

Policy of Fuel Subsidy Removal in Nigeria: Problems, Prospects and ways Forward

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ABSTRACT

Energy subsidy most especially fuel subsidy, which is the focus of this study, has a long history and has been used in various ways across the world with varying results. There are many different reasons for adding or removing subsidies. Environmental concerns, global commerce, and preserving competitiveness are the key forces behind policy in industrialized economies. While the primary motivations for the introduction of subsidy in developing nations such as Nigeria is welfare, the reduction of poverty, and electoral politics but it became a burden on Nigeria's economy due to fraud, corruption, and smuggling. This led to the subsidy removal policy to save the country's economy and divert the budget to other critical sectors of the economy such as infrastructure, health, and education. The aforementioned issues are motivating factors geared towards identifying the challenges and prospects of the policy and also develop ways forward or recommendations for effective implementation of the policy. Documentary research method was adopted as secondary sources of data were used. Content analysis and logical inference was adopted as tool for data analysis. The research is anchored on structural functionalism as its theoretical framework. The findings of the study is that instead of the benefits the citizens were expecting from its implementation it turned to affect the citizens negatively, no obvious arrangement were made by the government to alleviate the future hardship envisaged in the policy implementation among others. The paper recommends that government at all levels should as a matter of urgency review the policy of subsidy removal and to provide a well structured palliatives alleviate the suffering of the citizenry, to mention but a few.

Keywords: Inflation, Hardship, Palliative, Refinery, Economic Growth

INTRODUCTION

Fuel subsidies are the intervention of the government aimed towards the reduction in the price of petroleum products most especially premium motor spirit (popularly known as petrol) for the citizens (Plante, 2014).

Historically, Nigeria as a country with an abundance of crude oil and one of the largest oil producers in the world subsidized its fuel for its citizens to mitigate the negative impact of rising fuel prices on the cost of living (Olayungbo and Olayemi, 2018). However, for over a decade now, the controversy over fuel subsidy removal has been an important subject of discussion in Nigeria, due to the economic burden placed by the fuel subsidies on the country's finances which with a high negative impact leading to an annual budget deficit (Umar and Umar, 2013). The government recognized and disclosed that a significant portion of the annual which are to be used for critical infrastructure and social amenities such as education, health, and power sectors are diverted and consumed by the payment of fuel subsidy. Nigeria had \$10.8 billion in total income in 2000, this sum climbed to USD 67.9 billion by 2010 (Pwc Nigeria, 2023). Yet during the last 18 years, the Nigerian government has spent more than USD 30 billion on gasoline subsidies (Pwc Nigeria, 2023). The amount of money that is available for crucial infrastructure and other vital industries like education, health care, and the military has been significantly impacted by this. The country's public debt stock is growing, according to the Debt Management Office, since the government has to borrow N1 trillion

to pay for gasoline subsidies in 2022.

Furthermore, corruption, fraud, lack of transparency, and accountability in the Nigerian economic system led to the fuel subsidy setback. Untrustworthy individuals and groups used the subsidies, stealing money intended for the public good (Osunmuyiwa and Kalfagianni, 2017). As a result, the subsidy regime had enormous fund leakages and inefficiencies. The policy of subsidies for petrol distorted the market and inhibited private sector investment in the downstream oil industry. Due to the subsidies, imported petroleum became more affordable than domestically produced refined products, which increased dependency on imports and decreased local investment in domestic refineries.

Several successive governments in Nigeria have tried to eliminate fuel subsidies, but the process has been difficult because of the possible impact on the cost of living and popular displeasure for an average citizen (Akanle, Adebayo and Adetayo, 2014). The elimination has often resulted in a rise in the price of petrol at the pump, which can raise transportation costs and push inflation. It's significant to note that public opinion differs on Nigeria's strategy of removal of petrol subsidy. Some contend that the removal is essential for long-term economic viability, while others voice worries about how it will affect the welfare of the populace in the short term, especially the poor and vulnerable groups (Majekodunmi, 2013). The Nigerian government is still having trouble striking a balance between the need to address fiscal issues and the socioeconomic effects of the removal of fuel subsidy.

