

ASSESSMENT OF FUEL SUBSIDY REMOVAL ON THE DEVELOPMENT OF NIGERIA'S ECONOMY

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Abstract

The removal of fuel subsidies in Nigeria represents a critical policy shift with profound implications for the nation's economic trajectory. This paper provides a rigorous assessment of the impact of fuel subsidy removal on Nigeria's economic development, moving beyond descriptive accounts to offer analytical depth. Adopting a qualitative research design grounded in documentary analysis, the study systematically reviews and synthesizes existing literature, policy documents, and empirical reports from 2023 to 2025. Theoretically framed by Public Choice Theory, the analysis explores the political economy incentives that sustain or dismantle subsidy regimes. The paper finds that while subsidy removal generates immediate adverse effects including sharp increases in transportation and production costs, inflationary pressures, and heightened living expenses it also creates fiscal space for long-term developmental investments. Critically, low-income communities bear a disproportionate burden. The study concludes that the transformative potential of subsidy removal hinges on transparent reinvestment of savings into public infrastructure, social protection programs, and renewable energy. The paper contributes to knowledge by synthesizing recent empirical evidence and providing a Public Choice-based evaluation of Nigeria's 2023–2025 subsidy reform outcomes, including a historical analysis of previous failed attempts.

Keywords: *Fuel Subsidy Removal, Economic Development, Public Choice Theory, Low-Income Communities, Fiscal Policy, Nigeria.*

Introduction

Fuel subsidies have long constituted a contentious and paradoxical feature of Nigeria's economic landscape. Established in the 1970s as a populist mechanism to cushion citizens from global oil price shocks, these subsidies have simultaneously provided temporary relief and engendered deep-seated fiscal distortions. Nigeria, as one of Africa's largest oil producers, spent billions of naira annually subsidizing petroleum consumption resources that critics argued could otherwise fund critical public infrastructure, healthcare, and education. However, the persistent political economy of subsidies, characterized by rent-seeking, elite capture, and populist manipulation, made reform extraordinarily difficult for decades.

The impact of fuel subsidy removal on Nigeria's economy encompasses multiple, often contradictory dimensions: inflation dynamics, household welfare, industrial competitiveness, and public finance sustainability. Recent empirical studies highlight that removal frequently triggers immediate

economic upheaval, manifesting in escalated transportation and energy costs that disproportionately affect low-income households and ignite public dissent. Yet, proponents argue that such short-term pains are necessary for long-term gains: reallocating fiscal resources from regressive consumption subsidies to productive investments that enhance economic productivity and social welfare. The core policy dilemma, therefore, revolves around managing the transition in a manner that preserves social stability while unlocking developmental potential.

This paper aims to provide a systematic assessment of fuel subsidy removal on Nigeria's economic development following the complete deregulation implemented in mid-2023. Specifically, it examines the immediate and long-term effects on key sectors (transportation, manufacturing, agriculture), evaluates the socioeconomic impact on low-income communities, and assesses the effectiveness of existing and proposed mitigation measures. By critically synthesizing recent data and empirical studies through the lens of Public Choice Theory, the paper seeks to move beyond descriptive generalizations toward a more analytically grounded contribution to policy discourse.

Background to the Study: Historical Attempts at Fuel Subsidy Removal in Nigeria (2000–2023)

Understanding the contemporary impact of fuel subsidy removal requires a thorough appreciation of the historical struggle to achieve this reform. Between 2000 and 2023, successive Nigerian governments made multiple attempts to dismantle or reduce the fuel subsidy regime. Each attempt was met with intense public opposition, labor strikes, and political reversals, creating a pattern that scholars have termed "subsidy reform cycles" where announcement, protest, and partial reinstatement become predictable rituals.

The first significant attempt occurred under President Olusegun Obasanjo between 2000 and 2003, when his administration pursued gradual price increases as part of an IMF-led deregulation agenda. These increases triggered nationwide strikes organized by the Nigeria Labour Congress (NLC), forcing the government to moderate its pace. A more aggressive full deregulation proposal in 2004 led to even larger protests, and the government ultimately backed down, retaining the subsidy framework. The Yar'Adua administration (2007–2010) largely avoided the issue, maintaining the status quo.

The most dramatic confrontation came in January 2012 under President Goodluck Jonathan. On January 1, the government announced the complete removal of the subsidy, causing petrol prices to jump overnight from ₦65 to over ₦140 per liter. This triggered the "Occupy Nigeria" protests a nationwide movement that shut down major cities for over a week. The protests united labor unions, civil society, and ordinary citizens. After two weeks of sustained pressure and a paralyzing general strike, the government partially reinstated the subsidy, reducing the price to ₦97 per liter. The 2012

episode demonstrated the political power of organized labor and the extreme difficulty of subsidy reform in a fragile political context.

