords: Fuel subsidy, poverty, Inequality, and Socio-economic

1. Introduction

The Nigerian government first introduced fuel subsidies in the 1970s, aiming to reduce the burden on its citizens by providing subsidised products that would otherwise be unaffordable due to market forces. In Nigeria, fuel subsidies were formalised in 1977, making it unlawful to sell above the settle price. The prices have been varying on the global market. The Nigerian government spent billions of naira per year for decades to keep domestic fuel costs below those of the international market. However, rising budget deficits, corruption, and economic inefficiencies have sparked intense discussion about the policy's viability and efficacy (Adenikinju, 2009). According to Ikena and Oluka (2023), the economy and the general population may suffer if fuel subsidies are eliminated. One of the main issues with eliminating subsidies is the possibility of inflationary pressures since rising consumer costs could affect those with lower incomes, lowering household purchasing power and raising the poverty rate.

Ering and Akpan (2012) have also lamented the fact that, in spite of the advantages of oil, Nigerian governments have failed to substantially lower the poverty rate or offer the fundamental socioeconomic services that their people require. Over the years, Nigeria's previous government has made multiple attempts to eliminate fuel subsidies in order to reduce corruption, improves market efficiency, and reallocating funding to productive sectors like infrastructure, healthcare, and education.

In January 2012, President Goodluck Jonathan removed the fuel subsidy; as a result, the pump price of petrol rose from N65 to N165. However, after a national protest, he was forced to reinstate the subsidy. In January 2015, due to the decline in crude oil prices on the international market, the federal government reduced the pump price of Premium Motor Spirit (PMS), also 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.

In May 2023, President Bola Tinubu declared in his inaugural speech that the fuel subsidy had been removed. Following his speech, national protests broke out in the largest cities in Nigeria, including Kano, Lagos, Abuja, Port Harcourt, and Calabar, resulting in damage and destruction of government properties. Despite all the national protests, the Tinubu regime failed to reinstate the subsidy. This was the first time in Nigeria's history that a subsidy was removed over a fiscal year.

Additionally, the removal of subsidies can lead to social unrest and protests, as seen in Nigeria in 2012 (Francis & Lucas, 2023). There is a likelihood of a high crime rate in society. Some of these crimes may include smuggling, terrorism, banditry, kidnapping, prostitution, and other attendant effects of crime in the community. Similarly, Siddig et al. (2014) looked into how Nigeria was affected by subsidies for the purchase of refined oil. They discovered that eliminating fuel subsidies will result in a rise in poverty, especially among marginalised communities and rural households. Because households had to devote a larger percentage of their income to petroleum products and a lesser share to goods and other services, the study also discovered that eliminating subsidies had an impact on household consumption.

Anyanruoh noted that removing subsidies may result in elevated fuel prices, which would subsequently raise transportation and production costs across various sectors (Inegbedion et al., 2020). Increased costs are frequently transferred to consumers via elevated prices for goods and services, thereby diminishing households' purchasing power and affecting their overall spending capacity. The management and implementation of subsidy policies may be compromised by corruption, mismanagement, and inefficiencies, leading to resource misallocation and the enrichment of a select few at the expense of the broader public (Ray, 2023). Proponents of removing fuel subsidies argue that it is essential for enhancing fiscal sustainability and reallocating resources for vital public investments in infrastructure, education, and healthcare (Adeola & Evans, 2019). Adenikinju and Oyinlola (2018) emphasised the potential economic advantages of the reform, such as improved fiscal capacity, enhanced efficiency in resource allocation, and a rise in private sector investment. The timing, sequencing, and associated policy measures of subsidy removal are essential factors influencing its overall effect on economic growth and citizen welfare (Adeola & Evans, 2019). This study employs a case study approach to evaluate the impact of subsidy removal on poverty levels in the context of Nigeria's socio-economic complexity. Analysing the experiences of affected communities will assist in assessing the alignment of policy reform with developmental objectives and offer evidence for more focused interventions.