CONCEPTUAL FRAMEWORK

Fuel subsidy

A subsidy is any policy that keeps consumer prices for commodities below market rates while keeping producer prices above market rates (Kotchen, 2021). It refers to aid provided to organizations or people by the government in the form of money, a tax break, or a decrease in the price of products and services (Holton, 2012). The fundamental goal of subsidies is to assist companies and individuals in getting the necessary goods and services that they would not otherwise be able to afford. There are many distinct types of subsidies, both direct and indirect that affects pricing which are grants, price restrictions, and tax reductions are examples of subsidies with immediate effects (Barany and Grigonyte, 2015). On the other hand, the government-sponsored technology and government policy and regulation which are favorable to a particular section of the market are the direct impact of subsidies.

Onyeizugbe and Onwuka (2012), Fuel subsidy is the term for when the government pays a percentage of what customers must pay for the use of petroleum goods in order to lessen the financial strain. According to the Nigerian government, residents are paying less for petrol than they should be given the pricing on the global market. As a result, the government of Nigeria has eliminated the fuel subsidy. Majekodunmi (2013), fuel subsidies may also be seen of as a government initiative designed to lower the price that Nigerians must pay for oil-related goods (p. 76). Automated Gas Oil (Diesel), Petroleum Motor Spirit (PMS), and Dual-Purpose Kerosene (DPK) are some of these oil products. Oil-producing nations like Iran, Egypt, Venezuela, Malaysia, Burma, South Korea, and China, among others, are heavily reliant on gasoline subsidies.

The structure of an economy, a country's degree of development, the status of the economy, and the political system all have a significant impact on how fuel subsidy removal programs are implemented. Studies have revealed that nations that have successfully eliminated gasoline subsidies have done so by taking a cautious approach and conducting extensive studies before implementation. A high degree of trust between the government and its citizens, together with excellent communication, can make this feasible. Iyobhebhe (2012) contended that fuel subsidies give many Nigerians access to reasonably priced petroleum products. The advantage of petroleum subsidies is general rather than exclusive to the poor section of the country (Schwanitz et al, 2014). Similarly, to Hobhebhe (2012), who opined that subsidies were a covert

way for the wealthy to transfer wealth to the poor, the government would need to find a way to compensate Nigerians if subsidies were eliminated as well as explain how it would handle the ensuing inflation and use the savings.

Removal of Fuel Subsidy

Fuel subsidy removal advocates have claimed that the subsidies must be removed because the country needs the money to grow its economy (Umar and Umar, 2013). They hold that the country might achieve its goal of decreasing fuel scarcity to the absolute minimum and hoarding, leading to a sufficient supply of gasoline throughout the nation, by deregulating and liberalizing the petroleum downstream sector (Umar and Umar, 2013). Additionally, it will allow for foreign investment in the sector, and the subsidy monies may be used to address other societal needs like basic healthcare and education.

However, critics of removing petrol subsidies are against the removal and contend that due to Nigeria's unstable power supply, practically all companies and residences in the country significantly rely on fuel-powered generators it will be illogical to remove the subsidy (Chiluwa, 2015). Small-scale industries that heavily rely on generating sets include motels, welding shops, and hairdressers. Due to the loss of the subsidy, transportation costs are rising daily and have an impact on the productivity and efficiency of enterprises nationwide (Soile et al, 2014). As more money competes with fewer available commodities, inflation has also grown and the value of the naira has further declined. Creditors are not exempted from inflation; however, as they typically lose money they gave out prior to inflation when prices are constant.

PERCEPTION OF THE POLICY OF FUEL SUBSIDY REMOVAL

The subsidy removal policy in Nigeria has diverse views, arguments from several economic experts, and various sections of the population hold different perceptions on the policy, while some hold a positive disposition towards the policy, others believe it will do more harm than good the country, its' citizens and the economy. The perception of the policy can be divided into two which are the proponent and the antagonist (critics). The following are different perceptions on the removal of fuel subsidy in Nigeria.

REASONS FOR THE REMOVAL OF FUEL SUBSIDY

Economic sustainability: Removing subsidies, according to proponents, are a crucial step towards attaining economic sustainability (Harring et al, 2023). They contend that money saved by cutting subsidies may be invested in important fields like infrastructure building, healthcare, education, and poverty eradication. They claim that subsidies deplete public funds and impede economic growth.

