
IMPLICATIONS OF FUEL SUBSIDY REMOVAL ON NIGERIA'S SUSTAINABLE DEVELOPMENT

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ABSTRACT

The removal of fuel subsidies in Nigeria has been a contentious issue, with some experts believing that it will liberate much-needed resources and others arguing that it will increase poverty. This study assessed the implications of fuel subsidies removal for Nigeria's long-term growth. The goal of this study was to examine the ramifications of removal fuel subsidies and their possible role in encouraging sustainable development; and thereby, add to the ongoing policy debate by assessing the economic impacts of removal fuel subsidies. The study applied exploratory research design and relied mainly on qualitative method of data collection. Secondary data were analyzed by means of qualitative content analysis. Human capital theory served as the theoretical framework of the study. The study revealed that removal of fuel subsidies has direct economic consequences, including inflationary pressures, fiscal sustainability, debt reduction, increase poverty and vulnerability, as well as protest and social unrest; and recommends that government should ensure transparency and accountability in the management of funds saved from subsidy removal. The study also recommends that government should prioritize tackling widespread hunger, increasing unemployment, and declining standard of living.

Keywords: Economic implications, fuel subsidy, policy implementation, sustainable development

INTRODUCTION

Fuel subsidy removal in Nigeria is a major economic issue with far-reaching repercussions for the country's long-term growth. Nigeria, as a significant oil producer, has always maintained fuel subsidies in order to offer inexpensive fuel to its inhabitants. However, the economic ramifications of this approach have been a source of contention for many years.

Fuel subsidy is discount on the market price of fuel offered by government, to allow citizens pay less than the market price of fuel (Ovaga & Okechukwu, 2022). Globally, there is discussion concerning fuel subsidies because of their enormous cost and impact on citizens' wellbeing and national economic health. Fuel subsidies have been implemented by many governments as a way to alleviate the financial burden on citizens and stimulate economic growth. However, critics argue that these subsidies often benefit the wealthy more than the poor and lead to environmental degradation by encouraging excessive fuel consumption. Additionally, the high cost of fuel subsidies puts a strain on government budgets, diverting funds that could be used for other important social programs such as healthcare and education.

According to the International Energy Agency, the worldwide fossil fuel subsidy was \$1 trillion in 2022, up from \$325 billion in 2018. This amount is much greater than the expected value of global aid in 2022 of

\$204 billion, and it is greater than the total government revenue of poor nations. This has led to demands for the elimination of global fossil fuel subsidies so that the cash saved can be used to aid the poor and vulnerable in developing nations in need of humanitarian assistance (Couharde & Mouhoud, 2020; Ozili & Ozen, 2021).

The continued increase in fossil fuel subsidies raises concerns about the prioritization of financial resources and the potential negative impact on efforts to address climate change. Redirecting these funds towards renewable energy sources and sustainable development initiatives could significantly contribute to global efforts to mitigate greenhouse gas emissions and promote a more equitable distribution of resources.

However, the elimination of fossil fuel subsidies is difficult since some argue that the subsidies are a sort of help because they make fuel more affordable for the poor. Despite this positive argument, a large body of literature document negative consequences of fuel subsidies, including increased air pollution and greenhouse gas emissions (Sweeney, 2020), road congestion (McCulloch et al., 2021), road accidents and premature deaths (Parry et al., 2021), foregone tax revenue (Sweeney, 2020), and increased inequality (McCulloch et al., 2021).

Additionally, fuel subsidies can also lead to inefficient use of resources and hinder the development of alternative energy sources. Furthermore, studies have shown that fuel subsidies disproportionately benefit higher-income individuals who consume more fuel, rather than effectively targeting the poor. However, policymakers in many countries are hesitant to remove fuel subsidies and implement fuel subsidy reforms because such reforms may result in significant increases in fuel or electricity prices, causing economic hardship for low-income and poor citizens and potentially increasing the risk of a revolution or the overthrow of the incumbent government.