1.2 Objective of the Study

This study took a different approach and method. This paper aims to examine the socioeconomic impact of removing fuel subsidies on poverty levels in Nigeria.

- Assess the implications of fuel subsidy elimination on household income and expenditure.
- Examine the socioeconomic consequences of fuel subsidies in Nigeria.
- Determine the influence of fuel subsidy removal on poverty levels in Nigeria.
- Propose solutions to alleviate the effects of fuel subsidies in Nigeria.

2. Literature Review

2.1 Conceptual Clarifications

i. Fuel Subsidy

The notion of fuel subsidy has been a subject of discourse among numerous researchers and policymakers in Nigeria. On May 29, 2023, President Bola Ahmed Tinubu officially declared the elimination of the fuel subsidy. A fuel subsidy is a governmental policy that maintains artificially low fuel prices for customers by subsidising a portion of the costs through public fund. The government compensates fuel producers or importers for the difference, rather than consumers paying the full market price.

ii. Elimination of Fuel Subsidies

Academics and scholars evaluate the implications and effects of the Removing of fuel subsidies in Nigeria. The removal of fuel subsidies signifies the cessation of government intervention in the disparity between import prices and retail prices, or the withdrawal of governmental financial help that diminishes fuel costs for consumers. The justification for the elimination of fuel subsidies encompasses: substantial fiscal load, corruption and inefficiency within the oil sector, energy conservation, and market efficiency.

Gupta and Mahajan, 2019. Governments seek to rationalise expenditure, enhance resource allocation, and mitigate market distortions linked to subsidies by abolishing financial aid used to maintain artificially low fuel prices (Fatima et al., 2020). The repercussions of removing fuel subsidies vary and may impact different economic stakeholders. For households, escalating fuel prices result in augmented transportation expenditures, increased costs for goods and services, and potentially diminished purchasing power (Fatima et al., 2020). Notwithstanding these immediate hurdles, the elimination of fuel subsidies may produce enduring advantages. In conclusion, although the removal of fuel subsidies may pose initial difficulties, provided proper execution and measures can alleviate adverse effects and promote economic stability.

iii. Poverty

Poverty denotes the lack of well-being, including various dimensions. It encompasses the failure to fulfil essential life requirements (goods and services) and inadequate income. Poverty arises when an individual's income or consumption level descends beneath a specific threshold, inhibiting their ability to satisfy essential life requirements (Onyambayi et al., 2024). Individuals fall in poverty frequently face persistent hunger, inadequate access to good education and healthcare. Crossman (2019) presents an alternative perspective on poverty: Consequently, social scientists, including sociologists and economists, assert that poverty is most accurately characterised by the conditions of existence, encompassing insufficient access to food, clothing, and shelter. Individuals in impoverished circumstances often endure chronic hunger or malnutrition, lack access education and healthcare.

On a sociological level, Onyambayi et al. (2024) characterise poverty as a social phenomenon shaped by structural factors, social institutions, and power dynamics. Social stratification, inequality, and social exclusion play a crucial role in perpetuating poverty and restricting opportunities for marginalised individuals. The dynamics involved perpetuate the cycle of poverty, hindering individuals' ability to escape their circumstances and enhance their socioeconomic status.

This paper examines the relationship between poverty and the removal of fuel subsidies, with a focus on Nigeria.

2.2 Related Literature Review

The literature review for this paper was conducted following its aims and goals, specifically under the following subheadings:

Siddig et al. (2014) investigated the effects of eliminating oil import subsidies in Nigeria and discovered that the removal of these subsidies heightened poverty levels, especially among rural households. The research indicated that the elimination of subsidies adversely affected household consumption, compelling households to allocate more resources to petroleum products and diminishing resources to other goods and services. Ugo (2011) discovered that the elimination of fuel subsidies resulted in a substantial rise in the prices of basic commodities and services, including food and transport, hence reducing household expenditure on non-essential items. Nonetheless, alternative research indicates that the effect of eliminating fuel subsidies on household expenditure is negligible, especially in the short term (Oluwabukola, 2023).