Lack of transparency and corruption: Many Nigerians are aware of how crooked and dishonest the fuel subsidy system has become (McCulloch et al, 2021). They view the removal of subsidies as a way to stop these unethical behaviors and advance accountability and transparency in the use of public cash. They contend that removing subsidies can help end the potential for fraudulent activities related to subsidy payments.

Market efficiency: The removal of subsidies, according to the proponents, will improve market efficiency in the downstream oil industry (Harring et al, 2023). It is thought that by letting market forces decide gasoline pricing, competition, and private sector involvement will rise, improving refining capacity, reducing reliance on imports, and creating a more competitive market.

THE CRITICS

The issue of the cost of living: Concerns regarding the immediate impact on the cost of living for the

typical Nigerian are the main ones raised by critics of the removal of subsidies (Rentschler, 2016). They contend that cutting down on subsidies would result in a sharp rise in the price of gasoline, which will have a domino effect on the cost of transportation, the price of food, and overall inflation. They think that these price increases will disproportionately affect the poor and vulnerable groups, making their suffering worse.

Citizen's lack of trust in government: A portion of the populace is opposed to subsidy removal because they have little faith in the government to handle the transition smoothly (Nwachukwu and Chike, 2011). They make reference to earlier initiatives to remove subsidies that led to suffering without appreciable advances in public services. Therefore, before the removal of fuel subsidy, critics contend, the government should confront corruption and systemic inefficiency.

Ensuring the social safety net of an average individual: Nwachukwu and Chike, (2011) contend that the government should construct strong social safety nets first to shield the most disadvantaged groups in society from the initial negative effects of subsidy elimination (p. 2796). They think that an effective safety net scheme might lessen the possible negative effects of subsidy elimination.

Theoretical Framework

The study of structural functionalism systems theory had its peak with the works of Easton (who examined political systems), Merton (noted for his study of social structure), and Almond and Coleman (who developed a taxonomy of political functions within political systems). A majority of political studies from that period used systems theory and structural functionalism as their framework (Susser, 1992). While few researchers today say a framework based on these theories, the approach is still alive and well (Chamock, 2009; Fisher and Soemarsono, 2008; Fisk and Malamud, 2009; Mohamed, 2007; Scheuerell, 2008). Understanding politics requires political syntax, much of which continues to be based on structural functionalism and systems theory.

Perhaps, the system functionalism theory is all about a coordinate attempt to explain interplay and channels of governmental recipe for citizens as well as framework to investigate phenomena from the holistic approach to human interactions. Comparatively, the interplay between the masses and government subsidy removal is sub-haphazardly and has deep-rooted the tenets of democracy that is all about the wellbeing of the citizenry. Be as it may the policy has serious impact on the Nigerian citizens.

IMMEDIATE NEGATIVE CONSEQUENCES OF THE POLICY

The Citizens

The sudden increase in the price of petrol as a result of the subsidy removal policy has severe consequences on the citizens (Leadership newspaper, 2023). Fuel price increases will result in higher transportation expenses, higher prices for goods and services, and general inflation because petrol is an essential component of Nigerian transportation and power generation (Siddig et al, 2014). Low-income earners who spend a bigger percentage of their income on basic needs will be disproportionately impacted by this policy. And also, without adequate social safety nets and targeted interventions, subsidy removal can widen the gap between the rich and the poor, further marginalizing disadvantaged groups (Siddig et al, 2014). The immediate effects of subsidy removal can exacerbate poverty and deepen inequality. The poor and vulnerable segments of society, who spend a higher proportion of their income on transportation and basic necessities, are likely to bear the brunt of the price increases.

The Economy

The rise in petrol prices will have an impact on the economy more broadly and will lead to inflationary

pressures (Ocheni, 2015). This is because businesses will pass on increased transportation costs to customers, raising the price of goods and services across a range of industries. As a result, citizens will have less money to spend, which will raise the cost of living overall. The removal of subsidies will have a negative impact on businesses, especially small and medium-sized firms (SMEs) (Ayakwah and Mohammed, 2014). Many companies rely largely on transportation for their operations, and rising petrol prices can result in greater operational costs, narrower profit margins, and even the loss of jobs. The whole economy and employment rates will suffer a decline as a result of this policy.