Fuel subsidies were initially implemented in Nigeria in the 1970s in reaction to the 1973 oil price shock. Fuel subsidies have been in effect since then. The government unexpectedly ended fuel subsidies in 2012. This sparked large protests, with the goal of forcing the government to return the fuel subsidy. Following the enormous protests, the government resumed fuel subsidies in 2012. Fuel subsidy payments in Nigeria have increased dramatically since then. Fuel subsidies reached \$4 trillion (US\$6.088 billion) in 2022, accounting for 23 per cent of the national budget of 17.126 trillion (US\$25.87 billion). As a result, Nigeria's fuel subsidy could no longer be sustained in 2023, and the government stated that it would be phased off in June 2023 (Ozili & Obiora, 2023).

The decision to phase out fuel subsidy in June 2023 was met with mixed reactions from the public. While some argued that it was a necessary step to reduce government spending and promote economic growth, others expressed concerns about the potential impact on the cost of living for ordinary citizens. Nonetheless, the government emphasized the need for fiscal responsibility and stated that alternative measures would be put in place to mitigate any adverse effects.

Recent literature indicates that fuel subsidies have a mixed effect. Some studies indicate advantages of fuel subsidies and support for openness in fuel subsidy administration, while others stressed negative repercussions of fuel subsidies and advocate for their elimination. For example, Omitogun et al. (2021) show that removal of fuel subsidies may cut carbon emissions in the Nigerian economy. Similarly, Adekunle and Oseni (2021) believe that removal of fuel subsidies might lower carbon emissions growth through low energy consumption channels while potentially raising energy prices.

According to Umar and Umar (2013) and Siddig et al. (2014), Nigeria's subsidy scheme distorts fiscal planning, encourages wasteful spending, and worsens inequality by benefiting wealthy families more. Umeji and Eleanya (2021) argue that despite the introduction of fuel subsidies, Nigerian oil wealth has not translated into improved standard of living, and that fuel subsidy removal could have severe consequences

that can be mitigated by government transparency in spending the funds saved from fuel subsidy removal on infrastructure development.

Furthermore, Ovaga and Okechukwu (2022) argue that fuel subsidy breeds corruption in Nigeria because a group of corrupt people have been working against the functioning of existing refineries and undermining efforts to build new refineries in Nigeria so that fuel importation can be sustained and fuel subsidy can be retained to satisfy their selfish desires.

Despite these evidence in literature, there is little or no discussion about the economic implications of fuel subsidy removal and its likely effects on Nigeria's sustainable development. The way the fuel subsidy was removed, without first providing some palliatives, led to controversy about how the fuel subsidy removal would affect the Nigerian economy and sustainable development. Therefore, there is a need to identify and understand the implications of fuel subsidy removal on Nigeria's sustainable development.

CONCEPTUAL CLARIFICATIONS

Fuel Subsidy Removal

A subsidy is defined as any mechanism that keeps the prices consumers pay for products below market levels for consumers or above market levels for producers. Subsidies come in several kinds. Some subsidies have a direct pricing impact. Grants, tax cuts and exemptions, and price restrictions are examples of these. Others have an indirect impact on pricing or expenses, such as rules that tilt the market in favor of specific products, government-sponsored technologies, or research and development (Adebiyi, 2011).

Subsidies are often implemented by governments as a means to support certain industries or promote specific economic goals. They can be used to stimulate growth in emerging sectors, encourage innovation, or protect domestic producers from foreign competition. Additionally, subsidies can also be targeted towards social welfare programs, aiming to make essential goods and services more affordable and accessible for low-income individuals or marginalized communities.

Energy subsidies and specifically fuel subsidies, which are the subject of this review, have a long history and have been applied in different forms with differing outcomes internationally. Two major classes of subsidies exist; production subsidies mainly a feature of developed economics and consumer subsidies, which are found in developing countries. The justifications for introduction or removal of subsidies vary markedly. In developed economies; environmental issues, international trade and maintaining competitiveness are the main drivers of the policy. Whereas welfare, poverty alleviation and election cycle politics largely underpin the reasons for which subsidies are introduced in developing countries. A new factor in the current mix of policy drivers is the renewed emphasis on governance reform championed by the Breton Woods Institutions (Centre for Public Policy Alternatives, 2012).