President Muhammadu Buhari's administration (2015–2023) repeatedly announced plans for subsidy removal but never fully implemented them. In 2016, as oil prices collapsed, the government signaled deregulation intent but maintained a price cap. Between 2018 and 2022, subsidy spending ballooned dramatically, exacerbated by a fixed exchange rate policy that made fuel imports increasingly expensive. By 2022, the government budgeted for subsidy elimination by June 2022 but postponed the decision, citing the need for a smooth political transition ahead of the 2023 elections. During this period, the subsidy consumed over ₦4 trillion annually more than the combined budgets for health and education.

The successful removal finally occurred on May 29, 2023, when President Bola Ahmed Tinubu declared in his inaugural address: "Subsidy is gone." This announcement differed from prior attempts in several critical ways: it was delivered without prior warning, executed on the first day of the administration, and framed as a fiscal survival measure rather than a negotiable policy. The absence of pre-announcement reduced opportunities for rent-seeking stockpiling, while the government's simultaneous introduction of palliative measures including conditional cash transfers and wage awards softened organized labor's initial response. Petrol prices surged from approximately ₦189 to over ₦600 per liter within weeks, eventually reaching over ₦700 in some regions. While protests occurred, they did not reach the scale of the 2012 Occupy Nigeria movement, partly due to the government's messaging around fiscal necessity and the provision of palliatives. This historical trajectory from partial retreat to full implementation provides essential context for evaluating the economic and social consequences examined in this study.

Statement of the Problem

Despite the eventual success of subsidy removal in 2023, the policy remains deeply contentious. Empirically, the problem is twofold. First, the immediate economic repercussions spikes in fuel prices, cascading inflation (reaching 28% by end-2023), and increased cost of living pose severe challenges for average citizens, particularly those in low-income brackets who spend a larger proportion of their income on basic goods and transport. Second, the anticipated long-term benefits, such as improved governance, reduced corruption, and enhanced public investment, have not consistently materialized in past reform attempts due to weak institutional frameworks and lack of public trust. Historical experience from the 2012 partial removal suggests that without transparent reinvestment and accountability, the fiscal savings may be absorbed by new forms of rent-seeking.

Moreover, the socioeconomic ramifications are profound yet poorly understood in terms of sectoral transmission mechanisms. Sectors heavily reliant on fuel transportation, manufacturing, agriculture

experience cost shocks that ripple through supply chains, affecting food security, employment, and industrial competitiveness. Consequently, there exists a critical research gap: while numerous policy commentaries have examined subsidy removal's macroeconomic effects, fewer have systematically integrated sectoral analyses, distributional impacts on vulnerable groups, and institutional factors that determine whether saved funds translate into development. This paper addresses that gap by providing a multi-dimensional assessment grounded in both recent empirical evidence and the historical lessons of previous failed attempts.

Research Objectives

- i. To examine the immediate and long-term economic effects of fuel subsidy removal on key sectors of the Nigerian economy, including transportation, manufacturing, agriculture, and public finance.
- ii. To assess the socioeconomic impact of fuel subsidy removal on low-income communities and the general cost of living in Nigeria, including poverty dynamics and access to basic services.
- iii. To evaluate the effectiveness of existing and proposed policy measures aimed at mitigating the negative consequences of fuel subsidy removal on citizens and businesses.

Methodology

This study adopts a qualitative research design, specifically employing documentary analysis as the primary method. Data collection is restricted to secondary sources, including peer-reviewed journal articles, official government publications (Central Bank of Nigeria reports, National Bureau of Statistics data), international organization reports (World Bank, IMF), and reputable policy papers published between 2023 and 2025.

The analytical technique involves thematic content analysis, guided by the research objectives and theoretical framework. Documents were selected based on relevance, credibility, and recency. A systematic search strategy was employed using academic databases (Google Scholar, Scopus, JSTOR) with keywords including "fuel subsidy removal Nigeria," "economic impact," "low-income households," and "mitigation policies." Inclusion criteria required that sources provide empirical data, theoretical insights, or policy evaluations directly related to Nigeria's 2023–2025 subsidy reforms. The analysis proceeded through iterative coding: first, descriptive coding of economic effects; second, analytical coding of causal mechanisms; and third, thematic synthesis around the three research objectives. To enhance rigor, findings were triangulated across multiple sources, and contradictory evidence was explicitly noted.

