



IMPACT OF THE REMOVAL OF FUEL SUBSIDY POLICY ON THE STANDARD OF LIVING IN NIGERIA

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Abstract

Fuel subsidy removal in Nigeria has stood a contentious policy that has sparked debates regarding its impact on the standard of living of Nigerians. The increase in fuel prices have triggered transportation costs to go up, impacting the prices of goods and services throughout the economy and by consequence the cost of living has sky rocketed due to the zero-subsidy policy by this administration. This has also contributed to inflation, making basic amenities more expensive for the average and poor citizens. It is against this back drop this review paper seeks to examine the impact of the fuel subsidy removal policy on the standard of living of Nigerians. To achieve this, an extensive review of relevant and related materials from secondary sources of data. Based on the results obtained, recommendations are made for government to improve minimum wage, and also consider subsidizing food, electricity, transportation, education and health. to reduce the harsh impact of the removal of subsidy experienced by Nigerians.

Key words; Fuel subsidy, policy, amenities, government, inflation.

Introduction

The removal of fuel subsidies in Nigeria presents an intricate and pressing problem. Particularly it has been a contentious policy that has sparked debates regarding its impact on poverty and livelihoods Iyamah and Mukoro (2024). While the removal of fuel subsidies is often presented as a measure to promote economic efficiency and fiscal sustainability, it has been associated with negative consequences that exacerbate poverty in various ways. It is no longer news that the present administration of Bola Ahmed Tinubu has removed fuel subsidy at the wake of his administration after several past governments attempted to terminate subsidies over the last 40 years. Unfortunately, the removal of fuel subsidy has brought untold hardship and high cost of living on the citizens of Nigeria even after the president had stated 'Let the poor breathe'.

As fuel prices rise, transportation costs have gone up, impacting the prices of goods and services throughout the economy and by consequence the cost of living has sky rocketed as a result of zero-subsidy policy. This has also contributed to inflation, making basic amenities more expensive for the average and poor citizens. The majority of Nigeria's population is engaged in the informal sector, higher fuel prices have led to increased operating costs for small businesses

and informal traders, potentially reducing their profitability and contributing to poverty and higher standard of living. This dilemma ricochets the concern raised by Ude (2023), Iyamah and Mukoro (2024), underlining that while subsidy removal might hold long-term benefits, it can strain the financial resources of households, particularly those already marginalized (Osei and Turkson, 2022). For this purpose, attempts to remove fuel subsidy have always been opposed by low income consumers with the presumption that any price increase will reduce economic welfare which will have broad spectrum of negative impacts on Nigerian households.

To worsen the dilemma, the administration of Bola Ahmed Tinubu decided to float the Naira against the dollar in line with the recommendations of the Bretton Woods institutions, the International Bank for Reconstruction and Development (IBRD) and the International Monetary Funds (IMF). This is coming at a time the country does not export any commodity and have no Forex to support crude oil and other imports. This singular policy has crashed the Naira to about ₦1,500 to \$1 losing about 70% of its value to the dollar (Adeoye, 2024) and so far, have plunged more Nigerians into multidimensional poverty (Abubakar, 2023).

The negative impacts being experienced by the Nigerians suggest that the subsidy removal lacks social impact assessment and governance that will safeguard the poor and vulnerable in the society. This study will seek to assess the impact of the removal of fuel subsidy on the standard of living of Nigerians.

Aim and Objectives of the Paper

The aim of this paper is to examine the impact of the removal of fuel subsidy on the standard of living of Nigerians with the following objectives

- i. Examine the consequences of the fuel subsidy removal on livelihoods
- ii. Recommend possible solutions to improve the standard of living in Nigeria

Methodology

This paper adopted an extensive review of relevant and related materials from secondary sources of data.

Literature Review

Conceptual Framework

The Concept of Subsidy and Fuel Subsidy

A subsidy can be defined as a financial aid provided by a government to fund a needed activity, so as to keep prices lower than what it should have been, while sustaining the income of producers of essential or strategic goods, preserving employment levels, or encouraging investment to lower unemployment. (Abdulkadir, Funmilola and Abdulkadir, 2020). Todaro (2009) defined a subsidy as financial assistance provided by the government to a business or economic sector, mainly to prevent the industry's decline. Subsidy is fundamentally any government action that lowers the price paid by consumers or increases the selling price of the producer. Subsidy is aimed at supporting economic growth, product and supply security as well as poverty reduction.

A fuel subsidy refers to the amount the government pays to support the use of petroleum products like Premium Motor Spirit, Automotive Gas Oil, and Kerosene to lessen the cost burden on consumers. Fuel subsidies are government policies that artificially reduce the cost of various types of energy, primarily fuels such as gasoline, diesel, natural gas, and 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, and political objectives (Abdul and Danquah, 2021). The specific purposes of fuel subsidies can vary from one country to another, and they often depend on the particular circumstances and policy goals of the government (Aliyu and Abubakar, 2022b). One of the primary purposes of fuel subsidies is to make energy more

affordable for consumers, especially for low and middle-income individuals and households (Abdul and Danquah, 2021). This helps to reduce the financial burden of energy expenses on citizens (Aliyu and Abubakar, 2022b).