These policy drivers have led industrialized countries to implement various measures such as carbon pricing and renewable energy incentives to address environmental challenges. Additionally, international commerce has pushed these countries to adopt policies that promote trade liberalization and attract foreign investments. Meanwhile, in developing nations, subsidies are often used as a means to alleviate poverty and provide social welfare programs. However, the focus on governance change advocated by the Breton Woods Institutions represents a shift towards addressing systemic issues and promoting transparency and accountability in policymaking.

Fuel subsidy removal schemes are sensitive to the country's economic structure, degree of development, political systems, and economic status. There is evidence that the most successful countries used a phased or gradual approach, conducted careful study before implementation, and then followed up with a disciplined approach to policymaking. Effective communication and a high degree of trust between

individuals and the government may also be crucial success elements in such an endeavor (Centre for Public Policy Alternatives, 2012). Additionally, it is important to consider the cultural and social factors that may impact the success of economic reforms. These factors can influence the acceptance and implementation of new policies as well as the overall effectiveness of the reforms.

Sustainable Development

Although alternative definitions of sustainability exist, the Brundtland Commission's definition is the most popular (Cerin, 2006; Dernbach, 1998; Dernbach, 2003; Stoddart, 2011). The main aim of sustainable development (SD) is long-term economic and environmental stability. And this can only be achieved by integrating and acknowledging economic, environmental, and social issues throughout the decision-making process. By considering all three aspects, sustainable development aims to ensure that development meets the needs of the present without compromising the ability of future generations to meet their own needs. It recognizes that economic growth should be balanced with environmental protection and social equity, creating a harmonious and sustainable society.

For sustainable development to occur in any nation, the natural capital stock must remain constant. This means that actions made now should not make it harder to sustain or increase the capital stock in the future. Because the resource basis of any economy belongs to all generations, intergenerational fairness is central to the subject of sustainable development (Olaniyan, 2013). Intergenerational fairness ensures that the needs and rights of future generations are taken into account when making decisions about resource allocation and development. It recognizes that the actions we take today have long-term consequences for the well-being of future populations, emphasizing the importance of responsible and equitable resource management for sustainable development.

There are three sorts of capital: social capital, natural capital, and man-made capital. According to the notion of weak sustainable development, just the aggregate level of capital matters: man-made, or manufactured capital is an appropriate substitute for natural capital. Strong sustainability, on the other hand, acknowledges the distinctive properties of natural resources that cannot be substituted by manufactured capital.

Thus, most ecologists and environmentalists support a robust definition of sustainability (Stoddart, 2011), they argue that natural capital, such as clean air and water, biodiversity, and healthy ecosystems, provides essential services that cannot be replicated by man-made capital alone. These services include regulating climate, pollinating crops, and purifying water, which are crucial for human well-being and the functioning of the planet. Therefore, a strong sustainability approach emphasizes the need to protect and preserve natural capital alongside the responsible use of manufactured capital.

Theoretical Underpinning

Human capital theory served as the theoretical framework of analysis in explaining the implications of fuel subsidy removal on Nigeria's sustainable development. Human capital theory is an economic and sociological concept that views individuals as investments in their own education and training. The theory suggests that people can increase their productive capacity and earning potential by acquiring and developing skills, knowledge, and expertise. It was developed by Gary Becker and Theodore Schultz in the 1950s and 1960s and has since become a fundamental concept in labor economics and education economics.

Human capital theory thus describe human characteristics that are seen to be valuable in the manufacturing process. It includes employee knowledge, skills, experience, intellect, training, and competencies that individuals in a population possess individually and collectively. According to the notion, businesses have an incentive to seek out effective human capital and to add to the human capital of their present personnel. The intangible economic worth of a worker's experience and talents is referred to as human capital. Human capital theory holds that humans may enhance their productive potential via increased education and skill training.