Theoretical Framework: Public Choice Theory

Public Choice Theory, developed by James M. Buchanan and Gordon Tullock, provides the analytical lens for this study. The theory challenges the traditional assumption that government actors act benevolently to maximize social welfare. Instead, it posits that politicians, bureaucrats, and interest groups are rational self-interest maximizers who pursue personal or parochial goals reelection, budget expansion, regulatory capture often at the expense of broader public interest. Key concepts include rent-seeking (using political channels to secure economic privileges), information asymmetry, and the logic of collective action, whereby small, well-organized interest groups can successfully lobby for policies that impose diffuse costs on the general population.

Applying this framework to Nigeria's fuel subsidy regime explains its remarkable persistence over two decades despite clear economic irrationality. Subsidies created lucrative opportunities for rent-seeking: importers obtained underpriced foreign exchange, marketers engaged in fraudulent claims, and political elites used subsidy contracts to reward patrons. Politicians, seeking electoral support, wielded subsidies as populist tools rather than instruments of sound fiscal policy. The eventual removal under fiscal pressure in 2023 reflects a shift in the calculus of political interests specifically, the recognition that continued subsidy spending threatened macroeconomic stability rather than a purely technocratic decision. However, Public Choice Theory also warns that savings from subsidy removal may be recaptured by new rent-seeking coalitions (e.g., inflated infrastructure contracts, captured palliative distribution) unless institutional checks transparency, independent oversight, civil society monitoring are robust. This framework guides our analysis by focusing on incentive structures, governance quality, and the distributional politics of reform.

Review of Literature

Conceptualizing Fuel Subsidy and Its Removal

Fuel subsidy refers to government interventions that lower the cost of fuel for consumers, typically by absorbing the difference between domestic retail prices and international market prices (Adebayo & Ibrahim, 2024). In Nigeria, this historically involved the state-owned petroleum corporation importing fuel at world prices and selling it domestically at a loss (Central Bank of Nigeria, 2024). Contemporary scholarship confirms that fuel subsidies are **regressive**: wealthier households, who consume more fuel, capture a disproportionate share of benefits (World Bank, 2024). Moreover, subsidies distort market signals, encourage smuggling to neighboring countries where prices are higher, and create administrative corruption (IMF, 2024). Fuel subsidy removal, therefore, entails discontinuing this fiscal support, allowing domestic prices to align with international market rates. The rationale includes reducing fiscal deficits, eliminating rent-seeking opportunities, and

reallocating public funds to developmental priorities (Federal Ministry of Finance, 2024; Okonkwo, Musa, & Danlami, 2024).

Empirical Effects on Key Economic Sectors

The **transportation sector** is the most immediately and severely affected by the 2023 removal. Following President Tinubu's announcement, petrol prices surged from approximately ₦189 to over ₦600 per liter within weeks (National Bureau of Statistics [NBS], 2024). The NBS (2024) reported that transportation costs increased by over 50% within three months. This affected both commercial transporters (passing costs to commuters) and households dependent on private vehicles or informal transport (Adegoke & Usman, 2024).

The **manufacturing sector**, reliant on diesel for generators (given Nigeria's unreliable grid electricity) and petrol for logistics, experienced higher production and distribution costs (Adebayo & Ibrahim, 2024). Many small and medium enterprises (SMEs) scaled down operations or raised prices, exacerbating inflationary pressures (ActionAid Nigeria, 2024).

The **agricultural sector** faced similar constraints: rural farmers depend on petrol-powered pumps and machinery, while food distribution networks rely on road transport (Okonkwo et al., 2024). Empirical studies link the 2023 subsidy removal to reduced agricultural productivity and increased post-harvest losses, contributing to food scarcity and price spikes (World Bank, 2025).

On **public finance**, the effect is potentially positive. The Nigerian government estimated savings of over ₦3.6 trillion in 2023, funds that—if transparently managed—could finance infrastructure, education, and healthcare (Federal Ministry of Finance, 2024). However, the Central Bank of Nigeria (2024) reported inflation exceeding 28% by end-2023, eroding purchasing power and increasing poverty. This duality—fiscal gain versus welfare loss—underscores the need for complementary policies (IMF, 2024).

Socioeconomic Impact on Low-Income Communities

Low-income households are disproportionately vulnerable to subsidy removal because they spend a larger share of their income on fuel-dependent goods and have fewer coping mechanisms (e.g., savings, alternative transport) (ActionAid Nigeria, 2024). The World Bank (2024) estimates that the 2023 removal could push an additional 7.1 million Nigerians into poverty. Transport fare increases of over 50% and food price rises exceeding 30% forced families to reduce expenditure on education, healthcare, and even food quantity or quality (NBS, 2025). Access to healthcare and schooling declined where services are located far from communities (Adegoke & Usman, 2024). Additionally,

informal economic activities street vending, casual labor—expanded as formal employment contracted, often leading to precarious working conditions (Nigeria Labour Congress [NLC], 2024). Social unrest, including protests organized by the NLC (2024), reflected widespread discontent.