The infrastructures

Redirecting money from fuel subsidies to infrastructure development and other crucial areas is a common goal of subsidy removal policy (Bazilian and Onyeji, 2012). However, a reduction in the amount of money available for infrastructure projects may be an immediate consequence of infrastructure. To make up for the payment debt of subsidy funds to the National petroleum corporation (NNPC), the government may have trouble finding new sources of revenue. The building and maintenance of crucial infrastructure, such as roads, bridges, power plants, and public amenities, may be hampered as a result, causing delays or cancellations of planned infrastructure projects.

PROBLEMS OF THE POLICY OF FUEL SUBSIDY REMOVAL

There are several problems associated with the policy on subsidy removal which have an impact on the implementation of the policy. The problems and challenges of the policy are as follows:

1. Lack of alternative means of transportation: The lack of alternatives to lessen the impact on citizens is one of the difficulties linked with the removal of subsidies (Nwachukwu and Chike, 2011). Sometimes, the infrastructure for public transit is insufficient or ineffective, making it challenging for people to move to alternate forms of transportation. The difficulties that citizens experience when gasoline costs rise are made worse by the absence of effective alternatives;
2. Resistance and public unrest: In Nigeria, removing fuel subsidies have historically been met with demonstrations and hostility from the populace (Iyobhebhe, 2012). When public services are not immediately improved or when citizens have little confidence in the government's capacity to handle the transition successfully, they frequently view the removal as an unjust burden put on them. This opposition may cause social unrest, disturbances, and even conflicts with law enforcement and
3. Difficulties of policy implementation: The removal of fuel subsidies must be implemented with careful preparation, coordination, and communication. In the past, unclear policy objectives and poor implementation tactics have led to uncertainty, fuel shortages, and disruptions in the supply of gasoline. Poor planning and a lack of stakeholder involvement may prevent the policy from being implemented successfully.

PROSPECTS OF POLICY OF FUEL SUBSIDY REMOVAL

The followings are the prospects and potential benefits of the fuel subsidy removal policy:

1. Fiscal sustainability: Removing fuel subsidies will improve fiscal stability by easing the financial strain on the government (Akume and Abdullahi, 2013). Subsidies make up a sizable amount of the annual budget (Pwc Nigeria, 2023). That is, removing the fuel subsidy would potentially free up money that could be used to support vital industries like infrastructure construction, healthcare, education, and poverty reduction. Long-term economic stability and improved public finances is a major prospect of the fuel subsidy removal policy;
2. Increased private sector participation and market efficiency: Removing fuel subsidies will improve market performance and promote private sector involvement in the downstream oil industry (Ovaga,

- 2010). In essence, Fuel prices will be set by market forces, which can encourage investment in domestic refining capacity and lessen dependency on imported petroleum products. This may result in a more effective and aggressive market, which will benefit consumers and stimulate economic progress (Ovaga, 2010);
3. Increased direct investment in local refining capacity: In the absence of fuel subsidies, there will be potential investments in domestic refining capacity. Subsidy removal policy will promote private sector investments in refining infrastructure by establishing a level playing field where imported and locally refined goods are priced at comparable levels (Adelabu, 2012). This will improve energy security and lessen the nation's reliance on imported petroleum products;
 4. Infrastructural development: the removal of the fuel subsidy policy will lead to improved Infrastructural facilities in the country; this is because the government spending on fuel subsidy will be diverted into other critical sectors of the economy which include infrastructural development (Bazilian and Onyeji, 2012). Investments in vital infrastructure, such as roads, bridges, power plants, and public spaces, will spur economic development, boost connectivity, and improve citizens' standard of living in general. Along with fostering job prospects, the approach will promote long-term socioeconomic growth;
 5. Stronger currency and decrease in imported inflation: The enormous petrol imports drive up the need for foreign currency (Pwc Nigeria, 2023). The reduction of petroleum allegedly used in Nigeria as a result of the subsidy removal is one of the medium- to long-term impacts. Cheap, subsidized fuel will not be accessible for smuggling. Because of the decreased volume, there would be less demand for foreign currency, which will strengthen the Naira. As the price of importing petroleum products is a significant factor contributing to inflation in Nigeria, this would also lower imported inflation and its pass through impact and
 6. A higher rating for sovereign debt: Nigeria's low income, high debt levels, a growing deficit, and susceptibility to oil price shocks have all had a negative impact on the country's sovereign credit rating. By raising tax revenues and decreasing borrowing and the resulting deficit, removing the subsidy will enhance the nation's sovereign credit rating and cut borrowing costs.