Goode (1959) defines "human capital" as "knowledge, skills, attitudes, aptitudes, and other acquired traits that contribute to production." Individual capacities contributing to production as an argument in the production function are represented by skills (Bowles et al., 2001). According to Blundell et al. (1999), there are two major components of human capital that complement each other: early ability (whether acquired or innate) and skills gained through formal schooling or on-the-job training. These two components play a crucial role in determining an individual's productivity and contribution to production.

Early ability refers to the innate talents and cognitive abilities that individuals possess from a young age, which can greatly impact their future learning and skill development. On the other hand, skills acquired through formal education or on-the-job training provide individuals with specific knowledge and expertise that are directly applicable to their work tasks, making them more efficient.

Human capital theory may be used to analyze the economic ramifications of the removal of fuel subsidies on Nigeria's long-term growth by concentrating on how the choice impacts the country's labor force, productivity, and general economic well-being. According to human capital theory, investments in education, training, and health increase an individual's productivity and earning potential. When fuel subsidies are abolished, fuel prices frequently rise, resulting in greater transportation expenses for workers. As a result, in order to maintain their level of life, workers may seek greater salaries. This can have an influence on labor market dynamics since both employees and employers negotiate salaries, which could contribute to inflationary pressures.

The function of education and skill development is an essential part of human capital theory. The government may reallocate funds formerly allotted to fuel subsidies to education and vocational training initiatives. By boosting education and skill development, the work force becomes more productive and responsive to economic changes. This has the potential to improve the country's long-term economic prospects. The removal of fuel subsidies may also result in increasing transportation costs, reducing population access to healthcare and other services. When people are forced to spend a considerable percentage of their income on transportation owing to rising fuel prices, it can have a severe impact on their health.

Implications of Fuel Subsidy Removal on Nigeria's Sustainable Development

Subsidies are being phased out in Nigeria, with serious economic consequences for the country's long-term prosperity. Governments frequently employ subsidies to assist certain businesses or to cut the cost of important products and services for consumers. One of the most noteworthy subsidies in Nigeria has been on petroleum goods, notably fuel. The following are the economic implications of subsidies removal:

Debt reduction: Fuel subsidy payments have been criticized for having a negative impact on government borrowing (Okongwu & Imoisi, 2022). The Nigerian government has been borrowing from the beginning of the fuel subsidy system, and the borrowing exacerbated throughout the 2016 recession and the 2020 COVID-19 pandemic (Ozili, 2022). In 2022, the government borrowed from the Central Bank of Nigeria (CBN) on a regular basis for debt repayment and subsidy payment. At present, the government owing the Central Bank \$22.7 trillion, which was just securitized by the FG with national assembly consent in 2023. The recent removal of fuel subsidies suggests that government borrowing from the Central Bank would cease, since the cash saved from the removal of fuel subsidies will be available for the government to employ to fulfill its public expenditures (Ozili & Obiora, 2023). This move indicates a shift towards reducing reliance on borrowing from the Central Bank and finding alternative sources of funding for public expenditures. It remains to be seen how this decision will impact the government's overall debt and financial stability in the long run.

High inflation: Another negative macroeconomic impact of removal of fuel subsidies is a rise in inflation (Mohammed et al., 2020). The removal of fuel subsidies caused the price of petrol in Abuja to climb from a subsidized price of ₦190 in May 2023 to an unsubsidized price of ₦537 in June 2023 and 617 in July 2023. Meanwhile, due to high transportation costs, the price of gas in the far north, such as Borno State,

might soar above ₦600. The implication is that the prices of most consumer and industrial items produced or delivered using fuel will skyrocket (Ozili & Obiora, 2023). Bread prices will rise, as will the cost of local transportation, making it difficult for low-income individuals and families to pay. The effect will be felt by both the affluent and the poor, but as is often the case, the poor will suffer the most since their purchasing power will be significantly reduced. The Federal Government's late deployment of palliatives to assist the poor and households affected by the rise in the price of necessary commodities and services immediately following the termination of fuel subsidies may exacerbate the inflation effect. This delay in providing assistance to the poor and affected households may lead to a further widening of the wealth gap, as those who are already financially vulnerable will struggle even more to meet their basic needs. Additionally, the lack of immediate relief measures could potentially result in social unrest and dissatisfaction among the affected population.