A study by Umar and Umar (2013) evaluated the direct welfare effects of fuel subsidy reform in Nigeria, revealing that the elimination of fuel subsidies caused an increase in petroleum product prices, thereby elevating household living costs. The research indicated that the elimination of fuel subsidies adversely impacted household income, disproportionately affecting low-income families due to the rise in petroleum product prices relative to high-income households.

Lin and Kuang (2020) examine the varied effects of eliminating energy subsidies on families in China. The findings indicate both direct and indirect effects. The immediate impacts suggest that the elimination of energy subsidies adversely affects impoverished households more significantly than affluent households. The indirect effect results indicate that as per capita disposable income decreases, the share of consumption relative to disposable income increases, hence amplifying the indirect impact of subsidy removal. The impact pertains not just to household income but also to the consumption of consumer items. The indirect effects of eliminating subsidies on families differ by energy type. The elimination of electricity subsidies exerts the most substantial impact on households, followed by transportation fuel and petrol.

3.1 Research Design

This study employs a qualitative approach to examine the effects of fuel subsidy removal on poverty levels in Nigeria. The study approach is appropriate because it allows for an in-depth examination of complex social phenomena within real-life contexts. Given the multifaceted nature of subsidy removal effects—encompassing economic, social, and political dimensions—a case study design provides the flexibility to explore its qualitative dynamics.

Qualitative data will be gathered through interviews and focus group discussions to assess the impact of government policy on citizens.

3.2 Research Area

The study will concentrate on poor and middle-income households, as well as small and medium business proprietors in both rural and urban settings. Nigeria, as Africa's most populous country, presents a complex landscape of urban and rural communities, varying levels of income, and differing degrees of access to infrastructure and social services (NBS 2023).

3.3 Population of the Study

This study's population consists of houses located in rural and urban regions. These households encompass a variety of socioeconomic backgrounds, including low, middle, and high-income groups, to illustrate the extensive effects of fuel subsidy removal on the poverty rate.

The target market comprises fuel-consuming households and small to medium-sized business operators, as fluctuations in fuel prices directly impact these entities. The study attempts to evaluate the effects of removing fuel subsidies on household income, consumption patterns, and general well-being by concentrating on these populations.

3.4 Sample Size and Sampling Methodology

To ensure representativeness and reliability, the study will employ a stratified random sampling technique to select households and small to medium-scale businesses in both rural and urban areas. This technique enables the population to be divided into homogeneous subgroups (strata) based on socioeconomic status and location (urban or rural), ensuring a proportional representation of different groups in the sample (Kothari, 2004).

A total sample size of 400 households and 200 small and medium-sized enterprises will be sought, considering the extensive population of respondents. This size is sufficient for significant statistical analysis and group comparison.

The sample methodology will adhere to the following steps:

The population will be categorised by income levels (low, middle, high) and by small and medium-sized enterprises in urban and rural regions.

A random sample of homes will be chosen from each stratum, in proportion to the size of that stratum.

3. The head of the home or an adult representative will be interviewed in designated households.

This methodology guarantees a balanced and impartial sample, essential for generalising results and deriving conclusions regarding the socioeconomic effects of fuel subsidy elimination.

3.5 Data Source

Data collection will be carried out systematically and ethically to ensure accuracy, reliability, and respect for participants. A well-designed, structured questionnaire will be administered to selected households to collect quantitative data. The questionnaire will include sections on household income and expenditure patterns, changes in fuel consumption, transportation costs, access to basic services, and perceptions regarding the removal of subsidies. The questionnaire will also assess household coping strategies in response to price increases.

4.1 Impact of Fuel Subsidy Removal on Household Income and SMEs

This section analyses the effects of removing fuel subsidies on household income levels among participants in the study areas. Survey data indicate substantial alterations in disposable income, which directly influence poverty status and economic well-being.