Comparative Assessment of Burkina Faso and Nigeria Fuel subsidies

Nigeria according to available document is the 7th largest producer of crude oil in the world as reported by Monthly Oil Market, November, 2022. Presently Nigeria supplies crude oil to Spain in fact the biggest buyer of Nigeria crude oil, India, France, Netherland, Indonesia and the United Nation, United States of America, and South Africa. Fuel Subsidy was first implemented in 1977 by the military regime of Olusegun Obasanjo through an Act to regulate the price of fuel among others. The fuel subsidy was meant to improve the living standard of Nigerians and to raise the economic viability of the nation that every citizens of the country will be proud of. Considering the huge crude oil deposit in Nigeria and with the selling rates of crude oil, by now Nigerian roads would have been a past issue including education, health agriculture, electricity and per capital income of every Nigerian would be above the level of World Bank. Nigeria fuel subsidy removal could cause inflation and reduce economic welfare (Adenikinju, 2009). (Ocheni, 2015) the fuel subsidy removal has hurt economic growth and reduces household income.

Burkina Faso it one of the oil producing nations in Africa and supplies it to Ghana and other nations. It has also implemented the subsidy removal policy. However, a study carried out by group of authors topic tagged Energy subsidies and poverty: the case of Gas and Fuel subsidies in Burkina Faso, noted that the subsidies have a near zero impact on energy and monetary poverty, as those at the bottom income distribution barely benefit from subsidy and that the impact affect only the wealthier regions only.. Alleyne and Hussain (2013), the study took a look on some African countries. The findings were that public economic theory on taxation and subsidies: subsidies are expected to be regressive when the consumption of the subsidized good increase with income and when the demand elasticity of the poor is low, two characteristic met for energy product (Oliver and Ruggeri, 2018). Burkina Faso has heavily subsidized

energy sector. It is said that the overall, energy subsidies- in form of transfers from the government to national energy company-account for 1.05 percent of GDP, with 0.59 percent of GDP for gas and fuel and 0.46 for electricity (estimated using administrative), Vandeninden et al. 2019.

Vandeninden, et al (2021), noted in their study that even though subsidies remain globally widespread, there is no substantial evidence that they do not achieve poverty reduction. They also find that Burkina Faso energy subsidies are regressive. However, fuel and gas subsidy reform would cause an increase in monetary poverty from 40.12 to 4.23 percent. The depth of poverty, captured by the poverty gap, remains similarly pre and post reform, and the inequalities, such as measured through Gini Coefficient, slightly improves- confirming that energy subsidies in Burkina Faso do not act as pro-poor policy, in fact energy subsidy reforms causes a limited direct impact on poverty but might cause indirect effects through the price increase of products that are produced with fuel and gas.

From the collection of the nature of implementation of either fuel subsidy or removal of fuel subsidy, the significant issue is the leadership in a particular nation where the leaders in control are cognizant of the national interest and the citizens. Abiodun (2023) in his write up titled “FX Unification, Subsidy Removal Difficult Decisions for Nigeria’s economy” noted that decisive actions by the Nigerian government and shared effort of the Nigerian people could create the change needed to unlock the unrealized opportunity of Africa’s most populous country. He noted the need for economic growth, Nigeria needs a stable naira, government needs to circulate and implement a fiscal strategy that will provide the resources to make a critical investment, government to channel a good percentage of the resources made into agriculture and creating economic opportunity and this requires a government driven effort that will address these fears by shining a light on corruption, holding people accountable and taking a meaningful steps to improve the business climate.

Empirical Studies

Even though the removal of fuel subsidy in Nigeria was said to have started gradually during the President Jonathan’s regime but the hardship was not experienced as the way the country is experiencing now. Therefore, there are not much studies carried out yet. Peterson (2023), in his paper “Implications of Fuel Subsidy Removal on the Nigerian Economy” noted that subsidy removal have its own merits and demerits. Merit of subsidy removal includes free up financial resources, domestic refineries to produce more petroleum, it will reduce Nigeria’s dependence on imported fuel, increase employment, channel funds for the development of critical public infrastructure, reduce the budget deficit and generate surplus in the near future, reduce government borrowing and curb corruption. The demerits are increase inflation, increase crime rate; increase the price of petroleum products and loss of jobs in the informal sector.