Increased poverty and vulnerability: The removal of fuel subsidies has a negative microeconomic impact in that it would raise poverty in the short term (Raji, 2018). Families will experience instant discomfort and hunger as a result. Individually, the elimination of fuel subsidies, without any palliatives, might result in less disposable money, less food on the land, less medicine for ill people, and an inability to pay for basic schooling in certain sections of the country, particularly in Nigeria's northern region. More families will be hungry, more children will weep because they are hungry, and more parents will cry because their children are depressed. Poor and middle-class customers' purchasing power will diminish, and small firms' profit margins will be squeezed as a result of rising expenses and lower sales volumes. Furthermore, the lack of funds may lead to a decline in infrastructure development, affecting transportation systems, healthcare facilities, and educational institutions. This could result in reduced access to essential services for the general population, exacerbating the already challenging conditions faced by vulnerable communities. Additionally, the economic strain may also lead to increased social inequality and a widening wealth gap, further deepening societal divisions.

Fiscal sustainability: The removal of subsidies can improve fiscal sustainability by reducing the budget deficit. Subsidies often contribute to budget shortfalls, and their removal can help the government better manage its finances and reduce its reliance on borrowing. This, in turn, can lead to lower debt levels and interest payments, which are crucial for long-term sustainable development. Additionally, the removal of subsidies can create a more efficient allocation of resources in the economy. When subsidies are in place, they can distort market prices and incentivize overconsumption or production of certain goods or services. By eliminating these subsidies, market forces can operate more freely, leading to a more balanced and efficient use of resources. This can promote economic growth and stability in the long run.

Protest and social unrest: Another impact of removal fuel subsidies is the possibility of demonstrations and societal instability (Houeland, 2020). Protests might erupt if the price of fuel products rises. If prices continue to rise, impoverished households will be forced to resort to protests and social unrest in order to persuade the government to reverse the reduction of fuel subsidies. This can lead to disruptions in public services and a decline in productivity as businesses struggle to operate amidst the chaos. Additionally, the government may face increased pressure to address the concerns of the population, potentially diverting resources and attention away from other important issues such as infrastructure development or healthcare.

CONCLUSION AND RECOMMENDATIONS

In conclusion, the removal of fuel subsidies in Nigeria can present short-term economic challenges, but with careful planning, transparency, and well-targeted policies, it can contribute to the country's sustainable development in the long run. It is essential to focus on prudent fiscal management, infrastructure development, energy sector reform, and economic diversification to achieve a more resilient and prosperous future for Nigeria. It is essential to recognize that while fuel subsidy removal can have short-term economic challenges, it can also pave the way for long-term sustainable development. Based on the foregoing, the following recommends that government:

- a) Should ensure transparency and accountability in the management of funds saved from subsidy removal. These funds should be channeled into development projects and poverty alleviation programs.
- b) Must adopt a holistic approach that balances economic efficiency, social welfare, environmental sustainability, and inclusive growth.
- c) Should accelerate efforts to diversify its economy away from overreliance on oil. This can mitigate the economic shocks caused by fluctuations in oil prices.
- d) Allocate the funds saved from subsidy removal to infrastructure development, such as road construction, electricity generation, and public transportation systems, to reduce the cost of living and promote economic growth.
- e) Encourage private sector involvement in infrastructure development and service delivery to boost efficiency and reduce the burden on the government's finances.
- f) Implement fiscal reforms to enhance revenue generation and reduce the government's reliance on oil revenues. This can include measures like broadening the tax base and improving tax collection.

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