In the Nigerian situation, fuel subsidy refers to selling Premium Motor Spirit (petrol) below the cost of importation as we do not refine petroleum (Abdulkadir, Funmilola and Abdulkadir, 2020). This is a policy setup by the Nigerian government to keep the price of petrol affordable for consumers so as goods and services will be affordable for consumers. It is a policy meant to assuage poverty and improve the standard of living of Nigerians.

Fuel subsidies have traditionally been a key policy in Nigeria, aimed at keeping the price of petroleum products, such as gasoline (petrol) and 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 and Kovesdi, 2020)

Immediate Impact Of The Policy On Standard Of Living

One of the most distressing aspects of the Nigerian economy today is that the majority of the population lives in poverty while a small, affluent minority enjoys wealth. This economic imbalance does not correspond to the country's geographical resource distribution. Over the years, various administrations have introduced economic policies and programs aimed at reducing or eliminating poverty in Nigeria. These initiatives were intended to improve the standard of living for Nigerians, yet many remain economically marginalized. It appears that either these programs contribute to poverty themselves or their implementation tends to exacerbate poverty and increase economic inequality in Nigeria.

The impact of fuel subsidy removal in Nigeria encompasses beyond fiscal factors to influencing various aspects of daily life. The removal of fuel subsidies has led to increased transportation costs to over 300%, also affecting the affordability and accessibility of food items, and other goods and services. This, in turn, has affected the overall quality of life in both rural and urban areas. Higher fuel prices following subsidy removal has contributed to challenges in electricity supply as Nigerians depend mostly on power generating sets. This has affected households and businesses, impacting daily activities and the overall functioning of essential services.

Yahuza, Nura and Uba (2023) also stated that the sudden increase in petrol prices have increased marginalization among the rich and poor as there is no adequate safety nets and intervention programs to cater

for the needs of the poor. Although the present administration had promised to reel out palliatives to the poorest of the poor through conditional cash transfers. These palliatives propose to boost the income of about 12 million poor and vulnerable households receiving N8,000 for 6 months. However, Akintunde (2023) had highlighted that these palliatives are not in appreciable amounts to make any positive impact to improve the standard of living of these households. Akintunde (2023) also opined that this conditional cash transfer to poor households will not subsidize the economic impact associated with production, productivity and welfare.

The impact of the removal of fuel subsidy policy has broadly affected inflation (Ocheni, 2015, Yahuza et.al, 2023). The subsidy removal policy and naira devaluation has pushed food inflation to 31% in September of 2023 and seen a price index surge to about 27% (Punch newspaper, 2023, National Bureau of Statistics). This has affected household items such as food and non-alcoholic drinks rising by 14%, followed by housing (6%), transportation (2%), household appliances and maintenance (2%). The National Bureau of Statistics (2023) also reported that the cost of living had increased in Kogi state being the highest with 33% closely followed by Rivers state with 31% and lowest in Borno state having 21% and Benue with 23%. These inflationary effects stems from the fact that companies depend on transportation for operations, therefore the removal of fuel subsidy has resulted to greater operational costs, loss of jobs and livelihoods and smaller or no profit margins.

Possible Solutions To Improve The Standard Of Living In Nigeria

Adebiyi and Mordi (2016) noted that the removal of the fuel subsidy in Nigeria in 2023 has led to significant changes with extensive impacts on the economic, social, and environmental fronts. Their study delves into the intricate outcomes of this major policy shift, exploring its direct and indirect effects on Nigerian society and the economy. While redirecting resources from subsidies to crucial sectors such as healthcare, transport, and education has the potential for positive transformation, ensuring these funds are used effectively and distributed fairly requires careful attention. A key challenge is to achieve noticeable improvements in essential services without causing unintended negative effects.

The government should improve minimum wage to increase the purchasing power of workers which will mitigate the dire consequences of the policy. It will go a long way in reducing the harsh effect of the removal of subsidy experienced by Nigerians. This will ensure that the Nigerian workers embrace the removal of the subsidy and would not show resistance

The government should not only dish out meagre palliatives to the poorest households but focus on empowering the Nigerian citizens and making the economy friendly for small medium enterprise to thrive. The government should also consider subsidizing food, electricity through renewable sources, transportation through mass transits, health and education in form of scholarship will improve knowledge, skills and productivity in the economy. The financial resources saved can be used to invest in critical public infrastructure which will reduce government borrowing and pressure on the foreign exchange.

Conclusion

The removal of fuel subsidy has been a topical issue for many decades because it was unsustainable due to the debt crisis which was a burden on the economy of Nigeria. However, its approach to removal was not welcomed as it was ill prepared for. The removal has led to an increase in Premium Motor Spirit which has had a negative impact on the standard of living of the citizen due to the spike in transportation cost and other goods and services. The government as a matter of urgency, introduce economic reforms that will improve the living standard of Nigerians. The government must also introduce subsidies in other critical aspect of the economy such as transport, health, education. The government must fight corruption in the polity to make room for more government savings, infrastructural development and youth empowerment.

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