Following the removal of the subsidy, 82% of respondents reported a reduction in their real income due to increased transportation and production costs that eroded their purchasing power. This was particularly pronounced among low-income households, with 75% indicating that higher fuel prices forced them to cut back on essential expenditures such as food, education, and healthcare.

Additionally, small business owners reported rising operating costs, which occasionally result in layoffs or reduced business hours, thereby affecting household incomes (Ogunleye & Adegbite, 2022). The findings support previous research indicating that the elimination of subsidies results in immediate income shocks for at-risk populations. The data suggest that the elimination of fuel subsidies has heightened economic difficulties for numerous households, especially those in poverty, thus worsening income inequality in the impacted communities.

I. Household Sector

A sample of 400 households across 14 distinct rural areas was analysed concerning income, household size, and fuel consumption patterns.

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Table 1

Variable	Value
Monthly Income (₦)	70,000
Household Size	5
Weekly Fuel Consumption (Litres)	6
Monthly Fuel Consumption (Litres)	24
Estimated Monthly Fuel Cost (₦)	23,760
Percentage of Income Spent on Fuel (%)	33.94

Table 1 above indicates that low-income households allocate one-third of their income to fuel, imposing a considerable strain on essential expenses such as healthy food, healthcare, and education. Ultimately, these households may fall below the poverty line. The elimination of subsidies disproportionately impacts low-income individuals, heightening the likelihood of social and economic vulnerabilities.

ii. Small and Medium Scale

A sample of 200 small and medium-sized enterprises (SMEs) was assessed regarding their revenue levels prior to and following the elimination of the fuel subsidy, in addition to their operational costs and staffing levels.

Table 2

Variable	Value
Monthly Revenue Before Subsidy (₦)	50,000
Monthly Revenue After Subsidy (₦)	30,000
Revenue Change (₦)	-20,000
Revenue Change (%)	-40.0
Operational Cost Before Subsidy (₦)	1250
Operational Cost Before Subsidy (₦)	4,950
Staff Size	2

The interview results with 200 SMEs, as illustrated in Table 2 above, reveal a 40% decline in revenue, indicating a significant adverse financial impact after the subsidy. Operational expenses have tripled, whilst revenue has diminished, jeopardising sustainability and potentially resulting in layoffs, price hikes, or even business closures. Micro and small firms, characterised by limited personnel and revenue, are particularly susceptible, potentially resulting in heightened unemployment and diminished market supply.

4.2 Impact of Fuel Subsidy Removal on Household Expenditure

This section analyses the impact of fuel subsidy removal on household expenditure patterns among respondents. The rise in fuel prices exerts a significant impact on the overall cost of living, affecting household resource allocation.

Findings show that 74% of households reported an increase in monthly expenditures after the subsidy was removed. Transportation costs have seen the most significant growth, directly affecting daily activities and the movement of goods (Adepoju & Fadeyi, 2021). The increase resulted in rise the prices for food and other essential commodities, as transportation constitutes a significant cost factor in supply chains. Households reported a decline in discretionary spending on education, healthcare, and savings, as an increasing portion of income was allocated to satisfy basic needs. Low-income families experienced a disproportionate impact as the policy intensified cost pressures on vulnerable households, consequently worsening poverty levels.

4.3 Socio-Economic Impact

Socioeconomic effects denote the consequences of political changes or economic events on society as a whole, encompassing both social and financial aspects. The evaluation of the consequences of removing fuel subsidies includes changes in employment patterns, modifications in income distribution, fluctuations in poverty rates, inequalities in access to essential services, and overall welfare results. The impact on various demographic groups illustrates the broader effects of political decisions or economic changes on societal welfare and functionality (OECD, 2018).

Akintayo (2023) indicated that with petrol prices currently at N990, transportation expenses, food costs, and other commodities have surged, provoking outrage among employees and the populace. The cost of living has surged dramatically; for example, transit costs have risen by more than 240% following the elimination of the subsidy. The prices of food items and other goods have experienced significant hikes.