Policy Mitigation Measures

To cushion these impacts, the Nigerian government introduced a palliative package including a ₦500 billion initiative featuring ₦35,000 wage awards for federal employees, conditional cash transfers to vulnerable households, and a ₦75 billion support fund for SMEs (Federal Ministry of Finance, 2024). Longer-term structural measures include investment in mass transit systems (compressed natural gas buses), incentives for alternative energy adoption (solar, CNG), and low-interest loans for SMEs (World Bank, 2025). However, the effectiveness of these measures depends on targeting accuracy, timeliness, and absence of corruption (IMF, 2024). Critics argue that palliatives are often poorly targeted, delayed, or captured by political intermediaries (ActionAid Nigeria, 2024; NLC, 2024).

Analysis

Drawing on the documentary evidence and Public Choice Theory, this section provides an analytical synthesis of the findings.

Political Economy of Successful Removal: The 2023 removal succeeded where prior attempts failed due to three factors: (a) the element of surprise (no pre-announcement to enable rent-seeking stockpiling or protest mobilization), (b) the framing of removal as a fiscal necessity rather than a policy choice, and (c) the simultaneous announcement of palliative measures that fragmented opposition. However, Public Choice Theory suggests that the absence of protest does not indicate popular consent but rather a shift in the perceived costs of mobilization.

Fiscal Savings and Reinvestment Risks: The estimated ₦3.6 trillion in annual savings represents a significant fiscal dividend. However, the theory predicts that without strong institutional checks, these funds will be recaptured by new rent-seeking coalitions. Preliminary evidence from 2024 suggests that a substantial portion of the savings has been allocated to infrastructure projects lacking transparent procurement processes, raising concerns about contract inflation.

Sectoral Asymmetries: The analysis reveals that the manufacturing and agricultural sectors have absorbed the most severe cost shocks, while the service sector has shown some adaptability. This asymmetry suggests that industrial policy must be recalibrated to offset energy cost disadvantages for producers of tradable goods.

Palliative Effectiveness Gaps: The cash transfer program, while conceptually sound, suffers from targeting failures. Digital delivery excludes households without formal identification or mobile money accounts, precisely the poorest populations. This reflects a classic Public Choice problem: politicians face incentives to direct palliatives toward visible, organized constituencies rather than the diffuse, politically weak poor.

Contribution to Knowledge

This paper makes several original contributions to the literature on fuel subsidy reform in developing economies.

First, it provides the first systematic synthesis of empirical evidence from Nigeria's 2023–2025 subsidy removal period, moving beyond isolated policy commentaries to a rigorous, theory-driven assessment. While previous studies examined individual effects (e.g., inflation or transportation costs), this paper integrates sectoral, distributional, and institutional dimensions.

Second, the paper advances the application of Public Choice Theory to subsidy reform by demonstrating how the ‘timing and framing’ of removal announcements affect political feasibility. Prior applications focused on explaining subsidy persistence; this study extends the theory to explain successful removal and post-removal risks.

Third, the historical analysis of removal attempts (2000–2023) integrated into the background provides a crucial comparative lens. By documenting the mechanisms of each failed attempt protest intensity, labor union power, political calculation the paper offers lessons for other countries (e.g., Ghana, Egypt, Indonesia) contemplating similar reforms.

Fourth, the paper identifies specific governance gaps in palliative implementation that have not been systematically documented elsewhere, particularly the exclusion of informal sector workers and rural households from digital cash transfer systems. This finding has direct policy relevance for the design of social protection programs.

Finally, the paper develops an analytical framework linking subsidy removal to sectoral cost transmission, household coping strategies, and institutional absorption of fiscal savings that can be adapted for studying other energy subsidy reforms across Africa and beyond.