Chinedu and Onwuka (2012), paper titled Fuel Subsidy Removal as an Imperative for Enhancing Business Development in Nigeria. Their findings were that there is no significant relationship between subsidy removal and job creation and that fuel subsidy removal is an important element in the larger scheme to accelerate Nigeria’s business development. The authors recommended that the government should embark on programmes that will create more jobs, communication to citizens to gain increase popular support and government to implement good agenda to ensure the success of the exercise.

Palliative Scenario

In the real situation, Nigerian government did not have any plan for palliative, this is probably they did not anticipate the kind of hardship citizens are now experiencing and to the extent that Nigerian workers through Labour Unions embarked on series of strike and now the intent of indefinite strike action are still pending.

The Federal Government through the Minister of Labour and Productivity held several meetings on the way forward to alleviate the suffering of Nigerians as a result of the sudden removal of fuel subsidy. Kwara state

among others has reduced the working days from five to three day in a week. Federal government has provided to all states in the federation the sum of #5b for palliative. Records available is that there was no any for national utilization of the money by the federal government and that states were at discretionary on how the money was going to be used. However, it is presently on record that palliatives were provided and in some states the officers vested with the responsibility of sharing were arrested as a result of manipulation for their private use.

CONCLUSION

The policy of subsidy on petroleum products by the Nigerian government is geared towards reducing the pump price of fuel for the low-income earners section of the country, however, the policy has become a burden on the country's economy because a high percentage of government spending is directed toward subsidizing petroleum product for the citizens. The subsidized fuel policy is plagued with fraud, corruption, and smuggling to neighboring countries which mostly lead to fuel scarcity in Nigeria coupled with a massive leakage in government spending resulting in the annual budget deficit which has a negative impact on the country's economy. All these are the factors leading to the removal of fuel subsidy to mitigate the fraud and irregularities that led to the failure of subsidized fuel policy in order to divert the fund to other critical sectors of the economy, the removal of subsidy will result in to increase in the price of petrol which will have a negative impact on the standard of living of the citizen due to increased cost of living. However, it is important for the government to adopt an evidence-based palliative system to mitigate the consequences of the policy on the citizens in the short term before the benefits and prospects of the subsidy removal policy manifest into hardship if not properly implemented.

THE WAYS FORWARD

Undoubtedly, the removal of the petrol subsidy will result in a rise in the price at the pump, with the direct effect being seen through increased transportation costs and the indirect effect perhaps being realized through increases in rent and other costs for products and services. However, to mitigate the hardship experienced by the citizens, especially the low-income earners, it is important for the government to provide a credible evidence-based palliative to ease the consequences of the fuel subsidy removal policy on the citizens. The recommended evidence-based palliatives are as follows:

1. Increment in the minimum wage: the increment in the minimum wage will increase the purchasing power of workers which temporarily mitigates the consequences of the fuel subsidy removal on the citizens and also this will ensure that there is support by workers and limit the resistance by the Labour Union as a result of the policy;
2. Increment in the threshold for monthly income PAYE tax exemption: The PAYE tax exemption is currently at N30, 000 per month, but it can be raised to at least N50, 000 per month (Pwc Nigeria, 2023). This will provide the employed poor with extra money each month to lessen the impact of the removal of subsidies on them. Additionally, owners of small businesses will benefit from a bigger tax exemption on their comparable earnings for direct assessment;
3. The government should use the forex savings from the existing fabricated consumption of petrol that will be eliminated because of subsidy removal to ensure the distribution of forex to importers of diesel at the official exchange rate. As a result, the price of diesel at the pump will drop dramatically, which will lessen the inflationary effects of higher petrol prices;
4. The government should as a matter of urgency provide a well structured palliatives to alleviate the sufferings of the Nigerian citizens in the areas food security, transportation, education, health, job opportunities, electricity and investment among others and
5. The government must ensure the involvement of all anti-corruption agencies in all its palliative distributions across the nation to avoid diverting them to their various homes or sharing it to their families as it has always been.

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