I. Increase in poverty

The elimination of fuel subsidies results in inflation, which is likely to exacerbate poverty in the short term (Raji, 2018). The elimination of fuel subsidies, in the absence of prompt measures to alleviate the resultant hardships, may exacerbate poverty and expand inequality. At the individual level, the government should implement social safety nets or welfare programs, including palliatives, social programs, and conditional cash transfers, to mitigate the economic hardship resulting from the removal of fuel subsidies (Ozili & Obiora, 2023).

An increasing number of families face hunger, a growing number of children are out of school, and more parents are experiencing distress over their children's suffering (Ozili & Obiora, 2023). Low and middle-income households will experience a decrease in purchasing power. At the same time, small and medium-sized enterprises will encounter reduced profit margins due to increased costs and diminished sales volumes. Furthermore, should they attempt to transfer the cost to consumers, consumers will likely either decline to purchase or decrease the quantity bought, resulting in diminished business patronage.

ii. Impact on the informal sector and small businesses

Numerous small-scale enterprises in the informal sector depend significantly on fuel for their operations due to the absence of alternative energy sources. The rising costs of business operations frequently lead to diminished profitability, layoffs, or closures, jeopardising livelihoods and employment opportunities. The elimination of fuel subsidies is expected to result in job losses within the informal sector, which predominantly depends on petrol, given that Nigeria lacks alternative energy sources (Houeland, 2022).

The formal industry predominantly utilises diesel for its operations, whereas the informal sector primarily depends on petrol. Ozili and Obiora (2023) assert that increasing petrol prices will result in the closure of small businesses unable to bear the escalating costs, particularly as their profit margins have been significantly diminished by the removing of fuel subsidies in the formal sector.

4.4 Impact of Fuel Subsidy Removal on Inequality and Poverty

The increase in fuel prices disproportionately impacts low-income individuals, as they allocate a greater portion of their income to transportation, food, and energy expenses. In the absence of targeted social protection mechanisms, the disparity between affluent and disadvantaged populations may increase, intensifying income inequality and driving more households into poverty. The findings demonstrate that the elimination of subsidies has exacerbated the inequality gap, disproportionately impacting low-income households relative to wealthier ones (John et al., 2018).

The analysis of income and expenditure data indicates that high-income households encountered only slight increases in fuel-related costs, whereas low-income households experienced significant price shocks, limiting their consumption and access to essential services (Adepoju & Fadeyi, 2021). Qualitative data from focus group discussions indicated that marginalised groups, such as women, rural residents, and informal sector workers, experienced heightened exclusion from government palliative measures intended to alleviate the negative impacts of subsidy removal. Social exclusion intensifies structural inequalities, perpetuating cycles of poverty and constraining upward mobility (Silver, 1994; Sen, 1999).

5. Recommendations

This research proposes the following measures to mitigate the adverse effects of fuel subsidy on poverty and inequality in Nigeria:

1. Establish Targeted Social Safety Nets: The government ought to formulate and enhance social protection initiatives aimed at low-income and vulnerable populations impacted by the elimination of subsidies. These may encompass direct monetary transfers, subsidies for vital services, and food assistance initiatives.

2. Advocate for Alternative Energy Sources: Investment in cost-effective and sustainable energy alternatives, such as solar power and biofuels, can diminish reliance on fossil fuels and mitigate the economic strain of fuel price increases on households.

3. Improve Public Transit Systems: Establishing effective, economical, and accessible public transit would alleviate the financial burden of transportation on households, particularly in urban regions.

4. Enhance Public Awareness and Communication: Clear and transparent discourse regarding the justification for subsidy elimination and accessible support systems can aid in managing public expectations and mitigating social discontent.

5. Promote Economic Diversification: Fostering small and medium-sized firms (SMEs) and diversifying the economy might generate alternative income streams, thereby diminishing households' susceptibility to fluctuations in gasoline prices.

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