Findings

Following systematic documentary analysis, this study presents the following findings:

i. Sectoral Economic Impacts: The removal of fuel subsidies in Nigeria has generated significant short-term adverse effects across key sectors. Transportation costs increased sharply (over 50% within months), manufacturing production costs rose due to higher energy and logistics expenses,

and agricultural distribution chains experienced cost shocks leading to food price inflation. However, long-term prospects include potential fiscal savings (estimated at ₦3.6 trillion annually) that could finance alternative energy development, public infrastructure modernization, and social services provided governance frameworks are adequate.

ii. Disproportionate Burden on Low-Income Communities: Low-income households bear the heaviest burden, experiencing heightened living costs, exacerbated multi-dimensional poverty, and widening inequality. Empirical estimates suggest that without robust social protection, an additional 7 million Nigerians could fall below the poverty line. Access to healthcare and education has declined as families prioritize basic food and transport expenditure.

iii. Mitigation Measures and Governance Gaps: The government introduced cash transfer programs, wage awards, and SME support funds. However, evidence indicates significant implementation challenges: poor targeting (many eligible households excluded), delays in disbursement, and lack of transparency in fund utilization. The proposed reinvestment of subsidy savings into public infrastructure remains largely opaque, with limited accountability mechanisms to ensure funds reach intended projects rather than being recaptured by rent-seeking networks.

iv. The Role of Institutional Quality: Drawing on Public Choice Theory, the analysis finds that the success of subsidy removal depends critically on institutional factors: transparency in fiscal management, independent oversight of reinvestment funds, and civil society participation. Where these are weak, the likelihood of new rent-seeking equilibria (e.g., inflated infrastructure contracts) is high, negating potential developmental benefits.

v. Historical Lessons: The pattern of previous failed attempts (2000, 2004, 2012, 2022) demonstrates that successful removal requires either a political shock (e.g., a new administration) or a fiscal crisis. The 2023 removal succeeded partly because it exploited the transition period to bypass organized opposition, a strategy not available to incumbent governments seeking reelection.

Conclusion

The removal of fuel subsidies in Nigeria presents a complex, ambivalent policy shift, a necessary but not sufficient condition for economic transformation. While subsidy removal generates immediate inflationary pressures, increased cost of living, and sectoral disruptions, it also creates fiscal space for long-term developmental investments. The critical determinant of success is not removal per se, but what follows: whether savings are effectively, transparently, and equitably reinvested into critical sectors such as infrastructure, healthcare, education, and renewable energy. Strategic reinvestment, combined with robust, well-targeted social protection programs, can mitigate adverse effects on vulnerable populations and stimulate sustainable economic growth. However, without fundamental improvements in governance, accountability, and institutional capacity, the benefits of subsidy

removal will likely be captured by new rent-seeking coalitions, leaving ordinary citizens with the costs and elites with the gains a pattern consistent with Public Choice Theory predictions. The historical record of previous failed attempts underscores that reform durability requires not only political will at the moment of announcement but also sustained institutional safeguards. Ultimately, the successful implementation of fuel subsidy reform depends on the government's ability to manage the political economy of transition prioritizing poverty reduction, job creation, and economic diversification over narrow partisan or personal interests.

Recommendations

Based on the findings and theoretical analysis, the following recommendations are made:

- i. Expand and Improve Targeted Cash Transfers:** To address the disproportionate impact on low-income households, the government should expand and streamline cash transfer programs, moving beyond wage awards for formal sector workers (which exclude the informal poor). Transfers should be delivered through multiple channels (including physical distribution points for unbanked populations), using existing social registries, with transparent eligibility criteria and independent monitoring. Special provisions should target women, children, the elderly, and persons with disabilities.
- ii. Expedite Investment in Renewable Energy and Public Transport:** Given the potential for long-term fuel price volatility, the government should accelerate investments in solar, wind, and bioenergy, reducing dependence on imported fuel and creating employment. Simultaneously, develop affordable mass transit systems (e.g., CNG buses, rail) to lower commuting costs for low-income workers, decoupling mobility from petrol prices.
- iii. Establish Transparent Reinvestment Frameworks with Accountability Mechanisms:** Reinvestment of subsidy savings must follow clear, publicly accessible frameworks. Every naira saved should be tracked through an open budget portal, with quarterly independent audits published online. Prioritize infrastructure projects that reduce costs for businesses and consumers—efficient transport corridors, storage facilities, agricultural processing hubs—while avoiding prestige projects prone to cost overruns. Civil society organizations should be included in monitoring committees to enhance public trust.
- iv. Strengthen Institutional Checks Against Rent-Seeking:** Drawing on Public Choice Theory, the government should dismantle opportunities for corruption by automating fuel import and distribution systems, reducing human interfaces. Whistleblower protections and anti-corruption agencies must be empowered to investigate subsidy reinvestment funds. Political interference in state-owned enterprises (e.g., NNPC) should be minimized through professionalized governance.

v. Learn from Historical Failures: Establish a formal monitoring mechanism that benchmarks current reforms against the 2012 experience, specifically tracking protest triggers, palliative satisfaction rates, and transparency metrics. This historical learning framework can provide early warning of emerging political resistance.

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